

## Notes for Address to Valedictory Session

ASSOCHAM Summit on Indian Metal & Mining Sector, 29<sup>th</sup> June 2006

“Turning Risks into Opportunities”

(by Michael Higgins)

### INTRODUCTION

- By way of introduction, my company, Indo Gold Limited, is an Australian junior exploration and development company, focussed on an exciting new gold project in Rajasthan; we are bringing modern exploration approach to bear on an ancient gold mining centre – perhaps +2000 years old – explored over the past 12 years or so, by GSI, State DMG and HZL
- From today’s programme – difficult to see context for my input – a VALEDICTORY Address should involve a form of summation – but I fear I am not qualified to summarise today’s gathering, which has had a focus on the bulk commodities and their captive industries (iron ores, coal, steel, etc...)
- So, instead, maybe I will share some of my perceptions from my 2 years of working in India to date
- If there is to be a **THEME** to my short address, it will be on **EXPLORATION** – if you think of Mining as enabling the downstream metals processing and smelting industries, then exploration is the ENABLING part of the Mining Industry.....it is ESSENTIAL
- But.....EXPLORATION is fragile and fickle and must be nurtured – by industry and State
- It is a ‘business’ in its own right – it is best done by industry, not State, since it has commercial objectives
- Moreover, it is done nowadays on a global scale with capital flowing to and fro, to the most receptive jurisdictions
- Exploration allows any district, province, State or Country to tap its natural mineral potential, or what I term its GEOLOGICAL ENDOWMENT, in the most effective way thus preventing the **RISK** that mineral resources will be poorly understood, inefficiently utilised, remain unharvested or perhaps even undiscovered
- Thus, it creates **OPPORTUNITY**
- My **TWIN THEME** will be **AUSTRALIA** – and any lessons that might extend into India from our collective experiences?

### LIBERALISATION OF INDIAN MINING SECTOR

- Of course, India has a long and distinguished history of mining, with State-control being a relatively late advent
- Overdue deregulation started some 15 years ago, so now is a good time to ask:
  - What has been achieved and where to from here?

- Has government disposal of assets led to improved market performance in the mining sector?
- Is there a willingness to go further?
- Then there is the question of GEOLOGICAL ENDOWMENT versus local demand? Can more be done with mineral resources and the resource potential that is perceived to be present throughout India?
- Exports versus captive use - a vexed issue? Here I refer mainly to the bulk commodities. Even juniors participate in this part of the sector in other jurisdictions. They can stimulate the emergence of new projects but generally don't want limits placed on them to build huge, capital-intensive processing plants
- Is a junior market likely to emerge in India? Is it wanted? Time will tell, I guess!

### **CAN LESSONS BE TOLD FROM AUSTRALIA'S MINERAL RESOURCE HISTORY?**

- Australia also protected some industries in the past, based on limited knowledge of geological endowment
- Australian iron ores (legislatively controlled 'special industry' during WW2 years and beyond into 1950s, when it was thought that resources were limited because we only knew we had the iron ores in South Australia – then new discoveries led to the Pilbara iron ores being developed with ..... foreign capital was absolutely required to develop these assets into the greatest iron ore province in the world in the 1960s and 1970s; but this required national political will to change laws to allow private and especially foreign ownership
- Similarly for uranium, which during WW2 years and after was limited to government; then changes to private ownership but limited number of mines; all with political control over sale of product; now, with increased global demand, a debate is now commencing in Australia to further deregulate the uranium industry
- Base metals and gold also require large capital inflows for exploration and mine development, accomplished well in Australia through legislative reforms, enabling agencies (Geological Surveys, BMR) and government subsidies for infrastructure
- In Australia, generally, there has been no requirement to link downstream processing to mines, as a result, we are a leading exporter of many bulk commodities
- As stated before, the example in Australia shows that junior explorers are often the ones that stimulate growth in most sectors by finding new deposits where majors have previously failed
- India is different, of course, with its huge population, but still, local capital alone is insufficient to really utilise the nation's mineral resource assets to best advantage
- Foreign capital inflows are essential, I think most here today might agree with that notion
- But, the reality is that state-control still exists in various forms in India, and the mental leap to private involvement has been difficult for many participants, especially those in the various regulatory bodies

- However where divestment has occurred, India can point to some great examples of improvement in efficiencies and market performance

## **GROWTH POTENTIAL FOR INDIA**

- India is booming, no doubt – but what type of boom is it?
  - It appears a bit uneven, inequality abounds, conspicuous bottlenecks
- It is stated by the summit organisers that there is *“Exponential potential to transform India into one of the most preferred destinations for Indian and global mining and metal companies”*
- I would respond to this, that it is important to understand that India is NOT the ONLY geologically well-endowed country that is under-explored by modern means
- Its nice to talk about Government and Industry embracing an approach that is:
  - Forward looking
  - Proactive
  - Inclusive
  - systematic
  - to achieve industry use of best practices, driver for growth, etc.....
- But, government needs to DELIVER OUTCOMES for investors, not get bogged-down and preoccupied in PROCESSES!

