

The world nickel market — an Australian perspective

By H M Thompson and Howard Smith

In this article H M Thompson and Howard Smith examine the dependencies which exist between nickel producing nations and companies.

It also looks at the present "rationalization" policies in the nickel industry and the effects these policies are having on Australian workers.

A statistical update on the world nickel industry will be published in the next issue of RMR.

This article updates previous work on the world nickel industry presented in *Raw Materials Report*.¹ The analysis is done with particular reference to Australia and the fourth largest company in the world nickel industry, the Western Mining Corporation. As pointed out in previous articles, there is a crisis in the industry which was originally set by decisions and events in the 1970s and has proceeded throughout the 1980s. This crisis has had a severe effect on the livelihood of working people in Western Australia, the heart of the Australian nickel industry. We will proceed to update the erratic development of the nickel industry, examine one of the world's major producers, and finish by identifying the effects of the crisis on Australian working people.

Producer and consumer markets in the 1980s

Nickel is the most widely used alloying element in ferrous and non-ferrous metallurgy. It is used in the production of stainless steel, construction steel and nickel alloys; as well as in electrolytes and anodes in the plating industry. It is also used as a catalyst in the chemical industry and to make cupronickel alloys for coinage. The metal is found in everything from household appliances to military and space industry production.

Estimates of world nickel reserves have been "substantially revised" in the last four to five years. The statistics in Table 1 were compiled after adjustments downward for New Caledonian ores and "a considerable increase in those of Cuba". The world's reserve base is estimated at 100 Mt and, in addition to the countries listed in Table 1, includes deposits in Guatemala, Papua New Guinea and several African nations. Although over 60 per cent of the world's nickel production comes from sulphide ores, 80 per cent of world nickel reserves are in lateritic formations.² It is recognized throughout the industry that sulphide ores are still the "cheapest"

path to nickel production which explains why a majority of world nickel output is from the sulphide mines. Laterite ores are mined by cheap open cut methods, but they have low grades and require an expensive treatment process. Sulphide ores are of a higher grade but are found deep underground and require vertical shaft and decline techniques of mining. Sulphide ores are predominant in Western Australia.

From the 1970s to the present, world nickel output has appeared to move in an approximate three year cycle of boom and bust. In 1977, world output was 786.6 thousand metric tons (kt). This fell to 690.3 kt in 1979 and then increased dramatically to 748.6 kt in 1980. Once again output slowly fell to 658.3 kt in 1983, only to hit a peak of 776.9 kt in 1985. Since 1985, prices and output have both been declining. The problem now is that the world situation may have changed so drastically in the past few years that a simple three year cycle analysis is no longer pertinent.

The world nickel industry operates within a delicately balanced market framework. A number of factors taking place during the 1970s contributed to significant changes in nickel mining on a world scale. These factors include the politicization of the market by the Soviet Union and Cuba, increasing their sales at very low prices; increasing production by a number of Third World countries with assistance or active participation by their respective governments; and the expansion of "dealer" markets where the price has been given by London Metal Exchange quotations since 1979. As a result, while the *International Nickel Company of Canada* (INCO) continues to control up to one-third of the Western world's market, it can no longer "directly" determine the world price of nickel as it did for so many years up to the 1970s.

Throughout the 1970s and 1980s, changes in nickel supply and demand have followed a cyclical path not always comprehended by the major producers

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themselves, even taking into consideration their "best" efforts to influence the market. Commenting on a significant price reduction in October, 1985, the Director of Operations of the *Western Mining Corporation* (WMC) had this to say:

"Really, the situation which has arisen (the price slide) is inexplicable. It was unexpected by the consumers of nickel as well as the producers."³

In looking for a reason for the downturn, in a period of relatively strong demand, he saw "no large inventories, no flooding of the market by the USSR or others, and the margin for market manipulation through the London Metal Exchange or dealers was limited because of the very size of the nickel trading market".

On the other hand, the WMC executive considered it would only take "major production cuts or more shutdowns", as the Canadians carried out in 1985, to call a halt to the slide. Yet,

despite each shutdown or "rationalization" of nickel output in 1986, the price of nickel has continued to fall significantly. The United States dealer price at one point dropped to around 1.55 USD per pound, with an equivalent reduction on the London Metal Exchange from approximately 3 050 GBP per tonne at the beginning of the year to below 2 400 GBP per tonne at the end of 1986. With this downward movement in prices, major producers increased the severity of cuts in mining costs, using short-term shutdowns when and where necessary.

