

# The mining and metals industries facing global economic change



We are sad to announce the death of Mats Andersson, at the age of 47, on April 11th 1986.

Mats Andersson was associated with the Raw Materials Group since the early 1970s and had been working with Raw Materials Report since its start in 1981. He outlined the graphic form, which we have since then followed, and he has consistently helped us with encouragement and good advice. In Sweden Mats Andersson was well-known not only for his political drawings, but also for illustrations of books, especially for children, and for his work with Swedish TV. He made the cover for RMR Vol 3 No 1 and contributed with a number of drawings, with a style marked with simplicity and irony.

RMR is a non-profit magazine, published through the dedicated work of a small group of editors and researchers. Mats Andersson was one of us. His place can not be filled, but we will continue our work inspired by our common ideals.

A few years ago Business Week published a cover story proclaiming "The Death of Mining".<sup>1</sup> The article was published at a period of turbulent structural change in the mining industries in the industrialized countries. The article had US mining in focus, but many of the problems facing the US industry have also been facing mining companies in other developed countries.

The structural changes are still in progress, but the doomsday visions of Business Week have proved to be exaggerated. The mining industry has survived, but it has had to, and will have to, adopt to a radically changing environment.

In RMR we have systematically tried to identify the nature and extent of change in the minerals and metals industries. We have also tried to trace the origins of these changes. At a recent conference arranged by the US Bureau of Mines,<sup>2</sup> the RMG presented a paper on structural change in the gold industry.<sup>3</sup> In this sector the major development has been the increasingly dominant role of the Anglo American Corporation of South Africa (See figure p 5). There are indications of increasing corporate concentration in other mineral industries as well, and that a sizeable number of important mining companies will be forced out of the industry through take-overs, mergers or restructuring.<sup>4</sup> Examples of this development are given in the articles on the coal industry by J W Biekart on page 20ff, and by D L Anderson on page 36ff in this issue.

## The financial dimension

It is striking that the AAC is expanding from a very strong financial position. Its debt/equity ratio was 4 per cent in 1985, compared to around 50 per cent in the minerals industry as a

whole. This means that the AAC is virtually invulnerable to the pressure/influence exercised by commercial banks and other financial institutions on a majority of mining companies. Such a financial strength is, in our view, today a necessary precondition for the survival as an independent mining company.

With the huge investments now necessary for any major mining project, financing gives the creditors, commercial banks and/or other financial institutions, unprecedented power. At the USBM conference Marianne Haug of the World Bank described the role of the Bank:

"For large projects, the Bank will typically lend 10-20% of the total project costs. For smaller projects the percentage may be higher. The role of the Bank is above all that of a catalyst."<sup>5</sup>

She then identified the role of the World Bank in the financing of 29 metals projects from 1968-1986 (See table):<sup>6</sup>

M Haug emphasises the declining role of lending from foreign banks as: "... a more cautious approach by commercial banks to large project financing."

What are the underlying reasons for this "cautious approach"? In our view it is linked to the ongoing restructuring of the global economy (cf Clairmonte/Cavanagh p 6ff), which has made the mining sector *relatively* less profitable in the short and medium term. But a stable supply of low-priced raw materials is still necessary to secure the long-term growth and expansion at which the restructuring is aiming.

Another reason for the "cautious approach" by the banks are the new

markes oriented policies adopted by the leading industrial countries. These policies, with their emphasis on the fight against inflation, have forced many Third World countries to cut down on spending in the social sector, and to assume a larger responsibility in the industrial sector, eg in the financing of new mining and metals projects. However, as indicated by the table on page 5, ultimate control of most new projects still lie outside the Third World and most of the production will still be exported.

