

The 1938 iron ore export embargo : the Commonwealth Government's motivations and objectives

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Publication Date:

2000

DOI:

<https://doi.org/10.26190/unsworks/7831>

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THE 1938 IRON ORE EXPORT EMBARGO:

The Commonwealth Government's motivations & objectives

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December 2000**

This is to certify that the thesis is my own work and it has not been submitted to any other University or institution as part of the requirements for a degree or other award.

Michael Causer
Date:

CERTIFICATE OF ORIGINALITY

I hereby declare that this submission is my own work and to the best of my knowledge it contains no materials previously published or written by another person, nor material which to a substantial extent has been accepted for the award of any other degree or diploma at UNSW or any other educational institution, except where due acknowledgement is made in the thesis. Any contribution made to the research by others, with whom I have worked at UNSW or elsewhere, is explicitly acknowledged in the thesis.

I also declare that the intellectual content of this thesis is the product of my own work, except to the extent that assistance from others in the project's design and conception or in style, presentation and linguistic expression is acknowledged.

(Signed)

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Acknowledgments:

Firstly, I would like to thank my supervisor, Associate Professor John Perkins for his perseverance over the last seven years. I would also like to thank Associate Professor David Meredith for inspiring me to pursue my interest in mining history as the subject area for the thesis and Dr Barrie Dyster for his advice and encouragement. And finally, my family who have always been supportive of my work and Farid Assaf and Gray Connolly who both assisted me by reading drafts and humouring me in regard to their interest.

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AUTHORS NOTE

Much of the thesis is based upon documents obtained from the National Australian Archives (the "NAA"), the State Records Office of Western Australia (the "SROWA") and Broken Hill Proprietary Limited Archives (the "BHPA"). The archivists at the National Australian Archives and the State Records Office of Western Australia were wonderfully helpful and I am forever grateful. BHP Archives were also a useful source of information, although access was extremely limited.

If you wish to find the cited documents, the references in brackets included after the description of each document in the footnotes are the document references for each of the archives. In regard to the NAA, the first string of letters and numbers is the *Series Number* and the second string of letters and numbers, the *Item Number*. In regard to the SROWA, the first four digit number is the *Accession* or *Consignment* number and the second four digits are the *Item* or *File* number. Please note that although BHPA documents formed part of my research none are cited in the thesis.

CHAPTER ONE

INTRODUCTION

1.1 Introduction

The purpose of the thesis is to analyse the motives and objectives of the Commonwealth Government in implementing in 1938 a prohibition on the export of iron ore from Australia in the midst of the 1930's depression. The prohibition on the export of iron ore was universal, in that no exports could be made to any country. The only exports occurring at that time were to Japan. Consequently, the focus of the thesis will be on the trade relationship in iron ore between Australia and Japan and the trade dispute that arose from the prohibition's implementation. A further focus will be a development at Yampi Sound in northern Western Australia which was a project proposed to be controlled and financed by Japanese interests with the purpose of exporting iron ore to Japan.

Australia's trade policy in the 1930s is broadly the subject area of the thesis. From the late 1920s the Australian economy began a decline into a deep economic recession with production for both domestic and foreign consumption declining dramatically. Exports were, and remain today, an important sector of the Australian economy and it can be assumed that the Commonwealth Government considered a revival of Australia's export sector as an important condition for recovery in the economy generally. It should be noted that the central trade policy of the 1930s was by the 1932 Ottawa Agreements.

The central focus of the thesis is the implementation of the iron ore export embargo in 1938. However, the subject will be examined within the context of the people, politics and circumstances of the 1930s. They include the 1932 Ottawa Agreements, the 1936 Trade Diversion Dispute¹ (the "TDD") and the 1939 Pig-iron Bob² dispute. It was in 1934 that the issue of Japanese interests developing iron ore deposits in Yampi Sound³ first arose. From 1934 until 1938 the investment in Yampi Sound came to occupy increasing interest within the Commonwealth Government, State governments, the Japanese Government, the media and other interested parties.

The thesis will draw analogies between the 1938 prohibition and other trade related disputes that involved the Japanese in the 1930s. In 1936 Australia had a trade dispute with Japan concerning Japan's exports to Australia. The dispute ended with Australian trade being even

¹ The Trade Diversion Dispute is the colloquial name of a general trade dispute that occurred in 1938. It involved Australia diverting trade away from Japan and the United States of America, and towards its traditional trading partner, Britain.

² The Pig-iron Bob dispute occurred in 1938-39. Pig-iron Bob is the nickname given to the then Attorney-General, Robert Menzies. The dispute involved a strike by wharf labourers who refused to load scrap iron onto freighter ships allegedly destined for Japan.

³ A reference to Yampi Sound relates to Koolan Island, Yampi Sound. It is one of eight-hundred islands in the Buccaneer Archipelago, off the north coast of Western Australia, 1200 kilometres from Perth.

more confined to its trade relationship with the United Kingdom than it was already. In 1939 the refusal of wharf labourers to load a cargo ship with scrap iron, allegedly destined for Japan, led to another major public dispute between the Commonwealth Government, Menzies⁴ and members of the Waterfront Workers Federation. The TDD, Pig-iron Bob dispute and the iron ore export embargo controversy are three separate disputes that have many apparent similarities and consequently, provide an interesting basis for comparison. However, it will be argued that although all three occurred within the political context of the 1930s, they remain distinct events that had quite different economic, social and political forces driving them.

Chapter 2 of the thesis provides a broad overview of the proposed Japanese development in Yampi Sound. It focuses on the advice received by the Commonwealth Government from the departments of Defence, Commerce and External Affairs. The main conclusion that can be confidently drawn from the available material is that the bureaucracy favoured the project in the initial stages of its development.

Chapter 3 deals with the 1936 TDD between Australia and Japan. The approach taken is that of exploring an analogy between the iron ore export embargo dispute and the TDD. Sandra Tweedie⁵ has proposed that the Commonwealth Government may, in both instances, have been motivated by racism and anti-Asian sentiment in refusing to commit itself to an expansion of the bilateral trading relationship between Australia and Japan. The existence of racism, while indisputable, is contended by the thesis to have not been the key factor driving the Commonwealth Government's policies.

Chapter 4 largely follows on from Chapter 2 in dealing with events in 1937. Again the focus is on the Commonwealth Government – its bureaucracy, its relationship with the States, and the media attention that was provoked by the Commonwealth Government's interest in the project. Similarly, chapter 5 deals with events and advice in 1938. It will be appreciated from the material examined in these chapters that the iron ore export embargo policy developed as an option that would potentially provide the Commonwealth Government the flexibility to exclude the Japanese from developing Yampi Sound if that became the government's objective. Nonetheless, the weight of the bureaucracy was behind the development, as was the British Government. On the other hand, anti-Japanese sentiment was prominent in the media and there were key individuals within the bureaucracy who were willing to contradict the bureaucracy's generally favourable opinion of the project.

⁴ (Sir) Robert Gordon Menzies had been Federal Attorney-General and Minister of Industry since 1934, and Deputy leader of the United Australia Party since 1936. His electorate was in Victoria. [see: Alexander, J.A.(ed.) *Who's Who in Australia in 1938* (Melbourne, 1938) The Herald Press]

⁵ Tweedie, Sandra M. "Crimson Threads and Golden Strands: Weaving the Pattern of Australia's Trade with Asia, 1932-1957", Doctorate of Philosophy, University of New South Wales October 1988

Chapter 6 examines the Commonwealth Government's justification for the implementation of the iron ore export embargo with the focus being on a survey into Australia's reserves of iron ore overseen by Dr Walter Woolnough⁶, Chief Geological Adviser to the Commonwealth Government. The chapter will cover the survey's commissioning by Minister McEwen and Woolnough's role in the development of the iron ore export embargo policy. The chapter will examine why the economic reasoning underlying the survey is questionable and the inappropriateness of some of the survey's conclusions given that Woolnough admitted he was unqualified in the subject areas in question.

Finally, chapter 7 examines a dispute that became known as the Pig-iron Bob dispute. The importance of this controversy lies in the fact that it involved exports of processed iron ore (as scrap iron) by the same company that was mining iron ore and manufacturing Australia's iron and steel. BHP was the dominant supplier of iron ore to the Australian market, although some imports took place in the 1930s. An inference drawn by some commentators - at that time and since - was that the Commonwealth Government and BHP were involved in a capitalist conspiracy. The other interesting aspect of the controversy is that it has similarities to the iron ore export embargo policy and the 1936 TDD. Nevertheless, the thesis contends that the motivating factors and objectives of the Commonwealth Government were considerably different in each dispute and the links drawn by commentators between the disputes are weak, despite superficial similarities.

1.2 Background

The iron ore export embargo was one of the Commonwealth Government's trade policies in the 1930s. Before giving the necessary background to the iron ore export embargo policy, the thesis will firstly provide a broad overview of Australia's trade policies in the 1930s. That will be followed by a more detailed overview of the key social and political issues (including the White Australia policy), people and places associated with the formulation and implementation of the iron ore export embargo.

1.2.1 Australian trade policy in the 1930s

The inter-war era saw Australian economic policy driven by competing ideas. Australia was a very different economy after the First World War to what it had been at Federation. Industrialisation had progressed to a significant extent, however, in the 1920s Australia's external economic policy resorted back to one of dependency on the British market.

⁶ Walter George Woolnough became the Chief Geological Adviser to the Commonwealth Government in 1927. Prior to his appointment he had held many distinguished academic position in Australia and British universities and been involved in advising the Commonwealth Government. [see: Alexander, J.A.(ed.) Who's Who in Australia in 1938 (Melbourne, 1938) The Herald Press]

In the 1920s the Commonwealth Government's policy for developing and modernising the Australian economy was summed up by the slogan "Men, Money, Markets".⁷ Australia was chiefly interested in British settlers to populate the continent and provide the human capital that was perceived necessary to produce a vibrant economy:

In Australia, by 1923 the national government had integrated these three elements into a philosophy of development: Australia, S.M. Bruce told the British, must have men, money and markets. That is, Britain must give these to Australia.⁸

Drummond makes the point that: "These assumptions and policies were only too clearly derived from an extrapolation of pre-war economic history."⁹ The policy was not simply the result of Australian domestic economic policy, but was also heavily influenced by the United Kingdom. In the nineteen-twenties in Britain there was considerable debate between two competing schools of imperial economic policy – the *laissez-faire* free traders and the Imperial Visionaries:

The Visionaries' programme was simple in outline though complex in detail. It involved the export of capital and people to the overseas Empire ... The exported capital and labour would cooperate with local raw materials and labour to raise total Empire output. Because all Empire countries tended to buy from the United Kingdom, British exports would necessarily rise in step with Empire output and imports.¹⁰

The battle ended in 1932 with the Ottawa Agreements. The Great Depression saw the Empire seek solutions to high unemployment and stagnant growth rates through increased interdependence. Dyster and Meredith describe Australian trade policy in the 1930s as a "conscious retreat from opportunity".¹¹ The 1930s saw Australia engage in a trade diversion policy which hindered exports to the United States and Japan – two nations that showed significant growth in the import of Australian products during the 1920s and 1930s.

The visionaries believed that there tended to be a natural division of labour between Britain and the Empire, although they did not explicitly oppose industrialisation in the Dominions.¹² Likewise Australian economic policy was not in opposition to industrialisation, but its policymakers assumed that growth and development would more likely come from the harnessing of Australian natural resources. The Ottawa Agreements of 1932 saw such assumptions put into practice:

⁷ Dyster, B., and Meredith, D., Australia in the International Economy in the Twentieth Century (Melbourne, 1990) Cambridge University Press, p.149.

⁸ Drummond, Ian M., British Economic Policy and the Empire: 1919-1939 (London, 1972) George Allen and Unwin Ltd, p.26-7.

⁹ *Ibid*, p.27.

¹⁰ *Ibid*, p.39.

¹¹ Dyster, B., and Meredith, D., *op.cit.*, p.150.

¹² Drummond, *op.cit.*, p.33.

The business and rural interests represented by the coalition government that ruled Australia between 1932 and 1941 relied on British markets, sought British capital and harboured British sentiments. The Ottawa agreement seemed the keystone of security, and the preservation of a market for Britain's classic export, cotton textiles, seemed to be both Imperial self-interest and a sacred trust.¹³

In the lead up to the Ottawa Conference the Commonwealth Government appointed a Cabinet Sub-committee to negotiate on behalf of the government. It consisted of C.A Hawker, a pastoralist and Minister for Commerce (April to September 1932), S.M. Bruce, an ex-prime minister, and H.J. Gullett, Minister for Trade.¹⁴ The negotiations largely consisted of Australia seeking considerable concessions in the frozen meat trade and Britain in return asking for the British Preferential Tariff to be reduced to a level that would allow British export producers to compete on an equal footing with Australian producers.¹⁵

Preference was defined in terms of Empire membership with the agreement having the *visionaries* focus. The export of Australian foodstuff was to be given an advantage in the British market over non-Empire competitors. It was with preference that the Ottawa Conference was primarily concerned, and it would appear to have produced the desired outcome:

The expected response in the depression would have been a decline in production and employment in both the farm and non-farm sectors, with the decline in the former being more marked, as price falls were greater for agricultural products than for manufactured goods.... An examination of the Australian economy indicates that the expected response did not occur.¹⁶

The approach adopted was not a systematic attempt to retard industrialisation in Australia, although it may have had that effect. The Ottawa Conference was an opportunity for Britain and the Dominions to negotiate a trade relationship to their mutual advantage. The fact is that Empire dependency on United Kingdom imports actually declined in the inter-war years, but according to Drummond the proportion in 1932-35 was about 3 per cent higher than would otherwise have been expected and Drummond concludes that this was at least partially the result of the Ottawa Agreements.¹⁷ On the other hand, British dependency on Empire markets dramatically increased in the inter-war years:

¹³ Dyster, B., and Meredith, D., *op.cit.*, p.151.

¹⁴ Pinkstone, B., Global Connections: A History of Exports and the Australian Economy (Canberra, 1992) AGPS Press, p.121.

¹⁵ *Ibid*

¹⁶ Davidson, B.R., "Agriculture and the recovery from depression", in Gregory, R.G., and Butlin, N.G. (eds), Recovery from the Depression: Australia and the world economy in the 1930s (Sydney, 1988) Cambridge University Press, p.273.

¹⁷ Drummond, *op.cit.*, p.102.

By 1938 the United Kingdom was sending 47 per cent of her exports to the Empire. In 1913 the percentage had been 22. Relative to foreign markets, Empire markets had become much more important to British industry.¹⁸

In conclusion, the thrust of the Ottawa Agreements was that Britain would service its dominions with manufactured goods while countries like Australia would supply ever greater quantities of raw materials. The agreement was, however, unrealistic from the perspective that Australia's economy was becoming increasingly modern and industrial. The Ottawa Agreements failed to reflect such a change. It did, however, provide some short-term benefits to the Australian economy in a period of high unemployment and economic stagnation.

Although the agreement provided the general framework for Australian trade in the 1930s, the thesis contends that Australian trade policy was driven not by high economic policy, but pragmatic politics and diplomacy. Domestic politics was the crucial driving force behind Australia's behaviour towards its trading partners in the 1930s, and in the case of the iron ore export embargo, its particular manifestation took its form from perceived political and strategic implications of the development of Yampi Sound by Japanese interests.

1.2.2 The iron ore export embargo

Koolan Island, Yampi Sound, is one of eight-hundred islands in the Buccaneer Archipelago, off the north coast of Western Australia, 1200 kilometres from Perth. It is an extremely isolated section of Australian territory.¹⁹

The first application for a lease in Yampi Sound occurred in 1907.²⁰ Hoskins Iron and Steel Co., of Lithgow, became interested in the deposits in 1927. They acquired a lease with the aim of using the iron ore in the iron and steelworks of Australian Iron and Steel Ltd, however, the 1930s depression made the plan impracticable.²¹ Prior to its 1959 development by BHP, Yampi Sound's newsworthiness came only from its short, but controversial, time at the centre of a trade and investment dispute between Australia and Japan in the mid to late 1930s.

The iron ore export embargo was announced by the Commonwealth Government on May 19, 1938 and came into effect in July of 1938. Although it was a general prohibition on the export of iron ore from Australia, the only significant exports up to that time had been to Japan. However, the issue of far greater importance was that the Japanese had proposed to develop the Yampi Sound iron ore deposit themselves. The Japanese development was the only

¹⁸ *Ibid*, p.18.

¹⁹ Broken Hill Proprietary Company, *A Job Well Done: The Koolan Island Achievement*, (Perth, 1992) BHP Minerals Ltd, p.3.

²⁰ Wills, N.R., "Yampi Sound" in *The Journal of Industry*, South Australian Chamber of Manufactures, March 1953, pp.5-11, p.8.

²¹ *Ibid*, p.5.

export-oriented project proposed in Australia and the prohibition's implementation rendered it impotent.

It is noteworthy that the Japanese could not invest directly in the project as such foreign investment was prohibited by law. The project was to be undertaken by a British company, Brasserts, that was financed by Nippon Mining Company. The latter had significant connections to the Japanese Government and was a producer of iron and steel in Japan. A further factor worthy of mention is that the foreign policy of Japan from 1931 onwards was of general international concern, particularly regarding Japan's aggressive naval and military stance in the Pacific. Japanese's invasion of Manchuria and China, and the Japanese Government's domination by the military, caused concern in the Asia Pacific, as well as in London and Washington.

In regard to the mining industry's importance within the Australian economy, iron ore became one of Australia's most important export products during the minerals boom of the 1960s and 1970s, and has retained a significant place in the economy to the present day. The 22 years in which the iron ore export embargo was retained and reaffirmed by successive Commonwealth Governments stifled development of the iron ore mining industry that otherwise would have benefited from the growth of the international iron ore trade during this period of prohibition:

During those 22 critical years long-distance international trade in iron-ore continued to grow exponentially, so that when the embargo was lifted Western Australia was able to establish, almost instantaneously, a position consistent with its large supply potential.²²

The damage the iron ore export embargo inflicted upon the Australian economy is one reason why providing a comprehensive understanding of the motives and objectives behind the prohibition's implementation is important. Ironically, the Commonwealth Government maintained, on the one hand, that Australia's reserves of iron ore were limited, but on the other hand, failed to provide an incentive for exploration and discovery. On this point, Geoffrey Blainey wrote that:

Successive governments reaffirmed in the 1940s and 1950s that iron ore was relatively scarce in Australia. By retaining the embargo on exports, however, they closed the only market for new-found deposits. They erected a fence against searchers; they promoted the very scarcity which they feared.²³

²² Trendall, A.F., "Iron", in Prider, R.T., (ed), Mining in Western Australia, (Nedlands, 1979) University of Western Australia, p.76

²³ Blainey, G., The Rush That Never Ended, (Melbourne, 1969) Melbourne University Press, p.348.

