SUBMISSION

Removing the Gold Royalty Exemption in Victoria

17 October 2019

The Association of Mining and Exploration Companies (AMEC) welcomes the opportunity to provide a submission to the Victorian government consultation on the regulatory impact statement (RIS) and draft Regulation for removing the gold royalty exemption in Victoria, leading to implementation of a 2.75% gold royalty in Victoria from 1 January 2020.

AMEC is a leading national minerals industry association

AMEC is a leading industry association representing the mining and mineral exploration industry across Australia with over 275 member companies across Australia. Our members are explorers, emerging miners, producers, and a wide range of businesses working in and for the industry, with a focus on the junior and non-coal sector of the minerals industry. AMEC represents a number of companies exploring for gold and investing heavily in Victoria.

Consultation on removal of the gold royalty exemption in Victoria

The announcement of the removal of the gold royalty exemption in the Victorian Budget on 27 May 2019 was made without industry consultation and has come as a shock for the gold sector, just at a time when Victoria as a prospective investment destination was gaining positive attention. Royalty rates are a significant factor in investment attraction and the minerals industry is concerned that the Victorian government has significantly overestimated the current strength of the gold sector in Victoria. Implementing a gold royalty of 2.75% will place existing projects and jobs at risk and diminish investor confidence and new projects currently in development.

AMEC and our members accept that is appropriate for mining companies to pay a royalty for minerals. The zero royalty for gold in Victoria has become an anomaly that doesn't reflect contemporary practice and is out of step with community and industry expectations. However, in setting royalty rates government must give consideration to the conditions in which these rates will operate – setting a royalty rate too high can have a significant impact on a State's investment attractiveness and work to discourage investment in exploration and mine development.

It is unfortunate that the consultation RIS did not include a full quantitative assessment of alternative royalty rates and implementation schedules nor the impact for prospective projects in Victoria, with the assessment limited to only a few current and highly profitable projects. The RIS also failed to include the results of internationally respected Fraser Institute *Annual Survey of Mining Companies* 2018[1] where Victoria was ranked the second-lowest Australian jurisdiction on the Investment Attractiveness Index (54th of 83 mining jurisdictions around the world), only one place ahead of Tasmania. This sentiment reflects the critical first step for a company to secure the confidence to commence investment in a jurisdiction. The decision regarding the royalty will further reduce the appeal of Victoria to explorers and miners, and act as a dis-incentive for investment.

Victoria has technically difficult geology and must compete with other jurisdictions

Victoria must compete with other more established gold jurisdictions that have lower gold royalty regimes and more attractive development incentives. These include a 2.5% royalty rate in Western Australia, and a 2% reduced royalty rate in South Australia for new mines in the first 5 years of production.

Unlike many other gold jurisdictions, a large number of Victoria's gold prospects lay beneath significant levels of deep unprospective cover. This results in significant additional costs and complexity for exploration and mining, making discovery and mining more difficult than historic Victorian deposits located at surface. Recognition of this

[1] https://www.fraserinstitute.org/sites/default/files/annual-survey-of-mining-companies-2018.pdf

Association of Mining and Exploration Companies ABN: 33 362 864 696
Offices located in Perth, Brisbane and Sydney
PO Box 948, West Perth WA 6872 | 6 Ord Street, West Perth WA 6005
P: 1300 738 184 | info@amec.org.au | www.amec.org.au

reality needs to be made under the royalty scheme in order to encourage continued investment in the industry and exploration in greenfield areas under cover.

Further, Victorian gold ore bodies are often narrow, structurally complex, and can often display high nugget effects, meaning mining is very difficult and grade variability can be very high. As an example, whilst underground development for sulfide ore first commenced in 2006 at Fosterville, it was not until April 2011 that the 500,00th ounce of sulfide gold was reportedly produced (Fuller, 2019[2]). The introduction of a gold royalty will further increase costs and make existing mines less competitive globally, new mines less probable, and reduce the number of new gold discoveries in the future.

