



**SUBMISSION to the**

**HOUSE OF REPRESENTATIVES  
STANDING COMMITTEE ON INDUSTRY AND RESOURCES**

**on the**

**INQUIRY INTO RESOURCES EXPLORATION IMPEDIMENTS**

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## EXECUTIVE SUMMARY

Private industry exploration expenditure in Victoria during 2001 was \$30.5M.

The mining industry of Victoria contributes significantly to the economic well being of the State. It employs a significant number of people in regional Victoria and contributes more than \$600M to the Victorian economy each year. The entire minerals and energy industry in Victoria contributes more than \$5B pa.

Employment in the Victorian minerals industry is 3200 direct mine and exploration employees. These employees are almost entirely located in regional Victoria. In addition, professionals fully engaged in servicing the national and international mining company head offices and the head office staff in Melbourne number in excess of 2000. Therefore, with a modest multiplier of 2 the total labour supported by the minerals industry in Victoria equals 10,000 people.

The Council believes that the underlying cause of diminished exploration is the poor understanding that Australians have of the link between the need to continually replenish reserves of minerals through exploration and the national wealth that the minerals industry creates. This attitude towards land access - in all its diverse manifestations is reflected in all levels of Government policy and law. Mineral resources are finite and must be replenished to maintain the national resources inventory which adds considerably to the national wealth. To deny the potential of discovery of new mineral resources is to deny the national wealth that these new discoveries can bring.

The drop off in private industry exploration expenditure in Victoria and nationally from the peak of 1997 has had a large impact on our mineral resource inventory. The reduced expenditure has led to a severe reduction in the levels of grass roots exploration - there are now only a fraction of the geological concepts (projects and prospects) being tested today when compared to the peak of only five years ago. It is the testing of new concepts that has the greatest long-term impact on the growth in Australia's mineral resource inventory.

The structure of the exploration industry has changed fundamentally in the past few years. The large global and national minerals companies have reduced their exploration budgets significantly to concentrate on low risk near mine (or brown fields) exploration. Small, low capital, companies with share holders willing to tolerate higher investment risk are now seen as the engine and generators of opportunities. This new business model can work to the benefit of all stakeholders provided that the small companies can raise sufficient risk capital to explore.

To achieve sustained exploration activity in Victoria over the long term we would require a legal and regulatory environment that encourages exploration and investment, and would include investment incentives such as R&D taxation concessions and a flow-through shares taxation scheme.

Victoria has one of the most rigorous project approvals processes that include environmental, social and economic hurdles and this is coupled with the belief that the

minerals industry is the most regulated industry in Victoria. However, the Victorian environmental approval processes are not accredited by the Commonwealth under the Environment Protection and Biodiversity Conservation Act. The Victorian procedures are currently being reviewed and it is most important that the Commonwealth accredits the new procedures immediately they are implemented.

In Victoria there are four primary categories of land the relative size of which are:

Private land	68.3%
Exempt Crown land	13.3%
Restricted Crown land	3.5%
Unrestricted Crown Land	14.9%

That is, Exempt Crown land occupies 42% of all Crown land and Restricted Crown Land occupies an additional 11% of all Crown land.

The Council believes that restriction of access to more than 50 percent of the State's public land (some of which is known to be prospective) is a very significant impediment to attracting exploration investment to Victoria.

Investment is encouraged by Government support that facilitates the industry. When that support is reduced the Government unwittingly sends a message to industry that exploration is not important. An immediate method of reinforcing the Government's support for greater exploration would be through increased funding of Geoscience Australia so that they can continue to provide valuable fundamental geological information to the industry.

Another direct support mechanism that may lead to greater discoveries is the establishment of a Mineral Exploration Incubator. The incubator would facilitate and promote the development of innovative mineral exploration projects by budding resource industry entrepreneurs.

The Council continues to meet with representatives of Victoria's Native Title Claimants and the State to develop a proforma project consent deed for land access. In 2001 the parties successfully negotiated a proforma Section 31 deed for the State. In June 2002 the VMEC was successful in gaining a funding assistance from the Commonwealth's Attorney General's Department to assist in the development of the proforma project consent deed.

A standard protocol for Aboriginal heritage and culture is being prepared as part of the proforma project consent deed. However, until the requirements of the cultural heritage legislation and the Native Title Claimants are aligned or agreed guidelines are developed that include directions on who is the appropriate or qualified person or persons to conduct cultural heritage surveys unnecessary frustration, conflict and delay will continue.

The Council's specific recommendations to the Standing Committee are listed in Section 12 below.

## 1. INTRODUCTION

The Victorian Minerals & Energy Council (VMEC) welcomes the opportunity to make a formal submission to the House of Representatives Standing Committee on Industry and Resources regarding the *Inquiry into Resources Exploration Impediments*.

The VMEC is an industry association that represents the corporate minerals and energy industry of Victoria. The members of the Council are engaged in mineral processing, mining, exploration, or the provision of services to the industry.

The mission of the Council is to create the best possible environment for the continued sustainable development of the minerals and energy industry in Victoria by:

- Working with all levels of Government to ensure an effective legal and regulatory framework that supports and governs the industry;
- Encouraging members to achieve best practice in all aspects of their business through networking and exchanging of ideas;
- Communicating with Victorians on the nature, effects and benefits of the minerals industry including the environmental and social programs, along with economic benefits; and
- Working in partnership with educators and students to enhance teaching and learning about the minerals industry.

Victoria has a very important minerals and energy industry that is not only significant nationally but also critical to many other industries in Victoria that depend upon low cost, reliable energy. It also provides significant employment in regional Victoria.

The minerals and energy industry of Victoria:

- Produces more than 65 million tonnes of coal per year;
- Produces almost 4 tonnes of gold per year;
- Produces 85% of Victoria's electricity;
- Has an annual turnover in Victoria of more than \$600M; and
- The mining industry alone directly employs more than 5,000 Victorians (and more than 10,000 indirectly), the majority of these being located in regional Victoria.

Victoria remains very prospective with the potential to find significant coal, gold, and mineral sands deposits, base metals and oil and gas. Private minerals exploration expenditure in Victoria in 2001 was \$30.5M.

