I have been asked to address you this evening on the topic -
"An overseas view of investment in Australian mining" - a fairly
broad subject. May I begin by stating quite categorically that
I am not a mining specialist in any sense of the word. I am a
partner in a London stockbroking firm which has had an office in
Australia for the past five years - a stockbroker, a member of
that much maligned profession, industry, community - call it
what you will - which, according to certain quarters, is
responsible for the depressed level of share prices at the
present time. Whilst feeling slightly amused that we are
credited with greater powers than King Canute, I firmly believe
that the stockmarket - like water - always finds its right
level. That the Australian market - and indeed world markets in
general - are at depressed levels is a reflection of investors'
expectations of economic and political conditions. Investor
confidence is at a very low ebb in these days of high inflation
and illiquidity and it seems that for the time being, uncertainty
is to be the order of the day. Share prices do not rise when
such conditions prevail. Some people think otherwise and would
have one believe that the majority view is wrong. Perhaps they
have not seen the chapter in Adam Smith's book - The Money Game -
which begins with a quotation adopted and adapted from a
Rudyard Kipling poem - "If you can keep your head when all about
you are losing theirs, maybe you haven't heard the news". I
would hasten to add that this Adam Smith of The Money Game and
later Supermoney, is the modern author, not the one who, 200
years ago in his "Wealth of Nations" described mines as
"uncertain and ruinous projects unfit for legal encouragement";
a lot has changed since then.

As London brokers carrying on an international business, we are
involved in mining investment on a world-wide basis and Australia
is just one piece in the overall jig-saw puzzle. I feel it is
most important when considering the merits of investment in
Australian mining to pay close attention to the world mining
situation and then put Australia into the right context.

Looking first at the general picture, the past quarter century
has seen the mining industry undergo a considerable change
throughout the world. In the 50's, advances in materials
science created new materials - synthetics and alloys - which met
specifications previously peculiar to individual minerals and
introduced new direct competition. The 60's saw a tremendous
growth in the total market for non-ferrous metals and the
extension of open-pit methods to the development of large low-
grade copper deposits, such as Palabora and Bougainville and
other such bodies. Exploration proved near surface bodies with
confidence, debt financing became possible, and the fundamental
structure of the industry changed. In Australia, of course, the
decade of the 60's ended with the so-called Poseidon boom - hair
raising times as we have recently been reminded when a few
people - and I would stress a few - in the fields of mining, stockbroking and elsewhere appeared to lose track of legality and ethics, and a lot of investors, both in Australia and overseas have never been the same since.

The fundamental change in the 70's will probably be mineral ownership and the new economic nationalism prevalent in most developing countries and increasingly present in developed countries as well. No longer is the State content to be a passive landlord collecting rents or royalties; it is now an active participant in policy making and operations as well as still being the mineral owner. This State participation obviously varies enormously in degree with total nationalisation at one end of the scale, but it is a very important development which mining companies and investors cannot afford to ignore. It will be necessary to cope with these changed circumstances.

In the past, companies have secured title to large tracts of land with mineral potential, invested funds in exploration and examination, then committed major finance to develop and exploit such economic minerals as were found for profit. It has been a good system. Mineral wealth is created by exploration and although some people may disagree, there is nothing wrong with the profit motive.

In the past, exploration has been stimulated through the price mechanism by the demand for metals whereas the new pattern will probably be for the stimulus to arise from a nation's quest for general development, and particularly foreign exchange earnings from mineral exports. The stimulus for private sector exploration, namely the prize of undisputed title to a rich orebody, is being rapidly eroded, the prospecting role is increasingly moving to national agencies. It is worth noting here that this is not because emergent governments necessarily prefer to undertake their own exploration but rather because they have so changed the ground rules that there is no longer much incentive for the private sector to undertake speculative exploration.