It is also worthy to note that the Fosterville Gold Mine has historically not displayed the extremely high grades and profitability levels which are evident at present. The discovery of the high grade lodes has come from over 30 years (1988-2019) of modern exploration and resource development activity. Whilst gold was reportedly first discovered in the Fosterville area in 1894, a feasibility on mining of the sulfide ores was not completed until 2003, commercial production of sulfide ores did not commence until 2005, and the one millionth ounce of gold was not poured until January 2016 (Fuller, 2019). If the proposed gold royalty had been in place during previous production years of lower grades and lower gold prices, the Fosterville Mine may have been heavily impacted and the high grade lodes currently being mined may have never been discovered.

Implementation of the gold royalty

AMEC acknowledges that the gold royalty will provide an economic return for the people of Victoria on minerals owned by the Crown and the additional measures announced in the Budget to support regional Victoria including payroll tax relief for regional businesses and the Business Growth and Jobs and Investment Funds. However, AMEC believes that introduction of the gold royalty and the proposed method of implementation will cause considerable and unnecessary harm to the fledgling gold industry and so the long-term development of regional Victoria, negatively affecting important regional jobs, growth and business confidence.

For these reasons, AMEC provides the following recommendations to the government to minimise the negative impact of the gold royalty on regional Victoria:

1. **Implement at a lower royalty rate of 1.5%** – A gold royalty rate of 1.5% in Victoria would be a better reflection of the challenges of gold mining in Victoria, where resources are likely to be found at great depth, and consequently significantly more expensive to find as well as more complicated to extract.
2. **Provide for staged implementation of the gold royalty** – Other jurisdictions provide a reduced royalty rate and staged implementation following royalty changes. An example is the recent changes in Northern Territory on royalties that will have a staged implementation over three years. AMEC recommends that the new royalty in Victoria has three year staged implementation from payments of 0.5% in the first year then adding 0.5% each year to the third year to the full rate to allow organisations to factor in this significant additional cost to their businesses.
3. **Increase the threshold to 10,000 ounces** – The proposed 2,500 ounce per annum threshold is too low to support new developing mines, especially in the technically complex jurisdiction of Victoria. AMEC recommends that this rate should be increased to 10,000 ounces as a minimum to support junior explorers and new developing gold mines.

[2] UPDATED NI 43-101 TECHNICAL REPORT FOSTERVILLE GOLD MINE In the State of Victoria, Australia, prepared for Kirkland Lake Gold Ltd https://s21.q4cdn.com/967674075/files/doc_downloads/technical_reports/2019/Fosterville-Gold-Mine-Victoria-Australia-Updated-NI-43-101-Technical-Report-Apr-1-2019.pdf

4. **Remove royalty on gold head grades below 4.0 grams/tonne** – Process head grade is a major determinant in operational costs. This can change a profitable operation into a sub-economic one as margins are squeezed against a prevailing gold price. Operational head grades below 4.0 grams/tonne in Victoria tend to be from high tonnage operations which themselves constrain profitability. Excluding royalties on production where the average head grade falls below 4.0 grams/tonne of gold would ensure that the pursuit of quality ounces is maintained while still allowing the company to mine zones of lower economic value as part of the broader mine plan.
5. **Allow exploration expenditure to be a deduction under the royalty** - Exploration is critical to ensuring new discoveries continue to be made and that there is a pipeline of new gold mines to support the future of the gold sector in Victoria. Exploration expenditure should be a direct deduction under any proposed new gold royalty in order to encourage further exploration spend that will ultimately lead to more future discoveries, more jobs and more benefits to the Victorian economy in the long term.
6. **Introduce a gold price floor** - A floor on pricing should be implemented under the royalty scheme to protect producers in the event of any extremely low pricing environments and cycles in the gold sector to support ongoing productivity in Victoria. In Queensland, below a floor price the gold royalty is paid at a minimum rate and above a higher rate the maximum rate is paid. AMEC recommends that a similar schedule could be introduced in Victoria or simply an exemption on the royalty when the gold price is at or below $1,500/oz.
7. **Provide exemptions for the first two years of new operations** - New mines are very difficult and costly to establish and cash flow is particularly difficult the early years of the operations for new mines, a time where orebody knowledge is typically low and capital costs high. These early cash flows are critical to the long-term success of a new mine. An exemption and/or waiving of the royalty during the first two years of a new mine would both support companies to make the decision to commence a new mine as well as support the operation in these critical 'make or break' stages.

