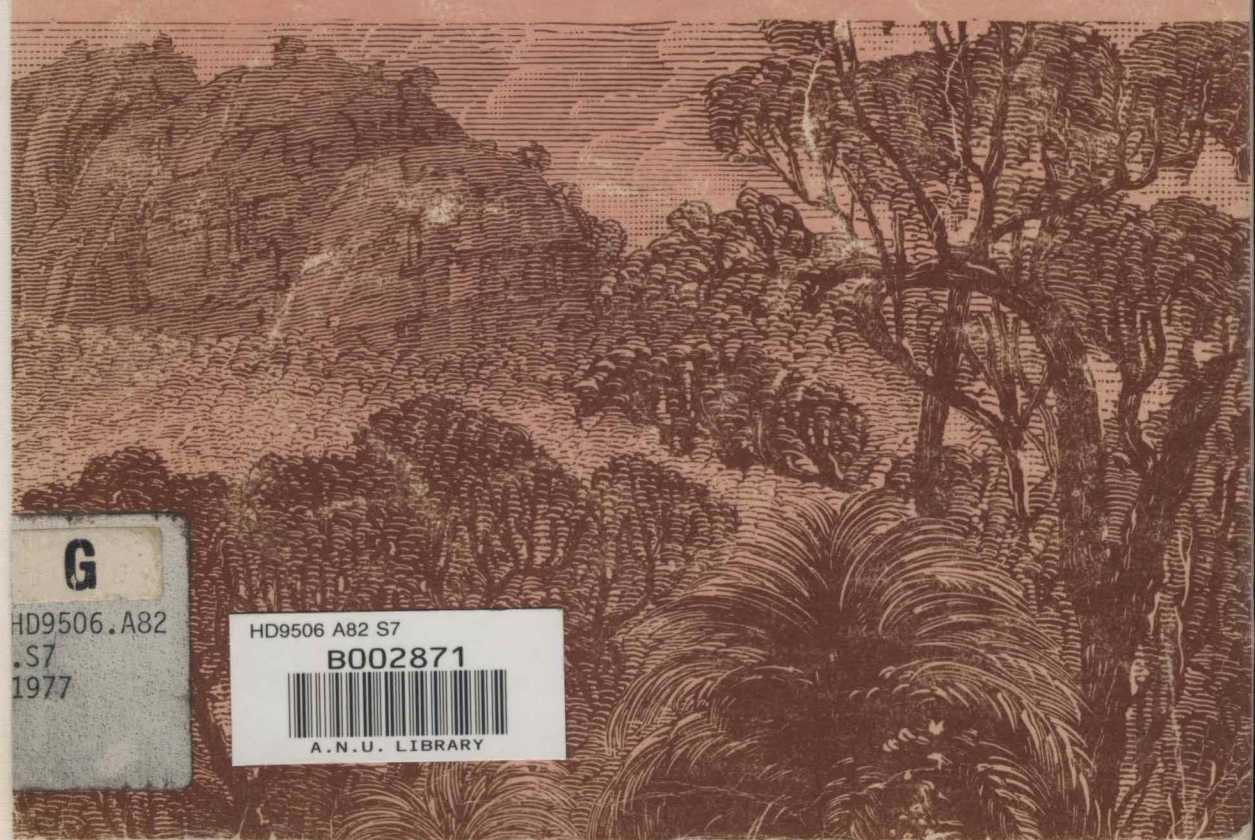
Mineral resources and Australian federalism

Garth Stevenson

Centre for Research on Federal Financial Relations
The Australian National University, Canberra

Research Monograph No. 17



Mineral resources and Australian federalism

Mineral resources and Australian federalism

Garth Stevenson

Research Monograph No. 17

Centre for Research on Federal Financial Relations
The Australian National University, Canberra, 1976

First published in Australia 1977

Printed in Australia by Southwood Press Pty Limited for
the Centre for Research on Federal Financial Relations,
The Australian National University, Canberra.

National Library of Australia
Cataloguing-in-Publication entry

Stevenson, Ian Garth, 1943-.
Mineral resources and Australian federalism.

(Centre for Research on Federal Financial Relations research monograph; no. 17).
Bibliography.
ISBN 0 7081 0721 4.

1. Mineral industries — Australia — Economic aspects. 2. Intergovernmental fiscal relations — Australia. I. Title. (Series: Australian National University, Canberra. Centre for Research on Federal Financial Relations. Research monograph; no. 17).

336.190994

FOREWORD

The Centre for Research on Federal Financial Relations

The Centre was established by the Australian National University in 1972, with financial support from the Australian Government, for the purpose of undertaking studies in the field of federal financial relations. The role of the Centre is to generate ideas in relation to problems of federal finance and to extend the reliability and range of information and analysis. In particular, the work of the Centre will have regard to expenditure responsibilities, financial powers (with respect to both taxation and loan finance), grants arrangements and the scope for intergovernmental co-operation.

The Centre's research program is being directed to four major fields of study:

(a) financial and economic analysis of the Australian and other federal systems;

(b) criteria and machinery for determining the allocation of financial resources among governments;

(c) intergovernmental aspects of urban and regional development; and

(d) the effect of the federal financial system on the effectiveness of expenditure in major areas such as education.

The Director of the Centre (Professor R.L. Mathews) is advised by a Research Advisory Committee, the membership of which reflects the interests of the Australian, State and local governments and includes members of other universities. Emeritus Professor Sir John Crawford is Chairman of the Committee. Although the Centre's work is concerned especially with intergovernmental financial relationships, the approach is interdisciplinary and involves scholars from the fields of constitutional law, political science and administrative studies as well as economics. The Centre has only a small permanent staff and much of the research program is being carried out by visiting fellows, scholars in other institutions assisted by research grants from the Centre, and postgraduate scholars.

The results of research are being published in books, research monographs, occasional papers and a reprint series. Views expressed in the Centre's publications are those of individual authors and no endorsement by the Centre or by the University is implied.

Publications

Books

R.L. Mathews and W.R.C. Jay, *Federal Finance: Intergovernmental Financial Relations in Australia Since Federation,* Nelson, Melbourne, 1972, pp. xiv + 370 (cloth edition $8.95, paperback $6.75).

R.L. Mathews (ed.), *Intergovernmental Relations in Australia,* Angus and Robertson, Sydney, 1974, pp. xiii + 310 ($14.95).

B.S. Grewal, *Centre-State Financial Relations in India,* Punjabi University Press, Patiala, 1975, pp. xvi + 268.

R.L. Mathews (ed.), *Making Federalism Work: Towards a More Efficient, Equitable and Responsive Federal System,* Centre for Research on Federal Financial Relations, Distributed by ANU Press, Canberra, 1976, pp. xiv + 219 ($10.00).

Research Monographs

No. 1 J.E. Richardson, *Patterns of Australian Federalism,* Distributed by ANU Press, Canberra, 1973, pp. x + 142 ($4.00).

No.2 J.S.H. Hunter, *Revenue Sharing in the Federal Republic of Germany,* Distributed by ANU Press, Canberra, 1973, pp. xi + 116, ($3.00).

No. 3 B.S. Grewal, *Fiscal Federalism in India,* Distributed by ANU Press, Canberra, 1974, pp. xi + 116 ($3.50).

No. 4 R.L. Mathews (ed.), *Fiscal Equalisation in a Federal System,* Distributed by ANU Press, Canberra, 1974, pp. xiii + 142 ($4.00).

No. 5 R.L. Mathews and W.R.C. Jay, *Measures of Fiscal Effort and Fiscal Capacity in Relation to Australian State Road Finance,* Distributed by ANU Press, Canberra, 1974, pp. xii + 79 ($4.00).

No. 6 R.S. Gilbert, *The Future of the Australian Loan Council* with *An Annotation of the Financial Agreement 1927-1966,* Distributed by ANU Press, Canberra, 1974, pp. xi + 218 ($6.50).

No. 7 R.L. Mathews (ed.), *Fiscal Federalism: Retrospect and Prospect,* Distributed by ANU Press, Canberra, 1974, pp. xxiii + 228 ($5.00).

No. 8 R.L. Mathews (ed.), *Responsibility Sharing in a Federal System,* Distributed by ANU Press, Canberra, 1975, pp. xxiv + 214 ($5.00).

No. 9 C.P. Harris, *The Classification of Australian Local Authorities,* Distributed by ANU Press, Canberra, 1975, pp. xiii + 127 ($4.00).

No. 10 B.P. Herber, *Fiscal Federalism in the United States of America,* Distributed by ANU Press, Canberra, 1975, pp. xiii + 121 ($5.00).

No. 11 M.H. Sproule-Jones, *Public Choice and Federalism in Australia and Canada,* Distributed by ANU Press, Canberra, 1975, pp. x + 103 ($5.00).

No. 12 J.A. Maxwell, *Specific Purpose Grants in the United States: Recent Developments,* Distributed by ANU Press, Canberra, 1975, pp. xiv + 100 ($5.00).

No. 13 P.D. Groenewegen, *The Taxable Capacity of Local Government in New South Wales,* Distributed by ANU Press, Canberra, 1976, pp. xiv + 156 ($6.00).

No. 14 R.M. Burns et al., *Political and Administrative Federalism,* Distributed by ANU Press, Canberra, 1976, pp. x + 113 ($6.00).

No. 15 Cedric Pugh, *Intergovernmental Relations and the Development of Australian Housing Policies,* Distributed by ANU Press, Canberra, 1976, pp. xiii + 119 ($6.00).

No. 16 D.G. Davies, *International Comparisons of Tax Structures in Federal and Unitary Countries,* Distributed by ANU Press, Canberra, 1976, pp. xii + 79 ($6.00).

No. 17 Garth Stevenson, *Mineral Resources and Australian Federalism,* Distributed by ANU Press, Canberra, 1977 ($6.00).

Occasional Papers

No. 1 Leo A. Hielscher, *The Financial Assistance Grant,* Centre for Research on Federal Financial Relations, Canberra, 1976, pp. viii + 45.

No. 2 G.F. Berkeley, *Financing Education in Queensland: The State-Commonwealth Mix,* Centre for Research on Federal Financial Relations, Canberra, 1976, pp. ix + 53.

No. 3 M.A. Haskell, *Decentralization or Concentration of Power? The Paradox of Revenue Sharing,* Centre for Research on Federal Financial Relations, Canberra, 1976, pp. viii + 36.

Reprint Series

No. 1 R.L. Mathews, 'The Future of Government Finance', *Public Administration* (Sydney), Vol. XXXII, No. 2, June 1973.

No. 2 R.L. Mathews, 'Patterns of Educational Finance', *Australian Economic Papers,* Vol. 12, No. 21, December 1973.

No. 3 C.P. Harris, 'Social Planning and Regionalism in Australia', *Proceedings of the Royal Australian Planning Institute (Queensland Division) 1974 Country Seminar,* Cairns, July 1974.

No. 4 J.S.H. Hunter, 'Vertical Intergovernmental Financial Imbalance: A Framework for Evaluation', *Finanzarchiv,* Vol. 32, No. 3, 1974.

No. 5 R.L. Mathews, 'Fiscal Equalization for Local Government', *The Economic Record,* Vol. 50, No. 131, September 1974.

No. 6 C.P. Harris, 'Financing Local Government in Australia', *Proceedings of the Central Branch of the Institute of Municipal Administration (Queensland Division),* Seminar on Local Government, Rockhampton, May 1975.

No. 7 W.R. Lane, 'Financial Relationships and Section 96', *Public Administration,* Vol. XXXIV, No. 1, March 1975.

No. 8 James A. Maxwell, 'Federal Grants in Canada, Australia and the United States', *Publius,* Vol. 4, No. 2, Spring 1974.

No. 9 C.P. Harris, 'A method of allocating block grants under the Australian Assistance Plan to take account of interregional differences in social needs', *Regional Funding under the Australian Assistance Plan,* A Social Welfare Commission Discussion Paper, June 1975.

No. 10 R.L. Mathews, 'Fiscal equalisation in Australia: The Methodology of the Grants Commission', *Finanzarchiv,* New Series, Vol. 34, No. 1 (1975).

No. 11 R. Else-Mitchell, 'The Australian Grants Commission', *Journal of Constitutional and Parliamentary Studies,* Vol. VIII, No. 4, October-December 1974.

No. 12 John Shannon, 'The U.S. Advisory Commission on Intergovernmental Relations: Some Personal Observations', *A.N.U. Seminar Paper,* 4 September 1975.

No. 13 G. Sawer, 'The Whitlam Revolution in Australian Federalism — Promise, Possibilities and Performance', *Melbourne University Law Review,* Vol. 10, Number 3, 1976.

No. 14 P.B. Spahn, 'Issues of Municipal Reform and the Future Role of Local Governments in West Germany', *A.N.U. Seminar Paper,* 26 May 1976.

Annual Reports

1973 Report, Centre for Research on Federal Financial Relations, Canberra, 1974, pp. 1-12.

1974 Report and Review of Fiscal Federalism in Australia, Centre for Research on Federal Financial Relations, Canberra, 1975, pp. 1-47.

1975 Report and Review of Fiscal Federalism in Australia, Centre for Research on Federal Financial Relations, Canberra, 1976, pp. 1-103.

PREFACE

This monograph was written, and the research for it carried out, between September 1975 and May 1976, when I held an appointment as a Visiting Fellow at the Centre for Research on Federal Financial Relations and the Department of Political Science in the Research School of Social Sciences of the Australian National University. I would like to thank both the Centre and the Department for their assistance and support in the completion of this project. The assistance of the Canada Council in financing my sabbatical year in Australia is also gratefully acknowledged.

Although a large number of printed sources were consulted, the monograph could not have been written without the assistance of a large number of past and present ministers and officials in both Federal and State governments, as well as persons connected with the mining and petroleum industries in Australia. Their courtesy in making themselves available for interviews is deeply appreciated.

It is hoped that this monograph will contribute to strengthening the intellectual contacts between Canada and Australia, two countries in similar circumstances that can learn much from each other's experience with mineral resources and federalism.

May 1976 — Garth Stevenson

ACKNOWLEDGMENTS

The Centre for Research on Federal Financial Relations records its appreciation to ANU Graphic Design for designing the cover of this monograph. The Centre also wishes to thank Mrs D.M. Whitfeld for typing the manuscript and Mrs V.J. Murray for making the necessary arrangements for publication.

October 1976 — R.L. Mathews

CONTENTS

I INTRODUCTION

In recent years the political implications of mineral resources have become a topic of paramount concern, both domestically and internationally. Controversies between producers and consumers of mineral resources, the conflicting imperatives of development and conservation, struggles between government and business to appropriate the profits of resource development and to control the production and distribution of its products, have all become subjects of preoccupation for anyone with a serious interest in current affairs. On the global scene, particularly since the massive increase of crude oil prices in 1973, resource conflicts have become a dominant theme of international politics. Not coincidentally, they have emerged as a major item on the agenda of domestic politics in a number of countries, as the United States explores the environmental costs of self-sufficiency, the United Kingdom ponders the implications of North Sea oil for Scottish nationalism, and the Canadian government confronts the western provinces over mineral royalties while itself intervening to an unprecedented extent in the crude oil market. While energy resources, particularly oil, have been the main focus of attention in recent years, other minerals have also moved closer to the centre of political controversy. Higher oil prices have increased the significance of coal and uranium. The formation and success of the Organization of Petroleum Exporting Countries (OPEC) have inspired comparable organizations of copper, bauxite, and iron ore exporters. The trend towards higher royalties and direct government participation in mineral development can be seen on every continent and in most of the main sectors of the industry. Forecasts of scarcity and fears of environmental destruction have been voiced in regard to the metal mining industry as well as the exploitation of fossil fuels and uranium.

Australia offers a fascinating field in which to study the impact of these trends on a domestic political system, for a number of reasons. Its mineral industries have developed with dramatic suddenness, transforming it in a decade from a largely agricultural and pastoral economy to a world-ranking exporter of iron ore, coal, nickel, bauxite and, until recently, uranium. At the same time it has discovered and developed for domestic use impressive resources of oil and natural gas. A second reason for interest is that Australia is a geographically large and unevenly developed country, reproducing within itself in microcosm the conflicting interests of industrial metropolis and resource-producing hinterland. In addition, Australia's federal system of government provides an unusual administrative and legal framework within which conflicting objectives in regard to mineral resources must be pursued, a fact that provides the central preoccupation of the present study. At the same time as the Australian variety of federalism provides the framework and environment of resource politics, resource politics provide an illustration of how Australian federalism actually works in the latter part of the twentieth century, a subject to which Australian — and other — political scientists have devoted far less attention than it deserves.

In addition to its interest for students of federalism, the study of resource politics in Australia touches upon a central problem of political science: the relationship between government and business under advanced capitalism. In a federation this relationship is more complex than elsewhere, since it is really a triangular relationship

among central government, sub-national government, and business. This may be of little significance if the study of government-business relations focusses on areas of public policy where significant functions are confined to one level of government, but it obviously must be taken into account in the study of Australian mineral resource policy. Nor can intergovernmental relations as they relate to mineral resources be sensibly considered without reference to the third partner: the privately owned firms that collectively comprise the petroleum and mining industries in Australia. In a triangular contest for control of resources and resource profits three possible alignments can be envisaged: both levels of government combining against business, business and central government combining against sub-national government, business and sub-national government combining against central government. One purpose of the present study is to discover which, if any, of these alignments have existed in the context of Australian resource politics.

As was noted previously, there have been very few empirical studies of Australian intergovernmental relations by political scientists, perhaps through a mistaken belief that the subject is no longer important.[1] This contrasts with the situation in Canada, where scholars such as Donald V. Smiley and Richard Simeon have made the study of intergovernmental relations and federalism an important sub-field of political science.[2] While Canadians perhaps exaggerate the diversity of their country and the importance of its sub-national governments, Australians, or at least Australian political scientists, have a tendency to do the opposite. Scholarly writing on Australian federalism has largely been left to constitutional lawyers and to economists, scholars whose respective preoccupations, understandably, have been with judicial interpretation of the Constitution and with intergovernmental aspects of public finance. Neither subject will be entirely ignored in the pages that follow. Although Australia's massive output of minerals has not, so far, produced nearly as much constitutional litigation as the celebrated dried fruits grown almost half a century ago by Mr F.A. James, the judicial process has been one means by which the resolution of intergovernmental conflict over mineral resources has been sought.[3] Intergovernmental aspects of public finance have also been affected to some extent by mineral developments, particularly through the mineral royalties that have become an important source of revenue for several of the state governments. Nonetheless, neither of these traditional preoccupations of Australian writing on federalism is really of central importance in considering the impact of mineral resources on Australian federalism, or of Australian federalism on the mineral industries themselves. Frameworks of analysis that have had little or no application to Australia must perforce be resorted to; in this sense the present author's background, both as a political scientist and as a non-Australian, may prove advantageous.

As part of the world-wide revival of interest in "political economy", Canadians have recently shown renewed interest in the staples theory of their country's economic development, associated with the name of Harold A. Innis.[4] Innis, who taught economic history at the University of Toronto from the 1920s until his death in 1952, saw Canadian development as based upon a series of commodities produced for export to particular metropolitan markets. Each stage of Canadian history was

[1] See the bibliographical note in J.D.B. Miller and B. Jinks, *Australian Government and Politics: An Introductory Survey*, 4th edition, London, Duckworth, 1971.

[2] Donald V. Smiley, *Canada in Question*, McGraw-Hill-Ryerson, Toronto, 1972. Richard Simeon, *Federal-Provincial Diplomacy*, University of Toronto Press, 1972.

[3] The James litigation is discussed in Colin Howard, *Australian Federal Constitutional Law*, 2nd edition, Law Book Co, Melbourne, pp. 290-292.

[4] The best introduction to Innis's work is his *Essays in Canadian Economic History*, University of Toronto Press, Toronto, 1956.

marked by the dominance of a particular commodity (for example fish, fur, lumber and wheat) and by orientation to a particular market (successively France, Great Britain and the United States). Each stage was associated with a particular pattern of internal communication, constitutional structure and external relations, as the society reoriented itself to a new form of economic activity. In his own lifetime Innis saw Canada moving from a British to an American orientation, and from dependence on wheat to dependence on the forest, mineral and water resources of the Laurentian Shield. He viewed these economic changes as shifting the balance of power between the federal government and the provinces, as well as between different regions of the country. The wheat-producing region of Western Canada, which had grown rapidly in the first quarter of the twentieth century, was declining relatively in the second quarter, while the growth of central Canada was fueled by the resources of the Laurentian Shield. At the same time the federal government, which controlled until 1930 the unalienated land, as well as the transportation infrastructure, of the Prairie wheatlands, was losing ground to the provincial governments of Quebec and Ontario, which controlled the bulk of the newly dominant resources. These trends exposed the Canadian federation to stresses and strains.

Australia's massive mineral developments in the late 1960s and early 1970s, and the contemporaneous reorientation of its external trading pattern away from the United Kingdom and towards Japan, provide what is surely a classic instance of the sort of basic economic shift that Innis saw occurring several times in Canadian history. In fact the recent Australian developments closely parallel the Canadian developments in the period when Innis did his work. If this is so, one might expect to see in recent Australian experience the same sort of horizontal and vertical shifts in the balance of power, with resulting difficulties for federalism, that Canada experienced several decades earlier. Regions rich in newly-discovered resources should be gaining economic, and eventually political, power at the expense of less fortunate regions. At the same time state governments representing the resource-rich regions (Victoria, Queensland, and Western Australia) might be expected to be growing stronger and more truculent in their dealings with the central government, challenging its predominance as Ontario and Quebec challenged the Canadian federal government in the period after the First World War. One purpose of the research that led to the present study was to discover the extent to which this was happening, and the extent to which it could be attributed to the development of mineral resources.

Simeon's characterization of Canadian federal-provincial negotiation as 'diplomacy' suggests the possibility of applying some of the concepts developed in the study of international relations to a study of the internal politics of a federation. This approach seems particularly appropriate when the focus of attention is on the political consequences of mineral resource development, since, as was noted earlier, mineral resources have become a source of political conflict internationally as well as domestically.

A recent book by Philip Connelly and Robert Perlman, *The Politics of Scarcity*, explores the phenomenon of international conflicts over resources in a way that also provides some useful insights into domestic resource conflicts within a federation.[5] The authors develop a concept of a 'resource quadrilateral', based on the classification of nation-states into four categories. The first category consists of the Third World resource exporters, such as Iran, Saudi Arabia, Chile or Zambia, whose exports consist almost entirely of mineral resources. The second category consists of industrialized nations, such as Japan, the United Kingdom and the United States,

[5] Philip Connelly and Robert Perlman, *The Politics of Scarcity*, Oxford University Press, London, 1975.

which are dependent on imports of mineral resources as raw materials for their industrial output. The third category are the so-called 'independents', such as Australia, Canada, China and the USSR, which produce more mineral resources than they require (unlike the second group) but have highly diversified economies, unlike the first group. These nations are relatively detached from the conflict between producers and consumers. The fourth category consists of underdeveloped countries that must import more mineral resources than they export, but whose already limited ability to purchase what they require has recently been seriously eroded by the increased bargaining power of the exporters and resulting increases in price.

Connelly and Perlman view the international resource conflicts of recent years as the outcome of the changing relationships among these four categories. The rapidly increasing demands of the importers have increased the bargaining power of the exporters, who have reinforced their position by forming cartels to fix prices to their advantage. The exporters have argued that their sharply increased resource revenues are only appropriate compensation for the exploitation they suffered in the past at the hands of the importers. The importers respond by arguing for international regulation of the trade in resources by both producers and consumers, as opposed to the unilateral setting of the terms of trade by the producers. The independents are in an enviable position of detachment from this controversy and their support is sought by both of the contending groups. The importers see them as alternative sources of supply, and the exporters see them as possible allies. Finally, the underdeveloped resource-poor countries are the victims rather than the instigators of events; although their plight is cited by the importers as an argument against the actions of the exporters, they can expect to gain little from the victory of either side. The politicization of resources has led to such tendencies as increasing involvement of governments in the production, distribution and exchange of resource products, declining importance of multinational corporations, increasing collaboration among governments with similar objectives, and growing realization of global interdependence with the resulting emergence of resources as an issue on the agenda of international organizations.

In a federation where most mineral resources are the property of the individual states, as in Australia, inter-regional conflicts over resources will have many of the same characteristics as international conflicts. Within the federation, as in the world, both mineral resources and industrial development are likely to be unevenly distributed, so that the states or provinces may be categorized in the same way as Connelly and Perlman categorize the nations of the world. In the Australian context, for example, New South Wales imports resources from other states, while Queensland and Western Australia are large exporters of resources, mainly to overseas markets, but lag in industrial development. Victoria and South Australia are perhaps in a position similar to the 'independents' described by Connelly and Perlman, while Tasmania is an underdeveloped region dependent on imports of resources. Perhaps no state perfectly fits the category to which it is assigned, but the same could be said of the nations for which the categories were originally invented. New South Wales exports coal, but so does the United States. Western Australia imports oil, but so do Chile and Zambia. Victoria has no bauxite, but Canada is in the same position. The categories nonetheless tell us something about the behaviour of the nations internationally, and may be expected to tell us something about the behaviour of the states within the Australian federation. On the international scene, proposals from the United States and Western Europe for some degree of supranational regulation of resource prices and markets have been viewed with suspicion by the exporters, who see the internationalist rhetoric associated with such proposals as a facade to cover

the self-interest of the importers. Similarly, one would expect that efforts to centralize control over Australian resources in the name of 'national interest' might be resisted by Queensland and Western Australia in particular, states which combine recently increased bargaining power as a result of their resources with a sense of grievance based on their lack of industrialization and past exploitation at the hands of more industrialized regions. Other trends analogous to those appearing internationally, such as greater direct government participation in resource development and the substitution of intergovernmental negotiation for negotiation involving private corporations, could also be anticipated in Australia. The 'resource quadrilateral' concept at least suggests some of the questions that should be asked and some of the data that should be looked for.

Intergovernmental conflict within a federation may reflect conflicts of interest between different regions, even if it takes the form of conflict between the central government and some of the provinces or states. Smaller, poorer, less urbanized or more geographically remote provinces or states in a federation often believe, and often with good reason, that the federal government represents predominantly the interests of larger, richer, more urbanized or more centrally located units. Conflict between regions is referred to in the pages that follow as 'horizontal' conflict.

Another type of intergovernmental conflict in a federation occurs when no specifically regional interests are at stake, but one level of government attempts to defend its powers, revenues, influence and status against what it views as a threat from the other level of government. The importance of this type of conflict reflects the large degree to which governments, including bureaucracies, operate independently of the economic and social forces external to themselves, and the extent to which they are motivated by institutional imperatives of self-preservation and self-extension. In the pages that follow this type of conflict is referred to as 'vertical'.

A third type of intergovernmental conflict, particularly important in Australia, occurs when governments at different levels are controlled by different political parties, so that their conflict is really an expression of ideological differences or partisan rivalry. Opinions may differ on whether this is really a distinct type or merely a particular form of vertical conflict. Another way of expressing the second point of view would be to say that vertical conflict is reduced, although not eliminated, when governments are controlled by the same party.

An attempt is made in the pages that follow to describe and analyse intergovernmental aspects of mineral resource policy in Australia, with the aid of insights derived from the staples theory of Innis, the 'resource quadrilateral' concept of Connelly and Perlman, and the empirical studies of intergovernmental relations familiar to Canadian political scientists. An effort is made to determine the extent to which conflict was primarily horizontal, vertical, or partisan-ideological in character. In addition the author has sought to answer two questions: How has the existence of federalism affected mineral resource policy in Australia? How have mineral resources affected Australian federalism?

Chapter II is a brief sketch of recent mineral resource development in Australia, emphasizing the effect on individual states and on relations between the states. Chapter III discusses the constitutional framework of mineral resource policy and the policies pursued by the states. Chapter IV attempts to explain the recent tendency towards greater intervention by the federal government. Chapters V and VI examine particular aspects of federal resource policy and their effect on relations with the states. Chapter VII deals with the responses of the state governments to these initiatives, and Chapter VIII with the role played by the private sector. Chapter IX returns to the questions posed at the end of the preceding paragraph.

II THE POLITICAL ECONOMY OF AUSTRALIAN MINERALS

It would be impossible as well as superfluous within the confines of this monograph to provide anything approaching a comprehensive outline of the mineral resource industries in Australia, but certain features of their development in recent years will be sketched as a background to the political events discussed in the pages that follow. Readers in search of more information may consult a number of standard sources on the subject.[1]

Mining, particularly of gold, obviously played an important role in Australia's early history, and the goldfields of New South Wales and Victoria reached their peak levels of production almost half a century before federation. At the time of federation Australia still produced about one-quarter of the world's output of gold, and gold was mined in all of the states, although Western Australia by then accounted for almost half of the total output. Production of other minerals was much less important, but silver and lead ores, mainly from the area around Broken Hill in New South Wales, were produced in significant quantities before the end of the nineteenth century. Copper and coal were also being mined in significant quantities at the time of federation. Tasmania accounted for almost half the Australian output of copper, while coal was produced mainly in New South Wales.[2]

In the first six decades after federation, however, mining failed to develop as rapidly as other sectors of the Australian economy. In 1965 the Vernon Committee of Economic Enquiry stated in its report: 'In terms of employment, value of production, and contribution to GNP, the mining industry is not a major sector of the economy.' Noting the rather modest level of Australian mineral exports, which then accounted for only about one-tenth of the value of all Australian exports, it predicted that their value in 1975 would be less than twice the level reached in 1963.[3] The timing of this unflattering appraisal was somewhat ironic, for within six years of the report's publication the value of Australian mineral exports had reached eight times the level of 1963, and accounted for 28 per cent of all Australian exports.

The largest share of the increase was accounted for by iron ore, the export of which had been prohibited by the federal government from 1938 until 1960. The lifting of the embargo in the latter year provided the impetus needed to develop the enormous reserves of the Pilbara region in Western Australia, whose existence had allegedly been discovered in 1953 by a local grazier, Mr Lang Hancock, while flying over his properties.[4] The massive postwar expansion of the Japanese economy, and particularly of the steel industry, provided an obvious market, and Hamersley Iron, a subsidiary of Conzinc Riotinto of Australia (CRA) which was itself a subsidiary of The Rio Tinto-Zinc Corporation, began shipments to Japan from the Pilbara in 1966. Within the next few years it was joined by two additional producers: Mt. Newman, in which the Broken Hill Proprietary Company and the Colonial Sugar Refinery

[1] See, for example, Harold Raggatt, *Mountains of Ore*, Lansdowne Press, Melbourne, 1968; Robert Murray, *Fuels Rush In*, Sun Books, Melbourne, 1972; R.B. McKern, *Multinational Enterprise and Natural Resources*, McGraw-Hill, Sydney, 1976; G. Blainey, *The Rush That Never Ended*, Melbourne University Press, 1963.

[2] *Yearbook of the Commonwealth of Australia*, No. 1 (1901-1907), pp. 397-433.

[3] *Report of the Committee of Economic Enquiry*, Canberra, 1965, Vol. I, pp. 191, 194.

[4] Neil Phillipson, *Hancock: Man of Iron*, Wren Publishing, Melbourne, 1974.

Company (CSR) held the largest interests, and Mt. Goldsworthy, owned in equal shares by the U.K. oriented Consolidated Goldfields of Australia and two American firms — Utah Mining and Cyprus Mining. In 1963 Australia had ranked seventeenth among world producers of iron ore; by 1971 it was in third place, exceeded only by the USSR and the USA.[5] Most of the output was exported, primarily to Japan, and Australia supplied more than two-fifths of Japan's iron ore requirements.