The already detrimental effects of the Commonwealth Government's policy were exacerbated by the Western Australian Government's policy of not awarding its iron ore deposits to the finder "but to the company which promised to bring manufacturing industries to Western Australia."²⁴ This issue is, however, not central to the thesis as while the iron ore export embargo was retained by the Commonwealth Government, the effects of the Western Australian Government's policy were fairly limited.

The Prime Minister during the period explored by the thesis was Mr Joseph Lyons²⁵ who led the conservative United Australia Party (the "UAP"). The UAP was in coalition with the Country Party (the "CP"). The key ministers involved were Attorney-General Robert "Pig-iron Bob" Menzies of the UAP, Minister for the Interior John "Black Jack" McEwen of the CP, and Minister of Commerce Sir Earle Page²⁶ of the CP. Other individuals of note were Australia's High Commissioner in London, S.M. Bruce²⁷ (and a former prime minister of Australia), and the Commonwealth Government's Chief Geological Adviser, Dr Woolnough. Woolnough produced the Commonwealth Government's survey of Australia's reserves of iron ore that eventually provided the supposedly factual basis for the policy's justification and implementation.

It will be shown that the initiation of the iron ore export embargo was principally the work of Lyons, who acted with McEwen and Woolnough. However, an additional individual of importance in the thesis is Colonel Longfield Lloyd²⁸, Australia's Trade Commissioner in Tokyo. Colonel Eric Edwin Longfield Lloyd had previously worked for Naval Intelligence (as an Officer in the Intelligence Corps) and was to be appointed Director of the Commonwealth Security Service in May 1941.²⁹ He strongly advocated stopping the Japanese development of Yampi Sound. His views were considered at the highest levels and they appear to have provided an acceptable alternative for the Commonwealth Government Cabinet to the perspective provided by the Department of Defence (who principally provided the Commonwealth Government with advice in regard to matters of national security). Whether or not his views were in any meaningful strategic sense correct, they nevertheless coincided with

²⁴ *Ibid.*

²⁵ Prime Minister Joseph Aloysius Lyons was a former Premier and Treasurer of Tasmania, and the Founder and Leader of the United Australia Party. Lyons led the conservatives in the Federal Parliament, and had been Prime Minister since January 1932. [see: Alexander, J.A.(ed.) Who's Who in Australia in 1938 (Melbourne, 1938) The Herald Press]

²⁶ Sir Earle Page was Leader of the Country Party and had been Acting Prime Minister on several occasions. He had been Minister for Commerce since 1934. His electorate was in rural NSW. [see: Alexander, J.A.(ed.) Who's Who in Australia in 1938 (Melbourne, 1938) The Herald Press]

²⁷ S.M. Bruce was from Victoria and had been Australia's High Commissioner in London since 1933 and prior to that had been Australia's Prime Minister from 1923-1929. [see: Alexander, J.A.(ed.) Who's Who in Australia in 1938 (Melbourne, 1938) The Herald Press]

²⁸ Lieut.-Col. Eric Edwin Longfield Lloyd was Australia's Trade Commissioner in Japan. Prior to that appointment he had served in the Defence Forces and had worked in the departments of Defence and the Prime Minister. [see: Alexander, J.A.(ed.) Who's Who in Australia in 1938 (Melbourne, 1938) The Herald Press]

²⁹ Winter, Barbara, The Intrigue Master: Commander Long and Naval Intelligence in Australia, 1913-1945, (Brisbane, 1995) Boolarong Press, p.85-86. Note: Longfield Lloyd was appointed Director March 31, 1941.

the concerns of Lyons and McEwen and they played an important role in the Cabinet's confidential reasoning for the implementation of the iron ore export embargo.

The survey of Australia's reserves of iron ore that was publicly used to justify the Commonwealth Government's implementation of the iron ore export embargo was commissioned by McEwen. McEwen made no secret of his desire for the survey to downgrade the then accepted estimates of Australia's reserves of iron ore to a level where it would appear that the Commonwealth Government was actually being forced to act to halt the export of iron ore from Australia due to scarcity.³⁰

The survey involved a process of excluding iron ore deposits that had previously been classified as *economic*. Woolnough set parameters for his survey that, amongst other things, excluded deposits that were more than 200 miles from the coast or that required underground mining techniques. He further added the restriction that deposits that were not excluded by the first two guidelines also had to have access to existing railway transportation and port facilities.³¹ These guidelines were perceived as ludicrous by the Western Australian State Government,³² and its mining experts alike, with support for the guidelines only coming from groups who were either anti-Japanese or generally opposed to any non-British investment.

In regard to the Australian Federal political scene, two other politicians of note were the Leader of the Labor Opposition, John Curtin³³, and a prominent Left-wing member of his party, Eddie Ward³⁴. Curtin and his party were officially in favour of the Japanese investment in Yampi Sound. Curtin represented a Western Australian electorate and the State as a whole were strongly of the same mind. Eddie Ward took a different view to that of his leader and was a vocal opponent of the Japanese investment both in and out of Parliament. Their views and impact will be further explored in the thesis.

1.2.3 The White Australia Policy

It is the contention of the thesis that the iron ore export embargo was implemented with the specific objective of halting the development of Yampi Sound by Japanese interests and the subsequent export of iron ore mined in Yampi Sound to Japan. It is contended by some commentators (as will be discussed in chapter 3 in the context of Tweedie's hypothesis) that

³⁰ McEwen, John, John McEwen: His Story. (Canberra, 1983) Privately published, pp.17-18

³¹ See report by Woolnough: Iron Ore Resources of Australia, 8 March 1938 (NAA: A1608; C47/1/4 Part 2.) and "Iron Ore Investigations in Western Australia," 29 April 1939 (NAA: A1146; N7/10 Part.)

³² See: Geological surveys of Western Australia, dated 27 May 1938 (SROWA: 2822/3729), and 12 July 1938 (SROWA: 2822/3729), and "A Summary of the Iron Deposits of Western Australia," dated 12 July 1938 (SROWA: 2822/3729).

³³ John Curtin was the Member of the House of Representatives for Fremantle in Western Australia and the Leader of the Federal Opposition (Labor) from October 1935. [see: Alexander, J.A.(ed.) Who's Who in Australia in 1938 (Melbourne, 1938) The Herald Press]

³⁴ Eddie Ward was the Member of the House of Representatives for East Sydney in New South Wales since 1932. [see: Alexander, J.A.(ed.) Who's Who in Australia in 1938 (Melbourne, 1938) The Herald Press]

the overwhelming motivation or factor behind the iron ore export embargo was racism. In this context, it is necessary to firstly provide a background to Australia's immigration policy in the 1930s.

The Commonwealth Government is responsible for Australia's immigration policy. At the time of the iron ore export embargo controversy, Australia's immigration policy was colloquially known as the White Australia policy and its indisputable objective was the exclusion of Asians and other non-Europeans (including Africans and Indians) from the Australian continent.

Australia has a relatively long history of racially discriminatory immigration policies. The Australasian colonies were all concerned with the racial characteristics of their respective populations and racially restrictive immigration laws were implemented as far back as the 1850s in New South Wales and Victoria. It is indisputable that the racial characteristic of dominant concern was Asiatic.

The White Australia policy is perceived by many commentators as having a close connection with Japan, however, in its pre-1890s existence the policy was more concerned with Chinese immigration. The close connection between the White Australia policy and Japan may possibly be traced to Japan's emergence as an industrial nation and its integration into the world economy in the 1890s at a time when the Australian colonies were considering and implementing racially influenced immigration policies.³⁵

For a number of centuries there has been a Japanese catch-cry: 'Minanie! Minanie!' ('To the South! To the South!').³⁶ Nonetheless, Japanese interest in, and migration to, South East Asia and the Pacific has never been a coordinated policy of the Japanese Government. In the seventeenth and eighteenth centuries Japanese emigrants were "traders with considerable capital investments, self-employed businessmen, artisans, disbanded military of the samurai class, and the like." This character of emigrant altered in the 1860s to "riffraff", including "jugglers, actors, gamblers, and tea girls."

It is of note that the Japanese Government took specific measures to curtail prostitution abroad (by Japanese emigrants) during the 1910s, and that: "Traders, investors, managers, and farmers replaced them [ie: the 'riffraff'] completely in the 1920s, when company men set up the trading houses of Mitsubishi and Mitsui, opened branches of banks of Taiwan and Yokohama, and established all over Southeast Asia the Nihon, Osaka, Yamashita, and Yusen shipping lines to serve the entire Western Pacific region with a close-knit network of cargo and

³⁵ Dyster, B., and Meredith, D., *op.cit.*, p.12.

³⁶ Frei, H., Japan's Southward Advance and Australia from the Sixteenth Century to World War II (Carlton, 1991) University of Hawaii Press, pp.116-7

passenger transportation.”³⁷ The Japanese Government was concerned with trade, not migration.

The White Australia Policy became complete during the 1890s. The coming of Federation was a period of intense domestic debate and much of it was focused on Japan. It is Brawley's opinion that the immigration policies of Australia and a number of the other Dominions placed Anglo-Japanese relations under considerable pressure. The Anglo-Japanese Commercial Treaty of 1894 is perceived to have been a key factor in the Intercolonial Conference of March 1896 where representatives of the Australasian colonies debated whether or not they should ratify the treaty. It is, however, contended by Brawley that the conference was more strongly motivated by the desire to achieve uniform exclusion of Asian immigration.³⁸

At the Intercolonial Conference in 1896 delegates from five colonies resolved that the parliaments they represented should amend their anti-Chinese laws and apply them to all coloured races.³⁹ After the Intercolonial Conference of 1896 the colonies of New South Wales, Tasmania and South Australia all passed “Coloured Races Restriction and Regulation” Bills, although the Bills were reserved and consequently, did not come into effect.⁴⁰

It should be noted that the British Government was not in favour of the substance of the Bills as their effect was to discriminate between different races of British subjects. In particular, it was perceived as discriminatory against the British Empire's Indian population.⁴¹ Joseph Chamberlain, then British Secretary of State for the Colonies, pledged the British Government not to “distinguish among British subjects on the basis of race, origin, language or creed.”⁴² Nevertheless, it was the method of exclusion that was the key concern for the British. Consequently, the Australian colonies followed the example of the Natal Immigration Restriction Act of 1897 and adopted a literacy test that could be given to a prospective immigrant in any European language (not necessarily English). A prospective immigrant would have to successfully complete the dictation test, however, the language in which the test was taken was chosen deliberately on each occasion by the immigration official so as to pose an insurmountable barrier to the applicant.

When the Commonwealth of Australia was inaugurated on January 1, 1901 the Immigration Restriction Bill was accepted as law. It provided for a national implementation of the White Australia policy that was focused on the exclusion of Asian migrants. As with the colonial Bills,

³⁷ *Ibid.*

³⁸ Brawley, S., The White peril: Foreign Relations and Asian Immigration to Australia and North America, 1919-1978 (Sydney, 1995) University of New South Wales Publishing, pp.48-49.

³⁹ London, H.I., Non-White Immigration and the “White Australia” Policy (New York, 1970) New York University Press, p.4

⁴⁰ Willard, M., History of the White Australia Policy to 1920 (London, 1967) Melbourne University Press, p.110

⁴¹ Willard, *op.cit.*, p. 110

⁴² London, *op.cit.*, p.11

it was the method of exclusion that was of greatest concern to the British. Accordingly, the chosen method of exclusion for the Commonwealth Government was based on the Natal dictation test.

So what factors or forces produced the domestic political pressure that lead to the White Australia policy? London contends that "White Australia" was the manifestation of a movement not solely confined to Australia, but uniquely appropriate to Australia's geographic position and fortuitous historical experiences.⁴³ London's analysis of the forces that lead to the racially discriminatory immigration policy provides a broad context in which to appreciate colonial Australian thinking. Australians in the nineteenth century were certainly not unique in holding racist views, however, the isolation of the continent and its largely homogenous (Anglo-British) population provided it with an opportunity to construct a society free from non-British influence. The opportunity may, however, also be perceived as a negative reaction to the Asian countries that isolated Australia from Europe and potentially posed a threat to Anglo-British domination of the Australian continent.

Willard presents the White Australia policy as the product of complex social, political and economic factors. The first factor was a belief that either by racial fusion or racial division the British-Australian nationality would be doomed unless a distinct territory and nationality could be maintained. Racial fusion would lead to a gradual alteration in the colonies social and political institutions, while racial division would create two competing political class with the Asiatic group posing a threat to the British-Australian institutions and traditions. Willard considers that these fears were exacerbated by the extremely limited Australian population and the geographical proximity of the Australian continent to Asia.⁴⁴

London and Willard provide different, though in many aspects complimentary, analyses of the forces that contributed to the White Australia policy. A third explanation for the White Australia policy attributes it solely to the Australian working class, contending that it was the Labor Party representing the trade union's fears of low cost Asian workers that was the dominant domestic pressure. By implication, the White Australia policy is attributed solely to the Australian working class and the Labor Party. But as pointed out by Dyster and Meredith, the explanation that the White Australia policy can be simply ascribed to the "racism and economic fears of the colonial working class" is hardly plausible given that its germination occurred at a time when the Labor Party did not exist and almost no working class men held a seat in a colonial parliament.⁴⁵

⁴³ London, *op.cit.*, p.4

⁴⁴ Willard, *op.cit.*, p.9.191-201

⁴⁵ Dyster, B., and Meredith, D., *op.cit.*, p.23.

The period of concern for the thesis is the 1930s. Prior to the Second World War there was only “minor modification in the White Australia policy and few internal remonstrances for change”.⁴⁶

Brawley uses the example of Prime Minister William Morris Hughes’ obstinacy at the Peace Conference in Paris in 1919 after the First World War by way of conveying the strength of conviction that Australia held for its White Australia policy. The Japanese sponsored racial equality motion at the Peace Conference was bitterly resisted by Hughes as leader of the Australian delegation on the ground that it would create a basis for international criticism of the White Australia policy.⁴⁷ Brawley considers that Hughes’ obstinacy was completely consistent with that of his compatriots’ views.

Even given the level of racial prejudice discussed by Brawley, London contends that Japanese military aggression in the 1930s gave fresh impetus to racial outpourings in Australia. The thesis contends that London’s opinion is, at least to some extent, indisputable and that the 1939 Pig-iron Bob controversy - discussed in chapter 7 - provides a vivid indication of the level of anti-Japanese prejudice held by the Australian community (and media) in the late 1930s. Frei nonetheless contends that: “For all their proximity, Japan and Australia might have been complete strangers but for their trade relations that enjoyed a singular boom between 1924 and 1935”⁴⁸, and that it was the Mukden Incident in 1931 (which provided the pretext for Japan’s invasion and seizure of Manchuria) that produced heightened sensitivity in Australia to Japanese activities in the South Pacific and South East Asia.

Accordingly, the White Australia policy provides an interesting and significant context for the thesis. It is the contention of the thesis, however, that racism alone cannot provide a complete explanation of the motivations and objectives of the Commonwealth Government in implementing the iron ore export embargo. The issue of racism will be further discussed in chapter 3.

1.3 Historiography

While Australia’s role as a significant exporter of iron ore began in the early 1960s, Australia’s capability to be a producer of iron ore for export existed prior to the Second World War. BHP, along with some other small producers, had exported iron ore during the 1930s, however, any hope of extensive development of Australia’s resources was cut-short by the implementation of the iron ore export embargo in 1938.

There are competing schools of thought on Australian trade policy and it is within the broader context that the iron ore export embargo must be appreciated. The thesis aims to demonstrate

⁴⁶ London, *op.cit.*, p.15

⁴⁷ Brawley, *op.cit.*, p.15.

that the iron ore export embargo policy does not necessarily match up with any of these schools of thought. It is the contention of the thesis that the reality of the iron ore export embargo (and for that matter the TDD and the Pig-iron Bob dispute) was that domestic politics and economic forces were more important than any philosophical or ideological approach. Nor was Australian trade policy driven by an Anglo-Celtic cultural cringe. Instead, although Australia's official trade policy was based upon the 1932 Ottawa Agreements, Australian trade policy was primarily built upon pragmatic domestic politics. It is contended that political expediency and national economic self-interest provided the general framework for Australian trade policy.

The thesis looks at three examples of Australian trade policy. The TDD, the iron ore export embargo and the Pig-iron Bob dispute. Each are examples of Commonwealth Government trade policy. Although the thesis is predominantly concerned with the second of the three, it is the similarities between the three that highlight the theme that Australian trade policy was to a large extent independent of British policy and driven by domestic concerns.

The general view that has prevailed concerning the implementation of the iron ore export embargo has been that Australia had limited reserves of iron ore and that those reserves needed to be conserved. From this perspective, the lifting of the prohibition in the 1960s was the result of the discovery of significant reserves of iron ore previously unknown. That was the official policy position of the Commonwealth Government:

The 1960s marked a new era in Australian iron ore exploration. Before this period there was a feeling within the Commonwealth government that Australia's iron ore reserves were small and because of this an embargo was placed on the export of this mineral. Lang Hancock's discovery of large quantities of high grade iron ore in Western Australia established Australia as one of the world's most iron ore endowed nations and led to the Commonwealth totally lifting its embargo on the export of Australian iron ore in 1963.⁴⁹

Other than this explanation (which closely follows that propagated by the Commonwealth Government of the day), there are three alternate explanations as to why the Commonwealth Government implemented the iron ore export embargo. All three of the alternate explanations dispute the Commonwealth Government's justification that it was simply a response to the discovery that Australia had only limited reserves of iron ore. All perceive the central objective as stopping the Japanese developing Yampi Sound.

⁴⁸ Frei, *op.cit.*, p.122

⁴⁹ Julie Tracy, "The Construction Phase of the Pilbara Iron Ore Industry 1965-1972: Workers, their Unions, and Organising the Industry", in *Papers in Labour History*, 13 June 1994, at 15-25, p.15.

