THE MINERAL INDUSTRY UNDER LABOR

By The Hon. R.F.X. Connor, M.P.

(This address was delivered by Mr. Connor, Minister for Minerals and Energy, to a luncheon meeting of the N.S.W. Division of the Institute in Sydney on 10 August 1973.)

When Labor assumed National office we inherited a minerals and energy industry which had developed under a non-policy - the product of benign neglect, with intermittent spasms of ad hoc policy decisions made at the request of sectional interest groups. There was no National concept, much less a discharge of National functions, internal or external, by the National Government. Certain individual States were, in fact, usurping National functions, particularly in export trade.

My responsibility under the Prime Minister's gazetted administrative arrangements were "to evaluate and secure the balanced development of Australia's mineral and energy resources for the future needs of Australia". This I have proceeded to do, under the clear terms of Labor's coherent policy adopted at our 1971 Launceston Conference, and fully publicized.

Our overriding concern is the National interest, and above all the reassurance of our trading partners as to our scrupulous fulfilment of our contracts. As to the predominantly foreign owned or controlled mining companies operating in Australia, I have also assured them that we will honour all undertakings given to them by the Liberal Government.

Our first action directly affecting the mining and financial industries of Australia was the imposition of the 25% deposit rule in December last, and the 7.05% revaluation of the Australian Dollar. Comparable countries such as France, Belgium, The Netherlands and West Germany have taken and maintain similar protective action against the billions of Euro Dollars, surging over international boundaries and seeking a haven, and the respectability of conversion into a hard currency. The flood of such monies had assumed dangerous proportions.

We were determined, at all times, to maintain the reputation of the Australian Dollar as a hard and stable currency. These precautions continue, not only in Australia, but as evidenced recently by French Finance Minister Monsieur Guiscard d'Estaing suggesting to the Committee of 20 a negative interest rate on reserves acquired by surplus currency countries exceeding a certain point. Australia is a member of this Committee. We are determined to maintain the hard currency rating of the Australian Dollar, especially when there are repeated assaults on the world's leading reserve currencies, notably the U.S. Dollar and the Pound Sterling. This is vital if we are to play an increasing role in world trade.

I have criticised strongly the lack of foresight in certain sections of the Australian mining industry, and of the Liberal Government, in embracing the U.S. Dollar without necessary protection clauses in mineral contracts. We are accordingly determined that, in future, contracts however denominated, must maintain the full intended return in Australian currency. This decision, and the complete absence of vital information as to the denomination of the currency of payment, the duration of contracts, and the nature of the escalation and protective clauses, if any, provoked our decision to impose export controls under the Customs Legislation on all mineral exports. Worse still, the lag in official statistics was such that those on the percentage of ownership and/or control of Australia's mineral industries did not go beyond 1968. The controls have been
implemented expeditiously, and the needed information has been obtained.

It appalls me that in our trading with as numerate, sophisticated, and integrated a nation as Japan, we have lacked elementary information as a National Government. Having identified our trading weaknesses, especially in the failure to obtain world parity prices for exports, corrective action quickly followed, as evidenced by the negotiations which secured a substantial revision of iron ore export prices. This break-through has in turn enabled the various coal exporting interests to secure substantial increases in their export prices. We plan to obtain further increases.

One of the outstanding weaknesses of Australia's export trade has been the foolish competition between rival firms, and their failure to act in concert in their collective interest. The Australian Coal Association has been revived, and in early October next over thirty representatives of the black coal industries of Queensland and New South Wales will be together in Japan to discuss with their Japanese counterparts, on a collective basis, matters of mutual interest.

The Japanese purchasers of coal and iron ore have always acted on a collective basis, and have set Australia an admirable example to be followed. Japan has achieved a better understanding of Australian objectives, and developed a full respect for the Australian Government, which is prepared to act in concert with its mineral exporters in the National interest.

