

New Zealand Branch of
Australasian Institute of
Mining and Metallurgy

Secretary
PO Box 409
Blenheim

3 March 2006

Replacement Minerals Programme Submission
Chief Executive of the Ministry of Economic Development
C/- Manager, Petroleum and Minerals Policy
Crown Minerals
Ministry of Economic Development
PO Box 1473,
Wellington,
New Zealand.

Email: crown.minerals@med.govt.nz

Attn: Rob Robson

Dear Rob,

Submission on Replacement Minerals Programme.

Please find attached our submission on the Draft Crown Minerals (Minerals & Coal) Minerals Programme 2006 (DMP).

We welcome discussions on the points raised in our submission.

Yours faithfully



Graeme Fulton
Chairman
AusIMM - NZ Branch

Submission on Draft Crown Minerals (Mineral and Coal) Minerals Programme 2006

Introduction

The Australasian Institute of Mining and Metallurgy (AusIMM) is an international, professional institute with about 8,000 members world-wide. Most are based in Australia and about 180 live and work in New Zealand, and are members of the NZ Branch. The membership in NZ includes most of the professionals working in the mining industry in New Zealand, including geologists, mining engineers, environmental scientists and lawyers.

Mineral Exploration

The long-term health of the New Zealand mining industry depends on continuing investment in exploration. Since a low point in activity in 2001, exploration spending has grown strongly throughout the world reaching an estimated \$US 5.1 billion in 2005¹ but Australasia's share of this has not been maintained.

Concern about this in Australia has led to a Parliamentary Enquiry² and in February 2006 the Minerals Council of Australia published the final report³ of an audit of regulations influencing mining, exploration and project approval processes. These investigations have been aimed primarily at maintaining and enhancing Australia's ability to compete for international exploration investment, and to be an efficient mineral producer.

Additionally, similar concerns were identified by the State of British Columbia in Canada where they compiled the "BC Mining Plan"⁴ which contains a number of strategies to achieve global competitiveness. One example from this plan, 'Strategy 8 – Streamline regulations' lays out a number of actions to achieve this strategy. Some actual achievements recorded to date are a reduction of 30% in 2004, and an additional 10% in 2005 in mining related regulations. This is in a state that has more than 60% of Canada's exploration and mining companies.

Exploration Spending in New Zealand

Spending on exploration in New Zealand is monitored by Crown Minerals and the results are published annually. The latest release of this data for the year to the end of March 2005 highlights the difficulties faced by exploration investors in New Zealand.

¹ Metals Economics Group data.

² Exploration: Australia's Future (Prosser Report, 2003)

³ National audit of regulations influencing mining, mineral exploration and project approval processes. Report prepared by URS for Mineral Council of Australia, 2006.

⁴ BC Mining Plan Global Competitiveness Cornerstone 3

Total investment in exploration (i.e. spending on exploration-related activities, excluding permitting and access costs) amounts to about \$16 million, and shows a strong increase over the last 5 years. The regional breakdown of spending shows a different picture. In 2005, three quarters of exploration spending was recorded in the Waikato region, where investigations by Newmont in the vicinity of the Martha mine, exploration related to coal production in the Waikato coalfield, and advanced projects (in particular the Heritage Gold NZ Ltd. project at Karangahake) dominate the results.

Exploration spending on exploration and prospecting permits elsewhere in New Zealand to March 2005 totalled just \$4 million, at a time when global exploration spending is running at historically high levels. Investment at this rate is insufficient to maintain mineral production in the long term, and there appears to be no prospect of NZ realising its potential as a mineral producer if this situation persists.

At present NZ is unable to compete effectively for international investment in mineral exploration. While there are many reasons for this, the regulatory regime in the minerals programme and the way it is being administered are likely to be contributing factors.

Relevance to the Minerals Programme

Reviews of regulatory regimes, and the studies referred to above stress the need for clear, simple regulations and procedures. If NZ is to compete, it must, to the maximum extent possible, maintain a regime that is comparable with those used overseas.

The proposal to simplify the royalty regime, the abolition of the accounting profits royalty, and the use of a specific rate royalty for industrial minerals are positive changes. However, these improvements can be contrasted with classification of coal as a high value mineral and the two step AVR regime that do not account adequately for the costs and uncertainties (related particularly to access and Crown land management) that are peculiar to New Zealand.

The proposed allocation regimes using numerous methods (work programme bidding, cash bonus bidding and a weakened priority in time method through the "newly available acreage" provisions) will cause confusion, and don't align well with the permitting regimes in other countries, for example in major mining countries such as Australia and Canada, who use a priority in time system for mineral claims/permits. Giving officials high levels of discretion to accept and reject applications is seen by many explorers as a deterrent now because of high costs and uncertainty. The proposed changes to the allocation regime look likely to aggravate these concerns.

We have sought advice from the Institute's policy coordinator, who has particular concerns about the use of work programme bidding. The key reasons cited against competitive work programme bidding are:

1. The explorer may need to undertake considerable work and expenditure before a bid which may not be successful, leading to significant bias against small scale explorers with limited resources. If, in NZ as in Australia, junior explorers contribute significantly to new discoveries, there may be some particularly strong arguments against ensuring they are not disadvantaged.
2. Tenderers may engage in misleading behaviour, submitting unnecessarily complex and exaggerated work programmes in order to secure a tender.

3. Determining the criteria for "programme most likely to make a discovery" will be a difficult task. That is, if the criteria are too flexible determinations will seem arbitrary, with no real "natural justice" and uncertainty for the tenderers, if the criteria are too prescriptive this will lead to distorted outcomes.

Conclusion

The AusIMM NZ Branch:

1. Welcomes the changes that simplify the royalty regime that are in line with recent international approaches.
2. Is concerned about changes to the permitting regime that will complicate the process, and lead to more discretion being exercised by officials, with the inevitable consequences for cost and risk.
3. Seeks the use of the priority in time as the sole allocation method that is used predominantly in other countries.
4. Urges the Ministry to initiate an independent investigation into the reasons for NZ's inability to compete for exploration investment in line with recent studies/initiatives conducted overseas, particularly in major minerals centres like Australia and Canada.
5. Endorses the submissions of the NZ Minerals Industry Association

The NZ Branch of the AusIMM looks forward to a constructive and intense consultative process that creates an attractive and streamlined Minerals Programme regime, which satisfies all stakeholders, attracts foreign investment and assists in the generation mineral development projects for the benefit of all New Zealanders.

Yours truly,



Graeme Fulton
Chairman
AusIMM – NZ Branch

Data from, and or useful websites:

<http://www.nrcan.gc.ca/mms/policy/mmp-e.pdf>

http://www.gov.bc.ca/empr/popt/mining_plan.htm

Mining Tax http://www.nrcan.gc.ca/mningtax/inv_5.htm

BC Mining Plan http://www.gov.bc.ca/empr/down/bc_mining_plan/e_cornerstone_3.pdf

Prosser report <http://www.aph.gov.au/house/committee/isr/resexp/reportscript.pdf>

URS National Audit Report

http://www.minerals.org.au/_data/assets/pdf_file/11027/MCA_URS_National_audit_report_030206.pdf

Metals economics group http://www.metalseconomics.com/frame_press_releases.html

Exploration-related reports at <http://www.ausimm.com/policy/policy.asp#005>

Crown Minerals <http://www.crownminerals.govt.nz>