The first explanation suggests a conspiracy between the Commonwealth Government and BHP, with the government's actions being motivated by a desire to further strengthen both BHP's position within the Australian economy in regard to import substitution and the export of iron and steel. The justification was perceived by Phillipson as a diplomatic imperative combined with economic nationalism: "It saved the Lyons government from an unpalatable political decision and it guaranteed a continuing monopoly to the powerful Iron and Steel lobby."⁵⁰

The conspiracy hypothesis is closely associated with Rupert Lockwood, an Australian journalist who was also a high-profile socialist and left-wing propagandist during the 1950s and 1960s. In his book, *War on the Waterfront*, he deals with the issues and events of the 1930s that surrounded the iron and steel industry with the focal point being the Pig-Iron Bob dispute of 1938-1939. In Lockwood's opinion the implementation of the iron ore export embargo, and the Commonwealth Government's determination to proceed with exports of scrap iron to Japan, were intimately linked policies. The aim was to strengthen BHP's position as a monopoly producer of iron and steel within Australia and guarantee it a market for surplus scrap iron in Japan.

Lockwood links the Commonwealth Government and BHP into a capitalist conspiracy in which the Commonwealth Government provided political and legislative support for BHP to maintain and strengthen its monopoly on both the production and export of all commodities and products related to iron and steel. The thesis contends that BHP was not interested in such an arrangement and that they insisted that the Commonwealth Government make it clear publicly that that was their position. Nevertheless, Lockwood supports his contentions by referring to meetings between BHP and the Commonwealth Government. However, the thesis contends that the minutes of these meetings clearly demonstrate, along with other correspondence, that a capitalist conspiracy was not the dominant factor behind the implementation of the iron ore export embargo.

The second explanation is race based and is set within the context of the Commonwealth Government's responsibility for the enforcement of the White Australia policy. In this explanation Australia is perceived as wishing to avoid an increased Japanese presence in Australia's remote northern region, and as also feeling threatened by Japan as a Pacific military power. Toskhas describes the combination of racist and strategic factors:

Fearing future war with Japan and suspicious of the presence of Japanese technicians along an undefended coastline, the Commonwealth government moved to halt the Japanese operation. Since the government was keen to avoid any diplomatic embarrassment, it saw the banning of all iron ore exports from Australia as the best

⁵⁰ Phillipson, N., Hancock: Man of Iron (Melbourne, 1974) Wren Publishing Pty Ltd, p.59.

solution. The public justification for this action was that Australia had limited iron ore reserves, which were indispensable for domestic steel production.⁵¹

Sandra Tweedie⁵² considered the motivations behind the implementation of the iron ore export embargo in her dissertation that focused predominantly on Australia's relationship with Asia and the influence that prejudice played in shaping Australia's trade policies. Tweedie perceives that the Commonwealth Government's acceptance of the Japanese development from 1935 as motivated by economic principles, but their eventual denial of the Japanese as motivated by racist principles. This alteration in the Commonwealth Government's policy was blamed on populist pressures from elements within both the Labor Party and the labour movement, along with the prejudice of the Minister for the Interior, John McEwen. Tweedie draws upon the parliamentary debate of some members of the federal parliamentary Labor Party (including Eddie Ward) in addition to the personal views of McEwen.

From Tweedie's perspective an important aspect to the proposed Yampi Sound development is that it involved Japanese technicians and workers being stationed permanently on the island. This would have been in addition to the Japanese freight ships docking and loading iron ore in Yampi Sound. Japanese nationals were not allowed to settle in Australia under the White Australia policy, and thus they required special permission from the Commonwealth Government. Such permission was, however, granted by the Minister for the Interior on May 1, 1936.⁵³

The operation of trade policies that were against Japanese national interests were a feature of the 1930s. The 1936 TDD between Australia and Japan was a direct result of Australia wishing to reduce trade with Japan and redirect it towards its traditional trading partner, the United Kingdom. Likewise, the TDD measures were directed towards the United States of America, although the specific objective for the diversion trade in that case was the fostering of import substitution.⁵⁴ Tweedie quite rightly points out similarities between what occurred in 1936 and 1938. However, although it is significant that many of the key politicians and bureaucrats were involved in both disputes, it is contended that the fundamental motivational factors are different.

Those involved in the same or similar governmental capacities in the 1936 TDD included Lyons, Page and Menzies (who all belonged to a special cabinet committee involved directly with the dispute) along with Longfield Lloyd.⁵⁵ However, it is contended that it can be clearly

⁵¹ Toskhas, Kosmas, Beyond Dependence: Companies, Labour Processes and Australian Mining, (Melbourne, 1936) Oxford University Press, p.96.

⁵² Tweedie, Sandra, *op cit*.

⁵³ Memorandum, Development of Yampi Sound iron ore deposits, 1 May 1936, Department of the Interior (NAA: A433; 40/2/180).

⁵⁴ Dyster, B., and Meredith, D., *op.cit.*, p.151.

⁵⁵ Sissons, D.C.S., "Private Diplomacy in the 1936 Trade Dispute with Japan", in *The Australian Journal of Politics and History*, Vol 27, No.2, 1981, pp.151-57.

discerned that these men can be credited with perceiving the differences in the issues involved in the disputes and that they were not simply motivated by any single factor such as racism.

The third explanation for the implementation of the iron ore export embargo concerns matters of national security that arose because Japan was perceived as a possible future military threat. Richard West wrote that the iron ore export embargo had been implemented “for fear of the Japanese”.⁵⁶

[I]n 1938 the Nippon Mining Company opened an iron-ore mine on Koolan Island in Yampi Sound, off the north-west Australian coast. Since Japan was already at war with China and had turned East Asia into her “Co-Prosperity Sphere”, the Canberra Federal Government feared this intrusion upon Australia’s vulnerable coast line. Australia’s fears were military and political rather than economic, but to avoid a diplomatic incident, she introduced a ban on exports of iron ore to all countries – just in order to get the Japanese off Yampi Sound. The (*sic*) premier, Joseph Lyon, justified the embargo on the pretext that Australia was short of iron ore. In time, this spurious justification came to be taken as mineralogical fact.⁵⁷

Professor Blainey has completed extensive work in this field and provides the most comprehensive insight into this third and final perspective. Blainey, along with Tweedie and Lockwood, place McEwen (along with Lyons and Woolnough) at the centre of the iron ore export embargo policy’s development. Blainey nevertheless perceives their key concern as national security. It can be discerned from the available evidence that McEwen, along with much of the national security bureaucracy, perceived Japan as a possible future military threat. It will nevertheless be contended that Blainey fails to realise that their real concerns were more pragmatically politico-strategic.

Those politico-strategic concerns related to domestic politics in all its facets, including possible future electoral outcomes. In its most simple context, any government that allowed the Japanese to obtain a foothold in Australia prior to the Second World War would have been doomed to be considered a failure by the electorate, media and historians. Furthermore, the politico-strategic dimensions relate to how the Japanese development had implications for Australia’s national security, but with the Commonwealth Government’s concerns primarily arising from possible domestic political ramifications. The contention of the thesis is that any potential political embarrassment from allowing the Japanese to invest in Australia was the key concern in regard to the iron ore export embargo. The Cabinet, like Department of Defence, recognised the national security implications, but decided on balance that the military

⁵⁶ West, Richard, River of Tears: The Rise of the Rio Tinto-Zinc Mining Corporation (London, 1972) Earth Island Limited, p.91

⁵⁷ *Ibid*, pp.91-92.

threat posed by the development was outweighed by the positive economic benefits of the project proceeding. Consequently, it will be contended that the prohibition was driven by politics and was affected only indirectly by any military threat posed by the Japanese. Accordingly, the thesis contends that it is the political dimensions of the Japanese proposed development of Yampi Sound that was the key motivating factor for the iron ore export embargo's implementation.

CHAPTER TWO

BACKGROUND TO YAMPI SOUND

2.1 Introduction

The Commonwealth Government bureaucracy was heavily involved in advising the Lyons Government in regard to the appropriate policies that should be pursued in respect of the development of Yampi Sound. Reports and recommendations produced by the departments of Commerce, External Affairs, Interior and Defence all provide an insight into the iron ore export embargo policy's formulation.

The thesis contends that the development of Yampi Sound by the Japanese must be considered within the scope of Japanese-Australian trade and other relations. As will be discussed in Chapter 3, Japan was lobbying Australia during the 1930s to enter into a trading agreement conferring more favourable concessions on Japan. Japanese fishing and pearling in Australia's northern waters was widespread in the 1920s and 1930s and was a matter on which the Commonwealth Government had already received considerable advice. It is also relevant that the Japanese had been perceived as a military threat to Australia since the turn of the century and accordingly, it is not surprising that the Department of Defence provided much of the earliest analysis of the Yampi Sound project.

It is contended by the thesis that Department of Defence papers examined in the thesis demonstrate that the motivation for an iron ore export embargo was initially to be limited from a national security perspective, although the Defence bureaucracy's advice matures from the initial advice given in 1935 to that subsequently provided in 1938. The Defence Department's initial acceptance of the proposal may be partially explained by such circumstances as the existence of Japanese fishermen in the region. The department may have considered that the presence of a few Japanese cargo ships in Australian territorial waters for the purpose of picking up iron ore from Yampi Sound as not amounting to a significant change in the status quo. Also, although the Japanese eventually requested that a few Japanese nationals be allowed to live on Koolan Island, Yampi Sound, in the initial preparatory stage there was no request for such permission (i.e.: under the Immigration Restriction Act). This latter factor may be one source of change in the Defence Department's advice between 1935 and when the prohibition was implemented in 1938.

The 1932 Ottawa Agreements were unfavourable to Japan as the agreements gave preference to British manufactured goods. The 1930s was a period when economic growth was low and the British Empire and its Dominions (which included Australia) took the policy stance that becoming more interdependent was the solution to economic stagnation.

Australian trade with Japan had grown throughout the 1920s and the Ottawa Agreements produced an alteration in this trend. However, as will be discussed in regard to racial prejudice directed towards the Japanese in chapter 3, the iron ore export embargo was not simply part of Australia's trade policy, but may be more accurately described as an anomaly more closely connected to domestic political forces than factors associated with international trade.

In summary, this chapter examines advice to the government from its own bureaucracy, pressures from the media and interest groups, advice obtained from the British and correspondence between the Commonwealth Government and the State governments. Although the Department of Defence initiated the evaluation of the development, by late 1936 and early 1937 the departments of Commerce and External Affairs were also producing advice that, ironically, was significantly more concerned about any potential national security implications of the development than the Department of Defence. Nonetheless, it will be argued that the Defence Department's favourable advice is given credence over and above the other departments by very similar advice emanating from the British Government. It can, however, also be clearly discerned that anti-Japanese sentiment in the Australian community, media and parliament placed significant pressure on the Commonwealth Government to take action to halt the Japanese development.

2.2 Japanese interest in Yampi Sound

It was under fairly subdued circumstances that the Department of Defence completed a report into the Japanese proposal for Yampi Sound. *Iron Deposits at Yampi Sound W.A.:*

*Development with a View to Sale of Ore to Japan*¹ was released on the February 14, 1934 and it cited two general areas of concern. The first were of a financial and economic nature, while the second concerned national security. In regard to the former, the report began with the quite popular assumption of the era that: "The primary needs of Australian development are population, capital and markets, and this proposal has a relation to the two latter."

The report focused on the fact that Australia was heavily reliant on foreign funds to pursue the goal of economic development and growth, noting that the government had been borrowing extensively overseas and that this was in contrast to what the report termed more mature economies where such borrowing was undertaken by private enterprise. The problem with this borrowing was explained to be that the government had a growing 'interest' burden: "The private import of capital for development is therefore a highly desirable form of supplementing internal financial capacity for development and it is within this category that the Japanese proposal falls."

¹ Minute Paper, *Iron Deposits at Yampi Sound W.A. Development with a View to Sale of Ore to Japan*, 14/2/34, Department of Defence (NAA: A816; 19/304/120)

Accordingly, it is not surprising that the report came to the conclusion that: "From the financial and economic aspect the proposed new company would therefore be advantageous." The report subsequently discussed the more 'defence' related subject of national security, beginning with a very expansive overview of how the department viewed the Japanese plans for Yampi Sound:

The extension of Japanese capital to the development of resources, which presumably are unattractive to British and Australian interests owing to the existence of alternative sources of supply, is ... not a new departure in the import of foreign capital, nor apparently a step towards foreign control of vital and limited resources.

Defence cited, as an example of foreign capital inflow, American direct investment in the motor, oil and cinema trades. Such investment was not perceived as a threat to Australian national security and they implied the same was true for any other Japanese investment. The report also broached the subject of war. The report stated that in the case of war, Japan would most likely be either an enemy or a neutral: "In the former case it might not be disadvantageous to us that she had developed for our use a further source of supply, whilst her dependence on British sources which would be denied to her, would be greater than if she had turned to neutrals for these supplies in peace." While such extreme pragmatism may not necessarily have been to the liking of the department's political bosses, the undeniable fact is that it highlights the real issues in regard to national security and comes out in favour of the investment.

The report concluded by stating that the only real issue was in regard to the question of "whether the interests of national security require that leases for the development of resources of primary importance should contain provisions which safeguard the public interest and ensure that foreign investors are aware of the control to which they will be subjected in time of war or national emergency." In other words, the possibility of the Japanese investing in Yampi Sound was viewed as sound, but the report also concluded that it may be appropriate for investors to be given notice that they are investing in nationally significant industries and that future government decisions may adversely impact upon their investment. This point was lost on the Commonwealth Government as they not only rejected the positive conclusions regarding the investment itself, but they also rejected the proposal for policy transparency.

Further analysis of the development proposal in its embryonic stages is provided twelve months after this initial report by a second group of recommendations in the form of a Defence Committee Minute Paper.² The Committee "noted that, as Japan is mainly dependent on foreign sources of supply for iron ore, there were advantages from the aspects of import of

² Iron Ore Deposits at Yampi Sound, Western Australia - Development by Japanese. Department of Defence, Defence Committee Minute Paper, 29/3/1935 (NAA: A816; 19/304/120)

capital for the development of these resources, local expenditure by the Company, and the widening of foreign markets for Australian exports.”

The Committee confirmed the view held by the earlier Defence Department report, considering that the project was sound in economic terms, bringing economic benefits to Western Australia and Australia generally. It also noted (and repeated) the sentiments of the earlier report, maintaining “that the extension of Japanese capital to the development of resources ... was not a new departure in the import of foreign capital, nor apparently a step towards foreign control of vital and limited resources.”

The Committee dealt specifically with national security implications of the development, most particularly in regard to the threat the Imperial Japanese Navy could pose to Australia if the two nations became engaged in hostilities. The scenario addressed concerned a situation where Japan was an enemy and how the presence of the project could effect Australia's defence capabilities. The Committee's position was clear on this issue: “In regard to the Minister's statement that a harbour in one of the Islands concerned can accommodate the entire Japanese Navy, the naval situation in war will be either British or Japanese command of the sea.” The Committee stated that in the case of the former the Japanese naval fleet would not be in Yampi Sound, while if the Japanese commanded the sea they would presumably have unrestricted access to all of Australia's oceans and harbours and would by no means be limited to Yampi Sound.

One problem considered by the Committee concerned a hypothetical situation where Australia and the British Empire was at war and Japan was a neutral power. These circumstances included the presumption that the export of iron ore would be suspended for the war's duration. To “ensure the elimination of friction with a Power whose neutrality would be a vital consideration” the Committee recommended that the issuing of leases for the project be conditional upon agreement by the developers that such action by the government under those specified circumstances was acceptable to the developers. Once again policy transparency was recommended, but rejected, by the Commonwealth Government.

The Committee drew an interesting analogy between the Japanese investment in Yampi Sound and a decision by the British government in 1928 to open British Guiana to international bauxite miners and prospectors. The purpose of the action was premised upon the objective of maximising Empire reserves of bauxite which was a resource that had experienced significant growth in demand (especially as a consequence of the rise in aircraft production). Increased prospecting was viewed as the principle mechanism to increase reserves.³ The Colonial Office felt that foreign investment in British Guiana could have adverse security

³ It should be noted that this logic is in complete contrast to the justification that the Commonwealth Government used to justify the implementation of the iron ore export embargo in 1938.

implications for Britain and its colony. However, the Principal Supply Officers' Committee decided that the need to open British Guiana bauxite resources to thereby access the maximum potential colonial reserves overrode the security concerns of the Colonial Office.

The two situations were not claimed to be analogous in their totality, but the analogy instead aimed to demonstrate that although national security or defence implications were present (as they almost inevitably are) they do not always overwhelm other factors. The minute paper concluded emphatically that:

From the Defence point of view, the Committee decided there was no objection to the formation of an Australian company⁴ to acquire iron ore deposits at Yampi Sound and sell the ore to a Japanese firm.

Accordingly, it may be considered that the Commonwealth Government armed with favourable advice would have been agreeable to the proposed development of Yampi Sound. Clearly, however, there were also obvious pressures that weighed against the government being agreeable. One factor why the Commonwealth Government was taking a keen interest in the Yampi Sound development (which was ostensibly a Western Australian State government concern) was that in the 1930s there existed in Australia a considerable amount of prejudice towards the Japanese and unease over some of the Japanese Government's policies. Tweedie considers such factors in concluding that racism was the key factor behind the implementation of the iron ore export embargo. Her position, which is discussed in chapter 3, certainly gains some credence from the media during this early period, along with the views of certain vocal interest groups.

For example, the (Melbourne) *Age* dealt with the Yampi Sound controversy on February 20, 1934. It quoted a representative of the West Australian branch of the Australian Natives Association⁵ (the "ANA"). The ANA was an outspoken critic of both the development and the export of iron ore to Japan. They attracted considerable media attention although it was probably more a consequence of the extreme nature of their comments than the perceived importance of the issue at this early stage: "It [the ANA] was absolutely and unswervingly opposed to any alien power acquiring an interest in the greatest of all key industries - the iron industry."⁶

⁴ The expression of Australian company used in this context tends to mean Anglo-Saxon or nations of similar history. The Department of Defence does not specify what it means, but it is likely to include a British, American or a company from any of the Dominions.

