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CABINET DECISION

NO. 949

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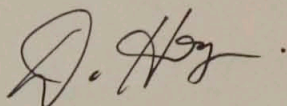
Submission No.: 817

Title: ASSESSMENT OF THE MCARTHUR RIVER PROJECT  
FEASIBILITY AND ENVIRONMENTAL REPORTS.

Cabinet approved:

- a) expenditure of up to \$50,000 to engage a firm of consultants to provide an independent assessment of the metallurgical, financial and associated aspects of the McArthur River Project in order to determine an appropriate course of action for the development of a mine;
- b) a reply to Mount Isa Mines following the initial assessment of the report; and

Cabinet directed the working group to report back to Cabinet following the receipt of the consultants report recommending terms and conditions for a new agreement for development of a mine.



D. HOGAN,  
(~~XXXXXXXXXXXX~~),

Actg. Secretary to Cabinet.

7 November, 1979.

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THE NORTHERN TERRITORY OF AUSTRALIA

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Copy No. .... / .....

FOR CABINET

SUBMISSION No. ....

Title:	ASSESSMENT OF THE McARTHUR RIVER PROJECT FEASIBILITY AND ENVIRONMENTAL REPORTS
Cabinet Member	I. L. TUXWORTH, MINISTER FOR MINES AND ENERGY
Purpose:	To approve the engagement of consultants to review the metallurgical, financial and associated aspects of the McArthur River Project Feasibility and Environmental Report submitted by Mount Isa Mines in order to determine an appropriate course of action for the development of a mine.
Relation to existing policy:	Consistent with the policy of self-government for the Territory.
Timing/ legislative priority:	Urgent
Announcement of decision, tabling, etc.:	Public announcement neither desirable or necessary.
Action required before announcement:	N/A
Staffing implications, numbers and costs, etc.:	N/A
Total cost:	\$50,000

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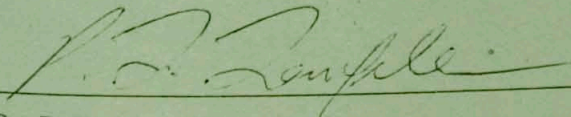
Department/Authority DEPARTMENT OF THE TREASURY

COMMENT ON CABINET SUBMISSION No.

TITLE: MT ISA MINES LIMITED -MCARTHUR RIVER PROJECT

COMMENTS:

Funding of \$50,000 for consultants fees is not provided for in the Mines and Energy budget, but would be available from Treasurer's Advance.



SIGNED: P F TEMPLE

DESIGNATION: A/UNDER-TREASURER

DATE: 30 OCTOBER 1979

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Department/Authority ..... Law .....

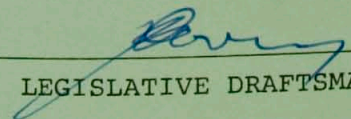
COMMENT ON CABINET SUBMISSION No.

TITLE: MOUNT ISA MINES LIMITED - McARTHUR RIVER PROJECT .....

COMMENTS:

There are no legal barriers to the proposal.

There appear to be no constitutional barriers to the proposal.

  
SIGNED: LEGISLATIVE DRAFTSMAN

DESIGNATION: for SOLICITOR GENERAL

DATE: 30 October 1979



1.

MOUNT ISA MINES LIMITED - MCARTHUR RIVER PROJECT

THE ISSUES

1. The issues requiring consideration by Cabinet are :
  - (a) A proposal by the McArthur River Working Group to engage a firm of consultants to review the McArthur River Project Feasibility and Environmental Report relating to Mount Isa Mines H.Y.C. zinc, lead and silver mineral deposit within Mining Reserve No. 581.
  - (b) The need for a reply to Mount Isa Mines following an initial assessment of their report.
  - (c) Procedures for the renegotiation of the contract, previously held between Mount Isa Mines and the Commonwealth.

BACKGROUND

2. Mount Isa Mines Ltd first became interested in the McArthur River region in 1948. By the early 1960's they had delineated a large zinc, lead and silver orebody. During ensuing years the company instigated research projects both in Australia and overseas for a solution to the metallurgical problems caused by the very fine grained nature of the ore but without success.

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3. In January 1977 the company entered into a contract with the Commonwealth for the further testing and evaluation of the deposit. However, with the advent of self government the company were advised that a new contract would need to be negotiated, this time with the Northern Territory Government.

