

INTRODUCING THE NEW MANAGEMENT OF C.S.R.

By R.G. Jackson

(Mr. R.G. Jackson is General Manager and a Director of Colonial Sugar Refining Company Limited. He gave this address to a luncheon meeting of the Society in Sydney on 3 October 1972.)

In June there was a newspaper headline about "the quiet revolution" at C.S.R. I want to talk to you about it for thirty minutes.

C.S.R. has a new general management team of five. Three are long-term C.S.R. men, and two are relatively new. As a group we have a diversity of experience and outlook. Quite often we disagree. But one thing we all have in common. We are each of us growth men. Nothing excites and attracts us more than the opportunity we now have to make the company grow, and to grow profitably.

There are attractive opportunities for growth in each of the three major segments of C.S.R.'s business - which are sugar, mining, and materials for building and construction.

At present, about a third of the profit comes from sugar; about a quarter from mining operations; and about a third from material supplied to the building and construction industries. All other activities and investments contribute in total less than 10%.

Last year, the group profit before tax was \$40m, reckoned after expensing \$3m for mineral exploration and development, and \$3m for industrial research and development. A provision of \$8m was made for future income tax before reporting the earnings for the year. After deducting minority interests, the reported earnings per share of 27.6 cents would have been 35 cents without the provision for future tax, and 39 cents if the expenditures on exploration, research and development had not been made. Of course, we are investing that \$6m in exploration, research and development in the present to obtain growth in the future.

In the general management group five persons share the responsibilities of the chief executive - a general manager and four deputy general managers. They share the duties that are carried out at the top, but of course the sharing does not extend to the accountability of the general manager: he personally retains ultimate accountability. Besides sharing the workload, each deputy general manager supervises several areas of group operations.

And within his own field, each deputy general manager principally has two things to do. Firstly, he is charged with running as best can be run the operations which now exist. Secondly, and no less important, within his field he is in charge of the power to grow. In the existing operations there is good management in depth, and this strength enables the general management to spend the time that is necessary to expand existing enterprises, and to plan and get new ones off the ground.

The deputy general managers are:

Mr. Don Brown	(48)
Mr. Jack Campbell	(49)
Mr. Bryan Kelman	(46)
Mr. Malcolm King	(54)
And I am	(48)

Dr. Brown, like myself, has spent all his career with C.S.R. He is the only one of the five who made it to post-graduate studies - his Ph.D. was at University College, London in physical inorganic

chemistry. He has great strength and experience in production management, and has played a major part in getting C.S.R. into iron ore, bauxite and mineral exploration generally. He looks after our iron ore activities, particularly Pilbara Iron Limited, which holds a 30% interest in the Mt. Newman joint venture.

Mt. Whaleback, the principal ore body of the Mt. Newman venture, is already one of the great mines of the world. Drill indicated reserves of high grade ore in Whaleback are presently in excess of 1,000m. tons.

Besides that, there is a great deal of ore outside Whaleback in the Mt. Newman leases, which cover 300 square miles. Exploration in these leases outside Whaleback has already indicated the presence of a number of additional large orebodies.

The Whaleback ore is a hard, porous, uniform high grade hematite. The lump ore is ideal for direct charging into the blast furnace. The fines are excellent for sintering. A typical analysis of the lump is iron 65%, phosphorous 0.035%, sulphur 0.01% with copper, titanium, nickel and other metals in amounts insignificant as far as steel making is concerned. That is to say, quality is about as high as you can get, and the impurities which are bad for steel making are about as low as you can get. Taking both size and quality into account, Whaleback is the best deposit of iron ore yet discovered in Australia, and one of the best in the world.

The Newman venturers have installed annual capacity for slightly more than 25m. tons, and are shipping this year 21m. tons. As soon as demand is there, we can ship at least another 4m. tons without adding to fixed costs. Planning has already been completed to increase capacity to 35m. tons, which we expect will be needed at latest by 1976. Many of the basic facilities are already good for 35m. tons. We expect growth to continue beyond 35m. tons. Because of the size and quality of its ore reserves, Mt. Newman is ideally placed to share in the world's constantly growing requirements for iron ore.

We did, of course, take a knock from the Japanese cut-backs. But Newman is not entirely dependent on Japan. This year we are shipping 2m. tons to B.H.P., under a contract which provides for the tonnage to increase substantially over the next few years. In addition Mt. Newman's sales to Europe are growing, being about 2m. tons this year; and already cover four major steel makers in Germany - August Thyssen, Mannesmann, Rhein Stahl and Klockner; USINOR and Chatillon in France; Cockerill and Sidmar in Belgium; as well as Italsider and the British Steel Corporation. Mt. Newman also has a contract for supply to Korea.

