



VICTORIAN 2020 – 2021 BUDGET SUBMISSION

FEBRUARY 2020



Association of Mining
and Exploration Companies

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EXECUTIVE SUMMARY

As a leading national industry body for exploration companies, mining companies and their service providers throughout Australia, and with a number of members with project interests in Victoria, the Association of Mining and Exploration Companies (AMEC) works to support development of a strong and prosperous minerals industry in this State.

Mining is a pillar of the regional Victorian economy and as a core regional industry is ready to support regional Victoria following the recent devastating bushfires. Mining contributed over \$100 million in royalties, fees and levies to the Victorian Government in 2018-19, a 19% increase from the previous year¹. Victoria needs a strong and prosperous mining and mineral exploration sector to support the future growth and development of the State's economy. To improve Victoria's national and international competitiveness, create jobs and attract mining and mineral exploration investment the Government must deliver on the vision of the *State of Discovery: Minerals Strategy 2018-2028*²:

“Growing and responsible minerals sector that is valued by the community.”

Nationwide, the minerals industry and investor confidence are recovering from record low performances over the last few years, but Victoria remains behind other States and jurisdictions. It remains critically important that Victoria is a preferred destination for mineral industry investment, both exploration as well as mining activity, to ensure the stability and future of the industry. The mines that secure the economy of tomorrow are found by the explorers of today.

To build industry momentum, mining and mineral exploration companies need the Victorian Government to create stable, fair and risk based public policy framework to provide industry with the confidence to make critical investment and business decisions, by fully implementing the following:

Recommendations:

1. Deliver on actions in the *State of Discovery: Minerals Strategy 2018-2028*

- Ensure the actions in the *State of Discovery: Minerals Strategy 2018-2028* are fully resourced to support and secure the future economy of the State with regular progress reports.

2. Extend the TARGET co-funding program

- Provide annual funding for the TARGET grants program with a minimum \$2 million investment to attract explorers to Victoria and support the continuation of greater knowledge of Victoria's mineral resources.

¹ <https://earthresources.vic.gov.au/legislation-and-regulations/regulator-performance-reporting/annual-statistical-reports>

² https://earthresources.vic.gov.au/_data/assets/pdf_file/0008/453779/Mineral-Resources-Strategy-2018-2023.pdf

3. Establish a Gold Fund to support regional communities and the future minerals industry

- Establish a Gold Fund from the new gold royalty revenue with 50% to support the regional mining communities and 50% to support the future minerals industry.

4. Reduce and eliminate unnecessary fees and charges

- Review and benchmark industry fees and costs to ensure that Victoria has a fair and competitive regime that supports the development of the minerals sector.

5. Review security bonds structure to maximise the use of exploration funds

- Review the security bonds structure to maximise the use of the use of exploration funds and assess the introduction of a pooled fund model.

6. Support education and diversity programs that secure the future minerals industry

- Support a collaborative approach to secure skilled workers for the future minerals industry.
- Support initiatives to further gender diversity in the minerals industry including the Women in Mining Victoria (WIMnet Vic) Mentoring Program.

7. Pilot crowd sourcing for mineral exploration

- Pilot a crowd sourcing mineral exploration project in Victoria in 2020-21 opening a data set in a prospective area with rewards of \$250,000 for proposed solutions could help bring more interest and investors to Victoria.

INTRODUCTION

The Association of Mining and Exploration Companies Inc (AMEC) welcomes the opportunity to provide input to the Victorian Government's 2020-21 Budget and Forward Estimates.

ABOUT AMEC

AMEC is a leading national industry body representing over 275 mining and mineral exploration companies across Australia. Our members are explorers, emerging miners, producers, and a wide range of businesses working in and for the industry. AMEC represents a number of companies exploring, mining and investing in Victoria.

AMEC would welcome further consultation on this important matter and if you have any queries regarding this submission, please do not hesitate to contact:

Lucy McClean
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STATE OF THE INDUSTRY

The minerals industry is ready to support and rebuild regional Victoria

Mining and mineral exploration are regional industries that will be important in supporting regional Victoria following the devastating bushfires of the summer of 2019-2020. With thousands of hectares of bush burnt, homes, lives and businesses lost, the minerals industry is ready to support Victoria.

