THE MINERAL EXPLORATION CRISIS IN AUSTRALIA

By Dr. A.T. Griffis, Toronto, Canada

(Dr. Griffis is President of Watts, Griffis & Mc Ouat and recently visited Australia in connection with his firm's activities as consulting geologists and mining engineers. He gave this address to a luncheon meeting of the Institute in Sydney on 10 May, 1973.)

Mr. Chairman and members of the Securities Institute of Australia, I would like to thank you for inviting me to speak to you today and to acknowledge your introduction.

We are consulting geologists and mining engineers and have been offering our services in Australia since 1965. In that time fabulous developments have taken place here. I'm not going to review those developments and I'll try not to stray from my theme - that there is a crisis in mineral exploration in Australia.

Some of us are foreigners who have been working here in mineral development. We are as concerned as any Australian that mining should flourish and contribute its full share to the economy of the country. We agree that Australia should insist on control of its industry and of its resources. We acknowledge, as do most Australian miners, that in the past there was sometimes little or no concern for the environment, and not enough concern for individual well-being. So we are in agreement or in sympathy with some things now underway in Australia, but not with everything, and I would like to give you my view on some of the current concerns.

Mineral production has risen sharply in the past few years. In fact, just a few years ago wool production was more important to Australia than mining. But in the past several years there has been a 10% annual increase in the value of minerals and metals production. Mining now accounts for about 4% of the GNP and 25% of the value of exports.

Australia was for generations inward looking. At that time Government took the view that the country should conserve its mineral resources for its own future needs. It wasn't until this policy was changed and export markets became possible that mining, on a major scale, of iron ores, bauxite and coal could be considered.

The development of those great resources sparked the mineral exploration boom and attracted the attention of both the Australian public and foreign mining companies. As a result, exploration spending increased rapidly to a peak in 1971. Since then it has fallen disastrously and is now little more than 1/3 of what it was. In the year ending June 30, 1971, a total of $160 millions was spent. Last year it was about $100 million and this year will be somewhere between $60 and $70 million. Next year it will almost certainly go down, perhaps well below $50 million.

There were several reasons for the drop from the peak - none having much to do directly with government. Some explorers rush in wherever the action is and are quickly disillusioned, if they don't quickly find a mine.

And Australia was where the action was in 1970 and '71. But then there was a general business recession and a dropping off in metal demands, particularly in Japanese markets. More importantly, there were serious scandals involving several Australian mining companies. These resulted in panic selling in a mining share market that had been grossly over-valued in any case. Consequently there is now little public interest in underwriting mineral exploration. Given time, and firm evidence that stock manipulation would be severely punished, this situation would I'm sure reverse itself. Action should be taken by various bodies, including government, to do as much as possible to prevent recurrence of these scandals. But in whatever measures are taken everything should be done to encourage public investment in minerals or petroleum exploration.

Now, however, the government has abruptly cancelled the greatest incentive the man on the street had for investing or risking his money in mineral exploration. They have done so, we are told, because the privilege of deducting the cost of share purchases or rights on shares (in certain cases) from taxable income has been abused. Furthermore it is an inefficient way to encourage investment and has cost the government $250 million dollars on the minerals side only. I wonder if the Hon. Minister has credited against this cost the extra income taxes collected from the unhappy citizens who had their trading profits taxed as income? Has he also credited the employment and the taxes that result from a success - and several have resulted from exploration efforts using funds raised in part through incentives.

There have been abuses of these privileges - and these should certainly be corrected. But in my view, you should encourage Australians to participate in high risk ventures whether mining or otherwise. Furthermore, capital gains from these should not be taxed as income. In fairness though, by giving a tax concession, the government is taking part of the cost of the risk and the lucky winners should pay some tax - but surely at a reduced rate. In Canada we are just beginning to tax capital gains - but at ½ the marginal rate of the tax payer, up to a maximum of 30%. This means a low capital gains tax for those with low incomes but not more than 30% for everyone. One criticism of the Canadian scheme is that no allowance is made for inflation. One of the constant criticisms we've been getting here is that at present the taxing of trading profits is not carried out uniformly or fairly. Almost certainly a broader interpretation of capital gains (or a narrower one of trading profits) and some reasonably low tax on capital gains would be acceptable.