Other minerals also shared in the rapid development of the late 1960s. Copper, lead and zinc, all of which had had a long history in Australia, showed significant increases in production and exports. Western Mining Corporation, originally a gold producer in the Kalgoorlie region of Western Australia, discovered significant reserves of nickel close to its original properties. A smelter and refinery have been established and Australia has joined the sparse ranks of significant nickel exporters, a category hitherto occupied almost exclusively by Canada and New Caledonia. The mining of bauxite also developed rapidly, particularly in Queensland (where Comalco Ltd, controlled by CRA and the U.S. Kaiser Corporation, began mining in the early 1960s). Some processing to alumina is undertaken by an international consortium. Bauxite is also mined in Western Australia and the Northern Territory by joint ventures of local and foreign partners. Australia became the world's leading producer of bauxite by 1972, and bauxite and alumina have become important Australian exports, with Japan again providing the major market.

While production of metal ores increased dramatically, coal mining did not lag behind. Coal had been produced, particularly in New South Wales, since before federation, but most of it had been consumed locally by railways, gas and electricity producers, domestic consumers and the steel industry. The growth of Japanese steel production in the 1960s provided a market for Australian coal as well as Australian iron ore, with the result that coal exports overseas from New South Wales more than tripled between 1964-65 and 1971-72. But the most rapid development occurred in Queensland, where a coking coal industry, based on low-cost open-cut production and oriented almost entirely towards overseas markets, was launched in the late 1950s and grew rapidly over the next decade. Two American-controlled companies, Utah Mining and Thiess-Peabody-Mitsui, were the major firms involved in this development. By the early 1970s Queensland was challenging New South Wales as a coal exporter.

While the expansion of mining was taking place in the late 1960s, mainly in response to the needs of the Japanese market, Australia was also in the process of becoming a significant producer of petroleum for its own consumption. In doing so it ended, at least temporarily, the condition of almost total dependence on overseas oil that had persisted since the development of the internal combustion engine. Australia's first commercial oil well, in the Moonie field west of Brisbane, came into production in 1961, but oil from this area never supplied more than two per cent of Australia's needs. Another small field, on Barrow Island in Western Australia, began to produce crude oil in 1967. Far more significant was the discovery of vast oil and gas reserves in the Gippsland Basin (Bass Strait) off the coast of Victoria in 1965. The BHP-Esso partnership, which had made the original discovery, began to produce crude oil from Bass Strait in 1969, and within three years the field was producing about two-thirds of Australia's requirements. Meanwhile commercial quantities of natural gas were discovered successively in the Cooper Basin of South Australia, in the Roma district of Queensland, in Bass Strait, and at Dongara in Western Australia. By the end of 1969 Melbourne, Brisbane and Adelaide were receiving

[5] *World Economic Interdependence and Trade in Commodities*, HMSO, London, 1975.

natural gas from the fields in their respective states, and Perth began to receive natural gas from Dongara in 1971. By this time the petroleum industry in Australia ranked not far behind the coal and iron ore industries in value of output, although in contrast to them it was not a significant exporter.

Although the mineral resources discussed in the preceding paragraphs are the most important in terms of output, substantial developments also took place with respect to a variety of other minerals, such as beach sand (rutile and zircon), tin, tungsten, manganese, uranium and even salt. In summary, it had become clear by the early 1970s that Australia had a mineral resource base of a richness and diversity rivalled only by the USSR, USA, Canada and possibly China. Australia's reserves of coal, iron, bauxite and uranium are for all practical purposes unlimited, even if the same cannot be said of oil and gas.

Largely through the accidents of geology, the benefits from recent mineral developments have been unequally distributed among the states. New South Wales, which was pre-eminent in Australian mining for most of the twentieth century, has increased its output only moderately in recent years, so that it now ranks only third among the states and would rank fourth if the price of Victoria's crude oil was not pegged at an artificially low level. New South Wales is the only mainland state that produces neither crude oil nor natural gas, so that whereas it was an energy-rich state in the age of steam it has become relatively energy-poor in the age of internal combustion, despite its vast coal reserves. Tasmania also lacks oil and gas, and has seen its metal-mining output in recent years grow at a rate below the national average, so that its traditionally disadvantaged position relative to the mainland states has grown even worse. South Australia has also lagged in mineral development, although the value of its output will rise considerably when deliveries of natural gas to Sydney begin in late 1976.

The other three states have been involved to a far greater degree in the recent growth of the extractive industries. Victoria prior to 1964 seemed to be very poorly endowed with mineral resources, aside from the lignite (brown coal) that was used to generate most of its electricity. Today it is the only Australian state that is self-sufficient in the most prized of all mineral resources, crude oil, and it can supply a large part of the needs of the other states as well. Victoria's oil and gas may give it a decisive economic advantage over its traditional rival, New South Wales. Queensland and Western Australia, whose economies were overwhelmingly dependent on agriculture and grazing until a few years ago, are now seen to be vast storehouses of mineral wealth. Western Australia's iron ore has brought economic growth, prosperity, and substantially increased government revenues, to the point that it was able to discontinue its annual applications to the Grants Commission in 1968. On the other hand its excessive dependence on a single commodity and a single market may make the state's economy vulnerable to changes which it would not be in a position to prevent or influence. Queensland's mineral development has been based on a greater diversity of commodities, but has not yet had as dramatic effects on income levels or government revenues. However, Queensland's rate of population increase is now the highest of any Australian state.

An important result of Australia's recent mineral developments has been to increase the interdependence among what might be called the 'inner' states while in a sense increasing the separateness and remoteness of the 'outer' states. Patterns of interdependence between New South Wales and South Australia date from the early days of Australian mining; the ores of Broken Hill have always been refined in Port Pirie, to which Broken Hill was connected by rail long before it was connected with Sydney. South Australia also supplies much of the iron ore used by the New South

Wales steel industry, and New South Wales in return supplies about one-third of the coal used in South Australia.[6] The natural gas pipeline link between the Cooper Basin and Sydney will strengthen these patterns of interdependence. Similarly, New South Wales refineries take the largest share of the crude oil from Bass Strait, most of the remainder being refined in Victoria and South Australia. Victoria's brown coal is consumed exclusively within the state, and about two-thirds of New South Wales black coal output is consumed in New South Wales and South Australia, despite the significant increase in exports overseas during the past decade. In summary it may be said that the mineral industries of the three industrialized 'inner' states are oriented mainly to domestic markets and tend to link the three states closer together.

The mineral industries of the 'outer' states present an interesting contrast. Western Australia's iron, nickel, bauxite, mineral sands and salt are shipped predominantly to overseas markets, principally in Japan. Queensland's coking coal goes almost entirely to overseas markets, as does most of its bauxite and about half of its copper. Tasmania's copper and iron ores are mainly shipped to Japan. When the natural gas of the north-west shelf in Western Australia and the uranium of Queensland are developed, their principal markets will almost certainly be overseas as well. The outlying states supply their own requirements of coal and natural gas (aside from Tasmania which does not use natural gas) but do not export these products to the industrialized states. Queensland is the only one of the outlying states whose refineries use crude oil from Bass Strait; Tasmania has no refinery and Western Australia uses overseas oil to supplement the output of Barrow Island. Thus in general it can be said that the outlying states do not exchange minerals in significant quantities with the inner states, or with one another.

The mining industry now accounts for more than one-quarter of Australia's export earnings. Coal has recently replaced wool as the most important single Australian export commodity, and the supply of raw materials to the Japanese steel industry should probably be regarded as Australia's most important single function in the world economy. Yet the impact of the new staples has been mainly felt by the outer states. When exports are broken down by individual states, the proportion accounted for by the mining industry ranges from negligible in the case of Victoria to almost half in the case of Western Australia. Similar differences can be seen in the direction of trade: Japan takes more than half of all exports from Western Australia, about one-third of all exports from Tasmania and Queensland, and less than one-quarter of all exports from all the remaining three states.[7] The situation somewhat resembles that in Canada during Innis's lifetime, when the Prairie provinces supplied wheat to the United Kingdom while Quebec and Ontario supplied newsprint and minerals to the United States.

Besides being oriented towards overseas markets, the mineral industries of the outlying states have been developed mainly by overseas capital, particularly in the case of Queensland where four foreign-controlled firms account for most of the state's mineral output. This contrasts with the situation in the inner states, where Australian interests, particularly BHP, seem to predominate. The mineral boom has tended to strengthen the links between the outlying states and the external markets and financial centres of Japan, the United States and Europe, rather than tightening the links between these states and the industrialized south-east of Australia. The rapid development of mineral resources in the outer states owes far more to overseas

[6] Joint Coal Board, *27th Annual Report*, 1973-74, p. 76.

[7] Australian Bureau of Statistics, *Western Australian Yearbook*, 1975, p. 431; *Tasmanian Yearbook*, 1975, p. 326; *Queensland Yearbook*, 1975, p. 347; *South Australian Yearbook*, 1975, p. 524; *Victorian Yearbook*, 1975, p. 536; *Official Yearbook of New South Wales*, 1974, p. 352.

markets and investors than it does to the financial and industrial centres of south-eastern Australia or to the federal government. Thus the recent economic growth and prosperity in Western Australia and Queensland have done nothing to lessen the traditional resentment felt by these outlying hinterlands against the Sydney-Melbourne-Canberra triangle. Such resentments can be exacerbated by any federal interference in their new and profitable overseas relationships, whether in the form of export controls, restrictions on foreign investment, or even environmental constraints. It is not surprising that a separatist movement has revived in Western Australia or that the possibility of separation was mooted in 1973 by the Premier of Queensland.[8] Peripheral regions rich in mineral resources and dependent on foreign capital or foreign markets are always tempted by separatism. This is because political association with the rest of the country appears more likely to impede than to promote their development, because their resources inspire self-confidence, and because it appears advantageous to control their own relations with the external centres on which they depend, rather than to deal with them indirectly through a central government.[9] In basically stable established federations like Australia or Canada, separatism tends to remain a vague aspiration rather than a practical possibility, but the examples of Katanga, Biafra, Bougainville and in recent years even Scotland suggest its potential when the central regime is weak and unstable or faces a general crisis of legitimacy.

Aside from Bass Strait oil and gas, most of the major mineral developments of recent years have been in the tropical and sub-tropical north of Australia, remote from the major centres of population. The known facts about the location of mineral reserves suggest that this trend is likely to continue.[10] According to recent estimates more than half of the country's natural gas reserves are on the north-west shelf of Western Australia. More than two-thirds of the uranium reserves are in the Northern Territory. More than half of the bauxite and copper reserves are in Queensland. More than nine-tenths of the iron ore reserves are in the remote Pilbara region of Western Australia. Lead and zinc reserves are overwhelmingly concentrated in the Northern Territory and Queensland. Particularly in view of the fact that Bass Strait oil is expected to last only a few years at the present rate of consumption, the future may see an historic northward shift of Australia's economic centre of gravity. Since representation in, and control over, the federal government will continue to be held mainly by the populated regions of the south-east, considerable tensions between the industrialized centre and the resource-rich periphery can be expected. In fact these tensions are already apparent, as will be more fully described in the pages that follow.

[8] *The Courier-Mail*, Brisbane, 12 May 1973, "Premier Hints at Secession".
[9] The centrifugal effects of foreign capital and markets on a federation are discussed in Garth Stevenson, "Continental Integration and Canadian Unity", in A. Axline, ed., *Continental Community?*, McClelland and Stewart, Toronto, 1974.
[10] Data from Committee for Economic Development of Australia, *Minerals and Metals in the Australian Economy*, CEDA Supplementary Paper Series No. 45, November 1975, pp. 1, 7, 26, 54, 75-76, 101-103.

III MINERAL RESOURCE POLICIES OF THE STATES

(1) The Constitutional Framework

Australia is one of the few countries in the world where the primary jurisdiction over mineral resources rests with a sub-national level of government. This fact is of central importance in understanding the political conflicts that have taken place with respect to Australian minerals in recent years.

It goes without saying that in unitary states the central government has jurisdiction over mineral resources, but the same is true of certain federations as well. In the United States of America the lands acquired by conquest or purchase, as well as the British territory beyond the Appalachians that was ceded to the new nation in 1783, formed what is known as a 'public domain' owned and controlled by the federal government. Although much of this land, together with its mineral rights, eventually became privately owned, the remainder continued to be federal property even after the territories were organized into states, and the exploitation of mineral resources on the public domain was controlled by the federal Department of the Interior. In 1910 the then Secretary of the Interior described the proposal that the public domain be turned over to the states as 'a betrayal of trust', since 'past state legislation does not justify the belief that the people's interest will be protected'. A quarter of a century later, President Franklin D. Roosevelt halted any further erosion of the public domain by reserving all of it permanently for federal ownership.[1] When the territory of Alaska subsequently became a state, however, it was allowed to select a large area of the public domain for transfer to state control, on condition that the mineral rights not be ceded to private owners.[2]

The Latin American federations, where minerals have always been of great economic significance, all vest ownership and control of mineral resources in the federal governments, although in early days some of them experimented with other arrangements. Mexico has explicitly provided for federal ownership of minerals in its constitution since 1883, Venezuela since 1881, Argentina since 1853, and Brazil since the federation was first established.[3] The Indian constitution places uranium and petroleum resources under federal control, and provides that other minerals may be brought under federal control by unilateral action of the federal parliament if it considers this to be in the public interest. The federal constitution of the USSR vests ownership of minerals in the central government.

Canada, the other great mineral-producing federation, provides a precedent for the Australian practice of leaving control over minerals in the hands of the states. Section 109 of the *British North America Act* states that 'All Lands, Mines, Minerals, and Royalties belonging to the several Provinces' are to be retained by them after federation. However, when the Prairie provinces were organized out of federal territories Canada followed the American example and kept the public lands and

[1] R.M. Robbins, *Our Landed Heritage: The Public Domain, 1776-1936*, University of Nebraska Press, 1962.
[2] Rocky Mountain Mineral Law Foundation, *The American Law of Mining*, Boulder, Colorado, 1975, Vol. I, Section 2:71.
[3] W.S. Stokes, "The Centralized Federal Republics of Latin America", in George C.S. Benson, ed., *Essays in Federalism*, Institute for Studies in Federalism, Claremont, 1961, pp. 93-168.

mineral resources under federal control. These lands and resources were eventually turned over to the provinces in 1930, so that Manitoba, Saskatchewan and Alberta now enjoy the same rights as the older provinces.

Mineral resources were already important in Australia at the time of federation, but no specific reference to them is made in the Constitution. Since the Australian constitution, unlike the Canadian, specifies only the powers and responsibilities of the federal government and leaves everything else to the states, the effect was to retain for the states, virtually unchanged, the powers over the disposition of their mineral resources which they had enjoyed prior to federation. It was apparently assumed that none of the purposes for which the federation was established, such as military and naval defence, control of immigration, and establishment of an internal common market, required the control over mineral resources to be taken away from the states. Only in territories ceded by the states or otherwise acquired by the Commonwealth were federal ownership and control over mineral resources allowed for.

The problem of offshore minerals, which has assumed great importance in recent years and is treated at length in the pages that follow, was not anticipated at the beginning of the twentieth century. It acquired practical significance only with the development of the technology needed to drill for oil and natural gas under water. As will be shown below, the question of which level of government had jurisdiction over mineral resources offshore remained unsettled in Australia until December 1975. But, in the interim, arrangements had been devised which provided some form of legal framework for the exploitation of such resources.

Of the powers which the Australian Commonwealth Constitution confers on the federal government, the one that has had the most important consequences for the mining industry is the power over 'Trade and commerce with other countries, and among the States'. Since Australia exported then, as it does now, a large proportion of its mineral output, this power potentially gave the federal government a means of exerting a considerable degree of control over the industry by controlling (or even preventing) exports of its products. The embargo imposed on exports of iron ore in 1938, and maintained until 1960, was an early example of the use of this power in relation to the mining industry. However, only since 1972 has it been used systematically as a means of controlling the entire industry for a variety of purposes.

The federal government's taxing power and its power to give bounties on the production or export of goods enable it potentially to influence any sector of the economy, including the mining industry. The power to legislate in regard to 'Foreign corporations, and trading or financial corporations' might also have some relevance. The power over currency, coinage and legal tender enables the federal government to regulate foreign exchange and, as a corollary of this, the import and export of capital. This has been of particular importance in regard to the mineral industries because of the prominent role that foreign capital has played in their development. The defence power has been cited in federal legislation relating to minerals, but it appears that its scope in peacetime is too narrow to be of great significance.[4] The external affairs power was the basis of the High Court's recent decision on sovereignty offshore, but this was the first instance of its application to the mineral industries.

In general it can be inferred from the Constitution that the founding fathers of Australian federalism expected the federal government to play little or no part in the development of the continent's mineral resources. Until quite recent times the federal government's actual role did not depart substantially from this expectation.

[4] Howard, *op. cit.*, pp. 432-435.

(2) The Exercise of State Powers

The powers which the states exercised before federation, and which they have continued to exercise ever since, are largely based on the fact that most minerals belong to them. Because ownership of minerals under the ground is distinct from ownership of the land on the surface, the Crown can retain title to minerals even when the land is privately owned. Although there are some exceptions in some States, most minerals mined in Australia are considered to be Crown property. Australia is not unusual in this respect; community ownership of minerals is the accepted pattern in practically all countries, with the important exception of the United States. In that country surface ownership and ownership of minerals normally go together, with the result that most minerals are privately owned.

Although American businessmen who lack experience outside their own country tend to regard the system prevailing in most other parts of the world as a relic of monarchical tyranny, there is no evidence that private enterprise has suffered in Australia from the circumstance that mineral rights are held by the Crown. On the contrary, one knowledgeable observer has suggested that Crown ownership is advantageous to mining companies, since it greatly simplifies the process of acquiring the right to exploit minerals.[5] It is easier to deal exclusively with a state government than with one or more private landowners. In addition the state government will usually welcome the development of its mineral resources, while the landowners, whose homes and livelihoods are likely to be disturbed, will probably resist it, and will demand greater compensation in return.

Be that as it may, the combination of Crown (as opposed to private) ownership and state (as opposed to federal) jurisdiction establishes the basic parameters of mineral resource development in Australia. As a consequence, those aspiring to participate in the exploitation of mineral resources must seek permission to do so from state governments, unless of course the resources in which they are interested happen to be in a federal territory. State governments decide who is to be permitted to exploit mineral resources, establish the terms and conditions under which they will do so, and at least in theory can determine whether or not resources will be developed at all. All of this might seem to create a formidable obstacle to the ambitions of private entrepreneurs, but in practice does not. Most Australian state governments have been basically sympathetic to private enterprise, and even one that was not would be unlikely to resist the lure of 'development'. The political consequences of seeming to be less committed to development than the governments of other states are likely to be serious. In this way, the competition among governments that is often cited as one of the benefits of federalism clearly operates to the benefit of the mining industry, since state governments benefit politically if they encourage the industry to expand and suffer politically if they do not.

An option that exists, at least in theory, is for the state government itself to develop its resources, through some kind of publicly-owned instrumentality, rather than relying on private enterprise. There have been some developments of this kind, especially in the case of coal for electricity. But this option is not now likely to be seriously considered for mineral development generally, because the limited taxing powers of the states, the constraints on borrowing imposed by the Financial Agreement of 1927, and the *de facto* monopoly of income tax by the federal government have left the states without the financial means to contemplate such a possibility. In certain sectors of the industry, such as bauxite, the difficulty that a

[5] E.A. Rudd, "The Oil, Gas and Minerals Explosion", *Public Administration* (Sydney) Vol. XXIII, No. 1, March 1969, p.8.

state agency might have in marketing its product overseas imposes another obstacle. Some states do operate coal mines, but this is a special situation in that their state-owned electric power utilities provide a guaranteed market for the coal produced and no element of risk is involved.

Thus no state government in recent years has seen any feasible alternative to the development of the state's mineral resources by private enterprise, and such development is therefore identified with the interest of the state. The encouragement of such development thus becomes the principal objective and *raison d'etre* of the state government department that is responsible for administering the mineral resources of the state. This is not to say that relations between state governments and mining firms have always been free of conflict, for such has not been the case. It does mean, however, that state governments see an important element of common interest between themselves and the mining and petroleum firms which operate in their respective states, or which aspire to do so. Whatever internal differences state governments may have with their mining and petroleum industries, there is a tendency to defend those industries against criticism and interference from outside the state, whether from competing firms or industries in other states, environmental lobbies, economic nationalists, or the federal government. The strength of this defensive reflex varies in proportion to the importance of the mineral industries in relation to the overall economy of the state. For this reason, the outlying states of Western Australia, Queensland, and Tasmania can be expected to identify their interests with those of the mining industry to a far greater degree than the industrialized states.[6]

As might be expected, the administrative and legal framework for the exploitation of mineral resources in the several states shows individual variations, but within a general pattern of similarity. The government department with primary responsibility for the industry is known in most cases as the Department of Mines, but in Tasmania is rather picturesquely designated as the Department of Mines, Magazines, and Explosives. In South Australia it was formerly known as the Department of Development and Mines, but since September 1975 has been called the Department of Mines and Energy. The primary task of all mines departments, regardless of name, is to implement the state government's policy with respect to the exploration for and production of minerals within the state. The consumption, as opposed to the production, of mineral fuels and other sources of energy has been a more recent preoccupation, represented by the change in the name and functions of the South Australian department. Victoria in 1965 established a Ministry of Fuel and Power, separate from the Department of Mines although headed by the same minister. Petroleum exploration and production remained under the control of the Department of Mines. In 1976 the two organizations were again combined into a Department of Minerals and Energy, which is concerned with both production and consumption. Western Australia in 1975 established a State Energy Commission as a statutory body under the Minister of Mines, responsible for energy policy and planning as well as for the distribution of electricity and gas. In July 1976, also, the New South Wales Government decided to introduce legislation to establish an Energy Authority to co-ordinate the use and distribution of all energy resources in the State. Queensland and Tasmania have not as yet given institutional recognition to the growing importance of energy policy.

[6] The per capita output of minerals for 1973-74 in dollars was as follows: Western Australia: 557; Queensland: 300; Tasmania: 295; Victoria: 119; New South Wales: 106; South Australia: 96. The figures are derived from production data in Australian Bureau of Statistics, *Mineral Production 1973-74*, and from population data in Grants Commission, *Forty-second Report on Special Assistance for States.*

In Tasmania, and formerly in South Australia, the Mines portfolio has been held by the Premier of the State. In Queensland the Minister of Mines has at times doubled as Minister of Main Roads. In the other states, and in South Australia since 1973, there has been a full-time minister responsible for the mineral industries.

In all states a *Mining Act* administered by the mines department provides for the general regulation of the mining industry, and outlines the conditions on which permits to explore for and to mine the state's mineral resources are granted. Much of this legislation dates from the era of individual prospectors and small-scale mining operations, and provides a rather outmoded framework for the regulation of giant corporations and consortia which measure their output in millions of tons. The *Mining Act* in Western Australia, although it has been amended occasionally, dates in its essentials from 1904. Tasmania's *Mining Act* dates from 1929. Queensland ostensibly adopted a new *Mining Act* in 1968, but the new act was little more than a consolidation of existing enactments of which the principal one dated from 1898, three years before the Commonwealth of Australia was established. Paradoxically, the industrialized states which are less dependent on mining than the outlying states have done a better job of adapting their mining legislation to modern conditions. Victoria adopted a completely new *Mining Act* in 1958, South Australia in 1971, and New South Wales in 1973. Western Australia is only now in the process of drafting a new act to replace the one inherited from the days of the gold rush.

In most states the exploitation of petroleum, including natural gas, is governed by a different statute from that which regulates the mining of metals and solid fuel. Western Australia has had a *Petroleum Act* since 1936, South Australia since 1940, New South Wales since 1955, and Victoria since 1958. All of these acts pre-date any real discovery of oil or gas in the states concerned, although Victoria's act came just in time for the Bass Strait developments of the 1960s. The federal-state agreement of 1967 concerning offshore petroleum resources led to the adoption of identical legislation, known as the *Petroleum (Submerged Lands) Acts,* by all seven governments in that year. Onshore petroleum in Queensland is still governed by the state's *Mining Act,* rather than by a separate *Petroleum Act.* A similar situation would exist if onshore petroleum were discovered in Tasmania. In South Australia, where production is exclusively onshore, the *Petroleum Act* of 1940 was extensively revised and brought up to date in 1967, just before production commenced.

The tendency for modern mining in Australia to be concentrated in a relatively small number of large-scale operations has contributed to the obsolescence of the older legislation and has encouraged the practice of drafting *ad hoc* legislation for particular projects. This practice seems particularly prevalent in Queensland and Western Australia, where the inadequacy of the general mining legislation for modern conditions is most apparent. A typical example of an *ad hoc* mining statute might, in addition to defining the area of the lease and designating the parties entitled to exploit it, establish the level of royalties, provide for the splitting of infrastructure costs between the state and the private sector, and include any conditions relating to such matters as environmetal protection or processing that the state is willing and able to impose. The frequent recourse to such *ad hoc* legislation is not particularly liked by the mining indusltry, but it has lessened the sense of urgency that both government and industry might otherwise feel regarding the need to modernize the general legislation that remains in force. *Ad hoc* agreements have been varied in Queensland by government action to increase bauxite and coal royalty rates; the mining industry contemplated making a legal challenge in response to this action.

(3) The Objectives of State Policy

Although the oldest and most important objective of mineral resource policy in the Australian states has undoubtedly been the maximization of mineral output, this has not been the only objective, particularly in recent years. As in other parts of the world, growing emphasis has been given to other objectives, such as increasing the contribution of the industry to government revenue, encouraging local processing, conserving energy resources for local needs, and even increasing local ownership and control. As will be shown later, some of these objectives have been used to justify increased intervention by the federal government in mineral resource policy, often on the grounds that state governments are either unwilling or unable to pursue them seriously. While there is considerable evidence to support this view, it is also true that each of the objectives has been pursued at certain times by certain state governments. There have, however, been considerable differences among states. Overall, the order in which the objectives have been listed in this paragraph is roughly the order of importance that seems to have been assigned to them by the state governments. The goal of maximizing their revenues from the mining industry has been pursued far more vigorously by Australian state governments in recent years than in the past. Whereas once the pursuit of development seemed to be its own reward, even if there were no direct benefits to the state treasury, today there is a tendency to view the mining industry as an important source of revenue. The higher prices commanded by many minerals on world markets, the sense of increased bargaining power resulting from the vastness of Australia's mineral reserves, and the example set by overseas jurisdictions, such as the Arab oil-producing states and the Canadian provinces, have all contributed to this development.

The principal, although not the only, instrument for extracting revenue from the industry is the levying of royalties. As the word suggests, a royalty is a payment to the Crown for the resources which belong to the Crown. (By extension, the word is sometimes used for payments to private persons who for one reason or another have a claim on the ownership of mineral resources.) The payment of royalties to the state government is thus a logical consequence of the fundamental assumption that minerals belong to the Crown. In spite of this, the mineral royalties levied by most of the Australian states until recently were so low as to be merely token payments rather than significant contributions to the public treasuries. Usually they consisted of a fixed sum of money per unit of output, established at some remote time in the past, so that the State's share of resource revenue actually declined as prices rose. Not only did the Crown, as the nominal owner of the resource, gain no benefit from rising mineral prices, but the real value of its fixed royalty was steadily eroded by inflation. As late as 1968-69 royalties collected by state governments amounted to less than one per cent of the value of mineral output in Queensland, Tasmania and Victoria, and in no state did they amount to even five per cent of the value of output.[7]

The persistence of such minimal royalties into recent times may be explained by the fact that, until very recently, the mining industry in most of the states was of small importance, earned only modest profits, and served mainly local markets. New South Wales, where a large-scale export-oriented mining industry developed around Broken Hill before the turn of the century, established a more complex, and more profitable, system of royalties for silver, lead and zinc which really amounted to a progressive income tax on the profits of the mining companies. Before 1965, the state could take up to one hundred per cent of profits over and above a certain level. At the beginning of that year the maximum rate was reduced to fifty per cent while the minimum rate

[7] *The National Times*, 22 May 1972, "Canberra Gives the States a Royalty Rocket".

remained at four per cent of profits. Until the late 1960s, New South Wales was the only state to derive substantial income from mineral royalties and, although Broken Hill is no longer the centre of Australian mining, it continues to do so.

The second state to derive substantial revenue from its mineral royalties was Western Australia. When the iron ore reserves of the Pilbara began to be developed, the state imposed an iron ore royalty amounting to 7½ per cent of the value of ore extracted. The use of an *ad valorem* rate, rather than the traditional Australian fixed rate, enables the state government to share in the benefits of rising prices. The combined effect of this royalty and of the sudden expansion of the iron-mining industry was to increase the state's mineral royalty receipts from less than $500,000 in 1965-66 to more than $22 million in 1970-71.[8]

Although *ad valorem* royalties are the usual practice in most parts of the world, Western Australia was apparently the first state to impose such royalties in Australia. After this precedent had been established, provision for an *ad valorem* royalty was included in the federal-state agreement of 1967 concerning the exploitation of offshore petroleum. The basic royalty was set at 10 per cent, with the state adjoining the offshore area to take three-fifths of the proceeds and the federal government two-fifths. So far Victoria is the only state to derive any benefit from this arrangement.

In Queensland, mineral royalties continued to be at fixed rates until 1974 and prior to that date the rates were fixed at such low levels that their contribution to the revenues of the state was negligible. Spokesmen for the Queensland government explained that this was because the state preferred to take its share of mineral resource revenues in the form of railway revenue rather than in the form of royalties. Unlike Western Australia, which allowed the iron-ore companies to build and operate their own private railways in the Pilbara, Queensland insists that all new railways built to transport minerals must be part of the state-owned system. This policy enables the state to control the freight rates on minerals, which it sets at a rate high enough to guarantee a substantial return on every ton of coal or ore transported. In addition, the state avoids interest charges on the capital needed to build the railways by requiring the mining companies to pay in advance the entire cost of construction. The advance is refunded to them, out of freight revenue, over a period of ten to twelve years, but the net proceeds to the state are officially estimated at about one dollar per ton of coal even after this repayment and railway operating costs are taken into account.[9]

The effect of the Queensland approach to collecting resource revenue is apparently to redistribute income from the mining industry to the benefit of farmers, graziers, and railway passengers. Queensland coal mining firms complain about being forced to subsidize other users of the railway system. Their counterparts in New South Wales, where freight rates on coal are even higher, express similar grievances, although the government in New South Wales has never openly stated that the railways are used to collect the State's share of resource revenues. The controversy over freight rates on coal suggests an explanation of why four of the six states cling tenaciously to their control over railways, a circumstance that non-Australians find unintelligible as well as ludicrous.

Requiring the mining companies to bear the costs of infrastructure is the third method by which the state governments have attempted to maximize their return from the exploitation of mineral resources. Infrastructure includes not only railways but port facilities, supply of water and electricity, and in some cases the creation of

[8] Data supplied in answer to a question in *Western Australia Parliamentary Debates*, Vol. 190, p.32, 20 July 1971.

[9] "Robbing Peter", *Australian Financial Review*, 23 April, 1971.

entirely new settlements. Queensland seems to have developed the most successful techniques for forcing the mining companies to bear such costs. Western Australia has apparently been less successful, and has argued that the federal government should bear more of the costs, which it alleges are too onerous for either the state government or private enterprise. Mineral developments in the other states are either long-established or close to existing centres of population, so that the provision of new infrastructure is not required to the same extent.

Encouraging development and maximizing government revenues have been the principal objectives of the mineral resource policies of the Australian states. The remaining objectives — encouraging processing, conserving resources for local use, and maximizing local ownership and control — can be treated more briefly. In general they have been pursued less enthusiastically, less consistently and less successfully than the two major objectives.