In Japan, the seamen's strike has turned out less disruptive than expected; and there is growing evidence that the recession in the steel industry has bottomed out. Japan is now expecting real growth of the economy this fiscal year of 9.5% against 5.5% last year. Crude steel production is now expected to grow from 89m. tons last year to between 98 and 100 million tons this year. Almost half this growth in steel demand is coming from increased government spending. Japan is diverting investment from industrial capacity to social expenditure which will open up new markets for steel; steel for new roads, bridges, housing and community facilities; for re-locating industries away from the cities; and for the provision of better surroundings for the people. Japanese long term optimism is reflected in the fact that notwithstanding the "Nixon shock", construction of several new blast furnaces is still going on and production capacity for crude steel will be in the region of 140m. tons by 1975.

After 1975 the Japanese steel industry will need more new capacity. But there will be difficulties in the way of locating that new capacity in Japan - the problem of finding suitable sites,

the environmental problems, and the shortage of labour. The prospects are growing of establishing in Australia one or more really large steelworks to export crude steel to Japan; and also to Europe and U.S.A. With B.H.P. and AMAX we are currently working on the feasibility of such a giant steelworks in Western Australia. That concept is supported by resources of technology and of materials which are very real.

Besides his responsibility for Pilbara Iron, Don Brown looks after C.S.R.'s own exploration interests in iron ore, coal and nickel. He is an executive director of Pacminex, through which we have in Western Australia 23 temporary reserves for iron ore, which we are exploring on our own account. On the coal exploration side we have recently been allotted a block of 268 square miles in the Bowen Basin. We also continue to be active in the search for nickel. (Mr. Kelman looks after the other exploration done by Pacminex, to which I return later.)

Dr. Brown also looks after our interests at C.S.R. Chemicals, which has developed a technical and marketing expertise second to none, and which is ready to take advantage of an upturn, when it comes, in presently depressed chemical prices. He looks after the distilleries, which have good expectations of increased demand for their fermentation alcohol; and the carbon dioxide business which has been growing well.

Mr. A.J. Campbell was in the Commonwealth Public Service until he left the Deputy Secretary's desk in the Department of Trade and Industry to join us in 1968. He, as deputy general manager, oversees all the sugar operations including the milling divisions, the refinery division, and the marketing and financing that we do for the Queensland Government and for Fiji. He alone of the four deputy general managers is directly concerned with sugar.

Before Jack Campbell joined us we were strong in international commodity marketing: we are even stronger now. No one is better equipped than he by training, experience and ability to identify policies to turn the challenge of the Common Market into a widening of opportunity for Australian sugar. No one is better equipped to work with governments and with others to make those policies a reality.

Looking back on our recent public statements on the prospects for Australian sugar, they seem to draw attention to difficulties seen ahead. This, I think is natural as it is C.S.R.'s job as marketer of Australia's sugar to anticipate potential difficulties and to prevent them from turning into real difficulties. There are indeed some short term unknowns; as both the United States import quotas and the International Sugar Agreement come up for renegotiation next year. But especially for the longer term, there are some more positive factors.

For many years C.S.R. has worked to diversify raw sugar outlets. This year we have sold sugar for the first time to Algeria, China, Morocco and the USSR.

Australian raw sugar has a high reputation for quality with all buyers. It is made to specifications designed for the particular markets, and the specifications are enforced as between the miller and the marketing pool by meaningful incentives and penalties.

Research and development has enabled the Australian industry to remain technically efficient and if not the world's lowest-cost producer, it is probably within the first three or four. It is certainly within the low cost field. Cost inflation is, of course, a continuing problem - but with goodwill on all sides it can be kept within bounds.

Disappointing production of cane sugar in Cuba, and of

beet sugar in the USSR and East Europe generally, have recently led the Soviet bloc to purchase large quantities of sugar from the free market. When faced with similar shortages in 1964 they decided to let their consumers go short. Whether or not the production difficulties will continue only time will tell. However, a Russian policy of maintaining supplies to consumers, if necessary by drawing on the freemarket, would be a most significant development. China has imported sugar from the free market in large quantities this year for the first time.

More generally, world sugar consumption is rising by 3% to 4% a year. Each year, additional world consumption is about equal to Australia's present total production of around 2.7m. tons. By 1980 or thereabouts the world will need an additional 20 to 25m. tons per year.

Where will this sugar come from? In the past most of the increases in world sugar demand have been supplied from domestic production or by sugar sold under special and exclusive trading arrangements. The increase in the residual world free market has been relatively small - and it is the world free market which has been the major outlet for the expansion of the Australian sugar industry in the last decade.