The consequences of these austerity policies have been particularly contradictory in the Third World, where an increasing foreign debt, with heavy interest payments, has been accompanied by an enormous accumulation of private capital which can not be invested profitably. The result has been that some Third World countries have become exporters of funds:

“Outflows from the seven largest debtors have overwhelmed inflows by 32 billion US dollars in 1985.”<sup>7</sup>

Can this situation be reversed? Given the present turbulence in the mining industry it is not realistic to expect any constructive action from the leading TNCs. Even if the industry is stabilized at a new, higher, level of concen-

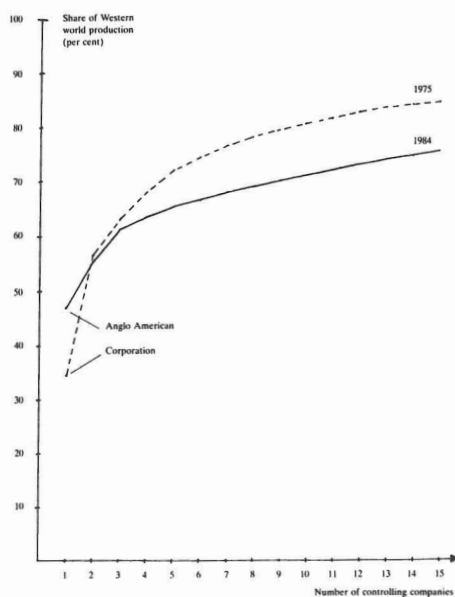


Chart 1. Shares of Western world mine production of gold in 1975 and 1984.

tration it is doubtful whether the TNCs will question a system which overall has been very beneficial to their interests.

In fact, the only alternative seems to be a concerted effort by all actors, political as well as economic, to reach an agreement on a new global economic policy. There have been many suggestions on the way out of the crisis. Clairmonte/Cavanagh have outlined one policy in their article, Lever/Huhne a second in a recent book on the debt crisis, the Non-Aligned Movement a third. But they all agree

on the urgency of the problem and the need for a truly international solution. In this work the mining and metals industries, given their importance in the industrial development process, should play an active and constructive role.

#### Notes:

<sup>1</sup> Business Week 1984-12-17

<sup>2</sup> “The Changing World Metals Industries”, A conference arranged by the US Bureau of Mines and the Henry Krumb School of Mines, Columbia University. Arden House, New York, May 12-15 1986.

<sup>3</sup> Magnus Ericsson and Andreas Tegen, *The development of corporate concentration in the Western world gold mining industry between 1975 and 1984*. The Raw Materials Group, Stockholm, May 1986. Paper to be published by Columbia University Press in the proceedings from the conference on “The changing World Metals Industries” (see note 2).

<sup>4</sup> Unpublished data from RMG data base.

<sup>5</sup> Marianne Haug, *Impact of International Lending on Metals*, p 4. Paper to be published in the proceedings from the conference on “The changing World Metals Industries” (see note 2).

<sup>6</sup> Ibid p 9.

<sup>7</sup> Robert Lubar, *The debt bomb isn't defused*, a review of *Debt and Danger* by Harold Lever and Christopher Huhne, Atlantic Monthly Press, 1986, *Fortune* 1986-06-23, p 120f. ■

### Sources of Financing for Twenty Nine Metals Projects Financed by World Bank/IFC from 1968-1986 (M USD)

Period	Equity	% Local	% IFC	Debt					% Total	% Suppliers Credits				
				IBRD/IFC	Other Official	Commercial Bank	%	%						
1968-74	638	38	10	1	253	15	120	7	442	26	223	13	1,686	100
1975-79	1,300	43	350	11	371	12	347	11	570	19	107	4	3,045	100
1980-85	<b>2,370</b>	<b>37</b>	<b>1,111</b>	<b>17</b>	<b>508</b>	<b>8</b>	<b>942</b>	<b>15</b>	<b>936</b>	<b>15</b>	<b>531</b>	<b>8</b>	<b>6,398</b>	<b>100</b>
<b>Total</b>	<b>4,308</b>	<b>39</b>	<b>1,471</b>	<b>13</b>	<b>1,132</b>	<b>10</b>	<b>1,409</b>	<b>13</b>	<b>1,948</b>	<b>18</b>	<b>861</b>	<b>8</b>	<b>11,129</b>	<b>100</b>