Australia's BHP Ltd — an emerging Transnational Resources Corporation

By Bob Fagan

The crisis in the international mining and metals industries has accelerated the process of concentration in the industry. This article gives an historical background to the present struggle for control over Broken Hill Proprietary Ltd, Australia's largest industrial company and a leading actor in the international resources industry.

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The Broken Hill Proprietary Co Ltd (BHP) is Australia's largest industrial organization, and has been the largest profit earner during the last two decades. Its scale, the size of its workforce, and its major products (steel, oil, coal, minerals) give it an unique position of importance in Australian capitalism.

This article focusses on the restructuring of BHP Ltd since about 1970 as an Australian-based transnational minerals and energy corporation. In particular, it outlines the internationalization of its capital during the last decade which has led it further into North America and the Asia-Pacific region. This has involved: minerals and energy production both in Australia and offshore; a tightening control over Australia's raw material export trade; and alterations in its financial structure.

The routes taken to internationalization, and the global geography of both investments and profit-earning potential, have had a major impact on mining and industrial activities within Australia. While continuing to diversify and expand in the international arena, BHP has become subject to fierce battles for control at home.

Production, commodity trade and finance

Three key sets of relationship underlie BHP's corporate power within Australia:

- First, its concentration and centralization of capital in domestic mining and manufacturing.
- Second, its relationships with labour at a large number of production sites around Australia.
- Third, direct bargaining with the state. Opportunities here have been considerable because of Australia's federal political structure. The federal government is constitutionally responsible for exports and imports, external financial relationships, taxation and monetary policy. Six State governments have direct responsibility for resource, industrial and infrastructural development.

The evolution of BHP's corporate structure since its incorporation in 1885 is effectively a mirror for the development of the Australian economy over the last 100 years. Table 1 summarizes these major phases in the development of BHP Ltd, culminating in its dramatic restructuring during the 1980s.

The *silver-lead-zinc* mines of Broken Hill have continued to produce lead and zinc for export throughout the 20th century, and have formed the initial basis for capital accumulation by some of Australia's largest mining and industrial organizations. BHP Ltd, as one of the best organized and most profitable of the early silver miners, took an historic decision in 1911 to move into the production of *iron and steel*. This brought it into the centre stage of Australia's twentieth century industrial development.

It absorbed its only domestic competitor in 1935, and was able to retain its steel monopoly throughout the post-1950 industrialization of Australia for three reasons:

- First, it controlled its own raw material sources, producing coal, iron ore, limestone, ferro-alloys, refractory bricks and even cement. It established a coastal shipping fleet, now comprising 15 bulk carriers. Some of these vessels were built at the company's Whyalla shipyard, opened during the Second World War but finally closed in 1978.
- Second, it established tight control over the domestic market, achieved partly through taking over fabrication companies. About half of BHP's annual steel production of 6 Mt (1985) was utilized by subsidiaries or associates.
- Third, its production capacity remained large relative to the small domestic market. The company supplied between 85 and 95 per cent of the domestic steel market during this long boom between 1950 and 1970.

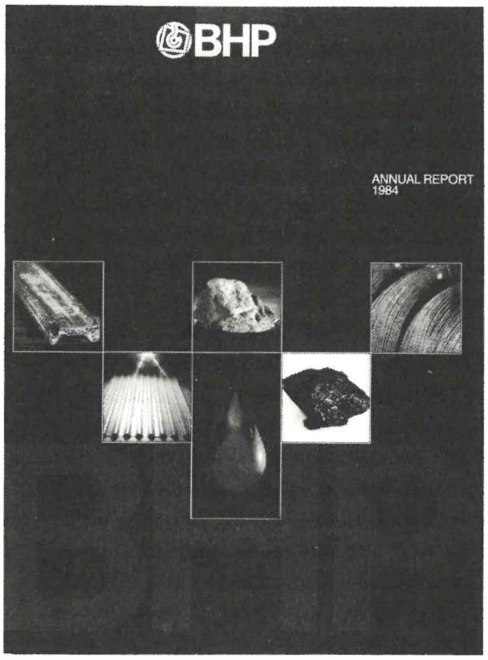
Throughout the 1960s BHP used its raw material advantages to produce low-cost steel. Yet it began to diversify during the 1960s, participating in the first

The new logo (see cover of the 1985 Annual Report) of BHP reflects the changing strategy of the company.

Table 1

BHP Ltd — relationships between production, raw material export and finance: 1885—1986

Era	Production	Commodity export	Finance
Silver miner (1885—1915)	Broken Hill silver, lead & zinc mining. lead smelting.	Silver, lead and zinc.	Melbourne, Australian, British & German shareholders.
Broken Hill to steelmaker (1915—1935)	steelmaking at Newcastle; vertical integration; lead & zinc winding down.	completion of export from BHP's leases at Broken Hill.	ventures with British steel-using firms.
Steel monopolist (1935—1950)	centralization of control in steel; takeover of domestic competitor at Port Kembla; takeover of fabricating firms; closure of BHP at Broken Hill (1939); wartime stimulus to steel production; shipyard at Whyalla.	Commonwealth government prohibition of iron ore export (1939).	emergence as largest indl. organization; increasing interlock with Australian banks.
Diversifying steel monopolist (1950—1970)	steel production grows rapidly at all three sites; entry to Bass Strait oil production; offshore investment steel fabrication.	lifting of iron ore export ban (1960); iron ore export to Japan (esp Mt Newman Pilbara); export of manganese.	diversification largely self-financed; engagement with transnational corporations.
Restructuring minerals/energy corporation (1970—present)	emergence of oil division as main profit earner; coal mining for export (Qld and NSW); closure of shipyard and dramatic restructuring of steel division; takeovers of coal and oil prospects (Australia and USA); entry to copper mining in Papua New Guinea.	iron ore, coal and manganese exports to Japan; takeover of further export activities (Mt Newman, Utah).	switching sources of profit within Australia; increased international loan-raising to finance takeovers and expansion; battle for control in Australia (1986).



