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WASHINGTON D.C. 20548

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B-205971

APRIL 26, 1982

RELEASED

The Honorable James D. Santini
Chairman, Subcommittee on Mines and Mining
Committee on Interior and Insular Affairs
House of Representatives

Dear Mr. Chairman:

Subject: Changing Ownership Within the U.S. Minerals Industry: Possible Causes and Steps Needed to Determine the Effects (EMD-82-41)

Mining and mineral processing companies have been frequent merger and acquisition targets since the early 1960s. However, little concern was shown over this activity until a wave of large attempted and actual corporate mergers and acquisitions began in the late 1970s. Publicity concerning these recent takeover bids and related merger activity awakened fears about the possible detrimental effects of submerging formerly independent minerals companies within the organizational structure of the U.S. oil industry, other domestic conglomerates, or foreign-owned enterprises.

In line with your subcommittee's continuing interest in the viability of the domestic minerals industry, you requested our assistance in identifying major studies on changing ownership in the industry. You also asked for our observations on the apparent causes, benefits, and drawbacks of these ownership changes as they relate to the well-being of the Nation's minerals industry. (See enc. IV.)

OBJECTIVES, SCOPE, AND METHODOLOGY

During the initial course of our review, we interviewed officials of the Securities and Exchange Commission (SEC), Federal Trade Commission (FTC), and the Departments of Commerce, the Interior, Justice, and Treasury. We contacted minerals industry officials represented on the Minerals Availability Committee of the American Mining Congress. We also contacted investment analysts and bankers, consultants, and academics associated with schools of mining. See enclosure III for a list of the officials we contacted.

Our initial contacts identified the problems and limitations of existing data. Accordingly, in order to provide the requested information to the subcommittee, we limited our review to: (1) a

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survey of Federal agency officials, principal minerals industry representatives, and other industry experts to obtain their views and perceptions on the causes and effects of takeovers of independent mining companies by oil companies, other domestic conglomerates, and foreign enterprises and (2) a literature search and survey to identify major Federal and nongovernmental studies of changing ownership trends in the U.S. minerals industry. We also reviewed available statistical information on mergers and acquisitions involving the metal mining and metal processing industries.

Because of our review's limitations and the general lack of ownership data and related trend analysis, our report should not be considered an exhaustive or conclusive study of the impact of changing ownership on the domestic minerals industry. Rather, it summarizes existing information and hopefully points the way toward a more accomplished assessment of the impact of current ownership trends within the minerals industry.

This review was conducted in accordance with GAO's most recent "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions."

CONCLUSIONS

Briefly, our review found that:

--Although data problems associated with determining the ownership of the minerals industry exist, several trends have potential Federal policy implications. These include the loss of independent mineral and mining concerns to conglomerates, including oil company ownership; and the growing level of foreign investment in minerals industry.

--Measuring the impact of these ownership trends is extremely difficult. An ongoing Bureau of Mines study hopes to accumulate relevant data in order to assess the motives spurring minerals industry acquisitions and to gain an indication of the possible effects on industry performance. Current industry and expert opinions on the effects are subjective and varied. Concerns over the potential negative impacts are countered by arguments against interfering with the existing market forces. In short, there are potential benefits inherent in ownership trends as well as reasons for concern.

--Foreign investment in the minerals industry, although small in absolute terms, is more concentrated than in the rest of U.S. industry, and appears to be growing. No analysis of the effects of this investment on the industry has been done by the Department of Commerce or the Committee on Foreign Investment in the United States, the two Federal entities monitoring foreign investment in the United States.

In line with the Department of the Interior's responsibilities for minerals management, we believe it appropriate for the Department to assess, as part of its ongoing study, the need for periodic monitoring of the effects of minerals industry ownership changes, including the growing levels of foreign investment. The Department should also clearly document if and how its present study is compromised by lack of data, or in the case of foreign investment, the lack of access to other agencies' collected data.

