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Arise South Crofty

By Tom Eldridge , Partner

It would be fanciful to suggest that the proposed reopening of the South Crofty tin mine in Redruth signals a renaissance in the UK mining sector. But the proposed resumption of mining at this world-class Cornish deposit is more than eye-catching. It represents a significant development in the industry.

Shut since 1998 having produced an estimated 400,000 tonnes of tin in its mine life, South Crofty is a substantial mine boasting estimated reserves of 2.5m tonnes of ore containing 44,000 tonnes of metal. Above and beyond the sentimentality held for the Cornish tin industry, now permanently preserved by its Unesco "world heritage" status, a reopened mine of this magnitude means real job, infrastructure and investment opportunities for the region.

South Crofty adds to a list of other impressive UK mining projects currently in different stages of development and operation across the country.

Just down the road from South Crofty on the edge of Dartmoor, Wolf Minerals has commenced operations at its Drakelands tungsten and tin mine. One of the largest tungsten deposits in the world this is one of only two mines outside of China with a production capacity greater than 3,000 tonnes a year.

Further afield, Sirius Minerals is advancing the development of its vast $2.9bn potash mine in the North Yorkshire moors. Having concluded key planning and permitting stages, Sirius has recently engaged a bank group for the project financing of its stage 2 capital costs for the mine and associated infrastructure.

And on a smaller scale, but equally significant, Dalradian Resources and Scotgold Resources are developing gold mine projects in Northern Ireland and Scotland respectively. Earlier this year, Dalradian announced increased grade and reserve figures for its high grade Curraghinalt gold deposit. At the same time, Scotgold announced the launch of its bulk processing trial and first gold pour at its Cononish gold and silver project.

These five UK projects are very different in scale, size, timing, development, markets and mineral production. But, both individually and collectively, they are of great importance when looking at the UK mining sector today.

Based on the most recent British Geological Survey[1] figures, there are over 2,300 active mines and quarries in the UK. A large majority of these current workings, in fact more than 75 percent of them, are mining construction aggregates, industrial minerals and building stone – sand/gravel, limestone,

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1 Directory of Mines and Quarries 2014, British Geological Survey 2014.

igneous and metamorphic rock (basalt, gritstone) clay and shale, crushed rock and sand. More than 35 per cent of all current workings in the UK are sand/gravel and limestone operations alone. Many of these mines are owned and operated by the commercial end-users of the minerals with the domestic building and construction market being the key source of revenue for these operations. It is not surprising that the latest BGS data records only one mining operation in the UK for each of tungsten, potash, tin and gold/silver.

As new UK mine developments have been few and far between in the last half century, the regulatory framework and processes that underpin their development and operation remain relatively old fashioned, but not overly restrictive or unduly onerous. There is no single legislative regime for mining. Precious metals and coal still vest with the state, with mining requiring Crown Estate and Coal Authority licences respectively. For all other minerals, the owner and operator must take title from the actual surface land owners through a lease arrangement. These are privately concluded contracts, but capable of being registered against the land title at the Land Registry.

All mining operations require local authority planning permission, not unlike any other industrial undertaking. Conditions of such permissions will, amongst other things, include compliance with environmental and reclamation requirements, in particular as regards waste and water usage. (Planning permission was, and remains, a major aspect for Sirius Minerals and one that has impacted the development schedule. But location and the sheer size and complexity of the project means that, even by normal mining standards, planning and the environment are key risk factors). There are certain mine-specific health and safety requirements for mine operators to comply with set out in particular mining legislation. Mining operations will also be required to comply with all other laws and regulations that apply to UK businesses generally, including tax, employment/labour, accounting and, where relevant, exports.

In summary, the UK legislative and regulatory framework can be considered as broadly supportive of mine development and mining operations. Labour and infrastructure is available and accessible. Data is relatively up-to-date and reliable. Geology is really just what it is. There has been recent recognition that the UK contains some important, strategic minerals that could be monetarised in the face of changing global consumption trends for different types of industrial metals.

All this said, South Crofty, and the other current development projects cannot realistically be seen as heralding a renaissance in the industry. However, symbolically and practically, they do represent advancement in the form of new projects. Drakelands is the first new metals mine to come into production in the UK for more than four decades. Production at Cononish would see the first commercial production of gold in Scotland. They show that mining projects can be developed in the UK within a largely sensible and reliable regulatory and legal environment, a fair fiscal system and available resource and infrastructure. They further represent diversity in an industry currently focused on construction aggregates and industrial minerals and one that was traditionally dominated by coal.

Indeed, it would be remiss not to mention coal in any discussion on UK mining. In doing so we halt the positive mood from the preceding paragraphs. Some surface mining continues. Just recently (and not without controversy) permission has been granted for the new Highthorn open cast coal mine in Druridge Bay, Northumberland. In the short term there remains a domestic market for these sort of operations as the UK's existing fleet of coal-fired power plants are wound down and replaced with new gas, nuclear and renewable power generation capacity.

Yet the closure in December last year of the UK's last deep coal mine at Kellingley concluded the sad demise of the UK deep coal mining industry. The "why"s and the "what if"s are well documented and not for this commentary.

However, the context is important. It shows how the success and failure of any mining project and, in the case of coal, a mining industry, is determined so heavily by the markets into which the commodities are sold and their economics, rather than, in may cases, geology, geography and location.

The UK coal mining industry is not where it is today because the coal has run out. It is where it is now because fewer people want to buy coal, and, specifically to coal, those who do and can buy it can do so more cheaply elsewhere. Similarly, and as South Crofty proves, the Cornish tin industry did not collapse because the tin ran out. It collapsed because the world's tin markets changed radically.

In both cases, it is less to do with the UK as a location for a mine and more to do with the markets into which production is sold and the effect these markets have on revenues and the ultimate viability of mining operations.

Of course location is an important factor in the success or failure of a mine. As the world's iron ore markets collapsed due to reduced steel consumption, the West African miners were seen to be even worse affected by the truly dreadful ebola tragedy happening at the same time. As global thermal coal prices plummeted, it was arguably the US miners who have seen the worst of it in the face of the US administration's war on domestic coal and home-grown shale gas development.

The simple fact is that it is hard work building a mine wherever you choose to do it. Arguably, it is no less challenging to do so in the UK as it is in, say, Senegal, Kazakhstan or Bolivia. The development hurdles to cross are largely the same. Political issues aside, these can be managed and mitigated. Ask the excellent management teams of Strongbow, Wolf, Dalradian, Scotgold and Sirius what have been the most challenging development issues for their respective UK mines, and it is likely that you will get very similar answers from teams developing mines in West Africa, Central Asia, South America and beyond. And then once built and operational, all mines, wherever there are, must navigate the markets into which their production is sold. For our five UK projects, the tin, tungsten, potash and gold/silver global markets will be key factors determining their success.

The industry will watch South Crofty and the other UK projects with interest. For so long now the UK has been a place where capital is raised and advisory expertise has been hired, and then both exported for mine projects far afield. For now, there can and should deservedly be a collective feeling of pride that these five UK projects are where they are today.

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