Since assuming office I have met appropriate industry groups and the management of individual companies, and have given interviews to the financial press, both local and overseas. These have been in addition to my Parliamentary and other public speeches. Notwithstanding our Party's platform guidelines and my efforts, there appears to be a collective mental block, within certain sectors of the minerals industry, in accepting a change in Government and a change in policy. Hence my acceptance of the invitation to address your Institute, as an outstandingly representative body, to once again outline our policies.

The 1972 Treasury White Paper on Foreign Investment in Australia showed that over 89% of our capital requirements have been met by internal Australian savings. We rank third amongst the world's saving nations. In a huge country, this investment has been hitherto directed into the infrastructure, and the residual 10 or 11% of overseas capital inflow has been directed to the most lucrative sectors of our economy, namely minerals, petroleum, automobile production, electronics, chemicals and pharmaceuticals.

This has resulted in the 62% overseas ownership or control of the Australian mineral industry by overseas companies. As stated by the Prime Minister, this percentage is wholly unacceptable to the Government, and we are determined that it will not increase and that we will progressively reduce it as the opportunities present themselves. In the interim, every possible assistance is being given to mineral exports which for the year just ended are at a record high level, with prospects of even greater returns for the foreseeable future.

Export guidelines are not new to Australia, and in fact were imposed by the Liberals on iron ore, wood chips and mineral sands. In our controls on foreign takeovers of Australian companies, we have continued to use the Companies (Foreign Takeovers) Act, and guidelines, as introduced by the McMahon Government in its dying days last year.

When the Liberals introduced the Australian Industry Development
Corporation legislation, Labor supported it and stated that we would increase its powers, and extend its financial limits and sphere of operations. It will be used both as an intermediary to obtain overseas funds where necessary, and to mobilise internal Australian finances, for industry and mineral development. These amendments now under consideration, are the responsibility of my colleague, the Minister for Overseas Trade, Dr. Cairns. Monies invested in the A.I.D.C. will have the best of all security, namely the backing of the Australian National Government, on appropriate terms.

As I envisage the functioning of the A.I.D.C., foreign companies seeking to invest in Australian developmental projects would stipulate to the Corporation the amount of their investment to be directed to a particular project conducted exclusively by Australians. In return for their investment, both foreign and local companies will receive a semi-governmental interest rate plus other "sweeteners". They would also be assured of a long term contract for the supply of the particular mineral which they had helped to finance. Equity in the project, would at all times be retained exclusively in Australian hands.

Australia's credit rating ranks with the highest in world terms. Labor will ensure that it is maintained, and at the same time we will achieve our basic objective, as stated by Mr. Whitlam last March, that "we wish to ensure the greatest possible measure of Australian ownership and participation in the mining industry".

I wish to correct the mischievous misconception that I plan to hoard Australian minerals, even those far exceeding Australia's internal long term requirements. In a speech in Parliament some months ago, I referred to a statement made by leaders of the Arab countries in O.P.E.C. that "black gold" in the ground was as good as money in the bank. From this it has been inferred by our critics that we would impose excessive controls. The answer, of course, is Australia's record returns from mineral exports. Let me make it perfectly clear. I want to see Australia export as much as it can, at as high a price as it can, after full consideration has been given to the long term trends in overseas mineral consumption, and technology developments to upgrade low grade deposits overseas, or find alternative resources.

Australia is now in the world league as a producer and exporter of raw materials, particularly iron ore, bauxite, alumina, copper, lead, manganese, nickel, titanium, uranium and black coal.

Our anxiety to promote export is linked with our objective for orderly internal development and an end to "throat-cutting" competition between companies producing the same mineral for the same market. We do not think it advisable, where the extent of Australia's resources has only been marginally delineated, or there is not self sufficiency, that we should rush into exports, especially in the case of certain energy resources.

High grade, easily won energy resources are becoming a rarity in the world today. The most plentiful, such as Middle East crude, have become the subject of manipulation by the producing countries in O.P.E.C., with a distortion of world prices. The United States and Japan, in particular, are experiencing acute shortages of energy. Their Governments and industries look enviously on countries with adequate energy reserves. U.S.A. companies are spending large sums of money on devising new energy technologies such as synthetic natural gas. The production of petroleum from black coal through hydrogenation is being planned.