We also believe the subcommittee will want to closely examine the results of the study and obtain the Department's views on the need for increased monitoring and analysis especially regarding foreign investment; the need for additional information collection or access authority; and suggestions as to the means by which the executive branch should accomplish these needs.

RECOMMENDATION TO THE SECRETARY OF THE INTERIOR

We recommend that the Secretary of the Interior, while conducting the study on minerals industry ownership, also specifically consider the impact of foreign direct investment on the minerals industry.

Upon completion of the Bureau of Mines study, we recommend that the Secretary of the Interior report to appropriate congressional committees, including the House Subcommittee on Mines and Mining: (1) what major effects were identified; (2) if and how the analysis was compromised by the lack of information; (3) whether there is a continued need for periodic asessment of ownership trends and effects; (4) if additional information collection authority would be needed to conduct future analysis; and (5) whether there is a specific need for increased monitoring and analysis of foreign direct investment in the minerals industry, as well as suggestions as to the means by which the executive branch should accomplish this.

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Enclosure I details the findings and conclusions of our report. Throughout enclosure I, we cite pertinent Federal and private studies we identified. Enclosure II contains a bibliography of these studies.

As arranged with your office, we did not obtain agency comments on the contents of this report, and unless you publicly announce its contents earlier, no further distribution of this report will be made until 15 days from the date of issuance. At that time, we will send copies to the Departments of Commerce, the Interior, Justice, and Treasury, the Federal Trade Commission, the Securities and Exchange Commission, and other interested parties, and will make copies available to others upon request.

Sincerely yours,

Charles A. Bowsher

Comptroller General
of the United States

Enclosures - 4

CHANGING OWNERSHIP WITHIN THE U.S. MINERALS INDUSTRY: POSSIBLE CAUSES AND STEPS NEEDED TO DETERMINE THE EFFECTS

The recent spate of corporate takeover activity in the United States has generated new concerns about the possible effects of submerging formerly independent U.S. minerals companies within the conglomerate structure of other industries. Questions about the possible effects of changing domestic and foreign ownership on strategically important U.S. minerals production and development have been raised, and thus far not comprehensively addressed.

We approached these questions in two steps. First, we addressed ownership patterns and data problems inherent in identifying trends in the ownership of minerals companies. Secondly, we examined the possible effects of the recent identifiable ownership trends within the minerals industry.

We found that complete data on present U.S. industry ownership is unavailable. Information collected by several Federal agencies and private concerns is incomplete, not comparable, or restricted. Tracing the true ownership of a large corporation typically traverses an ownership maze that is incredibly complex. Nevertheless, certain ownership trends are indicated by available data. For example, very few independent concerns remain in some mineral industry sectors and foreign ownership is increasing. The effect of these trends is, however, subject to conjecture.

OWNERSHIP PATTERNS

Data collection problems

Domestic and foreign ownership data is collected by at least five separate agencies--but in every case problems limit its usefulness. A brief description of the data collected by each agency and the problems associated with it follows:

--The Federal Trade Commission (FTC) compiles statistical data on large mergers and acquisitions, but its collection lags 2 to 3 years, thus excluding the most recent period when mining acquisitions by oil companies surged.

--The Securities and Exchange Commission (SEC) has collected data on the ownership of major minerals companies since 1978. However, no comparable data exists for prior periods.

--The Commerce and the Treasury Departments collect foreign investment data, but use of individual company data by Federal agencies is restricted by 22 U.S.C. 3104 5(c).

--Individual ownership data collected by the Census Bureau is similarly restricted by 13 U.S.C. sec. 9.

Ownership data in published mining company registers is not complete or available for each year. Examples include World Mines Register, published by World Mining, and Mining Companies of the World published by the British Mining Journal.

