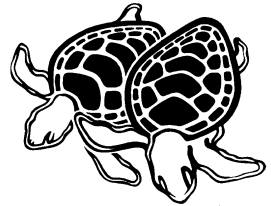


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Hon. Syd Stirling MLA
Treasurer
GPO Box 3146
Darwin NT 0801

5 April 2006

Re. Economic costs associated with the McArthur River Mine

Dear Minister

The Environment Centre NT (ECNT) would like to congratulate the NT Government for the rigorous environmental assessment process conducted thus far for the McArthur River Mine Open Cut Project. As you would know, ECNT is opposed to the proposal to divert the river in order to mine the bed of the existing river channel. We also have major concerns about many other aspects of the mine proposal, not least of which is the flawed rehabilitation plan that will see the mine being left as an open pit in the existing river channel.

There are a number of economic costs associated with the McArthur River Mine that ECNT believes it is in the public interest to seek further information on.

1. It was reported in the *NT News* (28 February 2006) that McArthur River Mine, owned by Xstrata, had not paid mineral royalties to the NT Government in over a decade of operations. The mine is obliged to pay 18 per cent of its profits, but MRM claims not to have made any profit since it opened. It was reported that the cost of transporting the ore to smelters overseas was currently being passed on to the mine by Xstrata's head office in Zug, Switzerland. MRM has an agreement with Glencore (a Swiss-based metal trading conglomerate which has a 16% stake in Xstrata) to supply 204,800 wmt per annum in 2005 and 2006 of zinc concentrate (Xstrata plc Interim Report 2005: p90).

MRM responded by saying that the mine paid millions of dollars each year in other taxes, such as payroll tax.

Q1. How much is paid annually to the NT Government by MRM in these other taxes?

Under previous owners MIM Holdings (prior to mid-2003), it appears there was a similar global shifting of costs, which made the mine unprofitable. The *MIM 2002 Annual Report* announced an operating loss of \$0.9m in 2002 for McArthur River Mine, although in 2001 an operating profit of \$15.9m (before interest, tax and foreign exchange) had been recorded. The *Annual Report* cites 'off-site realisation costs' as the reason for the low profitability:

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'Both the McArthur River and Mt Isa lead-zinc mines are world competitive in terms of on-site operating costs but off-site realisation costs, mainly transport and smelting, represent up to 60% of total production costs (in the case of McArthur River) and are eliminating margins in a low price market' (p17).

Q2. Why does McArthur River Mine have to pay for the transportation and smelting costs? To ECNT this appears to be an unusual practice in the mining industry.

MIM Holdings was sending most of its lead-zinc concentrate to Europe (*MIM Annual Report 2002*, p17). MIM owned two zinc smelters in Europe at the time – Duisburg (Germany) and Avonmouth (UK) – both of which recorded substantial operating losses in 2002. 70,000 tonnes per annum of McArthur zinc concentrate – over half of the mine's production - was being exported to the Duisburg smelter. The company sold its interest in this smelter in late 2002, partly in order to avoid environmental clean up costs (<http://www.aktienboard.com/vb/archive/index.php/t-47531.html>). Avonmouth smelter closed in March 2003.

This raises the following question: *Q3. Why was MRM helping to prop up unprofitable overseas zinc smelters for years and therefore not paying mineral royalties to the NT Government?*

2. MRM has also been receiving an energy subsidy from the NT Government since it opened. It was reported in the *NT News* (6 March 2005) that Xstrata had been seeking an electricity subsidy of up to \$100 million from the NT Government to help it build a new processing facility on-site. Power and Water responded by saying that it is already selling power to the mine at a price typically below what it is selling to everyone else. The NT Government rightly rejected the additional subsidy proposal.

Q4. How much in annual energy subsidies has MRM received from the NT Government since the mine started operating?

3. Chapter 17 of the Draft EIS (prepared by MRM) for the open cut project analyses the economic impacts of both the current underground operations and the proposed open cut (including multiplier effects) citing an unpublished input-output table for the NT produced by Prime Research and ACIL Tasman.

Q5. Can this table, which was prepared for the then Office of Territory Development, be made publicly available?

The *EPA Assessment Report* (Feb 2006, p36-38) contained an analysis of the economic impacts of the mine proposal. It also cited the ACIL Tasman study for the Office of Territory Development and noted that Gross State Product (GSP) would be an estimated 0.96% lower in the 12 month period following mine closure. This does not bear comparison with recent claims being made in the media by mine proponents that the mine contributes 4% of the Territory's GSP.

Q6. Have there been any additional economic assessments by the NT Government of McArthur River Mine, apart from the ACIL Tasman report? If so, have they looked at all of

the economic impacts of the existing and proposed mine, including the loss in mineral royalty payments over the preceeding decade, the total cost of the electricity subsidy and the rehabilitation cost risks posed by the open cut proposal? If so, ECNT requests that a copy of the study be made publicly available in the interests of transparency and informed public debate.

4. The last thing the Northern Territory needs is another Mt Todd situation where the Territory Government has been left with what may turn out to be a \$40-50 million clean up bill.

Q7. Is there a current estimate of probable NT Government liability for the long-term rehabilitation costs of the McArthur River Mine open cut should the project eventually proceed?

Once again, ECNT is appreciative of the effort being put in by the NT Government to ensure that the environmental assessment of the proposed McArthur River Mine Open Cut Project is not simply a rubber stamp process. This augurs well for the future of the Territory and will help to set it on a more environmentally sustainable development path. We trust that a similar amount of rigour is being applied to an assessment of the economic impacts of the mine proposal.

Should you require any further clarification about any of the issues or requests contained in this letter, please contact either myself or Peter Robertson (ECNT Coordinator).

Yours sincerely

Dr Gary Scott
Freshwater Campaigner

cc. Hon. Clare Martin MLA, Chief Minister
Hon. Kon Vatskalis MLA, Minister for Mines and Energy
Hon. Marion Scrymgour MLA, Minister for Natural Resources, Environment & Heritage
Hon. Elliot McAdam MLA, Minister for Local Government
Hon. Paul Henderson MLA, Minister for Business and Economic Development
Ms Barbara McCarthy MLA