Australia will keep abreast of these technologies, and take them into account in negotiating export contracts. Legitimate trading
precautions are being construed by our critics as an arrogant attempt to humiliate and extort unreasonable prices from our trading partners. Australia will at all times be a willing seller to willing buyers, on fair and reasonable terms and, where shortages exist, we will at all times give preference in supplies to our long standing and major trading partners.

We seek full National control of Australia's energy resources. Our first step has been to enact legislation to establish a Pipeline Authority. This major development project, which, ranking with the Snowy Mountains Hydro-Electric Scheme, will inter-connect all Australian capital and provincial cities, and other major towns. To ensure the fullest economic advantage to the decentralised and inland areas, the Authority will wholesale the gas at uniform prices.

As a further step in establishing full National sovereignty, we have introduced the Seas and Submerged Lands Bill, which has passed through the House of Representatives and is at present stalled in the Senate. When the Liberal Government introduced its Petroleum (Submerged Lands) Act of 1967, Labor described it as the biggest sell out of Australia's natural resources in our history. We have consistently opposed the measure, and stated that National sovereignty extended over the whole of the Continental Shelf, and that we would legislate to ensure this on taking office. In addition to failing to clarify the constitutional position, the Senate's delaying tactics are denying the High Court the right to adjudicate on Australia's National sovereignty, and the control of our most valuable asset.

Offshore petroleum exploration in Australia has been more successful percentagewise than in any other offshore area in the world. It is generally accepted that Australia's future oil and gas finds will be made in offshore waters, notably Bass Strait and the North West Shelf.

Petroleum and natural gas are premium fuels in the world today. It is important, in the National interest, that they be protected. The total cost of oil exploration in Australia until the end of 1971 has been $841 million. Of this 50% has been provided by Commonwealth and State subsidies or will flow from taxation concessions. No equity interest in the results of this exploration has so far been sought or given. Hence our action in the National interest to refuse consent to exploration companies seeking to farm-out to other companies areas which they hold under permit, and which they are unable to properly explore. The Australian people, through their Government, are surely entitled to the surrender of such areas and to decide the terms on which they will be explored and developed in the National interest.

In the near future, permit areas held under exploration permits will be reverting to us.

In April last, I made a major policy statement to Parliament on Federal petroleum search policy. In this speech I foreshadowed the establishment of a National Petroleum and Minerals Authority. The legislation, currently being drafted, will be introduced with urgent priority in the forthcoming Session of Parliament. In this speech I stated in part:

"In the field of petroleum search, production, transport and refining, there is an obvious need for a national petroleum and minerals authority which would also be a constituent part of a national body. In off-shore petroleum exploration, there is undoubted Commonwealth sovereignty, and I will be asking Government approval for appropriate legislation for the establishment of a national petroleum and mineral authority at an early date. Such an authority would explore, produce, transport and refine petroleum. It would act by:
Employing its own personnel and equipment in search; letting out contracts for search; acting in partnership with companies; in appropriate cases, taking up shares in companies; accepting 'farm-ins' to attractive areas; and granting 'farm-outs' from areas it held in its own right. Such an authority could act with great flexibility to deal with specific situations. It would act in concert with the Bureau of Mineral Resources.

I want to assure you that this Authority, contrary to speculation, will not be charging recklessly into mineral and petroleum exploration, which can be a high risk area.

On the question of exploration generally, the Labor Government has been accused of causing the down-turn in exploration expenditure throughout the country. However, the downward curve started nearly three years ago towards the end of the securities and mining boom.

Two-thirds in value of the production of the mining industry are from areas in which a great deal of exploration work has been already done, and future requirements are minimal. These areas are iron ore, bauxite and coal.

Taxation concessions under Sections 77C, 77D and 78 of the Income Tax Assessment Act have in recent years given some $250 million to the petroleum and minerals exploration industry. For the last year its cost to consolidated revenue was between $45 and $50 million. There would be few in today's audience who would not frankly admit the abuses associated with this concession.