Even if more complete ownership information were available, it is not at all clear that the complex mazes of corporate ownership could be untangled. Tracking the ownership of one conglomerate can lead through hundreds of corporate entitites, many of which may own stock in each other. We were told by one Bureau of Mines official that a London based directory tried in the early 1970s to document and graphically depict the interlocking nature of individual minerals companies--but gave up after a short effort because of the complexity of the assignment. Although documenting the actual stock ownership of any one specific company is almost impossible, available merger and acquisition data showing investment activity among firms gives a fairly good indication of recent corporate acquisition trends.

Ownership trends in the minerals industry

Despite the inadequacy of specific ownership data, certain significant trends affecting the minerals industry are discernable.

In the past two decades, a significant number of mergers and acquisitions involving metal mining and processing companies have occurred. Our review of data reported by FTC from 1960 to 1978 showed that of 100 metal mining and processing companies 1/ acquired by other firms during that period, 84 were metal processors. The number of acquisitions increased during the 1960s, peaked in 1968 and 1969, and declined thereafter.

1/Metal mining and primary metal processing companies classified under Standard Industry Classification codes 10 (metal mining) and 33 (primary metal industries) with assets of $10 million or more.

While the number of metal processing company takeovers greatly overshadows the number involving mining companies, acquisitions of the latter have apparently increased in recent years. Of the 16 metal mining companies acquired by outside firms from 1960 to 1978, 7 were taken over in the years 1976 to 1978.

A recent Department of Commerce report 1/ suggests that in general, the size of corporate mergers and acquisitions is increasing--and so-called "hostile" 2/ takeovers are now much more commonplace. Independent mining and mineral companies appear to be favorite takeover targets as well. Between 1975 and 1979, companies in the mining, mineral, and timber industries were ranked third by merger or acquisition activity. Over $9.2 billion was spent by other firms to acquire these companies.

Recent merger activity in the minerals industry seems to reflect these trends. At least four major metallic minerals producers were sought in 1981. The Kennecott Corporation and St. Joe Minerals Corporation were acquired by the Standard Oil Company of Ohio and the Fluor Corporation, respectively. AMAX, Inc., and Newmont Mining Company were the respective takeover targets of the Standard Oil Company of California and Consolidated Gold Fields Ltd., of London. Standard Oil of California dropped its bid for AMAX, and Consolidated Gold Fields recently agreed to limit its acquisition to a 26-percent interest in Newmont.

The culmination of all of this activity is that there are few large mining or mineral processing concerns remaining in some of the major U.S. minerals industry sectors. Of particular note are the inroads the oil companies are making into the minerals industry.

Oil companies began buying into the minerals industry in the mid-1960s, when they started acquiring coal and copper mining companies. By 1979, oil companies were reported to own 11 of the 20 largest holders of coal reserves, and it is

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1/Salter, Macom and Wolfe Winehold, August 1981. "Merger Trends and Prospects for the 1980s." Department of Commerce.

2/Hostile takeovers are those acquisitions pursued despite the lack of agreement or cooperation of the management of the acquired firm.

now estimated that they produce 25 percent of the Nation's coal. Today, 7 of the 10 largest oil companies also have investments in minerals. Oil companies produce about 25 percent of the Nation's uranium. And, they have attained a dominant position in copper, where they control more than 50 percent of domestic primary production capacity. In fact, ten major copper producers hold nearly all U.S. reserves, and as the table on page 9 shows, oil companies have major interests in six of them.

Foreign investment in the U.S. minerals industry is also growing

Our review of available statistical data on foreign investment in the United States showed that foreign direct investment 1/ in metal processing industries appears to be growing rapidly in recent years. The table on page 9 summarizes Department of Commerce statistics on foreign direct investment in the United States and shows that foreign investment in the primary and fabricated metal processing industries 2/ has grown at a slightly faster pace than foreign investment in all U.S. industries. From 1973 to 1980, for example, foreign direct investment in the primary and fabricated metals industries increased 275 percent (from $960 million to about $3.6 billion) while foreign direct investment in all U.S. industries increased 218 percent (from $20 billion to $65.5 billion). Total foreign direct investment in the metals industries was about 5.5 percent of the total foreign direct investment in all U.S. industries. In addition, the Department of the Treasury reported that as of December 31, 1978, foreign portfolio investment in U.S. metal mining and primary metal processing industries totaled approximately $1.8 billion, or about 3 percent of the total foreign portfolio investment of $54.5 billion in all U.S. industries.