In February, 1986 the two largest nickel companies, INCO and Falconbridge, told their customers they would no longer sell nickel below 1.95 USD per pound. Both corporations were strengthened in their resolve "to hold out for higher prices by the generally low level of stocks in their systems."⁴ By May, market prices had dropped to a low of 1.79 USD, and the two companies were rapidly losing sales.

At this particular time the Soviet influence was clearly keeping the dealers

guessing. Estimates of 40 kt to 80 kt of Russian nickel being released through the London Metal Exchange effectively kept a downward pressure on prices.

"This has shaken western producers and most notably INCO. While it remained convinced that nickel would be net short this year, INCO indulged in some transparent tinkering on the London Metal Exchange, calculating that some strategic purchasing could help sentiment, iron out a temporary price "distortion", and at the same time bring additional material into its system both to meet shortfalls of its own and, to enable it to continue to supply nickel to some customers who balked at the 2.05 USD asking price."⁵

The major nickel producing companies had two additional obstacles to contend with in 1986. Firstly, lower oil prices which were expected to boost medium term industrial activity have, in the near term, brought with them market weakeners such as cancelled petro-chemical projects and revised investment plans in the Middle East. These developments have created pockets of slackness in the demand picture and helped release some of the steam from the market. Secondly, the continuing weak prices in the ferro-nickel sector make anyone's job of convincing the world that nickel units really are short, all but impossible. While ferro producers continue to push sales volumes, continue to compete all out for market share, and perhaps most importantly, continue to sell their product at prices which take reference from scrap, cheap nickel units will remain available in volume.⁶

In April, 1986, the executive vice-president of INCO, Ian McDougal, forecast a 10 per cent rise in the price of nickel by the end of the year.⁷ The 10 per cent increase was not realized and by February, 1987, the in-coming chief executive of INCO "(was) cautiously op-

Table 1

**World nickel reserves
(kt of contained nickel and % of total)**

Developed		Developing		Centrally planned	
Australia	2 085 (5.9)	Botswana	410 (0.8)	China	725 (1.4)
Canada	7 260 (13.8)	Brazil	815 (1.5)	Cuba	18 145 (34.4)
Finland	35 (0.1)	Colombia	590 (1.1)	USSR	6 620 (12.5)
Greece	2 360 (4.5)	Domin.Rep	725 (1.4)		
S Africa	2 540 (4.8)	Indonesia	3 900 (7.4)		
USA	270 (0.5)	New Caledonia	1 815 (3.4)		
Others	2 450 (4.6)	Philippines	1 815 (3.4)		
		Zimbabwe	180 (0.3)		
Totals	17 000 (32.2)		10 250 (19.4)		25 490 (48.3)
Grand total 52 740					

Source:

Phillip Crowson, *Minerals Handbook 1986—87: Statistics and Analysis of the World's Minerals Industry*, Hampshire, UK: Macmillan, 1986, p 183.



The logotype of Western Mining Corporation

timistic that 1987 may prove the turn-around year for long depressed nickel prices".⁸ One may begin to wonder whether the executives were attempting to convince the market or themselves that price increases were imminent. In any case, even if the anticipated turn-around in nickel prices is realized in the near future, the days of 3 USD for a pound of nickel will not return for quite some time. To protect themselves against the possibility of a long run relative decline in nickel revenue, the major companies have increased their rate of diversification into gold and platinum mining, moved towards upstream processing and refining of alloys, and engaged themselves in a variety of high technology ventures. 1987 has also become another year of production cut-backs by the major producers, squeezing out further reduction in operating costs as well as finding new methods of controlling production costs.

"A comparison of the 1983 and 1986 cash operating costs of nickel producers shows that median producers are now producing at about 1.60 USD per pound compared to just over 2.00 USD in 1983. Such costs include all the cash costs of producing and marketing nickel but neither repayment and servicing nor depreciation."⁹

One of the major "cash costs" in nickel mining is labour cost. As we will note below, redundancies, mass sackings, and "natural attrition" of the labour force are a few of the methods used by companies to reduce costs in order to hold the bottom line of profitability.

Australian nickel production

In 1969, nickel was the mineral that set off one of the biggest share market booms in Australian history. Stocks like Poseidon and Tasmanex became household names to thousands of Australians. The rush to find nickel in Australia has declined somewhat from those days,

but the mineral continues to play a major role in the mining industry of Australia, particularly Western Australia. Australia is the world's third largest producer of the metal accounting for about 11 per cent of world production. Western Mining Corporation (WMC) in Western Australia accounts for more than one-half of Australia's total output. Nickel is also mined in Queensland by an American-Australian joint venture, i.e. Freeport McMoran Inc of New Orleans, USA, and Metals Exploration Ltd which is ultimately controlled by Dallhold Investments. Dallhold Investments is a family company of Alan Bond in Western Australia. In 1985, Australia produced 85.5 kt out of a world total of 776.9 kt. The largest producer in the world was the Soviet Union with 175 kt. Other major producers include New Caledonia, Indonesia, and Cuba.

