FACTS, FICTIONS AND THE MINING INDUSTRY

By Sir Maurice Mawby, Melbourne

(This address was given by Sir Maurice Mawby, Chairman of Conzinc Riotinto of Australia Limited, to a meeting of the Institute in Melbourne on 23 May, 1974.)

Thank you for the invitation to speak to the Securities Institute of Australia. Some of the best, and some of the worst times on Australian Stock Exchanges have been caused by the mining industry. It would undoubtedly be of great interest to you if I could give today a clear picture of the future of the Australian mineral industry. Unfortunately I cannot. The economic and legislative environment within which the industry operates is so uncertain it would take the wisdom of Solomon, or at least the foresight of a politician, to predict the future.

Instead, I will examine some aspects of the current debate now taking place on the mineral industry. I will be suggesting that there is lack of realism in much of the discussion; that a dangerous mythology is growing as to the cost and benefits of an expanding mineral sector. Unless a more realistic view holds sway, we might well find governmental action is taken which could do irreparable harm to the prospects of the mineral industry, and the interests of Australia and our trading partners.

I shall argue that the issues most discussed are often those of minor or limited importance. Australia will not be served by building our resources policies on narrow nationalistic lines. We are a country rich in minerals but short of markets, capital and technology. Yet we attack those institutions - multinational corporations - which can still provide these missing ingredients.

Let us look, for a start, at a few basic facts. Despite Australia's massive mineral resources, the number of new projects initiated in recent years has tapered off sharply. Capital expenditures by mining companies are well below the peak levels of 1971 and 1972. New investment in calendar 1973 was about the same, in dollar terms, as 1969 - in real terms this represents a marked fall. Additionally, a large proportion of current investment expenditures are devoted to maintaining and upgrading existing installations, rather than adding significantly to new production.

A development which is particularly worrying as far as the long-term prospects of the industry are concerned, is the sharp fall in exploration activity. The chances of raising new capital for exploration on Stock Exchanges today are extremely dim.

The vast revenues flowing into the economy from the mineral sector, coming largely from developments established four, six and even ten years ago, have so far obscured these trends. But unless exploration and investment activity quickens the dynamism of Australia's major growth sector must inevitably fade away.

These worrying trends in the mining industry have raised barely a comment in recent times. Instead, discussion has degenerated into cheap 'politicking', aimed at convincing the public that Australia has been 'short changed' by its mineral sector. The achievements of the mining industry have been belittled, misrepresented or ignored. The industry's shortcomings - more supposed than real - have been highlighted. This might win votes, but it will not build new industries.
We have all heard of killing geese that lay golden eggs. In Australia at the moment we are going one better. We do not even recognise that the egg is golden. A prime example of this approach can be seen in the much publicised, oft' quoted, report, "The Contribution of the Mineral Industry to Australian Welfare", prepared by Mr. Fitzgerald. Briefly the Report argues that the industry's contribution to welfare, confined largely to the revenues paid to governments, is far outweighed by the help governments offer by way of tax concessions to the industry. Worse still, the main beneficiaries of this policy are the foreign owned mining corporations.

Let us pause for a moment to consider how this Fitzgerald thesis translates into hard facts. Hamersley Iron is one of the companies singled out for special mention in the Report.

It is a Company with which I am proud to claim a long association. Hamersley is 78% owned by foreign interests. In the last nine years this Company invested $750 million in developing its operations in a remote and desolate part of North-West Australia. About 60% of this sum was spent on infrastructure; ports, water supply, community facilities, power, railways, etc. Those facilities, in other words, which are normally provided by governments.

As a partial compensation for the extra risks and burdens that the mining industry has to bear the taxation laws of the Commonwealth have, for nearly sixty years, provided special allowances for capital expenditures. Hamersley has therefore been able to defer, not avoid, company tax of $112 million. But for these infrastructure costs, Hamersley would have been paying company taxation since 1969. When the accelerated depreciation provisions have run their course, Hamersley will be paying company tax at higher rates on profits than non-mining companies.

All this does not mean that government treasuries have not received any benefits directly from the Hamersley operations. If royalty payments, customs, payroll tax, interest and dividend withholding tax, sales and other taxes are totalled, Hamersley has already paid out over $60 million to the public purse. The sums received by governments from Hamersley already outweigh the dividends payable to overseas shareholders, who have borne the risk, helped raise the finance and carried through the development of the Hamersley enterprise.