Statistics showing the concentration of foreign investment in specific industry segments are not readily available. However past studies show that while total foreign direct and portfolio investment in the metal mining and processing industries appears relatively low compared to total foreign investment in all U.S. industries, the concentration of foreign investment in certain minerals industry segments is well above the national average.

1/Foreign ownership or control, by one person or entity, of 10 percent or more of the voting securities of a corporation. All other foreign investment is considered portfolio investment.

2/The Department of Commerce's Survey of Current Business does not show foreign investment data for the metal mining or primary metal processing industries.

Oil Firms in the Copper Business

Copper producer	Acquiring oil company	Date of acquisition	Current annual copper mine capacity (short tons)
Tennessee and Miami Copper	Cities Service	1963	95,000
Duval Corp.	Pennzoil	1958	135,000
Anaconda	Atlantic Richfield	1977	200,000
Copper Range	Louisiana Land	1977	80,000
Cyprus Mines	Standard Oil of Indiana	1979	125,000
Kennecott	Standard Oil of Ohio	1981	450,000

Foreign Investment in U.S. Mineral Industries (in millions)

	1973 total direct investment	1980 total direct investment	1978 foreign portfolio investment
Primary and fabricated metal processing industries	$960	$3,600	$1,800
All industries	$20,600	$65,500	$54,500

Source: U.S. Departments of Commerce and Treasury.

For example, in 1974, 17 percent of the domestic output of metallic mines was owned by foreign investors, while only 2 percent of all U.S. business activity was accounted for by foreign direct investment. In 1976, five U.S. operations in which the foreign interest ranged from 25 to 100 percent, ranked among the top 12 U.S. producers of primary aluminum and accounted for one-fifth of the total U.S. production of primary aluminum. Since 1977, foreign owners are reported to have acquired nearly 70 percent of U.S. ferroalloy processing capacity.

Given the increasing rate of growth of foreign direct investment in the minerals industry in general, and the apparent attractiveness of the industry to outside investment, the percentage of foreign controlled capacity or output in segments of the minerals industry may still be increasing. Further, the investment concentration in some sectors means that a few foreign takeover investments can, in effect, quickly control a major portion of a given mineral market.

Most foreign investment is dominated by industrialized European countries, Canada and Japan. In 1979, 92 percent of the value of reported foreign direct investment transactions involved firms based in these countries; and as of January 1, 1980, Canadian firms accounted for 46 percent of the foreign-owned assets of U.S. mining concerns.

Factors encouraging mergers and acquisitions

The minerals industry experts we contacted agreed that independent mining and mineral concerns are viewed as attractive--and vulnerable--candidates for takeover. This they feel is due in part to the depressed state of the industry.

Several factors account for this vulnerability, primary among them being: (1) the relatively "cash poor" state of the industry and (2) undervalued stock prices which may not adequately reflect the replacement cost of existing reserves or the companies' future profit potential.

The industry experts feel that these problems are precipitated by

--soaring costs of operation. For example, the price index of capital goods used in mining increased 182 percent during the 1970s, as compared to 121 percent for all industries;

--adherence to environmental regulations which tend to divert funds which might otherwise be used for exploration and development;

--low commodity prices; and

--substitution of other materials by new technology.

It is difficult for mining companies to resolve these problems through normal means. High interest rates make equity financing hard to get. This is especially troublesome for such a highly capital intensive industry. Sometimes the problems are outside the industry's span of control. Copper producers, for example, claim that they have been adversely affected in recent years by dumping from stockpiles and nationalized companies overproducing when prices are low.