Recommendations to offset the impact of the gold royalty

Further, to restore confidence in Victoria as a destination for minerals industry investment and offset the impact of the gold royalty, AMEC recommends the following government initiatives are implemented without delay:

- **Implement a Gold Fund to support the future gold industry** - If a gold royalty is to be introduced in Victoria, AMEC believes that a dedicated fund should be established which guarantees a certain percentage of the revenue raised (minimum 50%) is directly invested back into the gold mining industry to support future exploration and mining activities in Victoria. This money should be accessible only to Earth Resources to ensure that it is quarantined from general government expenditure. Industry consultation and annual public reporting on this fund would ensure that the funds are appropriately directed.
- **Implement an annual TARGET minerals exploration program across Victoria** – The Victorian government has TARGET grants cover up to half the cost of eligible exploration activities, which include geophysical surveys, drilling and sampling analysis. Since 2016, 15 projects have been awarded over $3.4 million in TARGET grants with a further five projects in the Stavely Arc were selected to share in $2.3 million in TARGET grants as part of the Stavely ground release tender. Co-funding programs are offered, mostly annually, in every Australian mining jurisdiction and are an important mechanism to directly attract industry investment. AMEC recommends that an annual TARGET program is offered across Victoria (not limited to a geographical area) to support and secure investment across the state.
- **Release the North Central Victorian Goldfields ground** - Following the success of the Stavely Release, Earth Resources has prepared the North Central Victorian Goldfields Ground but not yet nominated the release date. The release of this prospective ground would invite interest into Victoria and ensure that Victoria is 'open for business' for the minerals industry.

- **Expand the Geological Survey program** – Pre-competitive geoscientific data dissemination by government is a critical requirement of mining jurisdictions to attract industry investment. The Geological Survey of Victoria does an outstanding job with highly skilled geoscientists, but its scope is limited due to the capacity of the unit (in comparison, the NSW Geological Survey has around double to number of employees). There are many projects that could be undertaken by an expanded Geological Survey including research on 'new' areas such as Stavely and the Northern Central Goldfields, broader delivery on data collected in annual reports as well as technical projects such as fine fracture geochemical trials to potentially lead to undercover discoveries in the Murray Basin. These programs would greatly enhance the output of the Geological Survey and directly encourage investment in Victoria.
- **Review fees and levies for the minerals industry** – The RIS noted an upcoming review of fees and levies across the industry. AMEC supports this review that must include the new royalty and not only have the objective to increase cost recovery but also include national and international benchmarking to ensure that Victoria is a competitive jurisdiction.
- **Review the regulation of the minerals industry** – The Fraser Institute *Annual Survey of Mining Companies* 2018 noted that Victoria was ranked the second-lowest Australian jurisdiction on not only the Investment Attractiveness Index but also the Policy Perception Index (43rd of 83 mining jurisdictions around the world), only just ahead of NSW. This index is also termed the 'report card for governments' and the low rank for Victoria reflects that there should be significant improvements in the regulatory regime for the minerals industry.
- **Ensure that royalty income stays in regional Victoria** – The royalties earned from the gold industry should benefit and support the minerals industry, as noted above, with additional revenue directed to support regional mining related communities. Similar schemes operate in other states, such as the Resources for Regions in NSW, and are an important government mechanism to suport the communities that work hard to produce the minerals, so directly generate this royalty income for Victoria.

AMEC looks forward to further consultation on the implementation of the gold royalty. If you have any queries on this matter, please do not hesitate to contact:

Lucy McClean
Manger NSW, VIC and TAS