

Our mineral future : A political perspective

Hon. H. Duynhoven MP

Associate Minister of Energy

Good morning ladies and gentlemen, and may I extend a particularly warm welcome to our shores to those of you who have travelled from overseas to attend this conference. I trust that you will find your visit to New Zealand both rewarding and enjoyable.

This is now my fourth appearance at a New Zealand minerals conference, the second of which has been jointly co-hosted by AusIMM and Crown Minerals. Since taking on the role of Associate Minister of Energy, I have had the opportunity to meet most of the industry players, and to visit a good number of the major mining operations. Through all of this I have become increasingly aware of not only how dynamic the minerals and coal industry is but also the array of factors that affect investment decisions in this business. Many of these factors, such as commodity prices and availability of investment funds, are determined primarily on the international stage. Others however, such as the allocation, regulatory and the fiscal regimes for minerals, are closer to home and are directly influenced by government policy decisions. I will talk more on what the government proposes in this area shortly.

But first, I would like to commend you all on your industry's continuing contribution to New Zealand's economy. 2004 has seen New Zealand's mineral and coal output top \$1 billion for the second consecutive year. To put this achievement in perspective, it represents a staggering 47% increase over the national output value recorded just five years ago.

Notable contributions over the year came from gold which increased production to 10.2 tonnes (up 9%), ironsand production at 2.3 Mt (a 20% increase), and industrial rocks and building stones (up 6%) with rock for building, cement and roading showing significant rises on the back of strong regional growth and infrastructure development. Many regions, in particular Auckland, Bay of Plenty, Wellington and Southland, recorded significant increased regional activity with supply often struggling to meet demand.

By contrast the coal sector had a relatively steady year with production remaining stable at just over 5 million tonnes for the second year running. Coal exports however are now consistently exceeding 2 million tonnes annually, generating export earnings of over \$200 million, and could well be higher with rail capacity improvements. Many countries throughout the world are now importing our high quality bituminous coal for steel manufacturing and other industrial uses.

It is also pleasing to report that mineral prospecting and exploration expenditure for the past year has increased by 130% to over \$20 million. Good news indeed. A rise resulting mainly from a large increase in both gold exploration in the Waihi region, and coal exploration nationwide as companies seek to define future coal mines to help meet domestic and international demand. I am sure that over the duration of the conference you will have ample opportunity to listen to presentations that expand upon the development potential of the exploration work undertaken.

All the signs indicate a healthy and well performing minerals industry that has the potential to make a larger and longer term contribution to our economic well-being. While this potential is well recognised, I do not believe that it has as yet been fully realised. There are a number of valid reasons for this but with the current favourable market conditions for many of the

commodities found in New Zealand, increasing recognition of the need for regionally based economic development, and improving awareness of prospectivity, I am optimistic that this potential may soon be fulfilled.

Looking to the future, the government would like to see a material increase in the level of international and domestic investment in the minerals industry. Consequently, there are a number of work streams and initiatives that the government is working on to assist in this regard. In particular, improving the cost effectiveness of the regulatory and fiscal regimes for minerals, advocacy for the mineral estate, and improving accessibility to quality information. Most of this work is being driven from within the Crown Minerals Group.

Let me first say a few words about where we are with the review and replacement of the current minerals programmes for minerals and coal. The legislation requires me to review these by October next year. Accordingly this will be a major priority over the coming months. Minerals programmes are important strategic tools for both government and industry as they establish the policies and procedures for the management and allocation of rights to minerals and coal. In essence, they detail the operating rules and conditions by which permits may be granted.

Each review provides a timely opportunity to look back on how the policies of the current programmes have fared and how they could be improved or replaced to meet current government goals and industry developments. A fundamental change resulting from the current review is that both programmes will be combined into a single shorter replacement programme that covers both minerals and coal. The review has not been done in isolation. Industry, through the New Zealand Minerals Industry Association and mining majors, has been involved in informal consultation over the past two years on the range of possible changes to the programme. A number of industry's concerns have been factored into the draft others, however, remain unchanged.

I expect that many of you are eagerly awaiting the opportunity to view the draft programme when it is released for public consultation. It is currently going through the final stages of government approval and should be released in the near future. I do not wish to go into any great detail regarding its content at this stage other than to say the changes that have been contemplated result primarily from a desire to increase competition for prospective acreage, to simplify the royalty regime, to better align the programme with the Crown Minerals Act and Regulations, and to improve the clarity of drafting. I encourage you all to read the document carefully and to make submissions where appropriate.

