State ownership in the mineral industries of the developing countries

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Marian Radetzki's remarks deserve our praise. He has touched on practically all of the aspects and problems of state-owned mining companies in developing countries and treated some of them in detail. His comments were both comprehensive and marked by great competence. There is therefore little need to add anything in terms of factual information. We may thus proceed directly to discussion. My part is to outline the standpoint of those industrialized states with mining industries under private management. Such a perspective must, of necessity, be one-sided. But this, more than anything else, will ensure the ensuing discussion that we seek.

I want to start by addressing a rather fundamental aspect of my topic, after which I will concentrate on the four most important of Radetzki's remarks, namely:

The definition of state-owned companies; the motivation for their establishment; the situation that such companies face at present; and possible strategies for state-owned mining companies in developing countries.

The basic issue

I have doubts about the justification for treating state-owned mining companies in developing countries as a special group of enterprises.

As an observer from a Western industrial country I am analysing the world mining industry in a purely economic perspective. Doing this I classify companies into three groups:

1. Private mining companies.
2. Companies belonging to the state but being managed like private companies.
3. State-owned mining companies whose economic behaviour is directed by guidelines given by the government.

This third group are the state-owned mining companies. They have strong similarities worldwide, both in terms of their understanding of their purpose as corporate entities and in the manner in which they perform their economic activities. These common elements of economic behaviour are a predominant characteristic. There is no distinction between state-owned mining companies in developing countries and state-owned mining companies in centrally planned economies.

Another opinion which should be resolutely rejected is that state-owned mining companies are often inferior to private mining companies either in terms of technical operations or management. Private industry also has its poorly managed mining companies. On the other hand, in the newly industrialized countries and in the developing nations, there are a number of mining companies which are among the most successful and best managed in the entire world (eg, CVRD in Brazil, or the Chilean copper mines). The same may be said of the state-trading countries: some companies are undoubtedly not being managed optimally while others — even though we are not familiar with their ledgers — merit our admiration for their rapid development and their constant and even rising production levels. Examples are the Polish copper mines and the Norilsk nickel mines in Western Siberia.

With this doubt as to the usefulness of viewing the state-owned mining companies as a different group, I now arrive at the most important point of my discussion. From an economic perspective, there is only *one* world mining industry rather than separate mining industries in the developing nations, in the state-trading countries, and in the Western industrialized nations. The operation of the world mining industry features a high degree of interaction. The industry should not be viewed in isolation for it can only be understood in its relationship to the worldwide metal-working industry. The fact that no country can insulate itself from the ups and downs of prices on the commodity markets is the

clearest proof of the closely knit web of interactions.

Privately managed mining companies operate to earn profits; the goal is for the profits to be as high as possible within the scope of circumstances. The profits are channeled back to the owners who nowadays, because of the enormous size of the investments involved, are normally stockholders. Only a small share of profits are used to pay for private consumption.

For the most part, the profits are reinvested, usually in mining operations — whether to maintain or expand mining projects or to prepare for new mining projects — as long as mining remains economically worthwhile. In no privately managed mining projects are social aspects completely forgotten; on the other hand, nowhere are they of dominating importance.

The definition of state-owned companies is complementary to what has just been said. The business objectives of such companies are set by the state and serve its interests. Its goals can cover a wide range of factors: the accumulation of as high a level of profits as possible, issues of social importance (eg, job maintenance), development policy goals (eg, regional development), or the provision of an indigenous basis of raw materials. The unique feature of state-owned mining companies is that, in extreme cases, the special interests of the state may be highlighted to such an extent that the companies operate uneconomically. The state accepts this, for it expects the resulting deficit to be offset in the national accounts by other successful activities.

The motivation for the establishment of state-owned companies

The motivation for the state to take over private mining companies or to found state-owned mining companies is by no means uniform.

In the centrally planned economies with a Marxist-Leninist orientation the relationships are clear. The takeover or new establishment stems from the ideology underlying the system: the means of production are not to be held in private hands.