A number of factors affect the international production of nickel, which in turn affect the prognosis for Australian output. Some of these factors include:

- a highly centralized and concentrated market with four companies effectively dominating output in the Western world (INCO, Falconbridge, WMC and Société Metallurgique le Nickel);
- the sensitivity of nickel output to world steel and automobile production;
- the existence of strategic stockpiles in nations such as the United States;
- the fact that present world nickel capacity is sufficient to supply expected demand with present technology; and finally,
- the diversification of mining companies into other areas with the assistance of international finance capital.

Therefore, the strategy and/or response required by organized labour is continually changing. Old strategies operative in the 1970s will no longer work given the new conditions of the 1980s. The downward pressure on ore prices is used to justify dismissals and demands for increased efficiency from the labour

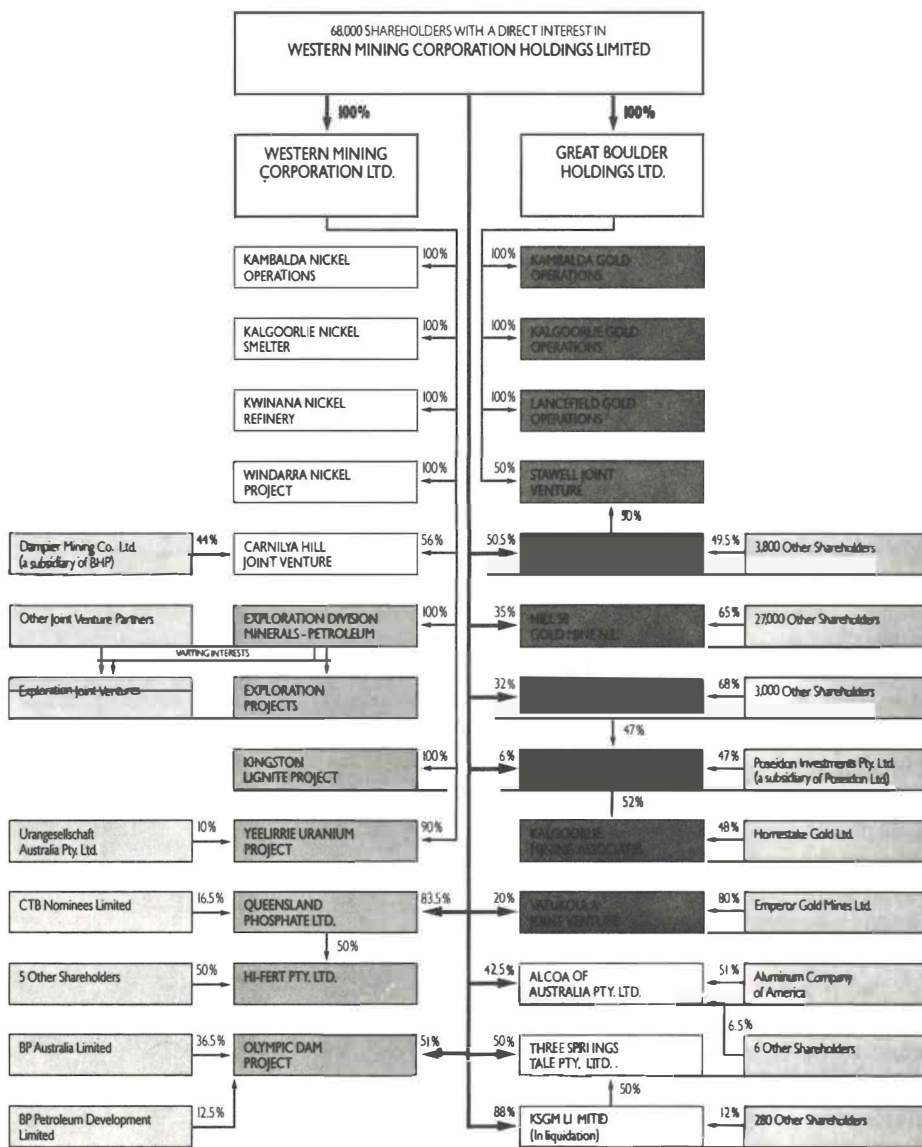
force. The companies also use an array of short-term measures which destabilize existing strategies of trade unions. These measures include lock-outs, regular shut-downs of targeted operations for short periods of time, or moving offshore to set up mines processing plants in developing countries more favourable, in cost terms, to management interests.