I have said that the exploration boom is about 1/3 of what it was and is headed to an even lower level of activity. If you aren't exploring now it means that in a few years there will be fewer mines at the planning stage, a year or so later fewer in the construction stage and finally, loss of production. We have been told that a reasonable annual expenditure in mineral exploration would be $100 million, and that Australian sources could provide half of this amount. With this most recent announcement by the government if now seems clear that the government itself must put up a part, and perhaps a large part, of the money that will be needed for exploration, if foreign participation is not possible. On the other hand there are large pools of capital available in insurance funds and a small fraction of these, under incentive, could be used for exploration.

Currency revaluation has hurt and seriously hurt incomes of Australian mining companies that sell into world markets. The price for their product - iron ore, base metals or asbestos - is determined in the international market place - not in any one country nor by any government decree. In the past year the upward revaluation of the Australian dollar and two devaluations of the American dollar mean that some commodities now sell in Australian dollars for 21% less than they did a year ago.

Australian exports will for a very long time tend to be unfinished products that are priced in international terms in the international market. For this reason I would hope that Australian currency will be devaluated or will be permitted to float downward. This would help not only mining but forestry and agriculture as well.

It's true that some prices have turned upward. But so have costs - both for producing mineral products and for their refining. As an example, the high cost of pollution controls in smelting has resulted in very great increases in smelting and refining charges that pretty well cancel out recent price increases. A few years ago we paid about $40. U.S. per ton for smelting and refining zinc - now we pay more than $100.

The federal government has imposed controls on exports of all sorts. This was done, I understand, in part anyway to ensure that Australian coal was sold abroad at a fair price. I'm sure that any company, whether foreign or Australian, tries to get the best price possible for its product - except where the product is sold to a controlled corporation. In this latter case, protection is needed and safeguards should be built into export regulations.

Export licensing can be used to keep exports at a level that will not endanger domestic requirements. Here it would seem there have not been sufficient studies to determine Australian needs. These studies can best be done by government and industry working together. It would be a great mistake to retreat to the position of 30 years ago - that Australia needs its own raw materials or that all these raw materials should be processed in Australia and exported as finished product. Uncontrolled exports, on the other hand, would be foolish.

At the present time export licenses are granted on a shipment by shipment basis. This is a minor irritant - to both industry and to those administering the regulations - and surely this licensing could be done on an annual basis.

There is no doubt that Australia has had a tremendous inflow of capital and something had to be done to control it. We have seen that one thing - currency revaluation - has had some pretty serious side effects. Other currency regulations are also having dangerous side effects.

As you know, foreign corporations bringing funds to Australia for mineral or petroleum are now required to deposit 25% of those funds with the government for 2 years as an interest free loan. There are evidently ways for large corporations to avoid or evade this requirement - but I'm sure many companies have complied or have decided to go somewhere else. If that was the purpose, it has succeeded. In those cases where money is brought in it will mean a smaller, less effective exploration programme. It will mean less hiring - or in some cases, cutting back in staff, almost surely Australian staff.

Regulations now state a corporation is considered to be foreign controlled if 15% or more of its shareholdings are held abroad by one company. In many other countries a corporation is foreign controlled if 51% of its stock is owned by foreigners - and there is a growing opinion that 51% of ownership should be nationally held. I would like to see more exchange of views on this sugject by those who are knowledgeable - particularly if there are to be punitive regulations applied to foreign controlled corporations or to earnings from these corporations. It is interesting to note in passing that the United States is considering cancellation of the 15% withholding tax on dividends to foreign shareholders - it would be nice if Canada and Australia would do so also.

It is the intention of the Australian government to go into minerals and petroleum exploration through its newly created Minerals and Energy Authority. This is a step that should be taken with caution - and we can easily look to Canada for helpful hints.