In Western industrial countries there are also cases of nationalization carried out for ideological reasons: this may occur, for example, when socialist governments are in charge of the state's affairs. We are familiar with this situation from the examples of England and France.

But just as common is the case in which the state takes over the company because the company is plagued by financial difficulties. Examples of this are the coal mining companies in many Western European countries. The state decided to take over these companies (or to subsidize them strongly) since jobs were at stake or since the economic structure of entire regions would have collapsed if the mines had been closed.

By contrast, the nationalizations in developing countries were of quite different nature. The companies were not affected by an economic crisis which might have provided the state with the grounds for a takeover. On the contrary, flourishing mining companies were nationalized. Nor did ideological principles, comparable to those of the socialist countries, motivate the nationalizations. Rather, the takeovers of the sixties and seventies were nationalizations in the literal sense of the word, with the goal of transferring large and important industrial companies from the hands of foreigners into national ownership.

The claim was made that these nationalizations were carried out as part of the course of economic emancipation in the developing countries. This description is not an exact reflection of real developments. In fact, after political independence had been achieved, the nationalizations were part of the process of winning economic independence. aim was twofold:

- to free the countries involved fro: influence of foreigners,
- to transfer the profits made by the ing companies to the treasury. ` nationalizations would possibly ı have occurred if the mines had not in foreign hands but in the private session of domestic citizens.

There are three facts that should be tioned in this connection:

The nationalized mining and pro ing companies were in most case: largest economic enterprises in th veloping countries.

The mining and processing coı nies were financially sound in the si and the seventies.

The developmental prospects of ing and the commodity markets in eral appeared to be quite rosy, bo terms of the continued growth of gl demand for raw materials and of continued increase in commodity pr

If the mining companies had l small and economically unimportan if they had been encountering finaı problems, they would most likely have been nationalized. There are crete indications that this would l been the case: we need only look aı central African nations where, altho the larger copper mines were natic ized, the small tin mines were not. sides, the nationalization of the m might well have taken another cour: there had not been the large expectat of profit and the notion that the dem for raw materials would grow cont ously.

Expressed in exaggerated terms, overestimation of the long-term po tial for profit from mining was ı mately one of the factors which le nationalization. The fact that the six and the first half of the seventies, v their comparatively high commo

prices and the anticipation of higher consumption growth rates were no more than an isolated surge in the multi-year trend taken by commodity prices and by the increase of demand, was overlooked. Viewed in retrospect, nationalization was thus implemented on the basis of a wrong evaluation. At the core of the measures were economic enterprises (the mines) which were thought to show high performance but which in terms of long-term average actually did not.

The present situation

We must view the situation as it is: the world mining industry is presently in an extremely difficult situation; expressed in more exact terms, it is experiencing its most severe crisis since the Second World War. The crisis is affecting all mining companies and thus naturally also the state-owned mining companies in developing countries.

The immediate causes of the crisis are easy to identify. In the case of practically all minerals worldwide overproduction is depressing prices. Incidentally, the supply of raw materials is without problems for the consumer in this situation and since, in addition, the estimates of growth rates for future consumption have been dramatically reduced, private stocks held by the consumers have also been lowered. Such stocks, to some extent at least, previously served to absorb sizable amounts of minerals, thus taking them off the market. But since this is no longer being done, a further demand stimulant is missing.

By contrast, the deeper causes which have led to worldwide overproduction are extremely complex and manifold:

1. The high value of the dollar at the end of the seventies and beginning of the eighties resulted in a disproportionate expansion of capacities.

2. At the same time, however, owing to the high rate of exchange for the dollar, certain groups of users intentionally lowered consumption levels in a clear parallel with the restructuring of oil markets.

3. This intentional reduction of consumption was amplified by the second oil price shock.

4. In some areas, technological innovation has considerably reduced the specific metal consumption per unit of economic activity in recent years. In other industrial branches, innovation has resulted in changes in the patterns of consumption of certain minerals, in new production processes, and with them in lower mineral consumption levels.

