



Minerals Institute Welcomes Long Term Thinking in Budget, but Cautions on the Detail

****MEDIA RELEASE****

The Australian Government's 2009 Budget suggests that the winners in the high tech global economy of the 21st century will be those nations that focus not only on short term rewards, but also on key infrastructure underpinning long term growth.

The Australasian Institute of Mining and Metallurgy ('The AusIMM'), the lead organisation representing technical professionals in the minerals sector, congratulates the Government on its strong commitment to long term investment in rail and port infrastructure, human capital, and innovation, all of which are critical to a strong resources industry.

However, AusIMM CEO Michael Catchpole said the glaring omission from the Budget was the introduction of a 'flow-through share scheme' to stimulate exploration. The Federal Government's 2007 election commitment to such a scheme remains the most significant piece of unfinished business for Resources Minister Martin Ferguson.

"It's impossible to decouple the fortunes of the exploration sector from that of mining. It's disappointing to see progress on policies for a competitive mining sector without the recognition of the core importance of exploration," Mr Catchpole said.

Higher Education Funding

The AusIMM welcomed the announcement of \$5.4 billion dollars in higher education funding for a quality, sustainable university sector.

"Intelligent, competent and innovative people are our number one asset. The AusIMM has long argued that a solid investment in higher education in minerals education is critical to ensuring the industry does not continue to suffer from acute skills shortages through the cycles of boom and bust.

"We need to ensure that we continue to produce graduates that are equipped with both the theoretical understandings and practical skills to drive the industry forward, as the current cohort of experts in an ageing workforce is due to retire," Mr Catchpole said.

However, a key element in comprehensive reform that has raised some concern is the principle of 'student-centred' funding inherent in the announced reforms.

Minerals related courses such as Mining Engineering and Geoscience tend to be small and capital intensive. In recent years a 'student-centred' formula has made these courses unsustainable at many universities, exacerbating the shortage of professionals in key specialist areas.

“If the reforms don’t have a mechanism built in to protect the viability of highly specialised technical courses with small enrolments, the economy will suffer over the longer term. We won’t get by on a nation of generalists,” Mr Catchpole said.

Research and Development

Research and development support is another policy area where the Government has clearly recognised the benefits of R&D, but risks remain in the lack of detail around policy detail and implementation.

The Government has replaced the 125% tax concession with two levels of support:

- **a 45% refundable credit for companies with turnover of less than \$20 million, equivalent to a 150% tax concession.**

This new credit will effectively increase support for small mining technology and service firms by 50%, and deliver further benefit by allowing them to claim payments upfront rather than having to wait until they turn a profit to realise the tax deduction.

- **a 40% non-refundable credit for companies with turnover of more than \$20 million and for companies with foreign-owned intellectual property arrangements that conduct R&D in Australia. This is equivalent to a 133% tax concession.**

This is higher than the standard 125% tax concession, but lower than the premium level tax concession of 175% that was available for sustained investments by large firms. There is also some concern over proposed tightening of eligibility criteria for R&D assistance in relation to larger firms.

“As an institute of technical professionals, we are wary of any reduction of incentives for large ongoing demonstration projects, or any tightening of the criteria that does not fully comprehend the reality of R&D process – in particular the high risks and the long payback periods,” Mr Catchpole said.

The adaptation of a highly integrated system such as a mine or processing plant around a new technology carries major risks, but also some of the largest rewards in terms of efficiency savings and benefits to the environment. Facilitation of these developments must be built into our national innovation system.

Health and Safety

The AusIMM had previously called for an additional Budget commitment to ensure the implementation of the National Mines Safety Framework in a timely manner. As such the commitment of an extra \$3.3 million in funding to develop and implement the framework is an important step towards achieving consistency of safety and health regulation.

“Currently, companies that work in several states are required to comply with multiple regimes driven by a variety of compliance philosophies. Resolving the details and differences detracts from the real task of putting in place the most effective safety system possible.”

Infrastructure Spending

Developing and maintaining effective export infrastructure is key to ensuring the competitiveness of Australian minerals sector, and allowing for further expansion as the economic recovery unfolds.

The AusIMM has welcomed around \$400 million on two port projects. The port of Oakajee in Geraldton in Western Australia will receive almost \$340 million with another \$50 million to expand the port of Darwin.

Flow-Through Shares

The decision not to implement a Flow-Through Shares (FTS) scheme to stimulate and encourage the junior exploration sector is the one key area where the Government has demonstrated a lack of understanding of the Australian minerals sector and its drivers.

“Junior explorers account for around 80% of all resource companies listed on the ASX, and are responsible for most new discoveries. Although a majority actually have a capitalisation of less than AUD \$30 million, they are the engine room of the Australian minerals sector,” Mr Catchpole said.

“In the current climate of a restricted financial market, the higher risk junior exploration sector has been gutted, and exploration activity for many companies has been frozen, with massive job losses across the industry. Those who have lost their livelihood include geologists, drillers, camp caterers, transport drivers, service providers of all sorts, and non-industry townspeople in many mining communities.”

Junior explorers are currently hindered by an anomaly in the Australian taxation system, whereby exploration expenditure gives rise to a tax deduction, but junior explorers are unable to claim this deduction by virtue of having no assessable income. An FTS scheme would address this anomaly by allowing junior explorers to pass on these deductions to their shareholder, thereby increasing the attractiveness of investment in this sector.

“The decision to again delay implementation of an FTS scheme is difficult to understand, particularly in light of recent economic modelling that shows the additional stimulatory effects that an FTS scheme would have on the economy,” Mr Catchpole said.

A recent Report commissioned by industry bodies including The AusIMM indicated that an FTS scheme would deliver significant short term socio-economic benefits across Australia at an estimated cost to government of approximately \$130 million per year.

In summary, between 2009-10 and 2012-13, an FTS scheme could generate immediate socio-economic benefits across Australia through up to:

- **4,196 new jobs**
- **\$114.4m in additional Gross Domestic Product**
- **\$191.2m in additional real private consumption**
- **\$965.1m in additional real investment**

“An FTS scheme would have been an easy win for the Australian economy, driving immediate jobs growth as well as unlocking ore deposits for future growth of mining activity.

“We urge the Government to deliver an FTS in time for the 2010-11 Budget, or earlier as a matter of priority, an effective downpayment on its earlier election commitment ahead of the Henry Tax Review.”

The AusIMM:

The Australasian Institute of Mining and Metallurgy (The AusIMM) is the leading organisation representing 10,000 professionals in the minerals sector in the Asia-Pacific region. www.ausimm.com

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