Ten years ago in 1977, both INCO and WMC had retrenched workers almost simultaneously and had major labour disputes on their hands. In 1979, again portraying world interdependence, a significant improvement for nickel minings in Western Australia was predicted based on "industrial problems which had affected the INCO mines".¹⁰ Then, in 1986, INCO once again was involved in major plant shutdowns, retrenchments and industrial disputation in its Canadian mines. This time, both Falconbridge and Western Mining Corporation also announced major production cuts, and retrenchments based on industrial conflict with their respective labour forces.¹¹ In that sense the "rationalization" of nickel mining in Western Australia, and the capital-labour conflict which ensues, is only one episode in a world-wide drama being played in the world capitalist nickel industry. All of this does not imply a conspiracy of any sort, but rather, the linkages and logic of capital accumulation and crisis on a world scale.

Western Mining Corporation (WMC)

WMC's main metals interest and most important business activity at present is nickel mining and processing in Western Australia. It is the fourth largest nickel producer in the world with mines, a concentrator, a smelter and a refinery at various locations in Western Australia. Further, it has been clearly identified as the most efficient nickel producing company in the world.¹²

The corporate structure of Western Mining Corporation Holdings Ltd as of 1986-09-15.



WMC was originally established in 1933 to explore for and produce gold. This continues as a major activity. WMC also holds a 30.5 per cent interest in Alcoa of Australia Ltd; a 51 per cent interest in the Olympic Dam copper—uranium—gold project at Roxby Downs in South Australia; a 75 per cent holding in the commercial uranium deposit at Yeelirrie, Western Australia; as well as holdings in coal, petroleum, phosphate and talc.

Nickel sulphides were first discovered at Kambalda, Western Australia in 1966 and production of the ore began in 1967. By 1986, there were 11 nickel mines in and around the Kambalda dome. The annual quantity of ore mined is about 1.5 Mt; and estimated reserves in the im-

mediate area are calculated at 26 Mt with a grade of 3.3 per cent nickel. Sulphide ores mined are concentrated which increases the nickel content from about 3 per cent nickel to 11—14 per cent in concentrate which is then loaded and transported to the smelter or refinery. Japan remains WMC's major customer, taking 30—35 per cent of production. Most of the balance is spread equally between the United States and Europe (mainly Germany, England, Sweden and France).

In 1985, the production of nickel from the mines of WMC declined slightly but the sales of nickel in all forms increased by 3.6 per cent. Due to a devaluation of the Australian dollar (AUD), the average price received in USD was 26

per cent higher during 1984—85 than in the previous year. The cost per unit of nickel sold increased by 5.5 per cent, partly because of the reduction in the grade of ore mined. However, this cost increase was well below the inflation rate of 6.7 per cent. Profits after tax for 1984—85 increased substantially by 34 per cent to 40.4 M AUD; and dividends were increased by 50 per cent.

The above figures clearly show that WMC moved into a healthy operating position in 1985 due to the fact that a declining world price was offset by a 14.6 per cent devaluation in the Australian dollar. However, WMC management viewed the United States—Australian dollar disparity as a short-term phenomenon, and one capable of being reversed. Therefore, when prices began to slide in October, 1985, WMC executives saw their suspicions confirmed and began to seriously consider a process of rationalization and cost-cutting measures for 1986.

In any case, WMC management was not prepared to let the workers know that major changes were being considered. In fact, the opposite was the case. Until April, 1986, the workers were informed continually that major changes which may affect them were not being contemplated and that they had no reason to fear retrenchments or cut-backs in the labour-force. All requests by workers for information were treated somewhat flippantly, as if they were worrying unnecessarily, or trying to stir up unnecessary trouble.

Yet, a report in the *Metal Bulletin* in early 1986 had confirmed the worker's suspicions. In this report, Arvi Parbo, Chairman of WMC, was reported as strongly hinting in mid-February, 1986 that the company was considering a reduction of nickel output. The price of 1.80 USD per pound nickel market "is not a price at which we would expect to make a lot of money".¹³ Of course, he didn't mention that due to the decline of the Australian dollar, WMC profits had increased 82.6 per cent between July 1

and December 31, 1985. As it turned out, "Parbo's hint" may have been the understatement of the year in the Western Australian nickel industry.

We now turn to examine the capital-labour confrontation caused by attempts of WMC management to rationalize their operations.

