

AUSTRALIA'S NATIONAL RESOURCES

The First Six Months

under the Liberal-National Country Party Government

An address by the Acting Prime Minister,
Minister for National Resources and Overseas Trade,
and Leader of the National Country Party of Australia,

RT. HON. J. D. ANTHONY

to the Broken Hill Branch of

THE AUSTRALASIAN INSTITUTE OF MINING AND METALLURGY

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That I am here tonight talking with mining people is in itself evidence of the fact that there is a new attitude by government to your industry.

The Government elected last December believes in and strongly supports free enterprise. We think that the people who produce things and market them are in the best position to make the choices, the decisions, the judgements about their own affairs. At the same time, we believe that a national government has a duty to look to the national interest. It has a duty to see that the nation's resources are used and developed in ways that do not run against that national interest. And certainly this Government has a firm commitment to encourage, to stimulate, to work with the private sector -- with those great mining organisations, for example, which are of such significance to the national economy, and therefore to the lives of every Australian. I hope that what I go on to say to you will show that these are not just words, but a fair statement of our attitude to your industry, of our actions and of our intentions.

The first six months

It is now six months since the Government was elected. In every field of business endeavour in Australia, I was aware of the strongest expectation that the new Government would get things moving. There was also our belief that the stresses and uncertainties which characterised the previous Government's relations with the mining industry would disappear; that the affronts to our valued overseas customers and potential investors would cease; that the near-vendettas which had been waged against individual companies or sectors of industry would become a thing of the past.

Tonight I want to review progress in the minerals and energy areas in our first six months of office; to outline the steps the Government has taken to create an environment which will provide the positive encouragement that industry is entitled to expect from our Government. In those areas where expectations have not been realised - and there are such areas - I want you to understand why. I also want to explain why action has had to be delayed in some areas - delay which certainly is not going to be indefinite.

For three years under the previous Government not one major new project was commissioned, although the Australian Mining Industry Council indicated that no fewer than 40 major projects were ready to proceed with a total investment of \$8,000 million at 1974 prices.

Could I mention the action the new Government has taken to help advance this much-needed development?

We have given the go-ahead to three major coal projects in Queensland - Hail Creek, Nebo and Norwich Park - with a production potential of 14 million tonnes a year. The Government satisfied itself, through my visit to Japan in February, that there was a reasonable expectation of a market

in Japan for this quantity of coal. We approved certain aspects of contracts that had been in limbo. And we arrived at equity arrangements - different for each project - which provide adequate local participation but do not inhibit development. I will say more on that point later. So these arrangements have all been concluded and there is no roadblock at the Commonwealth level to these projects proceeding. These three projects alone will involve capital investment estimated at \$1500 million at today's prices.

Inevitably there is a lag in all major developments between the settlement of the basic framework and the construction stage. In the case of Hail Creek, for example, the next step - and one now currently proceeding - is a detailed feasibility study costing over \$4 million and extending over the next 15 months. This is probably not unrepresentative, and I underline this fact: if a company is to embark on a project involving hundreds of millions of dollars, then despite its determination, or its customers' determination, or the Government's determination to see development, there is always a considerable lead time and massive feasibility studies before contracts can be actually placed.

The roads, railways, houses, rolling stock, port and mining equipment, and all the flow-through benefits into the entire economy that every Australian wishes to see, just cannot materialise overnight. And bear this in mind: when many of the final decisions are being made next year as to whether the project can proceed, what has happened in the meantime to Australia's competitive position in the world market will exert a major influence.

On iron ore, again we have moved swiftly to ensure that much-delayed development can occur. Australian companies are actively negotiating with the Japanese on the following West Australian projects:

- . Expansion and beneficiation of Hamersley - an additional 7 million tonnes a year.
- . Expansion of Robe River - an additional 4 million tonnes a year (with a reduced Australian equity approved by the Government so the development can proceed).
- . The development (and I mention them in alphabetical order) of the new projects of Area C, Deepdale and Marandoo involving in all a planned initial production of about 50 million tonnes a year, and of course Mt. Newman has expansion plans also.