Processing is not an important issue in New South Wales or Victoria, because those states already have a diversified industrial base and their major mineral developments in recent years have produced fuels rather than metal ores. The other states have policies to encourage processing, but it is difficult to assess their effect; one cannot know what would have happened in their absence, and mining companies are reluctant to admit that their decisions are affected by such measures as Queensland's practice of reducing the royalty on bauxite refined within the state. The smaller states have all made vigorous efforts to attract investment in bauxite refineries, petrochemical plants, steel mills and other conspicuous forms of industrial development, but apparently with limited success. Environmentalism and the growing tendency of the federal government to insist on majority Australian ownership of such projects have greatly impeded these efforts and have produced intergovernmental conflict, as will be shown below.

The conservation objective is somewhat different from the processing objective, since it is based on the assumption that resources are in short supply. But in both cases the ultimate purpose is to maximize employment and industrial diversification within the state. The conservation objective really concerns only crude oil and natural gas, since these are the only major minerals that are now thought to be in short supply in Australia. Conservation for future use has not been an important objective of state governments, because it conflicts directly with the principal objectives of maximizing output and maximizing government revenues. However, Victoria seems to have been reluctant to export its natural gas to other states at the time when such exports were under consideration. South Australia took a different position but may now be moving towards a more conservationist policy with respect to natural gas. Section 92 of the Constitution probably imposes limits on the extent to which states can conserve mineral resources for their own use, but these limits have not yet been reached or clearly defined.

Like other governments in the industrialized world, some of the Australian states in recent years have taken steps to develop more systematic policies to ensure adequate supplies of energy resources. The administrative machinery created for this purpose by Victoria, Western Australia and South Australia has already been referred to. New South Wales, Queensland and Victoria have all sponsored research into the feasibility of converting their locally abundant coal (brown coal in the case of Victoria) into synthetic petroleum. The traditional responsibility of the states for producing and distributing electricity has facilitated their entry into the broader field of energy policy as it relates to mineral resources.

The objective of maximizing Australian ownership and control over mineral resources has not been pursued to a very great extent by state governments. The

governments of Queensland, Tasmania and Western Australia have consistently argued that little Australian capital can be attracted to invest in the mining industry, and that there is no real alternative to substantial foreign equity. Since dependence on overseas markets and the unpredictability of metal prices make investment in metal mining a risky venture, there is probably some truth in this. Another motive for welcoming foreign capital may be the view that it reduces the traditional dependence on, and exploitation by, the industrialized south-east of Australia. In the case of offshore oil and gas, the government of Victoria considered the involvement of a major international oil company to be essential, since no Australian firm had the technology or expertise needed to develop the resources of Bass Strait.

The only state that seems to have a policy of requiring majority Australian ownership in mining developments is New South Wales, and even there exceptions are made in certain circumstances. The then Premier, Mr R. (later Sir Robert) Askin, first announced such a policy in 1970. The state's new *Mining Act,* adopted in 1973, provides that, in deciding whether or not to grant an exploration licence or a mining lease to a corporation, the government may take into account the extent, if any, to which the corporation is controlled by a foreign corporation or by an individual resident outside Australia. This provision has been used to impose, in most cases, a requirement that 51 per cent of equity in new coal mines be held by Australians. Such a policy is facilitated by the fact that investment in coal mining involves less risk than investment in metal mining and by the fact that coal mining in New South Wales was predominantly Australian-owned even before the policy was adopted. However, exceptions to the rule are made in certain circumstances. It is also clear that, given a choice, New South Wales in the past would have preferred ownership of mines by a foreign corporation to ownership by the federal government. This has been true of non-Labor governments in all of the states.

To summarize the objectives of state governments' mineral resource policies, it may be noted that the objectives of maximizing output and maximizing government revenue tend to conflict with the objectives of increased processing, conservation and Australian ownership. There is also a strong possibility of conflict between the objectives of increased processing and Australian ownership. Maximizing government revenue may also conflict with maximizing output, particularly if there is a progressive royalty like that applied to metal mining in Broken Hill. In general these conflicts have been resolved by relegating conservation and Australian ownership to the bottom of the list of priorities, while maximum revenue has begun to challenge maximum output as the first objective in recent years, and increased processing has ranked somewhere in the middle.

An important factor in the mineral resource policies of the Australian states has been the possibility that competition with other states may limit the ability of any state to impose high royalties, processing requirements, or stringent rules concerning Australian ownership. To a somewhat lesser extent, competition with foreign countries which have similar mineral resources must also be taken into account. Because of this factor, the objectives of maximum revenue, processing and Australian ownership have been pursued to a lesser extent, or at least with less success, than would otherwise have been the case.

In general it may be said that by the early 1970s the mineral resource policies of the states, as well as the legal enactments and administrative structures through which they pursued these policies, had begun to change in response to the tremendous development of the mining and petroleum industries that was taking place. However, the rapidity of change varied from state to state, and lagged somewhat behind the events to which change responded in all states. Part of the reason for this was the

difficulty which interstate competition created for the pursuit of certain objectives at the state level of government. At the same time, the uneven development of mineral industries in the different states had created very real conflicts of interest between different regions of the country, which could not really be resolved by the state governments. These two factors, as well as changes in the international environment, helped to pave the way for the federal government's massive intervention into mineral resource policy.

IV THE GROWING INVOLVEMENT OF THE FEDERAL GOVERNMENT

(1) Early Federal Involvement

For most of Australia's history as a federation, the federal government played practically no part in the development of mineral resources. Not until after the Second World War was there even a government department responsible for the mineral industries. Even then the Department of National Development, as it was known until the end of 1972, was a small organization, and its terms of reference included responsibility for renewable resources and a variety of public works as well as minerals.

The initial reason for the federal government's eventual involvement in minerals was the fact that Australia's known reserves of major minerals, such as iron ore and petroleum, were considered inadequate. Concern over this problem grew greater during and after the Second World War, when the strategic, as well as the economic, importance of raw materials beame apparent. It had not, however, been entirely absent even before the war.

Because it was motivated by concern over the scarcity of resources, the early policy of the federal government had two main objectives: to encourage the discovery and exploitation of new mineral reserves, and to conserve the supplies that were known to exist. Paradoxically, the two objectives were sometimes in conflict with each other, as when the embargo on iron ore exports, imposed as a conservation measure, had the effect of discouraging both exploration and development. In general, however, the first objective received far more attention than the second, which was gradually abandoned in the 1960s as the extent of Australia's mineral wealth became apparent. One effect of this was that it minimized the possibility of any clash between the policies of the two levels of government, since the encouragement of exploration and development was also the major objective of the mineral resource policies of the states. There was also, of course, no conflict between this objective and the objectives of the private sector.

Among the specific means by which the policy was implemented, the most important were subsidies for petroleum exploration (which began as early as 1926), a variety of tax concessions and incentives to the mining industry, and the establishment of a Bureau of Mineral Resources which collected geological information and made it available both to the private sector and to the states. Certain assistance given to the states also contributed directly to the expansion of the mining industry, such as loans for the improvement of mineral-hauling railways in Western Australia and Queensland.

Until the Bass Strait discoveries stimulated interest on the part of the private sector, the Commonwealth Treasury contributed, through direct subsidy, about one-third of the funds devoted to petroleum exploration in Australia. In 1963 alone the actual cost of the subsidy was $15.4 million.[1] In addition to this direct assistance to petroleum exploration, indirect assistance to various sectors of the mineral industry was given through a variety of tax concessions. All expenditures on railways, ports and processing facilities, as well as the actual mines, could be written

[1] *Report of the Committee of Economic Enquiry*, Vol. I, p. 59.

off immediately against income until 1968. All profits from gold mining, and 20 per cent of profits from mining a variety of other minerals, were excluded from taxable income. Dividends earned by shareholders in petroleum companies, and income from the sale of mining licences and permits, were also not subject to tax. Individuals contributing to the capital of mining firms received additional tax concessions.

Aside from incentives of this kind, the mineral industries were largely left alone, although uranium was a partial exception both because of its military applications and because it was first discovered in the Northern Territory. Coal mining, until recently mainly concentrated in New South Wales, was regulated by the Joint Coal Board, which the federal and New South Wales governments established in 1946. Otherwise the federal government's mineral policy, such as it was, was largely determined by the Treasury. The Bureau of Mineral Resources was a technical organization working closely with the industry which it served, not a policy-making body. In general mineral resources were viewed as the responsibility of the states and of the private sector.

In the early 1970s, however, the federal government's mineral resource policies began to move away from this traditional pattern. The replacement of Mr David Fairbairn by Mr Reginald Swartz as Minister for National Development in the latter part of 1969 can perhaps serve as a convenient milestone. Fairbairn, who resigned because of disagreements with the Prime Minister, Mr John Gorton, represented the traditional policy of providing little more than benign encouragement to the private sector and to the states, a policy which he continued publicly to espouse from the backbenches. His departure was followed by an unsuccessful attempt to assert federal sovereignty over the continental shelf, and by a successful intervention to prevent foreign interests from acquiring control over the uranium industry. The fall of Gorton in 1971, although brought about in part by a conservative reaction against his continental shelf policy, did not signify a complete return to the mineral resource policies of the 1960s. The Department of National Development, still under the direction of Swartz, in 1971 prepared a white paper which advocated more systematic and coherent federal policies in regard to mineral resources, and which dealt with such controversial subjects as export controls and foreign ownership.[2] Because of disagreements within the cabinet, the white paper was not released to the public, but a parliamentary statement on minerals policy by the minister in September 1972 apparently included most of its substance.[3] This ministerial statement was not welcomed by the mining industry, one spokesman for which was later to comment that the statement embodied essentially the same philosophy as that espoused by the Minister for Minerals and Energy in the Whitlam government, Mr R. F. X. Connor.[4]

(2) Changing Circumstances

Changes in both domestic and external circumstances contributed to the new tendencies in the mineral resource policies of the federal government. Urbanization and the growth of a service economy perhaps produced an electorate less inclined than in the past to regard economic growth as a sufficient objective of public policy. The success of the traditional policies also contributed to their obsolescence. Once Australia had became a major producer of minerals, less emphasis needed to

[2] "Anthony and Swartz Clash over Minerals", *Sunday Australian*, 24 October, 1971.

[3] *Australia's Natural Resources: Ministerial Statement and Review*, Parliamentary Paper No. 212 (1972).

[4] This comment was made privately to the author.

be placed on the discovery and development of its mineral resources, and more attention could be directed to the ways in which their benefits were distributed, both within the Australian community and between Australia and the outside world. Economic growth had been a goal on which all Australians could agree, but questions of distribution of benefits were inevitably more controversial.

A variety of circumstances external to Australia was also changing in the late 1960s and early 1970s, creating a new environment for Australia's mineral resource policies. The rapid growth of the Japanese economy seemed to assure an almost unlimited prospect of growth in the market for Australian minerals. The effect of this on the Australian balance of payments, and on the output and profits of the mining companies, suggested that the mining industry no longer required assistance and incentives to develop, but that its development could be taken for granted. Rather than asking what the government could do to help the industry, there was an increasing tendency to ask what the industry was contributing to the community as a whole.

At the same time, the growing demand for minerals in Japan and other industrialized countries was contributing to a fundamental change in international relations: a shift in bargaining power from the resource-importing countries to the resource-producing countries. After a long period of declining prices for raw materials, prices began to rise again. Political factors, such as the defeat suffered by the United States in Vietnam and the diplomatic impasse in the Middle East, also lessened the ability of the resource-importing countries to gain access to raw materials on the easy terms they had previously taken for granted. The results were to be seen in the 1970s as the economic hegemony of the United States, Western Europe and Japan suddenly evaporated. The success of OPEC in raising the price of oil and the resulting 'energy crisis', the formation of similar cartels by the bauxite and iron ore exporters, the demands for a 'new economic order' in UNCTAD and the United Nations General Assembly, and the nationalization of copper in Chile, bauxite in Guyana, and oil in most of the major exporting countries, were among the events that followed.

Although not itself a 'developing country' in the usual sense, Australia as a major exporter of minerals inevitably benefited from these events. Since the industrialized countries could no longer gain access to the resources of the developing countries on such easy terms as before, Australia could improve the terms on which it disposed of its own resources without pricing itself out of the market. In the past, international competition had kept resource prices low and as a result Australian governments had collected little in royalties or taxes, had offered maximum incentives to the mining industry, and had imposed few conditions on the exploitation of Australia's mineral resources. Now that Australia's competitors were demanding, and receiving, better terms, Australia was free to do so itself. The increased value and importance of resources inevitably raised the question of whether the benefits would be collected exclusively by the mining companies or distributed more widely through the Australian community. If the latter course were to be chosen, it was clear that only the federal government could be an effective agent of redistribution.

While Australia's position as an exporter of most major minerals made the new circumstances conducive to greater intervention by the federal government, Australia's position as an importer of petroleum perhaps paradoxically had the same result. The success of OPEC caused the governments of all major oil importing countries, including even the United States, to intervene to a greater degree in the energy market, and it became difficult for any government to admit that it lacked an 'energy policy'. The particular forms of intervention chosen by the Australian

Labor government were not inevitable, but some form of increased intervention probably was. By the beginning of 1973, even the *Australian Financial Review* was castigating the recently-defeated McMahon government for its failure to develop an energy policy and its 'altogether curious attachment to laissez-faire economics'.[5]

(3) New Objectives of Mineral Resource Policy

Perhaps the most important change in mineral resource policy objectives in the 1970s was the greatly increased preoccupation with ensuring that Australians, rather than foreigners, would receive the greatest possible share of benefits from resource development. Because the mineral sector of the economy had expanded so suddenly in the late 1960s, it appeared obvious that there were benefits accruing to someone that had not existed previously. Because mining depended so largely on foreign capital and foreign markets, and in fact was the only sector of the Australian economy to depend heavily on both, there were reasonable grounds for the assumption that foreigners were gaining an unduly large share of the benefits through high profits, low prices, or a combination of both. The knowledge that mineral resources are non-renewable and the fact that they have historically been regarded as the property of the community rather than of individuals were additional reasons why the distribution of benefits from their development should be a subject of preoccupation.

The general objective of increasing the Australian share of benefits from mineral resources included three particular areas of concern: export prices, the proportions of foreign and domestic ownership, and the contribution of the mineral resource industries to government revenues.

Export prices quite obviously affect the distribution of benefits between a mineral-producing economy and its external markets, and thus have become a preoccupation of all mineral-exporting nations. The most widespread method of increasing export prices of minerals in recent years has been the formation of cartels of mineral-exporting nations to control the supply of particular commodities and prevent price competition. The oil exporters led the way with OPEC in 1960 and were subsequently followed by the exporters of copper, bauxite and iron ore. In Australia, however, the chief obstacle to higher resource prices was believed to be not international competition, but competition among Australian producers, perhaps supplemented by collusion between foreign-controlled producing firms and their foreign customers. While Australia did eventually join the bauxite and iron ore cartels, it placed greater emphasis on measures to deal with what were seen as the real sources of inadequate export prices.

Concern over the growing levels of foreign ownership and control in the Australian economy had been increasing for about a decade before the federal Labor government was elected in 1972. In the early 1960s, when anxieties about foreign direct investment first began to appear, manufacturing rather than mining seemed to be the main focus of attention, both for the so-called 'multinationals' and for their critics. Even at this early stage, however, the Vernon Report noted that the aluminium industry was entirely foreign-controlled, copper, lead and zinc mining largely so, and that nearly half the capital employed in oil exploration within Australia came from the United States.[6] In the late 1960s, foreign capital played a dominant role in the rapid expansion of Australian mineral output, and such names

[5] *Australian Financial Review*, 18 January 1973, "US Energy Crisis and Its Lessons".
[6] *Report of the Committee of Economic Enquiry*, Vol I, p. 195.

as Conzinc Riotinto, Esso, Kaiser, Peabody and Utah became household words in Australia. The prominence given to the mining industry by the media, and the contradiction between rapidly increasing foreign ownership and the traditional concept of minerals belonging to the community, ensured that economic nationalists would increasingly be preoccupied with mining. Bizarre episodes like the distribution of Comalco share options at bargain rates to state cabinet ministers in 1970 did nothing to improve the image of the foreign-controlled firms.[7]

In general, Australians preoccupied with this subject appear to have placed greater emphasis on foreign ownership than on foreign control. More concern was expressed about the repatriation of profits from Australian minerals to foreign countries than with the influence that foreigners might gain over economic decision-making in Australia. In this respect Australian economic nationalists seem to differ from their Canadian counterparts, possibly because foreign direct investment in Australia has come less overwhelmingly from a single foreign country than in the Canadian case. In Australia there has been an intense preoccupation with the percentages of foreign equity in various firms, but little attention has been given to the decision-making procedures of the firms or the influence exercised over them by particular foreign shareholders. This fact has made it easy for governments to set guidelines, although it may be doubted whether any useful purpose has often been served by them.

Maximizing the contribution made by the mineral resource industries to government revenues was one way of ensuring that a large share of the benefits resulting from mineral resource development remained within Australia. It was also an objective that seemed to derive logically from the historic notion that minerals belong to the Crown. Because of this notion, the belief that government is entitled to a share of resource profits is not confined to socialists or collectivists, but co-exists with a belief in the desirability of individual enterprise and the legitimacy of private profit. If Australian governments derived little revenue from mining until recently, it was not because of ideology, but because output was small, prices were low, and the industry was believed to be weak and in need of encouragment. These conditions no longer prevailed in the early 1970s.

In a federation the objective of maximizing government revenue from mineral resources has more complex implications than it has in a unitary system of government, and to a lesser extent this is also true of the more general objective of maximizing the national share of benefits gained at the expense of foreign investors and consumers. In Australia, the ownership of minerals by the Crown means the ownership of most minerals by the individual states, not by the nation. This notion cannot easily be adapted to justify the appropriation of resource revenues by the federal government, even if the practical result of leaving the public share to the states is to ensure that they will fail to collect much of it because they are competing among themselves to attract investment. More generally, the broad objective of maximizing Australia's share of the benefits of Australian minerals may not be strictly compatible with the belief that the minerals belong to particular Australian states. Mineral-exporting states tend to argue that if it is wrong for the benefits of West Australian iron and Queensland coal to be reaped in Tokyo, New York, or London, it is equally wrong for them to be reaped in Canberra, Melbourne or Sydney. In a federation, the question of how benefits are distributed between the nation and the outside world cannot often be posed without raising the question of how benefits are distributed internally. To Queenslanders and Western Australians,

[7] "Cabinet Men get Comalco Shares", *The Age*, 9 June 1970.

whose states visibly benefit from mineral resource development, the oft-expressed view that the Australian share of benefits from mineral resources should be increased is not always persuasive, since it might carry the disquieting implication of an internal redistribution at their expense.

In addition to the problem of distributing the financial benefits of mineral resource development, concern began to be expressed in the 1970s about the distribution of the minerals themselves. In other words, conservation was revived as an objective of mineral resource policy, after virtually being abandoned during the 1960s.

The origins of this development were international rather than domestic. The rapidly increasing price of crude oil in the early 1970s, and its use by the Arab nations as a political weapon in their struggle against Israel, contributed to the belief that the industrialized world faced an actual or potential energy crisis. This fear was reinforced by the realization that fossil fuels were being consumed more rapidly than new reserves were being discovered in the early 1970s, although in the long term Arab oil diplomacy was likely to remedy this problem by reducing consumption and at the same time making discovery of new oil or alternative energy sources more profitable.

In Australia, as in other industrialized countries, the result of these developments was to stimulate widespread interest in energy policy, a term not always defined with much precision but generally based on a belief that systematic government intervention in the market for energy sources could be necessary to ensure adequate supplies.[8] As was mentioned in the previous chapter, some of the Australian state governments took steps to develop an energy policy in the 1970s. However, an energy policy suitable to the needs of a particular state might not be in the interest of Australia as a whole. A state with a surplus of one source of energy might demand the right to export some of it, regardless of the needs of other states, while demanding conservation for national purposes of other energy sources possessed by other states in which it was deficient. States might also attempt to hoard energy sources for their own use so as to increase their competitive position in relation to other states. Such possibilities created a strong case for involvement by the federal government in energy policy, while at the same time creating a risk that its intervention would be accompanied by intergovernmental conflict.

(4) The New Objectives and the Federal System

Although the states continued to have primary responsibility for mineral resources, it was the federal government rather than the states which responded to the changing circumstances and attempted to pursue the new objectives outlined in the preceding pages. The new objectives tended to be associated with demands for greater federal involvement in mineral resource policy. Greater federal involvement in turn became a source of intergovernmental conflict, since it appeared to challenge deeply-cherished prerogatives of the states.

Possibly one reason for the federal government to be more responsive to new trends than the states was the fact that it had been less directly involved in mineral resource policy prior to the 1970s than the states had been, so that it had less bureaucratic inertia to overcome in making the transition to new policies. The Bureau of Mineral Resources, which was the only part of the federal bureaucracy

[8] See "Australia's Long-term Fuel and Energy Policy", Statement by the Minister for Minerals and Energy (R.F.X. Connor) in *Australian Government Digest*, Vol. 2 (1974) No. 3, pp. 771-777. The statement criticizes the governments prior to 1972 for leaving the field of energy policy to the states.

strongly committed to the old policies, was peripheral to the policy-making process and had little influence. The Department of National Development was quite small, and when it became the Department of Minerals and Energy in December 1972 a large number of personnel were brought in from other departments, transforming its character and outlook.

The federal government also tended to pursue more innovative policies than the states, because the demands for such policies came principally from voters in the large metropolitan centres of south-eastern Australia, while the mining industry itself was predominantly located in the northern and western hinterlands. The state governments in the states most dependent on mining were not much affected by demands for new policies, which tended to be weakest in those states and regions where mining was most important.

The federal government was the only government that could speak for the whole of Australia, and thus was the logical instrument for pursuing objectives that seemed to be national in character. The external threat of the global energy crisis seemed to demand a response from the level of government most accustomed to dealing with external threats. The objective of redistributing benefits to Australians at the expense of overseas consumers and investors was also more related to traditional preoccupations of the federal government than to those of the states. The expansion of the mining industry in a state tends to be viewed as a gain for that state, especially in relation to other states, regardless of how its benefits are distributed between Australians and foreigners. The federal government, on the other hand, is accustomed to looking at the whole Australian economy in relation to the external environment within which it operates.

Some of the possible initiatives suggested by changing external circumstances and by the new objectives of mineral resource policy could not have been taken by the states, because they fell within the federal sphere of legislative power, or because the states lacked the necessary financial resources, or because they required action extending beyond state boundaries. Thus state governments could not have been expected to control exports and negotiate with foreign governments, or to purchase substantial equities in mineral developments, or to plan and build a national pipeline system. Those who sought such initiatives had to demand action by the federal government. Competition among states to attract investment would also have made it hazardous for the government of one state to impose conditions on the development of its mineral resources more stringent than those prevailing in other states.

These factors explain the impetus towards greater federal involvement in mineral resource policy, but they perhaps do not fully explain the deterioration in relations between the states and the federal government which followed. The next three chapters will describe that deterioration and examine the reasons for it in some detail, but they will be better understood if attention is drawn at this point to some of the attitudes towards federalism and the states of those who made and implemented the federal government's mineral resource policies, particularly between 1972 and 1975 when the Australian Labor Party held office. Unlike the conservative parties in Australia, the Australian Labor Party has traditionally seen little virtue in federalism, and some members have tended to regard the states as artificial and obsolescent bastions of parochialism and privilege, obstacles to the achievement of a more humane and rational society. In addition, many of the civil servants who comprised the Department of Minerals and Energy under the Labor government had been transferred from other departments, such as Trade and Industry, where there had been little need to take state governments into

consideration. Thus both politicians and bureaucrats tended to ignore the states and to consult them as little as possible.

To varying degrees the tendency to ignore the states was associated with hostility towards them, and particularly towards their mineral resource policies. There was a tendency to believe that state governments both perpetuated and responded to parochial loyalties, rivalries and resentments, particularly in the outlying states that depended most on the mining industry. These loyalties, rivalries and resentments were attributed to the effects of geographical isolation, the long history of separate development prior to federation, and the limited degree to which the federal government had directly affected people's lives even after federation. It was argued that because state governments responded to or even shared such sentiments, they inevitably pursued policies directly contrary to the national interest. Those who took this view of the states tended to blame previous federal governments less for their own initiatives in the field of mineral resource policy than for having left too much freedom to the states.

Another criticism of the states was that they tended to pursue the goal of development at any cost, and without regard for the consequences. Having a more direct political and financial interest in the opening of new mines and processing plants than did the federal government, the states tended to attach few conditions, to assume that developments would have no undesirable side effects, and to pursue policies generally favourable to the interests of the mining industry. In return, the mining industry was seen as encouraging the states to act more autonomously so that it could profit from interstate competition and from the sympathetic policies of state governments.

The third, and probably the least justified, major criticism of the states was to the effect that state politicians and civil servants were incompetent and ill-informed. It was believed that they lacked information and expertise, had no aptitude for or interest in long-range planning, and tended to think only of the immediate consequences of their actions. As a result they were considered to be no match for the more shrewd and sophisticated representatives of the mining firms in bargaining between government and industry.

Even without attitudes such as this on the part of federal politicians and civil servants, the increasing involvement of the federal government in mineral resource policy would have led to conflict with the states. It would have done so because any intrusion by the federal government into an area of policy that had previously been left almost entirely to the states was bound to be regarded by the state governments as a threat to their power. It would have done so because initiatives by a federal government which had its political base in the industrial south-east were bound to be resented in the thinly-populated peripheral states, which depended to a much greater extent on the mining industry. It would have done so, finally, because conflict between political parties in Australia often takes the form of intergovernmental conflict. Yet in spite of these facts, it is possible to argue that the unflattering view of the states held by many federal politicians and civil servants acted as a self-fulfilling prophecy, contributing to the truculence and the virtual unanimity with which the states resisted federal initiatives. It is possible that more conciliatory approaches might have won the acquiescence of at least some of the states to at least some of the initiatives, and thus enabled the federal government to achieve more of its objectives.

V THE POLITICS OF NATURAL GAS

Australia was one of the last industrial countries to adopt natural gas as a fuel; indeed it was not until 1969 that natural gas was produced or consumed in Australia on any significant scale. Australia's geographical position as an isolated island continent was not conducive to importing natural gas and its geological characteristics did not encourage exploration, with the result that it was slow to discover or develop its own resources. The mild climate and the abundance of black and brown coal lessened the incentive to make the discovery or development of natural gas a high priority.

When natural gas finally did become a major factor in the Australian economy it did so suddenly, and at a time when the upward trend of energy prices, the growing scarcity of energy resources, and the pollution associated with the use of coal were becoming subjects of preoccupation both in Australia and throughout the world. Thus natural gas suddenly acquired great importance, at a time when Australian governments had little experience in dealing with it. To state governments that were blessed with local sources of natural gas, the new fuel appeared as an asset not to be lightly thrown away. To state governments less fortunately situated, the need to gain access to natural gas became a self-evident objective. To economic nationalists, such as those who comprised the federal ministry from December 1972 until November 1975, natural gas seemed to provide both an opportunity of asserting federal dominance over the states and a strong argument in favour of doing so. Thus the stage was set for intergovernmental conflict.

(1) The National Pipeline Grid

The series of events by which natural gas came to be supplied to the Sydney market provide an interesting case study for students of federalism in more than one respect. Competition among states to gain the economic benefits of a scarce, valuable and newly-discovered resource provided an important element of horizontal conflict in the sense defined above. Vertical conflict appeared when the federal government intervened with plans that were unwelcome to the state most immediately concerned. Of particular interest is the appearance of a tendency noted on the international scene by Connelly and Perlman: the declining role of private enterprise in resource politics and the growing role of governments as the issues become more politically sensitive. In this case the private sector began the chain of events that led to intervention by governments, but the growing involvement of governments, first at the state and then at the federal level, eventually reduced the roles of the private firms to relative insignificance.

As was noted in Chapter II, commercial quantities of natural gas were discovered at a number of Australian locations during the 1960s. By the end of the decade Adelaide, Brisbane and Perth were all connected by pipelines to natural gas fields within their respective states, while Melbourne was connected to the largest reserves of natural gas then known to exist in Australia, those of Bass Strait. Although this field was located offshore, the effect of the 1967 federal-state agreement, which is discussed in the second section of this chapter, was to place it under the control of the state of Victoria for all practical purposes.

Alone among the mainland states, New South Wales had no natural gas, and this fact, if not rectified by the acquisition of supplies on favourable terms from elsewhere, seemed likely to threaten the state's ability, in the long term, to retain its position as the most important industrial centre in Australia. Exploration within the state and in adjacent offshore areas provided little reason to hope that local supplies would be discovered. As early as 1966, therefore, the Australian Gas Light Company, which had been the distributor of manufactured gas in the Sydney area for more than a century, began negotiations in the hope that it could buy natural gas from the Esso-BHP partnership, which had discovered the Bass Strait field two years earlier. Esso-BHP was already engaged in similar negotiations with the Gas and Fuel Corporation of Victoria, an instrumentality owned by the government of Victoria and engaged in the production and distribution of manufactured gas in that state. It did not take long for the rivalry between the two major industrial states to have an effect on the negotiations. During the negotiations with Australian Gas Light, Esso-BHP agreed to

Alone among the mainland states, New South Wales had no natural gas, and this fact, if not rectified by the acquisition of supplies on favourable terms from elsewhere, seemed likely to threaten the state's ability, in the long term, to retain its position as the most important industrial centre in Australia. Exploration within the state and in adjacent offshore areas provided little reason to hope that local supplies would be discovered. As early as 1966, therefore, the Australian Gas Light Company, which had been the distributor of manufactured gas in the Sydney area for more than a century, began negotiations in the hope that it could buy natural gas from the Esso-BHP partnership, which had discovered the Bass Strait field two years earlier. Esso-BHP was already engaged in similar negotiations with the Gas and Fuel Corporation of Victoria, an instrumentality owned by the government of Victoria and engaged in the production and distribution of manufactured gas in that state. It did not take long for the rivalry between the two major industrial states to have an effect on the negotiations. During the negotiations with Australian Gas Light, Esso-BHP agreed to supply that firm with natural gas at a slightly lower price than that which had been accepted by the Gas and Fuel Corporation. The latter had apparently been under some pressure from the Victorian government, which wanted a contract signed before the 1967 state election. The same government, however, was not prepared to see Sydney supplied with natural gas at a lower price than Melbourne, and forced Esso-BHP to agree to a provision that if any other customer was given a lower price than the Gas and Fuel Corporation, the price paid by the latter would be reduced to the same level. Thus the first year of negotiations between Esso-BHP and Australian Gas Light came to nothing.

In spite of this setback, negotiations continued after a brief interval. The federal-state agreement on offshore petroleum, signed in October 1967, allowed Victoria to continue exercising control over production in Bass Strait. In return, however, it provided that the state could not actually prevent the export of Bass Strait gas to another state, however much it might be disposed to do so. Hence there was hope that Australian Gas Light would eventually gain access to Bass Strait gas, provided it was willing and able to pay as high a price as the Gas and Fuel Corporation.

By 1969, however, it became apparent that there were fundamental differences between Australian Gas Light and Esso-BHP. The distributing firm naturally wanted to protect its existing monopoly over the distribution of gas in its market area, and believed that for this purpose it had to own and control the pipeline through which natural gas would be carried to Sydney. As one of the producing partners, Esso, on the other hand, insisted that it should operate the pipeline, and made no secret of its hope that by doing so it could deal directly with some of the

large industrial customers. Esso argued that as the producer it wanted to be certain that all potential markets would be adequately cared for. Australian Gas Light feared that Esso would take over the profitable side of its distribution business, leaving only the unprofitable domestic and residential customers.