Capital—labour confrontation

During the two previous world nickel industry downturns in 1977 and 1983, nickel workers had suffered from WMC initiated redundancies. Given the cyclical nature of the industry the workers at all of the WMC mines decided after the 1983 retrenchments that they would prepare themselves against similar company action in the future. Therefore, a combined union committee was formed to represent the rank and file member's interests on all site issues. The first order of business was to draw up a retrenchment agreement to be placed before the company to be negotiated, and made applicable to any future sackings.

In July, 1984, the combined union committee drew up the agreement and presented it to the company. The first problem the unionists faced was that the company refused to recognise the committee as a legally constituted body and therefore, refused to negotiate. All attempts by the committee to discuss issues with the company were ignored by management and little was accomplished for more than a year.

In October, 1985 (the same time as a major downturn in prices for nickel), the combined union committee was again told by the workers to submit the retrenchment agreement to the company. Once again they were ignored by company officials. However, this time the workers began to exert pressure through industrial action and rolling strikes. This finally brought a response from the company. In December the Corporate Industrial Relations Manager met with the committee and offered to renew an old 1982 agreement. He

strongly indicated that his offer was not negotiable. The workers could either accept or reject it but he would not discuss it. The committee rejected the offer based on his refusal to negotiate and his refusal to recognize the committee as representative of the workers.

The first indication that shutdowns and retrenchments were a possibility was made in February 1986, when company officials requested a meeting with union representatives (shortly after Parbo's hint appeared in the *Metal Bulletin*). The Industrial Relations Manager discussed the falling price of nickel, potential changes in the exchange rate and pointed out the possibility that a couple of mines might have to be closed. The workers responded with anger, primarily due to the fact that the company had refused to negotiate a redundancy agreement over the previous eighteen months, an agreement which might have prevented the lay-offs and dismissals which now appeared imminent.

After a number of aborted attempts at negotiation, all of the workers (1 100) voted to go on strike on April 3, 1986. On April 4, WMC informed the unions that 5 of the 11 nickel mines were to be closed and 190 workers were to be sacked. More than that, the workers chosen by the company to be sacked included 11 of the 13 representatives on the combined union committee and 25 of the most militant and active shop stewards. In other words, the rationalization process had as its main goal to cut the heart out of the union movement on site. The company argued metaphorically that it was increasing its efficiency by getting rid of "nonproductive units".

All of the workers remained on strike for six weeks. They returned to work only after the company had agreed to negotiate a redundancy agreement, which was seen as fair, by all those workers who had been dismissed. However, the managerial prerogative, of being able to choose employees to be dismissed had been successful in getting

rid of the most active trade unionists on site. This has weakened the trade union organization considerably at all of the mines which have remained open, enabling the company to initiate a large number of changes in work practices detrimental to the workers. Consequently, costs have been reduced, and profits have remained stable. All this at the expense of 190 workers losing their livelihood. The sackings, justified by WMC on economic grounds, were clearly meant to discipline, punish and divide a workforce which was beginning to challenge and threaten the prerogatives of management. This is one aspect of the world nickel industry crisis that is seldom reported.

Notes:

¹ See Peter Warrian, "the World nickel market — a North American perspective", and Andreas Tegen, "Basic facts on the world nickel industry", in *Raw Materials Report*, Volume 2 No 2, 1983, pp 42—53.

² Phillip Crowson, *Minerals Handbook 1986—87: Statistics and Analysis of the World's Minerals*, Hampshire, UK Macmillan, 1986, p 183.

³ "Nickel", Ross Louthean (ed), *Register of Australian Mining 1985—86*, Perth, 1986, p 302.

⁴ "Nickel Giants see Tighter Market", *Metal Bulletin*, 1986-02-21, p 15.

⁵ "Nickel Dilemma", *Metal Bulletin*, 1986-08-01, p 3.

⁶ *Ibid.*

⁷ Nickel Price to Rise 10 pc", *The Miner Newspaper*, 1986-03-21—05-04, p 18.

⁸ Peter Cooney, "Upturn in Nickel Price Predicted", *The Miner Newspaper*, 1987-02-15/28, p 15.

⁹ "Price threat to Nickel", *Metal Bulletin*, 1986-12-05, p 21.

¹⁰ *The Kalgoorlie Miner*, 1979-04-19, p 1.

¹¹ For a discussion of some of the major capital-labour disputes on a world scale see *Metals Week*, 1986-04-14.

¹² "Spotlight on high cost producers", *Metal Bulletin*, 1986-12-05, p 21.

¹³ "Parbo Hints at WMC Cuts", *Metal Bulletin*, 1986-02-21, p 15. ■