The minerals industry is a regional industry. We work regional areas, stay in local hotels, eat and drink locally and routinely hire regional contractors and staff. The minerals industry is well placed and ready to be part of the solution to rebuild and support the regional economies as well as the State economy.

Mining is a pillar of the regional Victorian economy

Mining is a pillar of the regional Victorian economy. In 2018-19, State revenue payable (rent, royalty and administrative fees) derived from the earth resources sector totalled \$103.1 million, an increase of 19% (\$16.5 million) from the previous year³. Over the four years to 2022-23, the mining sector will deliver nearly \$540 million royalties revenue to the Victorian State Budget⁴ with an average of over \$100 million per year to support the State deliver on its commitments. The strong return mining provides to the community in jobs, revenues and royalties underlines the importance of a strong mining sector.

³ <https://earthresources.vic.gov.au/legislation-and-regulations/regulator-performance-reporting/annual-statistical-reports>

⁴ <https://www.dtf.vic.gov.au/state-budget/2019-20-state-budget>

Without ongoing exploration success, the identification of new mineral deposits and the ability to progress these discoveries into productive operating mines there will be a significant reduction in growth, jobs, investment and government revenues delivered by the mining sector. The mineral exploration and mining sector in Victoria must be supported and promoted to secure the future of the industry. The mines that secure the economy of tomorrow are found by the explorers of today.

The future Victorian minerals industry must be secured now

Global and Victorian mining and mineral exploration is recovering from financial and economic pressures, fluctuating commodity prices, unemployment, reduced international competitiveness and lack of investment. Action to focus on maximising resource potential to create new revenue streams, job opportunities and regional development needs to be taken in Victoria to ensure that Victoria will benefit from the boom, not be lost behind other jurisdictions.

The future of the minerals industry is concerning, especially for the critical minerals of the future. A recent close analysis of the gold sector by the internationally respected Professor Richard Schodde⁵ of MinEx Consulting included the findings:

- To maintain production at current levels in the longer term, the Australian gold industry will either need to double the amount spent on exploration or double its discovery performance
- By 2032 half of Australia's gold production will come from mines that are yet to be discovered
- The weighted average delay between discovery and development for a new discovery is 15 years (and rising)
- Discovery costs have been increasing to the point that they are 50% higher than they were in the last decade, and
- In 40 years-time almost all of Australia's future gold production will come from exploration successes.

A key finding of the research was:

“The challenge is that not only has the rate of discovery slowed down but also that it is getting more difficult (and taking longer) to convert a discovery into a mine.”

Victoria is underperforming as an exploration and mining destination

While the industry and investor confidence recovering from record low performance over the last few years, Victoria remains behind other states and jurisdictions. It remains critically important that Victoria is a preferred destination for mineral industry investment, both in exploration as well as mining activity, to ensure the stability and future of the industry.

