

Mining giant's record loss highlights Australian economy's reversal

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BHP Billiton, the world's largest mining company, this month announced a 2015–16 financial year loss of \$US6.4 billion, the second largest on record for an Australian-listed firm. Once known as the “Big Australian,” before its 2001 merger with Anglo-Dutch giant Billiton, BHP's plight is a symptom of the declining fortunes of Australian capitalism.

The result stands in stark contrast to the \$21.7 billion in underlying profit for 2010–11, which was both the peak of BHP's earnings and global mining commodity prices. Back then, the company's shares traded at around \$40 a share and the firm had a market value of \$200 billion. BHP's shares are now worth just over \$20, a loss of almost \$100 billion in valuation.

Apart from asset write-downs, the company's underlying cash profit for 2015–16 was \$1.2 billion, but this is still a far cry from the 2010–11 bonanza. This year's cash profit was the lowest since the 2001 merger with Billiton, and the overall loss was the first posted since BHP Billiton was formed.

BHP's reversal underscores the depth of the world slump and the particular vulnerability of Australia's economy, following the implosion of the mining boom. It also highlights the brutalities, and insanities, of the capitalist mode of production.

Australian Broadcasting Corporation (ABC) business reporter Stephen Letts commented: “The wealth destruction has been on an epic scale.” Every major decision made by BHP since China's slowdown triggered a sudden glut on global mining and energy markets had “exacerbated the company's problems.”

Much of BHP's predicament is directly attributable to the post-2011 rout in the prices of the commodities—such as iron ore, coal, copper, uranium, and both conventional and shale oil and gas—on which the firm's super-profits were once based. But the losses

were magnified by the company's responses to the downturn, including buying over-priced mining projects as the boom began to unravel, and ramping up production of iron ore. The mounting problems were compounded by a catastrophic dam collapse at the Samarco iron ore mine in Brazil.

Worse may be to come. The company booked after-tax charges of \$7.7 billion related to the Samarco disaster, global tax issues and the reduced value of its US shale oil assets, but greater write-downs may be necessary.

Last November's dam collapse at BHP's Samarco joint venture with Brazilian-based firm Vale released 60 million cubic metres of potentially toxic water and waste, causing widespread destruction. At least 19 people were killed and hundreds more made homeless. There was outrage over the lack of warnings given to residents after the dam burst and revelations that Brazilian authorities had issued reports in October 2013, just before renewing the mine's licence, of the danger of a dam breach.

Because of the slump in global commodities, Vale and BHP had sought to boost their profitability through increased production. Output at the Samarco mine rose by 37 percent during 2014, and prosecutors were reportedly investigating whether that affected the dam's volume.

According to the *Australian Financial Review*, the financial markets were “heartened by a settlement with the Brazilian government in March that would limit BHP's share of reparations to about \$1.35 billion.” But the validity of that settlement is being challenged by a \$48 billion lawsuit by victims, and the mine remains shut, so the total cost of the disaster remains unclear.

As well as making multi-billion losses on US shale projects and other major asset purchases, BHP and its

main rivals, such as Rio Tinto, worsened the iron ore price plunge by ramping up production in a bid to eliminate smaller operators with higher production costs. In the four years to December 2014, BHP, Rio and Fortescue, a medium-sized Australian producer, boosted their iron ore outputs by 25 to 40 percent, adding 248 million extra tonnes to already glutted world markets annually.

Iron ore prices crashed from \$190 a tonne in early 2011 to below \$40 earlier this year. They are currently around \$60, but investment bank Citi is the latest finance house to warn that such prices are not sustainable, as the latest Chinese stimulus packages abate. Oil likewise dropped more than 75 percent from \$125 to \$30 a barrel over the same five-year period, before recovering slightly to around \$50 with analysts now predicting another slide because worldwide supply exceeds demand.

BHP remains badly exposed to commodity and currency swings. On BHP's figures, a \$1 a tonne movement in iron ore prices equates to \$148 million of profit. For oil, \$1 a barrel change delivers a \$52 million impact. The company's management is under intense pressure from the financial markets. Standard & Poor's cut the company's credit rating to A from A+ this month and warned it might downgrade the rating further if the company failed to take more steps to boost its dividends.

Briefing investors and analysts in London, BHP CEO Andrew Mackenzie said he was "disappointed, really disappointed" by the big loss. He tried to put a positive spin on the year ahead, claiming commodity prices were no longer in "free fall." Mackenzie boasted that the company had cut unit cash costs by 16 percent from 2014–15 and expected to reduce them by another 12 percent in 2016–17.

MacKenzie declared that he was driving "a culture of higher collaboration and commitment" to "get more people coming to work with a real can-do attitude." What this actually means is slashing the jobs and conditions of workers and contractors.

In last year's annual report, the company said it had eliminated nearly 17,000 employee and contractor jobs, or 14 percent of its global workforce, during 2014–15, taking the numbers to their lowest levels since 2011. No similar figures were provided during this month's profit briefing, but the job destruction has continued,

making workers pay the price for BHP's debacle.

On June 3, for example, Samarco, the mothballed BHP-Vale joint venture, said it would launch a "voluntary" layoff program with the aim of cutting 40 percent of its 3,000 employees. This will only add to the immense social cost of the dam disaster.

On June 22, without specifying precise job cuts, BHP's coal division told investors it was pushing for a 30 percent improvement in "people productivity" over the next five years. That would mean output per worker at the group's Australian mines would rise by a third, from 265,000 to 350,000 tonnes a year, by 2020–21. BHP said it would seek "greater workplace flexibility" via new enterprise agreements with the trade unions, which have imposed all the company's cuts.

In response to MacKenzie's commitment to an "extreme" focus on productivity and cost-cutting, the company's share price rose immediately after the record loss announcement. However, renewed falls in commodity prices could send the shares diving again, throwing BHP Billiton's survival into doubt.



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