This $60 million is only the direct contribution by Hamersley. It takes no account of the secondary taxation revenues paid to State and Federal governments by employees, contractors, and other business enterprises which have earned income from Hamersley's operations.

I will not linger on the statistical analysis of the Fitzgerald Report - although it has fundamental faults in a number of areas which invalidate the Report's conclusions.

For those who are interested to pursue the question of the industry's contributions to government revenues, The Australian Mining Industry Council will shortly issue a detailed reply to the charges so colourfully made by Mr. Fitzgerald during the recent election campaign.

I wish to make it clear that I accept the desirability of detailed studies into the workings of the taxation system and the role of industry groups in maximising community welfare. But such examinations need to be impartial and, as far as possible, factual. I am sure that those companies highlighted in the Fitzgerald Report would have readily responded to a request to check the data shown in the Report. But the author
chose not to do this, thereby exposing himself to many errors of fact and casting doubt on the validity of other sections of the Report. The Errors in relation to Homersley, which has been given particular prominence, are regrettable and damaging to employees, shareholders and all those participating directly or indirectly in the venture. However, what concerns me most about the report and indeed much of the prevailing conventional wisdom on the mining industry is the narrow, mean-minded approach taken to benefits obtained from mining activity.

We make a grave mistake if we base our resources policies on a foundation established merely by debiting profits payable to overseas shareholders and crediting taxes and royalties paid to governments. Profits and taxation in mining, as in all industry, are not the major portion of total revenue. We are looking at the froth and ignoring the richness of the brew.

By obsessively computing our figures we forget the wider, and to my mind, the most significant contributions the mining industry has made to Australia.

Let us look at economic development. Remote regions of Australia, once devoid of industry and population, have been made productive. The country, north of the Brisbane Line, which was regarded not too long ago as being of little significance, has become one of the great mineral areas of the world. In the last ten years investment by the mining companies totalled over $4,000 million, or almost 20% of all investment by Australian industry. The vast proportion of this money flowed into these deserted regions. By far the bulk of the investment expenditures have been spent in Australia. Other industries, located elsewhere, have expanded to support the mineral sector, thus broadening the industrial base of the economy. Are we now to believe that all this money, all this development, added nothing to Australian welfare?

Decentralisation is supported, at least verbally, by politicians of all complexions. Twenty-two towns have been established by the mining industry since 1960. About forty thousand people have been attracted to these towns rather than add to the urban congestion. Can we not find here any contribution to welfare?

Turning now to economic growth. Economists have suggested that the mineral developments of the late 'sixties have significantly lifted productivity and the long term growth of the economy. The export revenues earned by the mineral industry have removed the balance of payments constraint which, for a long time, had acted as a brake on the economy. The mining industry enabled the balance of payments to come through the rural recession of 1970 and 1971 virtually unscathed. It helped the Australian dollar - long shrunk by inflation - to be upvalued. Is there not a welfare economist who can find some merit in all this?

Topics like defence seem to be somewhat unfashionable these days. I will therefore mention it briefly. Exploration activity since World War II has ensured that Australia will remain self sufficient in such important strategic minerals as iron ore, bauxite, copper, lead, zinc, nickel and uranium. Although we must still rely to a certain extent on oil imports, discoveries in Bass Strait and elsewhere helped insulate Australia from the worst effects of the recent disruption of supplies from the Middle East. This surely drives home some of the welfare benefits arising from the mineral sector.

Self sufficiency is not the only contribution that the mineral industry has made to defence. The new ports built by the industry, innumerable airstrips, the miles of railway and roads,
have possibly added more to the defence capacity of our northern areas than Australian military expenditures in this region over the last ten years.

In sum, I believe that as far as the Australian community is concerned, these non-quantifiable benefits of our mineral industry are infinitely more important than profits and taxation. They often occur well away from the public gaze, but they are of such magnitude that they affect the lives, and living standards, of every one of us. But the benefits of mining to Australia are not the only aspect of the industry which has been misrepresented. Take the issue of Foreign Investment.