There is a great deal of interest in Victorian exploration as was demonstrated in July this year when 80 exploration professionals attended the Council's annual exploration workshop in Ballarat. The main focus remains gold although other minerals are also receiving attention.

Access to land remains a key issue for exploration. The mineral potential of Victoria is acknowledged and the geological and geophysical data available from the Geological Survey of Victoria (GSV) is considered by many to be as good as any available in the World.

The members of the VMEC believe that any examination of the impediments to mineral exploration should consider the following:

- Access to land for exploration to not only focus on Native Title issues but also parks and reserves with restricted access;
- Processes to minimise the sovereign risk of minerals exploration and minerals developments;
- Identification of project approval bottlenecks and other 'licence to operate' matters;
- Access to funds for effective green field as well as brown field exploration programs facilitated by an encouraging fiscal and taxation regime;
- Assessment of modern exploration technologies and an analysis of current R&D investments; and
- Exploration and sustainable development principles.

We congratulate the Minister, the Hon Ian Macfarlane, on the initiative to request an inquiry into the impediments to exploration in Australia.

## 2. BACKGROUND

In May 2002 the Minister for Industry, Tourism and Resources, the Hon Ian Macfarlane MP, requested that the Standing Committee on Industry and Resources inquire into and report on any impediments to increasing investment in mineral and petroleum exploration in Australia. The terms of reference for that inquiry include the following:

1. An assessment of Australia's resource endowment and the rates at which it is being drawn down;
2. The structure of the industry and role of small companies in resource exploration in Australia;
3. Impediments to accessing capital, particularly by small companies;
4. Access to land including Native Title and Cultural Heritage issues;
5. Environmental and other approval processes, including across jurisdictions;
6. Public provision of geoscientific data;
7. Relationships with indigenous communities; and
8. Contributions to regional development.

The members of the VMEC believe that the underlying cause of diminished exploration is the poor understanding that Australians (urban and rural) have of the link between the need to continually replenish reserves of minerals through exploration and the national wealth that the minerals industry creates. This attitude is reflected in government (Federal, State and local) policy and law towards land access - in all its diverse manifestations.

The Federal Government is rightly focused on the revenue from exports including the very important commodities of coal, iron ore, alumina, base metals and gold. As Australia's resources of the first three are often perceived to be substantial, there is little attention by the public and government to the need to replenish them. However, mineral resources are finite and must be replenished to maintain the national resources inventory which adds considerably to the national wealth. To deny the potential of discovery of new mineral resources is to deny the national wealth that these new discoveries can bring.

### **3. INDUSTRY VISION FOR VICTORIA**

#### **The Vision**

The vision of the members of the VMEC is the growth, to its full potential, of the minerals and energy industry in Victoria through the discovery and evaluation of the State's mineral resources and the sustainable and responsible development of those resources.

The minerals and energy industry is a significant contributor to the economy and social structure of Victoria, particularly rural and regional Victoria and aims to be recognised by the community as a valued industry that is environmentally and socially responsible.

Some of the specific industry visions related to access to land, relationships with indigenous communities, Government administration, and investment are discussed under the various Terms of Reference below.

#### **Key Objectives**

The Council's key objectives (see Attachment A) that specifically relate to mineral exploration include:

- Promoting the prospectivity of Victoria.
- Facilitating the sharing of ideas and technology between explorers.
- Working with Government and the finance community to increase investment in the exploration and mineral development of Victoria.
- Promoting the concepts of multiple land use for the public lands of Victoria.
- Maintaining harmonious relationships with the farming communities of Victoria.
- Working with Victoria's indigenous communities and the State on arrangements to facilitate access to Native Title lands.

## 4. PROSPECTIVITY OF VICTORIA

*In this section we refer to Inquiry Term of Reference No.1 (TORI) - An assessment of Australia's resource endowment and the rates at which it is being drawn down.*

Victoria is well endowed with mineral wealth. In fact the economic prosperity of Victoria has been based on mineral and petroleum wealth for much of its history.

The most significant stage of economic development occurred with the gold rushes of the 1850's and 60's. It is estimated that 2 percent of all the gold in the world has come from Victoria and the Victorian Gold Province still rates as one of the major gold provinces of the world. The old timers did not discover all of the gold and significant wealth remains to be extracted.

The second wave of economic development occurred following the First World War with the development of the brown coal resources of the Latrobe Valley. These vast resources provided a low cost and independent source of energy that underpinned the growth of Victoria's manufacturing industry. The brown coal resources of the Latrobe Valley continue to provide 85 percent of Victoria's electricity with less than 2 percent of the known resources exploited to date.

The third wave of economic development started in the 1970's with the discovery and development of the vast Bass Strait oil and gas fields. The Bass Strait resources are declining but significant reserves of gas continue to be found in western Victoria.

### **Brown Coal**

Exploitation of the State's vast brown coal resources continues to provide the bulk of the energy for electricity generation. Production in 2000/01 from the three Latrobe Valley open pit coal mines and a small mine at Anglesea was 65 Mt.

The power stations supplied by these operations are continuing to improve overall cycle efficiency and are introducing modifications to reduce greenhouse gas emissions. Research and development into the efficient use of low rank coals continues with government and industry strongly supporting the CRC for power generation from low-rank coal.

In July 2002 the Victorian Government award three new exploration licences in the Latrobe Valley for the development of new plants on the basis that they achieve significant improvements in greenhouse gas emission.

### **Gold**

The gold mining industry is a nationally significant industry. It produces \$4.8B of export income being the fourth largest contributor to our balance of trade. Victoria is a relatively small player at present although the goldfields of the last century remain some of the most prospective areas for gold developments in Australia. Victoria missed out on the rapid growth in the gold industry of the 1980's due to active anti mining attitudes from the then authorities in Victoria coupled with archaic mining legislation that has since been updated to encourage mineral developments. Victoria now has huge potential to contribute significantly to the gold industry.

Gold production in Victoria for 2000/01 was about 122,000 oz (3.8 tonnes) of which 111,000 oz were produced by a single operation (Stawell Gold Mines). The Victorian gold mining industry has the potential for long-term sustainable production of at least 1M-oz pa. This is about twice the historical average production rate (80Moz over 150 years) and more than six times the current production rate.