⁵ The ANA was an organisation which celebrated Australianism and grew out of the growing sense of nationalism which existed in Australia in the two decades which preceded Federation. It was formed in 1882 and grew to a membership of 20,000 by the turn of the century. [See: MacIntyre, S., The Oxford History of Australia, Vol.4 (Melbourne, 1990) Oxford University Press, p.122]

The use of such words and phrases as *alien* and *greatest of all key industries* carried clear overtones of economic nationalism. In regard to the Japanese position, the article provided a similarly emotive and obscure statement from a company spokesperson. Nobutaro Umeda was quoted as claiming that "it would not pay to send steamers down to West Australia for iron ore when they could get it nearer Japan, but the development of the iron ore deposits would be the means of developing trade with Australia, and for that reason he had proposed that his company should provide the finance for an Australian company to work the Yampi deposit".

The attitude of the Australian press towards Japan appears to have been, at its worst, extremely prejudice or, at its best, one of grudging appeasement. The media reporting of the period is some indicia of prevalent attitudes. For example, in November 1935 the *Sydney Morning Herald* ran a story titled "Yampi Sound Project: Alleged Dummies; 'Japanese Capital'".⁷ The article was concerned with the relationship between Nippon Mining Company (the financier of the project) and Brasserts (the British company that was registered in Western Australia for the purpose of obtaining the Yampi Sound leases). The tone of the article was suspicious and aggressive towards the Japanese, particularly in regard to the possible use of Japanese capital by a British firm to develop the iron ore deposits. The main allegation related to the role played by Brasserts and how they were supposedly "obtaining a certain proposition as remuneration for dummying leases." The real objection being made in the article was to the source of the capital being used by Brasserts and not the fact that Brasserts were not developing it with their own funds. Such an arrangement in and of itself would not have been unacceptable, but it was considered unacceptable and was perceived to acquire sinister characteristics when it involved the Japanese.

Although not all media sources were anti-Japanese, a sizeable proportion certainly expressed racist opinions. The *Weekly Bulletin* was one anti-Yampi Sound opinion leader and it certainly expressed its views unambiguously. In September 1936 it ran a story titled "Canberra and Yampi"⁸ in which the Commonwealth Government's inaction in not stopping the project was condemned as gross negligence. Australia's vital resources, whether they were iron ore or pearls, were claimed to be passing into foreign hands and out of Australian control. It should be noted that the advice being received by the Commonwealth Government expressed the conclusion that control would not be foregone by allowing the investment to take place and furthermore, in broad terms the advice in 1936 was actually quite favourably disposed toward the development.

⁶ (Melbourne) *Age*, 20 February 1935.

⁷ "Ore Deposits. Yampi Sound Project: Alleged Dummies; 'Japanese Capital.'" *Sydney Morning Herald*, 21 November 1935.

⁸ "Canberra and Yampi," *Bulletin*, 17 September 1936.

With regard to the State of Western Australia, the *Bulletin* expressed contempt for the Commonwealth Government's policies: "The Commonwealth Government ... does not exhibit even ill directed energy with regard to the struggling occupations of the almost voteless and voiceless North." The problem with this opinion is that it is contrary to how the State of Western Australia considered the proposed development and any possible implications. Western Australia supported the project as it considered that it would increase trade and investment. In particular, the white inhabitants of the northern part of Western Australia appear to have viewed the proposal as an opportunity for development and a lessening of the isolation of life. But such views were considered provincial or selfish by many in the media.

Japanese businessmen and diplomats maintained a high profile in the media throughout the mid-1930s. A common approach taken by the Japanese representatives was to play-down the significance of Yampi Sound as a source of iron ore and argue in favour of the project on higher policy grounds, such as increasing trade or generally improving relations between the two countries.

In 1935 the leader of a Japanese business delegation, Mr Fujimura, was quoted in the (Melbourne) *Herald*. Fujimura firstly played down the loss to Australia of having Yampi Sound developed by a foreign nation for the purpose of export: "It may be a surprise to the people of Australia to learn that the quantity and quality of the iron ore at Yampi Sound, Western Australia, is not as good as is generally supposed."⁹

Fujimura subsequently made subtle references to both the social, political, and economic relations of the two nations: "There is a great potential trade for Australia in Japan and we hope by our visit to expand our trade relations." Such sidelining of the central issues (i.e.: foreign investment and iron ore exports) was a strategy used by the Japanese throughout the iron ore export embargo controversy. However, they were not the only interest group that used such a strategy of persuasion and the Pastoralists' Association of Western Australia took great pleasure in supporting the stance taken by the Japanese. This low key approach taken by the Japanese is in clear contrast to the direct role taken by the Japanese Government in 1938 when they directly lobbied the Commonwealth Government not to implement the iron ore export embargo.

It should be noted that Australia's relationship with Japan had become much more significant since the First World War. At the Paris Peace Conference in 1919 both Australia and Japan had been given 'C-mandates' over former German islands in the Pacific and international agreement allowed the two nations to administer the islands as if they were colonies or

⁹ "Japan Would Exploit WA Iron Ore," (Melbourne) *Herald*, 23 February 1935

integral parts of their respective nations.¹⁰ Accordingly, the Equator had effectively become the dividing line of the two nation's spheres of influence and consequently, Australia and Japan had become "direct neighbours in the widest geographical sense".¹¹ As discussed in chapter 1, within this context the ambitions of Japanese businessmen engaged in a perceived 'Southward Advance' into Australia's sphere of influence (and onto the Australian continent itself) was a contentious issue.

Australian pro-development groups were, whether they realised it or not, reinforcing the Japanese investors character as simply private interests and lobbied the Commonwealth Government in an attempt to have the investment by the Japanese (and resulting trade) secured for Western Australia. The Pastoralists' Association of Western Australia wrote to the Minister for External Affairs on February 11, 1935 alleging that the iron ore export trade offered great opportunity for pastoralists and that increased trade in Western Australia may in fact be reliant on the development of such trade:

Iron ore, as you know, takes up very little shipping space, compared with its weight and for this reason is stowed in the lower holds of vessels, leaving the between and upper decks available for light cargo, such as wool and meat, which occupies space as against weight.¹²

Furthermore, the letter claimed that the Minister was:

"already aware of the difficulty being experienced in the Kimberley Districts as regards the export of beef... There is also the possibility that with the establishment of a direct line of ships to Japan, their woolbuyers will operate more freely at the Perth wool sales."

The emphasis was on the possibility of Western Australia becoming part of a significant shipping route and its impact on the State's economy generally. However, the Pastoralists' Association's enthusiasm for the Japanese project did not stop at just pleading for it to proceed unhindered, but also to the possibility of government assistance. This was specifically requested in regard to specialist machinery that was required. It "appears that the duty on such machinery will be so heavy that difficulty will be experienced in forming an Australian Company to carry out this part of the programme." The government should "assist in the commencement of this trade with Japan, which will mean so much towards the development of the beef industry in the Kimberley Districts."

¹⁰ Frei, H., Japan's Southward Advance and Australia from the Sixteenth Century to World War II (Carlton, 1991) University of Hawaii Press, p.118

¹¹ *Ibid*, p.119

¹² Letter from the Pastoralists' Association of Western Australia to the Minister for External Affairs, 11 February 1935 (NAA: A425/142; 41/4789).

The Commonwealth Government's concern and desire to halt the development was a matter upon which they also sought the opinion and approval of the British Government. As will be demonstrated by all intercourse between the two nations on this matter, the Commonwealth Government was always careful not to be completely honest in regard to its most confidential views or advice on the matter. This behaviour will be shown to be analogous to the TDD discussed in Chapter 3.

Correspondence between Australia and Great Britain concerning the development began as early as December 1935 when a request was made by Lyons for Australia's High Commissioner in London, S.M. Bruce, to seek the opinion of the British Government:

Grateful if you would consult United Kingdom Government with a view to ascertaining whether disposed to offer suggestions for conserving this valuable deposit for Empire purposes... [I]f United Kingdom and Commonwealth Governments could jointly make some proposal for reserving the deposit or preferably to develop it for Empire purposes Western Australian Government could be induced to co-operate to this end. Glad if you would ascertain whether Brasserts genuine British company with British capital.¹³

Consultation between Australia and Britain continued throughout the formulation of the iron ore export embargo policy. However, its influence on the ultimate outcome is questionable, which is again analogous to the outcome of the TDD. The Commonwealth Government's strategy was to provide a justification for the halting of the development of Yampi Sound by Brasserts as the agent of Nippon Mining Company. A justification, however, was never forthcoming from the British. The British position on the matter was well known to the Commonwealth Government. A clear example of the British position was received in December 1936. A London based officer of the Department of External Affairs outlined the British position on the Japanese investment in Yampi Sound. The memorandum, *Japanese Activities in Australia: Yampi Sound*,¹⁴ outlined four key points made by the Committee of Imperial Defence and the Board of Trade:

- 1 That the Empire's total reserves of iron ore were more than adequate and that there was no need to conserve peripheral deposits (which included Yampi Sound);
- 2 The Empire had no known intention to develop Yampi Sound since much richer reserves existed much closer to Britain;

¹³ Cablegram: Lyons to Bruce, 10/12/1935 (NAA: A461/10; B373/1/3 Part 1)

¹⁴ "Japanese Activities in Australia: Yampi Sound," Department of External Affairs, 4/12/36 (NAA: A601; 763/43/1).

- 3 That although Yampi Sound's reserves were not presently required by Australia or the Empire they would be much more useful in an emergency if they were already developed by the Japanese; and
- 4 That in regard to the involvement of the Japanese in the development of, and export from, Yampi Sound: " that there is no object, nor is it desirable, to prevent Japanese obtaining their ore from [Yampi Sound]."

After providing this summary of the Committee's findings, the External Affairs officer discussed the motivations for the Japanese in investment in Yampi Sound. The officer considered that it was related to Japan being "entirely dependent on the open-hearth process of steel production which requires large quantities of scrap. This she formerly obtained largely from the United States of America and partly from the United Kingdom in the form of ships for breaking up". The growth of steel production in the United States in the 1930s had meant the price of scrap was increasing; rising from 42/- to 62/- a ton. The Japanese were consequently looking for other sources of the required raw materials. The officer wrote that from the British perspective the investment had favourable characteristics since:

if this enterprise succeeds it will mean that Japan will be more and more dependent on British sources for the raw material of one of its most important basic industries, and it is hard to believe that Japan would make these plans and be prepared to incur this very considerable capital expenditure if there were any danger of a serious quarrel with the United Kingdom which would cut them off from their source of supply of an essential raw material.

The recommendations do not deal with possible policy implications of the Japanese development. The British Government's concerns were all specific to the proposed trade in iron ore. This approach placed the iron ore industry outside the broader approach taken to trade in foodstuffs, textiles and other manufactured goods. The Ottawa Agreements did not involve trade in iron ore. The British advice was unlikely to have been affected by other trade considerations and consequently, their conclusions were only based upon the perceived merits of the proposed development of Yampi Sound and the expected resulting growth of trade with Japan.

Throughout 1935 the Commonwealth Government had sought information concerning the Japanese involvement in the project. The issue of Japanese investment in Yampi Sound was always the contentious issue. Lyons requested information in regard to Yampi Sound from the Western Australian Government in late 1935 relating particularly to the involvement of Japanese interests in the development. In their response they failed to provide specific information and stated that: "I have no knowledge that the Nippon Mining Company is

concerned in the deal, although I believe that if the option is exercised it is the intention of Brasserts to sell iron ore to the Japanese."¹⁵

Such denials prompted the comment in a Commonwealth Department of Commerce report in 1936 that the Western Australian Government was taking an "ostrich-like" approach to the Yampi Sound controversy.¹⁶ The high-minded tone of the Western Australian's reply demonstrates how the equally frustrated Western Australians resented the intrusions of the Commonwealth Government into the field of mining, which was predominantly the domain of State government. Nevertheless, the issue of Japanese labour in Western Australia was an area noted by Acting Premier Willcock as an opportunity to restrict the development of Yampi Sound and he advised the Prime Minister accordingly. However, in November 1935 the plan by the Japanese to use a limited number of Japanese technicians was not known and the Western Australian Government used this point to challenge the Commonwealth Government:

If the option is exercised and the works established for the production of the ore it will not be permissible for the company to employ Japanese labour. If they comply with the labour conditions and the mining laws of the State, and are a British Company, I know of no means whereby we can impose restriction on the sale of the output.¹⁷

It is appropriate to note that in the 1930s there had generally been tension between Western Australia and the Commonwealth Government, with consequent effects on the Australian Federation. In 1933 the Western Australian State government had held a plebiscite on the issue of secession with 138,653 voting in favour and only 70,706 against.¹⁸ However, after petitioning the British Government, and much domestic debate, the Western Australian State Government was informed that they could only secede with the consent of the Commonwealth Government. While this was the effective end of the secessionist movement, the forces driving the movement appear to have remained.

While engaging in the abovementioned discussions with Western Australia, the Commonwealth Government was, quite hypocritically, also providing the Japanese with positive signals in regard to their involvement in the project. In May 1936 the Department of the Interior felt that it could justifiably approve a request for four Japanese experts, in the field of iron ore grading, to be allowed to live and work in Australia:

¹⁵ Letter: Acting Premier of WA to Prime Minister Lyons, 16 November 1935 (NAA: A461/10; B373/1/3 Part 1).

¹⁶ "Yampi Sound Iron Ore Deposits," Department of Commerce, Minute Paper, 24 November 1935 (NAA: A601; 763/47/1).

¹⁷ Letter: Acting Premier of WA to Prime Minister Lyons, 16 November 1935 (NAA: A461/10; B373/1/3 Part 1)

¹⁸ MacIntyre, S., The Oxford History of Australia, Vol 4 (Melbourne, 1990), Oxford University Press, p.300-1.

Delivery of the ore will take place at Koolan Island and it is stated that this makes it necessary for a limited number of Japanese experts to be stationed at the Island to satisfy themselves as to the proper grading and analysis of the ore.¹⁹

Afterwards, however, the Commonwealth Government placed restrictions on this approval, as can be discerned from a briefing paper prepared for Lyons on May 22, 1936:

The Minister for the Interior decided that four Japanese experts should be permitted to remain for 12 months and thereafter be granted certificates of exemption from the Immigration Act for triennial periods. Subsequently as the result of consideration of the matter by Cabinet, it was decided that admission of the Japanese be permitted for six months only as it was thought that the Company being a British company should, by that time, be able to make arrangements for the employment of Australians permanently.²⁰

Although the investment by the Japanese in Yampi Sound was of great concern to the Commonwealth Government, the Department of External Affairs was also concerned with other related matters. One such matter was the intrusion of Japanese fishing vessels into Australian territorial waters. In a March 1937 briefing paper (prepared for the Australian delegation attending the Imperial Conference that year) considered the presence of foreign powers, including Japan, in Australia's northern territorial waters: "Until recently the question of the ownership of the small islands lying off the coast of Australia has not been of any great significance to the Commonwealth".²¹ Why they had suddenly become a matter of concern can only be speculated on, but the thesis contends that it is likely to have been the Japanese involvement in the development proposal for Yampi Sound together with heightened general concern of the Japanese in the 1930s.

The issues raised by the paper concerned Australia's place within South-East Asia and how Australia was effected by foreign powers operating within that zone. There was also an Imperial perspective whereby Australia was an agent of British influence and consequently, it was considered necessary that Australia assert the authority of the Empire. It should be noted that it was the Japanese who were singled out for particular attention, with American investment, for example, not being perceived as a major concern.

¹⁹ Department of the Interior, Memorandum: "Development of Yampi Sound iron ore deposits" (NAA: A433; 40/2/180).

²⁰ Prime Minister, "Japanese Experts for Yampi Sound Iron Ore Deposits", 22 May 1936 (NAA: A461/10; B373/1/3 Part 1)

²¹ "Unoccupied Islands in the Vicinity of Australia" in Hudson, W.J. (ed) Documents on Australian Foreign Policy 1937-49, Volume I: 1937-38, Department of Foreign Affairs (Canberra, 1988) Commonwealth Government Printer, Doc.4

In November 1936 the Department of Commerce produced a minute paper, *Yampi Sound Iron Ore Deposits*²², that provided a comprehensive history of the Yampi Sound controversy. The report claimed that Montgomery, the Western Australian State Mining Engineer, estimated Yampi Sound reserves in 1920 at 97 million tonnes (above the high-water level) "and that this estimate must be multiplied many hundredfold to include underground probabilities. The harbour is a magnificent natural one and could readily be equipped to afford all necessary facilities."

The strong interest in the deposits throughout the early decades of the twentieth century were outlined, together with an overview of the Japanese plans. It should be noted that no question, or discussion, of the accuracy of the estimates took place in this report. The report also examined past governmental policy and the views of prominent groups and individuals. The report stated that the Commonwealth Government had previously considered that it had no more right to prevent the export of iron ore than it had to ban the export of wool. However, the case against the development was discussed, most particularly in relation to the arguments expressed by Donald C.L. Reid of South Australia. Reid was described as "mining man" and his opinions were taken from correspondence that he had previously had with Lyons.

Reid was against the Japanese investment, considering that the iron ore reserves of Yampi Sound were too valuable to be exported and were needed by Australia for its development and future prosperity. Reid was also pro-Chinese and critical of the threat posed by Japan to China and potentially Australia:

What is all this stir and activity for? For the manufacture of the latest types of fighting ships. Guns, armament of all description to fight their way through to capture Australia. Twenty years ago they taught their children in the schools of Japan that "Sunry Australia would be theirs in days to come" and I am sure that sentiment still prevails.²³

It may be argued, with the benefit of hindsight, that Reid demonstrated prescience, but at that time Reid's views were criticised as biased and inconsistent by the report: "It is largely based on anti-Japanese prejudice and a fear that iron will return to Australia in the form of invading battle-ships and bombers, but he urges the necessity for reserving the deposits for Australia's future use when her industries expand."²⁴

²² "Yampi Sound Iron Ore Deposits," Department of Commerce, Minute Paper, 24 November 1936 (NAA: A601; 763/47/1).

²³ Letter from Donald C.L. Reid to Dr Woolnough, 25 February 1935 (NAA: A425/142; 41/7289).

²⁴ "Yampi Sound Iron Ore Deposits," Department of Commerce, Minute Paper, 24 November 1936 (NAA: A601; 763/47/1).