These projects combined would involve a total expenditure of \$1800 million. It is expected that export contracts for some of them will be forthcoming from the Japanese mills this year. I would explain that the Government is not setting any priorities as between individual projects, recognising that this is properly a matter for commercial negotiation. This is an example of how private enterprise decisions are encouraged and respected by the Government. I stressed to

the Japanese in February that Australia is an efficient and stable supplier, and has the advantage of geographic proximity. I said they should consider the economic advantages of increasing the proportion of iron ore requirements taken from Australia. As with coal, of course, the new iron ore projects will involve a considerable lead time.

For both the iron ore and the coal projects, the Government's decision to introduce a 40% initial investment allowance has been of assistance in making these projects more attractive relative to those of our major competitors.

In contrast to the attitude of the last Government, I have stated repeatedly that the new Government will allow the limited export of natural gas to assist development of the North-West Shelf. Proposals for development have now been received from the North-West Shelf Joint Venture and are being examined as speedily as possible by both the West Australian and Commonwealth Governments. Amongst other things, it will be necessary to examine the proposed level of exports against Australia's own reasonable future requirements for natural gas. Up-dated information is being studied, but I am satisfied that, if we are competitive Japan could be ready for us to supply a proportion of her uncommitted requirements from the early eighties.

A lengthy lead time is involved for development. The company is speaking of further evaluation work with a subsequent total expenditure - if the findings are favourable - of the order of \$2000 million. The company says that, under ideal circumstances, construction could start with the objective of gas coming on stream in early 1983. But I expect benefits to Western Australia and the rest of the nation by way of increased activity would be experienced well before then.

The Government has also acted on other projects. It has approved the overseas investment aspects of the Jododex project outside Goulburn, NSW, while an expenditure programme on the Agnew Nickel project in Western Australia has been announced. The Milmerran coal project in Queensland is also the subject of renewed activity, although the previous Government had not permitted overseas investment in this area.

In the area of our traditional base metals, some companies have suffered from lower demand and lower prices caused by the world recession at a time when the costs of operation have been rapidly increasing. The resultant low returns have been to the detriment of some townships, the companies themselves and the workers who rely on them.

These hardships, though not universal, have been very real to those concerned. They are still being suffered. Nothing short of a significant upturn in world economic activity is likely to correct the situation. In the meantime, it is obvious that the companies involved in this situation cannot be expected to generate significant impetus for fresh development.

Moves to stimulate oil search

The search for oil in Australia is at its lowest level for more than a decade. In 1972, 100 wells were drilled in this country. In 1975 there were 23. This has been brought about by

the combination of a number of factors including lack of prospectivity, the lack of significant successes for a number of years, the active discouragement of private exploration by the previous Government and by the fact that new discoveries would be rewarded only at the level of existing production - that is, \$2.08 to \$2.23 per barrel, or about one quarter of the present world price - despite, in recent years, both the oil crisis and a continuing high rate of inflation.

The price of new discoveries of oil is now related to import parity - the only sensible basis on which it can be set in today's circumstances. And the Government has also given attention to the price of oil in reservoirs already discovered, generally known as "old oil". Although some increases were granted by the previous Government in late 1975, it is questionable whether they are sufficient to bring about the maximum possible recovery of oil in known pools. There is also the related question of the need to encourage those companies which have already proved themselves successful explorers to expand their exploration effort or, at least, to maintain it at the existing level.

Accordingly, the Government has instituted an independent inquiry by the Industries Assistance Commission. This will recommend an appropriate price for known oil from both the fields now producing oil and those discovered but awaiting exploitation. The Government has asked for the report to be completed by the end of September.

I am confident that the Government's approach to the oil pricing question is fair, and will provide a much-needed stimulus to the oil exploration industry. Already we have confirmed that all offshore petroleum titles granted by the States in recent years have the full recognition of the Commonwealth in the context of Commonwealth legislation. I am acutely aware that this most depressed of industries is, however, slow in showing real signs of recovery.