It was at this stage that the government of New South Wales first intervened in the discussions to support the position of Australian Gas Light. Unlike Victoria, which had had a Gas and Fuel Corporation since 1950 and a Ministry of Fuel and Power since 1964, New South Wales had hitherto left private enterprise with the sole responsibility for ensuring the supply of gas in the state. This policy no longer sufficed. To some degree the state government seems to have been influenced by Australian Gas Light's argument that an American-controlled firm like Esso should not be involved in the distribution of gas. In addition the state government realized that if the locally-owned utility ceased to be profitable as a result of being confined to residential markets, the state would have to either take it over or subsidize it indefinitely. Esso tried to make its plans more acceptable to the New South Wales government by modifying them to the effect that BHP would also be involved in transporting and distributing the gas, but the state's attitude did not change. Negotiations continued in a desultory fashion until 1971, but without any progress.

The influence of the New South Wales government, now deeply involved in the negotiations, probably contributed to Australian Gas Light's growing interest in the Cooper Basin of South Australia as an alternative source of supply to Bass Strait. In 1968 a Canadian consulting firm employed by the Minister of Mines, Mr Wal Fife, had suggested that natural gas might be supplied to New South Wales from this source. Mr Fife was attracted to this suggestion, chiefly because he did not consider it to be in the national interest for both major industrial states to depend on the same source of supply. In any event, Australian Gas Light opened negotiations with the major Cooper Basin producers, Delhi and Santos, towards the end of 1969. By the following year, because negotiations with Esso were clearly at an impasse, the firm's interest was focussed almost exclusively on the Cooper Basin. The East-Aust. Pipeline Corporation was formed as a subsidiary of Australian Gas Light with the purpose of building a pipeline from the Cooper Basin to Sydney. By the end of 1970 Mr Fife was able to announce that Australian Gas Light had reached 'substantial agreement' with the Cooper Basin producers.[1]

In contrast to Esso, the Cooper Basin producers had no ambitions to enter the field of distribution. An additional factor that worked in their favour was the fact that the South Australian government considered the state's supply of natural gas to be far in excess of its needs, and thus encouraged the idea of export to New South Wales. Aside from its interest in collecting royalties, the government led by Mr Don Dunstan hoped that a major petrochemical plant would be established in the state, using the liquid by-products from the treatment of natural gas. The large market of New South Wales was needed to use enough gas, and thus create enough by-products, for this to be feasible. Although one analysis published in early 1971 suggested that South Australia would be better advised to conserve its gas for its own use, this view had little support.[2] In fact it was the potential consumer, rather than the government of the producing state, who expressed anxiety about the adequacy of South Australia's reserves. The letter of intent to purchase, signed by Australian Gas Light with the Cooper Basin producers in May 1971, was made conditional on the confirmation of adequate reserves. In October 1972 the

[1] 'Gas from SA Likely to be 20 per cent Cheaper', *Sydney Morning Herald*, 22 December 1970.
[2] 'Why SA Should Rethink its NSW Gas Deal', by R. Blandy and B. Hughes, *Australian Financial Review*, 2 March 1971.

producers were able to certify that reserves were adequate and a firm contract was signed.

The encouragement given by the South Australian government to the negotiations was in contrast to the position taken earlier by the government of Victoria, which admitted after October 1967 that it could not legally stop the sale of offshore gas to New South Wales, but nonetheless gave the impression that it would not be sorry to see the failure of Esso's negotiations. The Premier of Victoria, Sir Henry Bolte, had even protested to Mr Fife regarding the latter's desire to see rural areas of New South Wales supplied with gas by laterals from the main trunk line to Sydney. Bolte expressed the fear that in some way such arrangements would increase the cost of gas to Victorian consumers. Faced with attitudes of this kind in Victoria, the government of New South Wales would almost certainly have sought federal intervention to make Bass Strait gas available on acceptable terms, if the Cooper Basin alternative had not been available. In fact, almost as soon as he became involved in the natural gas negotiations, Mr Fife had begun to discuss their progress, or lack of progress, with the federal Minister for National Development.

The success of the Cooper Basin negotiations postponed, but did not prevent, the intervention of the federal government into the politics of natural gas. The Australian Labor Party won the federal general election of December 1972, just as the notion that there should be a national 'energy policy' was becoming widespread. The new Minister of Minerals and Energy — the adoption of that title in place of 'National Development' was itself significant — was Mr R.F.X. Connor, who had studied energy resources extensively while holding the shadow portfolio in opposition. He was a convinced economic nationalist, both in the sense that he believed Australia should control its own resources and in the sense that he deplored the particularism of the states. As early as 1966 he had presented to the opposition Labor caucus his idea of a 'national pipeline grid', which would link the main urban and industrial centres with the actual and potential sites of natural gas production. By the time Labor took office in December 1972 it was committed to implementing this policy. In the intervening years natural gas pipelines had been built in four of the states, some by governments and some by private enterprise. Connor envisaged linking them all to a national system, whose main route would span the continent from the north-west shelf off Western Australia to Sydney by way of Palm Valley in the Northern Territory and the Cooper Basin. He believed that if all the main gas fields were linked together, no state or city would be completely dependent on a single source of natural gas. He also appeared to regard the interdependence that would be created by the pipeline grid as an antidote to what he viewed as the selfishness and parochialism of the state governments. Thus the pipeline was seen as a symbol of national unity. It would have to be owned by the federal government because no private firm would be willing to build it, or able to borrow the funds with which to do so, before the end of the century.

These plans were highly controversial, because they raised in the most acute possible form the conflict of interest between gas-producing states and gas-importing states. It was Connor's own state of New South Wales that most obviously needed a national pipeline grid, because it was the only mainland state without an indigenous supply of natural gas. Yet the grid would not pay for itself and would presumably be paid for by the taxpayers in all the states. From the point of view of the producing states, even worse was the provision in the government's Pipeline Authority Bill to the effect that the price of gas would be kept at a uniform level throughout the country. This seemed to mean that gas consumers nearer to the gas fields would subsidize the transportation costs of those farther away, a

circumstance from which New South Wales would reap the greatest benefit. At the same time the producing states would be deprived of any competitive economic advantage they might derive from lower energy costs.

In view of these implications of the Labor government's pipeline policy, it appears ironic that the first stage in implementing the policy was resisted by only one state government, that of New South Wales. The paradox, however, is easily explained. If the federal government's Pipeline Authority was to build a transcontinental line, its first priority would obviously be to take over from Australian Gas Light the task of building the line from the Cooper Basin to Sydney. Connor made this clear in February 1973, two months before legislation was even introduced in Parliament. From the utility's point of view, this posed the same threat as the demand by Esso, a few years earlier, to own the projected pipeline from Bass Strait. Just as in the confrontation with Esso, so now in the confrontation with Connor the government of New South Wales identified the state's interests with those of Australian Gas Light. It did not want the locally-owned utility, which was ultimately dependent on the state and could thus be controlled by it, to be placed at the mercy of either another government or a private firm outside the state's jurisdiction. Since the state and the utility were so interdependent, the state supported the desire of the utility to control its own transportation system. It would be entirely misleading, however, to conclude from this that the state was merely the puppet of private interests. On the contrary, despite its nominal status as a private firm Australian Gas Light seems really to have been the instrument of the state's own purposes, which were to provide Sydney with natural gas at minimal cost to the state treasury but without sacrificing control over the state's economy to outsiders. The states that actually produced natural gas could finance government-owned pipelines out of royalty revenues. New South Wales could not do this, but a pipeline owned by a stringently-regulated local utility would have given it almost the same measure of control.

Despite the support given by the New South Wales government to Australian Gas Light, there was little that either could do to prevent the takeover of the pipeline. The federal government indicated that if necessary it would use its powers to prevent the utility from borrowing funds overseas to build the pipeline and also to prevent it from importing steel pipe from Japan. The state government might have said that it would refuse permission to build a federal-owned pipeline within the state, but this would have postponed indefinitely the supply of natural gas to Sydney, which neither the state nor the utility was prepared to do. The utility in fact seems to have been less determined to continue the fight than the state was. It decided not to challenge the Pipeline Authority Act in the courts, even though it had received legal advice to the effect that such a challenge might be successful. Although it continued to dislike the idea of relying on a pipeline not owned by itself, it considered this a lesser evil than an indefinite delay of the project, the cost of which was bound to be greater the longer it was delayed. Australian Gas Light also knew that its contracts with the Cooper Basin producers were safe from federal interference. This meant that the Pipeline Authority would not in fact be able to 'buy gas at the wellhead', as Connor had hoped, but would merely transport gas belonging to the privately-owned utility.

Negotiations between the federal government and Australian Gas Light over the terms of the takeover continued until June 1974. It had originally been Connor's wish that the utility continue construction while the talks were in progress, but as time went on he began to suspect that the utility hoped to prolong negotiations and build as much of the line as possible in the hope that the Labor government would be defeated. This was in fact the intention of the New South Wales government, which

in early 1974 introduced legislation to exempt East-Aust. Pipelines from certain requirements of existing legislation in an effort to speed construction.[3] The re-election of the federal Labor government on 18 May 1974 ended these hopes and the takeover was finally completed two weeks later.

The success of the takeover was only the first stage in the attempt to establish a national pipeline grid. The federal government's plans, as we have seen, involved extending the line to the last frontier of natural gas development on the continental shelf of Western Australia.

Western Australia had its own ideas about natural gas pipelines, and these differed from those of the federal government. The state Labor government of John Tonkin, which came to office in 1971, recognized that the small Dongara field was not a long-term solution to the needs of the Perth area for natural gas. Its initial preference was to build a pipeline connecting Perth with the Palm Valley gas field in the Northern Territory, which could supply the mining area around Kalgoorlie en route. Another advantage was believed to be that the Palm Valley field could be brought into production earlier than the north-west shelf, which was the only possible alternative source of supply. The north-west shelf gas, when available, would be mainly sent to overseas markets, although it was hoped that some might be used as a basis for an iron and steel industry in the north-west.

These plans required the co-operation of the federal government, both to supply gas from the Northern Territory and to allow the north-west shelf gas to be sent overseas. At a meeting with Connor in January 1973, the Western Australian Mines Minister, Mr Don May, made representations to this effect, and also suggested that the federal government's projected Pipeline Authority might undertake the construction of the Palm Valley-Perth pipeline.[4] At this stage the State Fuel and Power Commission was about to begin feasibility studies to determine the relative advantages of building the Palm Valley-Perth line or a line from the north-west to Perth. Connor suggested that the feasibility of his own preferred route, from the north-west to Palm Valley and thence on to Sydney, should be studied at the same time, before any decision was made. An agreement to this effect between the two ministers was announced in July.[5]

The feasibility studies were completed just before the defeat of the Tonkin government in March 1974. Their conclusion was that a pipeline from the north-west to Perth, with an extension to Kalgoorlie, should be the highest priority. In effect, the Commission recommended that the routes preferred by both ministers should be discarded, although there was a grain of comfort for Connor in the implication that the Palm Valley gas should be reserved for the eastern states. Just before the state election, the two ministers issued a joint statement accepting the Commission's recommendation and implying that Connor had discarded the idea of piping north-west shelf gas to Sydney. The statement said that Western Australia's needs should have the highest priority in any national pipeline plan.[6] This statement did not succeed in saving the Tonkin government from electoral defeat a few days later. The result of the election ended any possibility that the Pipeline Authority would build a line from the north-west to Perth, because the new state government of Sir Charles Court, although it wanted the line to be built, was not prepared to see it under federal ownership.

The federal government was no more successful in implementing the rest of its

[3] *New South Wales Parliamentary Debates*, 44th Parliament, 1st Session, No. 11 (proof) pp. 783-784.
[4] *Australian Financial Review*, 25 January 1973.
[5] *Australian Government Digest*, Vol. I, No. 3, pp. 1067-68.
[6] *Australian Government Digest*, Vol. II, No. 1, p. 104.

pipeline plans. Victoria refused to consider Connor's proposal that it be linked to the national grid by way of Albury and Wodonga. Queensland was more receptive in principle, but no agreement was reached with that state before the federal Labor government left office.[7] In 1975 the gas reserves in Palm Valley were proved to be much smaller than anticipated, making the economic justification for an extension of the Sydney-Cooper Basin pipeline to that field even more questionable. The greatest obstacle to the federal government's energy policy, however, proved to be the uncertainty over offshore sovereignty, discussed in the next section of this chapter.

(2) Offshore Sovereignty and the North-West Shelf

The federal-state struggle to control the mineral resources of Australia's continental shelf is unquestionably one of the most important, complex, and protracted conflicts in the history of Australian federalism. Its importance can be gauged by the fact that practically all of Australia's crude oil reserves, and most of its natural gas reserves, are submerged under salt water. Its complexity and length will be apparent even from the necessarily abbreviated account that follows. Because every Australian state is bounded by salt water, all six states were at least theoretically interested in the outcome, and since the struggle was mainly over the division of powers and revenues between governments, the conflict would appear to be primarily vertical in character. On the other hand, substantial reserves of offshore oil and gas have to date been discovered only in areas adjacent to two states: Victoria and Western Australia. This and the fact that the federal government's efforts between 1972 and 1975 to take over the continental shelf were closely related to its desire to make natural gas more accessible to the states not possessing it give the conflict a horizontal dimension as well. To Western Australians it appeared in part as an extension of the perennial conflict between their regional interests and those of the distant and powerful industrial heartland of the south-east.

Until 1960 petroleum exploration in Australia was exclusively on land. In that year Lewis G. Weeks, who had recently retired as chief geologist for Standard Oil of New Jersey, advised BHP to take up exploration leases off the coast of Victoria.[8] The major discoveries in Bass Strait four years later confirmed the soundness of this advice, and stimulated interest in other offshore areas, particularly on the north-west side of the continent. Up to this point the states, the federal government, and the petroleum industry had all appeared to act on the assumption that no legal distinction need be made between offshore and onshore resources. The possible international implications of the continental shelf, and its relevance to enumerated federal powers over defence, navigation, fisheries and external affairs, suggested however that special administrative arrangements for offshore resources might be necessary. International law had only recently accepted the view that the resources of a continental shelf were national, as opposed to international, property, and it was not at all clear whether in the Australian federation they belonged to the nation as a whole or to the individual states.

The first meeting between the federal government and the states to consider this problem did not take place until 1964, by which time the states had already established the practice of issuing exploration permits for offshore areas. The

[7] Connor announced on 9 August 1975 that Queensland had asked the Pipeline Authority to examine ways of supplying additional gas to Brisbane and said that the federal government would be 'very happy indeed' to co-operate. *Australian Government Weekly Digest*, Vol. I, No. 19, p. 635.

[8] R. Murray, *op. cit.*, p. 12.

discoveries in Bass Strait raised the additional question of how royalties should be distributed between the two levels of government. Further talks took place, particularly with Victoria, and in November 1965 the Minister for National Development (Mr Fairbairn) announced that agreement had been reached with the states on the general outlines of a common code for administering offshore petroleum resources. The states would continue to exercise the jurisdiction which they had already assumed, but formally they would be acting as 'designated authorities' rather than in their own right. They would be expected to keep the federal government informed of all developments. Royalties would be ten per cent of wellhead value and would be divided equally between the federal government and the administering state.

These principles, somewhat modified in detail, were confirmed in a formal agreement among the seven governments in October 1967.[9] All seven governments agreed to secure the adoption by their parliaments of identical legislation embodying the terms of the agreement, which would not be amended subsequently except by unanimous agreement among the parties to the agreement. The states as 'designated authorities' were virtually given a free hand to control offshore petroleum, since the federal government agreed to overturn their administrative decisions only if it could demonstrate that such action was required by one of its enumerated legislative responsibilities for such matters as defence, fisheries or external affairs. The states would take three-fifths of the royalties, rather than half as provided in the original version of the agreement. A state could even impose a condition to the effect that crude oil produced in an area administered by it must be refined within the state, or that natural gas must be used within the state. In a supplementary 'memorandum', the states agreed, however, that they would 'not seek to restrict' interstate trade in petroleum: this was not a particularly handsome concession because they were explicitly forbidden to do so by Section 92 of the Constitution.

Annexed to the agreement were drafts of the legislation to be adopted by the federal and state parliaments, setting out the details of the mining code for offshore areas. No limit was placed on the size of an area that could be made available to one firm for exploration. But in order to encourage firms to undertake serious exploration and to concentrate on the most promising areas, permit-holders were required to surrender half of the area assigned to them after six years, and half of what remained to them every five years thereafter. Surrendered areas could be re-assigned by the designated authority to new explorers.

When the legislation was presented to the federal parliament it was attacked by the Labor opposition on three main grounds. In the first place it was alleged to be a surrender of federal authority to the states, and particularly to the Liberal government of Sir Henry Bolte in Victoria. Senator Lionel Murphy, later to be a Justice of the High Court, said he had no doubt that the continental shelf belonged to the Commonwealth rather than the states. In the second place, it was argued that it would give foreign-controlled corporations too prominent a role in the development of Australia's petroleum resources. In the third place, the opposition argued that Parliament could not 'tie its hands' by promising not to amend legislation without the agreement of the states.[10] The legislation was adopted, but there was enough dissatisfaction with it in the Senate to bring about the establishment of a Select

[9] 'Agreement Relating to the Exploration for, and the Exploitation of the Petroleum Resources, and Certain Other Resources, of the Continental Shelf of Australia and of Certain Territories of the Commonwealth and of Certain Other Submerged Land', Commonwealth Government Printer, Canberra, 1967.

[10] *Commonwealth Parliamentary Debates*, Senate, Vol. 36, pp. 2181-2190. See also the speech by Mr R.F.X. Connor in *Commonwealth Parliamentary Debates*, House of Representatives, Vol. 57, pp. 2367-2374.

Committee on Offshore Petroleum Resources as the price of allowing the legislation to proceed. In its final report, released in 1971, this committee found that the scheme of parallel legislation, with a federal statute being administered by state ministers, was incompatible with the proper relationship that should exist between parliament and the executive. It also recommended that the legal authority of the two levels of government over the continental shelf should be clarified. The Labor Party members of the committee agreed with these criticisms but made additional recommendations as well.[11]

Even in 1967, the Labor opposition were not alone in criticizing the agreement and the legislation. Senior public servants in the Department of National Development were appalled by the provision that a state could insist on oil or gas being reserved for local consumption, even though it was attenuated by a requirement that the federal minister must be consulted and must agree to any specific use of this power. Some Liberals also had reservations, among them the future Prime Minister, John Gorton.

In the talks leading up to the 1967 agreement the federal government had agreed not to seek any clarification by the courts of the legal authority over the continental shelf, which it was well aware that it probably possessed. It also agreed that, if at any time the courts did establish that offshore minerals belonged to the Commonwealth, it would allow the agreement to stand rather than assert its authority. Mr Gorton became Prime Minister at the beginning of 1968, but this policy of self-abnegation continued to be pursued for two more years. In March 1970, however, the Speech from the Throne announced that legislation would be introduced to clarify the legal status of the continental shelf. The *Territorial Sea and Continental Shelf Bill,* which affirmed federal jurisdiction over these areas, received first reading soon afterwards.

Although the Prime Minister specifically stated that the existing agreement on petroleum would remain in force regardless of the outcome, the proposal was vigorously attacked by all of the state governments except New South Wales, and by the former Minister of National Development (Mr Fairbairn) who claimed that it violated an undertaking he had given to the states.[12] So pronounced was the feeling in the Liberal Party that the Prime Minister narrowly avoided censure by the party's Federal Council. He was apparently saved by the intervention of Premier Askin of New South Wales, the only Premier who accepted Gorton's assurance that the petroleum agreement would not be placed in peril.[13] New South Wales, whose offshore areas had been largely abandoned as unsuitable by the petroleum explorers, had nothing to lose in any event. It is noteworthy that the vehement protests of the other Liberal Premiers were echoed by Mr Don Dunstan's Labor government in South Australia.

Faced with serious disaffection in his own party and the opposition of the Country Party, the Prime Minister did not proceed with his bill, but it remained on the parliamentary order paper even after Mr William McMahon replaced him in February 1971. There it proved a source of embarrassment to the McMahon government, which had reverted to the Liberal Party's normal position of opposing 'centralism'. The Labor opposition supported the bill, and in 1972 it appeared possible that they might secure its adoption by parliament against the government's wishes, with the support of Gorton and a few other dissident Liberals.[13A] Meanwhile the issue was kept alive by the convening of a United Nations Conference on the Law

[11] *Report from the Senate Select Committee on Offshore Petroleum Resources,* Vol. I, Parliamentary Paper No. 201 (1971).
[12] 'States to Plan Offshore Battle', *The Age,* Melbourne, 10 March 1970.
[13] 'Askin Tells Gorton: Go Ahead on Mineral Law', *Sydney Morning Herald,* 9 June 1970.
[13A] 'Offshore Bill: Government Woos Backbenchers', *The Age,* Melbourne, 15 April 1972.

of the Sea, and by the growing possibility that minerals other than petroleum (not covered by the 1967 agreement) might be recoverable from the continental shelf. In August 1972 a conference of federal and state ministers responsible for minerals issued a statement to the effect that the *Territorial Sea and Continental Shelf Bill* should be abandoned, and that agreements similar to those of 1967 should be reached concerning other types of minerals.[14]

There was no surprise in 1973 when the newly-elected Labor government introduced a new bill on the subject of offshore sovereignty. The *Seas and Submerged Lands Bill*, like the *Territorial Sea and Continental Shelf Bill* of 1970, declared federal sovereignty over offshore areas. It was intended that the states would challenge it in the High Court, and it was expected that the High Court would subsequently uphold the federal position. Unlike the earlier bill, the new one contained a mining code for offshore minerals other than petroleum. Nothing was said about petroleum, but it was in fact the Labor government's intention, once the High Court made its decision, to cancel the 1967 agreement and take over complete responsibility for issuing offshore permits and licences. Victoria would also have lost its share of the Bass Strait royalties if the government's plans had come to fruition.

Like the former bill, the new one was opposed by state governments, regardless of party affiliation. It was at the suggestion of Tasmania's Labor government that the six states unsuccessfully appealed to the Judicial Committee of the Privy Council, and to the Queen, to prevent the federal parliament from adopting the bill on the ground that it affected state constitutions. Although the bill was passed by the House of Representatives in May, the Senate delayed it until these efforts had proved to no avail, and also deleted the mining code. The remaining parts of the bill did not become law until December 1973. The states immediately challenged the Act in the High Court. Although the Court eventually validated the Act, the proceedings were lengthy and the decision was not released until four days after the general election of 1975 had returned a coalition government.

Although the controversy over the bill in 1973 involved all of the states, the continuing conflict over offshore petroleum increasingly narrowed down to a confrontation between the federal government and Western Australia. The other states, aside from Victoria, were protecting their rights to hypothetical petroleum that probably did not even exist. Western Australia's undeveloped natural gas reserves on the north-west shelf, which were believed to be substantially larger even than those of Bass Strait, were the real target of the federal government's policy. The Minister for Minerals and Energy (Mr Connor) intended that the Pipeline Authority, which came into existence in June 1973, would buy 'at the wellhead' all natural gas produced on the north-west shelf. In addition he wanted the federal government eventually to take a 50 per cent equity in the producing consortium, and in all subsequent offshore developments. These plans involved him almost immediately in conflict with Western Australia, despite the fact that the state had a Labor government headed by Premier John Tonkin. To some extent the conflict was pursued with restraint on both sides as long as the Tonkin government remained in office, but with its defeat in March 1974 and the accession of Sir Charles Court to the Premier's office the conflict entered a stage of open hostility between the governments which made any collaboration or even discussion between them impossible.

Although Western Australian Petroleum Pty Ltd, which had discovered and developed the Barrow Island oil field, had the largest area of offshore exploration permits in the state, it was not that firm which had the good fortune in 1970 to

[14] 'Agreement is Near on Sea Law', *The Age*, Melbourne, 11 August 1972.

discover the natural gas resources of the north-west. That distinction went to a consortium of which British Petroleum, Shell, and Standard of California each held a one-sixth interest, while the remaining half-interest was held by Woodside-Burmah Ltd, the majority of whose stock was held by the Burmah Oil Company of the United Kingdom.[15] Woodside-Burmah was the operator on behalf of the entire consortium, and it was this firm that found itself unhappily situated at the centre of intergovernmental controversy. The state government, whether Labor or non-Labor, shared with Woodside-Burmah the common objectives of beginning production as soon as possible, gaining the federal government's permission to export some of the gas and, from 1973 onwards, resisting the threat of a federal takeover. Some progress towards the first objective was particularly important to both parties because the firm, so long as it had no income from production, was effectively living on borrowed money; while the Tonkin government, which had taken office just as the iron ore boom came to an end, needed evidence to refute the claim that rapid economic growth was impossible under a Labor government. Because of these common objectives, the firm and the state as 'designated authority' under the 1967 agreement enjoyed a harmonious relationship. This very fact, in the eyes of Connor and other federal Labor politicians, seemed to confirm their suspicion that state governments, regardless of party affiliation, could not be trusted to stand up to 'the multinationals'.

The federal government's objectives and priorities were different. It had less direct interest than either the firm or the state in accelerating the time table of development. In fact it preferred that development not proceed until its sovereignty over the continental shelf had been confirmed by the High Court, and until it had borrowed funds overseas to finance the development of the gas by a government corporation. On the other hand it was not to blame for the fact that the High Court delayed its decision on the *Seas and Submerged Lands Act*, still less for the fact that the question of offshore sovereignty had not been resolved, as it should have been, in the early 1960s.

Meanwhile, the federal government had attempted to make the most of its limited supervisory powers under the 1967 agreement, which had hardly been used by the previous coalition governments. First it announced that it would approve no further 'farm-ins', that is transfers of exploration permits by their holders to other firms. Such transfers were typically a means by which exploration firms needing capital or technology formed partnerships with other firms while they themselves retained a share in their exploration areas. Under the 1967 agreement, the designated authorities were supposed to consult the federal government before approving any transfer, and the federal government could refuse permission if it could justify refusal in terms of its enumerated legislative powers under the constitution. Since the federal Labor government intended to become a partner in all new offshore developments, its purpose was to block any farm-ins to private firms, thus forcing any permit-holders in need of assistance to transfer their leases to the federal government. Woodside-Burmah had intended to farm out a number of areas, and was particularly disconcerted by the blocking of a farm-in arrangement involving Mount Isa Mines, half of whose shares are owned by the American Smelting and Refining Company and which accounts for about half of Australia's copper production. The Tonkin government, which considered that the farm-ins were desirable, made both public and private representations on behalf of the firms, but indicated that it was not prepared to defy the federal government by granting permission without its approval.

[15] A useful source of information on the consortium is the submission by Burmah Oil Australia Ltd. to the Senate Select Committee on Foreign Ownership and Control of Australian Resources, official *Hansard Report*, 20 July 1972, pp. 667-739.

Woodside-Burmah suspended operations in the areas that would have been farmed out, and an editorial in a Perth newspaper claimed that offshore petroleum drilling had declined by 45 per cent in a year, mainly because of the freeze on farm-ins.[16]

An additional element of acrimony was provided by Connor's accusations that Woodside-Burmah had withheld from the federal government information which it was required to provide concerning its offshore activities and the size of its reserves. The firm claimed, in a letter which it made public, that it had given the information to the state government, and that it was the state government's obligation to pass it on to the federal government. Connor in the House of Representatives cited correspondence from the records of his department suggesting that over a period of some four years both exploration firms and state governments had frequently withheld or delayed releasing information. However, in the case of Woodside-Burmah he placed the blame on the firm rather than on the state government.[17] The facts of the matter have still not really been established.

The *Pipeline Authority Act,* which was proclaimed in June 1973, created a federal government instrumentality with the power to buy and sell natural gas. Soon afterwards Connor informed Woodside-Burmah of his intention that the Authority should purchase that firm's entire output, once production began, 'at the wellhead'. The firm did not particularly care who purchased its gas, provided it received a fair price and was allowed to begin production as soon as possible. The arrangement would not in fact have been greatly different from that between the Gas and Fuel Corporation of Victoria and Esso-BHP. The Tonkin government was placed in a difficult position, because it recognized that the idea was likely to be unpopular in the state and a state election would have to take place within a few months. However, once the plan was announced the State government supported it. The state opposition violently attacked the plan and moved a motion of censure against the government for acquiescing in it.[18]A Perth newspaper editorial said that the Tonkin government had 'without protest . . . allowed the Federal Government to commandeer one of the most valuable energy resources available to Western Australia' and added that 'the State Government's duty to its electors outweighs party ties'.[19] A Liberal backbencher in the state parliament said that the federal government by 'grabbing' Western Australia's gas was exploiting the state for the benefit of Sydney and Melbourne, and suggested that Western Australia should secede from the federation. Faced with this violent reaction, Tonkin attempted to avoid the issue by suggesting that in any event the federal government could not proceed with its plan because the *Seas and Submerged Lands Bill* was still being held up by the Senate. He also pointed out that the federal Liberals had voted for the Pipeline Authority Bill, and argued that it was inconsistent for them to support one bill and not the other.[20]

Few were surprised when the Tonkin government was defeated in the election of March 1974. After this, relations between Western Australia and the federal government moved to a state of open hostility that ended only when the federal ministry was dismissed by the Governor-General on 11 November 1975. North-west shelf gas continued to be the main, although not the only, cause of disputation. A new development in the conflict now enabled Western Australia to find allies in the governments of other states.

It will be recalled that the offshore petroleum legislation which resulted from the

[16] 'Oil Search', *The West Australian,* Perth, 8 August 1973.
[17] *Commonwealth Parliamentary Debates,* Vol. 83, pp. 1331-1332.
[18] Western Australia, *Parliamentary Debates,* Vol. 200, pp. 3736-3787.
[19] 'Gas Takeover', *The West Australian,* Perth, 6 October 1973.
[20] Western Australian, *Parliamentary Debates,* Vol. 200, pp. 3670-3671.

intergovernmental agreement of 1967 required explorers to relinquish half their permit areas after six years and to apply for renewal of the rest. The six-year period for a large number of permits, particularly on the north-west shelf and in Bass Strait, expired in 1974 and 1975. The federal government argued that renewals and assignments of the relinquished areas to new permit-holders should be deferred until the High Court had ruled on the validity of the *Seas and Submerged Lands Act.* Its intention was to take up the most promising areas itself after it had established its jurisdiction. Although the state governments were required by the 1967 agreement to consult the federal government before renewing permits or issuing permits to explore the relinquished areas, and although the federal government was entitled to withhold its consent, Western Australia defied the federal government and announced in October 1974 that it would act unilaterally. Victoria followed with a similar announcement two weeks later. Connor replied by publicly warning petroleum companies not to accept any offshore permits given unilaterally by state governments. Court responded by informing representatives of the firms, and of onshore mining companies as well, that if they had any dealings with the federal government they could expect to receive no consideration from Western Australia. Premier J. Bjelke-Petersen of Queensland flew to Perth to announce his support for this position, and the two premiers issued a joint statement denouncing federal attempts to control mineral resources.[21]

Less spectacularly but more fruitfully, all states, including those with Labor governments, ignored Connor's request that renewal of permits and re-assignment of relinquished areas be deferred. All were convinced that they were legally entitled to do so. However, petroleum firms had lost much of their enthusiasm for exploring in Australia, at least until the legal situation was clarified. Victoria, for example, was unable to dispose of the areas relinquished by its permit-holders.

When the High Court at last released its ruling on the *Seas and Submerged Lands Act* in December 1975, the legal position became that the state legislation resulting from the 1967 agreement ceased to have effect, but that the identical federal legislation continued in force. Foreseeing such an eventuality, the Holt government in 1967 had promised not to amend the federal legislation without the agreement of the states, even if the High Court ever ruled that it had the power to do so. The Fraser government took no action following the High Court's decision, apparently considering itself still bound by this promise. In addition, the Speech from the Throne read by the Governor-General in February 1976 singled out the development of north-west shelf gas as a high priority.