But there are trends which indicate that more of the increasing sugar needs of the world may have to be supplied by the large efficient producers such as Australia - by the acceleration of the rate of expansion of the world free market and perhaps in the longer term, by Australian participation in new special arrangements.

Many developing countries would like to grow more cane sugar but find difficulty in organising it. In quite a few tropical countries production is actually decreasing. For example, in the Caribbean there is the paradox of rapidly increasing wages, high unemployment, a shortage of labour for agriculture, associated with statutory restrictions on mechanisation. Faced with these problems there is a great incentive to the Caribbean farmer to sell his land for resort development. In Hawaii also, cane land is in high demand for resort use. In Taiwan there is a shortage of land and pressure to use cane fields for other crops. The beet industries of Europe and North America are traditionally high cost producers. In the short term they may be stimulated to increase production somewhat for protected markets; but their ability to supply the free market in the longer term is limited.

These are just a few pointers to the considerable structural change which may now be taking place in the world sugar business. In this fluid situation there are not only dangers to be overcome, but also opportunities to exploit. Taking the long view, and looking past the uncertainties centred around the mid-1970's, the structural change is much more likely than not to open up opportunities for Australian sugar.

C.S.R. is the leading sugar miller in Australia. Our seven mills produce one fifth of the total. We intend at least to hold our place as the industry grows. Meanwhile we are investing plenty of money in our mills on cost reduction.

Our refined sugar business generates sales and earnings which are stable and reliable.

Mr. Campbell looks after our relationship with the Fiji Government to whom C.S.R. has sold its shares in South Pacific Sugar Mills for delivery at the end of March next year. After that, we continue to provide management and marketing services.

He also oversees the development of new enterprises in the food field. We have 1,000 acres of orchards coming into bearing within the next few years from which we will be marketing

premium quality macadamia nuts. We have a new product called Anticay which, when added to foods, helps to reduce the incidence of tooth decay, one of the most prevalent diseases of mankind. Anticay will be on the market next year in Australia; it is being tested under licence in the United States, and we are negotiating to licence it for use in Japan.

Mr. Kelman joined us in 1966. He trained as a civil engineer and, after a short time in contracting, joined the ready mixed concrete business in 1950. He started the activities of R.M.C. (U.K.) Limited in 1951 and returned to Australia the following year to start up R.M.C. (W.A.) Limited. In 1955 he went back to the U.K. as General Manager, became Managing Director of the U.K. company five years later, and Chairman and Managing Director in 1964 when it separated entirely from the Australian company. When he left it in 1966, the U.K. company was the largest producer of ready mixed concrete in the world.

Bryan Kelman oversees all C.S.R.'s interests in concrete and quarrying, the operations and projects in bauxite and alumina, and the general mineral exploration effort. He also looks after the central engineering service. He has some very exciting areas to deal with.

Ready mixed concrete has been a vigorous growth industry, due both to increased use of concrete and to concrete in ready mixed form capturing at a rapid rate a larger share of the concrete market. As market penetration is achieved it is to be expected that future growth rates will be lower and will tend to follow trends in building and construction. Even so, the ready mixed market in Australia is currently growing by about 1 million cubic yards per year or around 7%.

We have been sufficiently confident about prospects for the readymix industry in Australia to forge closer links with Farley and Lewers Limited (now 43% C.S.R.) and Hymix Australia Pty. Limited (25%) in addition to our half interest in R.M.C. Limited - the largest quarry operator and readymix concrete producer in Australia.

Outside Australia R.M.C. has tin dredging interests in Malaya; and with B.M.I. and R.M.C., C.S.R. is working on the feasibility of a joint venture with local partners for tin operation in Indonesia. With B.M.I., we are also participating in a ready mixed concrete venture in Djakarta.

Our subsidiary, Gove Alumina, the Australian venturer in the Gove Project in which it has a 30% interest, made its first profit from bauxite shipments last year, and is now shipping alumina. Construction of the second line of the 1m. t.p.a. alumina plant at Gove is scheduled for completion in the middle of next year. All our alumina has been sold under long term contract.

In North America there are indications that the depressed aluminium industry is starting to recover, and some potlines which were closed down are being reactivated. It takes about three years to build an alumina plant. So although world production capacity for aluminium and alumina is still in excess of demand, it is quite realistic to be working now on plans for additional capacity.

Gove Alumina has the right to at least half of any expansion at Gove, where a third line of 500,000 t.p.a. is already under preliminary planning. Gove Alumina is also working on a minority participation in an alumina plant in Japan.

Since the collapse of the mining boom we have been taking the opportunity to build up the number and quality of the staff in our exploration subsidiary. Pacminex now has 55 professionally qualified staff and its total staff is nearly 100. It is organised to analyse opportunities as well as to carry out its own exploration

programme. With that staff, ample funding and with Mr. Kelman behind it, we have high hopes for Pacminex in the future.