The Pastoralists' Association of Western Australia's stance on the other hand (which supported the export of iron ore and the likely increased trade in rural produce) was considered rational and reasonable. However, the report stated that the trade issue was in many ways peripheral to the views being expressed in relation to the development. For example, in this regard the minute paper claimed that:

In the Trade Commissioner's opinion Nippon Sangyo are using Brasserts practically as a "dummy", but presumably this does not lessen the ultimate control which the Western Australian Government exercises over the ore deposits so that these could be withdrawn if ever required for national purposes.

The Western Australian Government was itself labelled as "complacent" in that it had refused to negotiate with the Japanese, recognizing only the British holdings and investment, which was described as "an unjustifiably ostrich-like simplification of the problem". The minute paper perceived that the involvement of Japan required attention, particularly in relation to the conditions of the lease holdings and the export licensing for Brasserts. The recommendation was that the Japanese funds that were behind Brasserts investment in Yampi Sound should be openly considered and furthermore, that the government enter into direct negotiations with the Japanese.

The Commonwealth Government was also concerned with Tasmania and Queensland during the early formulation of the iron ore export embargo policy since those two States were the only States, other than Western Australia, that could conceivably support an iron ore export industry. In June 1936 the Attorney-General's Department sent a briefing paper to the Department of External Affairs dealing with the issue of Japanese interest in iron ore and manganese deposits in Australia. The focal point was Portland Roads, Queensland, a region that gained considerable attention from the Commonwealth Government in the following months: "Japanese are at present displaying interest in the development of all profitable ore deposits in this country, including Portland Roads iron ore deposits in Queensland."²⁵ The Japanese had in fact put forward two separate development proposals regarding Portland Roads:

- 1 That they would be willing to guarantee the purchase of a certain amount of ore, but would allow only Australian capital to develop the deposit; or conversely
- 2 That Japanese interests themselves could supply part, or the whole, of the capital required, but export all the ore recovered to Japan.

²⁵ "Japanese - Interest in Iron Ore Deposits and/or Manganese in Australia." Attorney-General's Department to Department of External Affairs, 29/6/1937 (NAA: A981; AUS90 Part 1)

The interest and activity of the Japanese in Australia may conceivably have produced unease within the Commonwealth Government. The Commonwealth Government adhered to the White Australia policy and operated within the confines of a largely Anglo-Celtic community that had traditionally perceived Asia and Asians as a threat. Nonetheless, Japanese interest in Australian minerals kept increasing and the possibility of developing Portland Roads was high on the agenda.

The Commonwealth Government's relationship with the States was placed under pressure in this climate of heightened interest in natural resources. Lyons wrote to the Premier of Tasmania in December 1936 alluding to the prospect of the development (by foreign nationals) of Tasmanian iron ore deposits for export. The document is extremely insightful as it provides one of the few occasions that an indication of the Commonwealth Government's actual intentions can be discerned. Lyons wrote that:

I desire to make it quite clear that in proposing to your Government the reservation of a potential control over companies operating the ore deposits the Commonwealth Government had no intention of suggesting that ore won from Tasmanian fields should not be exported to foreign countries, vide my letter of 30th September. Other Australian companies do in fact ship iron ore to Japan.²⁶

The Prime Minister's concern was foreign investment - foreign meaning all investment from non-Anglo-Saxon countries. Japan was itself the central issue:

The question really is as to whether foreign nationals should be permitted to have a stake in the production in Australia of essential commodities. You will agree that this is quite a different matter to the export of such commodities to foreign countries by Australian producers. History records many instances where the entry of foreigners into enterprises of the kind under reference has proved a fertile source of international disagreement. This matter is regarded as of such importance that it is also intended to list it for consideration at the next mining conference.

The use of such phrases as *stake in production* and *history records* provides the Prime Minister's letter with a persuasive tone. Lyons was using phrases with emotional connotations to persuade the Premier of Tasmania that the White Australia policy should be extended to Asian capital as well as Asian people. The misinformation propagated by the Prime Minister reached a climax in the concluding paragraph:

²⁶ Letter from the Prime Minister to the Premier of Tasmania, 30 December 1936 (NAA: D461/8; D373/1/3)

The objective of the Commonwealth Government is assured governmental control of raw materials in time of national emergency... If, however, foreign interests controlled the source of supply of the raw materials, action to influence the conduct of operations might be construed as an unfriendly act and result in international repercussions of an undesirable nature.

Such concerns may have been valid if not for the reports produced by the departments of Defence, Commerce and the Interior. Such reports concluded that the iron ore deposits were of more use to the Commonwealth Government in a time of emergency if they were already developed. In the case of Yampi Sound this point was clearly stated by all three departments and so the Prime Minister's perspective, stated as it is with such authority, provided the Premier of Tasmania with a false impression of expert Commonwealth Government opinion.

A final background issue that requires attention at this time relates to the domestic political arena. In this regard the Yampi Sound controversy did not provide the usual split of opinion down party lines, with politicians from both sides of politics (at the State and Federal level) holding conflicting opinions. The Leader of the parliamentary Australian Labor Party, John Curtin, was in favour of the development, while one of the most outspoken opponents of the development was a Labor Party backbencher, Eddie Ward.

Ward was a prominent and controversial figure of Australian politics throughout the 1930s through to the 1960s, representing the Federal electorate of East Sydney. Mr Ward was an outspoken critic of the project and he delivered a scathing assessment of Yampi Sound in the House of Representatives on November 5, 1936. Mr Ward stated that: "The agreement entered into for the development of Yampi Sound has been framed in such a way as to circumvent Australian legislation".²⁷ Ward asserted that Brasserts was just a "dummy" company for Japanese interests, that it was to be predominantly Japanese equipment that would be used by Brasserts to develop and mine Yampi Sound, and that Brasserts would be transporting all of the iron ore to Japan.

These three points are in themselves quite valid, with each containing some element of truth. Of significance is his emphasis on Japanese (as opposed to foreign) investment. Nonetheless, the prejudice is extremely vivid and consumes any logic that the speech may have employed. This is particularly true of his concluding remark:

In the next war - which many honourable gentlemen opposite seem to be afraid to refer to very specifically, though we all know that they think Japan will be the

²⁷ Eddie Ward, Labor Member for the electorate of East Sydney. *Hansard*, Commonwealth of Australia, House of Representatives, 5 November 1936 (NAA: A425/142; 41/7289).

aggressor - we may find that war equipment will be used against Australian troops which has been made from minerals obtained from Australian mines.

Mr Ward's views were crude and emotive, engaging in no real analysis of the situation, instead just attacking the government by pandering to the fears of ordinary Australians. Nonetheless, his anti-Japanese views were just as strongly held by the Lyons' Cabinet, something that is harder to say about the Leader of the Opposition who was openly in favour of the Yampi Sound development. It should be noted that Curtin's personal opinion would, however, also appear likely to have a bias since he was a Western Australian member of the Commonwealth Parliament and the State of Western Australia as a whole would appear to have been in favour of the development.

2.3 Conclusion

The proposed development of Yampi Sound by Japanese interests took place within a political environment where Australia's trading and diplomatic relationship with Japan was experiencing difficulties. Japanese fishing and pearling in Western Australian waters was widespread in the 1920s and 1930s and was a matter of concern to the Commonwealth Government. The Japanese were perceived as an aggressive nation, and when combined with their assumed overpopulated homeland, Japan appeared to be a military threat to Australia. It should also be noted that Australia became involved in an extremely serious trade dispute with the Japanese in 1936 (further discussed in chapter 3). It should also be noted that Japanese businessmen had become increasingly involved, since the 1920s, in a southward migration into territories considered part of Australia's sphere of influence since the Paris Peace Conference of 1919.

The Department of Defence provided the earliest analysis of the proposed development of Yampi Sound. However, the Departments of Commerce, External Affairs and Interior all provided an insight into the iron ore export embargo's formulation. It should be noted that the Department of Defence's advice favoured the development from an economic perspective and initially perceived no significant national security implications of the project.

The early involvement of the British Government in advising the Commonwealth Government on the proposed Japanese development is interesting and will be further examined in chapters 3 and 5. What can be discerned from the evidence at this stage in the iron ore export embargo policy's formulation is that the broader context of Imperial trade and the Ottawa Agreements were not perceived by the Australian and British governments as central to any potential iron ore trade. The most noteworthy conclusion from the British was that from an Imperial perspective the project was positive. This stance supported the Defence Department's advice. On the other hand, the Commonwealth Government was also within an environment where anti-Japanese sentiment placed significant pressures on it, coming from

interest groups, the media and some politicians. It can nevertheless be concluded that no clear policy response to the proposed development crystallized in these early years.

CHAPTER THREE

THE 1936 TRADE DIVERSION DISPUTE

3.1 Introduction

The Trade Diversion Dispute (the “TDD”) in 1936 provides an interesting comparison to the 1938 iron ore export embargo controversy. It may be superficially contended on a number of grounds that the two trade disputes are analogous. For example, they both revolved around Australia’s trading relationship with Japan, many of the key government figures involved were the same, and the outcome of the Commonwealth Government’s action in both disputes was that trade with Japan was significantly reduced. The thesis, however, contends that although similarities exist, the two disputes were the result of specific political and economic pressures unique to each.

The chapter will firstly examine the hypothesis that the iron ore export embargo was a racist response by the Commonwealth Government to Australia’s changing trading relationships. That will be followed by a broader discussion of the factors and circumstances surrounding the TDD. It is the distinct motivating factors that underpinned the TDD (as opposed to the iron ore export embargo) that clearly distinguish the dispute.

3.2 Tweedie’s racist hypothesis

There is a hypothesis that the implementation of the iron ore export embargo was a racist reaction by the Commonwealth Government and that its behaviour is consistent with its responsibility for regulation of the White Australia policy. The dominant factor in this hypothesis is that the Yampi Sound development was to have Japanese technicians and workers stationed on the island (in addition to the Japanese freight ships that would be frequenting Australia) and that such a breach of the White Australia policy was not tolerated by the Commonwealth Government.

Sandra Tweedie¹ considers the motives for the iron ore export embargo in her dissertation that focuses predominately on Australia’s relationship with Asia and the influence that prejudice played in shaping Australia’s trade policies. Tweedie considers the Commonwealth Government’s apparent acceptance of the Japanese proposal from 1935 as motivated by economic principles, but that their eventual denial of the Japanese as motivated by racist principles. The motivation for the policy is largely blamed on populist pressures from elements

¹ Tweedie, Sandra M. “Crimson Threads and Golden Strands: Weaving the Pattern of Australia’s Trade with Asia, 1932-1957”, Doctorate of Philosophy, University of New South Wales, October 1988

within both the Labor Party and the labour movement, along with the prejudice of the Minister for the Interior, John McEwen².

To appreciate Tweedie's comparison of the two trade disputes, it is firstly necessary to understand the background to Australia's trading relationship with Japan and the events directly leading to the 1936 dispute. In regard to the former, there had been a significant change in the size and balance of Australia's trade with Japan in the early 1930s. A dramatic expansion in Australian-Japanese trade occurred in the 1930's with substantial increases in Australian exports of raw materials (eg: wool) and foodstuffs (eg: wheat), and inroads into the Australian market at the expense of British and European manufacturers: "Imports from Japan increased from less than 3 per cent during the 1920s to 6 per cent of the Australian total by 1935, while exports to Japan increased from 7 per cent to nearly 14 per cent of the total."³ Thus the value of Australian-Japanese trade increased substantially.

The other significant change in Australian-Japanese trade related to Australia's external accounts. The balance of trade between Australia and Japan had been heavily in Australia's favour in the early 1930s, however, price reductions of cotton and rayon in 1935 brought British goods under competition and that in turn led to a significant increase in Japan's share of the Australian market.⁴ "To rectify the position the Commonwealth Government decided to review the duties on cotton and artificial silk textile piece goods in order to provide an actual margin of preference in favour of the United Kingdom."⁵

The 1932 Ottawa Agreements had been an attempt to divert trade by members of the British Empire to other members of the British Empire. In the stagnant economic conditions of the 1930s greater interdependence of members of the British Empire was the objective. Consequently, the TDD may be perceived as an attempt by Australia to fulfill the spirit of that agreement. However, the strength of this argument is weakened by Australia not having fulfilled the spirit of the agreements in many other ways. Most significantly, although Australia did lower its tariffs on British goods, both in absolute terms and relative to tariffs on foreign goods, Australia was consistently in breach of its Ottawa obligations from 1932 to 1939.⁶

² John McEwen was a member of the Country Party and his electorate was in Victoria. He became Minister for the Interior in November 1937. [see: Alexander, J.A.(ed.) Who's Who in Australia in 1938 (Melbourne, 1938) The Herald Press]

³ Purcell, W.R., "The Development of Japan's Trading Company Network in Australia 1890-1941", in *Australian Economic History Review*, Vol. XXI, No.2, September 1981, p.118.

⁴ Nicholson, B.A., Australia's Trade Relations: An outline history of Australia's overseas Trading Arrangements, (Melbourne, 1955) Cheshire, p.118-19.

⁵ *Ibid*, p.120.

⁶ Drummond, Ian M., Imperial Economic Policy: 1919-1939 (London, 1974) George Allen and Unwin Ltd, p.408.

It should also be noted that at around this time Australia was experiencing significant deficits in its balance of trade with the United States of America and that the Commonwealth Government consequently decided to also implement import licences and higher duties to address that imbalance. Trade diversion in this instance was aimed at fostering import substitution industries which were finding it difficult to compete with the more efficient American producers. However, the measures were short-lived, being withdrawn after the United States of America "withdrew most-favoured nation status for Australia".⁷

Prior to further discussing what motivated the Commonwealth Government to act in this manner towards Japan it is appropriate to firstly appreciate the less contentious issue that the TDD comprised of four key stages. The first stage was in late 1934 when the Lyons' Government acceded to the Japanese Government's request to discuss a proposal for a Treaty of Friendship, Commerce and Navigation. In the negotiations Australia demanded that Japanese exports of cotton and rayon cloth be voluntarily curtailed, or otherwise tariffs would be raised by the Australian Government.⁸ The Japanese had already signed a treaty with Britain, Ireland, Canada and New Zealand, and it was within the scope of British Imperial policy that Australia decided to take such action.⁹ The second stage occurred in May 1935 when the Japanese replied to the Australian request. Their position was that it was unacceptable to them that they should have to curtail their exports to Australia. The Australian Government subsequently responded by increasing specific duties. The third stage involved the Japanese officially retaliating (June 1935) by applying an import licensing system on Australian wool, wheat and flour and introducing a 50% *ad valorem* above ordinary import duties on beef, butter, condensed milk, hides, beef-tallow and casein.¹⁰ The final stage was in July 1936 when the Australian Government, in retaliation, prohibited the entry of items of Japanese imports amounting to 40% of their total exports to Australia.¹¹

Explanations of what motivated the Commonwealth Government to behave in this manner can be conveniently divided into two schools of thought, although they are not necessarily mutually exclusive. The explanation provided by the first school may be understood in terms of racism and Australia's strong emotional links to Britain. Australia's refusal to sign a similar trade treaty with Japan to that agreed to by Britain was perceived as racist:

Its [Japan's] rulers believed that Australia's refusal to negotiate sprang from racism, a refusal to modify the White Australia policy so that Japanese nationals could move

⁷ Dyster, B., and Meredith, D., Australia in the International Economy in the Twentieth Century (Melbourne, 1990) Cambridge University Press, p.151.

⁸ Sissons, D.C.S., "Manchester v. Japan: The Imperial Background of the Australian Trade Diversion Dispute with Japan, 1936", in *Australian Outlook*, Vol 30, No.3, Dec. 1976, p.480-81

⁹ Dyster, B., & Meredith, D., *op.cit.*, 151.

¹⁰ Sissons, D.C.S., "Manchester v. Japan", *op.cit.*, p.480-81.

¹¹ *Ibid.*

freely on business into and out of the country. The trade diversion measures were interpreted as a racist insult as well as an economic injury.¹²

Dyster and Meredith imply that Australia's shoddy treatment of Japan was firstly based upon a belief that Japan was to a significant extent dependent on Australia for certain commodities, and secondly, that the Commonwealth Government clearly supported the view that Australia "relied on British markets, sought British capital and harboured British sentiments" for the sake of Australia's prosperity. Such sentiments can also be seen in Sissons' acknowledgment that Australia was generally suspicious of Japan and was strongly attached to Britain on an emotional level:

Threatened by a powerful Japan alien to us in race and in values – a Japan that had only recently indicated in Manchuria its thirst for territorial aggrandizement – our only hope of survival lay in the military support of our fellow citizens in the United Kingdom. Was it brotherly, was it fair, was it reasonable to expect Britain to come to our defence if we helped to put Lancashire out of business by spurning the output of its mills in favour of the cheaper Japanese product.¹³

The second perspective relates to Australian reliance on the British economy. This perspective maintains that the Commonwealth Government engaged in a trade-war with Japan to manoeuvre itself into circumstances where it was capable of securing future trade concessions from Britain. Sissons believes that the purpose of the trade diversion measures was "to put Australia in a better position in all its negotiations, then and thereafter, regarding the entry of all Australia's primary products into United Kingdom".¹⁴ Tsokhas agrees with this claim:

through trade diversion the Lyons government was pursuing its own objectives, both electoral and economic; it was not following commands from the UK in seeking to stabilize a ruling alliance of business supporters, it happened to act in ways beneficial to Lancashire manufacturers. What emerges is the highly independent course adopted by the government and the decisive influence of local Australian political struggles on policy outcomes.¹⁵

What Tsokhas is referring to is the influence that pragmatic diplomatic and trade strategy played in the Commonwealth Government's decision to engage in a serious trade dispute with

¹² Dyster, B., & Meredith, D., *op.cit.*, p.151.

¹³ Sissons, D.C.S., "Manchester v. Japan", *op.cit.*, p.481.

¹⁴ *Ibid*, p.501.