Almost in tandem, a review of the Regulations for Petroleum and Minerals is being undertaken. This will encompass both the reporting and fees regulations. These regulations have not been amended since they were put into place at various times during the 1990's. In that time, significant changes have occurred in international and domestic exploration and production, and in the manner in which the Crown mineral estate is administered. Accordingly, it is timely to review them and ensure they meet the needs of both industry and Government

At this point I would like to acknowledge the great strides forward that Crown Minerals has made over the last 18 months to minimise the 'red tape' associated with permit allocation and management of the regulatory regime. Permit processing is now more streamlined with average processing times now approaching 3 months – approximately half the time it used to take to get a permit. The positive flow-on effects to industry from this are self explanatory.

There is no intention to rest on these laurels, further efficiency gains in permit management are expected next year with the development of an on-line permitting system which will further reduce processing time. The system will allow applicants to apply on-line and pay fees and royalties electronically. This is a major step forward for both industry and the Crown.

At the same time, Crown Minerals have been reviewing permits to ensure that ground not being worked without good reason is made available for those who are motivated to do so for the benefit of all.

An announcement of the other key project, the development of a state-of-the-art data management system that provides for the dissemination of open file industry reports and geotechnical data, was made recently. This new system, which is a continuation of the strategy to increase exploration investment by improving understanding of its geological potential with greater volumes of geotechnical data, is planned to be operational before the middle of next year. It will provide free public access to all petroleum, coal and minerals exploration data acquired over the past 30 years. The provision of this sort of data is a key driver for attracting investment into New Zealand and ensuring permit holders have access to the latest information to enable them to work their permits.

These changes have in turn been supported by a significant investment in additional geo-technical staff. Having good systems and processes in place is fine but you have to have good people to manage it all. I can assure you that industry can take comfort that they are working with officials in government who understand their business well and who are in a position to help work through issues as they arise.

Advocacy for the mineral estate is another important area where government has been allocating resources and with notable success I might add. Recognising issues which can impact, whether positive or negative, on the economic benefit that may be derived from responsible mineral development, and emphasising these in an articulate manner to decision making bodies, is the crux of what advocacy is all about. Crown Minerals is doing some excellent work in this area. I am not only referring here to the high profile successes such as the recent TCDC High Court decision regarding prohibiting mining in its district, but to the everyday work that is undertaken reviewing and submitting on proposed changes to regional and district plans, or tenure review proposals, or resource consent applications. All of these actions support and raise the profile of the mineral estate and challenge policy issues that affect it. I am sure that the industry will continue to benefit significantly into the future from this ongoing work.

On the fiscal side of things, there are two initiatives on the table that have the potential to benefit your industry involving fresh looks at both mineral royalties and corporate tax. As part of the review of the current minerals programmes, it is intended that the royalty regime be amended and I believe that the changes being considered will result in a regime that will be simpler, especially for small to medium producers, but will be both internationally competitive and still able to meet the Crown's expectation of a fair financial return from its minerals.

With respect to business tax, the confidence and supply agreements with New Zealand First and United Future commit the government to a review of the current business taxation regimes with the view of ensuring the system works to give better incentives for productivity gains and improved competitiveness. I am unable to speculate how these objectives could be delivered, however, there is potential for improvements to the fiscal environment in which you do business to be considered as part of the review.

So what is the government looking for from the minerals industry? I want to see our mineral estate actively explored and developed in a responsible way by companies committed to getting on with the job. I am talking here of companies with a strong desire to add to our current knowledge of the minerals and coal estate. A desire fuelled through robust work programmes and reliable investment backing. A desire that leads to discoveries that, with the support of the wider community, leads to development projects that benefit the economic well-being of all New Zealanders. We have several important projects on the brink of fruition at present. I look forward to receiving positive advice on other projects as they reach maturity.

On this positive note I will now conclude my presentation. I would once again like to acknowledge your industry's continuing contribution to our economy. It is a fine illustration of the natural advantages that can accrue to our nation from the responsible development of mineral resources. The government does recognise that successful exploration and responsible development of the minerals estate has a significant role to play in meeting our commitment to return New Zealand to the top half of the OECD. The challenge for industry is to fulfil this expectation.

Ladies and gentlemen thank you for listening and enjoy the rest of your conference.