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The most sensitive, the most difficult, the most important single issue in the area of national resources is that of uranium. There is currently proceeding a major Inquiry under the Environment Protection (Impact of Proposals) Act - the Ranger or Fox Inquiry - and it would be wrong to canvass uranium issues in depth until the report of that Commission has been received and considered by the Government.

I merely want to say this: for over two years any meaningful activity in this area ceased while the planners pondered. In the meantime, largely because of the world energy crisis, the price of uranium has increased from around \$6 or \$7 US per lb. to around \$40 US per lb. One of the very few companies with courage to undertake a proving programme doubled its reserves in this period. The current Australian reserves position of about 400,000 short tons must therefore be regarded as conservative indeed.

Should large-scale mining and export of uranium proceed, then even on conservative assumptions, an export income of around \$1000 million per year at current money values can be envisaged. Some would put the figure higher. If uranium enrichment should prove possible and economically attractive,

the figure could easily double. The uranium industry has the potential to contribute to the Australian economy on a scale which probably exceeds that of any other single development.

Two forecasts are often put forward: firstly, that by the year 2000 about half of the western world's electrical generating capacity will be accounted for by nuclear power; secondly, that early in the next century, fusion or other technology will have advanced to the stage where the demand for uranium will be relatively insignificant.

Were it not the unique material that it is, the obvious commercial approach would be to develop and export uranium while the market for it lasts. But uranium is not solely a commercial issue - although I know some would like to think it so. The Government has indicated that it will not take final policy decisions regarding future uranium development until it has received and considered the report of the Inquiry.

I emphasise again that we are dealing with something of enormous potential economic benefit to Australia and an area of major interest to our trading partners. It involves a commodity of such sensitivity as to be without parallel. The issues demand that any action by the Government be considered action; that it be action which can be explained fully to all sectors of the community; that it have proper regard to any well-founded concerns or requirements. This is not a matter which can be approached on any basis other than calm, considered judgements, and we are determined that this will happen.

Priorities must be put in order

That brings me to the end of our quick review of some particular areas. But there are some matters of fundamental importance which concern the whole minerals and energy sector. There are things such as incentives to capital investment; the effectiveness of the mining taxation system in Australia which was so drastically altered under the previous Government; the ability to generate and attract risk capital; the need to revitalise exploration in every sphere of mining and drilling activity; the need to work with industry and State Governments to consciously seek out and, whenever possible, remove obstacles to future development.

These are some of the broad areas where the mining industry has every right to expect understanding and direction from this Government.

But clearly a specific incentive or series of incentives to the mining industry is not going to achieve any worthwhile long-term result if our rate of inflation continues to rear above that of the rest of the developed world. Unless inflation is contained, it will quickly consume any advantage received by any particular sector of the Australian community.

Control of inflation has to be the first task of a responsible Government today. I make no apologies for this emphasis. I have been personally involved over many weeks in the most vigorous and rigorous process of screening and pruning of expenditures that has ever been undertaken during all the years that I have been involved in government.

We must reduce the deficit, so we had to reduce spending in the public sector. We must get Australia's house in order before we can work from a base of greater economic stability towards the more positive things we should be doing and want to do. If we do not first establish this stable base, we will only be sabotaging our own future efforts. I say this to make clear to you the difficulties the Government faces in introducing quickly new measures to stimulate and encourage the mining industry.

Could I now mention some other areas in which the Government has been active? In line with its political philosophy, the Government has taken decisions to divest the Commonwealth's interests in Mary Kathleen Uranium, Cooper Basin, the Wambo Coal Project and uranium exploration in the Ngalia Basin. Uranium prospecting in the Northern Territory will return to private enterprise. Previously the Atomic Energy Commission had been given a monopoly. We have been unable - perhaps not unexpectedly - to find a buyer for the Moomba-Sydney natural gas pipeline, but I have set in train a study for the restructuring of the Pipeline Authority.