¹⁵ Tsokhas, K., "The Wool Industry and the 1936 Trade Diversion Dispute between Australian and Japan", in *Working Papers in Economic History*, No.109, June 1988, The Australian National University, p.2.

the Japanese. Dyster and Meredith put the dispute within the context of Australia's dominant trading relationship with Britain, calling the diversion a "conscious retreat from opportunity".¹⁶ Australian reliance on the British economy was increased:

The outcome of the Trade Diversion Dispute, which virtually paralysed trade between the two economies for nearly a year, was a decisive event in that the settlement accord which followed the dispute imposed severe limits on the future expansion of trade between Japan and Australia.¹⁷

Although pressure to direct trade in favour of the British economy was forthcoming from Britain, it was fairly limited and ironically, some of it was only brought to bear after the Commonwealth Government had taken the decision to implement trade diversion measures. The Manchester cotton industry had made representations to Lyons in 1935 when he visited Manchester. At that time Lyons had pledged to bring their concerns to the attention of his government. A Manchester mission set out for Australia in 1936, but two days before the delegation had left Manchester the Commonwealth Government Cabinet made its decision to restrict Japanese imports.¹⁸ The delegation was consequently unnecessary, but also possibly harmful as it gave the impression that the decision was the result of dictation of Australian policy by British commercial interests.

While the Lyons government hoped to rally Australian nationalism behind its foray against the Japanese, the presence of the mission from Manchester left it vulnerable to criticism in Australia and Japan, that Australia was pliantly responding to British demands.¹⁹

Informal pressure was also exerted by the British Government, including the President of the Board of Trade who forwarded information supplied by Manchester representatives and included his own personal wishes that Australia make concessions that would safeguard Lancashire's export trade.²⁰ The desired action by Australia would presumably have included both reducing protection on Australia's textile industry and also providing a greater degree of preference to British imports over other imported textiles. When informing the British Government of the decision, it was implied that the Australian decision resulted from pressure exerted by the British. The implication was that British pressure had been exerted over a period of time and that it had altered the Commonwealth Government's natural inclinations.²¹ Sissons claims that the British Government was genuinely surprised by the Australian decision

¹⁶ Dyster, B., & Meredith, D., *op.cit.*, p.150.

¹⁷ Purcell, *op.cit.*, p.131.

¹⁸ Sissons, D.C.S., "Manchester v. Japan", *op.cit.*, p.486.

¹⁹ Tsokhas, *op.cit.*, at 3.

²⁰ Sissons, D.C.S., "Manchester v. Japan", *op.cit.*, p.493.

and were careful to avoid making the impression that they were behind the Commonwealth Government's decision:

The British Government was careful to make it clear to all that Australia was not acting under its influence in this matter.... That Australia had acted on its own initiative was also a point made by the United Kingdom High Commission in Canberra in off-the-record conversations.²²

There was resistance to the decision from within Australia. Unsurprisingly wool growers played the major role in defending the interests of the Japanese because Japan was a significant purchaser of wool. J.P. Abbott, of the Graziers' Association of New South Wales, commenting on the fact that Japan had become Australia's largest importer of wool, and in the face of requests for assistance from a delegation from Lancashire and the Bradford Chamber of Commerce, stated: "If you say to Japan, with a population increase of 1,000,000 a year, that she must not emigrate her nationals, nor shall we take her goods, there is only one alternative, and that is war, and bloody war, in the Pacific."²³

If it can be concluded that the pressure from Britain was too limited to produce such a strong response from the Commonwealth Government (since a trade war with Japan was a very serious and obvious outcome of the government's policy) then what did motivate the government? Why did the Australians give such a *quid pro quo* to the British? Sissons' explanation is that it was a policy that the Commonwealth Government believed would be an effective negotiating tool:

The Ottawa preference²⁴ had proven to be inadequate in the face of Japanese competition, and [Minister] Gullett believed that if Australia guaranteed a larger share of the Australian market for UK textile manufacturers, it would be hard for the UK to refuse increased sales of Australian beef, fruit and dairy products in the UK at the expense of rivals such as Argentina and Denmark.²⁵

In this explanation, trade diversion was a bargaining tool of the Commonwealth Government. Its ultimate or central objective was to limit imports of Argentine meat into Britain when the British-Argentine trade treaty expired in 1936: "Australia insisted that when this treaty expired Britain should impose duties and additional quantitative restrictions on Argentine meat in the

²¹ *Ibid.*, p.494.

²² *Ibid.*, p.485.

²³ Tsokhas, *op.cit.*, p.7.

²⁴ Ottawa preference came about from the 1932 Imperial Conference in Ottawa where it was agreed to define trade preference in terms of Empire membership.

²⁵ Tsokhas, *op.cit.*, p.3.

interests of Australian producers".²⁶ What Australia achieved in diverting its trade was to make "a generous, unilateral gift and then, when after some time it was not reciprocated, indicated that such generosity was endangering our relations with Japan and could not continue unless requited."²⁷

In regard to what the primary motivations were for the Commonwealth Government's seemingly unilateral action, Tsokhas' conclusions largely concur with Sissons, describing the dispute with Japan and the diversion of trade to the British textile industry as a "self-conceived policy"²⁸ that produced positive results for Australian producers: "In the end Australian beef would enter the UK duty-free, while other major exporters had to pay duties".²⁹ Tsokhas argues that Lyons:

was drawn towards the UK mainly by the promise of further beef sales. He was pulled away from Japan by the wonderful publicity engendered by a clash with a rising Pacific power, and the electoral benefits which appear to be accruing to the UAP.³⁰

The final outcome of the TDD was that "the British Government modified its policy on the meat question in important respects as a result of threats by the Australian Government that it would otherwise adopt a more conciliatory policy towards Japan on the textile question."³¹ Consequently, the Commonwealth Government was "getting Australia into a position from which privilege[d] and assured access for beef products to the UK market would be conceded by the Imperial government."³²

Pinkstone is nevertheless of the opinion that if the aim of the Commonwealth Government was to increase Australian meat exports to the United Kingdom, "then the eventual costs of the approach probably outweighed the gains".³³ On the other hand, Pinkstone also considers that non-economic factors such as the electoral popularity of attacking the Japanese and pandering to Imperial sentiment were also likely influences and accordingly, success is difficult to measure.

These latter influences were just as surely a factor in the iron ore export embargo dispute as in the TDD. Furthermore, the iron ore export embargo dispute was predominantly concerned with whether the Japanese should be allowed to control and develop the Yampi Sound

²⁶ Sissons, D.C.S., "Manchester v. Japan", *op.cit.*, p.495-96.

²⁷ *Ibid.*, p.502.

²⁸ Tsokhas, *op.cit.*, p.4.

²⁹ *Ibid.*, p.18.

³⁰ *Ibid.*, p.20.

³¹ Sissons, D.C.S., "Manchester v. Japan", *op.cit.*, p.500.

³² Tsokhas, *op.cit.*, p.21.

deposits. These issues relating to physical presence and control raised concerns relating to national security, with the investment in the infrastructure of a wharf and port on Australia's remote northern coast being considered controversial. Other factors that have been discussed include Australia's racist White Australia policy and Japan's militarism. In chapter 7 the influence of economic nationalism will be discussed from the perspective of Rupert Lockwood's capitalist conspiracy hypothesis.

In the case of the TDD, these factors were not present. Although the motivations may not have been clear to contemporary commentators, it would appear that the Commonwealth Government was simply engaged in a complex and ongoing series of trade negotiations throughout 1935 and 1936. Racism and suspicion of the Japanese were certainly present, but they do not appear to have dominated the process that lead to the TDD.

As alluded to previously, there are nonetheless similarities between the two disputes. Firstly, Lyons was a key player in both disputes, along with Robert Menzies and Earle Page. Menzies and Page were key figures in the TDD as both belonged to a special Cabinet committee whose task it was to liaise with the Special Wool Advisory Committee made up of representatives of relevant sections of the industry.³⁴

Lyons' involvement also bears a strong resemblance to the role he played in the iron ore embargo export controversy. On July 17, 1936 Lyons asked representatives of the wool industry, and the public at large, to refrain from any embarrassing actions so that the government would be able to achieve the best possible outcome for Australia.³⁵ Such a request of the public was very similar to his requests in 1938 and 1939 when Lyons and Menzies claimed that the wharf labourers (who were refusing to load scrap iron onto freight ships bound for Japan) should not be interfering in Australia's foreign affairs. Another person involved in both disputes was Longfield Lloyd. He gathered intelligence, advised the Government, and negotiated on their behalf.³⁶ These were the same functions he performed throughout the development and implementation of the iron ore export embargo.

Secondly, both disputes occurred at a time when Japan was involved in military conflict on the Asian continent and "had a wider sphere of influence in mind." ³⁷ Sissons writes that "Japan's

³³ Pinkstone, B., Global Connections: A History of Exports and the Australian Economy (Canberra, 1992) AGPS Press, p.127.

³⁴ Sissons, D.C.S., "Private Diplomacy in the 1936 Trade Dispute with Japan", in *The Australian Journal of Politics and History*, Vol 27, No.2, 1981, p.151.

³⁵ Sissons, D.C.S., "Private Diplomacy in the 1936 Trade Dispute with Japan", *op.cit.*, p.156.

³⁶ *Ibid*, p.157.

³⁷ Dyster, B., & Meredith, D., *op.cit.*, p.152.

militarism, superimposed on its rapid industrialisation, generated a hunger for metals mined in Australia – zinc, lead, iron ore – and for iron and steel scrap.”³⁸

Sissons argues that the investment by Nippon Mining Company and the interest of other Japanese companies in resources elsewhere in Australia (including Cape York on the north-east coast) produced fear in Australia that Japan was bent upon incorporating Australia’s northern coastline into its economic empire and that this might be preparatory to a military or political takeover. The iron ore export embargo was implemented to “palliate its immediate purpose”. Dyster and Meredith contend that the 1930s was a period of heightened hostility between Australia and Japan, perceiving connections between the international disputes of the decade:

Australia had followed its attempt at trade diversion in 1936 and its embargo on the export of iron ore in 1938 with a complete prohibition on trade with Japan in July 1941, expelling Japanese companies and businessmen and confiscating their assets. When Australia declared war a few months later the shock to trade relations had been absorbed already.³⁹

It is, however, indisputable that there was expansionary pressures on the two nation’s trade relations in the 1930s. Purcell acknowledges that although “Japanese purchases of ore and metals, which were required in ever increasing quantities in Japan, and which were not subject to stringent control regulations, continued to rise; at least until 1938 when a series of events in Australia, the iron ore embargo decision of May 1938, the pig-iron dispute of 1939 and the introduction of import licencing in 1940, brought the trade to a sudden conclusion.”⁴⁰ Purcell’s contention is illustrated by the following import figures for the Japanese economy between 1930 and 1939. In 1930 Japan imported 170,838 metric tons of Australian iron ore.⁴¹ After a drastic decline in the first three years of the 1930s, imports rose to a high of 355,508 metric tons in 1935. Imports subsequently fell to 297,000 metric tons in 1936, 198,000 metric tons in 1937 and 89,000 metric tons in 1938.⁴² There were no imports in 1939.

Accordingly, the export of iron ore, or exports generally to Japan, was not the primary concern of the TDD. Concessions for Australia’s exports to Britain was the actual objective. Australia needed Britain to be economically healthy and set about unilaterally assisting Britain and creating a situation where Britain was increasingly dependent upon Australia, or at least where

³⁸ Sissons, D.C.S., “Private Diplomacy in the 1936 Trade Dispute with Japan”, *op.cit.*, p.156.

³⁹ *Ibid*, p.174.

⁴⁰ Purcell, *op.cit.*, p.131.

⁴¹ Penrose, E.F., “Japan, 1920-1936”, in Schumpeter, E., (ed.) The Industrialisation of Japan, 1930-1940 (New York, 1940) MacMillan, pp.256-257

⁴² Schumpeter, E., “Japan, Korea and Manchuko, 1936-1940”, in Schumpeter, E., (ed.) The Industrialisation of Japan, 1930-1940 (New York, 1940) MacMillan, pp.

they felt indebted to Australia. Australia's sales of iron ore to Japan had no such influence on Australia's relationship with Britain and (as is discussed in chapter 4) the British felt it would in fact be advantageous for the Empire's relations with Japan to have Japan more – not less – dependent on Empire reserves of iron ore.

Rupert Lockwood dismisses the racist motivation as a significant influence on the Commonwealth Government's actions. Lockwood relies on a narrow appraisal of the Commonwealth Government's behaviour when he considers that Japanese nationals were to be working on the project. He maintains that precedent existed for the Commonwealth Government to grant permission for Japanese nationals to live and work in Australia, writing that during World War One the Japanese Imperial Navy "was granted anchorage and other rights at Jurien Bay, between Fremantle and Geraldton."⁴³ Lockwood either ignores or fails to comprehend that there was a considerable difference between granting Japanese nationals permission while they were allies of Australia's in the First World War, and on the other hand, granting permission to civilian personnel at a time when Japan was showing clear militarist tendencies.

In 1922 the Anglo-Japanese Alliance ended at the Washington Conference, greatly reducing the possibility of "friendly and effective British influence on policy-making in Tokyo".⁴⁴ The Anglo-Japanese Alliance was replaced with an "empty agreement" known as the Four-Power Treaty which was a more unilateral defence agreement that included the United States of America, France, Great Britain and Japan. Anglo-Japanese and Australian-Japanese relations were no longer bound together in a formal bilateral defence relationship. And so although a precedent of some sort (as discussed by Lockwood) did exist, the Commonwealth Government's decision could presumably have produced a different response from the general public in the late 1930s in circumstances where no effective military alliance existed. As noted in chapters 1 and 2, Australian attitudes and concerns in regard to Japan's perceived threat to South East Asia and Australasia were a significant political factor in this period. Accordingly, the issue must be viewed as having more complex domestic political ramifications for the Commonwealth Government than Lockwood acknowledges.

Lockwood's failure to comprehend the difference between Japan's presence in Australian waters during the First World War and in the 1930s highlights a crucial difference between the two disputes. From a domestic political perspective, the TDD had relatively limited significance. For example, if the Commonwealth Government had not acted to benefit British trade their non-action may have been justified upon letting the market determine Australia's trading position, or consumer choice, or best prices for consumers. The TDD appears to have been a deliberate policy decision taken by the Commonwealth Government to obtain for

⁴³ Lockwood, *op cit*, p.117

⁴⁴ Storey, R., A History of Modern Japan (Great Britain, 1979) Penguin, pp.163-4.

Australia what they believed were crucial concession for Australian beef exports to the United Kingdom. By contrast, the iron ore export embargo was much more reactionary with the Commonwealth Government appearing fearful of Japanese investment and development in Australia.

The thesis contends that the key alternate explanation to those offered by Blainey, Tweedie and Lockwood is that politico-strategic factors motivated the Commonwealth Government. Political embarrassment rather than any genuine military imperative motivated the Commonwealth Government to implement a prohibition that would stop an Asian militarist power from having a presence in Australia.

3.3 Conclusion

The weight of opinion on what motivated the Commonwealth Government to engage in the TDD is that it was part of a complex series of diplomatic trade negotiations that were aimed at securing for Australia a better trade deal with its dominant trading partner. Australia was extending to Great Britain a favour that it would be obliged to return.

Nor can the TDD have been the result of an over zealous Australia attempting to fulfil not only the letter, but also the spirit, of the 1932 Ottawa Agreements. From the breadth of opinion examined above (and by the fact that Australia was consistently in breach of many of its Ottawa obligations throughout the 1930s) it can be concluded that the agreement played only a minor role, if any at all. Such a factor may have indirectly influenced the Commonwealth Government's policy by limiting its trading horizons and placing emphasis on the exports that Australia felt had the greatest possibility of growth in demand in the British market. However, the conclusions of Sisson, Tsokhas and Pinkstone would appear to provide a more accurate and complete explanation for the TDD – Australia was seeking more favourable treatment for its beef exports.

The trade diversion measures aimed at the United States of America add further support to the contention that Australia's trade policy was primarily motivated by pragmatism. In the case of the United States of America, cheap manufactured imports were perceived as a threat by the Commonwealth Government to the further development of Australia's manufacturing industry and accordingly, the diversion measures aimed to foster import substitution. A simple racial hypothesis cannot provide an adequate explanation for the Commonwealth Government's policy of trade diversion towards the Americans.

Although the TDD provides an interesting comparison to the 1938 iron ore export embargo controversy, the factors motivating the two disputes were different. The policy objectives clearly distinguish the disputes. There was never going to be a reciprocated favour from the British as a consequence of the Commonwealth Government implementing the iron ore export

embargo. In fact, the iron ore export embargo's implementation would ensure that outcome, since the iron ore was of no use to the British if it could not be exported. Accordingly, the iron ore export embargo was incompatible with the type of policy objective sought by the Commonwealth Government in the TDD.

CHAPTER FOUR

POLICY DEVELOPMENT: 1937

4.1 Introduction

The formulation of the iron ore export embargo policy progressed significantly throughout 1937. The Australian media took considerable interest in the proposed development of Yampi Sound and this scrutiny was mirrored in the Commonwealth Government bureaucracy with the departments of Commerce, External Affairs and Defence all producing comprehensive analysis and advice relating to the project. The issue of central concern for each of these departments was national security, however, none concluded that the threat was of such magnitude as to outweigh the benefits of the project. The content and advice provided by the reports do not differ greatly from the reports each had previously provided. Nonetheless, one discernible alteration is that the issues of concern to Longfield Lloyd were being discussed more directly and their implications considered more seriously than had previously been the case.

Given that the Commonwealth Government's bureaucracy was to a large degree concerned with national security it needs to be noted that there were significant differences between the departments. The material coming from the Department of Defence was largely in favour of the development and played down the national security implications of the development. Ironically, it was the departments of the Interior, Commerce and External Affairs that were most alarmed at the development. They often argued strongly that the project's threat to Australian national security was of considerable concern. It will be shown that it was in fact the latter three departments that considered that the Japanese were a strategic threat and that the development would further heighten that threat.

The media coverage on the other hand was prejudiced against the Japanese and accordingly, editorialised against the proposed development of Yampi Sound. It is clearly discernible in the articles summarised in the chapter that all the newspapers were prejudiced against the Japanese, even when they supported the development in concept. The (Melbourne) *Age* appears to have had a clear anti-Japanese editorial line that was also manifested in its consistent opposition to the development of Yampi Sound. This prejudice provides support for the proposition that the Commonwealth Government's key concerns related to domestic political implications associated with the development. As noted in chapters 1 and 2, the perceived threat of Japan's policy of *southward advance* remained an important factor.

The views expressed against the development of Yampi Sound within the media were balanced to a limited extent by the favourable media coverage provided by the *West Australian*, and to a lesser extent, by the (Melbourne) *Herald*. It may be contended that the

West Australian actually embarked upon a crusade to have the project proceed, running a strong editorial line that was pro-development and critical of the Commonwealth Government and its iron ore export embargo policy.