In contrast, oil companies have excess cash to invest as a result of international price spirals through the 1970s and domestic price deregulation. Rather than reinvesting all earnings in oil-related activities, where investment opportunities are perceived to be limited, they have attempted to diversify into other industries. Declining oil reserves and ever present foreign threats to oil supplies also encourage expansion into other enterprises located in politically stable countries.

Minerals companies are considered logical choices for oil company diversification since both are extractive industries which entail costly exploration, development, and processing activities, and require geological expertise. Moreover, oil companies consider acquiring mining companies economically efficient. They can purchase existing production capacity at a cost lower than the cost to develop comparable capacity through grass-roots efforts.

In short, the purchase price of many independent mineral concerns is viewed as a bargain especially in relation to the potential value of the underground resources they control.

Current administration policies have probably also contributed to the takeover appeal of minerals producers. Perceived changes in antitrust enforcement--primarily a somewhat more relaxed attitude toward conglomerate mergers--are believed to be a factor behind the recent increase in merger and acquisition activity. In addition, the administration's stated desire to increase defense spending can be a signal for interpreting a possible increase in demand for minerals. The administration has also pledged to open more Federal lands to mineral exploration.

IMPACT OF OWNERSHIP TRENDS UNCERTAIN

Better industry ownership information would perhaps provide clearer "snapshots" of industries' ownership profiles, but the problem of untangling the ownership mazes would undoubtedly remain. However, as noted above, overall trends affecting the minerals industry are already apparent.

Although minerals industry officials agree on the reasons behind the influx of outside investment into the minerals industry, there is a wide divergence of opinion regarding its long-term effects. Therefore, the key questions remain: What is the impact of outside or foreign ownership on capital investment, exploration, and exports within the minerals industry? How could these changes affect the supply of strategic and critical minerals for the U.S. economy?

The problem with determining the effects of changing ownership is again a lack of available information. To measure the impact of ownership on industry performance, comparable statistics are needed before and after a merger or acquisition. But once a firm is acquired, that firm is often reorganized, and the individual entity's performance statistics may be lost in the conglomerate parent company's annual reports. Thus, so far no one has empirically evaluated performance changes.

Two recent Bureau of Mines studies examine the state of the domestic coal and copper industries and describe significant changes in corporate structure and ownership. Relevant nongovernmental studies, performed by consulting and investment firms, examine oil company investment in the copper industry, and the valuation of metals companies for acquisition purposes. None of the studies, however, addresses the impact on mineral production or supply. (See enc. II.)

The Bureau of Mines has a study underway to try to do just that. This study, conducted by the Bureau's economic analysis staff, is attempting to evaluate ownership trends in the minerals industry since 1960. The Bureau also hopes to quantitatively gain an indication of the impact of these trends by examining the motives spurring mineral industry acquisitions. The study is scheduled for completion in mid-1982. The study, however, will not address foreign direct investment in the minerals industry.

The Bureau officials indicated to us that they also are experiencing problems acquiring adequate information to conduct their study as originally planned. If needed information becomes available and the study is successfully completed, it should be useful to the subcommittee in its evaluation of the effects of changing ownership on the well-being of the Nation's minerals industry.

Mixed perceptions about the effects of outside ownership

In lieu of quantitative data on the possible effects of ownership trends, we relied on the opinions of recognized industry observers, experts and actual industry officials. These people widely disagree about the probable effects of oil company and other outside ownership on formerly independent mining companies. For example, minerals industry representatives we interviewed generally believe that due to differences in the nature of the two industries, oil companies may not have the experience, the long range approach, or level of commitment needed to effectively manage those mineral companies they acquire. Investment bankers and industry consultants, however, generally cite the possible benefits of these mergers.