5. Substitution by non-mineral commodities is gaining increasing ground.

6. Recycling has been perfected and is becoming increasingly more important.

All of these causes are more or less effective on a worldwide scale and affect both privately managed and state-owned companies to the same extent.

Another question is whether or not the state-owned mining companies (of the entire world) are reacting adequately to the crisis and helping to reduce overproduction and to bring supply and demand into a state of equilibrium.

The very definition of private mining companies indicates that they serve this function. They begin with a streamlining of the internal organization with rigorous austerity measures which, in the United States, even include wage cuts. If this is not enough, mines and processing plants are then closed down, that is, capacities are reduced. The inevitability of this course of action has been clearly demonstrated in recent years in the United States copper industry.

In the case of state-owned companies we have a different picture. They are able to show deficits for a longer period of time and in certain cases they can continue to do so permanently, namely, in cases in which the state sets its priorities accordingly.

There are additional characteristics to be considered in the case of state-owned mining companies in developing countries. First of all, nearly all such companies receive subsidies of one sort or another or concessional loans either through the Lome Fund, the IDA, or the World Bank. On the other hand, many developing nations are in such need of hard currency that they allow their state-owned mining companies to continue to produce even when they are already operating in the red.

A comparison was drawn between the success of the Chilean copper industry and the American copper mines. The argument was made that the United States copper industry had slid into its present cost situation, an unfavourable one by world standards, as the result of the shift in exchange rates and of inflation. This may be the case, but the comparison has been poorly chosen, for the Chilean copper mines are able to operate at probably the most favourable cost levels in the world owing to the natural conditions of mineral deposits, the relatively favourable transport situation, the comparatively few environmental protection requirements, and the low wage level. The comparison would possibly have another result if the highly subsidized copper mines of the central African area were compared with the United States copper mines.

Incidentally, copper is not the only mineral for which governments are forcing their state-owned mining companies to maintain or expand production levels at a moment when the interest of stabilizing international mineral prices would dictate a reduction of capacities. Tin prices are put under even greater pressure when, for example, in the wake of the Tin Agreement's collapse and the associated tailspin of tin prices, the government of a tin producing country officially declared that greater amounts of the mineral must be produced to offset the

loss of revenues resulting from lower tin prices.

In the same sense, it is legitimate to ask if those countries that are the market leaders for a certain mineral are acting clear-sightedly when they sustain their production at so high a level that the supply constantly outpaces demand and the prices remain correspondingly low.

Possible strategies for state-owned mining companies in developing countries

The only possibility to surmount the present crisis affecting the world mineral market is for worldwide overcapacities in mining and processing to be reduced. Supply and demand must regain a balance.

Such a reduction of capacities cannot be carried out by privately managed companies on their own. State-owned mining companies will also have to participate in the effort and, among them, mining companies from developing countries. If they fail to do so, the hard struggle to displace competitors will continue, for no one can prevent countries that produce at favourable cost levels, such as Chile for copper or Brazil for tin, from successively expanding their world market shares. State-owned mining companies operating at unfavourable cost levels have no chance in the face of such actions. If they do not voluntarily reduce their capacities, the deficits will accumulate over the years and burden the public finance. As all deficits must be paid in one way or another, this ultimately leads to a diminution of the standard of living of the population.

It should, however, be emphasized that the hopes of the numerous producing countries that the world mineral market might be brought into equilibrium through commodity agreements, with market intervention and buffer stocks are unrealistic. It has been clear at least since the collapse of the International Tin Agreement that such accords are by no means suited to providing producers with the long-term guarantee of sales at acceptable and sustained prices. In all probability we can expect that no consumer country will any longer be willing to join a new agreement providing for market intervention.