With the States, we have established the Australian Minerals and Energy Council, to replace the Australian Minerals Council. This Council will bring Commonwealth and State ministers together to consult on the nation's energy needs, resources and policies, as well as on matters affecting the minerals industry.

We have introduced, as I mentioned earlier, an investment allowance.

And we have announced, and are implementing, our policy on foreign investment in Australia. There have been comments recently on this matter which point to a misunderstanding of the true position. There should be no misunderstanding.

The guidelines for foreign investment are quite clear. They have been introduced to give Australians encouragement and opportunity to participate in Australia's development. They will not hinder or delay new projects if those projects are in Australia's interests. The guidelines, as made clear by Mr. Lynch when he first announced them on April 1 this year, and as emphasised by both the Treasurer and myself since, and by the Prime Minister in his statements in Japan, are not rigid and inflexible.

We want, as a general rule, to see at least 50% Australian equity in new mining projects - 75% in the case of uranium. But we have made it quite clear that if foreign companies genuinely try to secure 50% Australian involvement in projects other than uranium but are unable to do so, then we will not see worthwhile development held up. A lower level of Australian equity will not necessarily prevent a project from proceeding. Of course, in such circumstances we would seek, as appropriate, satisfactory arrangements for Australian equity to be increased to at least 50% at a later stage.

There has never been any suggestion that the Government will apply the guidelines in a doctrinaire way. We were elected on a policy which included foreign investment guidelines. I am certain that the Australian people do not want to see an "open slather" policy on foreign ownership of Australia's resources. The policy we have announced, and the method of its implementation, will give Australians encouragement to participate in the development of their country's resources, but that development will not be hindered.

I have said in the Parliament that the question of the \$6 per tonne coal export levy will be considered in the Budget context. I have asked my Department, in co-operation with the coal industry, to undertake a full analysis of the effects of the levy on existing and projected coal operations.

The sharp rise in the price of foreign crude oils caused a great increase in the cost of L.P.G. and naptha. In order to mitigate this effect, I recently decided that L.P.G. and naptha used for production of gas and nitrogenous fertilisers should in future be included amongst the products qualifying for an allocation of indigenous crude oil. By so doing their price will in future be related to the price of Australian crudes, with beneficial effects for many authorities producing town gas, and for fertiliser production.

In 1973 the mining industry lost many of the special features of the taxation system which for many years had operated in a way that was meant to reflect the reality that a finite resource industry like mining is different from the manufacturing or rural industries. We will shortly be considering the report from the Industries Assistance Commission on the effects of taxation and royalty measures on the Australian petroleum and mining industries. It would be inappropriate to comment further at this stage - other than to say that the fundamental importance to the mining and petroleum industries of the issues involved is well appreciated in government.

Communication channels open again

One of the satisfying things about my role to date has been the direct and continuous communication with the industry. This is normal, and when things return to normal, rarely is attention attracted to it. However, it is a factor to which I attach a great deal of importance. My Government - any Government - is only effective to the extent that its departmental officers can advise from an informed position. To be informed, departmental officers must have a rapport with industry which can only come from frequent discussions in an atmosphere of mutual co-operation.

Since we came into office last December, I have taken steps to re-open the communication pipelines with industry organisations and individual companies and I propose to extend this. My department must discuss problems and developments with industry, and priority will be given to such discussions. To engender this co-operation with industry, my department will be seeking out opportunities to talk to company representatives in their own environment. I know I can anticipate a favourable industry response as this can only be to our mutual advantage in the long run.

Government has been put into practice is the stance taken by the Government in negotiations which have taken place in recent months. Let me remind you that in the last few months Australian iron ore producers have concluded major negotiations for ore prices in Japan and Europe. Important sectors of the Australian coal industry have completed their negotiations in Japan and the remaining negotiations are proceeding.

