

## A Perspective Of The Trends And Issues In The Global Resources Industry

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(Vic/TAs Branch on March 20th, 2002)*

The global resources industry is in constant play. Cross-border mergers and acquisitions activities appear to be increasing and demand for the commodities produced by the industry are subject to population and economic growth. Product prices are cyclical, the industry is capital intensive with a requirement for high-capacity utilisation, reliance on information technology is growing, environmental costs are increasing and there is growing hostility in the developing world. Increasingly, the industry is becoming very sensitive to sovereign risk.

One of the main issues facing the industry lies in its ability to be recognised by the investing community. As investors increasingly look for better returns (improved shareholder value measured dominantly through the price of a company's shares) companies are being forced to merge or acquire other companies to build a mass that places them in the sights of major investors. Aiding and abetting in this process is the easy access to finance that major companies have been able to obtain. In recent times, expenditures on exploration and related activities have dramatically reduced and the issuance of debt for asset

acquisitions has increased. But even given the move towards 'Boardroom Exploration', the industry has failed to maintain its level of importance in those economies that we would call developed. Returns on investment in the industry have, for the last 20 years, been low compared with other sectors of the economy.

So what will it take to improve its financial performance? More experienced company management, consolidation, commodity prices, exploration, sovereign risk, financing and new technologies are just some of the areas where companies are now focusing their energies. Also, the large financial institutions have become more intensely profit oriented and measurement of profitability abounds. As a result, resources are being shifted rapidly to industry segments with most potential, the 'New Economy', and relationships matter far less. That is, the current transaction is all controlling.