By contrast, the situation is different in the case of the planned activities of the so-called "second window" of the Common Fund. Many consumer countries are interested in this and are willing to support measures which aim at the broadening of the specific possibilities of using a certain mineral. For Study Groups contributing to the transparency of market transactions there also exists a broad sympathy. But it would be necessary that the state-trading countries also participate in efforts to attain market transparency. If this is not done, the Western countries will in the long run also show less interest in making their plans and figures public.

Besides such general measures, however, there are also specific actions with which the state-owned mining companies in developing nations may improve their situation and assure themselves shares of the world market. These actions should aim in three directions:

1. At a gradual removal of the known disadvantages that have handicapped the state-owned mining companies in developing countries ever since they were nationalized,
2. At the proper composition of the production assortment, and
3. At the development of new markets.

One of the major disadvantages of nationalization has, of course, been the fact that the mines and processing plants in the developing countries were thereby removed from integration in downstream production: mining, processing, manufacture of semi-finished products, metal dealing. They thus lost regular and reliable customers and many of the mining companies have in the meantime their output on the metal exchang changing buyers. In times of stron mand for commodities, there was nc advantage in this. But today, a long- bond between producer and consı would in many cases would have an advantage.

We should not argue that the mi companies in developing countrie not have the capital for acquiring sh What is needed is flexibility in thin and the willingness to embark upon paths. At a time when joint venture already being established between] ern state-trading countries and We industrialized nations, it should be p ble to organize a tighter interface tween the mining industry of the de oping nations and the European or N American consumer industries, eve this be by way of exchanging com shares.

Of importance is also the questio the product assortment: the minerals can be produced and exported b country have been determined by na and cannot be altered. By contrast, within the scope of one's own decis making to determine the form in w the mineral is to be brought to the ı ket. It is the desire of the developing tions to export their minerals in as cessed as possible a state so as to re within the country the value added ing the manufacturing phase. Here, copper is an example. Each copper- ducing country would like to export c per in refined or even higher manu turing stages.

In certain cases therefore the should be made for denationalizatioı seems worth mentioning that Chile embarked on this path to the benefi its copper mining. We should, howe be able to expect that the develop countries will become more flexible will consider whether or not there other possibilities of safeguarding s markets and of binding the consum more strongly.

One of these possibilities is the long-term supply agreement, in which the producers relinquish receipt of the maximum price possible on the world market and instead benefit from the diversification of the circle of their buyers and from security in terms of the saleability of their output. Papua New Guinea, which sells a portion of the copper concentrate from Ok Tedi in Central Europe at prices below those offered in Japan is an example of this.

Ties to the consumer could however also be closer. In numerous Western consumer countries, foreign companies may purchase stakes in domestic industry. Shares held by overseas mining companies in companies of the semi-finished goods industries are conceivable and would direct the sale of the mining output in this direction. By contrast, copper concentrates are the easiest to sell on the market and also often bring price benefits, for example, when purchased by Japan. Moreover, when efforts are limited to the exportation of concentrates, the high cost of investment in the processing plants do not arise.

The third important point is future markets trends. We should be clear about the fact that mineral consumption in the industrialized countries in the future will show relatively low growth rates. The reasons are the low rate of population growth and the innovative surge that favours conservation efforts in the mineral sector. The markets of the future lie therefore in the developing countries, for that is where the largest population growth will take place and where there is the greatest need for equipment and outfitting of every sort. But flexibility is also necessary, along with continuous re-thinking of the mineral products that can be manufactured within the country itself. Their number is larger than commonly assumed. Every visitor to an East African industrial exhibition notices, for instance, that, relative to its neighbouring countries (excluding South Africa), Zimbabwe offers an astonishing number of small machines that it manufactures domestically. The machines include oil mills, pumps, plumbing equipment, etc. The plants which manufacture such equipment were developed by necessity, during political isolation under the Smith regime — without the country requiring large influxes of capital.

Such capabilities for innovation should be shown by other developing nations. If this were the case, mineral consumption in the developing nations would increase.