(3) Conservation Versus Exports

Behind the struggles over pipeline routes and offshore sovereignty lay not only vertical conflicts between levels of government striving to control natural gas, but differences of opinion as to where and how the gas should be used. The conflicting demands of domestic markets in the different states have already been examined. Another controversy, which also revealed horizontal conflicts of interest between producing and consuming areas, was over the question whether natural gas should be reserved for Australian use, or whether some should be exported.

Natural gas was the only energy resource in respect of which a choice between conservation and export really arose. Australia's crude oil reserves were so limited that it could not even supply its own needs, so that the question of exports was not

[21] 'States Harden Stand Against Whitlam', *The Australian*, 25 November 1974.

considered. Conversely, reserves of coal were so vast in relation to domestic needs that the desirability of exports was universally accepted. Uranium was a more complex case, but here too reserves were virtually unlimited, and the case for 'leaving it in the ground' rested on environmental considerations or on the assumption that it could be sold at a higher price later, rather than on an assumption of scarcity. Except for Queensland, uranium also did not involve the interests of state governments to any great degree; the reserves that were likely to be exploited first were mainly in the Northern Territory.

In the case of natural gas arguments could be made both for and against exports. Limited domestic needs, and the remoteness of supplies from domestic markets, suggested the desirability of permitting exports. On the other hand the limited supply of gas, its desirable characteristics as a fuel, and the lessons of Canadian experience all suggested that conservation for domestic use might be a more suitable policy.

The question first arose almost as soon as the gas pipelines to Adelaide, Melbourne and Perth were completed in 1969. At the beginning of 1970 the federal government, then led by John Gorton, announced that no export permits would be given for natural gas. Over the next few years, however, additional reserves were discovered, and in September 1972 the Minister of National Development disclosed that the existing policy on exports was being re-examined in his department. Shortly afterwards an article in the *Australian Financial Review* stated that exports of natural gas from the north-west shelf were now almost certain to be approved.[22] This prediction turned out to be premature, however, because the McMahon government was defeated in the general election a few weeks later.

So far as is known, exports from Bass Strait were never considered, because the large Victorian market was available nearby from the moment when production commenced. Some of the participants in the Cooper Basin consortium were interested in exports to the United States and Australian Gas Light also considered this possibility as a solution to the problem of excess capacity anticipated in the early years of the pipeline to Sydney. However, both the federal government and the South Australian government consistently opposed exports from Cooper Basin, so the idea was soon abandoned. By early 1973 the controversy concerning the export of natural gas was focussed almost exclusively on the north-west shelf. The question of exports thus became inextricably entangled with the question of offshore sovereignty and with the perennial resentment of Western Australians against the eastern states and against the federal government. As we have seen, this complex of related problems bedevilled the Labor government throughout its term of office.

At least three alternative uses for the north-west shelf gas could be imagined. It could be used entirely within Western Australia, it could be sent to the eastern states of Australia, or it could be exported overseas. The second alternative, in Mr Connor's judgement, implied a transcontinental pipeline, but the more widely-held view in the gas industry was that the gas could more cheaply be liquefied and transported around the coast by ship. On the other hand, the pipeline project itself was not necessarily incompatible with exports, particularly if facilities for liquefying the gas had been established at Sydney prior to completion of the pipeline. As noted above, this latter possibility was contemplated by Australian Gas Light when exports from the Cooper Basin were still under consideration. However, as the energy crisis eased in the United States, the export market for Australian gas appeared to lie almost exclusively in Japan, which meant that Sydney had no advantage as a point of export.

[22] 'North-West Gas: Despite Caution, Export Prospects Look Bright', *Australian Financial Review*, 23 October 1972.

The strongest supporter of exports was always the government of Western Australia, and this was true when the state Labor Party held office from 1971 until 1974 as well as subsequently. One reason for this attitude was probably the state's experience with iron ore, because the lifting of the ban on the export of that commodity in 1960 had led to rapid economic development and the discovery of almost inexhaustible reserves. State politicians of both parties tended to assume that the granting of permission to export natural gas would have equally beneficial results. The rate of growth in iron-mining was slowing down in the early 1970s, and the additional stimulus of natural gas seemed to be needed if Western Australia was not to lapse into its former state of economic stagnation. The mystique of the underdeveloped north-western frontier, which happened to be where the gas, as well as the iron ore, was located, also played a part in the attitude of state politicians. Finally, there was the prospect of collecting royalties.

The question of exports was raised by the Western Australian Minister of Mines (Mr May) when he met his federal counterpart (Mr Connor) in January 1973. However, it became apparent that the new federal Labor government, unlike its predecessor, was not prepared to reverse the existing policy of keeping natural gas for domestic use. Because no major crude oil discoveries had been made in Australia since 1964, and because the north-west shelf gas had a relatively high liquid content, Connor was attracted by the possibility of converting natural gas into motor fuel, which appeared to be technically feasible even if economically dubious. Enthusiasm for this idea gradually waned, so that by the latter half of 1975 the federal government's policy seemed again to be moving in favour of possible exports. The failure of efforts to raise an overseas loan to finance the transcontinental pipeline also contributed to this evolution. A few days before Connor was dismissed from the government in October 1975, the Deputy Prime Minister (Mr F. Crean) was quoted as saying that exports of natural gas from the north-west were 'inevitable'.[23] The mineral policy statement of the coalition government that took office a month later also promised to allow exports of natural gas, although on a 'limited' basis.[24] This was good news both to the government of Western Australia and to the north-west producing consortium, which was reported to be planning the export of two million tonnes of liquefied gas to Japan. Talks between the federal and Western Australian governments confirmed that permission would be given.

Despite the change in federal policy, doubts remained as to whether exports were really feasible. These doubts arose from the high cost of development and production on the north-west shelf, the expense and difficulty of liquefying the gas, the distance from Japan, and the possibility of competitive sources emerging in South-East Asia. The delays imposed by the Labor government, and by the High Court, had in any event ensured that no gas would actually be produced before the 1980s. In addition, and perhaps ironically, some state public servants in Western Australia were beginning to develop their own version of a conservationist philosophy, arguing that the state was basically deficient in energy resources and would require all its natural gas for its own industrial needs, particularly the processing of its metallic minerals.

(4) The Triumph of the States

The federal Labor government established a national Pipeline Authority, but it did not succeed in establishing a national policy concerning the production and

[23] 'New Minerals Policy Ahead', *The Age*, Melbourne, 10 October 1975.
[24] 'Big Incentives for Miners', *The Age*, Melbourne, 29 November 1975.

distribution of natural gas. The gas, both onshore and offshore, continues to be controlled by the states, or, more precisely, by a few of the states. The state governments, naturally and inevitably, pursue policies designed to benefit their own states. This situation is advantageous to the states possessing adequate reserves of natural gas, but not to the others, although states in the latter category can perhaps comfort themselves with the knowledge that the resources of the fortunate states are both finite and non-renewable.

Both Victoria and South Australia have reached agreements with the gas producers in their respective states which guarantee their needs beyond the end of the century. Victoria's original contract with Esso-BHP, which had been signed in 1967, was supplemented in 1974 by an even larger contract at an extremely favourable price, alleged to have been offered by the producers because they feared they might be forced to sell at an even lower price to the federal Pipeline Authority.[25] The contract gives the state Gas and Fuel Corporation first option to purchase any new reserves discovered by the producers. In 1975, South Australia negotiated a thirty-year contract with the Cooper Basin producers and extracted from them a commitment to spend $15 million on exploration; the state was to have first option to purchase any gas discovered.

Many observers believe that the arrangements between South Australia and the Cooper Basin producers, as well as the prospective needs of Queensland, whose territory includes a part of the Cooper Basin, make little provision for the future needs of New South Wales. Since the idea of a transcontinental pipeline appears to have died with the Whitlam government, there is growing speculation that a new pipeline will eventually be built to Sydney from Bass Strait, where the reserves are more than twice as large as those in the Cooper Basin. It is certain, however, that the price paid in Sydney for any gas received from this source will be substantially higher than the price which Victoria's Gas and Fuel Corporation will pay under its 1974 contract. The control of natural gas by the states gives a decisive economic advantage to the states which produce it over the states that do not. Their right to enjoy that advantage for the foreseeable future was confirmed by the general election results on 13 December 1975.

[25] 'The Great Gas Coup', *The National Times*, 23-28 February 1976.

VI FEDERAL POLICIES OF ECONOMIC NATIONALISM

The policy initiatives concerning natural gas which were discussed in Chapter V tended to redistribute benefits arising from the development of that fuel to the advantage of some states and to the disadvantage of others. The present chapter deals with policy initiatives which were primarily designed to redistribute benefits to the advantage of Australia at the expense of the outside world, although to some extent they had internally redistributive effects as well. Export controls, controls on foreign investment, the establishment of the Petroleum and Minerals Authority, and policies to increase the share of resource revenues flowing into the public sector, can all be loosely described as policies of economic nationalism. That fact and the fact that all contributed to intergovernmental conflict provide the criteria for their inclusion in this chapter.

It might be supposed that policies of this kind would be less likely to face resistance from the states than policies of an internally redistributive character, such as those relating to natural gas. In practice this does not seem to have been the case. Partly this was because the intrusion of the federal government into mineral resource policy, whatever its motives, seemed to challenge the control of the states over their own resources and thus created vertical conflict. In addition, policies of economic nationalism had internally redistributive effects, or were believed to have such effects, and thus created horizontal conflict as well. This was most obvious in the case of export controls on coal, but the control of foreign investment in the mineral resource industries and the imposition of an export tax on coal also had varying impacts on the different states and led to conflict which was partly horizontal in character. Only the conflict over the Petroleum and Minerals Authority was entirely of a vertical nature, to the extent that it was not merely an expression of hostility between political parties.

(1) Export Controls

Under the Australian Constitution, the federal parliament's jurisdiction over international trade is indisputable, and this constitutional power provides perhaps the most important means by which the federal government can exercise a degree of control over the mineral industries. The increasing orientation of Australian mining towards overseas markets in recent years has made this power vastly more significant than before. To the extent that an industry is dependent on export markets, control over exports can be equated with control over the industry itself.

At various times Australian federal governments have controlled or restricted exports of certain minerals, mainly for purposes of conservation or on grounds of national security. Commodities over which the government may exercise control have been listed in the *Customs (Prohibited Exports) Regulations*, although the extent to which control has actually been exercised has varied from outright prohibition of exports (as in the case of iron ore from 1938 until 1960) to very occasional surveillance and *ad hoc* intervention. In general, controls were relaxed during the decade of the 1960s, except for the special case of uranium. The federal government did, however, exercise some scrutiny over the export price of iron ore when exports from Western

Australia began in 1966.[1] It also, in 1971, set a floor price for the export of zircon and supported the efforts of the zircon producers to stockpile their product and prevent oversupply.[2]

When the Labor government came to office in December 1972, export controls were extended to all minerals, rather than only to the few (e.g. iron ore, uranium, and zircon) which had previously been specified in the *Customs (Prohibited Exports) Regulations.* In addition the new government made clear its intention to exercise controls on a systematic and continuous basis, rather than to confine itself to occasional and *ad hoc* interventions as in the past. Beginning in March 1973, all applications to the Department of Customs and Excise for permission to export any mineral had to be accompanied by evidence that export had been approved by the Department of Minerals and Energy. Three new divisions in the Department of Minerals and Energy were established to administer export controls, each individual commodity being assigned to one or other of the divisions. All contracts with foreign purchasers had to be submitted to the department for its approval. Approval could be given for an individual shipment or, at the discretion of the minister, 'blanket' approval could be given for export of an unspecified volume over a period of up to twelve months.

The imposition of controls over all mineral exports, and the administrative machinery established for this purpose, permitted the government to achieve three distinct objectives. The first of these, and the one most frequently emphasized in government statements, was to maximize the price received by Australian exporters. As noted above, this was also the objective that led to the interventions of previous governments in regard to iron ore and zircon. Particularly where the sellers were fragmented and the buyers relatively cohesive and few in number, there was a danger that the sellers would receive a lower price than the true value of their product. The same impulse that led mineral-exporting countries, including Australia in some cases, to form international associations to protect their interests also led the federal government in Australia to exercise closer surveillance over export prices. In countries whose resource industries were nationalized, an increasingly common situation in the 1970s, there was no problem of fragmentation among the sellers. Australian mining companies, on the other hand, competed against one another as well as against producers in other countries. Foreign equity in the mining industry, which in some cases linked the producing firms to their overseas customers, provided additional grounds for anxiety that Australia might not be receiving fair value in return for its exports. The position of Japan as by far the largest overseas market for Australian minerals was another reason why intervention by the federal government was considered necessary. The close ties between business and government in Japan, as well as the highly concentrated control of Japanese industry by a few firms and the absence of legal or ideological barriers to collaboration between firms, seemed to improve Japanese bargaining power *vis-a-vis* Australian exporters. The Japanese steel industry in fact negotiated collectively with Australian suppliers of coking coal and iron ore, while the Australian firms negotiated individually.

The objective of increasing the prices paid for Australia's mineral exports was not really controversial in Australia, and in the nature of things hardly could be. Because of federal responsibility for macro-economic policy and the balance of payments, it was naturally the case that the federal government was more concerned about this

[1] D.F. Livingstone, 'Mineral Policy', in J.A. Sinden, ed. *The Natural Resources of Australia,* Angus and Robertson, Sydney, 1972, p. 214.

[2] Susan Bambrick, *The Integration of Australia's Mineral Policies,* Faculty of Economics, Australian National University, Canberra, 1972, p. 18.

objective than the states. However the state governments did not and could not oppose the objective, and they accepted that federal intervention to control export prices was both legitimate and legally valid. Hence this objective in itself created no real problems of intergovernmental relations.

The second objective that could be served by export controls was to ensure a fair apportionment of the market among Australian producers. This could create very delicate problems of intergovernmental relations if the producers were located in different states. If federal intervention had the effect of ensuring that producers in one state gained a share of the foreign market at the expense of producers in another state which they would not have gained without federal intervention, it would certainly be resented in the state whose producers suffered as a result. A case could even be made that it violated Section 99 of the Australian Constitution, which states: 'The Commonwealth shall not, by any law or regulation of trade, commerce, or revenue, give preference to one State or any part thereof over another State or any part thereof'. For obvious reasons the federal government never admitted to any such objective, but any case in which export controls had a different effect, even inadvertently, on producers in different states was likely to be controversial. In the case of two mineral commodities, coal and zircon, high-cost producers happened to be concentrated in one state and low-cost producers in another. In these cases export controls, although imposed ostensibly and perhaps actually for the sole purpose of maximizing export prices, seemed to have the effect of making it easier for the high-cost producers to retain their share of the market.

The third possible objective was openly professed by the federal government, although it too was controversial. This objective was to use export controls as a means of exercising a power of veto over the opening of new mines or processing plants, which would only open if they could be assured of permission to export. One reason for wishing to do this was to prevent overcapacity, which would have the effect of increasing the supply and depressing the price of the product. In addition, a power of veto could be used to impose conditions on the opening of new mines, such as the observance of strict environmental standards or the restriction of foreign equity to a certain level. Use of the export control power to prevent overcapacity might be defended as merely an extension of its use to maximize prices, but its use in support of purposes not directly related to 'trade and commerce' was and is resented by state governments. Until 1973, the right to decide whether and on what conditions a mine could open within a state was an unquestioned prerogative of the state governments, and one which they deeply cherished. The use of export controls to negate this power from 1973 onwards was strongly resented. The states considered environmental protection to be their own responsibility, since it was not specified as a federal power in Section 51 of the Constitution; thus the efforts by the federal government to impose environmental standards through export controls created vertical conflict between the two levels of government. The problems raised by efforts to restrict foreign ownership are considered in a subsequent section of this chapter.

Although the export controls imposed early in 1973 covered all minerals, the most immediate problem and preoccupation was coal. Not only was it second only to iron ore in importance among Australian mineral exports, but requests had already been made by some of the coal exporters for the federal government to intervene on their behalf. At the same time coal, more than any other mineral, raised delicate problems of interstate relations.

As noted in Chapter II, the mining of black coal in Australia was until the late 1960s overwhelmingly concentrated in New South Wales, and overwhelmingly

oriented towards Australian markets. The late 1960s saw two important, and related, developments in the industry: the emergence of Queensland as a major source of production, and the growing importance of exports, mainly to Japan. These developments led to the situation that confronted the federal government in 1973.

The coal industry of New South Wales differed from that of Queensland in several ways. Foreign-controlled firms accounted for about five-sixths of Queensland's output in 1972, but for less than one-third of the output in New South Wales. The newer Queensland mines which accounted for the bulk of that state's output were of the open-cut type, while most of the New South Wales mines were underground. Most of the Queensland output went to overseas markets, while more than half of New South Wales coal was consumed within the state. Queensland was characterized by large mines and large firms; one American firm, Utah International, accounted through its subsidiaries for more than half of the state's production. New South Wales had a larger number of small and medium-sized firms.

From the early 1970s it became apparent that the producers in the two states differed in their approach to export markets. The New South Wales producers, whose costs were higher because of their smaller-scale operations and labour-intensive underground mines, believed that export prices were too low and that concerted action must be taken to raise them. The Queensland producers could make generous profits even at low prices, because of their low costs, and were thus in a position to undersell both foreign competitors and their competitors in New South Wales. They had less to gain by seeking higher prices and, because of their large size and international connections, the two major Queensland producers, Utah and Thiess-Peabody-Mitsui, were better able than the smaller New South Wales producers to negotiate successfully with their customers. In addition, they were inhibited from participating in any sort of cartel by the anti-trust legislation in the United States.

This situation caused increasing discontent in New South Wales. In its 1971-72 annual report the Joint Coal Board, a federal-state regulatory body with jurisdiction only in New South Wales, said that more 'co-operation and discipline' were needed on the part of Australian coal exporters, who were not receiving the prices to which they were entitled. The Board reported that in November 1971 the New South Wales producers had for the first time tried to make a concerted approach in their negotiations with the Japanese steel industry, but that the Queensland producers did not participate in this initiative. For co-operation to be effective, producers in both states would have to become involved.[3]

However, for the reasons suggested above the Queensland producers showed little inclination to participate. This suggested that only action by the federal government could ensure higher prices, and a larger share of the overseas market, to the embattled producers of New South Wales. Perhaps their long association with the Joint Coal Board made the New South Wales coal producers more inclined than other sectors of the mining industry to contemplate federal intervention on their behalf, but in any event there was the precedent of the zircon producers, who had asked the federal government to impose export controls on their product in 1971. During 1972 the New South Wales coal producers approached the Department of National Development with a similar request, charging that Utah was underpricin its product and pricing them out of overseas markets.[4] The New South Wal

[3] Joint Coal Board, *25th Annual Report, 1971-72*. pp. 21-22.

[4] 'Coal's Tricky Politics', *Australian Financial Review*, 15 May 1972.

Minister of Mines (Mr Fife) also made representations to the federal Minister, Sir Reginald Swartz. Swartz, himself from Queensland, was reluctant to impose controls prior to the federal general election which was imminent, although he almost certainly would have done so afterwards had the government remained in office. He did, however, visit Japan in an attempt to persuade the steel industry that it should both pay higher prices for Australian coking coal and take a reasonable proportion of its supply from underground mines. In his September 1972 statement to parliament on mineral resource policy, he pointed out that the federal government had the constitutional power to control coal exports and would have to do so if these principles were not voluntarily complied with. Mr Fife, who had also visited Japan on a similar mission, told his state parliament in November 1972 that the situation was being watched by both the New South Wales and the federal governments, and that action would be taken if necessary.[5]

Shortly after this the federal election took place and the new Labor government inherited the problem. Interstate rivalries immediately came to the fore. The Minister for Minerals and Energy, who strongly advocated controls and would be the minister responsible for implementing them, happened to represent a coal-mining constituency in New South Wales. His colleague the Minister for Northern Development, who opposed controls, happened to be from Queensland. When the cabinet decided to impose controls it was angrily denounced by a Brisbane newspaper, and subsequently by the Queensland Minister of Mines, as a 'New South Wales-dominated' government. The newspaper in its editorial urged the Queensland government to 'insist that northern mineral development not be tied down to suit southern interests'.[6] The Queensland Minister, Mr Camm, admitted that the federal government had the power to control exports but warned it not to do so in such a way as to discriminate against Queensland. He attributed the federal action to Connor's concern for the coal miners of New South Wales, but added that he himself was concerned about the miners of Queensland.[7] Similar comments continued to come from Queensland over the next few years. In August 1975, following a visit to Japan by Mr. Connor at which coal exports were discussed, Mr. Camm reportedly accused the federal government of using export controls in a manner tending to give preference to New South Wales.[8]

The federal government, the New South Wales producers and the Joint Coal Board argued that the purpose of export controls was primarily to increase prices, and secondly to establish an appropriate balance between underground and open-cut mining, and that any effect on individual states was accidental and fortuitous. The argument for underground mining was one of conservation: most of Australia's coal reserves were only accessible by this method, and if they were neglected until such time as open-cut reserves had been exhausted, the country would face prohibitively high energy costs at a later date. The Joint Coal Board estimated that only 20 per cent of black coal reserves in the two states was accessible by open-cut methods but that open-cut mining accounted for 34 per cent of production in 1972.[9] In any event the higher prices necessary to make underground mines more viable would also benefit the low-cost open-cut producers, even if the rate of growth in their output was slowed down. In fact the Queensland coal producers themselves,

[5] *New South Wales Parliamentary Debates*, Vol. 102, pp. 2977-78.
[6] 'Pegging our Coal Export', *The Courier-Mail*, Brisbane, 30 January 1973.
[7] *Queensland Parliamentary Debates*, Vol. 261, pp. 2733-35.
[8] 'Canberra's Coal Plan 'Damaging' ', *The Australian*, 11 August 1975.
[9] Submission by Joint Coal Board to Senate Select Committee on Foreign Ownership and Control of Australian Resources, *Official Hansard Report*, 1 August 1973, pp. 52,66.

in contrast to the Queensland government, have not opposed export controls either publicly or privately.

The export prices of Australian coal did in fact increase substantially after export controls were imposed, and since the tonnage exported from both states also increased, although less dramatically, coal surpassed first iron ore and then wool to become Australia's leading source of export income by 1975-76. However, coal producers and the governments in both states argued that the increase in prices was the result of the increase in the price of crude oil imposed by OPEC, and was unrelated to the federal intervention. Although the New South Wales government was pleased by the fact that Queensland's share of Australian coal exports declined from the peak level of 1972-73, it refrained, perhaps wisely, from saying so in public.

A second, although much less important, case in which export controls embroiled the federal government in interstate rivalries was that of zircon. As noted above, the export of this commodity, which is produced almost exclusively in Australia, had been controlled at the request of the producers from 1971 onwards. Demand for zircon is highly unstable. After increasing sharply in 1973, it declined substantially in 1975, again leaving the industry in a state of oversupply similar to that which had prompted the original intervention by the federal government four years earlier. A conflict of interest emerged between the New South Wales producers, who produce a high-quality zircon used mainly in the manufacture of ceramics, and the Western Australian producers, who produce a zircon with a high proportion of iron and other impurities, used mainly in refractories. Because there is no substitute for zircon in the ceramics industry, and because its contribution to the price of the finished product is minimal, the New South Wales producers urged the Department of Minerals and Energy to insist that all zircon export contracts maintain the high price levels established in 1973. The Western Australian producers, who had greatly expanded their capacity during the period of high demand, wanted permission to reduce their prices to about half this level, since demand for zircon in the refractories industry is very sensitive to changes in price. The Department of Minerals and Energy, with its general tendency to prefer the highest possible prices, inclined to the view of the New South Wales producers. This led the Western Australian producers, and the state government of Western Australia, to believe either that the federal government was unaware of the distinction between the two types of zircon markets, or that it was deliberately discriminating in favour of New South Wales. Shortly after the federal Labor government was dismissed, a compromise was reached which allowed the Western producers to lower their prices to some extent, although not as much as they would have wished, while the New South Wales producers maintained existing prices.

The controls on exports of iron ore, Australia's most important mineral export in the early 1970s, produced relatively little controversy. Exports of iron ore, unlike those of coal or zircon, came almost entirely from one state: Western Australia. Competition between states was not a problem, although competition between firms created certain difficulties for both levels of government.

Export of iron ore from Australia remained subject to controls after the total embargo was lifted in 1960. The federal government intervened in 1966, the year shipments from Western Australia began, to insist on an increase in the price paid by Japanese steel mills. Over the next six years its involvement was limited to setting a minimum price, which in practice was rarely exceeded, and to reading the contracts between the producing firms and their overseas customers, which it almost invariably approved. The Labor government abandoned the fixed minimum price in

favour of guidelines agreed upon at meetings with the producers prior to each set of negotiations with the Japanese. It also encouraged the three major producers to form a common front in negotiations, which they did for the first time in May 1973.

In contrast to coal, which was in a sellers' market because of the world-wide energy crisis, iron ore faced international competition and potential problems of overcapacity. The Japanese steel industry at times reserved the right to purchase less iron ore than it had contracted for, a problem which Premier Tonkin of Western Australia tried unsuccessfully to resolve by visiting Japan in 1972. The Premier was critical of the lack of support he received from the federal government on that occasion.[10] He strongly supported the more systematic implementation of export controls by the federal Labor government after 1973, which he hoped would improve the bargaining position of the state's producers. However, the controls were only moderately successful in this regard, as shown by the fact that no increase in price was achieved between August 1974 and April 1976.

One objective of export controls both before and after the federal Labor government took office was to prevent overcapacity from developing through the unrestrained enthusiasm of the iron ore producers and the state government. The federal Labor government departed from this principle on one occasion when, at the urging of Premier Tonkin, it attempted to persuade the Japanese to sign contracts for ore from the still-undeveloped Marandoo deposit, controlled by Mr Lang Hancock in partnership with Texasgulf Sulphur of the United States.[11] Hancock had supported Labor in both the state election of 1971 and the federal election of 1972, on the grounds that neither of the outgoing coalition governments had supported his plans to become a major producer of iron ore. Federal Labor's support for his cause continued through 1974, despite the defeat of the Tonkin government in March of that year, but lapsed when it became clear that no market for Marandoo ore was available. In 1975 Hancock supported the ultra-conservative Workers' Party, which directed its preferences to the Liberals.

(2) Controls on Foreign Direct Investment

As was noted in Chapter IV, concern over the extent of foreign participation in the development of Australia's mineral resources was becoming widespread by the early 1970s. Apart from blocking the takeovers of two uranium firms in the Northern Territory and adopting legislation to provide for the screening of foreign takeovers by the Treasury, little federal action was taken in response to this concern before the election of a Labor government in December 1972. The problem was then given much greater attention, and the economic nationalism that characterized federal mineral policy under the Labor government has continued to a considerable extent under the Liberal-National Country Party coalition elected in December 1975.

Foreign ownership and control of mineral resource industries have been considered undesirable for at least three distinct reasons, which have (or should have) distinct consequences for the types of policies adopted. The first objection, which is particularly strong in some sections of the Labor Party, is based on the view that control of important mineral-producing firms by foreigners removes the locus of decision-making from Australia and tends to produce a quasi-colonial state of dependence. The second objection, apparently more widespread in the Australian community, is to foreign ownership, as distinct from foreign control, and is based

[10] 'WA vs. Canberra: Puzzle for Investors', *The National Times*, 19 June 1972.
[11] 'Mine Battles Flare', *Australian Financial Review*, 5 August 1974.

on resentment at the outflow of profits and the denial to Australians of opportunities to invest. The third objection, which is most often voiced by spokesmen for the coal industry, is that foreign (particularly Japanese) equity gives foreign purchasers of Australian raw materials access to information concerning the producing firms, and thus strengthens their hand in negotiations over the terms and conditions of Australian exports. The fact that these objections were not always clearly distinguished from one another may explain the ambiguity and apparent inconsistency that often characterized the Labor government's policy in this area.

The specific objectives of the Labor government in regard to Australian ownership were repeatedly re-interpreted and re-defined. At the outset the government, particularly Mr Connor, gave the impression that their objective was to bring the entire mining industry under Australian ownership and control. However, in October 1973 the Prime Minister (Mr Whitlam) told a Japanese audience that 'full Australian ownership' would be insisted upon only for uranium, that it was 'a desirable objective' but would not be insisted upon for other energy resources, and that it would not be sought at all in other sectors of the mining industry. In these other sectors, however, foreign-controlled firms would be expected to offer some equity to Australian investors. He further stated that firms might be allowed to explore for minerals even if they did not have as much Australian equity as would be required of firms engaged in production.[12] A further statement on the subject by the Prime Minister in November 1974 seemed to make the government's position even more flexible, since it emphasized that Australian ownership and control were no more than desirable long-term objectives.[13] In February 1975 the Federal Conference of the Labor Party, at the urging of Mr Connor, adopted a policy of requiring 100 per cent Australian ownership of all energy resources. With the decline of Connor's influence in the latter half of 1975, policy was again relaxed. The Prime Minister's statement on foreign investment policy in September 1975 made no distinction between energy resources (aside from uranium) and other minerals; the objective of 100 per cent Australian ownership was stated to apply only to uranium.[14] Aside from uranium, new mineral projects would require only 50 per cent Australian ownership while existing mines and firms would not be required to increase Australian ownership and control. This policy was retained by the coalition government which took office in November 1975, except that the required proportion of Australian ownership in uranium was reduced to 75 per cent.

Under the Labor government, various means were employed to secure these objectives. As noted above, the requirement that exports of minerals be approved by the Department of Minerals and Energy gave the federal government the power to insist on suitable levels of Australian ownership in new mining projects. The same power could also have been used to force foreign owners to dispose of their shares in mines that were actually in production, although this was never done or even, it seems, contemplated.

As under previous governments, the import of capital for any purpose was subject to controls by the Treasury. After the election of the Labor government, these controls were made more stringent and were used as another means of controlling foreign investment in the mineral resource industries. In December 1972 the new government imposed a requirement that 25 per cent of funds borrowed overseas be deposited with the Reserve Bank, and two months later the same requirement was extended to other types of transactions which had similar effects on the inflow of

[12] *Australian Government Digest*, Vol. 1, No. 4, pp. 1588-1590.
[13] *Australian Government Digest*, Vol. 2, No. 4, pp. 1253-1255.
[14] Australia, Prime Minister, *Press Statement No. 564*, 24 September 1975.

capital. This variable deposit requirement, as it was known, was increased to 33½ per cent in October 1973, returned to 25 per cent in June 1974, drastically reduced to 5 per cent in August 1974 and finally discontinued in November 1974. While it lasted it had the effect of making foreign direct investment as well as foreign borrowing less attractive. Foreign takeovers of Australian firms continued to be screened by the Treasurer under the terms of the *Companies (Foreign Takeovers) Act* adopted in the last months of the McMahon government. In June 1974 an interdepartmental committee, on which Minerals and Energy was represented, was established to advise the Treasurer on the screening of new foreign investments, as distinct from takeovers. The effect of all these measures was mitigated by the fact that few new mineral projects were established during the Labor government's term of office, a fact that observers hostile to the government attributed to the foreign investment policy itself.

The reaction of state governments to the federal government's policy on foreign investment varied widely from one state to another. New South Wales, as described in Chapter III, had its own policy of requiring new coal mines to be predominantly Australian-owned, and thus agreed with the federal policy. Undoubtedly it also recognized that the federal policy served the interests of New South Wales by impeding the expansion of coal mining in Queensland. Victoria had a similar policy with respect to its brown coal, and was generally sympathetic to economic nationalism. No new mineral developments took place in Tasmania during the early 1970s, so opportunities for friction with that state did not arise. Conflict with South Australia over the question of foreign investment was confined to one case which is dealt with below.

