Explorers finding major support - Mining Journal

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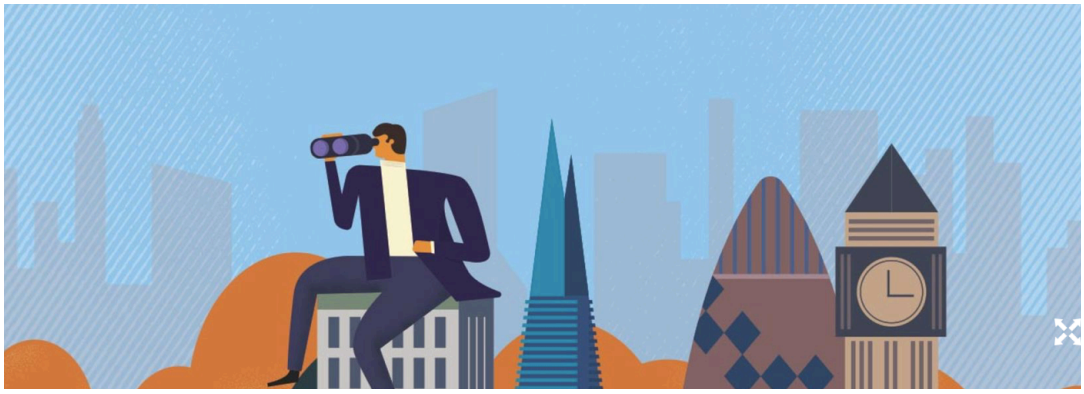
Big miners, unfit to make their own discoveries, are again looking to piggyback the juniors



“It’s not the size of the dog in the fight, it’s the size of the fight in the dog.” – Mark Twain
As I ranted the other day, we are constantly bombarded from all sides by the notion that bigger is better.

We are told that size matters, large trumps small, scale always comes with economies, the little guy is always stomped on by the big guy and that if we leave Europe we will be promptly nudged out on the margins of world affairs, with Malta and the Maldives.

If only Malta and the Maldives were not such nice places, those threats might work.

Yes, of course size has its advantages - but at a price.

Son and heir is a few weeks short of his 15th birthday and, after a quick measure the other day, my wife and I have a bet running as to whether he cracks six foot before the big day. It's hard to gauge as he tends to grow in spurts and squirts but, if he falls short, it will be by but a hair's breadth.

On one hand, as a father it's quite something to see one's boy grow up but, on the other, at the current rate of progress it won't be long before he is patting me on the head, which will be a bit depressing. And then, on yet another hand, where will it stop?

Being tall is, on balance, I think better than being short, for all sorts of reasons largely related to being able to attract the barman's attention in crowded pubs. But, as one who has tried to squeeze into the back of a Ryan Air flight, there is such a thing as too tall.

Yes, there are some studies to show that being tall does provide an edge in the business world but I suspect this is a bit overplayed. Of course, tall people look good in suits but if one were to actually examine the pantheon of the most influential leaders throughout world history (both good and bad), I'm guessing that stumpy short arses would be greatly overrepresented.

Alexander, Napoleon, Stalin, Deng Xiaoping, Churchill, James Madison, Ghandi, Queen Victoria and Lord Nelson would never have been first picked for basketball but they left a mark that belied their vertical challenges.

Being an old rugby forward, I understand how it works: huge size can be intimidating, which is useful for scaring the opposition before the game starts. But once the whistle blows, the annoying little shits just run rings around us flabby forwards and we quickly realise that we can only squash them if we can catch them.

As I mentioned the other week, miners, like in fact all listed companies, are invariably pushed by investors to grow. Not because growth is good, or appropriate, or even possible, but because of the simplistically-moronic-but-annoyingly-often-correct view that growth covers a multitude of sins.

When running a nice steady-state business, analysts and other such odious creatures focus on the competence of the management, which is bloody annoying when said management would rather be playing golf.

To avoid scrutiny, then, and to avoid having to work hard or become more efficient, boards choose the easiest option of growth to cover the fact they are not actually very bright. We see this in almost every industry where it is far easier to buy market share than to win it.

But the problem then arises when the piper is to be paid - becoming big almost always destroys the skills and nimbleness that made a firm successful in the first place.

It was noted the other day BHP has taken a stake in Ecuadorian explorer SolGold, presumably one imagines, because they think that Cascabel is shaping up to be a half-decent deposit and so want to put their foot on it, or at least a toe.

The actual details of the deal are of little import, at least to me, but what is important is that this is the latest and largest of a series of deals, alliances, JVs and equity stakes that we have begun to see over the past 18 months where larger companies are taking a close look at the activities and assets of smaller companies.

This is nothing new and people my age have been through a number of cycles where major companies engage in deals with smaller companies, then run away and do it all themselves, then decide that didn't work and do more deals, and so on and so on. It is a cycle that seems to be repeated every 10 years or so as executives of the major miners change their medication or just suddenly realise they haven't discovered anything in 25 years and need to look busy.

Occasionally it works but, more regularly, it doesn't. This is not because it is or isn't a good strategy but rather exploration is just hard. This is ultimately the crux of the problem: big miners like to see a direct correlation between investment and returns - they want to know that if they spend this money then the will see a commensurate increase in revenue. But that's not how exploration works and it gives them the willies.

During the downturn, the majors had, like the rest of the market, gradually reduced their exploration spend to bugger all. But then about two years ago, some bright spark suddenly saw the appalling longer-term implications of the lack of global exploration success and the taps were reopened to the point where Rio and BHP combined are dropping damn near US$1 billion a year on mineral exploration.

Good on them, I suppose, but it was, I fear, a simplistic knee-jerk reaction made without much thought to the details. Clearly, head office believes the problem will be solved by simply throwing money at it despite the fact there is no evidence this has ever happened before.

The problem, as I have stated before, is the majors have intentionally spent decades eliminating all of the processes and behaviours they see as detrimental to the mining of big bulk deposits.

Variability, risk, initiative, flexibility creativity, adventurousness, and disregard for authority, are universally seen as bad things but are, alas, precisely the things that are necessary for exploration. The majors are throwing money at exploration but without recognition they are fundamentally unfit for the purpose.

Their staff is overpaid, over stuffed, plump and comfortable. Their policies are restrictive and claustrophobic. Their cost base is astronomical. Their decision-making process glacial. And

their ability to work in the ‘interesting' parts of the world, where big deposits are now likely to be found, is largely non-existent.

And, so, maybe the Cascabel deal and others like it are recognition by the big boys of their shortcomings.

You see, $1 billion is a lot of money but perhaps some bean counter in head office has multiplied $1 billion by 10 years and suddenly realised with horror that they could piss some serious money against the wall before they started to see some results, if indeed they see any at all. Perhaps, then, they have realised this huge exploration spend has the potential to be a massively bad investment and so are running out and doing a deals to make it look better than it really is.

But then, perhaps Rio will tomorrow stumble upon some monster and make me look stupid - but I suspect I'm safe for a while yet. And, in the meantime, and for the foreseeable future, small miners in elephant country will have new found friends.