4. Subsequently, by Cabinet Decision No.490 (20 November 1978), Cabinet :

- (a) Endorsed a suggestion that Mount Isa Mines Limited submit a feasibility study on the McArthur River project by 30 June 1979;
- (b) expressed its desire to see the project proceeding if it is feasible; and
- (c) endorsed in principle the present leaseholders having security of tenure but wish to enter into detailed arrangements with the company for the development of the project only after its feasibility study had been received and assessed.

5. In April 1979 a Working Group comprising representatives from the Department of Mines and Energy, Department of the Chief Minister and Department of the Treasury was established with responsibility for the full assessment of all aspects of the project in order to ensure that the timing and eventual development is in



3.

the best interests of the Territory.

6. On 31 July 1979 a very comprehensive Feasibility and Environmental report consisting of thirty volumes was submitted by the company (see summary volume at Attachment 'A'). The report amplifies a preliminary report which was made available in January 1979. A more detailed outline of events leading to the submission of the report is at Attachment 'B'.

CONSIDERATION OF THE ISSUES

7. There can be little doubt that the proposed McArthur River Mine creates genuine problems of development for Mount Isa Mines, mainly due to the metallurgically complex ore. In addition, uncertainty in the state of world markets for zinc and lead and the availability of more viable deposits at the company's other undertakings in Queensland, have almost certainly induced excessive caution in the company's approach to the development of McArthur River.

8. An initial assessment of the report has identified the following key factors :

- (a) the need to understand the nature of the metallurgical problem and to identify further research which might overcome it;

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- (b) the need to identify the likely course in market trends for zinc and lead concentrates and the processed metals;
- (c) the need to check the cost estimates and financial analysis; and
- (d) the need to investigate the financial capability of Mount Isa Mines to develop the mine.

9. In regard to these factors, the Northern Territory Government is to some degree handicapped by a paucity of industrial intelligence and a lack of expertise in certain areas of the project, in particular the metallurgical area. This makes it necessary to consider the employment of a reputable firm of consultants. Mount Isa Mines are aware of the possible use of consultants as this was intimated to them by Government officers at a meeting earlier this year. They agreed to provide consultants with any relevant material not included in the report but which is in their offices.

10. The employment of consultants is not however a straightforward matter as any discussions will need to be discreet so as not to unnecessarily jeopardise the prospects of further co-operation with Mount Isa Mines.



Account must also be taken of the fact that the company have themselves employed many of the firms who are generally accepted in Australia as being eminent in mining projects. Lists of the main McArthur research projects and sample distribution is at Attachment 'C'.

OPTIONS

11. There are three options available :

- (a) Do nothing, other than re-negotiate the agreement with Mount Isa Mines. This will allow continuation of the status quo and the probability that the orebody will not be developed in the foreseeable future.
- (b) Refuse to continue giving favoured status to Mount Isa Mines and make lease areas available to any company (including Mount Isa Mines) which can put forward acceptable proposals for earlier development of the orebody.
- (c) Undertake to continue protection of Mount Isa Mines' position on being satisfied that the company is genuinely working towards the development of the orebody as quickly as possible. This will require the imposition

of the most stringent conditions including requiring the company to undertake certain types of metallurgical research.

In order to decide on the appropriate course of action and before any negotiations can be commenced it will be necessary for the Government to make a proper assessment of the company's Feasibility and Environmental Report. This will necessitate employing a firm of consultants with terms of reference as at Attachment 'D'.

#### PUBLIC IMPACT OF THE RECOMMENDATIONS

12. The public will expect the Government to do whatever is necessary to facilitate the earliest possible development of this major mineral deposit. However, caution will be needed, if exercising option (b) that the Government is not seen as reneging on any moral commitment to Mount Isa Mines as this could not only damage relations with that company but might affect credibility with the business sector at large.

#### FINANCIAL CONSIDERATIONS

13. Mining of the H.Y.C. orebody, with associated infrastructure including the building of a deepwater port in the Sir Edward Pellew Group, will obviously be extremely beneficial in terms of the economic development of the Territory.



Early development could furthermore be a vital factor in the development of an industrial 'package' linked with exploitation of natural gas reserves. On the other hand, from the point of view of royalty yields it is important that the Government should not force premature development of the deposit. The present value of royalties is likely to be significantly higher when the deposit is 'ripe' for exploitation than when it is barely economic.

14. The cost of a consultant's services to undertake the work as contained in the terms of reference is estimated at \$50,000. Funds for the employment of consultants for the McArthur River project are not available from the budget of the Department of Mines and Energy. The Department of the Treasury has indicated that if Cabinet approves the study, funds can be made available from other sources. It will be necessary therefore for a special appropriation to be made if the work is to be undertaken this financial year.

