



31<sup>st</sup> March 2014

David Murray AO  
Chairman, Financial System Inquiry

By email: [fsi@fsi.gov.au](mailto:fsi@fsi.gov.au)

Dear David

### **Financial System Inquiry**

Thank you for the opportunity to provide preliminary comment to the Financial System Inquiry.

The Association of Mining and Exploration Companies (AMEC) is the largest peak industry body for mineral exploration and mining companies within Australia. The membership of AMEC comprises hundreds of exploration, mining and service industry companies.

AMEC's strategic objective is to secure an environment that provides clarity and certainty for mineral exploration and mining in Australia in a commercially, politically, socially and environmentally responsible manner.

It is in this context that the following comments are provided.

### **State of the industry**

In late 2012, Port Jackson Partners released a report<sup>1</sup> which clearly identified that Australia was now far less competitive than its international counterparts.

Amongst other matters, it found that:

- *'Capital costs are rising more rapidly here than in the rest of the world, with iron ore projects now 30% more expensive than the global average and thermal coal 66% more expensive,'*<sup>2</sup>
- *'By 2020, Australian projects beyond the Pilbara are forecast to have higher delivered costs than benchmark Brazilian producers and will cost up to 75% more to build than projects in West Africa,'*<sup>3</sup>
- *'Nearly half of Australia's production is now in the most expensive 25% of mines globally. Even in iron ore we have lost our operating cost advantage for all but established Pilbara producers,'*<sup>4</sup>

---

<sup>1</sup> Regaining competitive edge report, September 2012

<sup>2</sup> Ibid - page 10

<sup>3</sup> Ibid - page 10

### **Association of Mining and Exploration Companies**

[info@amec.org.au](mailto:info@amec.org.au) | [www.amec.org.au](http://www.amec.org.au)

#### **Perth Head Office:**

6 Ord Street, West Perth WA 6005  
PO Box 948, West Perth WA 6872  
P: 1300 738 184 | F: 1300 738 185

#### **Queensland Office:**

Level 7, Suite 39, 320 Adelaide Street  
Brisbane QLD 4000  
P: 07 3010 9287 | M: 0402 142 367

#### **New South Wales Office:**

Level 3, 66 Hunter Street  
Sydney NSW 2000  
P: 1300 738 184 | F: 1300 738 185

- *'75% of all projects included in the BREE major projects list remain uncommitted.'*<sup>5</sup>

Small mining and junior mineral exploration companies continue to face spiralling cost pressures due to a range of additional operating and capital expenses; taxes and levies that will bite further into limited working capital and cash flows. Many of these increases are outside the control of the individual company, but still require stringent cost cutting initiatives being implemented.

Research undertaken by the University of Western Australia (UWA) in 2012 indicates that *'The industry is also facing an environment where discoveries are reducing, getting deeper and harder to find'*<sup>6</sup>, and equity investment is being lost to competitive offshore projects<sup>7</sup>.

It also stated *'The challenge for industry is the fact that our existing mines have a median life expectancy of 7-18 years and that it takes on average, 7 years to convert a new discovery into an operating mine. Consequently, to be sustainable in the longer term, the mining industry needs to continuously build up a strong pipeline of projects at or close to the development stage. This, in turn, is only possible on the basis of an active and successful exploration sector feeding the pipeline.'*<sup>8</sup>

The UWA research clearly encourages Government and the mining industry to be planning and preparing for future growth and productivity.

The increased cost of extraction caused by deeper discoveries and the declining grade of deposits has also made it harder to attract investment opportunities. Escalating capital costs also make it increasingly more difficult for companies to develop projects that meet the minimum return on investment hurdles required to actually start developing new mines.

Australia's reputation and credibility as a sound place in which to invest also continues to be tested as an increasing number of companies are choosing to look at developing projects overseas (refer Table 1).

---

<sup>4</sup> Ibid – page 25

<sup>5</sup> Ibid – page 50

<sup>6</sup> 'Where are Australia's mines of tomorrow?', September 2012 University of Western Australia – page 8

<sup>7</sup> Ibid - page 1 states *'The trend for Australian based companies to devote an increasing proportion of their budget to explore abroad has continued with about half of their funds now being diverted from domestic exploration to jurisdictions such as Africa, Canada and Latin America'*

