

Australian miners face govt strangulation

Mark Fraser, 11 August 2011



Mincor Resources boss David Moore.

LIKE other advanced Western nations such as the US and those in Europe, Australia could squeeze the life out of its mining industry through over regulation, creating an environment where only the biggest and most profitable survive. This was among the observations made by three of Australia's emerging mining houses when questioned about major issues facing the country's resources sector at the recent Diggers & Dealers forum in Kalgoorlie.

Mincor Resources managing director David Moore told *HighGrade* there was an increasing move Down Under towards further regulation regarding the where, when, how and under what circumstances exploration and mining could take place. Although this had been the case for the past 10-15 years and was not "slotted to any particular government", it was, nevertheless, "slowly strangling the business".

Moore's concerns about new regulations, taxes and costs were echoed by Kingsgate Consolidated's Gavin Thomas, and Silver Lake Resources boss Les Davis.

Not that these companies have stopped pursuing opportunities in Australia.

"When I say strangling the business, it's slowing exploration down to a crawl, so Australia's ability to continually replenish what it is mining is being hindered quite severely," Moore said.

"I think other countries around the world have gone through this – particularly the advanced economies. Other Western countries, if you look at them, have gradually squeezed their mining business until it was dead through all of the various regulations.

"No one has said, 'okay we've got to ban mining'. All they have done is make it incrementally harder year by year by year, until only the most profitable – the most profitable and powerful mines – can afford to operate there.

"And the rest of the industry is just squeezed out of existence.

"I guess my big fear in Australia over the long term, the next 5-10 years, is that ... we will no longer be a mining country – we will just have only a few big mines and the whole vibrant mining sector will disappear. And it is out of this vibrant smaller sector, of course, that the big companies of the future, and the big discoveries, do ultimately come."

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While Mincor had been facing increasing general costs of 10% per annum since the onset of the global financial crisis, another pressing issue it was going to have to focus on a little more moving forward is meeting community expectations – particularly those in Papua New Guinea where it is expanding its exploration activities.

The company currently has three projects within the country's central tectonic belt, which hosts some of the world's largest copper-gold mines. They were acquired by Mincor's soon-to-be-ASX-listed joint venture partner Niuminco.

Moore said these targets – Edie Creek, May River and Bolobip – had the potential to take the resources house "to the multi-billion market cap level, which is of course where we think we belong".

Mincor has put \$A12 million into Niuminco's float, giving it a 12.5% stake in the junior.

The JV partners are targeting tier 1 porphyry copper-gold systems as well as high grade epithermal gold deposits. There was no doubt, Moore said, they were in elephant country.

"Landowners need to be dealt with respectfully in PNG as they need to be dealt with respectfully in Australia," he said. "The government over there ... has its own quirks, but by and large it is pretty welcoming of mining. And I guess the exploration potential is very high.

"Now it is high in Australia too, but over here it is getting harder and costlier – plus the easy deposits have been found."

Sydney-based Kingsgate, which became Thailand's first modern miner after opening its flagship Chatree operation in the first half of the 2000s, is another company that clearly hasn't abandoned Australia even as it builds its portfolio in South America and elsewhere. It started its international expansion when it acquired Dominion Mining and the 10-year-old Challenger operation in South Australia. Then last week it announced it was buying a second Australian asset, Bowdens in New South Wales, for \$A75 million (\$A30 million scrip and \$A45 million cash) from Canadian miner Silver Standard Resources.

Meanwhile, Silver Lake Resources is taking its production to the next level with plans to begin its second gold operation in WA's Murchison during the second half of next year. According to the company's managing director, Les Davis, the first bar is scheduled to be poured on the last day of 2012. Silver Lake started its life as a miner during 2007 when it took over the operations of the high-grade, nuggety Daisy Milano mine just south-east of Kalgoorlie-Boulder in WA.

It is looking to produce 115,000-120,000ozpa during 2011-12.

While the two companies have grown up under reasonably different circumstances, they still pretty much face the same issues when it comes to doing business – including those pertaining to Australia's investment environment.

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Although he acknowledged he was worried about the federal Labor government's proposed mining and carbon taxes, and the fact domestic operating costs were going "through the roof", Kingsgate managing director Thomas said there were not too many opportunities around the world like Bowdens, an epithermal silver deposit with an existing NI 43-101 measured and indicated resource of 79.5 million oz silver and an additional inferred one of 17.6Moz (using a 40 grams per tonne silver equivalent cut-off grade).

"When people are running in one direction, I always look at where they are running from," he told *HighGrade*.

"You will always find value.

"You can't invest in the Australian mining game on a short term basis – you invest because you believe in it over the long term."

Nevertheless, the expected fuel rebate cut of 6c per litre of diesel fuel, scheduled to become law from July 1 next year as part of the Labor government's carbon initiative, was going to affect Kingsgate's mining activities at Challenger, possibly to the tune of \$A3 million a year.

"That is \$A3 million that we'd rather be into guaranteeing long term sustainable development, rather than playing games with what may or may not be a carbon tax," Thomas said.

"We have fly-in/fly-out, we're remote and we have no alternative but to use diesel, so we are going to be impacted by this.

"There is no allowance for the fact that we will defer capital expenditure as we figure out how much this thing will cost us."

Davis, however, went one step further, suggesting the mineral resources rent tax (MRRT) could well be extended to the gold sector as the Commonwealth tried to find ways to fill in its budget deficit blow out. He also believed the planned imposts had affected Australia's investment potential.

"I travel the world globally twice a year to service our international institutional investors," he said.

"And sometimes you don't even get a chance to tell them how your company is going – all they want to know is what the bloody hell is going on with all the new taxes in Australia.

"The bulk of the funds are all from overseas if you are looking for large chunks of capital, because domestic investors have become very nervous in these uncertain times.

"Last year they (the Julia Gillard-led labor administration) said they wouldn't implement a carbon tax, but this year they have. So do I believe they are going to leave the MRRT at coal and iron ore? No, I do not."

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Both Thomas and Davis agreed one of the other big issues facing the gold sector was related to labour, although it seemed the problem was a little more profound in Thailand.

"I don't want to sound blasé, but it's hard to attract good people because they are simply not around," Thomas said.

"And I think if you look at a lot of the capital blow outs that are occurring at the moment, that's indicative of people not having the time to consider their options or not having the expertise to do it.

"At Chatree we have a low turnover – we pay above-salary wages in a country where the salaries are generally lower than they are in Australia.

"However, we now have competitors starting up in the region and they have made it very clear that they are looking to target our staff."