equals real value". In a number of instances the potential reserves need to be outrageously high or the risks very low in order to get a value approaching the "farmout" value. The farmin should not be proceeded with.

The purpose of our modern geophysical, geochemical and geological exploration techniques is in the end to "contour the basin in dollars". By applying rational techniques geologists and analysts can come close to doing this.

THE FUTURE FOR INVESTMENT IN MINERALS

by

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1983/84 was another bleak year for Australia's minerals industry. Economic recovery did continue in most countries, but was heavily biased towards growth in the services sectors; real interest rates increased, international markets became more competitive and most metal and mineral prices faltered or fell.

The financial consequences of this uncertain economic environment for Australia's minerals industry are shown in the "Minerals Industry Survey 1984" conducted for the Australian Mining Industry Council by Chartered Accountants Coopers & Lybrand. The survey shows that while net profit for the industry increased in dollar terms from $381 million in 1982/83 to $461 million this year, this profit represented only a meagre 4.4 per cent return on average shareholders' funds.

On any measure of profitability — effective after tax return on average funds employed, effective after tax return on average assets — a profit of only $461 million is well below that which could be earned, *after tax*, on virtually risk free investments such as 10 year Commonwealth Bonds.

However, the aggregate data presented by the survey disguises the industry's patchy profit performance. Of the 150 companies responding to the 1984 survey 52 exploration and mining companies and 7 smelting and refining companies reported losses of $358 million. In the coal sector of the industry, which reported a net profit of $217 million last year compared with $193 million in 1983/84, 17 companies recorded losses totalling $100 million.

The survey shows the underlying reasons for the industry's poor performance in 1983/84, with the growth in costs paid continuing to outstrip the growth in prices received. Major areas of cost growth are in the industry's interest payments, and payments to governments for the use of services such as railways and ports.

Analysis of the industry's total revenue shows that in 1983/84 more than $2,400 million or 23 cents in every dollar of revenue was paid to governments in one form or another. This compares with $461 million, or 4.2 cents per revenue dollar, of net profit.

1983/84 was the third consecutive year of poor profitability, and with the first half of 1984/85 completed, there is little evidence to suggest that there will be a substantial improvement this year. This is taking its toll on future investment plans. Expenditure on fixed assets in 1983/84, at $2,049 million, was down almost $1,000 million in 1982/83. Survey respondents have forecast a further decline of 11 per cent to $1,824 million in 1984/85.

Looking to longer term sources of investment return, the mining industry has also drastically reduced its commitment to exploration with forecast expenditure in 1984/85 40 per cent below the amount spent in 1981/82, even *before* accounting for inflation.

In summary, while recent expansion in the industry's asset base holds the potential for future investment benefits, Australia's cost structure and high level of taxes means that the Australian minerals industry must await a more substantial recovery than is the case for other lower cost and lower taxed international competitors.