<sup>8</sup> Ibid - page 18

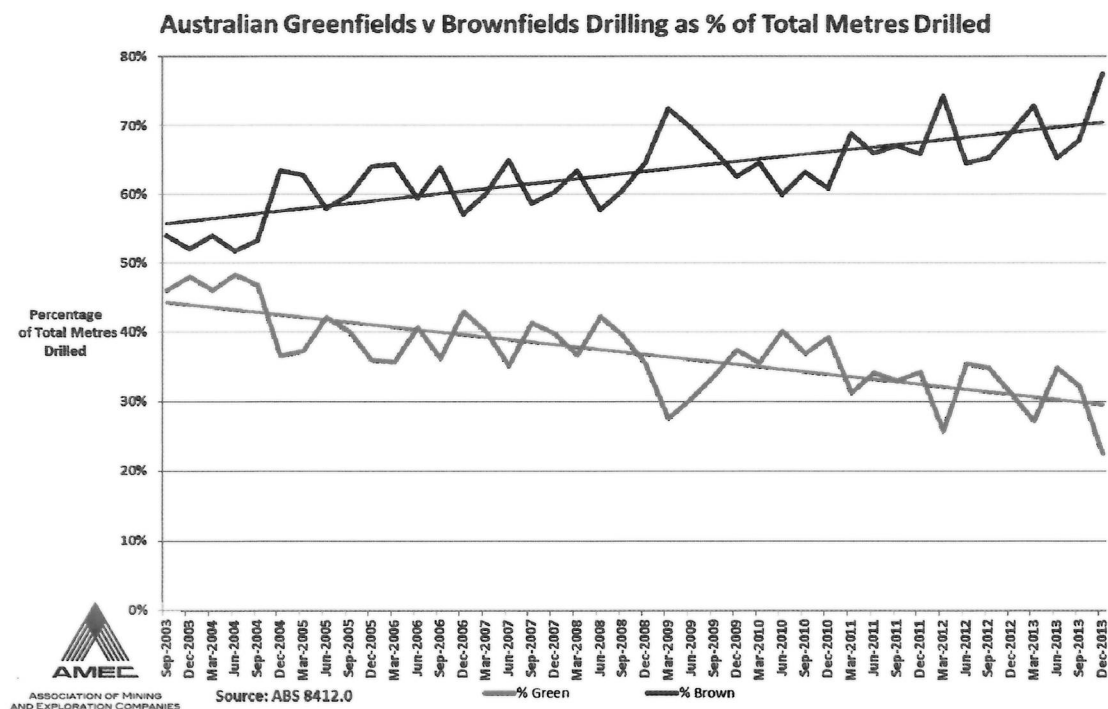


Table 1

The number of Initial Public Offerings of Metals and Mining Companies has also seen a significant downward trend over the past few years, particularly as a direct result of changes in the public policy and regulatory framework throughout Australia (refer Table 2).

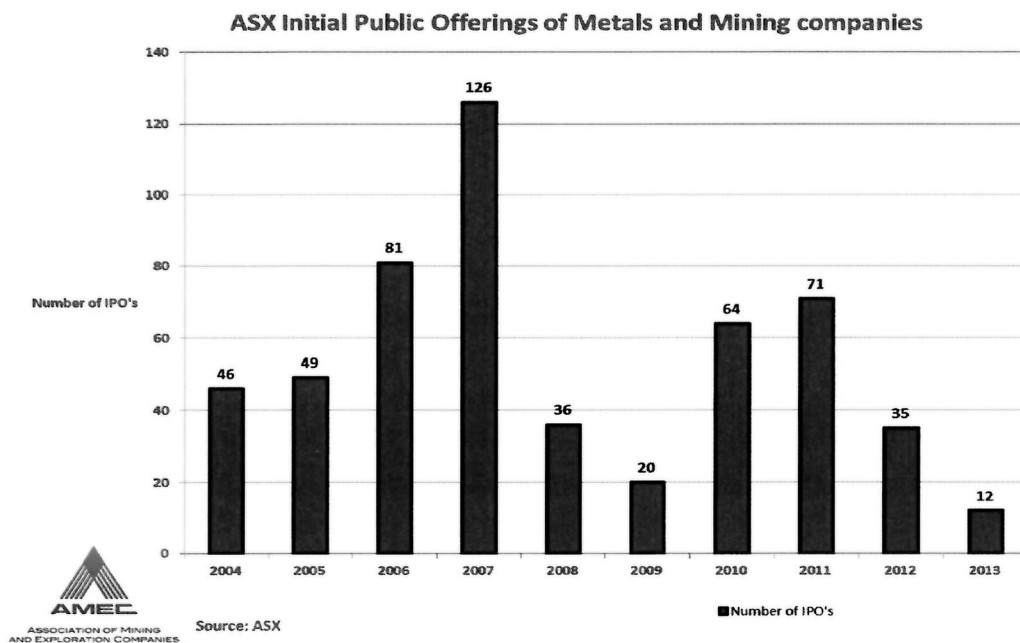


Table 2

All of these trends should be of extreme concern for the Government, noting corporate, personal and indirect taxation, royalty revenue streams, jobs, social and economic dividends will be threatened and probably reduced in the short term.

Stable public and financial policy and strong financial systems are critical factors in providing an appropriate level of confidence to promote growth and increased productivity, social and economic dividends.

It is therefore imperative that Australia maintains and enhances its competitive edge and market share over other emerging and multiplying jurisdictions in order to take immediate advantage of the significant economic, social and financial dividends.

### **Venture capital**

As access to capital is a major problem for start up / junior mineral exploration companies and emerging mid tier miners, AMEC considers that there is an opportunity for an increased role for the banking sector to stimulate venture capital.


Venture capital for exploration and mining is crucial to fund future growth and productivity and should be promoted wherever possible, whilst still maintaining appropriate prudential standards. One such initiative is for the Commonwealth Bank to play a more significant 'development' role in providing and facilitating more contemporary 'funding models' for junior mineral exploration companies and emerging mid tier miners.

The Commonwealth Bank could also, in partnership with respective State and Territory Governments, play a role in facilitating and / or financially assisting the construction of relevant infrastructure to meet the needs of the resources sector and promotes growth and productivity. Investment in infrastructure with a high economic return is crucial in this process.

I look forward to further consultation on this Inquiry as it progresses through to a final report to Government. In the meantime, AMEC would be pleased to assist in the development of appropriate criterion and design features of the initiatives suggested above.

Please let me know if you have any specific queries on the content of the submission.

Yours sincerely

  
**Simon Bennison**  
Chief Executive Officer