

EXPLORATION AND THE RSPT

MEDIA VERSION. EMBARGOED TO 8PM WEDNESDAY 16 JUNE 2010

NEILL ARTHUR – FOUNDED CHAIRMAN, URANIUM EXPLORATION AUSTRALIA LIMITED (UXA) AND GRANITE POWER LIMITED; CHAIRMAN OF METALLUM RESOURCES PLC IN THE UK; CHAIRMAN OF EURO ENERGY PTY LTD; AND DIRECTOR OF THE AUSTRALASIAN INSTITUTE OF MINING AND METALLURGY SINCE ELECTED 2004.

THE AUSIMM INTERNATIONAL URANIUM CONFERENCE 2010, CONFERENCE DINNER ADELAIDE 16TH JUNE 2010

LADIES AND GENTLEMEN – AND “WORKING FAMILIES IN THE MINING INDUSTRY”:

I HAD THE DUBIOUS PLEASURE OF ATTENDING ONE OF THE FEDERAL GOVERNMENT’S SO CALLED CONSULTATION SESSIONS ON THE GREAT BIG NEW TAX A FEW WEEKS AGO. I HAVE LEARNED AFTER 45 YEARS IN THE PUBLIC AND PRIVATE SECTOR IN AUSTRALIA AND OVERSEAS THAT MEANINGFUL CONSULTATION AND COOPERATION TAKES PLACE BEFORE A DECISION IS MADE, NOT AFTERWARDS. PERHAPS THAT IS WHY THE ONLY SENIOR MINISTER IN THE FEDERAL GOVERNMENT WHO ACTUALLY UNDERSTANDS THE MINING INDUSTRY, MARTIN FERGUSON, WAS REPORTEDLY LEFT OUT OF THE GOVERNMENT’S OWN INTERNAL NAVEL GAZING ON THIS FLAWED POLICY.

THE IMPACT OF THE PROPOSED RSPT IS VERY MUCH ON EVERYBODY’S MIND. RSPT OF COURSE IS WHAT THE GOVERNMENT CALLS A RESOURCES SUPER PROFITS TAX BUT IS MORE ACCURATELY DESCRIBED JUST AS A SUPER TAX. OTHER SECTORS ALSO GENERATE SUPER PROFITS SUCH AS BANKING, (OVER \$12BILLION IN BANK FEES NOT COUNTING BANK PROFITS), MERCHANT BANKING, PROPERTY DEVELOPERS, VENTURE CAPITALISTS ETC SO WHY SHOULD THE MINING INDUSTRY BE SINGLED OUT BY GOVERNMENT FOR A HAMMERING? IS IT BECAUSE THE GOVERNMENT HAS DONE A DEAL WITH THE GREENS AS A QUID PRO QUO FOR BACK FLIPPING ON THE ETS, BURNING ROOVES, FALLING SOLAR PANELS, ABSURD OVERCOSTING OF SCHOOL BUILDINGS OR SQUIBBING ON REFORM OF THE HEALTH SYSTEM?

MUCH OF THE PRESS COVERAGE ABOUT THE SUPER TAX HAS BEEN ABOUT ITS POTENTIAL IMPACT ON MINING – WHICH IS QUITE CLEARLY DEVASTATING IN TERMS OF THE INVESTMENT COMMUNITY AND ON REAL MINES AND REAL MARKETS AND REAL JOBS AND REAL TOWNS THROUGHOUT AUSTRALIA.

BUT EQUALLY AS SERIOUS IS THE POTENTIAL IMPACT ON EXPLORATION – AND THUS AUSTRALIA’S ABILITY TO REPLACE DEPLETING RESERVES. SIMPLY PUT, THE SUPER TAX PACKAGE, IF IMPLEMENTED IN ITS PRESENT FORM, STARVES EXPLORERS OF CAPITAL FROM NOW, NOT JUST FROM WHENEVER IT IS ACTUALLY IMPLEMENTED IF EVER.

THE SUPER TAX OF COURSE WAS NOT IN LABOR'S 2007 ELECTION MANIFESTO. AND, THE GOVERNMENT'S PROPOSED EXPLORATION CREDIT SCHEME, A PALE AND DISTANT REFLECTION OF A FLOW THROUGH SHARE SCHEME POLICY THAT WAS IN LABOR'S 2007 ELECTION PLATFORM, WILL BE DELAYED ANOTHER 2-3 YEARS.

THE SUPER TAX DESIGN INCLUDES A 30% "RESOURCE EXPLORATION REBATE" SCHEME WHICH MAY COME INTO PLAY IN FY 2012, SO THE FIRST CASH AN EXPLORER IS LIKELY TO SEE OUT OF THIS SCHEME WOULD BE IN LATE 2012. A PRUDENT EXPLORER MIGHT CONSERVE HIS OR HER CASH THROUGH FY 2010 AND 11, ASSUMING IT CAN SURVIVE THAT LONG, AND WAIT TO QUALIFY FOR THE REFUND. IN OTHER WORDS THERE COULD BE AN IMMEDIATE REDUCTION IN EXPLORATION EXPENDITURE – A BLOW TO THE EXPLORATION SERVICES INDUSTRY (DRILLING ETC).

IN FACT UXA ITSELF IS IN THE PROCESS OF EXPANDING ITS BOREHOLE AND PFN LOGGING BUSINESS IN THE UNITED STATES OF AMERICA TO HELP MITIGATE THE RISK TO OUR AUSTRALIAN SERVICES BUSINESS. THE USA STILL ENCOURAGES INITIATIVE, NOT TAXING IT OUT OF EXISTENCE.

THE HENRY REVIEW ATTEMPTS TO JUSTIFY THE SUPER TAX ON THE BASIS THAT MINERAL RESERVES ARE FINITE AND IMMOBILE. WHAT THEY DID NOT SEEM TO CONTEMPLATE IS THAT THE EXPLORATION INDUSTRY IS HIGHLY MOBILE, AND WITHOUT AN EXPLORATION INDUSTRY THE DISCOVERIES SIMPLY WILL NOT BE MADE HERE. OLYMPIC DAM DID NOT SIMPLY APPEAR ON GEOSCIENCE AUSTRALIA'S INVENTORY AND RESOURCES – SIR ARVI PARBO AND HIS TEAM HAD TO RAISE THE CAPITAL, WEAR THE RISK, AND APPLY IMPRESSIVE AND UNIQUE INGENUITY TO FIND IT. THOSE SKILLS HAVE NOTHING TO DO WITH AN IVORY TOWER THEORETICAL RENT ON THE KEY INTELLECTUAL RESOURCE THAT CAN GET ON THE NEXT PLANE TO CANADA OR AFRICA.

WITH THE FUTURE ECONOMIC VIABILITY OF AUSTRALIA'S MINES POTENTIALLY COMPROMISED BY THE SUPER TAX, THE BIGGEST, AND THE MOST IMMEDIATE IMPACT FOR EXPLORERS IS THAT THEY WILL BE STARVED OF INVESTMENT. CAPITAL RAISINGS WILL BECOME MUCH MORE DIFFICULT. STOCK MARKETS HAVE ALREADY EXPERIENCED A FLIGHT OF RISK CAPITAL BY OVERSEAS AND AUSTRALIAN INVESTORS AS A RESULT OF THE SUPER TAX.

YOU WOULD HAVE TO BE ELMER FUDD NOT TO RECOGNISE THIS IS ALREADY HAPPENING. I EMPHASISE THAT THE CAPITAL STARVATION FOR AUSTRALIA HAS ALREADY BEEN FELT AND IT WILL CONTINUE UNTIL THE UNCERTAINTY IS REMOVED EITHER BY THE GOVERNMENT SEEING SENSE AND MODIFYING MAJOR ASPECTS OF THE SUPER TAX OR BETTER DROPPING IT OR, AS NOW SEEMS HIGHLY LIKELY, LOSING AN ELECTION.

A FLOW THROUGH SHARE SCHEME HAS BEEN HUGELY SUCCESSFUL IN CANADA, IS SUPPORTED BY MANY AUSTRALIAN MINING INDUSTRY BODIES, INCLUDING THE AUSIMM AND WAS AS I SAID INCLUDED ALSO IN LABOR'S 2007 PLATFORM. A FLOW THROUGH SHARE SCHEME WOULD HAVE PROVIDED AN IMMEDIATE INCENTIVE FOR INVESTORS IN AUSTRALIAN EXPLORATION COMPANIES. THE SUPER TAX PACKAGE ACHIEVES THE OPPOSITE - DESPITE ITS SUPPOSED ELEGANT DESIGN OFFERING THE THEORETICAL ATTRACTION OF A 30% REFUND TO THE EXPLORER SOME TIME IN THE NEVER NEVER.

I WILL NOT GO INTO THE MAJOR LEGAL TECHNICALITY THAT THE FEDERAL GOVERNMENT MISLEADINGLY STATES THAT THE RESOURCES ARE OWNED BY ALL AUSTRALIANS – THEY ARE NOT. THIS IS COVER FOR AN UNDERHAND FEDERAL GRAB FOR STATE ROYALTIES AND CONTROL OF STATE RESOURCES.

THE ONSHORE RESOURCES ARE OWNED BY INDIVIDUAL STATES AND TERRITORIES (UNLIKE OFFSHORE OIL & GAS) AND UNLESS THERE IS A REFERENDUM TO CHANGE THE CONSTITUTION THERE IS NOTHING IN THE PRESENT SUPER TAX DESIGN THAT WOULD PREVENT EXISTING STATE AND TERRITORY ROYALTIES FROM BEING INCREASED BEYOND CURRENT LEVELS AND NOT BE REFUNDED BY CANBERRA – NO MATTER WHAT AGREEMENTS MAY BE MADE BETWEEN THE GANG OF 4 IN CANBERRA AND INDIVIDUAL STATES AND TERRITORIES, WHETHER UNDER THE PRESENT PM OR MS GILLARD.

MY CONCLUSION IS THAT THE IMPACT OF THE SUPER TAX ON EXPLORATION WILL BE A STARVATION OF CAPITAL FOR AUSTRALIAN EXPLORATION WHICH WILL FORCE EXPLORERS TO SHIFT THEIR FOCUS OVERSEAS.

INDEED, I AM ALSO CHAIRMAN OF A UK BASED MINERALS EXPLORER, METALLUM RESOURCES PLC, PLANNING TO LIST IN THE UK NEXT MONTH AND ONE OF THE MARKETING PLANKS BEING PLANNED BY OUR BROKER IS THAT THE COMPANY IS NOT EXPOSED TO AN AUSTRALIAN SOVEREIGN RISK STYLE SUPER TAX!

UXA IS VERY PROUD TO AGAIN BE THE DINNER SPONSOR OF THIS SUCCESSFUL 2010 URANIUM CONFERENCE. I JUST HOPE THAT ENOUGH SENSE PREVAILS TO JUSTIFY US ALL BEING HERE IN 2011 AND NOT SOMEWHERE OVERSEAS RUING THE ILL-THOUGHT-OUT ELEGANT DISASTER OF THE CURRENT GOVERNMENT POLICY.

PLEASE ENJOY YOUR DINNER!