

24 October, 2014

General Manager
Law Design Practice
The Treasury
Langton Crescent
PARKES ACT 2600

Dear Sir

On behalf of the Australian Institute of Geoscientists (AIG) and our +3200 members, two thirds of whom are employed in the mineral exploration industry, please accept this submission on the implementation of the Exploration Development Incentive.

Firstly, AIG congratulates the Government on devising the EDI to help junior explorers (who do not have established cash-flow) to attract much-needed investment by being able to pass on un-used tax credits to their investors. Furthermore making the EDI tax credit only available to greenfields exploration will encourage a higher risk but higher reward approach to exploration by junior explorers to the ultimate benefit of our mineral resource industry which is central to the Australian economy and of ultimate benefit to all Australians. Many Australians are significant investors in our mining industry through their superannuation savings and the EDI is seen to be an important initiative that will contribute to the industry's sustainability through maintenance of its exploration project pipeline. Importantly, the EDI has potential to help companies maintain exploration continuity which helps to preserve corporate knowledge and significantly enhances productivity in the mineral exploration sector.

AIG does see two short coming in the current EDI proposal:

1. the very modest scope of the scheme; and,
2. no guarantee of it continuing beyond the 2016/17 tax year.

The \$100million maximum tax credit over the next three years only represents approximately \$350 million in eligible exploration expenditure. A recent study (MinEx Consulting, 2014) has shown that the world-wide average exploration spend to discover a single economic gold or base metal deposit is US\$150m and US\$180M respectively. Research by University of Western Australia (Guj, 2012) also shows it takes on average 7 years for an economic discovery to be developed into a mine in Australia, a figure considered to be highly conservative and applicable only to mineral discoveries of the highest tenor, able to be evaluated and developed rapidly by being able to attract investment.

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Industry research has demonstrated that the average time from discovery to development of more modest but viable copper deposits, for example, is now approaching 27 years. Under these scenarios in 3 years' time the junior explorers who have participated in the EDI might make two economic discoveries but still be year's off seeing them turned into mines.

Ultimately, to increase the chance for success of the EDI, it would logically be expanded both monetarily and in time. AIG is confident that the initial implementation covered by the proposed legislation will be demonstrably successful. The legislation should include provision for a timely review of the EDI's effectiveness so that it may be appropriately extended at the end of the period covered by the proposed legislation.

Yours sincerely

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Australian Institute of Geoscientists

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