Minerals managers say that although the oil and mineral industries are basically similar in that both involve extraction, depend on exploration, and are highly capital intensive, there are several fundamental differences between the two. The pay-back period for minerals is generally longer than for oil. Development of mineral resources takes more time, and discovery of new supplies is more difficult. Also, demand for minerals is more cyclical than the demand for oil.

Mineral industry representatives maintain that oil company managements tend to stress higher and faster rates of return on investment than traditional mining company managements. Given the patience demanded by the nature of mining operations, they will be less inclined to continue marginally profitable operations or to invest in projects having long lead times and/or low rates of return. There is, additionally, a fear that minerals subsidiaries may lose visibility due to a possible overshadowing of mining operations by the oil companies' principal, i.e., oil-related activities.

On a broader scale, some industry officials believe that oil and mineral mergers may have detrimental long-term effects because they increase concentration of economic power, stifle entrepreneurial spirit, and result in a misapplication of economic resources, e.g., acquisition of existing companies rather than development of new capacity through grass-roots efforts.

Most investment bankers and industry consultants have a more favorable view of oil-mineral mergers. They believe that the acquired mining companies will benefit from the strong financial condition and more profit-oriented management of oil companies. They maintain that oil companies will infuse the required capital and will be more willing to make the difficult decisions necessary to revitalize the acquired mining companies, and to make them more competitive in world markets.

Investment bankers also stated that mergers of mining companies with oil companies can be expected to result in an immediate upgrading of the credit ratings of those acquired companies which are financially beleaguered, and improved access to capital financing for research and development, equipment and facilities, and major minerals projects. These experts also cite several ripple effects of acquisitions beyond their impact on the acquired mineral companies. They believe that oil companies will expand production capacity, thereby benefiting consumers through augmented mineral supplies. Other beneficiaries cited include stockholders of acquired companies, who generally receive a premium payment over the preacquisition market value of their stock, and employees of those financially troubled mining companies, whose unfunded pension benefits may have been jeopardized by a potential business failure.

FOREIGN INVESTMENT IN U.S. MINERAL RESOURCES HAS NOT BEEN ADEQUATELY EXAMINED

Although the level of foreign investment in U.S. mineral resource companies is not high in absolute terms, its recent growth and the levels of concentration in specific sectors has raised concerns for the future, including the potential long-term effects on national security.

Objections to the acquisition of domestic minerals producers by foreign enterprises center on the possibility that foreign owners' decisions affecting investment, production, and distribution may be influenced by nationalistic objectives of their home governments. This is particularly significant when a foreign government has a direct ownership in the company. For example, the policies of ELF Aquitane, the French oil company that recently acquired Texasgulf, Inc., are subject to extensive government oversight and control. Some minerals officials believe that such arrangements pose a potentially hazardous situation in terms of U.S. national interests. Should political events dictate, they say, there is the possibility of the foreign-owned entity exporting production from the United States to the detriment of U.S. industry.

Investment bankers point out that foreign investors are an excellent source of capital for domestic industries and that there are adequate controls over any potential negative consequences. For example, the Government can impose export controls under the Export Administration Act of 1979 (50 U.S.C. app. 2401 et seq.) for foreign policy, scarcity or national security reasons. Foreign investment in some industries, such as the nuclear or defense industries, is also specifically limited. Further, two government entities have been established to collect information and to monitor foreign investment in the United States.

The Foreign Direct Investment Branch of the Department of Commerce's Bureau of Economic Analysis collects direct foreign investment data and annually publishes aggregate industry data. As resources permit, that office is also charged with analyzing and determining the impact of foreign investment on particular industrial segments. However, to date, Commerce has done little, if any, analysis of the cumulative affect of direct foreign investment on any specific industry. We could not identify any specific analysis related to the minerals industry.