Mr. King, like Dr. Brown and myself, has spent all his career in C.S.R. He started as an apprentice, graduated in mechanical and electrical engineering, and spent 29 years developing our building material activities. He, as deputy general manager, oversees all the building materials operations of the group and its associated companies. He also looks after the industrial relations function, and the group's central research and development effort.

We make a range of building materials for the internal and external lining and finishing of buildings. Their use is well spread between housing and commercial or industrial buildings. So in almost any kind of building construction work, there are opportunities for the use of our materials.

The Australian building industry spends annually about \$3,000 m. of which about half is for materials. The rate of growth of value of building activity in Australia has averaged 11% per annum for the past 10 years. We can see ample opportunity for growth to continue in future. With Mr. King starting up a new factory every year or two, the Building Materials Division is a strong growth area.

We own half of a small but rapidly growing operation in Sydney which is impressively successful at roll-forming the metal fittings for suspended board ceilings. It already has a plant under construction in Japan in partnership with Japanese interests. Outside Australia, Malcolm King also looks after C.S.R.'s investment in the aggressive Fletcher Holdings Limited of New Zealand.

On the corporate R. & D. front, Malcolm King is overseeing a portfolio of research and development studies of growth industries in which we are not at present engaged; as well as studies whose aim is to increase the efficiency and reduce the cost of existing operations.

My own experience has been mainly in marketing and finance. The general manager is first among equals in the chief executive office, having ultimate accountability for what is done - or not done. He is the link between management and the non-executive directors who are a majority of our board. I personally take the lead in strategic planning (which we are now placing on a formal basis) and our newly appointed planning officer reports to me. The heads of finance and shareholder relations report to me. They have under review at present the content of our reporting and disclosure to shareholders, and our accounting methods. The head of staff administration also reports to me.

Our predecessors in C.S.R.'s general management all retired last June, but will spend most of their time in the next year as consultants to the new management. This is an important strength for us. The next few years will be a period of great change in the society of which we are part. Because we want C.S.R. to grow and prosper, we must be responsive to that change; to some extent anticipate it, and perhaps in some respects, even lead it. So we expect a great deal of change in C.S.R. in the next few years; but it will be ordered change; change to a plan. In bringing about change, the new management has the encouragement and support of every member of the Board.

For our planning we have a vision of the kind of company we want to be - essentially Australian owned and controlled, as now; operating mainly in Australia but with increasing operations in other Pacific Basin countries.

We want to produce goods and services of quality that are inherently useful to our customers, and to the community.

We want to move with the spirit of the times, and contribute to the changing objectives and values of our society; to justify our place in that society, and to serve it.

We aspire in all things to competence and efficiency, and wherever possible excellence.

We are committed to private enterprise because it does the most for the most people; and we will continue to work closely with governments where it is appropriate.

We expect life to be exciting, and not too comfortable; and that there will be some real satisfaction from our work for all in the company; and real and increasing rewards for our shareholders.

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REVIEWS AND NOTICES

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WHAT DO ECONOMISTS KNOW?

By B. Higgins (Melbourne University Press) 1951

Written almost a generation ago and well received at the time, a re-reading of this book is a humbling exercise. It gave a confident answer to the question posed in its first chapter -

"Inflation and depression are economic phenomena; social strife, revolutions, and wars, while not uniquely economic in their causation, usually have some economic basis. If fear of these monsters is to be exorcised by scientists, the task must fall largely to economists. It is therefore highly pertinent to present problems to ask, 'What do economists know?' Do they know enough to prevent depression and inflation, to diminish the degree of social conflict, and reduce the danger of revolution and war?"

Laws are quoted as if they exemplified immutable relationships, and in these days of stagflation (a high rate of inflation with unemployment) it is not helpful to be told that one particular law tells us that -

".....inflation can be checked, but only in a limited number of ways; by restricting private investment and encouraging savings; reducing government expenditures and raising taxes; reducing exports and increasing imports. It also tells us that unemployment can be cured by the reverse policies, and only by those policies."

Certainly the author regards the avoidance of inflation as a pre-requisite to the achievement of other economic goals - full employment, optimum distribution of resources, optimum rate of economic expansion, and optimum distribution of income. Listing the disadvantages of inflation he concludes -

"Finally, inflation has hitherto always ended in crisis and depression; the aftermath of inflation is unemployment." But just how would he apply his economic "laws" today?

The categorical statement is made that if "full employment exists (less than three per cent unemployment), and at the same prices are rising, total spending should be decreased to