Every mining leader I know would like to see increased Australian equity in the industry.

The impression has been created in the public mind that foreign controlled interests are acquiring increasing chunks of the mineral industry. In fact, according to the Government's own figures there was no increase in foreign control between 1968 and 1972 - the latest year for which data is available. The share of overseas interests in the Australian mineral industry will inevitably decline; just as the proportion fell in long established concerns such as BHP, Mt. Isa and Western Mining Corporation. In 1962 the share of CRA's capital held by the public totalled nearly 10%. Today, this has almost doubled to 19%.

There are some other aspects of this foreign ownership question. Most of the great mineral projects of the 'sixties would not have been developed without the assistance of foreign companies. Not only did they help with essential 'know how', they provided access to large scale risk finance. I was closely associated with the establishment of Comalco, Hamersley and Bougainville. The funds required to build these massive projects were not available from domestic capital markets. Indeed the sums required were large even by international standards. Despite the growth of Australian capital markets in recent years, I invite you to ponder how the $6,000 million needed to finance the Pilbara Plan could be raised in this country!

Capital scarcity is not the only reason why Australia should be wary of rejecting foreign investment. Our mineral developments will, in the foreseeable future, be based on export markets. One of the best ways to secure and retain these markets is to jointly develop mineral resources with major customers. This process need not be one way. Australia, in certain specialised areas in the mineral industry, is already securing equity holdings in outlets overseas. An aggressive nationalistic policy is simply inappropriate for an industry whose prosperity depends on close co-operation with overseas customers. This co-operation is not only confined to the marketing sphere. Australia has benefited greatly in the past from technical and scientific liaison with overseas companies. Close associations with overseas producers help ensure access to new technologies.

The foreign investment issue is linked closely in public debate with overseas control. Let us now turn to this question. In some quarters there is the impression that miners are free to 'rip out and rape' Australia's mineral resources. This is not so. Export prices and other terms of mining contracts are subject to government approval. Mining leases are granted by Governments. These leases specify royalties and other conditions deemed necessary. Companies do not own the mineral resources, they develop them according to agreements made with Governments. If they fail to abide by these conditions, then
the leases can be withdrawn. Profits can be remitted and finance capital imported only on terms and conditions set by the Commonwealth. Foreign investors must seek governmental approval before they can participate to any significant extent in a mining venture. In brief, most major mining business decisions, location, financing, type of product, rate of production and selling prices must be agreed beforehand by the government. We cannot even go out and look for mineral deposits without obtaining prior permission in the form of an exploration licence. The mining industry might be 47% foreign owned; it is 100% government controlled.

I have reviewed with you some of the issues most talked about in relation to mining - the so-called foreign 'rake-off', overseas investment and control. I have argued that these issues have assumed an importance completely out of proportion to their proper significance. Let us now look at the real challenge posed by our mineral wealth.

Australia has enormously rich mineral resources and, undoubtedly, more remains to be discovered. But we are not the only country so endowed. Practically all the major mineral and energy resources discovered in Australia, are available elsewhere on the Globe. If we are going to reap the full benefits from our mineral wealth, resources policies must be closely attuned to commercial realities, rather than narrow ideological considerations.

Mineral reserves are only one side of the development equation - export markets are the other. By pandering to jingoistic sentiment at home, by talking of resources diplomacy abroad, we are in danger of alienating those who can help, in partnership with Australia, provide the key to our mineral wealth.

There are not too many industries in which Australia can claim a clear comparative advantage with the rest of the world. In the mineral industry we can justly make that claim. In addition to our large underdeveloped mineral resources, the strong expansion of the mining sector in the 'sixties has provided the basis for increased secondary processing of raw materials in the years ahead.

The economic options open to Australia are not great. It would be the height of foolishness if, through a misguided appreciation of the benefits of mining, we refused to grasp the opportunities offered to us.

Australia's growth was accelerated by the gold rushes of the mid-nineteenth century and by the flood of major discoveries - Broken Hill, Mt. Lyell, Mt. Morgan, Kalgoorlie, Middleback Ranges and others, towards the end of the century. Australia is now reaping the benefits of the mineral developments of the 'sixties. Are we in the 'seventies going to leave a similar legacy to the future?