BHP mine delay signals end of Australian mining boom

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The Australian government was in disarray yesterday after BHP Billiton shelved its $20 billion Olympic Dam mine expansion plans in South Australia and announced an almost 35 percent fall in annual profit. The huge copper, gold and uranium project is the largest yet mothballed—a clear signal that the decade-long Australian mining boom is coming to an end.

Resources Minister Martin Ferguson created alarm in government ranks by declaring on radio that "the resources boom is over." According to the *Australian Financial Review*, these five words sent a "shiver" through the halls of parliament and the "Twittersphere" went "into overdrive".

A string of ministers, including Finance Minister Penny Wong and Treasurer Wayne Swan, took to the airwaves to disagree, insisting that a half trillion dollars worth of investment by mining companies was still in the "pipeline". Prime Minister Julia Gillard went into damage control, claiming there was no disagreement at all—everyone accepted that the "commodity price" boom was over, but not the "investment boom".

The panicked response reflects the fact that all the government's budgetary calculations, and its overall political message, are based on the claim that the mining boom will continue for many years, insulating Australia from the worsening global economic crisis.

In reality, the boom's collapse will intensify the recessionary conditions already gripping most of the country, fuelled in part by the high value of the Australian dollar, which became a mechanism for imposing the global austerity agenda. There has been an avalanche of job losses throughout basic industries, accompanied by deepening cuts to public services. This week, Qantas and Fairfax Media announced unprecedented losses of $244 million and $2.7 billion respectively, having both already axed thousands of jobs.

BHP's announcement highlighted the vulnerability of Australian capitalism—because of its reliance on mining exports—to the downturn in China and the rest of Asia, the European fiscal crisis and the ongoing stagnation in the US. The company blamed its decision on falling commodity prices, instability in the eurozone, China's slowdown and rising capital costs.

BHP has had increasing difficulty obtaining finance from the international markets—finance on which mining companies depend heavily. Fears are being expressed in the corporate media of a return to the 2008-09 global credit collapse, when funds for mining projects dried up. The *Australian's* economics editor David Uren commented: "The 2008-09 crisis was a shock to businesses around the world that suddenly found, no matter what the strength of their financial positions, they could not access world capital markets."

BHP's move to indefinitely defer the Olympic Dam project will eliminate 8,000 proposed construction jobs, 4,000 production jobs and 13,000 associated jobs. It will reduce South Australia's gross domestic product by an estimated 6 percent during the next decade, and slash the state government's royalty income by about $250 million a year.

The company also confirmed that its $20 billion Outer Harbour expansion at Port Hedland in Western Australia will not be approved for 12 months, and revealed a year-long freeze on all new projects. This is a dramatic about-face for BHP, which last year said it planned to spend up to $US80 billion on growth projects, including the $US10 billion Jansen potash project in Canada.

These decisions are only part of a wider picture of plunging commodity prices and mine deferments that economic forecasters have warned will reduce

Australian federal tax revenues by as much as $10 billion this year. This will force the Gillard government to slash spending further in order to meet its pledge to the financial markets to deliver a budget surplus this financial year.

Earlier this month, Shell deferred a final investment decision on its proposed $20 billion Gladstone liquefied natural gas export facility until late 2014, Woodside Petroleum announced a 12-month delay to its investment decision on the $40 billion Browse Basin project, and the Chinese-owned coalminer Yancoal said it was reviewing expansion plans for its coalmines in NSW and Queensland.

The Gillard government's May budget was based on assumptions that Australia's terms of trade (export prices compared to import prices) would fall by 3.25 percent in 2011-12 and 5.75 percent in 2012-13. But since last August, the index has already dropped by 15 percent, and the fall shows no sign of slowing.

Resources Minister Ferguson insisted: "The commodity price boom is over and anyone with half a brain knows that. Coking coal down from $320 a tonne to $220 a tonne, iron ore down from $180 to $105 a tonne, thermal coal down from $220 to $80 a tonne."

Even these figures may be optimistic. Chinese iron and steel analysts at Lange Steel told the *Australian* that spot prices for iron ore would fall as low as $US70 a tonne early next year, or 65 percent off their peak of $200 a tonne last year, as China's slowdown led to over-production of steel and growing stockpiles of iron ore.

Tsinghua University Professor Patrick Chovanec told the Australian Broadcasting Corporation's "7.30" television program that China's economy was spiralling down in a vicious circle of unsustainable investment and bad loans. "Australia has been riding China's investment boom," he said. "The fact is that investment boom was a windfall. It's not sustainable and it's starting to break down." Chovanec doubted China's official economic growth figure of 7.5 percent, saying the actual rate was probably "about 4 to 5 percent".

Steve Johnson of *Intelligent Investor* told the same program that China's "bubble" was bursting. "They've been building apartments that no-one can afford to live in, they're building roads that no-one has a car to drive on, they're building airports that people can't afford to fly out of … I think we're going to see much lower commodity prices for a long time."

Australian Opposition leader Tony Abbott tried to blame BHP's announcement on the Gillard government's carbon and mining taxes, even though the company pointed out that the Olympic Dam project was not even covered by the mining tax, which applies only to coal and iron ore. The truth is that the Labor government has protected the mining giants from the carbon and mining taxes—so much that BHP and Rio Tinto have calculated that they will pay little, if anything, extra.

Employer organisations, led by the Business Council of Australia, seized on the BHP announcement, saying it was a "wake up call" to drive down labour costs, impose individual contracts and other forms of "flexibility" on workers, and reduce environmental controls. An *Australian Financial Review* editorial yesterday declared: "[T]he BHP decision is a timely warning that we have allowed our cost base to increase too far and too fast thanks to our over-regulated labour market and overbearing environmental regulations." The editorial also demanded an end to "wasteful government spending".

This message was reiterated in a further editorial by the newspaper today, and a similar one in the *Australian*, which declared that "Australia's post-mining boom day of reckoning is approaching."

Growing numbers of workers are already paying the price. This week Telstra, the privatised telecommunications company, eliminated another 650 jobs—taking its total for the year over 1,000—and declared that no Telstra worker's job was safe.

As they have with every other mass sacking, the trade unions called for consultations with Telstra over how to best administer the job cuts. This is another warning that the all-out assault on working class jobs and conditions, enforced by the Gillard government and the unions, will sharply intensify as the global economic meltdown worsens, ending the mining boom.