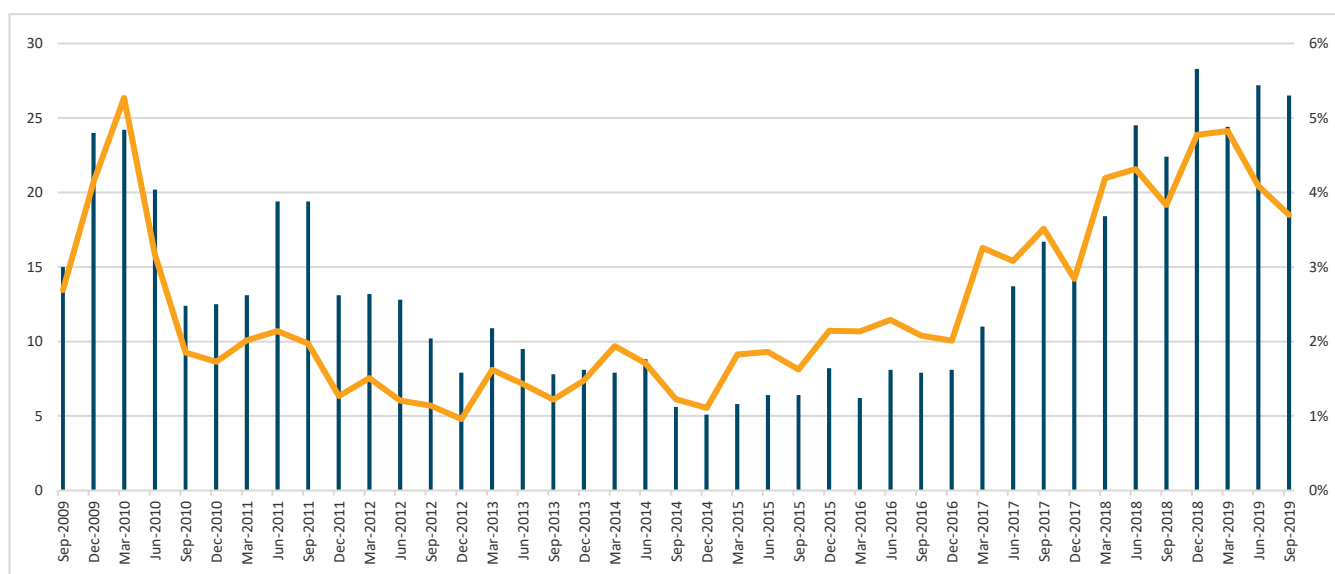
⁵ <https://minexconsulting.com/>

Key indicators of trends and data to assess the state of the minerals industry include:

- Expenditure in Victoria in comparison to other jurisdictions
- Share of greenfield/brownfield mineral exploration expenditure
- Metres drilled
- Number of minerals related Initial Public Offerings
- Internationally respected *Annual Survey of Mining Companies* by the Fraser Institute.

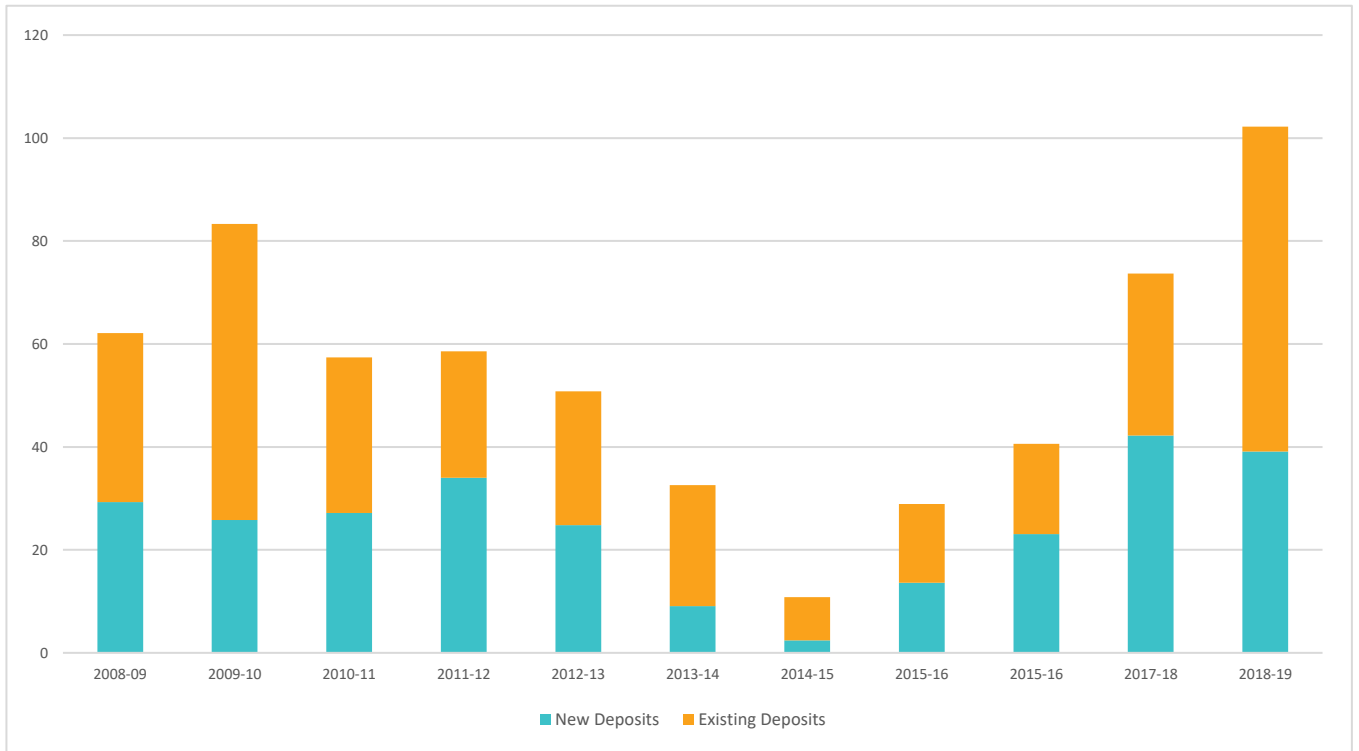
In Victoria, expenditure in exploration has been rising in the last year following record lows, a trend also seen nationally, as shown in **Figure 1**. Greenfield exploration (exploration on new ground, not close to known reserves or existing mines) expenditure continued to lift in 2019, however there is still a considerable imbalance with brownfields exploration (exploration on land close to an existing mining operation or known resource) as shown **Figure 2**. The consistently low proportion of greenfield exploration will have a detrimental impact on discovery rates of future mines.