The annual reports of BHP 1984 and 1985.

Australian "mineral boom" to supply the growing Japanese market for steelmaking resources. It engaged with the American transnational Amax Inc, the Japanese trading giant Mitsui, and the Australian conglomerate CSR Ltd in the Mount Newman iron ore consortium in the Pilbara region of northwest Western Australia. BHP took a 30 per cent equity but became the project manager responsible for most of the bargaining with the Federal and Western Australian governments over development conditions.

After 1967 BHP also became Australia's near-monopoly *oil* producer, in conjunction with Exxon Corporation of the United States. While Exxon provided exploration and production expertise and was keen to establish a strong position in the Australian oil industry, BHP provided the offshore prospect and, once again, the inside negotiating abilities with the Federal government in the sensitive areas of oil policy. Finally, BHP joined other large Australian and overseas corporations in the 1970s in developing coal for export rather than simply for its own use.

The company's impact on the Australian community also arises from the number of jobs controlled directly or indirectly in all Australian states. This has been illustrated dramatically with the uneven social and economic impact of corporate restructuring during the 1980s. Group employment stood at 72 000 in May 1982 but had fallen by at least 10 000 by the middle of 1983 with job loss concentrated in steelmaking and the steel division collieries. The company's decisions are crucial to the livelihood of people in Australia's three steel production centres of Newcastle, Wollongong and Whyalla.

Table 1 also indicates BHP's role in Australia's trade. It was a major exporter of minerals to the United Kingdom and Western Europe in the late nineteenth century and a key part of Australia's historic colonial connection. Yet its dependence on world markets was broken after its development as the domestic steel producer in the twentieth century. It became one of the major big business lobbyists for a federal government policy of import-replacing industrialization after 1920. This move by capital and the state accelerated after the depression of the 1930s caused severe realization crises for Australia's largest commodity exporting companies.[1]

BHP was a major beneficiary of import-replacing industrialization during the 1950s, as many of Australia's new industries were steel users. While it exported surplus steel successfully from time to time during the 1960s and 1970s, it spent the period of the mineral boom restructuring itself towards being a diversified minerals and energy corporation. It maintained its historic corporate strategy of using funds generated from its domestic steel monopoly.

BHP Ltd participated in the iron ore and *coal* trade with Japan during the 1970s, and sought to consolidate this role in the 1980s. By 1981—82 iron ore and coking coal each contributed 37 per cent of the company's total mineral export sales with manganese a further 20 per cent. Completion in 1984 of a *bauxite-alumina* export venture in Western Australia brought the company into the Australian aluminium industry, although a plan to build an export-oriented smelter in the coal-rich Hunter Valley was abandoned.

At the same time, BHP became increasingly concerned about the growth of steel production capacity in the Asia-Pacific region (especially in South Korea), the growing technology gap between itself and the Japanese steel industry, and the threat of import-competition in basic steel. In an atmosphere of crisis, it negotiated a Steel Plan with the federal government in 1983 which, guaranteed the maintenance of its high degree of control over the local steel market.

BHP Ltd has always been prominent in the Australian financial establishment. By mid 1985, the company had total shareholders' funds of 6 103 million Australian dollars (AUD) compared with 2 935 M AUD in 1980. Consolidated sales in 1985 were 7 102 M AUD compared with 3 748 M AUD in 1980. Net profit grew from 401 M AUD to 774 M AUD during this period.

The concentration and centralization of capital in both the mining and manufacturing industries is probably greater in Australia than in any other developed country except Canada. This situation is exemplified by the growth of BHP Ltd. Although British shareholding was important from its inception as a Broken Hill miner, BHP Ltd remained Australian-controlled with a majority of its capital locally-owned throughout the long boom after 1950. This was a period of remarkable centralization of capital in both mining and manufacturing. A recent study suggested that about one-quarter of shares in BHP Ltd are held by overseas interests, largely as portfolio interests held directly or through nominee companies.[2]

Although it had 186 000 shareholders in May 1985, some 5 per cent of holders owned 75 per cent of total shares. The proportion of BHP shares owned by other companies increased from 57 per cent in 1979 to 65 per cent in 1985 over which time there was a substantial increase in the total number of shares. By the early 1980s, Australia's principal financial institutions had become BHP's largest shareholders and now dominate the BHP Board of Directors.

In the first half of 1986, BHP became the subject of an intense battle for control during which Australian-based takeover specialist Bell Resources Ltd emerged controlling some 27 per cent of the company while the agribusiness conglomerate Elders IXL Ltd secured a 19 per cent stake. This battle highlighted the crucial importance of BHP Ltd for the structure of Australian capital, as well as for labour and the state. It drew attention to the internationalization of capital by all large Australian corporations in the 1980s. Much of the finance for the takeover battle was raised offshore.

