

MIM holdings has long been regarded as the Australian mining venture that is rock solid. When even it posted losses in 1982 that was briefly touted by economists, brokers and of course miners themselves as evidence that the mining industry and the economy were in trouble. Producers of most of Australia's major exports continue to find the going pretty tough. Since 1982 MIM has been profitable but earnings to capital ratios have been miserable at 1.4 and 0.9 percent. MIM has just announced a \$23.8 million loss for the first quarter of 1984-85.

Exporters' difficulties may be divided between low international prices and high Australian costs. The latest MIM Annual Report makes clear that much of the problem is home grown. International prices are poor, however the source of mining's troubles is to be found more in bad government than bad markets. For decades this industry has been milch a cow from which governments, unions and protected industries have supped but now, over milked and under fed, it is wasting away. Shareholders will not invest in the expectation of returns as low as 1.4 and 0.9 percent - in real terms these are losses.

These figures are not exceptional; Mr. Hugh Morgan of Western Mining Corporation made the point that even if the most recent two bad years are excluded the average return of the mining industries was only 4% per year for the ten years to 1981, compared with banking 8.8%, retailing 7.9% and TV 20.3%. Comparisons such as these make rational investors leave mining for other investments.

This would not matter if the investments were those which, in the long run, would make the greatest contribution to living standards; but they are not.

The rewards to be gained from mining investments are kept artificially low by exceptional compulsory transfers away from mining to the Governments themselves and by government induced transfers to protected industries and housing. The Government, knowingly or not, has handicapped this industry in the competition for domestic and for foreign capital.

As private, unlike government, enterprises cannot force investors to part with their savings they must offer rewards.

In the last analysis governments command resources by threat of the use of force. This power is ceded to government with the presumption that it will be used with reasonable evenhandedness and reasonable economy.

Last year MIM Holdings paid its shareholders \$25.1 million or 2.5% of sales revenue; it paid the Queensland, W.A. and Federal Governments \$102 million or 10% of sales revenue. As we would expect, the largest, most discriminatory and most outrageous charges were levied by that self proclaimed bastion of free enterprise, the Queensland Government.

In the five years to June 1983 inflation was 50% but Queensland government charges paid by MIM rose 80%.

Increasingly mining projects are being loaded with infrastructure costs which are not asked of other competing sectors of the economy. MIM cites these capital costs associated with the Collinsville and Newlands coal development.

		<u>\$ million</u>	
Mines			404
Infrastructure			
Towns	103		
Onshore Port facilities	80		
Railways	250		
Roads	29		
Power/Water	27		489
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		\$	893 million

The MIM Report also states that, "In 1983/84, existing tariff and protection policies imposed a further burden on the MIM group estimated at \$40 million." That \$40 million not only directly reduced MIM's ability to attract capital but the protection process also subsidised others to bid against MIM in the capital markets.

In competition with more obviously productive investments housing absorbs savings. If a capital gains tax were to tax a gain in MIM stock but exclude dwellings it would further exacerbate an already serious economic distortion.

The chances of making a gain in MIM stock will depend most on success in reducing the high levels of industry protection and on reducing Queensland and Western Australian taxes.