In Canada today 3 of our 10 provincial governments are New Democratic party (Labor) and the N.D.P. currently hold the balance of power in Ottawa, even though they hold only 30 odd seats of 265. In British Columbia the N.D.P. had big plans for mining and timber. So far few have been implemented - although the government has just bought one paper plant that was being shut down because it had become obsolete. Some paper men are pleased at this purchase - it will give Labor people a chance to grapple with an operation from the owner's side. In Saskatchewan the N.D.P. in power has become strangely like its predecessors - the game isn't the same when you are the one responsible. Next door in Manatoba a report has been submitted to the government to nationalize all mining. Since the government owns the mineral resources they'd be taking over operations and so far they've not indicated they'd be willing to buy these and if so on what basis. I think they're now beginning to wonder why, on any basis.

The Federal government is involved in two interesting corporations. One, the Canada Development Corporation, has been set up independently of government (!) with its own board of directors and an initial $250 million of tax payers money. The C.D.C. has been told it may purchase other crown corporations if it wishes, but its entire aim is to put money into developing Canada. So far - in $1\frac{1}{2}$ years - it has taken over a few existing corporations but is a long way from becoming in the slightest degree actively engaged in developing Canada. Its approach to date has been that of a banker, and a rather amateur banker at that.

The second company is Panarctic - a consortium of companies - Canadian and American - with the government as a 45% partner. The control is Canadian in that 68% of ownership is Canadian controlled. The express purpose is to explore for oil and natural gas in the Canadian Arctic. This company is managed and staffed by professional oil men who know the far north and they are succeeding admirably in their job. The government's investment in its 45% ownership is geared directly in Panarctic and still further by farm-out arrangements, and syndicate agreements with the large American oil corporations. Consequently for every dollar the government is spending, others are spending 3 or 4 dollars. We expect this company will at least be successful in proving reserves of natural gas that will warrant the several billions of dollars for a pipe line to the south.

I hope your Australian Authority will model itself after the Panarctic example. But will it? It is already clear its policies will be promulgated by the Minister for Minerals & Energy and that it will be managed by men with no previous knowledge of minerals or petroleum.

In the past few weeks we have talked to many people from Sydney to Perth, all interested in Australian mineral exploration one way or another. From all I have been told or have read there is a real crisis in mineral exploration in this country.

In summary, expenditures have dropped far below the peak year of 1971. This year the rate of exploration might not be at a level sufficient to sustain present mineral production long-term and next year almost surely the rate will be lower.

There is now no incentive for the Australian to participate in exploration and foreign companies are being encouraged to stay out.

Furthermore Australian mining companies seem to have been singled out for discriminatory action whether large or small, foreign owned or Australian.

As one result there is little real dialogue between industry and the Federal government.

No one is advocating a return to the "good old days" but surely both sides should be getting together and freely exchanging views in a co-operative spirit. In this way the government may eventually be persuaded that some of its policies need modification and will make changes that will benefit the industry and the country.

THE PRICES JUSTIFICATION TRIBUNAL: WHAT'S IN STORE FOR INVESTORS?

By N.E. Renton, Melbourne

(This address was given by Mr. Renton, the Federal President of the Society, on 17 May, 73 to a meeting of the Victorian Branch of the Australian Shareholders' Association.)

Last week the Federal Government introduced a Bill to establish its promised Prices Justification Tribunal. Investors are now wondering how they will be affected by this new legislation.

We are all consumers, and as such we are keen to see goods and services as cheap as possible. But domestic prices which are set too low as a result of official measures can rebound on consumers. Such prices may lead manufacturers to cease production of certain goods if a profit cannot be made.

In the long run, prices which are unrealistically low will result in the cessation of further capital investment.

These factors will eventually lead to shortages of goods locally, and to imports at higher prices than would have applied in the absence of official pressures. In addition, employment opportunities within Australia will be reduced.

Naturally, these adverse features - all of which have multiplier effects - take some time to become obvious. The time span between a decision not to expand plant capacity and the development of shortages may be a matter of some years.

In addition, the expectation that a Prices Justification