In this regard, it is interesting to look specifically at Australia's statistics for exploration expenditure by private companies - $161M in 1970/71, $117M in 1971/72, $100M in 1972/73 and a projection of only $50M for the 1973/74 year just ended. The decline is alarming though not altogether surprising. It is caused by a combination of uncertainty, the 25 per cent deposit requirement, local ownership regulations, and the decline in potential profitability as a result of the revaluations of the Australian dollar. Another significant factor is that a lot of companies operate on relatively short term exploration budgets - what might be termed "the let's give it a go for 5 years" philosophy. A number of companies came to Australia in the mid-60's and their exploration effort would have terminated in the early 70's if nothing was found. A number of other companies were formed in the late 60's, as we well know, and their so-called exploration expenditure was soon used up in maintaining their share registers!

The new mineral ownership structure will undoubtedly pose many problems. State orientated mineral owners have much to learn and will probably not easily accept the mining companies as tutors. Furthermore, the pattern of exploration will often be contrary to market requirements. In some cases, prospecting incentives will be inadequate and resource shortages will develop whilst in others, surpluses will be created by indiscriminate development of orebodies to establish overseas earnings. There will undoubtedly be strains and tensions between State and private enterprise, domestic or expatriate.
I feel sure that this pattern will continue to develop, however, and the sooner the two sides do recognize that they have to work in harmony, the better it will be. The mining company can provide the expertise and in return, the State must help to create to the best of its ability stable conditions and stable prices.

The independent mining company will obviously continue to have a highly important role in the future. It has the skills in exploration and development, the collective expertise necessary for a country to develop its resources. All I am saying is that the rules of the game are changing.

In these changing conditions, it is becoming increasingly difficult - almost impossible - to assess the viability of new operations or major extensions. Largely as a result of economic uncertainty, metal prices - traditionally having wide extremes - reached unprecedented levels a short time ago. What are their realistic levels in relation to paper currencies? What will mining costs do? Is a fundamental reassessment of raw materials in society taking place? - the Arabs have certainly shown the power of the oil weapon. Whatever the answer, the traditional analytical concept of establishing capital and operating costs and comparing these with anticipated revenue is less valid at present. For the time being, there must be a return to fundamentals, comparing the possible viability of a project with contemporary operations, accepting that even in the medium term revenue must at least equal average production costs. In addition, account must be taken of possible currency parity changes - a very difficult exercise but nevertheless of great importance.

Turning to the outlook for metal prices - and here I would stress that my views are very much influenced by the mining experts in my own firms - I think that gold will be the only metal to buck the general downtrend in coming months. The monetary and political uncertainties in the world have fuelled the free market gold price as it has appeared to be one of the few real hedges against inflation. Although gold is at present marking time, the recent agreement of the Committee of Twenty appears to have given gold a notional value of $150 and we take the view that the price could reach $200 by the end of the year. 1975 could well see the price rise further to an average of $250.

Copper which averaged £1086 in the first half of 1974 and has now eased back to £825 should average £950 or a fraction less for calendar 1974. We do not see any early improvement in 1975 and are working on an average price of £750 to £800 for next year.

We expect lead to average £230 to £240 for 1974 and a little lower next year.

In the case of zinc, we do not anticipate as great a percentage downturn as in the cases of copper and lead and expect the price to remain in the £460 to £500 region over the near term.

Tin again is less affected and as we are now over the major G.S.A. releases this year, we expect tin to stay firm this year with an average 1974 price of around £3250 and perhaps a decline of £2500 next year.

These are the sort of figures which we are using in our calculations. They are obviously very arbitrary - we have no
special crystal ball - but we feel they are reasonable projections.

Turning now to mining in Australia and my topic tonight, I do not propose to involve myself in a discussion on the respective merits of specific companies but rather to examine the general outlook for overseas investment in Australian mining.

First of all, it is important to remember that overseas investors who are contemplating committing funds to the mining sector have a great freedom of choice geographically, a worldwide batting order dependent on economic and political conditions. Where does Australia stand in this batting order? Is it an opener or a tail-ender?