In announcing, together with the Treasurer, its termination last May, I realised that a number of genuine smaller explorers would be hurt, and announced subsequently a plan whereby assistance would be given to them, where they had discovered a mineralisation of substantial interest.

The Petroleum and Minerals Authority, with the assistance of the Bureau of Mineral Resources, will investigate all such propositions. If it is economically viable, the Authority will make development funds available to the explorer, either through loans or equity holdings to bring the project to a cash flow stage. At this point it will receive assistance from the Australian Industry Development Corporation. A substantial proportion of the sums saved by the repeals already mentioned will be directed for this purpose.

In conclusion, I would like to outline a few thoughts on Australia's present and future relationships with Japan. Our two countries are economically mutually complementary, and this is resulting in the upgrading of our whole relationship.

For too many years Australia's attitude to Japan has been a mixture of fear, envy and a "low posture". Worse still, mutual antagonism between rival Australian export groups has encouraged Japanese buyers to use traditional divisive tactics. The emergence of the post-War Japanese economy, with its phenomenal growth rate, is an example which we can admire and follow. We will, at all times, closely monitor the mineral industry to secure the maximum national benefit, just as the Japanese Government does. Already Australia has gained the understanding and respect of the Japanese Government for its new policies. Without doubt, Australia and Japan are of equal importance to each other. We supply the Japanese steel industry with some 46% of its total iron ore and black coal imports. Japan takes 56% of all our mineral exports. The trade is two way, as we are a substantial importer of Japanese goods. We seek to remove any fears which Japan may have that supplies would be arbitrarily reduced or terminated from Australia to them. Australia, at all times, honours its trading contracts, and will never, under
any circumstances, refuse assistance to its friends.

In respect of our energy resources, we will, within safe limits, at all times supply to them and our other major trading partners, all that we can reasonably export.

Australian Government and Australian business have been disastrously ignorant of Japanese policies, methods, culture and society. Until Labor reversed the process, the Japanese knew more of the resources, administrative policy and production costs of major sectors of the Australian mining industry than either the former Australian Government or major companies within the industry knew themselves.

The major policy aspects of future mineral and energy negotiations with Japan will take place at a Government to Government level, with details to be settled by discussion between the industries of each country and their counterparts. Henceforward, Australia and Japan will meet at the conference table as equals with mutual respect and understanding. For this reason an Australian Ministerial delegation will be visiting Japan at the end of October next to return the visit of a Japanese Ministerial group last year to Australia. I am personally indebted to the recent Japanese Ambassador to Australia, Mr. Saito, for his assistance, and understanding of the new phase of our National relations.

The Prime Minister will lead the delegation, and will be accompanied by the Australian Treasurer, the Australian Minister for Trade, and myself. I am certain that the results which will flow from the several conferences which will take place between the various Ministers of both Nations, will result in a new, permanent and wholly satisfactory phase of Australian-Japanese trading and cultural relations.

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ENVIRONMENT AND CORPORATE PERFORMANCE

(The opening paragraphs of The Limits of Traditional Economics by H. Henderson, published in the Financial Analysts Journal of May/June, 1973, summarize a viewpoint that is receiving increasing acceptance in Australia.)

Today's application of economics as the basic tool in managing national resources is being challenged by environmentalists, by scientists from other disciplines and even by an increasingly skeptical public. Nowhere is this debate hotter than in the United States where the environmental movement began. In the past year, the advocates of zero population growth were joined by a vanguard of environmentalists calling for a re-examination of the nature and direction of economic growth as defined by the Gross National Product, and development of more sensitive indicators of human welfare which might subtract some of the dis-amenities, dis-economies and dis-services associated with growth, such as costs of pollution related illnesses, crowding, traffic jams, decaying cities and the depletion of energy supplies and other natural resources.

These new realities pose serious challenges to prevailing economic policies which, in the next few years, may result in vast changes in the formulation of our national economic accounts and, in turn, our methods of assessing corporate performance.