BHP's route to internationalization

BHP presents a very important case-study of the key role played by raw material exports in Australia's political economy, as well as the processes underlying the massive recent growth in Australia's foreign debt. It also shows that Australia's role in the changing international division of labour is more complex than has often been presented. BHP Ltd joined other Australian companies in making direct investments in newly-industrializing countries of East and Southeast Asia, but these have been overshadowed recently by massive investments in North America.

BHP has taken two intertwined paths in its recent emergence as a transnational resources corporation:

- first, further centralization of control at home, accompanied by rationalization of Australian manufacturing activities;
- second, diversification abroad, both geographically and in commodities.

Initial engagements with transnational corporations shown in Table 1 were financed by profits from the steel industry, but the world oil crises of the mid 1970s had a dramatic impact on BHP Ltd. Oil from the Bass Strait cushioned the Australian economy against immediate shocks from oil price rises. Of even greater significance were rising energy costs in Japan and a rush of interest in developing the coal deposits in New South Wales and central Queensland for export. These coal resources also became targets in a new round of global searching by United States and Japanese aluminium producers for low-cost production sites in the Asia-Pacific region and Latin America. Finally, a large gap opened up between world oil prices and the Australian price for crude oil paid to Esso-BHP Ltd.

In 1977, the Australian government took a decision of far-reaching importance and introduced world parity oil-pricing for local crude, ostensibly to stimulate greater oil exploration and domestic oil conservation.[3] Oil discovered before 1975 received a price rising in steps and subject to heavy government taxation partly designed to avoid the huge windfall profits which would have accrued to Esso-BHP.

By 1980, the domestic price was 26.14 AUD per barrel compared with 2.10 AUD in 1974. While the taxation reduced the producers' share of the price from 87 per cent in 1974 to only 23 per cent in 1980, the crucial aspect was the producer-revenue from each barrel sold from Bass Strait. This rose from 1.82 AUD in 1974 to 5.90 AUD in 1980 representing a large increase in the return to BHP's oil division.[4] This had a major influence on cash flow within the company, only a proportion of which was directed towards financing new oil exploration. Increasingly, the oil division profits became the basis for BHP's internationalization in the 1980s.

The moves offshore were not based solely on the falling profitability of the company's traditional steelmaking activities. With annual cash flows approaching 1 200 M AUD, local opportunities for new corporate investments were seen to be limited. By the early 1980s, the domestic steel, coal and minerals operations all had surplus capacity. In addition, the size of the Australian capital market had become a constraint on the company's share price. In October 1985, share market capitalization reached the record level of 8 320 M AUD, three times the size of Australia's next largest company CRA Ltd (the "Australianising" subsidiary of the British minerals giant RTZ Ltd). BHP believed that its total assets had become significantly undervalued. Their fears of increased vulnerability to takeover bids by companies raising funds overseas were borne out in early 1986.

BHP's overseas investments have been underpinned by increasing control over Australia's raw material trade. This has been BHP's historic route to capital accumulation. The most dramatic indication of BHP's future direction came in 1984 with the takeover of Utah International Inc at a cost of 2 400 million AUD (Australia's largest corporate acquisition). This United States energy producer was Australia's lowest-cost producer of coking coal for export to Japan from the open-cut mines of central Queensland. BHP Ltd had become a major participant in Queensland's coal trade with Japan in 1977, buying into mines at Moura (and later Riverside) with Mitsui and Australian conglomerate CSR Ltd. It also developed a new export mine at Gregory.

The takeover of the Utah mines enabled BHP to consolidate the central Queensland coal operations. Australian partners were taken into the Gregory mine (ironically Bell Resources Ltd took a 10 per cent share), and the Utah mines were taken into a joint venture with Mitsubishi of Japan and Australian finance companies. By setting its equity at 40 per cent overall, BHP took control over about half of Australia's long-term coal trade with Japan, but limited both its exposure to world coal markets and its total investment in Australia. The takeover of Utah also brought a controlling interest in Goldsworthy Associates, the smallest of the four large Pilbara iron ore mines.

In 1985, BHP Ltd continued its large investments in Australian resource ventures. In April it spent 145 M AUD on increasing its stake in the giant north-west shelf offshore gas project in partnership with Shell Oil, BP Ltd, Mitsui and Mitsubishi. After more than a decade of uncertainty about markets for this project expected to have a total capital cost of at least 12 000 M AUD, a consortium of Japanese buyers signed a contract for LNG shipments for 20 years beginning in 1989. Shipments will reach a maximum of 6 Mt per annum. To provide a cash flow for the project, a first phase began in 1984—85 involving a commitment by the Western Australian state government to purchase natural gas in quantities not obviously justified by the size of the local market.

In September 1985, BHP again demonstrated the importance it attached to control of Australia's mineral resource trade. In a total expenditure of 100 M AUD, it purchased the Amax Inc share of the Mount Newman iron ore venture and bought out the involvement of CSR Ltd. This gave BHP Ltd 85 per cent equity in the mine. In addition, CSR Ltd sold its 22 per cent share in the Moura-Riverside coal mines to BHP.