Since the Labour Government came to power in December 1972, one has seen 20 months of almost continuous discord between the Minister for Minerals and Energy on the one hand and the mining companies on the other. The result has been great uncertainty and a sharp decline in share prices. What does seem to be needed badly are some clear statements of policy on specific issues by the Government and a closer liaison between Government and the industry on the future development of Australia's resources against the background of the increasing minerals potential of other countries. Iron ore output is expanding at a fast rate in Brazil, Guinea in a few years time could rival Australia and Jamaica in bauxite production and who is to say what competition will come from other developing countries such as Indonesia in future years. The Government's general policy has been summarised by the Minister on several occasions and clearly states intentions as regards national interest, export preferences, future pricing, and greater domestic processing. We have also seen the Fitzgerald Report and the implication of higher taxes. If taxes are to be raised or changes made to export licensing, allocation of mining leases, availability of overseas capital or whatever, let this be clearly stated then the mining industry in Australia can adapt itself to the new conditions and investors can assess the prospects.

As an overseas broker, I am very conscious of the growth of economic nationalism in Australia and respect this mood but do feel it must be kept in perspective. Careless use of expressions like selling Australia's birthright and buying back the farm and raising the bogey of multinationals have tended to inflame the issue to a ridiculous level. Of course foreign ownership has been high in the past - but at least it has declined considerably since 22nd August, 1770! At present the Government and the mining industry have widely differing views of the exact level of foreign ownership. Australia is a big country with large and often untapped natural resources but with a very small population and limited funds. With respect, Australians have had a high propensity to save but have tended to be very cautious risk-takers. In the past, foreign capital invested in the mining sector has been entrepreneurial capital - from companies or individuals who were prepared to accept the risks involved. The equity was invested not because the foreign investor wanted to be part of some nefarious scheme to take over Australia's natural resources but essentially because the risk was justified by the potential reward - the profit motive again.

I do not think that anyone can deny that in the past, the inflow of foreign capital has brought enormous benefits to Australia, its economy and its industries. Does Australia any longer welcome foreign investment whatever its form or would it rather do without as a result probably inhibit growth? This
question does need to be resolved because in the present uncertainty, overseas investors are not anxious to place funds where they are not welcome. Of course, Australia must remain Australian and the figures for mining ownership show that there should be no fears on this score. Overseas capital will continue to be needed in Australia and not only by the mining sector. The Government can control the level of foreign ownership by various measures without turning off the overseas funding tap.

To summarise, world stockmarkets as a whole are at depressed levels and will remain so until economic and in some cases political conditions improve and investor confidence returns. This will obviously vary market by market and my own feeling is that the American market will probably be the first to move forward. As regards mining, we are in a period of changing relationships and involvement between Government and private enterprise and the sooner the two sides can achieve greater harmony the better. The Australian market is some way down the international investor's batting order at present but has by no means been written off. The mining sector in Australia has a particularly exciting future but I feel that investors will be cautious of it for the time being until the various uncertainties I have mentioned appear to be nearer to being resolved. To a certain extent, the international investor is a follower of fashion but at this stage no fashionable area of investment stands out. I believe that over the medium term, the two areas of investment which will be fashionable are gold and, more importantly, oil. I have already commented on gold. In the case of oil, everyone is well aware of the supply/demand situation and the need to discover and develop new sources of supply. As a firm, we are very involved in raising finance for companies engaged in various aspects of the search for oil and gas in the North Sea - from drilling finance to funding service companies - and we are very excited by the prospects. Until a few weeks ago, a major uncertainty was the proposed role of the British Government in the exploration and development programme and a great deal of concern was created by irresponsible talk of nationalisation by certain British politicians. On 11th July, Mr. Connor's U.K. counterpart, Mr. Varley, announced the Government's policy and it was nothing like what the pessimists had feared. The British Government does not propose to seize or sequestrate a share of existing licences though it will seek to negotiate to purchase an interest at a fair price. Changes in future licensing will not affect existing fields. Proposed changes in taxation are designed to avoid tax write-offs in other parts of the world from being used to reduce U.K. taxation. The Government has not yet stated the rate of tax on North Sea oil and gas revenues but has stated that "the oil companies must have a suitable return on their capital investment. The Government recognises that the costs of exploration and development have been heavy". Whilst tax details have still to be announced, the Government's attitude is encouraging in that it does recognise the important role of private enterprise, both British and overseas, in this very important development for Britain. I hope it points to more rational relations between governments and private enterprise world-wide.