

Castlemaine Goldfields submission regarding the Victorian Gold Royalty Regulatory Impact Statement – Oct 2019

Introduction

Castlemaine Goldfields' Ballarat Gold Mine worked closely with the Minerals Council of Australia (MCA) to help develop the MCA's submission into the Gold Royalty Regulatory Impact Statement (RIS). In light of this, this submission will not seek to repeat that more detailed work, but instead provide brief general comment on the rushed and poorly thought out nature of the gold royalty.

I am the GM of the Ballarat Gold mine and task with the day-to-day running of the business. I've been running mines for twenty odd years and have been in this job for three years now. I know this business intimately.

No prior consultation

The Government has not adequately consulted with the Victorian gold mining industry.

The gold royalty was announced on the 25th May in the Age Newspaper as a lead-in to the State Budget on the 27th. No contact with any of the gold producers had been made prior to that news article.

The Government only had to consult with four mines in Victoria but chose not to. Quite literally, that could have been four telephone calls (to start with) in the weeks and months leading to the budget. Instead, the Government relied on very poor economic modelling by a third party.

The reason given to not consult with any of the gold producers on the basis that they are publicly traded entities prior to the budget announcement is complete and utter nonsense.

Inadequate consultation prior to RIS

Between the newspaper announcement on the 25th May and the publishing of the RIS, the Victorian gold industry has given the Government feedback on the negative aspects of the proposed royalty along with simple and modest proposals to rectify those negative aspects. None of the constructive and collaborative efforts made by industry is reflected in the RIS.

The one-month period provided by the RIS to make a submission is utterly inadequate in terms of consultation. It is 'Claytons' consultation.

RIS itself

As per the MCA's submission (including appendices), the third party-derived costings and financial projections used in the RIS are utterly flawed. Any conclusions drawn from that analysis are also utterly flawed.

The language used in the RIS is full of political spin and contains selective quoting from media that absolutely does not reflect (mischievously) the intent of the bulk of the statements made in the media.

Ballarat is a marginal producer

In order to stay in business, we need to meet four main objectives, viz. Safety, Environment, Community and our revenues must exceed our costs.

Castlemaine Goldfield's Ballarat Gold Mine is a marginal producer. Whilst the mine has plenty of potential, it has yet to develop into a sustainably profitable business. To make the transition to a sustainably profitable mine would take tens of millions of dollars of investment over a few years. That is something that the proposed royalty makes all the harder to do.

The Ballarat Gold Mine discovers, mines, processes and sells approx. \$70 million worth of gold every year. It costs approximately \$70 million per year to do all that.

The intended royalty does not sound like much, only 2.75% of revenue, but that is \$2 million more than we can afford. Although the gold price is up at the moment, our production is down this year, so we are going backwards at the moment.

The gold royalty would cost the mine approximately \$2 million per year extra. That makes the survival of the mine all that more difficult. One could simply say that costs would rise to approx. \$72 million per year and incomes would remain at \$70 million. Not a sustainable position.

Using the Government's reference gold price of A\$1,866 per ounce (a price higher than the gold price on the day of the Budget announcement, and only just below the all-time record high for gold at the time of the budget, set some two weeks earlier, of A\$1,873/oz), the gold royalty represents a tax at the rate of approx 45% in addition to the company tax rate of 30%. The tax rates come out at about 60% combined. Even if the \$1,866 gold price is achieved in the long term and there are no production problems (as there frequently is) – a 60% overall tax rate doesn't seem fair.

Ballarat Gold Mine contributes to the local economy

The Ballarat Gold Mine directly employs 160 people and approx. 55 contractors. Of the \$70 million annual total costs, the mine spends around \$55 million of that in Victoria on salaries, goods and services. The mine has approx. 110 local Ballarat suppliers including leading innovative METS companies such as DeepCore Drilling and Gekko Systems. The directly affected offsite jobs probably amounts to around 60 to 70 jobs in all.

That \$70 million along with the c. 280 jobs, let alone the \$55 million spent in (largely regional) Victoria is put at risk with this royalty. All that for \$2 million extra tax.

Industry is Open to Royalties

We have no objection to make a fair contribution (in the form of royalties) to the state for the privilege of mining the gold underneath Ballarat and selling it for a profit. We already make a huge contribution to the economy of Ballarat and Victoria. We just want a properly designed gold royalty regime where royalties are only paid when they can be afforded.

The Victorian gold industry has proposed a number of measures to mitigate the negative aspects of the gold royalty including:

- An exploration offset to remove distortions against smaller, marginal and start up mines,
- A progressive royalty rate structure with a gold price floor to reduce impacts during times of lower gold prices, and
- Staged implementation to reduce retrospectivity.

None of these appeared in the RIS.

Delay the introduction of the gold royalty until genuine consultation takes place

The Government's handling of this issue has been quite frankly atrocious. All the industry wants is a fair and open process.

It's not often that you have an industry willing to work cooperatively with government on the design of a new tax. Those offers of cooperation have been ignored.

I ask that the gold royalty is deferred from its 1st Jan 2020 introduction until the Government undertakes genuine consultation with all stakeholders including gold producers, local councils and METS companies.

Please delay the implementation of this poorly designed tax and lets positively engage to design a tax that will be to the lasting benefit of all stakeholders.