Other joint ventures have taken BHP Ltd further into mineral exporting. Production of bauxite and the refining of alumina for export began in 1984 from the Worsley project in the southwest of Western Australia, now one of the world's largest single production regions for alumina. This venture is controlled by Reynolds, one of the world aluminium "majors", and Shell. BHP's 20 per cent equity is likely to bring poor returns in the forseeable future given both the depressed world demand for alumina and the collapse of BHP's proposal to build an export-oriented aluminium smelter near Newcastle in New South Wales, which would have been a captive outlet for the alumina.

BHP holds a 30 per cent interest in the Telfer gold mine in Western Australia, managed by Newmount Mining Co of United States. Finally, BHP has announced an exploration program involving 1 800 M AUD over ten years to develop additional oil fields in the Bass Strait, and is currently exploring offshore in the Timor Sea.

The increased control over Australian resource ventures of particular significance to future trade with Japan. BHP now controls at least half of the 30 Mt of coal exported annually from Australia to Japan. In addition to its increased share of the iron ore trade through Mount Newman, the takeover of Utah also brought a 49 per cent equity in the Samarco iron ore mine in Brazil, developed primarily to export iron pellets to Japan. This centralization runs counter to the established Japanese strategy of diversifying its supply sources for raw materials, and maintaining the lowest possible import prices by encouraging vigorous competition among potential suppliers in the Asia-Pacific region and Latin America.[5]

Increased control over Australia's raw material exports, especially those sold in United States dollars, provides a base for direct investment overseas. The company argued that the takeover of Utah International would " . . . broaden its product and geographical base"[6] Most of the new production is in North America, and includes the Navajo and San Juan steaming coal mines in New Mexico, coal mining and brokerage in East Kentucky, a 20 per cent share of a tungsten mine in Nevada, and an operating copper mine on Vancouver Island in Canada. The Utah takeover also brought a range of mineral resource prospects in other countries the most significant of which is La Escondida copper deposit in northern Chile. This is regarded as the highest-grade and lowest-cost undeveloped copper deposit in the world at present and involves some 1 700 Mt of copper ore (1.6 per cent Cu).

In August 1985, BHP outlayed 100 M AUD on buying out the share of its inherited partner in La Escondida (Texaco) and has restructured the venture taking a 60 per cent equity, with 30 per cent sold to RTZ Ltd of the United Kingdom and 10 per cent to Mitsubishi. The Chilean venture adds another large copper prospect to BHP's 31 per cent involvement in the large-scale Ok Tedi mine in Papua New Guinea from which gold production commenced in 1985. The company had entered Ok Tedi in 1976 after the Kennecott Corporation of the United States withdrew, unable to reach development agreement with the government of Papua New Guinea. Again, BHP became the manager of an international consortium and took over negotiations.

BHP Ltd has used its Utah subsidiary as a management base for diversification into oil and gas within the United States. In January 1985, the Kansas-based Energy Resources Group was purchased at a cost of 585 M AUD, bringing 26 million barrels of proven oil reserves and 7 billion cubic metres (G m^3) of natural gas. Although only a small production is involved, the BHP strategy seems clear. The company was keen to establish a base for future oil and gas exploration and production within what it sees as a low-risk environment. In addition, the United States tax system allows a deduction against United States income for exploration and development expenditure incurred *outside* the USA. BHP currently has exploration prospects in Indonesia (with Texaco), China (with BP), Papua New Guinea (with Gulf Oil), Morocco, Tanzania and the North Sea.

While corporate analysts pondered the wisdom of large outlays on oil prospects, given uncertainties about the immediate future of the commodity, BHP Ltd outlayed 1 100 M AUD in December 1985 to purchase oil interests of the Monsanto Co. This takeover trebled the size of BHP's North American oil reserves and has made it one of the largest independent oil and gas companies in the United States.[7]

The new global geography

The restructuring of BHP Ltd since the late 1970s has involved the shifting of capital in three ways:

- first, within sectors of production;
- second, within production regions in Australia;
- third, internationally.

The new global geography of BHP's operations reflects the growth of its raw material production and future potential in the Asia-Pacific region. The importance of the United States as the new focus for BHP's investment stands out. During the 1960s and 1970s, BHP Ltd (and John Lysaght Australia Ltd now wholly-owned) had established sheet steel and steel-roofing works to supply local markets in: Papua New Guinea, Fiji, New Caledonia, Taiwan, Malaysia, Singapore, Indonesia and the Philippines. These investments have been dwarfed by the investments in North American mineral and energy resources during the 1980s.

By mid 1986, some 20 per cent of BHP's total assets were located in the United States compared with only 8 per cent in 1984. The breakdown of the company's total sales for 1984—85 is revealing.[8] Some 52 per cent of total final sales were made in Australia for that year (oil and gas, steel and fabrications, manufactured products). The 48 per cent of overseas sales (coal, iron ore, manganese, copper, small oil and gas sales) comprised 25 per cent to the Asia-Pacific region, 13 per cent in the North American market, and 10 per cent elsewhere.