However, conflict was almost continuous with Queensland and Western Australia, the two states which are most dependent on the mining industry, most geographically remote from the Sydney-Canberra-Melbourne triangle and least sympathetic to economic nationalism. In both states the governments believed that encouragement of foreign investment in mining was necessary because Australian risk capital was not available. Both were satisfied with the performance and behaviour of foreign-controlled firms within their states, and both tended to view economic nationalism as a sentiment originating in the more industrialized states which had no relevance to the needs or interests of the resource-producing hinterlands. Both were critical of the variable deposit requirement and of the use of export controls to bring about higher levels of Australian equity.

In Queensland there was a tendency to see a connection between the federal government's policy on foreign ownership and its policy on coal export prices and controls. This was not unreasonable, since Mr Connor repeatedly drew attention to the large degree of foreign ownership and control of Queensland coal mining. The Queensland government developed a conviction, perhaps justified, that the federal government was particularly hostile to Utah International and its various Queensland subsidiaries. This belief increased the tendency for the state government to adopt a defensive and sympathetic public stance towards the American-controlled firm, with which as a matter of fact its own relations were not always free of stress. The Queensland government was to discover, however, that the federal government's determination to increase the level of Australian equity in coal mining continued after Connor's removal from the ministry, and even after the replacement of the Labor government by a Liberal-National Country Party coalition in December 1975.

Western Australia also found itself in disagreement with the federal government's approach to foreign investment, both before and after the change of government in

the state in March 1974. On one occasion, in fact, Connor singled out Western Australians for criticism in this regard, charging that they were 'provincial' and obsessed with the need for foreign capital.[15] While the Labor government of John Tonkin held office in the state, its opponents repeatedly tried to cause it embarrassment by referring to federal Labor policies regarding foreign investment and asking whether the state government agreed with them. The state government made it clear that it did not, but persistently denied that there was any real conflict between itself and the federal government. In November 1973 a state minister, Mr Bickerton, attacked the federal government's policy as a threat to the developtment of the north-west, but he was rebuked for this by Mr Tonkin.[16] More frequently, Tonkin and other ministers did their best to make federal policy concerning foreign investment more flexible, and to draw attention to the particular needs of the outlying hinterland states for capital investment. These efforts had only limited success. With the election of the coalition government headed by Sir Charles Court, Western Australia became openly hostile to federal policies of economic nationalism, and had no hesitation about saying so.

Three particular cases, in which federal policies concerning foreign investment in mineral resource industries have clashed with state priorities, are interesting enough to be considered individually. These cases involved the proposed Alwest bauxite refinery in Western Australia, the Redcliffs petrochemical project in South Australia, and the Norwich Park coal project in Queensland.

The Alwest project had been under consideration for some time before the federal Labor government was elected. It was originally intended to be an Australian-owned venture, but the very considerable degree of vertical integration in the international bauxite industry induced the participants to seek an association with Reynolds Aluminum, a major American firm. The new federal government found this objectionable, and as a result the Treasury did not approve the necessary import of capital to finance the project. Additional objections to the project on environmental grounds were soon made by the Department of the Environment and Conservation, although the project had met the environmental standards imposed by the state government.

With the approach of a state election in Western Australia, Premier Tonkin was anxious that the project be approved in time to save his government, which had had a majority of only one member in the previous parliament. It was rumoured that a favourable announcement regarding Alwest would be made in time to influence the result of the election.[17] In the event the Federal government announced just before the election that it would not waive the Reserve Bank variable deposit requirement in the case of Alwest. Premier Tonkin said that he was 'discouraged and disappointed', and with good reason; the electorate in which the refinery would have been built was among several that changed hands, ensuring the defeat of his government.[18]

The ironic sequel to these events was that within a few months the Reserve Bank variable deposit requirement was reduced to a negligible five per cent, and the federal government pronounced itself satisfied with the proportion of Australian equity in the project, which had been slightly increased. In January 1975, the federal government announced that the project could proceed subject to certain environmental conditions being met. The environmental conditions were not

[15] 'Connor: WA has Japan Obsession', *The Age*, Melbourne, 7 November 1974.
[16] 'WA Minister: Canberra Mad', *The West Australian*, Perth, 29 November 1973.
[17] 'Mining Politics Get the 62 per cent Litmus Text', *Australian Financial Review*, 15 March 1974.
[18] 'This Will Kill Refinery, Says Tonkin', *The Age*, Melbourne, 19 March 1974.

expected to pose any serious problems, but as of early 1976 no final agreement had been reached between the federal government and the Alwest consortium.

The Redcliffs case was closely associated with the plans for development of Cooper Basin natural gas, discussed in the preceding chapter. It will be recalled that one of the reasons why the South Australian government supported the sale of Cooper Basin gas to the Sydney market was its hope that the liquid by-products resulting from treatment of the large volume of gas required there would become the basis of a major petrochemical industry in South Australia. A consortium headed by Dow Chemical, an American firm, was the first to express interest in this possibility, but another consortium including ICI and Mitsubishi subsequently became interested as well, and both groups sent letters of intent to the state government. In October 1973 the state opposition leader enquired whether plans for the Redcliffs petrochemical refinery were compatible with the federal government's intention to purchase the gas through its Pipeline Authority. Premier Dunstan replied, correctly, that they were and that in any event the Pipeline Authority would be legally unable to purchase the gas. He said that Mr Connor had assured him of federal support for the project.[19]

Although this was true, it was soon revealed that Connor did not wish the Redcliffs project to be built by either of the foreign-dominated consortia. He suggested that it might be jointly built by CSR and Ampol Petroleum, both Australian-owned firms. The Premier was quoted as saying that this placed the project in jeopardy.[20] The state opposition continued to insist that Connor was actually opposed to the project, and presented a motion in the state parliament expressing 'deep concern at the actions of the Commonwealth Minister for Minerals and Energy in relation to the proposed Redcliffs petrochemical development.' Premier Dunstan supported the motion, saying that no Australian-owned firm was willing or able to undertake the project, and the motion was adopted by an overwhelming majority.[21]

A few days after this Connor announced that he would be satisfied with 51 per cent Australian equity in the Redcliffs project. The ICI-Mitsubishi consortium were willing to provide for this proportion of Australian equity, and therefore gained the support of the federal government. This greatly displeased the state government, which had come to the conclusion that Dow Chemical was both more experienced and more seriously committed to the project. The ICI-Mitsubishi consortium made so little progress at Redcliffs in 1974 as to persuade some observers in the petroleum industry that they had no serious intention of proceeding. According to this view, their real intention in agreeing to undertake the project had been to prevent Dow Chemical from doing so, and their long-term objective was to cancel Redcliffs and build a similar plant in Western Australia, using north-west shelf gas. Whether or not this was so, in July 1975 the consortium announced that they would not proceed with Redcliffs, on the ground that it had proved to be more costly than anticipated. The state government continues to believe that without federal intervention the project would have been built by Dow Chemical, and probably completed in time for the opening of the gas pipeline to Sydney.

The Norwich Park coal mine was planned by Utah Development, which held the mining lease through its subsidiary. The project was thus closely related to the issue of coal exports discussed above. Utah had long been under pressure from the federal government to reduce its very high proportion of foreign equity, and its failure to give any satisfaction in this regard ensured that it would not be allowed to open any

[19] *South Australia, Parliamentary Debates,* 41st Parliament, Vol. 1, pp. 1019-1020.
[20] 'Redcliffs Crisis: SA to Take on Connor', *The Advertiser,* Adelaide, 13 October 1973.
[21] *South Australia, Parliamentary Debates,* 41st Parliament, Vol. 1, pp. 1236-1244.

new mines while Mr Connor remained in office. The opinion was widely held in Queensland, however, that the federal government was prejudiced against the state, and particularly against its coal mining industry. A number of other Queensland coal projects were denied approval as well as Norwich Park. A Brisbane newspaper in June 1975 cited this fact as evidence to support the familiar accusation that the federal government was 'favouring the underground coal-mining industry in New South Wales at the expense of the more efficient open-cut mining in Queensland'.[22]

The appointment of a new Secretary in the Department of Minerals and Energy, and the establishment of a federal cabinet committee on natural resources, inspired hopes in Queensland that Connor's influence over mineral resource policy had ceased to be decisive. In September 1975, Premier Bjelke-Petersen announced that he would ask the federal government to approve a number of major mineral projects which had been denied approval on the ground that Australian equity was insufficient.[23] The federal government announced its new and more flexible guidelines concerning foreign investment soon afterwards. In October, a few days before Connor was forced to resign from the cabinet, the Prime Minister said that he expected that a number of new coal projects would be allowed to proceed soon. He specifically mentioned the Nebo project, planned by Thiess-Peabody-Mitsui, also in Queensland, but did not refer to Norwich Park.[24]

The change of government in November 1975 intervened before the effect of the Labor government's increasing flexibility could be determined. The new Minister for Minerals and Energy, Mr J. D. Anthony, indicated that the three major Queensland coal projects awaiting approval, Norwich Park, Nebo, and Hail Creek, would be allowed to proceed but that 50 per cent equity in each of them should be offered to Australian investors.[25] This did not differ substantially from the policy enunciated by Mr Whitlam in October. In March 1976, the Hail Creek project was allowed to proceed on the basis of some 60 per cent Australian equity. Utah suggested to the federal government that as an alternative to 50 per cent Australian equity in Norwich Park it might increase Australian equity in Utah itself from 10 per cent to 20 per cent. This procedure might be more tempting to Australian investors as they would gain an immediate cash flow from Utah's existing mines. Faced with this argument, the federal government agreed to allow the firm a choice between the two alternatives, and Norwich Park was allowed to proceed on the condition that one or other of them be implemented. The third project, Nebo, was approved shortly afterwards on the basis of 55 per cent Australian equity. What the federal government's position would be in the event that the projected levels of Australian equity were not able to be achieved remained to be seen, but the firms appeared confident that there would be no further difficulties.

(3) The Petroleum and Minerals Authority

Government ownership of mining enterprises at the state level has been fairly common in Australia, particularly in the case of coal mines whose output is earmarked for the generation of electricity in state-owned power stations. Government ownership at the federal level has not often been contemplated, although the 1967 agreements concerning offshore petroleum provided that either level of government could conduct petroleum mining operations and that such

[22] 'Coal Projects Hold-Up', *The Courier-Mail*, Brisbane, 27 June 1975.
[23] 'State Seeks Mining Go-ahead', *The Australian*, 15 September 1975.
[24] 'Policy Change to Lift Coal Output', *The Australian*, 13 October 1975.
[25] 'Anthony Moves on Utah Equity', *Australian Financial Review*, 19 January 1976.

operations would be treated in much the same way as those conducted by privately-owned firms, particularly with regard to the payment of royalties. The willingness of state governments in practice to tolerate any federal government activity of this kind was cast in some doubt by the subsequent experience of the Petroleum and Minerals Authority.

About a year after the Whitlam government took office, it introduced into parliament a bill intended to establish a government-owned instrumentality to be known as the Petroleum and Minerals Authority. The Authority would have the power to explore for, recover, refine, buy, sell, or transport all types of minerals, including petroleum, either in Australia or elsewhere. In an obvious attempt to stay within the Australian Constitution, the bill provided that the Authority could perform its functions in a federal territory, on the continental shelf or under the territorial sea, or elsewhere in Australia so as to facilitate trade and commerce with other countries or among the states, or so as to ensure the availability of petroleum and minerals for purposes of defence.

The bill was adopted by the House of Representatives in December 1973 but rejected by the Senate in April 1974. It was re-introduced almost immediately into the House of Representatives and adopted a second time by that house. It then returned to the Senate, which adopted an amendment noting that it had rejected the same bill only a week previously. Following the double dissolution of parliament and the election of May 1974, the bill was one of several adopted by the joint sitting of the two houses of parliament in August 1974. It was doubtful whether the bill met the constitutional requirement relating to bills to be submitted to a joint sitting, as an interval of three months had not elapsed between its rejection by the Senate and its adoption for the second time by the House of Representatives. However, the government saw no hope of having the bill adopted in any other circumstances and hoped that the High Court would consider the procedure acceptable.

In contrast to the measures by which a previous Labor government had attempted to nationalize banks and airlines, the *Petroleum and Minerals Authority Act* did not purport to restrict the right of other firms to compete with the instrumentality which it established. It also did not, and could not, deprive the states of their ownership of minerals within their borders and their control over permits, licences and royalties. To some extent the Petroleum and Minerals Authority's powers duplicated those of the Pipeline Authority, which had been established in 1973. Parliament voted only $50 million to finance the Petroleum and Minerals Authority's activities in its first year, although the government apparently planned to supplement this with additional funds borrowed from Arab sources.

The Petroleum and Minerals Authority would have been the instrument by which the government hoped to acquire a 50 per cent equity in uranium mining and in offshore petroleum developments. It was also intended that it would develop the Palm Valley natural gas field in the Northern Territory. Another intended purpose, and the only one which the Authority took any concrete steps to achieve in its short life, was to rescue firms which were short of capital and which would otherwise have had to seek funds from foreign sources. The Authority was thus a means of increasing Australian ownership and control of the mineral resource industries.

All of the non-Labor state governments expressed vigorous opposition to the legislation, and took action to challenge its validity before the High Court. The Minister of Mines in New South Wales claimed that the Authority would be able to 'ride roughshod over' the mining legislation of the states. Fears were also expressed that the Authority could nationalize state-owned coal mines and that the states would be unable to collect royalties from firms controlled by the Authority.

Whether genuine or not, these fears were almost certainly without foundation, but their expression indicates that the conflict between the federal government and the states over the Authority was a vertical one in which the rights and privileges of governments rather than the economic interests of regions was considered to be at stake. However, the two state Labor governments do not seem to have believed that their interests were threatened by the legislation. This contrasted with their reaction to the *Seas and Submerged Lands Act*, which both had opposed as vigorously as the non-Labor states. South Australia raised no objection when Delhi International, one of the major participants in the Cooper Basin natural gas consortium, sold part of its holdings to the Petroleum and Minerals Authority. Queensland refused its consent to the transaction, with the result that Delhi International was forced to segregate its holdings in the Queensland and South Australian areas of the Cooper Basin into two parts and sign separate agreements with the Authority for each part. Since the Queensland agreement could not come into force without the state government's consent, the gas producers had to postpone plans to treat the Cooper Basin as a single field without regard to state boundaries, plans which would have increased the efficiency of the operations and had already been approved in principle by both state governments.

The Authority also purchased 49 per cent of the equity in a New South Wales coal mining firm, which was short of cash and which had considered accepting a foreign takeover bid. The state government was not able to prevent this transaction, but in a subsequent statement the state Minister of Mines (Mr Freudenstein) promised to use the state's control over leases and production licences to prevent any further federal takeovers of coal mining firms, which he described as unconstitutional.[26]

The *Petroleum and Minerals Authority Act* was found invalid by the High Court in June 1975, on the ground that three months had not elapsed between the bill's first rejection by the Senate and its second adoption by the House of Representatives, making it ineligible for consideration by a joint sitting of parliament. Since all contracts signed by the Authority had been signed by the government as well, they remained in force. The government announced plans to re-introduce the legislation and in the interim to perform the Authority's functions through the Petroleum and Minerals Company of Australia Pty Ltd, a firm with no assets which was incorporated in the Capital Territory. It proved legally impossible, however, to make available to the company the funds voted by parliament for the Authority, so these plans were unsuccessful.

The coalition government which gained office in December 1975 promised to sell to private enterprise all assets acquired by the federal government through the Authority. However, it could not dispose of its share in the Cooper Basin without the approval of the Labor government in South Australia, which indicated that it would like to acquire the assets itself but would not approve their sale to private enterprise. Thus even in defeat and dissolution the Petroleum and Minerals Authority remained a focus of intergovernmental controversy.

(4) Royalties and Taxes

Financial questions generally play a very large part in Australian intergovernmental conflicts, more so than is the case in most other federations. Both journalistic and academic writings on Australian federalism have in fact tended to assume that almost all intergovernmental conflict can be reduced to a struggle over the

[26] 'NSW Confronts Canberra on Coal', *Australian Financial Review*, 19 February 1975.

distribution of money between the public treasuries at the two levels of government. It has been one purpose of this monograph to demonstrate that this is not in fact so. Nonetheless, financial questions have not been entirely absent from the sources of intergovernmental conflict over Australian minerals.

It is natural for governments to seek to increase their revenues, especially in ways that do not antagonize large numbers of voters. As was mentioned in Chapter III, however, the ability of Australian state governments to maximize their revenues at the expense of the mining industry has been limited by interstate competition, the primacy of economic growth as an objective and, until very recently, the small size and limited profitability of the mining industry itself. Over the last decade the situation has changed, and the potential revenue to be gained from the mining industry has become larger, more tempting, and more easily available. The goal of maximizing government revenue has assumed much greater prominence among the objectives of public policy in regard to the mining industry. For the federal government, if not for the states, an additional goal has been to maximize the proportion of the wealth generated by the industry that remains within Australia, a goal that can be achieved by taxation or, equally well, by encouraging the states to tax the industry more heavily.

The financial dependence of the Australian states on the federal government, and the considerable scope for discretion in distributing federal grants, may give the federal government some influence over levels of taxation, including mineral royalties, imposed by the states, although it is difficult to find firm evidence in support of this assertion. Many state politicians, if one can judge by their public and private comments, seem also to believe that this vulnerability to federal pressure is greater in the case of states that receive special grants through the Grants Commission. Premier Neilson of Tasmania blamed federal pressure for the sharp increase in mineral royalties imposed by his government soon after it applied for a special grant in June 1975.[27] Some observers attributed Queensland's increase in mineral royalties a year earlier to 'prodding' by the federal government which in some way was said to be related to Queensland's applications for special grants from 1971 onwards.[28]

This apparently widespread impression has to be greeted with a certain scepticism, given the fact that the Grants Commission has not since 1945 imposed requirements of 'effort' on states seeking or receiving special grants. Under the Grants Commission's procedures, a claimant state's assessed needs in respect of mineral royalties, which may be positive or negative, are calculated by applying the average of royalty rates in the standard states (New South Wales and Victoria) to the difference between the average of the standard states' revenue base and that of the claimant state, adjusted for differences in population. The rates of royalty in the standard states affect the size of the recommended grant; the rate in the claimant state does not. This fact does not seem to be fully understood by state politicians or the public.

Queensland's application for special grants, which it had never sought or received prior to 1971, did however have the effect of drawing attention to the state's exceptionally low royalties, and may thus have made it politically easier for the state to raise its royalties than would otherwise have been the case. The federal Treasury in its comments on the application expressed the view that Queensland made 'a relatively low effort' to collect revenue from royalties and the Grants Commission

[27] 'Canberra is slated over new royalty', *The Australian*, 29 September 1975.
[28] 'Royalties to the rescue', *The Courier-Mail*, Brisbane, 11 September 1974.

itself eventually reached the same conclusion.[29] These well-publicized views enabled Queensland to argue that its mining industry was making an insufficient contribution to state revenues, a view that the state government had previously discounted in its evidence before the Grants Commission. Both the Queensland and Tasmanian governments may also have used hints about federal 'pressure' to shift the blame for their actions on to a federal government that was already unpopular with the mining industry.

But the federal Treasury and the federal Labor government undoubtedly shared the view that the mineral industry was making an inadequate contribution to public revenues, a view that was incidentally becoming widespread in Canada and in a number of other mineral-exporting countries at the same time. An argument to this effect was presented at considerable length in a report entitled *The Contribution of the Mineral Industry to Australian Welfare,* prepared at the request of the Minister for Minerals and Energy. The report was released to the public just before the 1974 federal general election and was subsequently reprinted as a parliamentary paper.[30] Although some observers criticized the methodology of the report, its conclusion that the industry was making an inadequate contribution to the welfare of the community seemed to represent a widespread view, even if the mineral industry itself thought otherwise.

Inducing the states to increase their royalties might be one way to deal with this perceived problem, but it did not ensure that the benefits extracted from the industry would be evenly distributed in a geographical sense, nor did it meet the immediate needs of the federal government for revenues to balance against its own greatly increased expenditures. In an effort to attain both of these objectives, the 1975 federal budget made provision for an export tax of six dollars per tonne on high quality coking coal and two dollars per tonne on other coals. The choice of an export tax was intended to take advantage of the federal power over trade and commerce and thus avoid any difficulties which might have arisen from an attempt to impose a federal tax on production. Although legally beyond challenge, the new tax was nonetheless resented by the governments of both the coal-exporting states, New South Wales and Queensland, as a 'super-royalty' that deprived the states of potential revenue. In fact it was revenue that the states could not easily have gained, since to discriminate in their royalties between exported and domestically-used coal would be beyond their constitutional powers. In New South Wales the export tax was also considered to be unfair to that state's high-cost producers, because it failed in any way to discriminate between them and the extremely profitable operations of Utah Development in Queensland. It was argued that the reference in the Treasurer's budget speech to 'very large windfall profits . . . currently being earned by the export sector of the coal industry' hardly described the situation in New South Wales, and that a tax on profits would have been more desirable. The fact that Queensland had earlier complained of federal policies which allegedly favoured coal mining in New South Wales makes this an ironic but perhaps fitting conclusion to a survey of federal mineral resource policies, which produced conflict with the states.

[29] Australia, Grants Commission, *Special Report,* 1972, pp. 11-16, and *41st Report,* 1974, pp. 66-69.

[30] T.M. Fitzgerald, *The Contribution of the Mineral Industry to Australian Welfare,* Government Printer, Canberra, 1974. Reprinted as Parliamentary Paper No. 73 (1974).

VII RESPONSES BY THE STATE GOVERNMENTS TO FEDERAL INITIATIVES

(1) The Impact of Federal Policies on the States

While the last two chapters have not provided a complete account of the federal government's mineral resource policies in the early 1970s, they have contained enough information to suggest the general trend of policy. The most consistent tendency was for the federal government to intervene increasingly in the management of mineral resources, rather than leaving it to the private sector or the states. In the judgement of many observers, this tendency first became noticeable when Mr Gorton was Prime Minister. It continued under Mr McMahon, accelerated sharply under Mr Whitlam, and seems to be abating only slightly under Mr Fraser.

As might be expected, and as the last two chapters have tried to suggest, the impact of this increasing federal intervention has varied considerably among the states. For the most part federal intervention was a response to the demands of mineral consumers, or sectors of the community not directly involved in the mineral industries, rather than mineral producers. In general both the effect and the intent of federal intervention have been to redistribute the benefits of mineral resource development away from the producers, and away from the producing regions, towards other sectors of the Australian community through stricter controls, higher taxes, increased Australian equity requirements or government ownership. Since the importance of the mineral industries varies from state to state, the impact of such measures has also varied.

New South Wales, basically a resource-deficient consuming region like Western Europe or Japan, had the most to gain from federal intervention. Export controls on coal and zircon, a national pipeline grid, and a uniform price for natural gas as desired by Mr Connor, were obviously in its interest. It had nothing to lose from a federal takeover of the continental shelf, and the policy of requiring greater Australian equity in mineral developments was consistent with its own policy, besides giving New South Wales investors greater opportunities to profit from the mineral wealth of Western Australia and Queensland. Controls on the export of minerals not produced in New South Wales, particularly iron ore, probably benefited the state by ensuring that its overseas competitors did not gain access to Australian raw materials at low cost. Of the federal policies considered here, only the export tax on coal could possibly be considered detrimental to the economic interests of New South Wales.

Victoria had the most to lose of any state from a federal takeover of offshore oil and gas, in terms of both royalty revenue and the economic advantage given to Victorian industry by cheap local supplies of energy. A uniform price for natural gas, like the fixed price for Bass Strait oil established by the Gorton government in 1970, was not in its interest. On the other hand it benefited, as did New South Wales, from insistence on Australian equity in mineral developments, and perhaps indirectly from controls on exports of raw materials used in the state. Export controls had no direct impact on Victoria, because it was not itself an exporter of minerals.

Queensland lost far more than it gained from export controls, especially on coal, from Australian equity requirements, and to a lesser extent from the coal export tax. It also suffered more than any other state from the federal policy of discouraging mineral development on Aboriginal reserves. The suspension of oil drilling on the

Great Barrier Reef was also detrimental to the state's economy, if environmental effects are ignored. On the other hand the pipeline grid was potentially beneficial to Queensland, although plans to connect Queensland to the grid had not proceeded very far at the time of writing.

South Australia did not suffer in any respect from federal policies towards the mineral industries, aside from Mr Connor's intervention into the Redcliffs project. On the other hand, it did not benefit as much as New South Wales. As a state relatively poor in mineral resources — except for natural gas — it did benefit to some extent from the efforts to distribute the benefits of mineral development more evenly around the country.

Western Australia, like Victoria, had a great deal to lose from a federal takeover of offshore oil and gas, and in fact suffered severely from Connor's natural gas policies. As an underdeveloped resource-exporting hinterland it also resembled Queensland in the extent to which it suffered from Australian equity requirements, environmental standards, and export controls. Federal intervention provided no real benefits to Western Australia, with the possible exception of a safeguard against the development of excess capacity in the iron mining industry.

Tasmania was affected less than any other state by federal policies, despite its relatively high mineral output per capita. It is neither a producer nor a consumer of natural gas. Potentially it might lose from a federal takeover of the continental shelf, although whether it has any exploitable offshore mineral resources remains to be seen. Export controls affected it very little, and Australian equity requirements not at all, since no new mineral developments in Tasmania have been considered in recent years.

These observations explain a large part, but not all, of the conflicts between the federal government and state governments described in the preceding two chapters. They explain what has been referred to in this monograph as 'horizontal' conflict between the economic interests of different regions, but they do not explain the 'vertical' conflict that results from the institutional self-interest of different levels of government. They also do not explain the intergovernmental conflict that results from differences of party affiliation. These latter types of conflict can only be explained by closer examination of the ways in which federal policies were perceived by decision-makers in the states. State decision-makers interviewed by the author were conscious of horizontal, vertical, and party-based conflicts in regard to mineral resource policies, although they did not use this terminology. However, the importance which they ascribed to each type of conflict, and the extent to which they perceived conflict at all, varied from state to state.

Perception of horizontal conflict was, as might be expected, most pronounced in Western Australia and only slightly less pronounced in Queensland. In each state, recent interventions by the federal government into mineral resource policy were viewed as harmful to the state's interests. Policies of restricting foreign investment or insisting on fixed proportions of Australian equity were viewed with resentment in both states. In Western Australia Mr Connor's policies with respect to offshore natural gas were seen as an even more important instance of conflict between federal policies and the economic interests of the state. In both states decision-makers seemed to believe that federal policies inevitably and invariably favoured the interests of the populous, industrialized, south-eastern states. The principal explanation given for this was invariably that 'we don't have the numbers' and that influence over federal policy was ultimately based on weight of population and the number of seats in the House of Representatives. One prominent Western Australian decision-maker suggested that, given a choice between encouraging a mineral development to proceed

in a small state and encouraging a similar development in a larger state, the federal government would always choose to favour the state with the larger population. The view was expressed that Western Australia ranked ahead only of Tasmania in its ability to secure federal decisions favourable to its interests. Another explanation sometimes given for Western Australia's lack of influence was its geographical remoteness, as well as the fact that Canberra was perceived as being for all practical purposes a part of New South Wales. Since horizontal, inter-regional, conflict of interest was considered important in the outlying mineral-producing states, and since the federal government was viewed as the instrument of the industrialized south-east, it followed that Western Australia and Queensland considered freedom to pursue their own mineral resource policies with little or no federal interference as essential to protect their economic interests.

Perceptions of vertical conflict logically enough were more evenly distributed among the states. Vertical conflicts arise because governments are preoccupied with two things: the extent of their legislative or administrative powers and the extent of their financial resources. The mineral policies of the Whitlam government seemed to place the states on the defensive in both respects. Their legislative and administrative powers were threatened by the attempt to impose federal jurisdiction over offshore petroleum and the use of export controls and controls on the import of capital for the purpose of making decisions on whether mineral developments should be allowed to proceed, decisions which were traditionally made by the states. Their financial resources in the form of mineral royalties were threatened by both of these aspects of federal policy, and were also believed by some state decision-makers to be threatened by the prospect of nationalization through the Petroleum and Minerals Authority. Anxiety over the latter point seemed to be particularly strong in New South Wales, the state whose economy benefited most and suffered least from federal policies towards the mineral resource industries. The resistance of New South Wales to the takeover of the East-Aust. Pipeline was also a case of vertical conflict, in which the institutional self-interest of the state government was at stake while the economic interest of the state itself was not. Australian Gas Light was so closely associated with the state government in a mutually supportive relationship as to be practically a state instrumentality, despite its nominal status as a 'free enterprise' corporation.

State decision-makers, aside from state Labor Party politicians, perceived the Whitlam government as having an ideological bias towards centralism which drove it to seek power and money at the expense of the states, thus producing an unusual amount of vertical conflict. Some of them drew distinctions among Labor ministers in this regard, Mr Connor being viewed as one of the more extreme centralists. However, centralizing tendencies in Canberra, and resulting vertical conflict, were not generally considered to exist exclusively when the Labor Party was in office. Reference was often made to Prime Minister John Gorton as an architect of centralization, particularly because of his Territorial Sea and Continental Shelf Bill. The federal bureaucracy was also seen as seeking to expand its power at the expense of the states, whichever party was in office.

(2) The Effect of Party Differences on State Responses

Some of the conflict over mineral resource policies between the Whitlam government and the states was undoubtedly based on party differences. The Whitlam government, because it was a Labor government, did have some ideological bias towards centralism or, at the very least, it had no ideological inhibitions about pursuing centralist policies if these seemed to be required by its conception of the national

interest. Although greater federal intervention in the field of mineral resource policy was inevitable in the 1970s, the trend proceeded farther and faster while the Labor Party was in office than it would have done under a coalition government. It is also true that the manner, as much as the substance, of the mineral resource policies pursued by the federal Labor government antagonized the state governments. A government less committed to centralism might have been more conciliatory to the state governments and might have consulted them more, or at least given them the opportunity to co-operate with its policies.

On the other hand, conflict was also party-based in the sense that some of the non-Labor state governments seemed to pursue conflict with the federal Labor government virtually as an end in itself, and for essentially partisan objectives. Premier Bjelke-Petersen of Queensland certainly seemed to be pre-judging the issue when he told his state parliament, a few days before the federal Labor government was elected:

> The relationship between the present Commonwealth Government and the Queensland Government has been excellent. As a result Queensland has benefited very greatly, to the extent that today this State enjoys the soundest economy in Australia, the lowest unemployment rate, and so on . . . Whether, in the event of a Labor government assuming office, it would be possible to continue this relationship is very problematical.[1]

Admittedly Queensland did have good reasons other than partisanship for disliking the federal Labor government's mineral resource policies, and the same could be said in defence of Sir Charles Court's government in Western Australia. However,the short-lived government of Mr Lewis in New South Wales seems sometimes to have pursued intergovernmental conflict for partisan ends only tenuously related, if at all, to the interests of the state. In general it is probably true that the centralized structures of Australian political parties, and the relatively sharp ideological distinctions between them, create obstacles to harmonious intergovernmental relations not found in Canada or the United States.

The corollary to this is that federal-state relations are relatively more harmonious, all other things being equal, when the same party holds office at both levels of government. In such circumstances each level of government is reluctant to embarrass a 'friendly' government at the other level by open displays of hostility, and there are also avenues of informal liaison and negotiation not open to governments of opposite parties. These factors are of only limited value in overcoming genuine horizontal conflict, as the unhappy experience of the Tonkin government in Western Australia suggests, but common party allegiance does lessen conflict of a vertical nature, since it rules out sharp differences of opinion on federalism between the governments involved. If both levels of government are non-Labor, the federal government will tend to share its adversary's belief in the desirability of preserving strong states, while if both levels of government are Labor the state government will tend to share its adversary's belief in the virtues of centralization. However, Mr Gorton's desire to assert federal sovereignty over the continental shelf, and the resistance of state Labor governments when the Whitlam government tried to do the same, suggests that neither generalization should be pressed too far. Even in Australia, 'where you stand depends on where you sit'.[2]

State Labor governments and, to a lesser degree, federal non-Labor governments must live with a contradiction between ideology and the imperative of institutional self-interest. When the Labor Party controlled the federal government, state Labor

[1] *Queensland Parliamentary Debates*, Vol. 260, p. 2179.