Unlike previous occasions when price-setting negotiations were involved, the iron ore producers, when reporting the outcome of their negotiations to the Government, were NOT ordered back to Japan to do better. Unlike the last occasion, the coal exporters did not find a Commonwealth minister in Tokyo himself negotiating the export price for Australian coal - and incidently, in the view of the Australian producers, making a mess of it.

Rather, the processes of commercial negotiations between responsible Australian companies and their commercial counterparts overseas have now resulted in deals which were, in the view of those Australian negotiators, the best that could be obtained. That view is respected by the Australian Government. In a commonsense and co-operative way, the companies and the Government discussed the issues before the negotiations took place. These two negotiations involving our major export minerals heralded a change of style and an increase in meaningful communication between government and industry. This change will permit the Australian Government to understand and help complement the activities of its exporters, rather than confront them or our overseas customers.

Associated with this much-needed change of style, with the emphasis now firmly on the side of commercial negotiations, I have recognised the need to simplify what have been, for the industry, frustrating and time-consuming procedures. These procedures were imposed three years ago and have hampered exporters' efforts in shipping their minerals out of this country. In the context of minimum government involvement, my department is at an advanced stage in developing proposals to streamline the existing export control procedures. In the past few weeks, I have removed from the controls a number of semi-processed products and others are currently under review.

For those remaining minerals where, in the national interest, government monitoring of exports is vital, I am simplifying the procedures for exporters and expect to make a fuller statement on this in the very near future. Although the details are yet to be finalised by my department and the other departments and authorities involved, the objective is to reduce the paper work and administrative effort involved over the past three years of exporters having to seek ship-by-ship approvals.

With these revised procedures, the Government will still carry out its responsibilities in ensuring that contract terms and conditions conform with the Government's policies. However, this will be done on a basis of the goodwill and trust to which responsible companies are entitled. This will enable exporters to have access to long-term export approvals which will fit in with contract terms and minimise the red tape and the unnecessary rubber-stamping of approved contracts every time a ship leaves the country.

Although these changes are basically improvements in administrative efficiency, they do point to the way the Government is thinking and acting in this field. They will, in my view, smooth the way for the industry to get on with the job it knows best how to do.

So in six months

- . We have moved to divest ourselves of the previous Government's involvement in areas that rightly belong to private enterprise.
 - . An initial investment allowance has been introduced.
 - . The coal export levy and the questions of taxation treatment for the mining and petroleum industries are under study in the correct context - that of the Budget.
 - . Three major new projects in coal have been approved.
 - . Those in iron ore have been assisted through discussions in Japan to help restore confidence in Australia as an assured and stable long-term source of supply.
 - . The way in which export controls are used has been completely changed so as to respect, rather than usurp, the role of private enterprise.
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- . We are working with the State Governments in the revived Minerals and Energy Council and with the West Australian Government on the development of the North West Shelf.

And of course we are doing all this against the background of first getting our domestic situation in order. To have done less than these things in our first six months would have been to let down those who elected us to change the disastrous course on which Australia had embarked. To attempt to do more in this period, and in the economic circumstances of today, could only have been achieved at the expense of economic responsibility, or by ignoring the due processes of good government.

I believe this balance signifies good government: a calm and consistent Government operating within a decision-making process of the Cabinet where the effects of any action are measured and understood in relation to the effects on the community as a whole.

I would like to emphasise yet again the Government's philosophy in relation to our natural resources. We seek to provide an environment which will effectively encourage positive and concrete development to benefit all Australians. In this regard we are on the way to achieving significant progress by our broad policies on matters such as overseas investment; by keeping the industry fully informed on our attitudes; and by our commitment to what we consider to be the proper role of government - that is, to encourage and, where necessary, assist private enterprise, but not to unnecessarily intervene in its operations.

Again I stress that I intend to maintain close communications with industry so that together we can work as a unified team to achieve the common and worthwhile objective of responsible and beneficial development.

The establishment of this basis of good government has been achieved within six months. From this basis the mining industry can look forward with confidence to well-informed and sympathetic government in the years - and I hope decades - ahead.