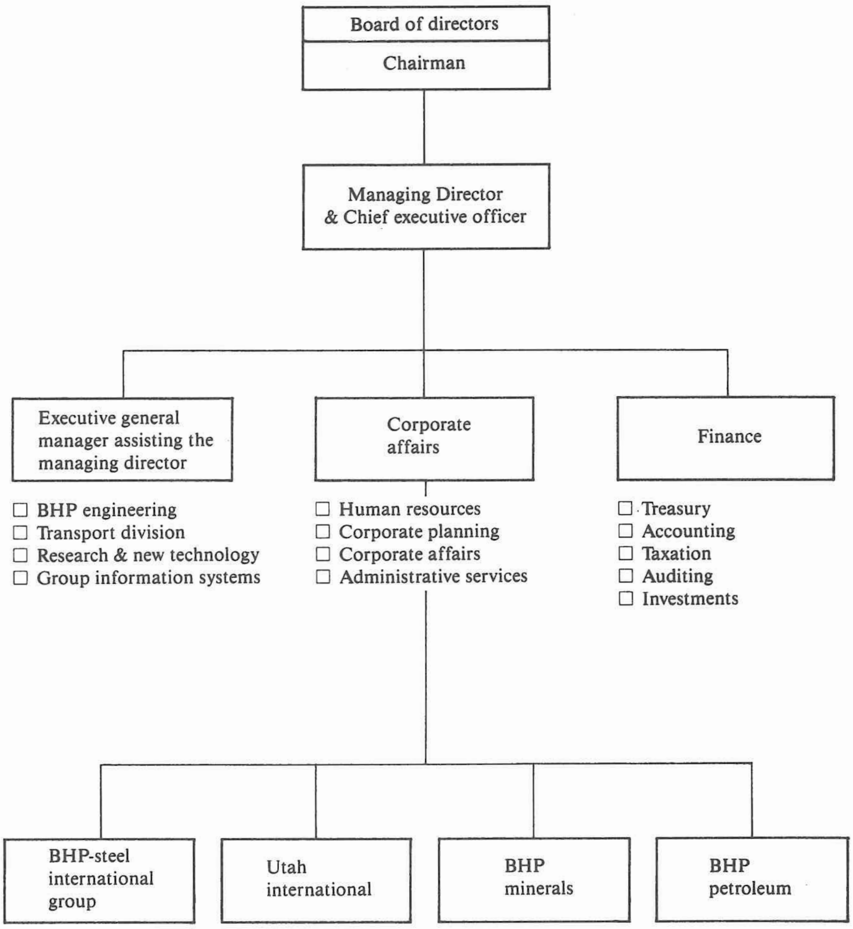
Hence, it can be calculated that 52 per cent of total sales were made to the Australian market from domestic plants, 36 per cent of total sales were exports from Australia, and 12 per cent were sales of offshore production to overseas markets. (Imports into Australia from BHP subsidiaries offshore are negligible.) Australian branches accounted for 88 per cent of total sales in 1984—85 compared with over 96 per cent in 1984. The 12 per cent of offshore sales are considerable in a total sales value of 7 100 M AUD (1984—85).

The impact of Utah International on BHP is clear. Utah's largest market remains the United States (40 per cent of divisional sales), followed by Japan (35 per cent) and Europe (20 per cent). The importance of the United States market will increase in the future when significant oil and gas reserves are brought into production. BHP has aimed to have these oil resources in production when Bass Strait reserves are exhausted some time in the mid 1990s.

The integration of Utah also marked a major reorganization of BHP's corporate structure (Fig 1). All steel-related activities, including the steel division collieries and iron mines, the former John Lysaght (Australia) Ltd sheet steel division, and other wholly-owned fabricating subsidiaries, have been brought together and renamed "Steel International" although this is very much the domestic manufacturing division. The Minerals Group involves the export of Australian iron ore, manganese, and alumina, plus the Moura-Riverside export coal mines. Utah International remains as a separate division responsible for North American coal and petroleum activities, a wide range of present and future international mineral production, and the reorganized Queensland coking coal ventures. BHP's oil and gas division operates Bass Strait, the Northwest Shelf venture, and all international oil exploration outside North America. Finally, Rheem Australia Ltd is a diversified manufacturing group 67 per cent owned by BHP.

Fig 1

BHP organization structure 1986



Source:
BHP Ltd, 1986.

Table 2 shows the divisional contributions to BHP's results for 1984—85. The restructuring of BHP has brought a geographical shift in sources of profit within Australia. Victoria (oil), Western Australia (iron ore), and Queensland (export coal), have surpassed the former dominance by a South Australia—New South Wales connection of iron ore, coal and steel.

The new organizational structure represents an historic break for BHP Ltd. For 100 years the company had operated a highly centralized structure based on its head office in Melbourne. The takeover of Utah International brought in a transnational corporation based in San Francisco, and BHP has left its management structure intact. One of the aims of the takeover was to purchase an international raw materials management structure, and this will be used increasingly for offshore activity. Further rationalization of the organizational structure can be expected since there is still significant overlap between the minerals, petroleum and Utah divisions.

Table 3 shows the trends in raw materials production since 1978—79, illustrating rising production of domestic oil and gas, export coal, and the impact of Utah. Steel production has fallen.

Impacts on the steel industry

As well as being of major significance to the Australian economy as a whole, the emergence of BHP Ltd as a transnational minerals and energy corporation has had major impacts on the steel division and the specialist steel-producing regions. A detailed examination of this question is beyond the scope of this article but principal elements can be summarized briefly. During the 1970s, the profitability of steelmaking slumped by comparison with the rates of profit from mineral export and crude oil sales.