### **Murray Basin Mineral Sands**

The development of the titanium minerals (rutile, zircon and ilmenite) in the Murray Basin continues to attract significant national and international attention. The first mining project commenced operation in 2001 and exploration and development plans continue at several other sites.

The Murray Basin is estimated to have an in-ground resource of mineral sands with a value in excess of \$13B with almost half located in Victoria. However, the real value of the mineral sands comes from the down stream processing. Victoria is ideally placed to become the centre of these developments in the Murray Basin.

### **Other Minerals**

Base metal projects that are under investigation in Victoria include the copper-zinc mine at Benambra and a redevelopment of the antimony/gold mine at Costerfield. Data from investigations by GSV show potential for more base metal discoveries associated with the Lachlan Fold Belt, which extends from Tasmania to NSW and is known to host significant commercial mineralisation in the other two states. The potential in Victoria has yet to be fully explored.

Gypsum, kaolin, feldspar and peat are other minerals that are currently mined in Victoria.

### **Mineral Resource Inventory**

The drop off in private industry exploration expenditure in Victoria and nationally from the peak of 1997 has had a large impact on our mineral resource inventory. The reduced expenditure has led to a severe reduction in the levels of grass roots exploration - there are now only a fraction of the geological concepts (projects and prospects) being tested today when compared to the peak of only five years ago. It is the testing of new concepts that has the greatest long-term impact on the growth in Australia's mineral resource inventory.

When exploration was at its peak there were many exploration teams collecting thousands of samples and drilling thousands of meters. Across Victoria there were several hundred early stage projects turned over each year - this has now become a trickle. However, to achieve a drill target, let alone a good prospect, hundreds of grass roots geological concepts need testing. The process can be described as a pyramid with conceptual models requiring testing at the bottom that move up to advanced projects as exploration proceeds. Very few projects progress beyond the initial stages. Attachment B describes the exploration cycle from concepts to new resources.

## 5. MINERAL EXPLORATION IN VICTORIA

*In this section we refer to **TOR2** - The structure of the industry and role of small companies in resource exploration in Australia.*

The structure of the exploration industry has changed fundamentally in the past few years. The large global and national minerals companies have reduced their exploration budgets significantly to concentrate on low risk near mine (or brown fields) exploration. Companies with strong cash flows from mining operations are under pressure from share holders (especially superannuation funds) to maintain dividend payments, and to reduce exploration risk. Consequently, these companies have assumed the role of portfolio managers and financiers of advanced projects.

Small, low capital, companies with share holders willing to tolerate higher investment risk are now seen as the engine and generators of opportunities.

It is our belief that this business model can work to the benefit of all stakeholders provided that:

- there are enough small companies willing to cover the large areas involved, and
- the small companies can raise sufficient risk capital to do this effectively.

Victoria remains very prospective with the potential to find significant gold deposits, mineral sands deposits, base metals and oil and gas.

Interest in Exploration Licences (ELs) remains high with 49 percent of the State currently covered by 315 ELs. None of these ELs are held by large global minerals companies; international and large national companies (“majors”) hold a few, some directly and some in a joint venture with smaller explorers. The vast majority (by number and area) are held by what are colloquially known as junior exploration companies, or “juniors”. The juniors comprise both private and publicly listed companies, most with very limited funds. The majority of these companies barely meet the annual expenditure requirements of their licences due to a current lack of available risk capital.

Over the past few years the number of ELs surrendered annually has exceeded the number of new grants, see Attachment C. Although, in the same period when the Government has called tenders for particularly prospective territory there has been very competitive bidding from the industry.

Private exploration expenditure during 2001 in Victoria was \$30.5M, down from \$33.5M the year before. Attachment D shows the quarterly exploration expenditure in Victoria and clearly shows the peak in exploration effort in 1997. The decline since then has been pronounced, with exploration stabilising at about 60 percent of the 1997 peak.

Yet strong interest in Victorian exploration was demonstrated in July 2002 when 80 exploration professionals (mostly representing “juniors”) attended the Council's annual exploration workshop in Ballarat. The main focus remains gold although other minerals are now receiving attention.

## 6. EXPLORATION INVESTMENT

*In this section we refer to TOR3 - Impediments to accessing capital, particularly by small companies.*

The VMEC members would like to see in Victoria effective exploration activity sustained at more than \$50M pa over the long term. To achieve this would require a legal and regulatory environment that encourages exploration and investment, and would include investment incentives such as R&D taxation concessions and a flow-through shares taxation scheme.

Exploration is a high risk investment activity. It is generally acknowledged that of 1000 exploration concepts, 10 will lead to a detailed examination and one may result in a new mine (there are parallels with the risk and reward in R&D development of pharmaceuticals and bio-tech sectors). Another way of looking at this is to consider the statewide exploration expenditure and the number of new mines commenced. Consider:

- Since 1980, it is estimated that there have been over 5000 ELs granted in Victoria. During this period, mining operations have commenced at Stawell, Wemen, Fosterville, Ampitheatre, Nagambie, Heathcote, Beechworth, Ballarat, Bendigo, Loy Yang, Benambra, and a few other sites, that is up to 20 significant mines from 5000 exploration concepts.
- In Victoria the last significant mine to start up was the Murray Basin Titanium mine at Wemen which commenced operation in February 2001. Since that time there has been about \$45M spent on exploration and yet there is no new mine scheduled to commence in the near future. For the period immediately prior, that is from June 1998 when the New Bendigo mine drive commenced to February 2001, when the Wemen mine commenced, there was more than \$87M spent by industry on exploration in Victoria.

The amount of money spent on exploration to develop a new mine is large. This is especially critical when it is realised that the majority of ELs are held by “juniors”, and that these companies generally have less than \$5M total cash available for exploration.

The reality of the situation is that many of these “juniors” will (and do) go broke.

Venture capital for exploration has traditionally come from a number of sources. The “majors” fund their exploration from internal cash flows whilst the “juniors” raise funds through private investors, from the stock market, or rely on support from “majors” via joint venture arrangements.

With the retreat of the “majors” from exploration due to demands from shareholders and the alternative avenues investors have for risk capital such as Bio-tech and IT, money for exploration has become very difficult to find. Private venture capital has always been difficult to raise, however, the Commonwealth Government can assist.

New Government incentives to encourage investment into the risky business of exploration include:

1. Recognition of exploration on “green field” sites as being fundamental research and development and therefore eligible for R&D taxation concessions. This approach would be attractive to the “majors” and other miners who have income generating businesses.
2. Provision for the full offset of exploration expenditure between companies. All exploration expenditure should be deductible against income earned by mining activities and companies with a loss, or tax credit, should have the option to trade or transfer that loss to another company that has income against which to offset the tax credit.
3. The introduction of a flow-through shares scheme similar to that operating in Canada where exploration expenditure deductions become available to individual investors. This will be attractive to some “juniors” who do not generate income to offset the expenses of exploration and who have shareholders who would benefit from being able to treat the exploration as an expense.

The application of flow-through shares will not be universally attractive as it could diminish the intrinsic “value” of junior exploration companies when taken over to acquire a new discovery as the accumulated losses would not be available for the acquirer to bring onto their books. It is also important to ensure that any such scheme introduced by the Government encourages effective exploration and not just tax avoidance scheme projects.

## 7. ACCESS TO LAND FOR EXPLORATION

*In this section we refer to TOR4 - Access to land including Native Title and Cultural Heritage issues.*

The principle legislation controlling exploration and mining in Victoria is the *Mineral Resources Development Act 1990* (MRD Act).

Section 6 of the MRD Act states that land is not available for exploration and mining (it is exempt) if it is a reference area administered under the *Reference Areas Act* or a National Park, State Park or Wilderness Park administered under the National Parks Act (NP Act), unless there is a pre-existing licence. Section 40 of the NP Act states that the Minister for Environment and Conservation may approve exploration and/or mining after considering the advice of the National Parks Advisory Council and if not disallowed after tabling the proposal in both houses of Parliament for 14 sitting days.

Access to restricted Crown land, that is, land administered under the *Crown Lands (Reserves) Act* (CLR Act) requires the consent of the Minister for Environment and Conservation before a licence can be issued and the land manager must be satisfied before a Work Plan can be approved.

In addition, mining licences require planning approval under either the *Planning and Environment Act* or the *Environment Effects Act*. Exploration licences do not require planning approval.

Under the MRD Act there are four primary categories of land in Victoria. That is, Exempt Crown Land, Restricted Crown Land, Unrestricted Crown Land, and Private Land.

The relative sizes of these land categories in Victoria are:

Private land	68.3%
Exempt Crown land	13.3%
Restricted Crown land	3.5%
Unrestricted Crown Land	14.9%

That is, Exempt Crown land occupies 42% of all Crown land and Restricted Crown Land occupies an additional 11% of all Crown land.

In Victoria, minerals are the property of the Crown and access to explore and mine those minerals rests with the Government, not the landowner. Although in the case of public land the owner of the minerals is also the owner of the land.

The members of VMEC believe that restriction of access to more than 50 percent of the State's public land (some of which is known to be prospective) is a very significant impediment to attracting exploration investment to Victoria. This situation will not be reversed unless and until there is:

- Recognition that multiple and sequential land use management regimes can operate in parks and reserves to the benefit of all stakeholders. These regimes can protect the conservation values of the parks and reserves whilst at the

same time allowing appropriately controlled exploration and mining activities to proceed.

- A transparent, timely and effective process for the approval of exploration and mining projects in national and state parks with conditions approved by the Conservation Minister that protect the conservation values whilst at the same time permitting appropriate exploration and mining to proceed.
- A transparent, timely and effective approvals process for exploration and mining projects in nature conservation reserves and regional parks.
- No special approvals required for low impact exploration in nature conservation reserves and regional parks.

The implications of Native Title and access to land for exploration are considered separately in Section 10 below.

Access to freehold land for exploration in Victoria is controlled under the MRD Act. To facilitate dealings with landowners and ensure that all parties are aware of their rights and obligations with respect to land access the VMEC in association with the Victorian Farmers Federation (VFF) has prepared a “Guide to Private Landowners Regarding Exploration and Mining on Private Land”. A copy is attached separately.

Along with the Guide is a standard “Compensation Agreement for Mineral Exploration on Private Land” that is jointly approved by VMEC and the VFF. These two documents go a long way to avoiding conflict between explorers and landowners in Victoria. The parties settle more than 99 percent of all access arrangements on the farm. It is only a very few that are referred to the Courts for resolution.

## 8. PROJECT APPROVAL PROCESSES

*In this section we refer to TOR5 - Environmental and other approval processes, including across jurisdictions.*

Members of the VMEC recognise that Victoria has one of the most rigorous project approvals processes that include environmental, social and economic hurdles. We believe that the minerals industry is one of the most regulated industries in Victoria. Whilst we can appreciate the need for careful approval in areas of particular conservation, heritage or cultural value we question the need for the rigorous examination of all projects by almost every Government Department. The industry is exposed to a fragmented bureaucracy that pursues a wide variety of agendas from the promotion of business investment, to outright anti-development behaviours.

We believe that investment in exploration would be facilitated by:

- A one-stop shop through the Energy and Minerals Division of the Department of Natural Resources and Environment for the minerals industry to deal with all of Government.
- A well resourced and empowered Energy and Minerals Division that both facilitates and regulates the industry.
- Common approvals and regulation practices for all earth resource industries in Victoria.
- A project permitting process that has certainty with respect to time lines and outcomes.

There is also a need to ensure that Victorian approval processes are accredited by the Commonwealth under the Environment Protection and Biodiversity Conservation Act to avoid dual approval processes. The environment assessment procedures in Victoria are currently being reviewed. It is most important that the Commonwealth accredits the new procedures immediately they are implemented.

Some of the specific issues that we have with the approval and regulation of exploration in Victoria include the following:

- A lack of clear, effective, timely and consistent rules for access to parks and reserves and the unrestricted Crown land below parks and reserves (it is currently proposed that some parks and reserves will have a depth limit of 100m).
- Applicants for ELs are rightly required to demonstrate that they have the financial resources required to undertake work before a licence will be granted. However, this creates problems for some unlisted private companies who attempt to raise private venture capital for the exploration project as they are caught in a “catch 22”. That is, they require the EL to secure the funds but they require the funds to secure the licence.

- Small (less than 5 Ha) miners are entitled to gain a mining licence within an existing EL. However, when that mining licence is surrendered the “hole” is not effectively reinstated in the original EL.
- To avoid problems of disreputable persons gaining mineral tenements the MRD Act requires that applicants are “fit and proper” persons to hold a licence. However, there are occasionally inconsistencies in the application of this requirement.

The Victorian Government amended the MRD Act in 2000 to remove some of the impediments to exploration and mining that had plagued the industry previously. However, there remains one significant issue that impedes exploration. The issue is Section 6 of the Act, which excludes all national and state parks, wilderness areas and reference areas from exploration or mining.

The MRD Act Regulations are currently in the process of review and new regulations are to be introduced in October 2002. The VMEC along with other stakeholders is currently being consulted on the review.

The expenditure requirements on ELs in Victoria have recently been reduced to bring them into line with the requirements in other States.

## 9. GOVERNMENT INITIATIVES

*In this section we refer to **TOR6** - Public provision of geo-scientific data;*

In the quest for new minerals discoveries there is always scope for new or improved geological maps to fuel new ideas and concepts. Geoscience Australia, GSV, and research via universities all contribute enormously. Unfortunately, there is a common misconception is that once a geology map is made that the job is done. To the contrary, often this is the catalyst for more research, remapping and refinement. That is the nature of understanding natural systems. A good example is to be found at Broken Hill, a mature exploration environment where university research continues to yield new and significant understanding, despite very detailed mapping and a lot of research. Also, new discoveries are still being made in areas like the Bendigo Goldfield.

### **Geoscience Australia**

The Commonwealth's support for grass roots geological research is limited by the budget of Geoscience Australia. This agency has first class personnel, resources and experience in the gathering, analysis and presentation of all variety of geological, geophysical and geochemical data. These data provide the fundamental building blocks upon which industry geologists develop the exploration concepts that can lead to new mineral discoveries. This is important work that is poorly appreciated by Governments. Over recent years the budget of Geoscience Australia has been trimmed and therefore the ability of the agency to contribute to the exploration industry has been limited.

Investment is encouraged by Government support that facilitates the industry. When that support is reduced the Government unwittingly sends a message to industry that exploration is not important. An immediate method of reinforcing the Government's support for greater exploration would be through increased funding of Geoscience Australia so that they can continue to provide valuable fundamental geological information to the industry.

In Victoria, GSV provide complementary services to those of Geoscience Australia. The Victorian Government continues to support the work of GSV and the Victorian Initiative for Minerals and Petroleum (VIMP). The work of GSV and the VIMP project are most important to the competitiveness of Victoria in attracting exploration to the State. The development of the State's mineral sands resources and the re-emergence of significant gold mining operations are directly related to the investment in research and exploration input. Such expenditure is a direct investment in the State's mineral assets that are necessary for the regional development of Victoria.

The VIMP project commenced in 1993 and has involved a comprehensive program of studying the geophysical character of most of the state. Much of the data have been collected and analysis continues. The data have assisted significantly in the relatively recent discoveries of mineral sands in the Murray Basin and the VIMP program has been very successful in encouraging exploration in Victoria. Prior to the program starting exploration expenditure was about \$12M pa, it rose to \$52.5M pa in 1997 and continues at more than \$30M pa in an environment of structural change to the

exploration industry. It is estimated that for every dollar that the Victorian Government spent on the VIMP project there have been \$15 spent by industry.

### **Research and Development**

One of the “big” geological issues in Victoria is the need to improve understanding of the geology of the Lachlan Fold Belt under the sedimentary cover of the Murray Basin, and as a first step it has been proposed that a seismic geo-traverse be conducted across Northern Victoria. This is a major initiative that will require both State and Commonwealth Government support for the CRC for Predictive Mineral Discovery. The project offers great potential to open up avenues for exploration for many years to come which could lead to significant new mineral Provinces.

### **Mineral Exploration Incubators**

When considering the most appropriate methods that the Commonwealth Government could introduce to assist the “juniors” in the exploration industry the obvious solutions of undertaking fundamental research and making data readily available spring to mind. However, another solution that may lead to greater discoveries is the establishment of a Mineral Exploration Incubators (MEI). This would be based on the model actively promoted by the Government for the IT industry some time ago. Several Victorian universities have established “technology parks” or “technology incubators” and this concept offers potential for a MEI incubator.

The MEI would facilitate and promote the development of innovative mineral exploration projects by resource industry entrepreneurs. Melbourne is home to a large number of highly trained and experienced, yet underemployed resource professionals. These people represent a valuable resource of grossly under-utilised human capital. A Melbourne MEI will seek to harness this human capital for the fulfilment and personal advancement of the individuals and the long-term sustainability of the resource industry.

The MEI will bring resource professionals with technical and entrepreneurial skills together under one roof. They will need to have access to office space and equipment including computer hardware and software platforms and geoscientific datasets. Mentoring by interested/concerned industry captains and limited access to accounting, legal and financial professionals will assist in the formulation of commercial projects.

The output of the MEI will be well-conceived exploration projects that would be offered to private and public companies for sale or for the injection of venture capital to take them to the next stage of development.

It is proposed that the MEI would seek initial seed funding from the Commonwealth and State Government via grants to finance the establishment phase.

Once established, the MEI would attract financial backing from private/public investors. Several funding options exist for the ongoing operation such as income from equity in successful projects.

## 10. RELATIONSHIPS WITH INDIGENOUS COMMUNITIES

*In this section we refer to TOR7 - Relationships with indigenous communities.*

### **Relationships**

The establishment of sound relationships based on mutual respect are fundamental to all dealings with Victoria's indigenous communities.

The members of the VMEC have resolved as a matter of policy to treat Victorian Native Title claimants in the same way as private landowners.

During the year 2000 the VMEC and the Mirimbiak Nations Aboriginal Corporation (the Native Title Registered Body in Victoria) collaborated in the preparation of a guide for explorers and miners on "Building Relationships – Working with the Indigenous People of Victoria". The project produced a valuable guide on the establishment of effective relationships and created a cooperative understanding between VMEC and Mirimbiak. A copy of the guide is attached separately.

### **Native Title**

The VMEC continues to meet with representatives of Mirimbiak and the State to develop a proforma project consent deed for land access in Victoria. In 2001 we successfully negotiated a proforma Section 31 deed for Victoria.

In June 2002 the VMEC was successful in gaining funding assistance from the Commonwealth's Attorney General's Department to assist in the development of the proforma project consent deed.

When the proforma project consent deed is completed it is expected that there would be no practical impediments to finalising access agreements for exploration on land that is subject to Native Title claim. However, agreements still require the explorer and the Native Title claim group to establish a relationship and agree the specific terms for compensation etc. This is possible with many of the claim groups in Victoria although there is a few where internal community disputes prevent meaningful engagement.

### **Aboriginal Heritage**

Conflicts between Commonwealth and State cultural heritage legislation and Native Title Claimants are the source of confusion, frustration and delays for explorers and indigenous people alike. In Victoria, explorers and miners are required to meet the Commonwealth's *Aboriginal and Torres Strait Islander Heritage Protection Act 1984* and the State's *Archaeological and Aboriginal Relics Preservation Act 1972*.

The indigenous people responsible for the administration of the cultural heritage legislation in Victoria's regions are not always associated with the Native Title Claim Groups in the same region. This has arisen because of the mass relocation of people that occurred in Victoria in the past.

Site clearances, or cultural heritage surveys, are required before exploration work can proceed. This is a requirement of the cultural heritage legislation. However, access agreements for exploration and mining with Native Title Claimants also invariably

include arrangements for site clearances which include the engagement of “site monitors”.

Explorers are often confronted with a requirement for two cultural heritage surveys.

A standard protocol for Aboriginal heritage and culture is being prepared as part of the proforma project consent deed mentioned above. However, until the requirements of the cultural heritage legislation and the Native Title Claimants are aligned or agreed guidelines are developed that include directions on who is the appropriate or qualified person or persons to conduct cultural heritage surveys unnecessary frustration, conflict and delay will continue.

### **Access Agreements**

Native Title access agreements under s29 of the Native Title Act (NT Act) have been achieved with almost all Native Title claim groups in Victoria.

The status of Victorian mineral tenements impacted by Native Title claims can be summarised as follows:

As at December 2001 there had been a total of 203 s29 Notices issued for tenement applications with:

- 9 tenements granted with s31 Agreements
- 2 tenements granted with arbitrated agreements (mining)
- 44 tenements granted as no claim made
- 92 tenement applications in the RTN process
- 40 tenement applications in the ILUA negotiating process
- 49 tenement applications either withdrawn or surrendered

Of the 92 tenements currently in the RTN process there were –

- 21 for less than 1 year;
- 28 for more than 1 year and less than 2 years;
- 22 for more than 2 years and less than 3 years; and
- 21 for more than 3 years

There were 10 Native Title Claim groups in Victoria.

Whilst agreements have been reached and continue to be reached it is expected that negotiation will be eased considerably when the proforma Project Consent Deed is finalised. However, there is one particular area of the state where explorers and miners experience extreme difficulty in negotiations with the Aboriginal community. In this area the claim group is divided and consequently it is almost impossible for explorers to reach agreement on terms, as neither group will deal with Mirimbiak or one another. In this circumstance it is difficult to see any solution until their Native Title claim is settled and the Native Title owners are identified and a body corporate is established to administer the Native Title lands.

## 11. SUSTAINABLE DEVELOPMENT ISSUES

*In this section we refer to TOR8 - Contributions to regional development.*

The mining industry of Victoria contributes significantly to the economic well being of the State. It employs a significant number of people in regional Victoria and contributes more than \$600M to the Victorian economy each year. The entire minerals and energy industry in Victoria contributes more than \$5B pa.

Exploration expenditure was \$30.5M in 2001, most of which was spent in regional Victoria.

Employment in the Victorian minerals industry is 3200 direct mine and exploration employees. These employees are almost entirely located in regional Victoria. In addition, professionals fully engaged in servicing the national and international mining company head offices and the head office staff in Melbourne number in excess of 2000. Therefore, with a modest multiplier of 2 the total labour supported by the minerals industry in Victoria equals 10,000 people.

The potential for growth ranges across the three main commodity groups in the state. That is, coal, gold and mineral sands and include Gippsland, Central Victoria and the Wimmera and Mallee regions.

When considering the contribution that the industry makes to regional Victoria it is important that the social and environmental benefits and deficits are also considered along with the economic development advantages.

Exploration and mining people are generally well paid, highly skilled people that add considerably to the social structure of any community. The people, the jobs and the wealth generated all add to the social structure of regional Victoria.

Modern mining and the very tight controls placed on it by the Victorian government is conducted to the highest environmental standards and whilst there may be some environmental deficit associated with any project these are minimised. All mines are required to rehabilitate the site progressively as mining proceeds and at mine closure. The Government holds a bond to ensure compliance and that the community is not left with a rehabilitation liability.

Regional Victoria is relatively heavily populated and the community expect to be effectively consulted on any mine in their district. The industry appreciates this interest and understands the value to the project of working with the community in a constructive manner. This is generally readily achieved, however, there are some situations where small active groups within the community can galvanise attitudes against any development and these situations can be difficult for companies and Governments alike to deal with.

## 12. RECOMMENDATIONS

The members of the VMEC propose the following recommendations to the Standing Committee on Industry and Resources:

1. Recognition of exploration on “green field” sites as being fundamental research and development and therefore eligible for R&D taxation concessions. This approach may be attractive to the “majors” and others who have income generating businesses.
2. Provision for the full offset of exploration expenditure. All exploration expenditure should be deductible against income earned by mining activities and companies with a loss should have the option to trade or transfer that loss to another company that has income against which to offset the tax credit.
3. Introduction of a flow-through shares scheme where exploration expenditure deductions become available to individual investors. This may be attractive to some “juniors” who do not generate income to offset the expenses of exploration and who have shareholders who would benefit from being able to treat the exploration as an expense.
4. Increased funding of Geoscience Australia so that it can continue to provide valuable fundamental geological information to the industry and demonstrate in a very tangible manner the commitment of the Government to the importance of exploration.
5. Provide funding to the CRC for Predictive Mineral Discovery in conjunction with the Victorian Government for the proposed seismic geotransverse across northern Victoria to improve understanding of the geology of the Lachlan Fold Belt under the sedimentary cover of the Murray Basin.
6. Establishment of a Mineral Exploration Incubator similar to the incubators initiated some years ago for the IT industry. The incubator would provide facilities for mineral industry entrepreneurs with limited resources to develop exploration projects to a stage where they can attract investment.
7. Encourage Victoria to implement a modern multiple and sequential land management regime to address the primary impediment to exploration in the jurisdiction of the State Government, which is the ever-growing area of exempt and restricted parks and reserves. Already 42 percent of Victoria’s public land is out of bounds to exploration and mining and a further 11 percent has access restricted.
8. Agreed guidelines are required that include directions on who is the appropriate or qualified person or persons to conduct cultural heritage surveys as required by heritage legislation and separately under access agreements with Native Title Claimants to avoid the unnecessary frustration, conflict and delay in gaining site clearances.

### 13. CONCLUSIONS

The conclusions that can be drawn from our assessment of impediments to exploration are as follows:

1. Victoria remains very prospective with the potential to find significant coal, gold, and mineral sands, base metals and oil and gas. Private minerals exploration expenditure in Victoria in 2001 was \$30.5M, down from \$33.5M the year before. It has stabilised at about 60 percent of the 1997 peak of \$50.5M.
2. The exploration expenditure decline in Victoria has had a large impact on our mineral resource inventory. The reduced expenditure has led to a severe reduction in the levels of grass roots exploration - there are now only a fraction of the geological concepts (projects and prospects) being tested today when compared to the peak of only five years ago.
3. The structure of the exploration industry has changed fundamentally in the past few years. The large global and national minerals companies have reduced their exploration budgets significantly to concentrate on low risk near mine (or brown fields) exploration. Small, low capital, companies with share holders willing to tolerate higher investment risk are now seen as the engine and generators of opportunities.
4. Interest in Exploration Licences remains high in Victoria with 49 percent of the State currently covered by 315 ELs. None of these ELs are held by large global minerals companies; international and large national companies ("majors") hold a few, some directly and some in a joint venture with smaller explorers. The vast majority (by number and area) are held by what are colloquially known as junior exploration companies, or "juniors".
5. Exploration is a high risk investment activity. It is generally acknowledged that of 1000 exploration concepts, 10 will lead to a detailed examination and one may result in a new mine.
6. With the retreat of the "majors" from exploration and the alternative avenues investors have for risk capital such as Bio-tech and IT, money for exploration has become very difficult to find.
7. Access to land is a critical issue that impedes exploration. In Victoria the most significant land access issue is the growth in exempt and restricted Crown land due to new Parks and Reserves. In Victoria, exempt Crown land occupies 42% of all Crown land and restricted Crown land occupies an additional 11% of all Crown land.
8. Victoria has one of the most rigorous project approvals processes that include environmental, social and economic hurdles. It is believe that the minerals industry is one of the most regulated industries in Victoria.

9. The Commonwealth's support for grass roots geological research is limited by the budget of Geoscience Australia.
10. The establishment of sound relationships based on mutual respect are fundamental to all dealings with Victoria's indigenous communities. Native Title access agreements under s29 of the Native Title Act (NT Act) have been achieved with almost all Native Title claim groups in Victoria.
11. The mining industry of Victoria contributes significantly to the economic well being of the State. It employs a significant number of people in regional Victoria and contributes more than \$600M to the Victorian economy each year. The entire minerals and energy industry in Victoria contributes more than \$5B pa.

## **ATTACHMENTS**

# ATTACHMENT A

## Key Objectives

The key objectives of the Victorian Minerals & Energy Council are structured around the principles of sustainable development as follows:

### **Commerce**

- Work closely with Governments on the numerous laws and regulation that affect the minerals industry in Victoria.
- Continually assess the MRDA and its regulations to ensure optimal outcomes for the minerals industry.
- Promote the prospectivity of Victoria.
- Facilitate the sharing of ideas and technology between explorers.
- Work with Government and the finance community to increase investment in the exploration and mineral development of Victoria.

### **Environment**

- Promote the use of the Minerals Industry Code for Environmental Management.
- Encourage best practice environmental management.
- Promote the concepts of multiple land use for the public lands of Victoria.
- Work with Government on the establishment of appropriate environmental regulations and guidelines in Victoria.