It was in 1937 that the Commonwealth Government first raised the possibility, without any factual justification, that Australia may have limited reserves of iron ore. The thesis contends that the Commonwealth Government was deliberately setting about creating a political environment where iron ore scarcity was on the public agenda and creating up a policy option for itself. The agenda setting activities affected the Commonwealth Government relationship with the British Government and the Australian States – particularly Queensland and Western Australia. It can be discerned from the minutes of meetings and other correspondence that the Commonwealth Government had adopted a strategy of persuading the States that Australia might have limited reserves of iron ore and consequently, Federal action may be necessary to conserve Australia's resources. Correspondence with the British Government, however, demonstrated that any attempt to convince the British that they should assist Australia in halting the Japanese development of Yampi Sound were unlikely to succeed as the British were strongly of the opinion that from economic, national and Imperial security, and diplomatic perspectives the development was a positive addition to Australian iron ore production and the economy generally.

4.2 British involvement

As discussed previously, trade within the British Empire was a central principle of Australia's economic relationship with Britain in the 1930s. It is a contention of the thesis that the proposed development of Yampi Sound, and the subsequent export of iron ore to Japan, can be understood without any significant reference to that relationship. This may be appreciated within the context of the issue of the Empire's reserves of iron ore. For example, although the total reserves of iron ore within the Empire was an Imperial concern, once it had been determined that the Empire had sufficient reserves, the British Government (who were in favour of the development) took only limited interest in the proposed development of Yampi Sound.

In March 1937 further advice from the British Government was received via the Australian High Commission in London. The report claimed there was no need to conserve iron ore in the Empire and that there was no possibility of Yampi Sound being developed for Empire purposes. The reason given was that there were richer deposits for Britain nearer at hand. Nevertheless, the report made two further points:

1. That if Yampi Sound was developed it could be of some use in an emergency; and

2. That it was undesirable to prevent Japan obtaining ore since many other sources were available to the Japanese (including other Empire sources).¹

The (Melbourne) *Age* would appear to have been unaware of the British Government's attitude to the development. In February 1937 it ran a story titled "Yampi Sound. Important National Asset. Government Should Protect It" which had strong nationalistic overtones. The article argued against both Japanese investment and the sale of iron ore to Japan, claiming that:

Added significance was lent to the position by the declaration that Great Britain's commitments for rearmament and industrial expansion required even greater supplies of iron and steel in the future.²

The British had, however, already made it clear to the Commonwealth Government that they were in favour of the development. This fact was not made public by the Commonwealth Government, who instead allowed such misinformation to be propagated and remain uncorrected. The article also maintained that the government was wrong in publicly stating that it "could exercise no authority to prevent foreign interests developing the iron ore deposits at Yampi Sound". This last view was constantly echoed by the ANA through the late 1930s, and the President, Mr Holland, was quoted on that occasion as saying as much.

The British position was not of assistance to the Commonwealth Government in its objective of halting the proposed development of Yampi Sound as it removed a policy option that could have potentially provided a justification to exclude the Japanese investment. The Commonwealth Government was, however, already developing its iron ore scarcity strategy as can be perceived in a March 1937 Cabinet Minute paper:

Reference was made to the fact that Japan, through an English company [Brasserts], was now almost ready to proceed with the exploitation of the iron at Yampi Sound. It was stated that the Commonwealth would not prohibit the export of iron ore, but that in the meantime the Prime Minister and Senator McLachlan will have a survey made to collect information regarding the iron deposits throughout Australia.³

Although the minutes expressly excludes the policy option of implementing an iron ore export embargo, the minutes are more useful in elucidating the clear link between the Japanese

¹ "Yampi Sound Iron Ore Deposits," High Commission in London, 3/3/1937 (NAA: A461/10; B373/1/3 Part 2).

² "Yampi Sound. Important National Asset. Government Should Protect It," (Melbourne) *Age*, 26 February 1937.

³ Cabinet Minute 1368, "Yampi Sound Iron Deposit", 9/3/1937, Hudson, W.J. (ed) Documents on Australian Foreign Policy 1937-49, Volume I: 1937-38, Department of Foreign Affairs (Canberra, 1988) Commonwealth Government Printer, Doc.15.

proposal and the Commonwealth Government's decision to commission a survey of Australia's reserves of iron ore.

The *ad hoc* nature of the Commonwealth Government's policy development is demonstrated in the absence, prior to July 1937, of a decision to officially obtain details of the proposed development directly from the relevant parties: "It was decided to get full particulars in connection with the leasing of the iron deposits by the W.A. Government to Brasserts, and if possible, obtain the terms of any other information bearing on the subject and submit later to Cabinet."⁴

The need and desire for specific knowledge of the project did not perturb Lyons from cabling Bruce in London in August 1937 with the initial findings of the iron ore survey that the Commonwealth Government had previously commissioned: "Preliminary survey which has been made of accessible deposits in Australia suggests that the life of these deposits particularly if they are exploited for export on a large scale would not be so long as we have hitherto been led to believe."⁵

Lyons was once again fishing for a justification from the British to conserve the Yampi Sound deposits for Empire purposes. He appears to have failed to appreciate that the British position, as conveyed previously by Bruce, was not dependent on Australian circumstances and that unless Imperial circumstances altered the British position would not change. As Lyons expressed it:

appreciate urgent advice as to whether from the point of view of Empire, consideration of Commonwealth Government should be given to some restriction on exports of iron ore from Australia to Japan and whether any portion of output should be deviated to meet Empire requirements.

Bruce's almost immediate reply was in the negative.⁶

British patriotism was a common characteristic of those opposed to the project. The pro-development *West Australian* published a story in April 1937 that quoted a letter written by an Australian, Mr Bell, to the British Board of Trade. Bell claimed to be writing:

"on behalf of many anxious patriotic subjects of the Empire" ... that so far no satisfactory answer has been forthcoming from the Commonwealth Government

⁴ "Iron Ore Export from Yampi Sound" Cabinet Minute 1368, 28/7/1937, *ibid.*, Doc.53.

⁵ Lyons to Bruce, 2/8/1937, *ibid.*, Doc.54.

⁶ Bruce to Lyons, 4/8/1937, *ibid.*, Doc.55.

concerning the export of Yampi Sound ore. He [Mr Bell] asked whether the matter was not an Imperial one and could not the exportation to alien Powers be stopped?⁷

In April 1937 the (Melbourne) *Herald* ran a story quoting an unnamed Labor politician as claiming that the iron ore exported from Yampi Sound would be returned to Australia in manufactured goods that would undersell Australian and British goods and for that reason alone the project should be stopped. The (Melbourne) *Herald* dealt with this argument by claiming that the implementation of an iron ore export embargo by the Commonwealth Government could only come from a misunderstanding of the Yampi Sound project:

The transaction is a straightforward proposition for increasing the export market for Australian iron ore. Australia desires an export trade in iron ore, of which she has far larger deposits than she can possibly develop for her own use. Japan is our nearest and most avid market. To refuse to sell our iron ore to Japan, unless we needed it ourselves or Britain was anxious to buy it from us, would be no different to refusing to sell our wool or our wheat to Japan.⁸

The argument used by the (Melbourne) *Herald*, concerning an embargo on the export of iron ore being as ludicrous as one on wheat or wool when the resources were in excess of Australia's (and the Empire's) requirements complimented that used in the *West Australian* in April 1937. The *West Australian* argued that the development of Yampi Sound was in the interests of Western Australia and furthermore, that a hostile attitude towards Japanese investment was against the interests of all Australians:

A satisfied Japan can never be so much a menace as a Japan cut off from essential supplies and smarting from a sense of injustice ... Japan is a close, powerful and ambitious (sic) neighbor whom many Australians are inclined to regard with suspicion. But things have certainly not reached such a pass that Australians need quake when they see a Japanese concern interested to buy something that we, in common with many other countries, want to sell.⁹

Mr Bell, and the like-thinking Labor politician, were obviously unaware that the Imperial advice was in favour of the project. Based on economic and national security considerations the British Government clearly considered that the development was beneficial both for Australian and Imperial purposes.

⁷ "Yampi Iron Exports, Interest In Britain," *The West Australian*, 29 April 1937.

⁸ "Needless Anxiety About Yampi Sound Ore," (Melbourne) *Herald*, 28 April 1937.

⁹ "Yampi Iron Ore," *The West Australian*, 16 April 1937.

The opinion of John Curtin, Parliamentary Leader of the Federal Labor Party, was featured in the (Melbourne) *Herald* in March 1937. Interestingly his views were largely consistent with the British perspective on the proposal. Under the headline, "Labor Leader Would Favour Yampi Export," it claimed that "the Leader of the Opposition (Mr Curtin) said that if there was objection to Japan or other countries trading with Western Australia in iron, then the objection must be extended to other commodities."¹⁰ Curtin was quoted as challenging the legitimacy of the view that Australia should be placing prohibitions on the export of iron ore from Yampi Sound or anywhere else in Australia:

As a matter of fact, to refuse to sell iron to Japan could easily become a cause of international conflict.... I would ask those who would prohibit sale of iron to Japan what they would have said if, in retaliation for Australia's trade diversion policy, the United States had refused to supply us with petrol.

Within its pro-development editorial line the *West Australian* picked up on such comments and dealt with the themes of racism and regionalism in a clear attempt to dispel nationalistic sentiment: "A public Japanese company was purchasing the ore and in the event of Australia or Great Britain requiring the ore, or part of it, they would be entitled to be supplied first from the island".¹¹ The article went on to claim "that the leases were being worked exclusively by white labour and it was the intention of the company that, as far as possible, every man and boy employed on Koolan Island would be a West Australian".

Throughout 1937 misinformation still remained a significant factor in the arguments expressed by those opposed to the development proposal. In August 1937 the (Melbourne) *Age* quoted the ANA as claiming that the Commonwealth Government's inaction was detrimental to the interests of all Australians when the project was viewed "in the widest possible national sense."¹² The article pandered to sentiments of British patriotism:

Recent reports from overseas indicated that British industries were experiencing shortages of iron and steel, and it was farcical that, in such circumstances, Australia should be granting concessions to foreign nations to exploit such a vast national and Empire asset.

As has already been discussed, the British had ample resources of iron ore closer at hand than those of Yampi Sound and they considered that there was no need for conservation. Furthermore, the British view was that the development could be of some use in an emergency and that it was undesirable to prevent Japan obtaining iron ore.

¹⁰ "Labor Leader Would Favor Yampi Export," (Melbourne) *Herald*, 7 March 1937.

¹¹ "Japanese Purchases, Company's Position Explained," *The West Australian*, 29 April 1937.

¹² "Iron Ore Deposits. A.N.A.'s Views," *The Age*, 6 August 1937.

In December 1937 a Department of External Affairs memorandum discussed domestic and international political pressures that were implied to be an intricate part of the Yampi Sound controversy. The memorandum proposed three factors for consideration in relation to public interest in the development of Yampi Sound. The first matter concerned the granting of rights to foreign nationals, with the argument being:

that exclusive rights should not be granted to any foreign company over a commodity which is so vital to national interests, especially those of defence... [and] there would be justification for the prohibition of the export of iron ore from Australia if it were established that Australian resources are in danger of depletion."¹³

Secondly, it noted that Empire requirements would not provide a justification for prohibiting exports to non-Empire nations. And thirdly, it was noted that Japan was already obtaining iron ore from Empire sources:

Recent advice from the United Kingdom is to the effect that ore reserves throughout the Empire are ample and that those of Yampi Sound do not affect the general position to any extent. British Malaya places no difficulties in the way of Japanese exploitation of iron ore, and a large proportion of Japan's requirements are obtained from this source.

The memorandums conclusion was that it would be difficult for Australia to justify placing an embargo on exports of iron ore on the ground of Empire requirements. The memorandum also considered public concerns that the Yampi Sound "exploitation is part of the 'Southward advance' policy of Japan" and that Australia could be a future target of aggression. Public concern in this regard was considered exaggerated: "It is felt that the dangers of penetration by Japan into Australia by the operation of the Yampi leases are somewhat exaggerated ... [as] most dangers of racial penetration could be avoided." The Longfield Lloyd view (i.e.: that the investment might provide the Japanese with an opportunity to create a dispute with Australia and subsequently justify military action against Australia) was dismissed by the report:

Moreover, experience in China shows that if Japan desires to create incidents in order to force a quarrel, mere correctness of conduct by the other party will not prevent a dispute arising. [However] ... the Commonwealth Government should not allow the export to an aggressive nation a commodity which is used for war purposes."

¹³ "Yampi Sound - Development of Iron Ore Deposits By Japanese" Department of Defence to External Affairs, 6 December 1937 (NAA:461/10: B373/1/3 Part 2).

The memorandum also noted that Australia had a moral and political duty to provide equal access to raw materials for all nations - which included all commodities, whether they be wool, wheat, or iron ore. To stop one and not the others would be inconsistent with a neutral trade policy that did not discriminate between trading partners. Nonetheless, "Australia would be gravely criticised if she prohibited a nation deficient in raw materials from acquiring by legitimate means a raw material which she did not need herself, and which would otherwise never be exploited." The memorandum also rehashed the British view that:

it is very hard to believe that Japan would make these plans and be prepared to incur this very considerable capital expenditure if there were any danger of a serious quarrel with the United Kingdom which would cut them off from their source of supply of essential raw materials.

The memorandum stated that the British consequently remained in favour of the Japanese development of Yampi Sound. This view concurred with the memorandum's conclusion that on "the whole this Department inclines to the view previously expressed, that it would be inadvisable and unnecessary to take steps to prohibit the exploitation of these leases".

4.3 The Australian States

The favourable opinions of the proposed development being expressed by External Affairs and other departments from 1935 onwards were certainly not known by the Australian State governments. On July 13, 1937 it was noted that at a meeting between a Commonwealth Government official (unnamed) and the Queensland Minister for Mines, the Minister had recited the content of a meeting he had previously had with a Japanese party intent on developing iron ore deposits in Queensland:

Mr. Umeeda, representing Japanese interests, has intimated to the Minister of Mines of Queensland, that he intends to arrange ... for prospecting rights in respect of iron ore deposits at Portland Roads in the Cape York Peninsula. It will be remembered that Mr. Umeeda was a leading figure in the negotiations with the Western Australian Government in respect of Yampi Sound Iron Ore deposits.¹⁴

Upon learning of this the Commonwealth Government representative claimed to have:

reminded the Minister that the Commonwealth was, in conjunction with the States, making a survey of the iron ore resources of Australia, and that although this survey was not yet complete it was fairly evident that known iron ore deposits of Australia in accessible places near the sea-board were not such as to encourage the belief that they were limitless... In the face of this I suggested that if preference could be given to

Australian interests who would work the deposits for Australian purposes, it might be desirable to do so.

The Queensland Minister for Mines declined to adhere to the advice, but added that he felt the matter was serious enough to be discussed between the Commonwealth Government and the Queensland Government at the next meeting of the Loans Council¹⁵.

A series of written exchanges between the Commonwealth Government and the Queensland Government followed the above exchange. On July 20, 1937 the Acting Prime Minister wrote to the Premier requesting that the development of Portland Roads by Japanese interests be delayed: "I venture to suggest that it would be most desirable to await the results of this survey before granting mining leases or any other mining rights which would have as the ultimate objective the export of iron ore to Japan or any other country."¹⁶

The Acting Prime Minister contended that it was possible that the Commonwealth Government's survey of iron ore resources might show Australia's reserves to be limited and in need of conservation: "If this necessity arises it would conceivably create a most invidious situation if State Governments had already sponsored the exploitation of iron deposits with the knowledge that the output was intended for export." The letter ended in a firm, but polite, request by the Acting Prime Minister for the Premier's co-operation: "In view of the foregoing I should be glad to have your assurance that the results of the survey of the iron ore resources of Australia will be awaited by your Government before any commitment is entered into involving the export of iron ore from Queensland."

The Premier of Queensland replied on the August 4, 1937 providing no such assurance, but requesting that he be informed of the Commonwealth Government's progress in regard to the survey. The Premier added that he had knowledge that BHP exported iron ore to Japan regularly and that he would be "glad to learn, also, whether the Governments of the other States have been requested to give an assurance that the results of this survey will be awaited before any commitment is entered into, involving the export of iron ore from Australia."

The Commonwealth Government had only made a similar request of the Tasmanian Government, however, the other states (excluding Western Australia) were not in the process of negotiating contracts in regard to iron ore leases. In such circumstances, it would not

¹⁴ "Development of Portland Roads Iron Ore Deposits", 13 July 1937 (NAA: A461/10; P373/1/3).

¹⁵ The Loans Council was a body formalised by the seven States in 1928, and chaired by the Commonwealth Government. It coordinated State Government borrowing once the Commonwealth Government became responsible for approving all loans, and also introduced a system whereby the Commonwealth became the guarantor of all State government loans.

¹⁶ Letter: Acting Prime Minister to Forgan Smith, Premier of Queensland, 20/7/1937, (NAA: A461/10; P373/1/3).

appear that Queensland was being discriminated against by the Commonwealth Government as the Premier would appear to have been implying.

The misinformation being propagated by the Commonwealth Government in correspondence was mirrored by the public agenda setting exercises engaged in by Lyons. The sense in which the expression agenda setting is used may also be described as the expansion of policy options. The Commonwealth Government was attempting to create a climate of public opinion whereby the option of prohibiting iron ore exports to Japan (or the world generally) was neither far fetched or unexpected.

These exercises in agenda setting failed to openly express anti-Japanese sentiment or disclose that the British and Commonwealth Government's departments considered the project positively. They only alluded to the possibility that Australia could have limited reserves of iron ore. It is a contention of the thesis that public discussion of the concept of conservation, together with private correspondence with the States, formed the basis of the Commonwealth Government's strategy to raise public and private awareness of the Japanese development of Yampi Sound and the possibility of conservation measures. An example of Lyons' agenda setting activities can be perceived in an announcement made to Parliament by Lyons on August 31, 1937 in which Lyons noted that while the Commonwealth Government was not concerned about iron ore shortages it was, nonetheless, the responsibility of the government to be ever watchful of the possibility of conservation where it was in the national interest.¹⁷

On September 8, 1937 Lyons wrote to the Premier of Western Australia in reply to prior correspondence with the Premier that had asked "that the position with regard to Yampi Sound be clarified."¹⁸ As mentioned, the Premier had implied that the Commonwealth Government was not properly communicating with the State government and was possibly discriminating against Western Australia. Lyons replied:

I desire at the outset to free your mind from any misapprehension that your State has been regarded as of minor importance in this matter, or that there has been discourtesy on the part of the Commonwealth Government... The Commonwealth Government has no intention whatever of departing from the practice which it has followed invariably of consulting the States with regard to mining matters which come within their control. This will be done in connection with the more comprehensive survey which is now taking place.