Interpreting steel division profit has been difficult: first, because of the high degree of vertical integration; and second, because of a very conservative

Table 2

BHP Ltd — divisional contribution to corporate results: 1984—85

Division	Total sales[a] M AUD	%	Net profit (loss) M AUD	%	Employment No	%
Steel	3 158.9	41.7	164.6	21.3	37 803	65.6
Minerals	847.3	11.2	72.0	9.3	4 556	7.9
Utah Internat	1 281.7	17.0	140.5	18.1	5 258	9.1
Petroleum	1 463.9	19.4	487.5	62.6	1 181	2.1
Corporate investments[b]	805.9	10.7	(87.6)	—11.3	8 810[c]	15.3
Totals	**7 557.7**	**100.0**	**774.2**	**100.0**	**57 608**	**100.0**

Notes:

[a] Includes interdivisional sales. Consolidated net sales were 7 102 M AUD.

[b] Includes Rheem Australia Ltd.

[c] Includes employment in associates and group services.

Source:
BHP Ltd, *Annual Report 1985,* Melbourne, 1985.

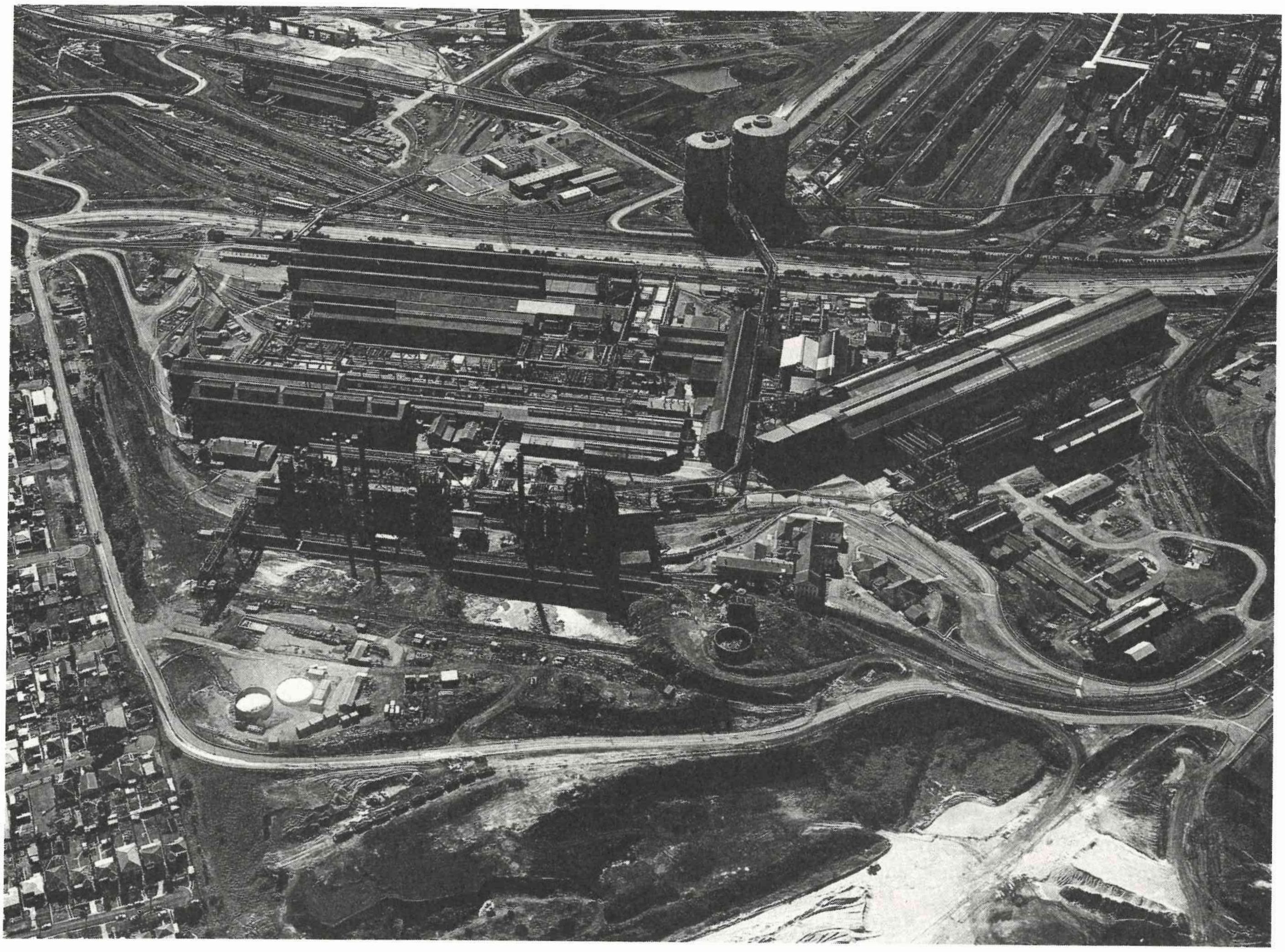
Table 3

BHP Ltd — production: 1978 to 1985

Commodity	Units	1978—79	1981—82	1984—85
Crude oil	M barrels	72.5	64.7	82.7
Natural gas	M m^3	1 632.0	2 512.0	2 488.0
LPG	kt	854.0	793.0	826.0
Coal				
steel division	kt	7 029.0	8 011.0	7 875.0
BHP Minerals	kt	2 707.0	5 148.0	5 867.0
Utah Australia	kt	—	—	7 809.0
Total Australia	kt	9 736.0	13 159.0	21 551.0
Coal — UTAH				
outside Australia	kt	—	—	13 282.0
Iron ore	kt	15 354.0	15 709.0	15 144.0
Manganese ore	kt	1 477.0	1 188.0	1 859.0
Ferro-alloys	kt	127.0	111.0	121.0
Alumina	kt	—	—	141.0
Raw steel	kt	7 510.0	7 183.0	6 054.0
steel exports	kt	1 664.0	1 029.0	907.0
Steel sheet and coil	kt	1 164.0	1 325.0	1 013.0
Wire and wire prods	kt	502.0	548.0	520.0