#### EMPLOYMENT CONSIDERATIONS

15. No additional staff will be required.

#### COMMONWEALTH AND LOCAL GOVERNMENT RELATIONS

16. Will not be directly affected, other than Commonwealth involvement through export controls.

CO-ORDINATION AND CONSULTATION

17. The McArthur River Working Party involves officers from the Departments of the Chief Minister, Mines and Energy and Treasury, with wide consultation being undertaken as required, but these are the principal Departments concerned.

LEGISLATION

18. It is not envisaged that any additional legislation will be required.

PUBLICITY

19. It is considered that publicity is neither desirable or necessary in respect of the presently proposed exercise. In fact, the exercise is seen as one requiring considerable discretion.

TIMING

20. Mining Reserve No. 581 is being maintained intact without diminution until 31 December 1979 (see Attachment 'E'). In view of the time which will elapse for a firm of consultants to present their report, have it examined by the Department and the possible renegotiation of the Agreement, it would be expedient to extend the reservation, intact and without diminution until 30 June 1980.



A letter to Mount Isa Mines to this effect is at Attachment 'F'.

RECOMMENDATIONS

21. It is recommended that Cabinet :
- . approve expenditure of up to \$50,000 to engage a firm of consultants to provide an independent assessment of the metallurgical, financial and associated aspects of the McArthur River Project in order to determine an appropriate course of action for the development of a mine;
  - . approve the reply to Mount Isa Mines following the initial assessment of the report;
  - . direct the Working Group to report back to Cabinet following receipt of the consultant's report recommending terms and conditions for a new agreement for development of a mine.



November 1979

IAN TUXWORTH

**MOUNT ISA MINES LIMITED**

(A MEMBER OF THE M.I.M. HOLDINGS GROUP OF COMPANIES)



M.I.M. BUILDING, 160 ANN ST., BRISBANE 4000  
 TELEPHONE 228 1122, G.P.O. BOX 1433, 4001  
 TELEGRAMS: "MIMHOLD", BRISBANE  
 TELEX: AA 40160

IN REPLY QUOTE

REF.:

DATE: July 31 1979

Hon. I.L. Tuxworth M.L.A.  
 Minister for Mines and Energy  
 Northern Territory Legislative Assembly  
 P.O. Box 3721  
 DARWIN N.T. 5794

Dear Mr. Tuxworth

Following recent discussions in Darwin with the Chief Minister, members of the Northern Territory Administration and yourself, we submit our McArthur River Project Feasibility and Environmental Report. This report amplifies the preliminary report, a copy of which we made available to your Government in January 1979.

The study is based on the proposed treatment of 10 000 tonnes of ore per day from an integrated mining and concentrating operation from which zinc and lead concentrates would be exported for processing at overseas smelting and refining plants. In addition, cases of 20 000 tonnes and 5000 tonnes per day have been studied to investigate the effect of treatment rate on financial return.

A study relating to the addition of a zinc refinery and lead smelter at the mine site has been included to indicate any improvement in the economics by treatment of the concentrates locally.

The studies of all the cases described within this Feasibility and Environmental Report indicate that development of the McArthur River Project as a production unit is not an economic reality under present conditions. The substantial supporting information accompanying the report will enable those reviewing the study to gain a complete understanding of the scope of the project and the extent of the problems that must be overcome.

You will appreciate that sections of the report have particular commercial value to our Company. Those sections have been clearly identified and we would appreciate your maintaining confidentiality of those sections to your own Government departments.

Our efforts to establish the feasibility of the project at McArthur River will continue, with particular emphasis on:

- geological exploration in an attempt to locate mineralisation with better metallurgical characteristics than the HYC ore,
- an MIM hydrometallurgical research program which will include consideration of McArthur HYC ore, and a complete review of potential metallurgical research activities which could be applicable to the McArthur ore,



July 31 1979

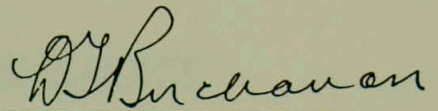
monitoring of changes in any factors which could vary the economics, particularly market conditions, metal prices, operating costs and metal recoveries.

We suggest that an appropriate time for updating the study would be 1984, unless significant changes in the factors which affect the economics warrant an earlier revision.

In preparing this report we have used the best expertise available which has involved Company personnel supplemented where necessary by reputable consultants. We believe that the bases for geological, mining, metallurgical, engineering, marketing and financial studies are sound, professional and realistic.

We look forward to receiving your comments on the report.

Yours faithfully  
MOUNT ISA MINES LIMITED



D.T. Buchanan  
Director