The letter demonstrates clearly the strategy of implying, on the one hand, that the Commonwealth Government was being cooperative and open in its dealings with the States,

¹⁷ Prime Minister Lyons, Hansard, House of Representatives, 31/8/1937.

¹⁸ Prime Minister to Premier of Western Australia, 8/9/1937 (SROWA: 2822/3729).

meanwhile, maintaining that the Commonwealth Government had higher duties than the States and that any information that indicated limited iron ore reserves would be acted upon. Lyons maintained he had responsibility to act as guardian of Australia's national interests. But he also managed to shift some of the responsibility (which he claimed was the Commonwealth Government's) onto the Western Australian Government:

I would remind you that a responsibility rests upon the Governments of Australia to conserve irreplaceable resources, such as iron ore, if there are sound grounds to support a belief that these resources may not be sufficient to meet national needs for a prolonged period The Commonwealth Government hopes that Australia's resources of iron ore and essential non-ferrous metals are so extensive that there will be no need to impose any restrictions on exports, but information at (sic) present available is inadequate to enable any reliable conclusions in this regard to be formed ... I would again ask for your cooperation to ensure that any possible embarrassment in the future may be avoided.

In a telegram on March 18, 1938 the Premier of Western Australia demonstrated that although he may have been unconvinced by the limited reserves of iron ore hypothesis, the agenda setting exercise of the Commonwealth Government had succeeded:

Surprised if limited survey made would indicate position iron ore production as most alarming. In this State without any great amount [of] investigation millions of tons [of] iron ore are known to exist awaiting exploitation. Trust no precipitate action will be taken which may have effect of indefinitely delaying iron ore production in this State which is of such vital importance to our economic position. Would like to be assured as per your statement of thirty first August last in House of Representatives that pending completion [of the] investigation [that] no action will be taken to jeopardise present development work proceeding at Yampi[.] [W]ill be prepared to give every assistance to have complete investigation made regarding iron ore position in this State at earliest date.¹⁹

The Premier appears to place his faith in the good intentions of the Prime Minister and accordingly, accepted the need for a comprehensive survey of Australia's iron ore reserves. But as will be demonstrated in chapter 6, the recollections of John McEwen dispel any such faith in the good intentions of the Commonwealth Government.

Meanwhile, the Queensland Government was even more cooperative than their Western Australian counterparts. In early March 1938 the Commonwealth Government received notice

¹⁹ Telegram from Western Australian Premier To Commonwealth Government, 18 March 1938 (NAA: A432/85; 38/273).

that the Queensland Government had resisted requests from two parties interested in exporting iron ore to Japan, although a third had been granted permission because the original lease had been obtained prior to the request by the Commonwealth Government to await the outcome of the iron ore survey. Nonetheless, the Queensland Government made the point that if exports needed to be restricted it was the Commonwealth Government's responsibility to stop the export of iron ore.²⁰

The *West Australian* campaigned throughout 1937 for the Commonwealth Government not to intervene and halt the Yampi Sound development. Much of this material was based upon the theme of States rights and equal treatment for Western Australia. A *Perth Sunday Times* editorial in August 1937 discussed such issues with an opinion being expressed that all mineral exports should be banned if the export of iron ore was prohibited. An important theme concerned the possible sinister influences behind what the editorial perceived to be discriminatory treatment of Western Australia:

The constant trend of Government influence to bloat still more the already over-bloated centres of population in the Eastern States is among the worst grievances of the smaller States, and is felt more keenly in Western Australia than in any other section of the Commonwealth.²¹

The editorial argued that in respect of the development of iron ore deposits at Yampi Sound, Western Australia's "only chance is to sell to other countries. Plans have been made to provide for the export of iron ore, but this rare opportunity to successfully establish a new source of employment is threatened with extinction." State's rights were to become a constant theme over the following years. The Commonwealth Government was, however, pre-occupied with a broader range of issues.

4.4 Advice from Department of Commerce

As already discussed in regard to the Department of External Affairs, it is clear from bureaucratic advice that the departments without defence expertise were more concerned with the national security implications of the development than the Department of Defence.

In October 1937 Longfield Lloyd and the Department of Commerce corresponded on military and national security matters. Longfield Lloyd maintained that Nippon Mining Company's investment in Yampi Sound was serving Japanese military objectives. He described the "penetrative system of Japan"²² whereby Japan was alleged to use supposedly private capital to allow Japanese nationals access to foreign countries. He further explained that: "The use of

²⁰ Iron Ore Queensland, 1/3/1938 (NAA: A461/10; P373/1/3).

²¹ "Yampi Ramp, Has Umwholesome Tang, What is the influence behind it ?", *The Sunday Times* (Western Australia), 29 August 1937.

Japanese capital for economic development ... [had] been utilised in Japanese efforts in China", and that "Japan is always prepared to invest even in unpromising ventures to secure a foothold".

Longfield Lloyd claimed that in regard to Yampi Sound, "there is no shadow of doubt that all this is in deliberate pursuance of the southward expansion policy regarding which details have already been furnished". And further, that Japanese success in obtaining unrestricted access to Yampi Sound "can only result in the occupancy and exclusive right over a portion of Australian territory by Japanese interests and personnel". The tone of the memorandum is emotive in exposition of the 'Southward Advance' policy:

Expense is no object to the Japanese penetrative effort and the men would travel upon the ore-carrying ships in which the Company will directly or indirectly have an investment interest since their connections in Japan will ensure this.

Such notions of invasion by stealth and subterfuge were not taken seriously by the Department of Defence, however, the Department of Commerce may not have been so knowledgeable on national security matters to ignore such a catastrophic prediction. Longfield Lloyd further suggested that there were three possible avenues to halt the Japanese investment in Yampi Sound:

1. The Immigration Act could be utilised;
2. The excuse of insufficient reserves for Australian and/or Empire requirements could be used; or
3. The Defence Act could be used to stop foreigners from controlling ports on Australian territory.

Longfield Lloyd felt the most diplomatic and accordingly, preferable method of halting the investment was the excuse of insufficient reserves. It "is diplomatically unobjectionable and should provide the readiest solution." On this point he was (whether he realised it or not) in complete agreement with the Prime Minister. The memorandum concluded with a dire warning that "the position is so exceedingly serious as to justify the compulsory cancellation of the Brassert scheme by any means whatsoever".

In November 1937 the Department of Commerce produced a thorough synopsis of the Yampi Sound situation. The paper took a negative attitude to the development of Yampi Sound as far as it directly involved Japanese interests. It may be contended that the paper was seeking to formulate the most appropriate justification to halt the Japanese investment in Yampi Sound, with many of its arguments being similar to those proposed by Longfield Lloyd. The paper

²² Longfield Lloyd to Murphy, 6/10/1937, in Hudson, W.J. (ed), *op.cit.*, Doc.111.

noted that the Yampi Sound reserves of iron ore were "not required for immediate use because more accessible and richer deposits are available"²³ and raised a concern that the Western Australian Government was not approaching the Yampi Sound controversy with a realistic view of the parties involved as they were not acknowledging that Brasserts were "practically dummies for Japanese interests."

The synopsis discussed issues dealt with by a Cabinet Sub-Committee after the sub-committee had heard Longfield Lloyd's opinions on Yampi Sound. Longfield Lloyd was brought back to Australia from his post in Tokyo expressly for the purpose of presenting his views on the Yampi Sound development and the Department of Commerce appears to have taken his opinion very seriously. The central issue related to possible methods of persuading the Western Australian Government to cancel Brasserts' Koolan Island leases and what the Commonwealth Government's position should be if Western Australia was unwilling to co-operate.

The paper discussed the halting of the proposed investment in Yampi Sound by the cancellation of the mining leases due to a breach of the mining regulations of Western Australia. It was explained that the three principal means by which a lessee might lose its holdings were non-payment of rent, the non-manning of a lease or the employment of Asiatic labour. The first two of these conditions were unlikely to occur so long as the Japanese were serious about the development, while the third reason was no longer valid as the Commonwealth Government had already given permission for four Japanese nationals to be stationed on Koolan Island, Yampi Sound.²⁴ This may be another example where the ad hoc nature of the Commonwealth Government's policy-making processes may be contended to have been detrimental to efficient policy development, as they had already reduced their policy options at a time when they were engaged in convoluted and costly policy expanding activities.

The Department of Commerce noted the status of the project as not having "reached a very advanced stage"²⁵ and within that context of minimal progress, the paper recommended that the leases held by Brasserts be cancelled using one of four options:

1. The Western Australian Government could cancel the leases;
2. A prohibition on exports of iron ore from Australia could be initiated by the Commonwealth Government;
3. The invocation of defence measures could occur if circumstances were suitable; or

²³ "Yampi Sound Iron Ore," Department of Commerce, 23/11/1937 (NAA: A816; 19/304/120).

²⁴ Professor Blainey in *The Steel Master: Essington Lewis* (Melbourne, 1971) MacMillan, maintained that seventy Japanese engineers were working on Koolan Island around this time, however, no other sources quote such a figure and the Commonwealth Government records only refer to permission being granted to four Japanese nationals

²⁵ "Yampi Sound Iron Ore," Department of Commerce, 23/11/1937 (NAA: A816; 19/304/120).

4. The Commonwealth Government could use special powers to reserve assets of national importance.

The report concluded that:

The preferable course would be for the Western Australian Government to cancel the lease.... It would be difficult to justify a prohibition of export of iron ore. Australia has more iron ore than is likely to be required for many years to come... Apparently it would be against the Constitution to prohibit export from Yampi, while permitting it from other places. Even if the third were possible legally, it would be too clumsy a subterfuge.

The thesis contends that such a conclusion provides an unambiguous acknowledgement of the pragmatic approach that was taken by the Commonwealth Government's bureaucracy. In regard to justifying the government's proposed action, the report concluded that there were four reasons (or excuses) available:

1. It could be argued that it was desirable to conserve our reserves of iron ore which some estimates conclude to be sufficient for only 50 years;
2. As the lessee allegedly had foreign (Japanese) affiliations and wished to export all mined iron ore to Japan, it could be argued that there was insufficient access to the ore for Australian use;
3. Yampi Sound's harbour had strategic significance since it was arguably the best harbour on the northern coast of Australia and accordingly, it should be left available for Australian military purposes; or
4. The "Southern Expansion" of Japan included obtaining commercial footholds in countries that allowed legitimate access to Japanese nationals and could then be followed by military style expansionism.

The issue of sinister Japanese intentions was considered to be "undoubtedly the strongest" motive for halting the Japanese investment. Related to the unsavory intention of the Japanese were two other concerns. On the one hand, the "possibility of clashes between Australian workmen and Japanese crews is [considered] not negligible", while on the other hand, it was also feared that the Japanese may relate too amicably to the indigenous inhabitants of north-west Australia. The latter was viewed quite undesirable:

It is obvious that an atmosphere of familiarity would be established. The aborigines of those parts and the scattered white population would be more used to Japanese vessels than to vessels manned by white crews.

Although the report explored ways and means of excluding Japanese investment from Yampi Sound, it also listed reasons why intervention to exclude Japan could be disadvantageous. The first issue raised was that Western Australia would be affected disproportionately and that this might lead to resentment of the Commonwealth Government:

If, as is frequently asserted, the readily available iron ore deposits of Australia are sufficient for a very long period ahead, it would probably be regarded as a "dog in the manger" policy to prevent anyone else from developing Yampi while not developing it ourselves.

Secondly, it was suggested that action could be taken if, and when, the iron ore was needed by Australia. The Commonwealth and State governments were aware that they had emergency powers over all mining leases that could be utilised as and when required. Consequently, the development of a further source of iron ore would be excluded by steps being taken to prevent the proposed development.

And lastly, the Japanese Government might retaliate through a boycott of Australian goods. If Australian wool, for example, was boycotted such an affair would directly harm Australia and could possibly escalate into a general trade dispute. Australia had just had an extremely serious trade dispute with Japan in 1936, and within this context it would seem likely that such an outcome would have been particularly undesirable.

4.5 Advice from the Department of Defence

The Department of Defence may have been the least concerned section of the Commonwealth Government's bureaucracy when it came to perceived national security implications of the proposed development of Yampi Sound, but by 1937 the largely positive views emanating from the Department of Defence were not going unchallenged. On April 29, 1937 Major B. Combes, General Staff, Army Headquarters, wrote to Mr H.A. Peterson of the Department of External Affairs. The views expressed by him were in fact those of Longfield Lloyd. His message was "that there is increasing necessity for the most positive supervision over Northern and North-Western Australia waters, with emphasis on Darwin, regarding which area there are signs of much increased interest in Japanese official circles".²⁶

The issues raised by Combes and Longfield Lloyd were also being explored within the media in early 1937. In March 1937 the *Age* dealt with the Yampi Sound controversy from a national security perspective.²⁷ The newspaper claimed that Australian national interests were being put at risk by the development of Yampi Sound. Again on this occasion, the fact that the

²⁶ Major B. Combes to Peterson, 23/4/1937, in Hudson, W.J. (ed), *op.cit.*, Doc.21

²⁷ "Yampi Sound, Federal Government Concerned, But Lacking Courage, Attempts to Evade Responsibility" *The Age*, 27 March 1937.

Department of Defence had indicated its support for the development appears to have been unknown. Keeping departmental advice confidential was to the Commonwealth Government's advantage as it helped to raise public concerns relating to the proposed development and accordingly, assist in the expansion of their policy options.

In December 1937 the Department of Defence produced a comprehensive analysis of the arrangements between Brasserts and Nippon Mining Company. The report alleged that the arrangement between Brasserts and the Japanese interests amounted to Brasserts being "paid annual sums for the lease and for work in setting up a Company to dummy for Japanese interests".²⁸

In regard to the desirability of the arrangement, the report separated its analysis into economic and political implications of the Yampi Sound project. Economic factors included the fact that around 500,000 tons of iron ore were exported annually in the mid to late 1930s and consequently, notions of Australian deposits being in immediate danger of exhaustion were exaggerated, or at least perplexing from the perspective of current policy. The report provided an explanation of the contentious issue of defining whether deposits were classified as economic or not:

Resources is an elastic word. Extent of resources depends upon changing circumstances, such as development of treatment-processes and accessibility of supplies. (Recent experience in relation to development of gold mines.) [And] ... that on present information there is no adequate economic reason for imposing [a] general ban on export.

The two key political concerns discussed were the implications of direct investment in Australia by Japanese nationals and the penetration of Japanese ships and men into Australia's northern waters. In regard to direct investment the document highlighted positive aspects to this *new* relationship:

If, for instance, the British Empire (with or without allies) is too strong for Japan to risk a quarrel, the fact that Japan depends upon Empire products for supplies will be one means of keeping her from adopting an extreme anti-British policy which might result in those supplies being cut off. If, on the other hand, she feels that the British Empire is weak, any attempt in future to deprive her of developed interests at Yampi might lead to serious trouble.

The report also expressed the opinion that it would take Japan about ten years to "digest" (i.e., presumably meaning conquer or subjugate) China and that the British rearmament program

²⁸ "Yampi Sound" (NAA: A981; AUS90 Part 2).

was well under way. Accordingly, the report concluded that if Australia decided to limit exports at some stage in the future, Japan would be unlikely to resist.

In regard to the issue of penetration of Japanese ships and men into South East Asia (and Australia's northern waters) the report concluded that such concerns were exaggerated. The report draws on Department of Defence recommendations that the Japanese, in the case of war, would be unlikely to operate in the coastal waters off North-Western Australia and consequently: "Increased knowledge of coast by navigators of Japanese ships would not seem to be of vital importance if Japanese fleet unlikely to operate in these areas."

The general conclusion of the report was that national security implications were insignificant and that the Commonwealth Government's decision should be based solely on economic grounds. On that basis the report recommended that there were insufficient grounds for Commonwealth Government intervention.

The Department of Defence's positive outlook was again reinforced on December 6, 1937 when Mr F.G. Shedden, Secretary of the Department of Defence, wrote to Lieutenant Colonel W.R. Hodgson, Secretary of the Department of External Affairs, regarding the history of the Japanese project in Yampi Sound and how the department's current view stood on the project. The letter included a warning that concerned certain changes to the proposed Japanese investment, but the thesis contends that these perceived changes are based more upon xenophobic, rather than national security, considerations.

The memorandum firstly outlined the basis of the Defence Committee's initial opinion of the Yampi Sound development as they related to the period of 1934 and 1935. At that time the Committee recommended that the project be allowed to go ahead subject to three conditions:

1. That the development be by a company registered in Western Australia (although it was accepted that the Japanese were the sole investors and buyers);
2. That the company be wholly Australian controlled²⁹; and
3. Only Australian labour be used.³⁰

On the presumption that all these conditions were to be upheld: "The Committee decided ... that there was no objection to the proposal from the defence point of view, but, on the contrary, it would be advantageous in developing a further source of supply of ore in

²⁹ What was meant by Australian controlled was not specified, however, it presumably excluded Japanese control, but it is likely to include British control, or control by a company from any of the Dominions.

³⁰ "Yampi Sound - Development of Iron Ore Deposits By Japanese," Department of Defence to External Affairs, 6/12/1937 (NAA: A461/10; B373/1/3 Part 2).

Australia". However, by late 1937 the situation in Yampi Sound had changed with the presumption that all three conditions were to be upheld no longer being correct:

The memorandum from the Department of Commerce now submitted disclosed the existence of an agreement between Japan Mining Company and the lessees (Brasserts) which involved a radical departure from the conditions for the development of the iron ore deposits at Yampi Sound as originally contemplated.

Such ignorance may be somewhat difficult to believe. The earlier reports were aware of the Japanese dimension to the project from the perspective that all ore was to be exported to Japan. The reports also described the project as a Japanese development of Koolan Island, