



16 March 2009

The Hon Wayne Swan MP  
Treasurer  
PO Box 6022  
Parliament House  
Canberra ACT 2600

Dear Minister,

### **Introduction of Flow Through Shares to Promote Investment in Mineral and Energy Resource Exploration**

The Australian Institute of Geoscientists (AIG) is a professional institute representing geoscientists, with more than 2000 members throughout Australia. More than 80% of our members are employed in mineral or energy resource exploration and production.

AIG strongly supports the recent Joint Industry Submission to the Minister for Resources and Energy, The Hon. Martin Ferguson AM MP, "A Proposal to Introduce 'Flow-Through Shares' (FTS) in Australia<sup>1</sup>" and urges you to support Minister Ferguson in this matter by acting to urgently introduce an FTS scheme for mineral and energy resource exploration investment, commencing 1<sup>st</sup> July 2009. The joint submission, put forward by a broad coalition of resource industry organisations, demonstrates the broad support and confidence in the ability of an FTS to effectively underpin the sustainability of Australia's resources sector amongst both companies and industry professionals.

The exploration industry has seen a dramatic change from effectively zero unemployment and indeed a shortage of appropriately trained and experienced geoscientists, to the current situation where almost 37% of exploration geoscientists are either unemployed or working reduced hours<sup>2</sup> which has developed during the past five months. Only half our members are confident of being employed in 12 months time.

This collapse of the exploration sector can, in part, be attributed to the current crisis affecting global financial markets that make it nearly impossible for most small to medium size companies to raise needed venture capital. The rapidity and depth of the current downturn has been unprecedented. Exploration in Australia has always been a cyclical industry, sensitive to short term market perturbations. This has profoundly affected:

- Employment and career development opportunities for geoscientists;
- The appeal of geoscience as a career;
- The sustainability of Australia's mining industry; and,
- Australia's ability to maintain a domestic, highly competent, innovative geoscience capability.

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<sup>1</sup> A copy of the joint industry submission can be viewed at  
<http://www.amec.org.au/index.php?id=82>

<sup>2</sup> Membership survey conducted by AIG (1044 responses) during February 2009

Successive governments have failed to take decisive, fiscally responsible action that could reduce the depth of cycles affecting the exploration industry and in doing so, help to address these problems.

The Australian Labor Party went to the last federal election with a policy platform to introduce a FTS scheme. This undertaking to the Australian community has to be delivered urgently.

Failure to ensure that a sustainable level of resource exploration is maintained in Australia and, through inaction, exposing the resources sector to the full impact of short-term financial factors will severely disrupt resource discovery and, consequently, the flow of new mines from the “exploration pipeline”.

Resource replenishment is the critical element in the long-term viability of the minerals and energy resources sector. Most of the recent minerals boom in iron ore, alumina, nickel and base metals has been built on discoveries made decades ago. Statistics collected by various government agencies including ABARE, the Australian Bureau of Statistics and Geoscience Australia recording Australia’s mineral and petroleum resources present an erroneously optimistic view of the rate of new resource discoveries. Much of the expansion in Australia’s resources base captured in these statistics is directly attributable to resources with the lowest level of confidence that may be reported publicly, frequently released by highly entrepreneurial companies re-working previously explored areas and seeking to maximise their public profile. Such resources, in many instances, will not be economic in the near term and their inclusion in resource inventories contributes to unrealisable estimates of resource industry sustainability. Substantial improvements in resource confidence through continued exploration or improvements in mineral processing technology, both of which require sustained investment, are required before many of these deposits become prospects for viable resource development.

A range of structural impediments and market distortions in Australia’s current financial regime are not conducive to the long-term commitment required for successful resource exploration. Exploration is high risk but it is also high reward; a FTS scheme would support investment in exploration and reward those who support the search.

Canada’s FTS scheme has played a pivotal role in exploration sustainability and resource discovery in that country. An FTS scheme tailored to Australia’s taxation system would enable the transfer of deductions of individual exploration companies to individual investors. In this way, the tax deduction provided by eligible exploration expenditure would be leveraged in capital markets in the subject year; with the aim of attracting external investors rather than being accumulated tax losses which would otherwise only be realizable when or if the company earns ‘taxable income’.

Australia remains a highly prospective region for the discovery of new, world-class, mineral deposits and energy fields. New work by agencies such as CSIRO, the Predictive Mineral Discovery CRC, State/Territory geological surveys and Geoscience Australia have provided the tools to drive these discoveries together when applied by highly skilled geoscientists working in industry.

The mining and energy industry in Australia accounted for almost 11% of GDP last year, or AUD\$119 billion, and generated more than AUD\$50 billion in government revenues over the last four years – more than enough to recoup the cost of the recently proposed A\$42 billion stimulus package. Multipliers associated with exploration expenditure would increase the industry’s GDP contribution even further.

The resources sector has also been effectively overlooked in proposed stimulus measures, despite its ability to generate significant revenues, and substantial employment opportunities over a longer economic cycle. A vibrant resources sector, bolstered by new and sustained resource discoveries is crucial to both the recovery of the Australian economy from the current downturn, its long-term strength and its ability to weather future financial storms.

AIG has no doubt that the introduction of an FTS scheme would reduce the amplitude of investment cycles affecting the geoscience profession, and by doing so, help to address the issues above, as evidence from Canada clearly shows. Each geoscientist employed in resource exploration creates two to three jobs elsewhere in the economy, with the expenditure remaining in Australia, and a significant proportion of it in rural and regional areas.

The costs of not introducing an FTS scheme immediately will include:

- destruction of Australia's "exploration pipeline" resulting in degradation of our resources base on which the future of the sector is solely dependent;
- Suboptimal development of existing resources due to erosion of our geoscientific capability; and,
- Degradation of our ability to effectively address geoscientific challenges beyond the resources sector, in fields as diverse as water resource management, reversing land degradation, environmental remediation and even climate change science, as talented students look elsewhere for careers when discouraged from pursuing geoscience studies by limited prospects for employment in exploration and mining, even though they may eventually apply their skills in other fields.

Introduction of a FTS provides the government a fiscally responsible, demonstrably effective and widely supported means of sustainably promoting investment and creating jobs. We seek your commitment to the introduction of an FTS scheme in the 2009-2010 budget with a commencement date of July 1, 2009.

Yours faithfully,

**The Australian Institute of Geoscientists**



Andrew Waltho  
**President**