Figure 1 – Victorian mineral exploration expenditure (\$ million) as a percentage of Australian expenditure



Source: ABS, Mineral and Petroleum Exploration, Australia, Cat No. 8412.0. (2018-19)

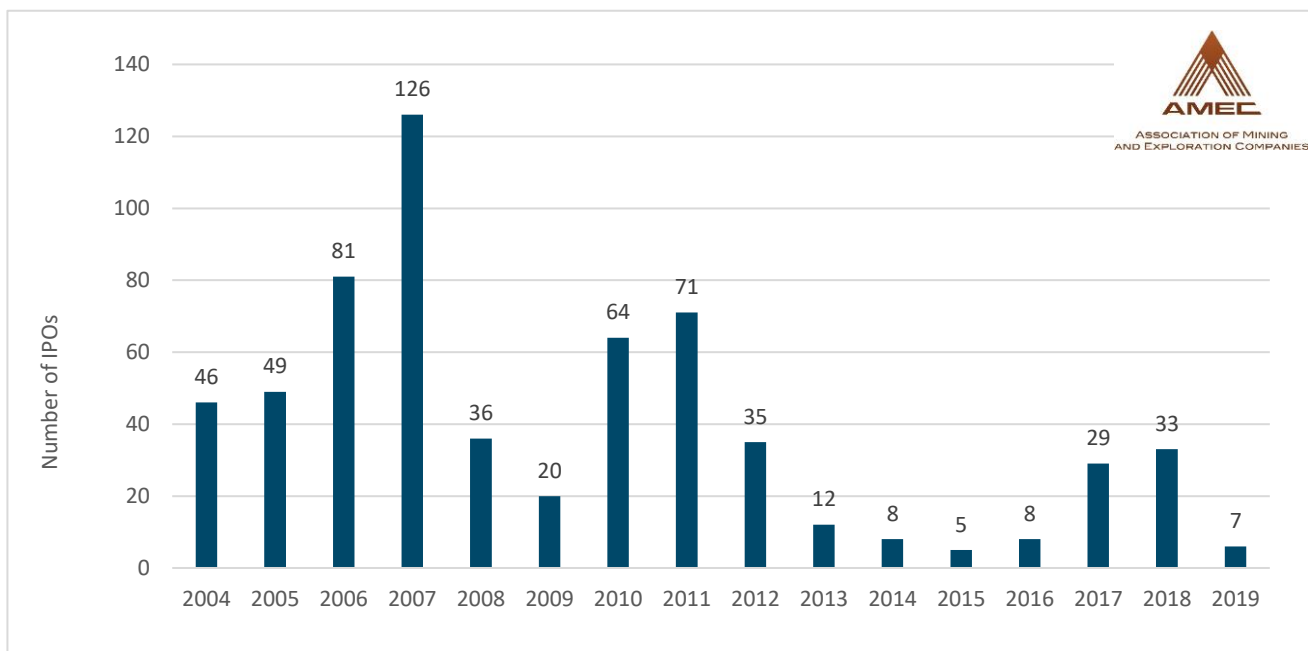
Figure 2 – Annual Victorian mineral exploration expenditure (\$ million) as Greenfields vs Brownfields



Source: ABS, Mineral and Petroleum Exploration, Australia, Cat No. 8412.0. (2018-19)

Further, the difficulties that the majority of companies have experienced in raising capital is highlighted by the number of mineral related Initial Public Offerings (IPOs) on the ASX, as demonstrated in **Figure 3**. The effect of the low level of confidence in the Victorian mining sector is also evident - from the IPOs listed in 2018 and 2019, none had projects in Victoria.

Figure 3 – ASX Metals and Mining Initial Public Offerings



Source: ASX as at December 2019

Victorian regulation is holding back the State

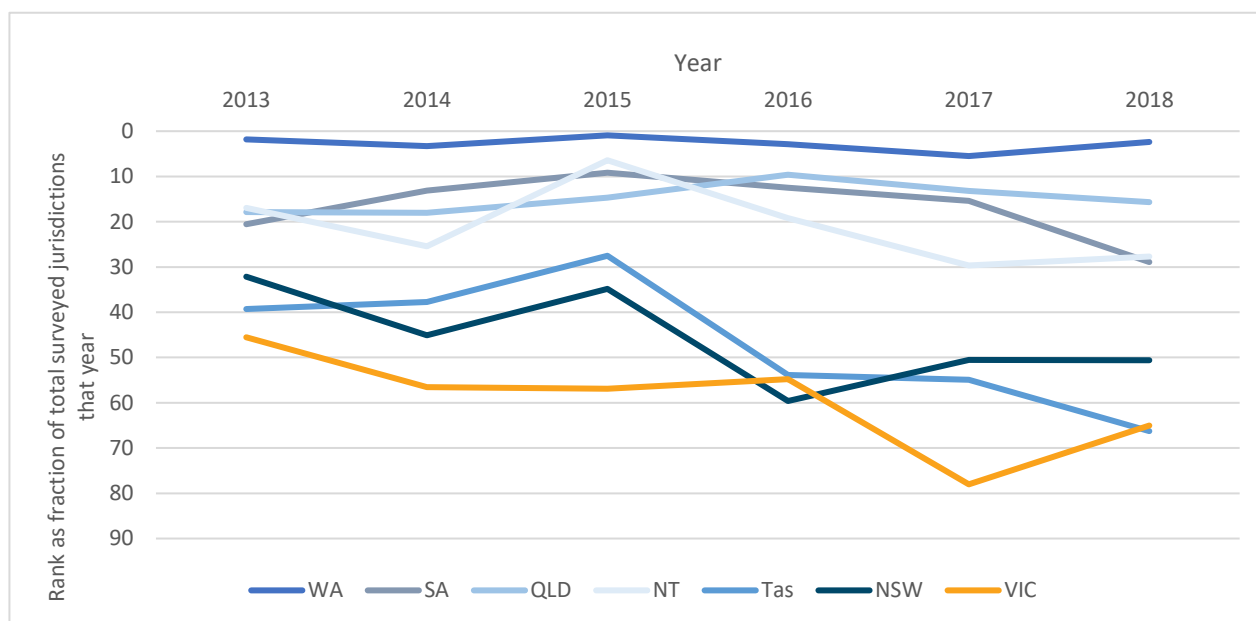
The internationally respected Fraser Institute *Annual Survey of Mining Companies 2018*⁶ shows that Victoria has struggled to compete with other Australian States and Territories as a preferred investment destination, with the comparative rankings shown in **Figure 4**. Victoria was ranked the second-lowest Australian jurisdiction on the Investment Attractiveness Index (54th of 83 mining jurisdictions around the world), only one place ahead of Tasmania. The rank of Victoria (score 60.74, rank 54th) was well below Western Australia (score 91.47 rank 2nd), Queensland (score 81.67, rank 13th), Northern Territory (score 75.93, rank 23rd) and South Australia (score for 75.46, rank 24th) but just above Tasmania (score 60.31, rank 55th). Internationally, Papua New Guinea ranked just above Victoria with Fiji, Mexico and Chile well ahead.

Importantly, Victoria was ranked the second lowest Australian jurisdiction for the Policy Perception Index (termed the ‘report card for governments’ and assesses the attractiveness of policies) in 2018 with a score of 76.85 and was ranked amongst the lowest jurisdictions internationally for uncertainty concerning administrative and environmental regulations as well as for regulatory duplication and inconsistencies.

This is clearly indicative of investment capital heading to international jurisdictions that have lower cost operating environments with clearer regulatory operations and where the potential returns can be considerably greater than in Australia. These data sets demonstrate that companies and investors are willing to pursue greater returns by investing in projects in locations that, unlike Australia, have significant sovereign risks.

⁶ <https://www.fraserinstitute.org/categories/mining>

Figure 4 – Ranks of Australian Jurisdictions on the Investment Attractiveness Index 2018



Source: Fraser Institute *Annual Survey of Mining Companies 2018*

Maximising the resource potential of Victoria

Following record lows, the industry is showing positive signs of economic recovery and growth, however, more needs to be done to maximise Victoria’s natural resource potential and investment attractiveness.

There are a number of key measures which require urgent attention to address the ranking of Victoria and secure our State as an internationally competitive jurisdiction for mineral exploration and mining investment. Failure to do so will have dire consequences for the Victoria economy and job opportunities and fail to maximise the State’s growth and productivity potential.

The following recommendations to the Victoria Government will build industry momentum and support mining and mineral exploration investment in Victoria by providing a fair and risk-based policy framework that is outcomes focussed and fit for purpose.

RECOMMENDATIONS

1. Deliver on actions in the *State of Discovery: Minerals Strategy 2018-2028*

The Government's publication of the *State of Discovery: Minerals Strategy 2018-2028*⁷ in August 2018 was a landmark commitment that provides a clear pathway for the minerals sector to secure the future economy of the State. As an important pillar of the Victorian economy, an overarching strategy to articulate the vision for the industry was long overdue and this strategy has provided both the industry, the community and the Government with a clear framework for our future and deliver the stated vision of "*Growing and responsible minerals sector that is valued by the community*". The Strategy also aligns with many of the recommendations in the Australian Government's recently released *National Resources Statement*⁸.

Now is the time for the Victorian Government to deliver on the five key actions in the Strategy. Each of these actions has a resourcing commitment and AMEC has committed to work in close consultation with Government to ensure each action is delivered and to maximise the natural resources potential for the State of Victoria. Regular reports on the delivery of the Strategy would also provide transparency and certainty for industry.

Recommendation:

- Ensure the actions in the *State of Discovery: Minerals Strategy 2018-2028* are fully resourced to support and secure the future economy of the State with regular progress reports.

2. Extend the TARGET co-funding program

The Victorian government TARGET grants have been a successful program to attract investment and activity to the State. The TARGET grants cover up to half the cost of eligible exploration activities, which include geophysical surveys, drilling and sampling analysis. Since 2016, 15 projects have been awarded over \$3.4 million in TARGET grants with a further five projects in the Stavely Arc were selected to share in \$2.3 million in TARGET grants as part of the Stavely ground release tender.

Collaborative exploration development programs to stimulate mineral exploration in under-explored greenfield areas are offered in other State and Territory jurisdictions and are a key incentive for investment. An economic review of the similar Western Australia program led to a finding that for every \$1 million of Government funds invested, there was a direct additional stimulation of \$10.3 million and 12.5 FTE positions in mineral exploration, extending to \$38.3 million if the project develops to a mine.⁹

AMEC believes that this program should be offered annually, just as in other key mining jurisdictions, to ensure there is this regular commitment to this proven program to bring significant investment into the State. This is exactly what Victoria needs to ensure that it is an attractive and competitive jurisdiction for exploration investment. AMEC

⁷ https://earthresources.vic.gov.au/_data/assets/pdf_file/0008/453779/Mineral-Resources-Strategy-2018-2023.pdf

⁸ <https://www.industry.gov.au/sites/default/files/2019-02/national-resources-statement.pdf>

⁹ <http://www.dmp.wa.gov.au/Petroleum/Exploration-Incentive-Scheme-2251.aspx>

seeks a commitment for the Government to fund this important program to attract and encourage exploration investment in Victoria.

Recommendation:

- Provide annual funding for the TARGET grants program with a minimum \$2 million investment to attract explorers to Victoria and support the continuation of greater knowledge of Victoria's mineral resources.

3. Establish a Gold Fund to support regional communities and the future minerals industry

On 1 January 2020 the Victorian Government removed the exemption for gold royalty and implemented a 2.75% gold royalty in Victoria for production over 2,500 ounce per annum. This initiative was undertaken without prior consultation with industry and then Government failed to act on industry suggestions and recommendations to ease the implementation of this new levy. This has understandably created ire within the industry and concern for investors due to lack of certainty, transparency, stability and equity.

To balance the implementation of this royalty, the gold industry and their regional communities should benefit. Royalties should be utilised to directly support for the future minerals industry and the regional mining related communities. Similar schemes operate in other states, such as the Resources for Regions in NSW, and has been used as a successful government mechanism to support the communities that work hard to produce the minerals, so directly generate this royalty income.

AMEC believes that a dedicated fund should be established which guarantees 50% of the gold royalty revenue raised, is directly invested back into the gold mining industry to support future exploration and mining activities in Victoria and the other 50% spent to directly support regional mining community infrastructure and services.

This proportion of the money to support the future minerals industry should be accessible only to Earth Resources to ensure that it is quarantined from general government expenditure. Industry consultation and annual public reporting on this fund would ensure that the funds are appropriately directed.

Recommendation:

- Establish a Gold Fund from the new gold royalty revenue with 50% to support the regional mining communities and 50% to support the future minerals industry

4. Reduce and eliminate unnecessary fees and charges

Explorers face a multiplicity of fees, charges and levies based on cost recovery, such as administration levies and rental fees, with little or no clarity around the actual costs involved or any recognition of the benefits the resource discovery subsequently brings to the State. The cumulative effect of meeting these costs is a reduction in investment.

It will be of benefit to industry and Government to make the system more cost efficient. Every dollar paid in levies or fees is a dollar lost on investment in work on the ground to explore for mineral reserves. The investors that do

contribute to the exploration sector are often deterred when they see their funds simply flowing to government bureaucracy with no demonstrable benefit to industry, the community or the State.

AMEC is strongly opposed to any cost recovery regime to fund 'core' departmental activities as it simply substitutes consolidated fund revenue with industry contributions and does not recognise the significant fees, levies and taxation revenue payments that the industry is already making to the State Budget.

Recommendation:

- Review and benchmark industry fees and costs to ensure that Victoria has a fair and competitive regime that supports the development of the minerals sector.

5. Review security bond structure to maximise the use of exploration funds

Access to capital is currently the most critical issue for the mineral exploration sector. Any capital raised that is not directly related to exploration is seen as a disincentive to investors. This includes capital tied to environmental and performance bonds. The minerals industry is committed to high environmental standards that provide the State with outcomes that are acceptable to the community, however a system must be established that encourages investment and does not disadvantage the smaller, entrepreneurial companies (essentially the explorers) by tying up significant funds.