The Committee on Foreign Investment in the United States (CFIUS), established by executive order in 1975, also reviews investments in the United States and determines if they have major implications for the national interest. The Committee, however, chaired by a representative from the Treasury Department, and including members from the Departments of State, Commerce, and Defense, the Office of the U.S. Trade Representative and the Council on Economic Advisors, has no legislative authority to disapprove or block foreign investments in U.S. companies. To date, CFIUS has concentrated its limited resources on specific foreign acquisitions involving government owned entities. No negative determinations have been made to date, and it is uncertain what action the committee would recommend if it determines that a foreign investment has major negative implications for the national interest. CFIUS also has paid little attention to the cumulative impact of foreign investments on any specific industry sector.

In light of general increasing concerns about increasing foreign investment, the Cabinet Council on Economic Affairs is presently undertaking a review of U.S. foreign investment policy. The review will focus on the broad implications of government-controlled foreign investment and the adequacy of the CFIUS for dealing with such investments. It will not examine the impact of cumulative foreign investment in individual sectors of the economy.

Since the dollar value of U.S. investment abroad is far greater than the value of foreign investment in the United States, any decisions to restrict foreign investment need to be considered with care. Any measures taken to restrict foreign investment in the United States may precipitate retaliatory actions against U.S. investment abroad.

In a previous report dealing with foreign investment 1/, we concluded that there was no need for the United States to establish a foreign investment screening agency because

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1/"Should Canada's Screening Practices for Foreign Investment Be Used by the United States?" B-172255 (Sept. 6, 1979).

--it would be inconsistent with U.S. policy of encouraging the free flow of trade and investment,

--foreign ownership in the United States is insignificant as compared to Canada and many other countries, and

--the United States has already established controls on some foreign investment.

The work we did in connection with this report did not indicate any reason to revise this conclusion. However, we do note that while safeguards are present under the Export Administration Act and that investment in certain industries is precluded by statute, the impact or effects of foreign investment is largely unmonitored. The President, for example, needs to be adequately advised on the need for export controls affecting key domestic markets. Specifically, efforts necessary to provide requisite advice pertaining to the domestic minerals industry have not been made.

In our June 1980 report "Foreign Direct Investment in the United States--The Federal Role" (ID-80-24) we pointed out that both the Department of Commerce and the CFIUS have done little analytical work assessing the impact of foreign investment. That report recommended that the Secretary of Commerce, in cooperation with the interagency Committee on Foreign Investment in the United States, place greater emphasis on analyzing and publishing studies on the economic impact of foreign direct investment. Our review of foreign investment in the minerals industry indicated that, at least as far as this important sector of the economy is concerned, almost no detailed analysis of the effects of foreign investment have been made.

CONCLUSIONS

Changing ownership within the U.S. minerals industry could have far-reaching effects, not only on the viability of the minerals industry itself but on the broader economic and industrial community as well. Although there are many problems in determining ownership from available data, the level of conglomerate, especially "big oil," investment in the minerals industry has been increasing since the 1960s to the point where few independent U.S. enterprises remain in some minerals markets.

The lack of adequate company performance data especially inhibits an analysis of the impact of these trends on the industry.

Thus, presently these effects are generally only a matter of conjecture. An ongoing Bureau of Mines study hopes to accumulate relevant data in order to indicate the motives spurring minerals industry acquisitions and to indicate the possible effects on industry performance. The study will not address foreign ownership, however.

Foreign investment in the minerals industry, although small in absolute terms, is more concentrated than in the rest of U.S. industry, and appears to be growing. Yet, no analysis of the effects of this investment on the minerals industry has been done by either the Department of Commerce or the Committee on Foreign Investment in the United States.

In line with the Department of the Interior's responsibilities for minerals management, we believe it appropriate for the Department to assess, as part of its ongoing study, the need for periodic monitoring of the effects of minerals industry ownership changes, including the growing levels of foreign ownership. The Department should also clearly document if and how its present study is compromised by lack of data, or in the case of foreign investment, the lack of access to other agencies' collected data. (The latter could be a problem in that specific foreign investment data collected by the Departments of Treasury and Commerce is not available to other Federal agencies. Only aggregate statistical data is released.)