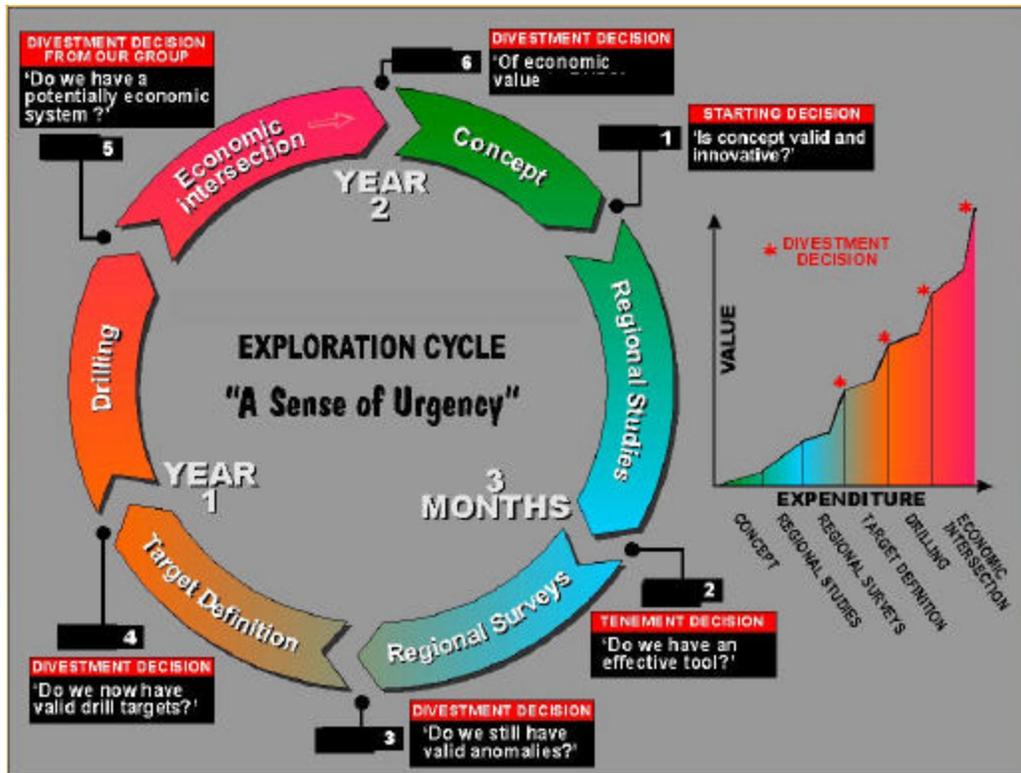
### **Society**

- Foster an industry free of fatalities, injuries and diseases.
- Maintain harmonious relationships with the farming communities of Victoria.
- Work with Victoria's indigenous communities and the State on arrangements to facilitate access to Native Title lands.
- Present first class educational programs about minerals to the primary and secondary students of Victoria.
- Provide programs and resources on minerals for educators in Victoria to use.
- Promote the minerals industry's role in sustainable regional communities.

The Council continues to participate as an active stakeholder in the Mining Minerals and Sustainable Development (MMSD) project.

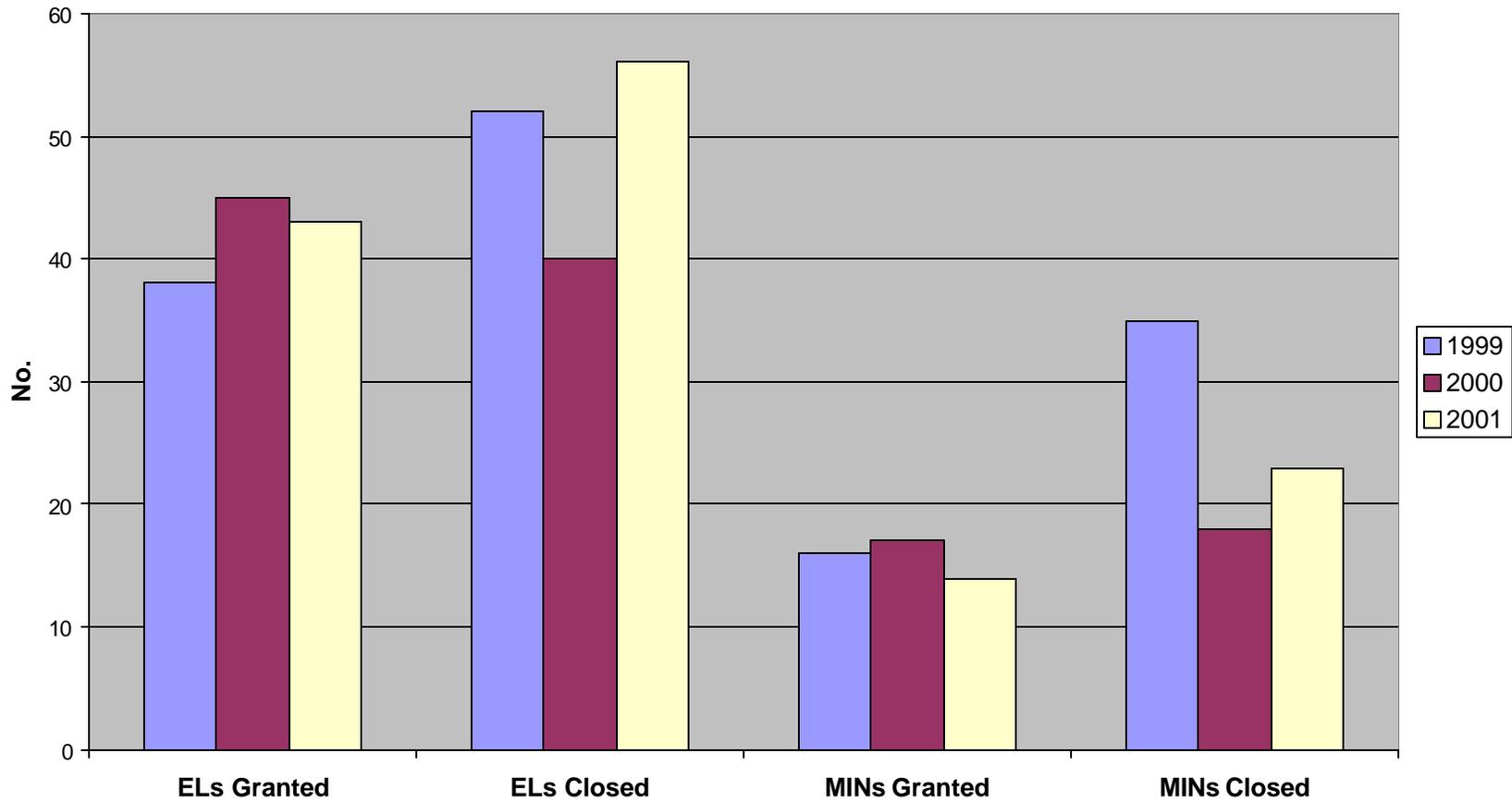
# ATTACHMENT B

The exploration cycle from concepts to new resources



# ATTACHMENT C

## Exploration and Mining Licences



# ATTACHMENT D

## Victorian Exploration Expenditure