AMEC strongly supports a review of the current system and introduction of a pooled fund model, similar to Western Australia's Mining Rehabilitation Fund that removes the need for expensive bonds without reducing any environmental standards or obligations. Queensland is also initiating a similar pooled fund model for some tenure. The Mining Rehabilitation Fund in Western Australia freed up over \$1.2 billion of much needed working capital and removed the need for administratively and financially expensive rehabilitation bonds without reducing any environmental standards or the State's obligations.

Capital that is tied to a bond, or bank guarantees that must be serviced by explorers and miners simply limit their ability to invest in Victoria. This is obviously inefficient and must be removed. Instead, a fund should be established that covers the liability in an unlikely event that a company does not fulfil its environmental rehabilitation obligations.

AMEC strongly recommends implementation of the pooled fund model whereby only the interest earned on the Rehabilitation Fund is made available to meet the administration and any rehabilitation costs associated with potential abandonment and returned to the State. Capital draw downs on the fund itself are not made. This has allowed the Western Australia Fund to grow exponentially to around \$150 million in only a few years of operation. This approach has allowed the Government to focus on priority sites to make them environmentally and physically safe pending determination on whether the subject site requires full rehabilitation works to be undertaken, or can be used for other purposes.

Recommendation:

- Review the security bonds structure to maximise the use of the use of exploration funds and assess the introduction of a pooled fund model.

6. Support education and diversity programs that secure the future minerals industry

Exploration and mining are not seen as preferred industries by many school leavers and this is reflected in the very low university enrolment numbers in the various mining-related disciplines. This is leading to severe skill shortages and a lack of locally trained minerals professionals which in turn stifles development.

A Government-Industry collaborative approach is needed to address this issue by promoting the minerals industry, particularly to primary and secondary level students. Some companies and sectors are doing some work towards this objective, but a unified approach is needed to spearhead a campaign to ensure that Victoria does not lose a generation of skilled experts to realise the future minerals industry.

Gender diversity is also a key issue for the minerals industry. Women Victoria note that mining is one of the most male dominated professions, just behind construction, with a female workforce of only 17%¹⁰. AMEC believes that the Victorian Government should provide annual support for Women in Mining Victoria (WIMnet Vic) including in the proven mentoring program.

Recommendation:

- Support a collaborative approach to secure skilled workers for the future minerals industry.
- Support initiatives to further gender diversity in the minerals industry including the Women in Mining Victoria (WIMnet Vic) Mentoring Program.

7. Pilot crowd sourcing for Victorian exploration

Crowd sourcing is a new way of opening challenges to a broad audience as a competition to seek solutions and has recently been implemented in the minerals industry. OZ Minerals partnered with the open innovation platform, Uearthed, to launch the Explorer Challenge in December 2018¹¹. This unique, online crowdsourcing competition called for geologists and data scientists from across the globe to develop ground-breaking approaches to discover new exploration targets with a \$1 million prize pool to be awarded to winning ideas. In November 2019, the South Australian Government was the first government globally to host a \$250,000 crowdsourced open data competition to fast-track the discovery of mineral deposits in South Australia¹². NASA has also successfully used crowd sourcing since 2015 to seek solutions for complex rocket science problems including development of super-fuel-efficient full-scale aircraft, discovering a new multi planet system and designing an improved astronaut glove¹³.

¹⁰ <https://www.vic.gov.au/gender-equality-baseline-report>

¹¹ <https://www.ozminerals.com/media/news/oz-minerals-partners-with-unearted-on-explorer-challenge/>

¹² http://www.energymining.sa.gov.au/minerals/latest_updates/sa_to_host_first_crowd_sourced_mineral_exploration

¹³ <https://www.nasa.gov/press-release/nasa-uses-crowdsourcing-for-open-innovation-contracts>

Victoria could pilot a similar opportunity as a novel way to attract global interest in Victoria minerals and bring fresh ideas, diverse thinking and new approaches to the State. Providing a pilot program in 2020-21 opening a data set in a prospective area with rewards of \$250,000 for proposed solutions could help bring more interest and investors to Victoria.

Recommendation:

- Pilot a crowd sourcing mineral exploration project in Victoria in 2020-21 opening a data set in a prospective area with rewards of \$250,000 for proposed solutions could help bring more interest and investors to Victoria.