[2] This remark is attributed to an unnamed American civil servant in Graham Allison, *Essence of Decision*, Little Brown, Boston, 1971.

governments were vulnerable to the charge that they were sacrificing the interests of their states for the sake of party solidarity and ideological commitment to centralization. Mr Dunstan's support of the resolution criticizing Mr Connor's interference in the Redcliffs project, Mr Tonkin's occasional criticisms of federal policy, and the challenge by all three state Labor governments to the *Seas and Submerged Lands Act* were in part efforts to protect themselves against this type of criticism, with varying degrees of success. On the other hand, a federal non-Labor government would be vulnerable to the charge of sacrificing the national interest to the demands of ideology if it conceded too much to the states. The 1967 agreement over offshore petroleum was a case in which such criticism was justified, but there have been few others. Political constraints usually impel governments to demonstrate that they place institutional self-interest ahead of their ideological views on federalism, in cases where there is a conflict between the two.

(3) Federal-State Collaboration

Although the tendency towards greater federal involvement in the mineral resource industries was generally not welcomed by the states, there were cases in which federal intervention was accepted. Federal-state co-operation in mineral resource policy did not come entirely to an end even when Mr Connor was Minister for Minerals and Energy, although it did diminish.

There were not many cases in which federal intervention into mineral resources was actually sought by a state government, but one that may be cited was the request by New South Wales in 1972 for federal help to protect the state's coal exporters from Queensland competition. Western Australia asked the federal government to build a natural gas pipeline to its capital city in 1973, as did Queensland in 1975. New South Wales would also have sought federal assistance in gaining access to natural gas had it not been assured of access to the Cooper Basin in 1971.

The extent of federal-state co-operation in mineral resource policy varied from state to state, and from issue to issue. The federal government and New South Wales collaborated effectively and continuously through the Joint Coal Board, one of the earliest and most successful instances of federal intervention in mineral resource policy. The federal government and South Australia co-operated effectively in regard to natural gas, despite the difficulties over Redcliffs, and the state raised no objection when the Petroleum and Minerals Authority purchased a share in the Cooper Basin consortium.

Bureaucratic liaison between the federal and state departments responsible for mineral resources suffered from the conflict that characterized the relationship from 1973 through 1975. The Bureau of Mineral Resources retained its close contacts with the geological survey units in the state departments. Some of the newly-established divisions in the Department of Minerals and Energy, notably the export control division, operated virtually without reference to the states. Divisions inherited from the old Department of National Development were more accustomed to dealing with the states and continued to maintain contact with them. Allegations were frequently made that Mr Connor, or certain of the state ministers, or both, had forbidden civil servants to communicate with their counterparts in the other level of government, but the accuracy of these allegations cannot be verified. If such a directive did come from the federal minister, it must have applied only to those states that were most rigidly opposed to federal policies. It is clear that many contacts actually continued at the administrative level, despite tensions at the political level.

One instrument of federal-state co-operation that did become defunct while the

federal Labor government was in office was the Australian Minerals Council, which consisted of the federal and state ministers responsible for minerals and had been established at the suggestion of Queensland and Western Australia in 1968. The Council met periodically in the first four years of its existence, but after Prime Minister Gorton indicated his intention to assert federal control over the territorial sea and continental shelf its meetings were marked by as much conflict as co-operation. At the Council's meeting in June 1970, all states except New South Wales expressed strong opposition to the introduction of the *Territorial Sea and Continental Shelf Bill,* although it had been approved a few days earlier by the Federal Council of the Liberal Party with only the delegates from Western Australia dissenting. This episode suggested a tendency for some of the states to adopt more extreme positions in the Australian Minerals Council than in less formal settings. Possibly because he was aware of this, Mr Connor preferred to deal with individual state ministers on a bilateral basis and did not convene any meetings of the Australian Minerals Council, despite requests by the states that he do so. In early 1976 the Fraser government and the states agreed to revive the Council under the new name of the Australian Minerals and Energy Council.[3]

(4) Resistance by the States to Federal Policies

The demise of the Australian Minerals Council possibly lessened the ability of the states to resist federal policies of which they disapproved, but it did not leave them without any further means of resistance. Four methods were used by the states to resist federal mineral policies which they considered harmful: bilateral discussions to persuade the federal government to modify its policies; appeals to the courts to declare federal actions illegal; use of state powers to frustrate federal initiatives; and the development of interstate collaboration.

Bilateral discussions were not always successful or even possible, given the incompatibility of federal objectives with those of some of the states. At least two state ministers of mines never actually saw Connor while he was minister, although how seriously they attempted to do so may be open to question. Others were more successful, particularly those in state Labor governments. In Western Australia, because of the state's great dependence on mineral resources, there was a tendency for representations to the federal government to be made at the Premier to Prime Minister level. This was unusual in other states, although Premier Dunstan of South Australia was involved in discussions concerning Redcliffs and, at an earlier period, Premier Bolte of Victoria played a central part in the negotiations that led to the 1967 agreements on offshore petroleum.

Informal discussion and liaison between federal and state governments is undoubtedly easier when the same party holds office at both levels, although this does not guarantee that a position satisfactory to both sides can be arrived at. Premier Tonkin's government in Western Australia attempted to modify the federal Labor government's policies concerning foreign investment, north-west shelf gas, gold mining subsidies and the Alwest bauxite refinery, but without success. The advantage of access to a federal government controlled by the same party was probably more than counterbalanced by the political disadvantages of association with a federal government whose mineral resource policies were widely viewed as harmful to the state's economy. Generally, bilateral negotiations can only succeed if there is a basic compatibility between the interests and objectives of the two

[3] 'Canberra Agrees to Energy Watchdog', *The Age,* Melbourne, 24 March 1976.

governments involved, which did not exist in this case. It is also probably true that the size, and therefore the political importance, of a state affects the ability of its government to influence the policy of the federal government.

Only limited use was made of the judicial process as a means of resisting federal initiatives. When the *Territorial Sea and Continental Shelf Bill* was introduced in 1970, Tasmania, Queensland and Western Australia supported the idea of challenging it before the High Court, while Victoria and South Australia inclined to the view that any attempted federal takeover could more effectively be frustrated by withholding administrative co-operation. As it turned out, the shelving of the bill and the overthrow of Mr Gorton by the Liberal caucus made it unnecessary to do either.

When the federal Labor government introduced the *Seas and Submerged Lands Bill* in 1973, Tasmania suggested that the states appeal to the Judicial Committee of the Privy Council, and was joined by all other states in doing so. Western Australia participated in this action despite the fact that the state executive of the Labor Party adopted a resolution asking Premier Tonkin not to do so. When the Judicial Committee refused to hear the case, and when the bill was finally accepted by the Senate, the states resorted to the High Court as a last line of defence. This proved successful insofar as the verdict was delayed until the federal Labor government had been removed from office, but the High Court found, as it could hardly fail to do, that the federal government in fact had jurisdiction.

Queensland considered challenging the legality of export controls on coal and New South Wales contemplated litigation to prevent the takeover of the East-Aust. pipeline, but both plans were abandoned at an early stage because they seemed to have little prospect of success. The four non-Labor states did challenge the *Petroleum and Minerals Authority Act*. They knew it to be vulnerable because of the peculiar circumstances in which it had been adopted, and it was on those grounds that the High Court declared it invalid. Victoria commenced legal action before the High Court against the federal government's subsequent attempt to transfer the defunct Authority's assets and functions to the Petroleum and Minerals Company, but this proved to be unnecessary.[4]

In general state governments seem to have preferred political and administrative, rather than judicial, methods of resistance to the federal government's mineral resource policies. Some state governments apparently considered appeals to the High Court as a last resort, unlikely to be very effective, but undertaken because the inflexibility of the federal Labor government made negotiated solutions impossible. The judicial process itself was generally not viewed with much enthusiasm as a means of resolving conflicts, since judicial decisions were viewed as tending to produce a clear victory for one side or the other rather than a compromise. This might not have worried the states but for the fact that the trend of High Court decisions in recent years had been generally favourable to the federal government. Some state governments apparently believe that the High Court is biased in favour of centralism, partly because it is appointed by the federal government and partly because most justices are drawn from the larger states. The chances of successful challenge were reduced in any event, because most federal interventions in mineral resource policy were administrative acts based on clearly defined federal powers, particularly the power over trade and commerce. The *Seas and Submerged Lands Act* was a notable exception but it, like the offshore bill introduced by Mr Gorton in 1970, in effect invited a challenge by the states because the federal government was

[4] 'Challenge to New Federal Company', *The Age*, Melbourne, 22 July 1975.

confident that its power would be upheld. All state governments believed that political realities compelled them to challenge the *Seas and Submerged Lands Act*, but it is doubtful that any really expected it to be held invalid.

The most important weapons with which the state governments could resist federal intervention into mineral resource policy were their own administrative and legislative powers over mineral resources. Most of these powers ultimately derived from the legal ownership of resources by the states. But even in the case of offshore oil and gas, which were not in fact the property of the states, the *de facto* control which they had been permitted to exercise since the 1960s enabled them to frustrate the federal Labor government's plans with considerable success. All the states which had granted offshore exploration permits under the terms of the 1967 agreement ignored Mr Connor's request that the permits not be renewed until the High Court had decided on the validity of the *Seas and Submerged Lands Act*. All were able to do this with impunity, despite the fact that the offshore petroleum was strongly suspected to be, and ultimately proved to be, the property of the federal government. In fact the states professed to believe that they were not only legally entitled, but legally obligated, to carry out their existing agreements with the exploration firms.

The states were also able to use their undoubted legal sovereignty over minerals on land to frustrate the federal government. Queensland's refusal to approve the acquisition of equity in its sector of the Cooper Basin by the Petroleum and Minerals Authority was one example. South Australia may in turn prevent the new federal government from returning the assets which the Authority acquired in that state to private enterprise. New South Wales threatened in 1975 to prevent the Petroleum and Minerals Authority from acquiring any further equity in that state's coal mining industry. Western Australia introduced legislation enabling it to prevent the transfer of mineral leases or permits within the state to entities controlled by any government, other than the government of Western Australia itself. This was obviously directed against the Petroleum and Minerals Authority, although certain firms controlled by foreign governments might also have been affected. Control by the states over leases, licences and permits made measures of this kind possible. On the other hand there were limits to the effectiveness of state power; Sir Charles Court's attempt to dissuade mining and petroleum firms from having any dealings with the federal government was not successful.

Aside from the direct control exercised by the states over mineral resources, other state powers under the Australian constitution proved to be actually or potentially useful. Victoria could not be forced against its will to join its pipelines to the national grid. New South Wales tried to strengthen the bargaining position of Australian Gas Light *vis-a-vis* the Pipeline Authority by exempting the East-Aust. pipeline from certain requirements of the state's *Pipelines Act*. After the *Petroleum and Minerals Authority Act* was declared invalid, the non-Labor states said that they would negate any effort to transfer its assets to the Petroleum and Minerals Company by refusing to register the Company under their *Companies Acts*.[5] The Company, which was incorporated in the Australian Capital Territory, needed such registration to operate in any of the states concerned. Even the federal power over foreign trade and commerce could be effectively negated by the exercise of existing state powers. When the federal government in 1975 considered building and owning a proposed coal loader at Newcastle, which the New South Wales government wanted to be built by private enterprise, the state government was prepared to refuse to link a federal-owned loader to its railway system.

[5] 'States resist Federal firm', *The Age*, Melbourne, 27 June 1975.

Interstate co-operation was another important means by which the states attempted to resist federal intervention into mineral resource policy. The usefulness of this approach was somewhat limited by the fact that the states did not always share common interests. Some aspects of federal policy directly affected only a few states, or even only one state. Other aspects were beneficial to some states and detrimental to others. New South Wales obviously would not co-operate with Queensland in resisting export controls on coal. Rivalry and competition among the states in seeking to attract industry also lessened their tendency to sympathize with one another's problems. The cancellation of Redcliffs might increase the chances of a petrochemical plant being built in Western Australia, while the failure of Alwest to proceed might mean that another bauxite refinery would be built in Queensland.- Different party affiliations also made co-operation difficult; it was particularly hard for state Labor governments to form alliances directed against the hard-pressed federal government of their own party. The fact that considerable interstate collaboration did take place, in spite of all these obstacles, indicates how much federal intervention into mineral resource policy was resented by the states, particularly when the Whitlam government was in office.

As might be expected, collective action by the states against federal initiatives was most likely in cases of vertical conflict and in response to generalized federal actions potentially affecting most or all of the states. The introduction of the *Territorial Sea and Continental Shelf Bill* in 1970 led to the first major instance: a meeting of all state mines ministers and attorneys-general in Melbourne, the capital of the state most immediately affected. The ministers denounced the introduction of the federal bill and demanded that the federal government meet with them to explain its action before proceeding with the bill.[6] The federal government agreed to this demand, and after the federal-state meeting took place in June the bill was effectively abandoned.[7]

The states resumed their strategy of collective action when the Whitlam government introduced the *Seas and Submerged Lands Bill,* even though three states now had Labor governments. The non-Labor states also collaborated successfully in the battle against the Petroleum and Minerals Authority. More generalized collaboration among the non-Labor states, beginning in 1974, was a direct response to the perceived threat to their autonomy resulting from the Whitlam government's policies, including its mineral resource policies. A council of state ministers with special responsibility for intergovernmental relations, and later a secretariat to support the council, were established. These states also began the practice of holding meetings of state ministers of mines four times a year, after they failed to persuade Mr Connor to convene meetings of the Australian Minerals Council. These meetings supplemented and reinforced the existing informal liaison between officials of state departments concerned with minerals, particularly between states which possessed the same types of mineral resources.

An interesting response to conflicts of the horizontal type, between industrialized core and resource-rich periphery, was the development of a special relationship between Queensland and Western Australia. Neither state gave any overt recognition to their common interests as mineral-exporting hinterlands as long as the Tonkin government survived in Western Australia. The day before the government was defeated a backbench member of the Queensland Parliament, anticipating the election result, asked Premier Bjelke-Petersen if he would take steps to form a close alliance with the new government of Western Australia 'to guard against any further

[6] 'Parley Bid on Offshore Mine Rights', *The Age,* Melbourne, 14 March 1970.
[7] 'Mineral Talks Stalemate', *Canberra Times,* 10 June 1970.

invasion of our sovereign rights as a prelude to secession if this is found to be necessary? The Premier replied that he hoped for and expected the Tonkin government's defeat and looked forward to working closely with Sir Charles Court to preserve the freedom of the states.[8] Later in the year the two Premiers met in Perth, as described in Chapter V, to denounce the federal government's intrusion into the mining industry. At the beginning of 1975 Court returned Bjelke-Petersen's visit by travelling to Brisbane, where the two Premiers agreed to undertake a joint mission to London to make the British government aware of the sovereignty of the states. On both occasions the public statements of the Premiers significantly referred to the fact that their two states were major exporters as the justification for a special relationship between them.[9]

To what extent the tendency towards increased interstate collaboration will continue, following the fall of the federal Labor government, remains to be seen. Some of the states regard increasing interstate collaboration in mineral resource policy not only as a means of resisting federal initiatives, but also as a response to the criticism that leaving mineral resource policy to the states prevents co-ordination of policies on a national basis. Thus effective interstate collaboration might make federal intervention less likely. This fact, as well as the fact that Mr Fraser and Mr Anthony have not returned completely to the *laissez-faire* policies of the 1960s, suggests that interstate collaboration will probably continue.

[8] *Queensland Parliamentary Debates*, Vol. 264, p. 3380.
[9] *The Courier-Mail*, Brisbane, 3 January 1975.

VIII INTERGOVERNMENTAL RELATIONS AND THE PRIVATE SECTOR

(1) Relations Between the Mining Industry and the States

Because the Australian states have primary responsibility for mineral resource policy, and because they exercised that responsibility virtually without federal control or even supervision until the 1970s, mining and petroleum firms have naturally had far more extensive dealings with the states than with the federal government. This fact in itself is no guarantee of a harmonious relationship between the industry and the states, but the necessarily close contact between the industry and the states has at least led to a certain degree of mutual understanding. In addition the industry and the state governments have a mutual interest in the expansion of mining output and in stimulating exploration and development of mineral resources. This is particularly so in the outlying states, which have little manufacturing and are therefore highly dependent on the mining industry to attract investment, population and economic growth.

This community of interest is reflected in the fact that state politicians and officials involved in making or implementing mineral resource policy tend to have highly favourable perceptions of the industry. Regardless of the party affiliations of state governments, those who make and implement their policies consider relations with the minerals industry to be good and do not see either actual or potential conflicts between the interests of their states and the interests of the industry. The industry is praised, both publicly and privately, for its contributions to economic growth and development. Foreign-controlled firms are viewed as favourably as Australian-controlled ones, and from the perspective of state governments and officials there appears to be little or no difference in behaviour between the two types. Particularly in the states most dependent on mining, attacks upon the state's mining industry tend to be viewed as attacks upon the state itself, a fact that has great significance for intergovernmental relations.

Perceptions of the state governments by the mining industry are somewhat more complex. The fact that state governments promote and encourage the extraction of mineral resources is recognized and appreciated. There is an almost unanimous view that party affiliation does not affect the behaviour of state governments towards the minerals industry. State Labor governments both past and present are often privately commended by industry spokesmen for their 'pragmatism', by which is meant their tendency to pursue the goal of economic development through policies scarcely distinguishable from those of their opponents. However, it would be wrong to conclude from this that state governments are merely puppets that move when the mining industry pulls the strings. Certainly they are not so regarded by the industry itself, which expresses dissatisfaction with some aspects of their performance, despite the community of interest that is recognized by both sides.

The industry has mixed impressions of the administrative capabilities of state government. State public servants with whom the mining firms come into contact are viewed by some observers as lacking in expertise and ability, while others disagree and compare the state officials favourably with those in Canberra. In some states, administrative structures and procedures which pre-date the massive

expansion of the minerals industries in the late 1960s are considered inadequate. State *Mining Acts*, except in the states where entirely new acts have been introduced in recent years, are not always well-adapted to modern conditions. A frequent complaint concerns the tendency towards *ad hoc* decision making, either because the legislation in force makes no provision for situations that arise, or because it specifically allows the government or the minister of mines to exercise broad powers of discretion. Governments are often viewed as intuitive and arbitrary, rather than rational and systematic, in their decision making, and as tending to ignore the need for analysis and planning. All of these criticisms could be summed up by saying that the administrative capacity of the states to control their mineral resources has not kept pace with the tremendous increase in the importance of those resources since the early 1960s. This does not necessarily indicate any conflict of interest between state governments and the minerals industry.

Another type of complaint that does reveal a conflict of interest, however, concerns what is seen as a growing tendency for state governments to seek to maximize their revenues at the expense of the mining industry. State railway systems are a target of particular criticism, not only in Queensland where the government proudly proclaims a policy of collecting mineral resource revenues through high freight rates, but in other states where the practice is not openly professed. Those mining firms that operate their own railways, thus escaping this form of concealed taxation, fear that this right might be taken away from them. Those that rely on state railways tend to look with foreboding on a future of steadily escalating freight rates.

An even more serious area of conflict between state governments and the mining industry is created by state royalties. As was noted in Chapter III, royalties set at a high enough rate to contribute seriously to state revenues were unknown in Australia before the late 1960s, except for the lead, zinc and silver royalties in New South Wales. In addition, the practice of setting royalties on an *ad hoc* basis as large new mines have come into operation has led many Australian mining industry executives to conceive of royalties as part of a contract between two parties, rather than a form of taxation that can be altered at will by the taxing authority. This view is probably unique to Australia, but it is deeply held, and explains the vehemence with which unexpected increases in royalties have been denounced by the industry. A related factor in this response is the large extent to which Australian mineral developments are financed through borrowing. The assumption that royalties will remain fixed during the lifetime of the loan tends to make borrowing easier.

The most serious confrontation between a state government and a firm over royalties involved the bauxite producer Comalco and the Queensland government, after Queensland increased its royalties by a factor of ten in 1974. Although the firm believed that pressure from the federal government was partly to blame for the increase, it concentrated its wrath on the state, particularly on the State Treasurer and Liberal Party leader, Sir Gordon Chalk. The firm attempted to drive a wedge between the two coalition parties in the Queensland government, both by private lobbying with the National Country Party, which it believed to be more sympathetic, and by circulating a document to all members of the State parliament setting out its case.[1] It also, according to the Treasurer, tried to 'blackmail' the government by showing it copies of alternative statements that the company would make to the press depending on whether its offer of a small increase in royalty

[1] 'Royalties Battle Goes On', *Australian Financial Review*, 27 September 1974.

payments was accepted or rejected by the government.[2] Finally, Comalco sought recourse through the courts, although the effort to do so was abandoned, after making no progress, early in 1976.

Another type of conflict occurs when a state government, while pursuing policies sympathetic to the mining industry in general, makes decisions that antagonize particular firms while seeming to benefit other firms. There are many situations in which a state government must decide between two or more competing firms in awarding a mining lease or licence, or must make some other administrative decision that appears to have an unequal impact on different firms. Complaints from the industry about *ad hoc* decisions and the broad discretionary powers of ministers are in part related to this fact. The best-known example of conflict arising from this type of situation was the celebrated feud between the iron ore millionaire Lang Hancock and Sir Charles Court, at the time when the latter was Western Australia's Minister for Industrial Development and the North-West. By no stretch of the imagination could Court be considered unsympathetic to the mining industry; the main question at issue was which of two iron ore deposits should be developed prior to the other, a choice whose outcome would determine whether Hancock would be able to challenge the supremacy of the three major iron ore producers in the Pilbara.

The necessarily close relationship between state governments and the mineral industries thus produces occasional conflict and a small amount of continuous dissatisfaction and anxiety, as well as a shared perception of common interests. While the common interests usually predominate, a total identity of interests cannot be assumed.

In general a distinction can be made between the attitudes of the mining industry towards state governments and the attitudes of the petroleum industry. While both sets of attitudes are on balance favourable, the latter are distinctly more so. Petroleum is not affected by railway freight rates and there have been no conflicts over royalties, mainly because offshore royalties were fixed by the federal-state agreements of 1967 and have tended to set a standard for the rest of the industry. Aside from Bass Strait, the actual production of oil and gas in Australia has been quite small, and both the industry and the state governments have shared the common goal of discovering as much petroleum as possible and bringing it into production as quickly as possible. Conflicts of interest which might emerge if the industry were in a healthier condition, particularly if it appeared as a tempting source of government revenue or if there were choices to be made among competing successful explorers and producers, have remained latent in circumstances of adversity. The petroleum industry thus has a strongly favourable impression of state governments, unmixed with any perceptions of actual or potential conflict. The widely held belief, in Canberra and in the Labor Party, that a cosy alliance exists between state governments and 'the multinationals' has a large element of truth when applied to the petroleum industry.

(2) Relations Between the Mining Industry and the Federal Government

Relations between the mineral industries and the federal government, insofar as they existed at all, were predominantly friendly although not particularly intimate, until the 1970s. The Bureau of Mineral Resources developed close ties with the private sector, for which it was mainly a supplier of services and to some degree a

[2] *Queensland Parliamentary Debates*, Vol. 265, pp. 912-913.

spokesman *vis-a-vis* the remainder of the federal bureaucracy. The federal government exercised practically no control or surveillance over the mineral industries and thus had little opportunity for coming into conflict with them. The principal way in which it interacted with them was as a source of tax concessions and subsidies, intended to encourage the discovery and development of resources. By performing this role it naturally attracted appreciation rather than resentment on the part of the firms.

The tendency in the 1970s for the federal government to become more involved in mineral resource policy was not at first resisted by the private sector, and to some extent was encouraged. The 1967 offshore petroleum agreements provided the petroleum industry with a uniform legislative framework all around the Australian coast, while enabling the state ministers who had encouraged exploration to continue doing so in the guise of 'designated authorities'. On the other hand the *Territorial Sea and Continental Shelf Bill* does not seem to have alarmed the industry as much as it did the states; the industry accepted Prime Minister Gorton's assurance that he did not intend to interfere with existing arrangements. Federal government intervention to regulate exports of minerals was demanded by the zircon producers in 1971 and by the New South Wales coal producers in 1972. Lang Hancock's initial response to his deteriorating relationship with Sir Charles Court was an attempt in 1970 to enlist the support of Prime Minister Gorton and of the Australian Industries Development Corporation for his plans to become a major iron ore producer.[3]

However, the first signs of potential conflict were already beginning to appear. The federal government reduced oil exploration subsidies for foreign-controlled firms in 1968. Two years later Mr Gorton inaugurated the policy of insisting on Australian control of uranium mining, a policy continued by all subsequent governments. The federal government's ban on the export of natural gas was also a source of considerable resentment. The appointment of a Senate Select Committee on Foreign Ownership and Control of Australian Resources, Sir Reginald Swartz's ministerial statement on resources policy in September 1972, and the growth of economic nationalism, environmentalism, and concern for Aboriginal rights were signs of worse to come from the industry's point of view, whatever the outcome of the 1972 election.

The election of a Labor government undoubtedly accelerated the deterioration in relations between the mineral industries and the federal government. On the basis of past experience there was no reason to expect this; the Labor governments of the 1940s had established the Bureau of Mineral Resources and the Joint Coal Board and were generous in providing the industry with subsidies and tax concessions. In the very different circumstances of the 1970s, however, conflict between the Labor government and the mineral industries was as inevitable as conflict between an earlier Labor government and the banks had been in the 1940s, despite the fact that Labor's mineral resource policy objectives fell far short of nationalization. The Labor Party of Gough Whitlam, unlike that of Curtin and Chifley, was overwhelmingly an urban party with its greatest strength in Sydney and Melbourne. This fact made it unsympathetic to mining (and to agriculture). Urban voters tended to be unsympathetic to the mineral resource industries and to favour action by the government that would spread their benefits more widely in the community. While the industry might have accepted a gradual transition towards a stronger federal role in mineral resource policy — a transition which was already in progress before 1972

[3] Phillipson, *op. cit.*, pp. 161-169.

— it was not prepared for the very abrupt transition that took place under the Whitlam government.

The principal architect of Labor's mineral resource policies, as well as the person given responsibility for implementing them, was of course Mr R.F.X. Connor, the Minister for Minerals and Energy. Connor was not in fact particularly hostile to business (having been a small businessman himself for many years before entering politics) or even to the mining industry. Nationalism, rather than socialism in the usual sense, appears to have been the guiding principle that shaped his policies. Although he intended that the federal government should take a 50 per cent equity in offshore petroleum developments and in uranium mining, he was otherwise quite content to see the mining industry remain under private ownership, provided the ownership was predominantly Australian. Certain of his policies, particularly the use of export controls to increase export prices, actually benefited the mining firms. He also opposed, without success, two initiatives which were resented by the mining industry: the export tax on coal and the decision to seek membership in the international bauxite and iron ore producers' associations. The former initiative came from the Treasury, while the latter originated with Dr. Jim Cairns when he was Minister for Overseas Trade.

Despite these facts, and despite his lack of direct responsibility for other harmful decisions such as the revaluation of the Australian dollar, Connor became identified as the focus of the mining industry's resentment. His manner and the ambiguity of certain policies (particularly regarding foreign investment) gave the impression that he was more hostile to the industry than he really was. His lack of rapport with the state governments, and the strongly centralist views which he shared with the secretary of his department, Sir Lenox Hewitt, also alarmed the industry. In addition, Connor had a low opinion of the Australian Mining Industry Council (AMIC) and the Australian Petroleum Exploration Association (APEA), which previous governments had accepted as legitimate spokesmen for the mineral resource industries. His ostensible reason for refusing to deal with these organizations was the fact that most of their members were foreign-controlled firms, but his real reason was probably the same that led him to avoid multilateral meetings with the state ministers of mines, namely a preference for dealing individually with the more co-operative members and ignoring the others. It is only fair to add that this was a rational strategy, since both AMIC and APEA tend to adopt positions more militant and extreme than the views of many of their members. On the other hand it would have cost nothing to maintain correct relations with both organizations, while ignoring their more biased pronouncements.

Despite the impression propagated by the militants of AMIC and APEA, it is necessary to avoid over-generalization in describing the reactions of the mining and petroleum industries to the Labor government and to the Minister for Minerals and Energy. Some sectors and individual firms were decidedly more hostile than others. The differences cannot be explained in terms of any distinction between foreign-controlled and Australian-controlled firms. In some cases the indigenous firms were actually more hostile than the 'multinationals' which had extensive operations overseas, partly because they were less accustomed to dealing with radical governments and partly because their owners and directors were more emotionally involved in the partisan and intergovernmental rivalries of Australian politics. The real basis of distinction, however, was the impact of the government's policies and pronouncements on different sectors and firms, which varied considerably. Certain firms, such as the New South Wales coal producers and those which received an injection of cash from the Petroleum and Minerals Authority, obviously benefited

from the government's policies and had no real complaints. At the other extreme, a few firms such as Utah Development and Woodside-Burmah seemed to be singled out as targets by the government and not unnaturally reciprocated its sentiments. In an intermediate category were a large number of firms, such as the established iron ore producers in Western Australia or the lead-zinc-silver producers of New South Wales, which had no particular grievance but tended as time went on to share increasingly in the general atmosphere of hostility to the Labor government.

Understandably, the most bitter hostility towards the Minister for Minerals and Energy came from the uranium and offshore petroleum firms, both of which he intended to force into partnership with the federal government. Aside from Esso-BHP, which was already an established operation, these firms were in effect prevented from operating while the federal government waited for its plans to come to fruition. Because of the government's difficulties with the Senate, the states and the High Court, this period of suspended activity was prolonged to an extent that made the firms impatient as well as resentful. In turn the government tended to blame the firms for its frustrations. The understandable refusal of petroleum firms to spend much on exploration until the future of the industry became clearer was perceived by the government as an attempt to intimidate it by damaging the economy. Thus relations on both sides went from bad to worse. An additional reason why the uranium and petroleum firms disliked Mr Connor may have been his close identification with the coal industry of New South Wales, which was important to his electorate, and the suspicion that he might be biased against other sources of energy.

The difficulty of generalizing about the private sector's perceptions of the Labor government is increased by the discrepancy between private attitudes and public pronouncements. On the one hand, the minority within the mining and petroleum industries who enjoyed good relations with the government preferred not to publicize the fact, particularly as the odds lengthened against the possibility of Labor remaining in office more than a few years. On the other hand, many individuals and firms who bitterly resented the government, sometimes with good reason, were also reluctant to expound their views because they feared that the government would take retaliatory action. It cannot be said, however, that their point of view lacked other avenues of expression.

The fall of the Labor government at the end of 1975 was obviously welcomed by most, if not all, of the mining and petroleum firms in Australia. But it is too early to say what long-term effect the experience with Labor will have on the industry's relations with the federal government. The industry is aware that the trend towards greater federal intervention in mineral resource policy began before December 1972 and can never be entirely reversed. There has been some resentment at the fact that export controls and insistence on Australian equity, particularly in uranium, have continued under Mr Anthony's direction at the Department of National Resources. The possibility, however remote, of another Labor government may also lead the industry to treat Canberra more warily than it did before 1972. The general feeling among mining and petroleum people seems to be that Labor governments are innocuous at the state level, but that at the federal level they can do considerable damage to the industry.