Source:
BHP Ltd, *Annual Report 1985,* Melbourne, 1985.

The Kembla Steelworks. Steel is still important to BHP, but petroleum has taken over as the cash flow power house.



accounting method utilized by BHP throughout the 1970s. This heavily penalized profits in the steel division because of its high fixed capital costs. BHP Ltd declared a net loss on steelmaking for six of the seven years from 1974 to 1980, although in conventional accounting terms profits ranged from modest (1977—78) to substantial (1980—81).

Yet in 1981—82, the division showed a net loss by either standard. This was the principal reason why BHP declared a corporate profit 40 per cent lower than in the previous year. The oil division contributed 74 per cent of group profit in 1981—82 from 16 per cent of total sales, 20 per cent of total funds employed, and less than 0.5 per cent of group employment. The steel division still accounted for two-fifths of total sales, 40 per cent of total funds employed, and 58 per cent of total employment.[9] There was a deepening debate about how steel production could have become so unprofitable in a country which remained one of the lowest-cost sources of raw materials for the Japanese steel industry.

The problems were based on a complex combination of domestic and international forces but cannot be understood outside BHP's total corporate strategy. The company highlighted production costs rises combined with stagnation in the domestic demand for steel, the lack of profitability in steel production for export, and the new threat of imports especially from newly-industrializing countries such as South Korea. All of these factors played a part. Expectations of domestic market growth were dashed by downturns elsewhere in Australian manufacturing, and steel was also affected by the postponment or abandonment of several large projects from a "second mineral boom" confidently predicted by Australian political leaders in the early 1980s.

Yet there were more deep-seated problems. Along with Australian manufacturing generally, steel production suffered from lack of scale economies and geographical fragmentation. While the steel industry produced a net cash flow for BHP Ltd throughout the 1970s there was little new investment in steelmaking because of much higher returns in oil and raw material exporting.[10] Constant deferral of modernization plans during the 1970s increased a technology gap between BHP Ltd and the high-technology steelworks of Japan and South Korea. The company rejected government suggestions that exports should be fostered from larger, more specialized plants, and argued instead for increased investment allowances and protection against future imports from Asian producers.

Thus BHP Ltd straddled both sides of the political debate in Australia about levels of tariff protection to industry. On the one hand its increasing internationalization seemed compatible with arguments for free trade, while its request for protection against steel imports clashed with the publicly-stated position of the then conservative Australian government. Yet the sharply uneven impact of any steel rationalization was the company's major bargaining strategy with both the state and labour.

While the government instituted inquiries into industry costs and the level of imports, BHP implemented a dramatic restructuring of its steel division. By the middle of 1983, 12 000 jobs had been shed in the steelworks and collieries supplying them. Table 4 shows that all three steel production sites were involved, while a small blast furnace in Western Australia was taken out of production. Jobs were shed through non-replacement, rapid introduction of early retirement schemes, and towards the end of the period retrenchment.

The social impacts on the three regions were quite different ranging through the diversified industrial region of Newcastle, the specialized steel town of Wollongong, and the remote port of Whyalla, still virtually a "company town". In this atmosphere of social and economic crisis, the newly-elected Labour government negotiated a Steel Plan with BHP providing for the retention of steelmaking at all three plants, and an agreed program of new capital investment in return for the payment of bounties to local steel-buyers. This guaranteed shares of the domestic market around an average of 85 per cent. Since 1983, the position has stabilized although there has been further job-shedding.

The steel division returned to profitability before the Steel Plan came into effect. This was assisted by the introduction of new technology, the selective scrapping of old capacity, and some improvement in markets. Yet the principal factor was the program of job-shedding and a rapid rise in productivity levels from around 200 t of raw steel per employee in 1982 to more than 260 t in 1985. Between 1984 and 1985, the new Steel International division reported an 8 per cent growth in sales, a 33 per cent growth in net profit, but a fall of a further 4 per cent in the number of employees.

With the rapid devaluation of the Australian dollar in early 1986, BHP's steel prices have once more fallen below those of other major world producers for some product ranges. In May 1986, the company's chairman was able to claim BHP as " . . . one of the most

Table 4

BHP Ltd — employment by division: 1982—1985

Division	**Number** 1982	1983	1984	1985
Steel				
Newcastle	10 700	7 000	6 643	6 160
Port Kembla	19 500	14 400	13 326	12 917
Whyalla	5 800	4 400	4 369	4 111
Kwinana	400*	260	259	264
Collieries	4 800	4 200	3 621	3 847
Total steel	**42 000**	**30 200**	**28 218**	**27 299**
Minerals	8 500	6 100	8 170	4 556
Oil and gas	200	200	319	1 181
Utah: Australia	—	—	2 688	2 042
overseas	—	—	3 785	3 212
John Lysaght	7 700	7 000	7 331	6 985
Manufacturing subsidiaries	9 900	8 500	8 755	8 488
Group services	4 000	4 000	3 325	3 841
Total	**72 000**	**56 000**	**62 591**	**57 608**

Note:
* Production ceased; plant placed on a care and maintenance basis.