## **A MAJOR ISSUE IS PERMITTING**

- Certainty of Tenure is essential to investors
- Processes are reasonably well documented, but delivery is poor
- RPs over 18 months already, + 6 months central govt, versus 6 months advertised on MOM website
- There is a strong need to deliver on promises – if you say it, and mean it, then do it!
- Governments or their agencies should not be used to direct the type of exploration processes that industry use
- One especially concerning aspect is that GSI/IBM now being used to provide advice to MOM on whether or not RP applications should be approved – why is this? It is creating longer timeframes? It is not in the Rules!? It is arbitrary; and not conducive to creating industry confidence
- CONCEPT FOR DEBATE: One Stop Shop, Central Govt Mineral Investment Centre (MIC) to liaise with investors and especially (new) foreign parties, liaise with States and if necessary, over-ride

## **ANOTHER IMPORTANT ASPECT IS - INFORMATION**

- State generated data (GSI, DMGs, MECL, etc) needs to be shared with industry on a NOTIONAL COST basis; should be priced in advance of any requests from companies, to avoid undue delays!
- Comparisons with other international mining jurisdictions, e.g. Australia, where State and Federal agencies provide all tax-payer funded 'research' at notional cost or free to multiple users
- I implore the various GOVERNMENT agencies here – don't be overly protective of your data! It can be used to the benefit of all stakeholders if shared responsibly – industry prefers to work in collaboration generally, not be seen as a competitor!
- I can quote many examples where 2<sup>nd</sup>, 3<sup>rd</sup>, 4<sup>th</sup> and 5<sup>th</sup>, end even later, phases of exploration, by different companies, on same property, have led to new discoveries – layering of old on new information leads to new ideas and concepts being developed and tested and re-tested
- Exploration involves very high risk expenditure – total 100% risk to lose all (somewhat like a gambling casino, hopefully a little more scientific!)
- QUESTION: what is the purpose of generating tax-payer funded information?
  - Is it to make money by re-selling?
  - Or to earn kudos and thus larger budgets for next year?
  - Or, to improve the chances for new resource discoveries to be made, which in turn will lead to industry investing in new mine developments and jobs and wealth creation? I think we should agree that it is the LAST, right?

## **WHY ARE WE HERE?**

- Although we are small – a junior – IGL's people have worked in major companies and mines and helped discover many resources that supported operating mines in many places throughout the world
- GOLD – it is 'our business' – we are comfortable exploring for it, we can bring good experience to developing open pit mines, we understand internationally acceptable requirements for mining, and we think we can add value to India's gold production
- Which is not huge – in 2005 = 7.2t versus local demand = 640t (Hutti = 0.8t, Birla Copper = 3.2t, Sterlite Copper refinery = 3.2t)
- Indians bought gold valued at twice FDI for 2005 (+US\$10 B); demand is expanding!
- Our group of companies is also interested in other metals and commodities (nickel, PGMs, diamonds, U, etc) – we are 'natural' explorers and want to use our presence in India to best advantage

- India geologically quite similar to Australia
- Shared colonial heritage, albeit India's many extra millennia of advanced civil society compared to Australia's, which began a little over 200 years ago as a penal settlement
- Australia has developed, through no small part due to wonderful geological endowment and tapping of its natural resources, into a world leader in many fields; essentially, Australian society is prosperous, well ordered, entrepreneurial and instinctively egalitarian
- Resource development in Australia involved a history of capital inflow from mainly Europe and US because of insufficient levels of capital in Australia to develop its own resources
- To reiterate, most resources were found by juniors and prospectors, then in many cases of course, developed by majors

## **FINISH**

- I am optimistic that regulatory bodies are moving in right direction, particularly if some of the issues raised here are being addressed in the forthcoming amendment to the Indian Mining Act under consideration within the MOM, Govt of India.
- However, I am equally aware, through my international shareholders who tell me so on a regular basis, that delays in permitting are causing investor unease!
- The pace of permitting needs to be quickened
- Remember, global exploration capital is fickle and fluid and will flow to easier jurisdictions of equal geological endowment to India, if not respected and nurtured
- As a final statement, notwithstanding the issues concerning us, if we (IGL) have continuing government support (and I mean this has to translate to permitting approvals being quickly put in place) and continuing exploration success, ladies and gentlemen, we are reasonably confident that we can develop India's first major new open pit gold mine in southern Rajasthan in the coming years
- Hopefully, the planned development of this PIONEER GOLD PROJECT might stimulate interest, and might lead others, both local and foreign, to increase expenditure on EXPLORATION in India which will lead to further new developments, especially in the under-explored GOLD sector