(3) The Mining Industry and Federalism

Australians of conservative inclination seem generally to be strongly persuaded of the virtues of federalism, and there can be no doubt that this feeling is particularly strong among those involved in the mining and petroleum industries. Every spokesman for

the mining and petroleum industries who was interviewed in the course of preparing this monograph expressed strongly and spontaneously the view that decentralization and the division of power among several governments were desirable ends in themselves, although the few who were not native-born Australians expressed these views less emphatically than the others. Some were quite explicit in explaining this enthusiasm for federalism, since they argued that the two levels of government imposed restraints on one another, preventing either level from doing too much damage to the mineral resource industries. Some also suggested that political competition among governments is desirable for the same reason that economic competition among firms is desirable. Support for federalism is thus related to the fear of government intervention in the market place, an ideological sentiment that remains strong among businessmen in all English-speaking countries, despite its anachronistic nature in an era when they must often seek such intervention to protect their interests. It seems quite possible that the mineral resource industries are more likely than other sectors of the Australian business community to regard government as a potential threat rather than a potential ally, but the data are not available which would make it possible to say this with confidence.

Perhaps paradoxically, in view of their preference for intergovernmental competition rather than concentrated power, the mining and petroleum industries tend also to be in favour of collaboration and close liaison among governments. This may partly be because routinized intergovernmental collaboration tends to lessen the impact of party principles and allegiances on policy making, and to increase the influence of public servants, a generalization to which Canadian experience bears ample witness. It may also be believed, although this is debatable, that the two levels of government can more effectively check and balance one another through collaboration than through confrontation. Collaboration among governments would also tend to make policy making more predictable and more uniform as between the states. The 1967 agreements on offshore petroleum, which the industry encouraged at the time and continues to regard with great favour, are a case in point.

There can be no doubt that the mining and petroleum industries were unhappy about the state of open conflict between the federal government and the governments of the more important mineral-producing states that existed in 1974 and 1975. In fact it seems likely that the fall of the federal Labor government was eagerly awaited, even by those firms and sectors which had not suffered particularly from Labor policies, because it seemed to be the easiest way of resolving the tension. Efforts by certain state governments, particularly that of Western Australia, to force the industry to take sides in this conflict caused embarrassment and even resentment, despite the fact that the firms were generally sympathetic to the positions taken by the states *vis-a-vis* the federal government. The respective powers exercised by both levels of government over mining and petroleum are now such that firms engaged in discovering or developing mineral resources cannot afford the risk of antagonizing either level of government. If they refused to side with the states they would be vulnerable to adverse decisions on leases, exploration permits and royalties. If they did take sides against the federal government, permission to import capital or to export their products might be withheld. While it may thus be useful to have state governments, both to check an unfriendly federal government and to make public statements that the firms are afraid to make on their own behalf, there are dangers from the point of view of the firms if the state governments become too militant. This fact reinforces the ambivalence which many firms feel about the state governments for reasons described earlier in this chapter.

It may be useful at this point to refer to the possible models of industry-government

relations in a federation which were suggested in Chapter I. The first of these posited a situation in which both levels of government form an alliance against the interests of the private sector, the second assumed an alliance between the federal government and the private sector against the states, while the last assumed an alliance between the private sector and the states against the federal government. The possibility was not excluded that none of these situations might exist at a given time. In any event it is necessary to distinguish the interests of particular firms from those of the mineral resource industries as a whole, and those of the mineral resource industries from the general shared interests of Australian business.

The first model seems to describe a situation that occurs only rarely in Australia. Perhaps the only occasion on which the two levels of government combined in an alliance against the mining industry was when the federal Treasury urged the states to increase their royalties. Whether or not Queensland would have done so in any event, it is clear that the action of that state in 1974 was welcomed by the federal government and at the same time resented by the industry.

The second type of situation, in which the federal government and the private sector join forces against the government of a state, seems to be quite unknown in recent Australian experience, at least as far as the mining and petroleum industries are concerned. The spatial distribution of resources and population in relation to state boundaries are probably such that the major mineral-producing states will almost invariably be more sympathetic to the mineral resource industries than the federal government, or at least no less so.

The third model clearly has the greatest relevance to recent Australian experience, since the states, particularly the outlying states which are most dependent on mineral resources for their prosperity, have repeatedly found a common interest with the mineral resource industries in opposing the federal government. Party affiliations undoubtedly reinforced this tendency in the case of Queensland from 1972 to 1975 and in the case of Western Australia from 1974 to 1975, but the more fundamental reasons for the tendency are unrelated to parties, as the behaviour of the Tonkin government in Western Australia demonstrates.

Although the third model is the most applicable of the three, it tells us nothing about the relationship between the mineral resource industries and the states, which in fact is a subtle and complex one. Conflict between the two can exist, even concurrently with the type of conflict assumed by the third model, as in the case of Queensland's conflict with its mining industry over royalties. Although on some occasions the firms may encourage the state governments to adopt militant postures, on many more occasions the state governments can be counted on to adopt militant postures out of institutional self-interest, or in some cases out of ideological conviction. The states may even become so excessively militant that they endanger the well-being of the industry, as Western Australia did when it tried to prevent mining and petroleum firms from having any dealings with the federal government. The states may ultimately respond to the needs of the economic interests that are dominant within their territories, but they are not passive instruments in the hands of those interests, still less in the hands of individual firms. The state governments are powerful and independent actors in their own right. This independence in many ways increases their ability to speak and act on behalf of the mineral resource industries, but it does so at the cost of making them difficult and sometimes unreliable partners for the interests which they represent. The same could be said of the federal government, which may speak and act on behalf of the mineral resource industries *vis-a-vis* their overseas customers and competitors, but is at least equally likely to act in ways highly detrimental to their interests.

IX THE INTERACTIONS OF MINERALS AND FEDERALISM

It is hoped that the discussion in the preceding chapters will have assisted in answering two questions with which the author was preoccupied when this research was first undertaken, and which were referred to in Chapter I. The first question concerns the effect which the existence of federalism, rather than unitary government, has had on mineral resource policy in Australia. How, if at all, would the policy have been different in the absence of federalism? Which goals and interests have benefited from the existence of federalism, and which have suffered? The second question concerns the effect which the existence of mineral resources has had on Australian federalism. How would relations between the federal government and the states have been different if the expansion of the mineral resource industries over the last decade had not taken place? Both questions were originally suggested to the author by his interest in Canadian federalism, and the answers may have a relevance beyond the Australian context. However, the answers will be discussed here in an Australian context only.

(1) The Effect of Federalism on Mineral Resource Policy

In assessing the impact of Australia federalism on mineral resource policy, certain features of Australian federalism are of particular relevance. First and foremost among these is the legal ownership of mineral resources by the states rather than by the federal government. As noted in Chapter III, this feature does not exist in all federations. Other relevant features include: the particular distribution of legislative powers enshrined in the Australian Constitution; the Financial Agreement of 1927 which resulted in Section 105A being inserted into the Constitution; the fact that legislation is subject to judicial review by the High Court; and the existence of the Senate as a second chamber of parliament designed to protect the rights of the states. In certain federations, such as the U.S.S.R. and Brazil, it would seem reasonable to assume that federalism has little or no effect on mineral resource policy. In the Australian case, given these institutional features, few would make such an assumption.

An important aspect of the Australian political economy, to which attention has repeatedly been drawn in the preceding chapters, is the uneven distribution of mineral resources across the country and their tendency to be located mainly in areas remote from the centres of industry and population. It has been argued that this situation leads to the existence of resource-producing and resource-consuming regions, whose interests conflict in ways which resemble the conflicts of interest between resource-exporting and resource-importing nations on the international scene. An important aspect of the question concerning the impact of federalism on mineral resource policy in Australia is the more specific question of whether federalism has operated to the advantage of either type of region in relation to the other type of region.

If the making of mineral resource policy is largely in the hands of sub-national governments like the Australian states, all states will theoretically have equal powers, but this will mean relatively little to states that are deficient in mineral resources. For

all practical purposes, policy will be made by the governments of the states in which most of the minerals happen to be located. As a result, the interests of resource-deficient regions can best be safeguarded by the intervention of the federal government. In the long run at least, the Australian federal government will tend to respond to the demands by the resource-deficient consuming regions that it intervene to redistribute the benefits of mineral resource development in their favour. It will do so because the resource-deficient industrialized regions contain most of the voters, and also because the location of Canberra and the background of most federal civil servants predisposes it in this direction. If the federal government is ideologically predisposed to centralism, or if its electoral support is concentrated to an unusual degree in the industrialized south-east, the tendency will be even stronger than usual. Both of these factors existed in the case of the Whitlam government which held office from 1972 until 1975.

If this is so, then it follows that insofar as federalism enables sub-national (state) governments to play a major role in making mineral resource policy, and insofar as it places restraints on the ability of the federal government to make mineral resource policy independently of the states, federalism tends to favour the interests of the resource-rich, thinly populated regions such as Western Australia and Queensland. Conversely, a unitary system of government would be detrimental to the interests of these regions and would favour the interests of the resource-deficient regions, particularly New South Wales.

Australian federalism clearly gives the states a major role in making mineral resource policy, since it is the states that own most of the mineral resources. To what extent does Australian federalism impose restraints on the federal government's ability to make mineral resource policy independently of the states?

As discussed in Chapter VII, the states have been able to frustrate the federal government's policy-making efforts to a considerable degree by virtue of their ownership of resources and the administrative powers which they derive from this fact. This has been counterbalanced to some extent by the distribution of legislative powers under the Australian Constitution, and particularly by the fact that the federal government has the power to control overseas trade. But the combination of fiscal dominance and the spending power given it by Section 96, which enables the federal government to exercise great influence in other areas of policy, has not proved very significant in regard to mineral resource policy, an area in which spending power is no substitute for regulatory power.

The Financial Agreement of 1927 seems to reduce the federal government's freedom of action in the field of mineral resource policy, since it prevents the federal government from borrowing money, except for defence or temporary purposes, without the approval of the Loan Council, where it needs the support of at least two of the states. As a result the federal government cannot use borrowed funds to finance either the nationalization of mineral resource industries or the launching of new resource developments, since such initiatives would certainly be opposed by most of the states. The so-called 'overseas loan affair' of 1975 arose when the federal government sought to borrow funds to finance various developments of energy resources. So as to avoid the restrictions of the Financial Agreement and the Loan Council, it held secret discussions with persons who were alleged to have access to funds accumulated in the Middle East as a result of high crude oil prices. The alleged intermediaries proved unreliable, and the failure and subsequent discovery of the government's dealings with them was a major factor leading to its loss of office at the end of the year. There is every reason to suppose that, had the Financial Agreement

not existed, the government could have borrowed the funds it needed from reliable sources and implemented its policies.

Another possible restraint on federal intervention into mineral resource policy may be created by Section 92 of the Constitution, if it can be assumed that the High Court would still adhere to the interpretation of that Section which it used to prevent the nationalization of banks and domestic airlines in the 1940s. It is interesting that the Labor government of 1972-75 made no effort to nationalize any sector of the mining or petroleum industry. This suggests that Section 92 has become an effective deterrent to such action.

With this exception, judicial review by the High Court is probably not a very important restraint on federal action. As was discussed in Chapter VII, the states, particularly the mineral-exporting states, believe that the High Court is biased in favour of centralism. High Court judges have been drawn overwhelmingly from the two largest states. Their interpretations of federal powers in recent years have on the whole been generous. The abrogation of the *Petroleum and Minerals Authority Act,* which was based on procedural grounds that were indisputably correct, does not contradict this assertion.

Aside from the ownership of mineral resources by the states, the most important restriction on federal action, and the most important safeguard for the mineral-exporting hinterland states, is probably the Senate. By over-representing these states, the Senate counterbalances the predominance of the large industrialized states in the House of Representatives. It acts as a check on any government whose support is overwhelmingly concentrated in the industrialized south-east, since such a government cannot hope to command a Senate majority. In the period from 1972 to 1975, the Senate proved its usefulness to the mineral-exporting states by rejecting the *Petroleum and Minerals Authority Bill,* removing the mining code from the *Seas and Submerged Lands Bill* and delaying the bill itself, preventing the revival of the Petroleum and Minerals Authority after the High Court affirmed that the original Act had been adopted improperly, rejecting legislation in 1975 that would have enabled the Australian Industries Development Corporation to assist in bringing mining and other firms under federal control, and finally bringing down the government itself in November 1975. The refusal to adopt the budget bills, it may be noted, was said to have been inspired by the government's behaviour in the 'overseas loan affair' described above.[1]

In summary, there seem to be strong grounds for asserting that federalism operates to the advantage of the mineral-exporting regions of Australia, and that a unitary government unchecked by federalism would be much more likely to pursue policies favourable to the industrialized south-east, and to do so successfully, than the present combination of powerful state governments and a federal government which must take thinly populated regions into account. There is, however, another important aspect to the question of what impact federalism has had on mineral resource policy. In addition to the conflict of interest between regions within Australia, there is a conflict of interests between Australia as a whole and the external centres of economic power which both consume Australian minerals and participate in their extraction through the activities of foreign-based corporations in the Australian mining

[1] The fact that voting in the Senate was and is along party lines rather than along state lines does not negate this argument. The Labor government could not control the Senate or persuade the Senate to accept its mineral resource policies because those policies antagonized the hinterland states. The lesson that a mandate from the industrialized south-east is not enough to govern effectively will not be lost on future governments of either the left or the right, given the greater importance that the Senate seems to have acquired as a result of the events of 1975.

industry. It must be asked whether federalism affects the distribution of benefits between Australia and these external centres and, if so, what effect it has.

The kinds of policies that might shift the distribution of benefits in favour of Australia include higher royalties, higher export prices, export taxes, restrictions on the repatriation of profits to foreign owners, and the substitution of Australian ownership (either public or private) for foreign ownership of mineral resource industries. Conservation of scarce minerals such as natural gas for Australian use might also fall into this category under certain circumstances.[2] Does federalism make the pursuit of such policies less likely, or less successful, than would be the case in a hypothetical unitary Australia?

It is important not to assume *a priori* that it does, an assumption which can result from adopting definitions of the 'national interest' that consciously or unconsciously reflect the parochial interests of mineral-deficient regions. The question of the distribution of benefits between Australia and overseas is logically distinct from the question of the distribution of benefits within Australia, which has already been considered.

In fact the restrictions imposed by federalism do not seem to prevent the federal government from pursuing mineral resource policies that shift the distribution of benefits away from overseas interests, at least in some respects. In particular, federalism does not prevent it from controlling the export of minerals or the import of capital, or from imposing export taxes. In all of these respects the Australian federal government's powers are as complete as those of a unitary government. By contrast, the United States federal government is constitutionally forbidden to tax exports while the government of Canada has never dared to assert a sweeping control over the import of capital. Even the Senate could not have prevented the Whitlam government from extending export controls and from restricting capital imports, since these measures required no new legislation.

On the other hand, some of the restrictions which federalism imposes are at least potential safeguards against actions that would redistribute benefits from overseas interests to Australians. The obstacles to nationalization imposed by Section 92 and by the Financial Agreement do protect overseas interests that control much of the Australian mining industry from one means by which the national interest might be asserted to their detriment. The fact that the Senate ultimately prevented the establishment of a Petroleum and Minerals Authority also benefited overseas interests, since the principal purpose of the Authority, whatever its consequences for individual states, was to have been the reduction of foreign ownership and control over Australian mining and petroleum exploration. More generally it could be said that, to the extent that state governments identify their interests with those of foreign-controlled mining firms or foreign consumers of Australian minerals, the restrictions on federal action which protect the states, and the powers exercised by the states themselves, will also protect foreign interests, perhaps to the detriment of Australian interests.

As was described in Chapter VIII, state governments and the mining and petroleum firms which operate within their jurisdictions do share certain common interests, whether or not the firms happen to be foreign-controlled. These common interests can lead state governments and firms jointly to resist initiatives by the

[2] In citing such policies in this connection, the intention is not to deny the possibility that, if pursued to excess, they might have the effect of reducing mineral output and that in that event their cost to Australia would probably outweigh the benefits. Up to a certain point, which may not always be easy to define, such policies do shift benefits in the direction of a mineral-producing country at the expense of foreign markets and investors.

federal government. Western Australia's support for natural gas exports, and South Australia's support for Dow Chemical's desire to proceed with the Redcliffs project, illustrate how state governments, even state Labor governments, can act in support of foreign interests. On the other hand, the conflicts between the private sector and state governments over royalties suggest that the states do not invariably act in this way, and that they can themselves take actions that redistribute benefits from foreigners to Australians. The interests that state governments share with mining and petroleum firms are not invariably opposed to the national interest, although they may seem so to a federal government which defines the national interest in terms highly favourable to resource consumers as opposed to resource producers. Conversely, certain objectives of state governments, such as the maximization of their own revenues from mineral resources, should be and often are welcomed by a federal government which prefers the benefits of mineral resources to remain within Australia.

Federalism can impede the redistribution of benefits from overseas investors and consumers to Australians in another way, however. Competition among the states can lead to lower royalties, lower contributions by the private sector to infrastructure, lower environmental standards and so forth than would exist in a unitary state, even if the state governments themselves do not wish this to happen. Theoretically the states could collaborate among themselves to regulate their competition, prevent the private sector from taking advantage of it, and enforce stricter conditions and higher standards collectively than they could hope to do individually. In practice they do not seem to do so, mainly it seems because the states are so heterogeneous with respect to such factors as the relative importance of mineral resources in their various economies, the availability of Australian capital, the types of mineral resources produced and the relative importance of domestic and foreign markets. Because of these differences, it is as difficult for the states to frame policies acceptable to all of them by mutual agreement as it is for the federal government to make policies acceptable to all of the states. If this effect of federalism is to be overcome, the federal government must act, but in doing so it will unavoidably deprive the states of some of their freedom of action. Worse still, it will always be open to the suspicion that it is biased in favour of the more populous regions, and therefore against the regions most dependent on mineral resource production. Federalism and the economic heterogeneity to which it gives expression create problems that have no easy solutions.

To summarize our conclusion, federalism does have discernible effects on mineral resource policy in Australia. Its effects are to benefit the regions of Australia most dependent on mineral resource production in relation to other regions of Australia, to benefit the mineral-producing sector of the economy in relation to other sectors and, to a somewhat lesser extent, to benefit foreign investors in, and consumers of, Australian minerals in relation to the Australian community. These conclusions apply to Australian federalism in its present stage of evolution, but a federation is a constantly changing organism, a fact to which attention is turned in the concluding section of this monograph.

(2) The Effect of Mineral Resources on Australian Federalism

At least until very recently, it was customary for observers of Australian federalism to conclude that it was evolving steadily and inexorably in the direction of greater centralization. This conclusion was shared by both Australian and foreign observers, and by those who deplored as much as by those who welcomed the centralizing tendency. In part the conclusion was based on observable phenomena: the trends of judicial interpretation of the Constitution, the effects of intergovernmental financial

arrangements, and changes in popular expectations concerning the federal government's role. These factors have indeed made Australia more politically centralized today than it was in the early years of the federation. In part the conclusion was also based, more questionably, on an implicit analogy with the prototype of modern federations, particularly of the Australian version, namely the United States of America. Since the United States had moved steadily towards greater centralization for nearly two centuries, and had attained a far higher degree of centralization than Australia, it appeared to follow that Australia must move in the same direction, eventually becoming as centralized as the United States is today. However, such a conclusion is teleological mysticism rather than political science, and ignores the many significant differences between the United States and Australia.

Three differences between the two federations are directly relevant to the present discussion, and all suggest the possibility that Australia will follow a path of evolution quite different from that taken by the United States. First, the Australian state governments, unlike the American state governments, own most of the country's mineral resources and have the power to determine the conditions under which they will be extracted. Secondly, Australia is a far more significant producer of minerals, in relation to its population and the size of its economy, than the United States, and the size of Australia's mineral reserves indicate that this will continue to be the case. Finally, Australia's mining industry is mainly export-oriented and largely financed by foreign capital, and therefore tends to promote international rather than interstate movements of trade and investment. As a result Australia is not becoming integrated into a single national economy regardless of state boundaries, as the United States did between the Civil War and the Second World War.

Because the states control mineral resources, and because mineral resources are now so important to the Australian economy, the state level of government has acquired vitally important economic functions and responsibilities. State departments of mines have become the primary focus of dealings with the public sector for some of the most important firms in the Australian economy. State capitals, particularly Brisbane and Perth, have become places where important decisions are made to a far greater extent than they were in the early 1960s, before the great expansion of mining. Far from fading away into the irrelevance of their counterparts in the United States, state governments have primary responsibility for a sector of the economy which generates more than a quarter of Australian export earnings. Their control over mining leases and exploration permits give them influence and power that cannot be ignored by the private sector, by the federal government, or by Australia's trading partners overseas. In addition mineral royalties have become an important source of revenue, particularly in Western Australia and Queensland, increasing the financial independence of the states *vis-a-vis* the federal government.

Under the impact of mineral resource development, a gradual shift of wealth, population and economic and political power is taking place in the direction of Queensland and Western Australia, the states which control most of Australia's mineral reserves and which are also the states most dependent on mining. Since local attachments and hostility to the federal government have always been stronger in these remote states than in the two large states, and since these traditional sentiments are now reinforced by economic self-interest, the outlying hinterland states can be expected to exert their growing influence in favour of decentralization. The government of Victoria has also gained vastly in importance as a result of Bass Strait petroleum; whether by coincidence or not, it has become in the same period a firm supporter of greater decentralization, particularly in terms of fiscal arrangements.

Mineral resources have also made Australia more heterogeneous, sharpening the

distinction between the industrialized 'inner' states and the 'outer' states with mineral-based economies. Conflicts of interest between these groups of states have become more acute and more difficult to resolve. This fact seems to be reflected in the party system, with Labor Party strength being increasingly concentrated around Sydney, Melbourne, and Adelaide while the coalition parties dominate the resource rich states and the rural hinterlands. The conflicts of interest along regional lines also make it increasingly difficult for any federal government to frame policies acceptable to all regions, and thus increase the importance of state governments as a means of giving expression to those regional interests which cannot be aggregated successfully at the national level. Interest groups tend to cluster around whichever governments are likely to give them a sympathetic hearing; for the mining industry this means the governments of Queensland and Western Australia, whose own success and prosperity inevitably depend on the success and prosperity of mining. Because of the spatial distribution of mining and other industries in relation to state boundaries, conflicts of interest between mining and other sectors of the economy tend to take the form of intergovernmental conflict.

The external linkages of the mining industry with foreign markets and sources of capital are likely to stimulate increasing external and even quasi-diplomatic activities on the part of state governments, particularly in the states most dependent on mineral exports.[3] Attempts by the Whitlam government to curtail the activities of state agents-general in London and its withdrawal of diplomatic passports from travelling officials of state governments were most bitterly resented in Queensland and Western Australia. Queensland has established a Treaties Commission to advise the state government and parliament on foreign policy matters. In 1975 the Premier of that state negotiated an agreement with Japan whereby the Japanese would purchase Queensland beef, thus aiding a depressed industry, in return for continuing access to Queensland coal. More recently, the Premier of Western Australia was reported to have suggested that the states should be given freedom to borrow overseas outside the Loan Council framework to finance infrastructural costs related to mining development. The irony of this demand, coming as it did from a Liberal Premier within months of his party's decision to bring down a federal Labor government on the ground that it attempted to do precisely the same thing, hardly needs further emphasis.

With the benefit of a longer perspective than is possible at the present time, future students of Australian federalism may conclude that the sudden expansion of the mineral resource industries in the late 1960s ended and eventually reversed the tendency towards increasing centralization which dominated the first two-thirds of the twentieth century. The centralizing efforts of the Whitlam government may appear in retrospect as a hopeless battle against a trend that had already begun to flow in the opposite direction. The destruction of that government by the 'states' house' of parliament aided by the state governments themselves, the installation of a new federal government dedicated to measures of decentralization, and a reinforcement of the power of the Senate and of the thinly-populated states which it over-represents, all followed.[4] To future students these events may appear as consequences of the great mining boom, and ultimately as consequences of geological events that preceded by many millions of years the rise and fall of parties, governments, empires and constitutions.

[3] A description of states' external activities may be found in G.C. Sharman, 'The Australian States and External Affairs', *Australian Outlook*, Vol. 27 No. 3, December 1973, pp. 307-318.

[4] Colin Howard, 'The Constitutional Crisis of 1975', *The Australian Quarterly*, Vol. 48, March 1976, pp. 5-25.

BIBLIOGRAPHY

Aitken, H.G.J., ed., *The State and Economic Growth,* Social Science Research Council, New York, 1959.

Allison, Graham, *Essence of Decision,* Little Brown, Boston, 1971.

Australia, Senate, Select Committeee on Off-shore Petroleum Resources, *Report,* Government Printer, Canberra, 1971.

Australia, Grants Commission, *Special Report,* Government Printer, Canberra, 1972.

Australia, Grants Commission, *39th Report on Special Assistance for States,* Government Printer, Canberra, 1972.

Australia, Grants Commission, *40th Report on Special Assistance for States,* Government Printer, Canberra, 1973.

Australia, Grants Commission, *41st Report on Special Assistance for States,* Government Printer, Canberra, 1974.

Australia, Grants Commission, *42nd Report on Special Assistance for States,* Government Printer, Canberra, 1975.

Australia, Joint Coal Board, *25th Annual Report,* Government Printer, Canberra, 1973.

Australia, Joint Coal Board, *26th Annual Report,* Government Printer, Canberra, 1973.

Australia, Joint Coal Board, *27th Annual Report,* Government Printer, Canberra, 1974.

Australia, Committee of Economic Enquiry, *Report,* Volumes I and II, Government Printer, Canberra, 1965.

Australian Mining Industry Council, *General Statement to the Industries Assistance Commission,* Canberra, 1975.

Australian Petroleum Exploration Association, *Incentives to the Petroleum Industry in Australia,* Sydney, 1975.

Axline, Andrew, ed., *Continental Community: Independence and Integration in North America,* McClelland and Stewart, Toronto, 1974.

Bambrick, Susan, Committee for the Economic Development of Australia, *Minerals and Metals in the Australian Economy,* Melbourne, 1975.

Bambrick, Susan, *The Integration of Australia's Mineral Policies,* Faculty of Economics, Australian National University, Canberra, 1972.

Bambrick, Susan, *The Changing Relationship: The Australian Government and the Mining Industry,* Committee for the Economic Development of Australia, Melbourne, 1975.

Benson, George C.S., ed., *Essays in Federalism,* Institute for Studies in Federalism, Claremont, 1961.

Butters, J.W., *The East-Aust. Pipeline,* Australian Gas Light Company, Sydney, 1973.

Caves, Richard E., *Policies Towards Australia's Resource-Based Industries,* Australia-Japan Economic Relations Research Project, Canberra, 1974.

Connelly, Philip, and Perlman, Robert, *The Politics of Scarcity,* Oxford University Press, London, 1975.

Fitzgerald, T.M., *The Contribution of the Mineral Industry to Australian Welfare,* Government Printer, Canberra, 1974.

Henderson, A.G., *Royalties and the Confiscation of Economic Rent in Australian Mining,* Faculty of Economics, Australian National University, Canberra, 1972.

Horsfall, J.C., *The Liberal Era,* Sun Books, Melbourne, 1974.

Howard, Colin, *Australian Federal Constitutional Law,* 2nd edition, The Law Book Company, Sydney, 1972.

Howard, Colin, 'The Constitutional Crisis of 1975', *Australian Quarterly,* Vol. 48, No. 1, March 1976, pp. 5-26.

Innis, Harold A., *Essays in Canadian Economic History,* University of Toronto Press, Toronto, 1956.

Innis, Harold A. and Lower, A.R.M., *Settlement and the Mining Frontier; Settlement and the Forest Frontier,* Macmillan, Toronto, 1936.

Juddery, Bruce, *At the Centre: The Australian Bureaucracy in the 1970s,* Cheshire, Melbourne, 1974.

Kilbourn, William, *Pipeline: Trans-Canada and the Great Debate,* Clarke Irwin, Toronto, 1970.

Lloyd, C.J., and Reid, G.S. *Out of the Wilderness: The Return of Labor,* Cassell, Melbourne, 1974.

Lumb, R.D., and Ryan, K.W., *The Constitution of the Commonwealth of Australia,* Butterworth, Sydney, 1974.

Mathews, R.L., ed., *Intergovernmental Relations in Australia,* Angus and Robertson, Sydney, 1974.

Mathews, R.L., ed., *Responsibility Sharing in a Federal System,* Centre for Research on Federal Financial Relations, Australian National University, Canberra, 1975.

McKern, R.B., *Multinational Enterprise and Natural Resources,* McGraw Hill, Sydney, 1976.

Miller, J.D.B., and Jinks, B., *Australian Government and Politics: An Introductory Survey,* 4th edition, Duckworth, London, 1971.

Murray, Robert, *Fuels Rush In: Oil and Gas in Australia,* Sun Books, Melbourne, 1972.

Phillipson, Neil, *Hancock: Man of Iron*, Wren Publishing, Melbourne, 1974.
Raggatt, Harold, *Mountains of Ore*, Lansdowne Press, Melbourne, 1968.
Richardson, J.E., *Patterns of Australian Federalism*, Centre for Research on Federal Financial Relations, Australian National University, Canberra, 1973.
Ridgeway, James, *The Last Play: The Struggle to Monopolize the World's Energy Resources*, Dutton, New York, 1973.
Robbins, R.M., *Our Landed Heritage: The Public Domain, 1776-1936*, University of Nebraska Press, Lincoln, 1962.
Rocky Mountain Mineral Law Foundation, *The American Law of Mining*, Boulder, Colorado, 1975.
Rudd, E.A., 'The Oil, Gas and Minerals Explosion', *Public Administration* (Sydney) Vol. 23, No. 1, March 1969, pp. 6-17.
Saunders, D.W., *Resources, Consumption and Technology: The Australian Outlook*, paper presented to a Sydney University extension board conference, Terrigal, N.S.W., May 1975.
Sharman, G.C., 'The Australian States and External Affairs', *Australian Outlook*, Vol. 27, No. 3, December 1973, pp. 307-318.
Sharman, G.C., 'The Bargaining Analogy and Federal-State Relations' in R.M. Burns et al., *Political and Administrative Federalism*, Centre for Research on Federal Financial Relations, Australian National University, Canberra, 1976.
Simeon, Richard, *Federal-Provincial Diplomacy*, University of Toronto Press, Toronto, 1973.
Sinden, J.A., ed., *The Natural Resources of Australia*, Angus and Robertson, Sydney, 1972.
Smiley, Donald V., *Canada in Question*, McGraw-Hill-Ryerson, Toronto, 1973.
Weller, Patrick, and Smith, R.F.I., 'Setting National Priorities: The Role of the Australian Government in Public Policy' in R.L. Mathews, ed., *Making Federalism Work*, Centre for Research on Federal Financial Relations, Australian National University, Canberra, 1976.
Wiltshire, Kenneth, 'Setting State Priorities: The Role of the States in Public Policy' in R.L. Mathews, ed., *Making Federalism Work*, Centre for Research on Federal Financial Relations, Australian National University, Canberra, 1976.
Wittwer, D.A. and Foster, R.J., *Resources Allocation and Control: Oil and Gas Utilization*, The Broken Hill Proprietary Company, Melbourne, 1975.

Mineral Resources and Australian Federalism
Garth Stevenson

The present volume is an analysis of recent relations between Australian Federal and State governments in which mineral resources have played a part. It uses mineral resource policy to illustrate how conflicts between the economic interests of different regions, and between the institutional interests of different levels of government, affect the politics of Australian federalism.

Garth Stevenson is associate professor and supervisor of graduate studies in the Department of Political Science at Carleton University, Ottawa. Born in Montreal, he was educated at McGill and Princeton Universities and at the Institut d'etudes politiques in Paris. In 1975-76 he was a Visiting Fellow at the Australian National University. He has written extensively both about federalism and about Canada's external relations, which is his other main field of interest.

Distributed by ANU Press
Post Office Box 4 Canberra ACT 2600 Australia

Designed by ANU Graphic Design

ISBN 0 7081 0721 4