Sources:
BHP Ltd, *Annual Reports*, Melbourne, various years.
BHP Ltd, *Pocketbooks*, Melbourne, various years.

profitable steel producers in the world"[11] in his statement recommending that shareholders reject the takeover offer of Bell Resources Ltd.

Conclusions

The Asia-Pacific connection has emerged as crucial for the Australian economy but is rather more complex than is often allowed. During the late 1970s, many commentators wrote of a "Pacific Rim Strategy" on the part of transnational corporations and governments in the region. The United States and Japan were seen as major sources of capital, technology and services, while Canada, Australia and New Zealand would act as major suppliers of raw materials and attractive markets for high-technology products. Newly-industrializing countries would act as export platforms and markets for capital, while others like Indonesia would provide raw materials and large, future markets for goods and services. The reintegration of China into this Asia-Pacific economy was seen as a major goal.

Yet this deterministic model of a new international division of labour for the Pacific Region is an oversimplification. It fails to capture the ways in which capital has been internationalizing, the dynamic production links between economic activities rather than nation-states, and the increasing scale and volatility of the world financial system. Japan has emerged as a major source of capital in the region and its market is still vital to most of the newly-industrializing countries and to raw material exporters like Australia. Yet the United States remains a major target for investment in both manufacturing and raw materials production.

BHP Ltd provides a very good example. It has attempted to recreate and preserve conditions for accumulation of capital by: restructuring its Australian manufacturing operations; moving to centralize its control over Australia's raw material trade, especially with Japan; and making long-term investments in oil and gas, coal and other minerals, largely in North America. BHPs historic policy of paying conservative dividends combined with large cash flow from oil sales and the restructured steel division, allowed it to base its overseas expansion on reserves and unappropriated profits.

Yet despite this historic route of utilizing internally-generated funds and paying conservative dividends, the scale of the recent ventures and the availability of finance on world markets caused a change of direction. BHP began to borrow in the United States commercial bill market in 1980 through merchant bank First Boston Corporation. BHP became one of the first foreign companies permitted to issue commercial paper in the United States without going through a local institution.[12]

Large overseas loans have been raised to help finance its 5 430 M AUD worth of takeovers in the raw materials fields since 1984. Most have been raised in the United States, strengthening the company's determination to increase total sales within the United States in future. Yet in October 1985, a financing package of 1 470 M AUD was arranged on European markets by the National Westminster Bank followed in November by an Eurobond issue of 220 M AUD.

Australia pitched in mid 1986 into a balance of payments crisis in its current account with deteriorating commodity prices only partly offset by the plunging value of the Australian dollar. Debate within Australia strengthened over the size of the external debt, in particular the employment of overseas loan funds to help finance the massive capital restructuring now going on in the Australian corporate sector, the centrepiece of which has been the battle for control of BHP itself.

In early 1986, BHP made two major onshore investments as part of its defence against takeover. The first was the purchase of some 17 per cent of its adversary Bell Resources Ltd, while the second was the outlay of 1 200 M AUD to purchase a potential 20 per cent equity in agribusiness conglomerate Elders IXL Ltd. Ironically, BHP argued that the investment would "... help finance (Elders') international expansion",[13] which has included a 2 600 M USD bid for British food giant Allied-Lyons Ltd, since withdrawn. As the companies exchanged two Board members, observers were left contemplating the longer-term effects of this liaison between Australia's largest mineral exporter, and a company controlling about 12 per cent of Australia's total agricultural exports.

Notes:

1 P Cochrane, *Industrialization and Dependence: Australia's Road to Economic Development 1870—1939,* University of Queensland Press, 1980.

2 G J Crough and E L Wheelwright, *Foreign Ownership and Control of Australian Resources and Industries: A Data Compendium,* University of Sydney, 1982, p 9.

3 R H Fagan, "Corporate strategy and regional uneven development in Australia: the case of BHP Ltd", pp 91—123 in M J Taylor (ed), *The Geography of Australian Corporate Power,* Croom Helm, 1984.

4 BHP Ltd, *Pocketbook,* Melbourne, 1982.

5 T Ozawa, "Japan's new resources diplomacy: government backed group investment", *Journal of World Trade Law* 14 (1980), pp 3—13.

6 BHP Ltd, *Annual Report 1983,* Melbourne, 1983, p 5.

7 BHP Ltd, *Pocketbook,* Melbourne, 1986, p 33.

8 BHP Ltd, *Annual Report 1985,* Melbourne, 1985.

9 Calculated from BHP, Annual Report 1982.

10 Fagan, ibid.

11 BHP Ltd, *Reject the offer for your BHP shares made by Bell Resources,* Melbourne, 1986, p 5.

12 K Tsokhas, *Beyond Dependence: Companies, Labour Processes and Australian Mining,* Oxford University Press, 1986, p 108.

13 See note 11, p 11.