We also believe the subcommittee will want to closely examine the results of the Bureau's study and obtain the Department's views on the need for increased monitoring and analysis especially regarding foreign investment; the need for additional information collection or access authority; and suggestions as to the means by which the executive branch should accomplish these needs.

RECOMMENDATION TO THE SECRETARY OF THE INTERIOR

We recommend that the Secretary of the Interior, while conducting the study on minerals industry ownership, specifically consider the impact of foreign direct investment on the minerals industry.

Upon completion of the Bureau of Mines study, we recommend that the Secretary of the Interior report to appropriate congressional committees including the Subcommittee on Mines and Mining: (1) what major effects were identified, (2) if and how the analysis was compromised by the lack of information, (3) whether there is a continued need for periodic assessment of ownership trends and effects, (4) if additional information collection authority would be needed to conduct future analysis;

and (5) whether there is a specific need for increased monitoring and analysis of foreign direct investment in the minerals industry, as well as suggestions as to the means by which the executive branch should accomplish this.

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ENCLOSURE III

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R.W. Marsden	Department of Geology, University of Minnesota

ENCLOSURE III

Ben H. Parker, Jr.	Consulting Geological Engineer
William C. Peters	Department of Mining, and Geological Engineering, University of Arizona
Stanley Schiff	Senior Vice President and Risk Arbitrater, Drexel, Burnham & Lambert
Ronald Shore	Metals Analyst, Bear, Stearns & Co.
Alvin Silver	Oil Analyst, (Vice President, Research) Dean Witter Reynolds
David Speidel	Professor of Geochemistry, Queens College of the City University of New Yrok
Malcolm T. Wane	Professor of Mining, Columbia University
Milton Ward	President, Mining and Metallurgical Society of America (Vice President, Freeport Minerals)
George Watson	President, Ferroalloy Producers Association
Tuncel M. Yegulalp	Associate Professor of Mining, Columbia University
Industry officials	
Charles Carlisle	Vice President, St. Joe Minerals, Inc.
Harry A. Durney	President, Pacific Tin Consolidated
Plato Malozemoff	Chairman and Chief Executive Officer, Newmont Mining Corporation
R. J. Muth	Vice President, ASARCO
William Seidman	Vice President, Phelps Dodge

Simon Strauss	Former Vice President, ASARCO, Consultant
Dennis Taining	Director, Metal and Ore Sales, Freeport Minerals Company
Charles Wilder	Deputy General Counsel, Texasgulf, Inc.

ENCLOSURE IV

COMMITTEE ON INTERIOR AND INSULAR AFFAIRS
U.S. HOUSE OF REPRESENTATIVES
WASHINGTON, D.C. 20515

October 15, 1981

The Honorable Charles Bowsher
Comptroller General of the United States
U.S. General Accounting Office
441 G Street, N.W.
Washington, D.C. 20548

Dear Mr. Bowsher:

The Subcommittee on Mines and Mining has an ongoing interest in the viability of domestic minerals industries. At recent subcommittee hearings on H.R. 4186 to amend the Mineral Lands Leasing Act of 1920, minerals industry spokesman expressed concerns regarding recent trends in changing ownership patterns in the industry. These concerns are directly related to mergers and acquisitions of independent minerals companies by U.S. oil companies and foreign enterprises.

We would like GAO's assistance in identifying major Federal or non-governmental studies of these changing ownership patterns. We would also like GAO's observations on the apparant causes, benefits, and drawbacks of these ownership changes as they relate to the well-being of the Nation's minerals industry.

We do not believe it is necessary for GAO to obtain agency comments and would appreciate receiving a report of your findings by the next congressional session.

Sincerely,

JAMES D. SANTINI, Chairman
Subcommittee on Mines and Mining

JDS:tws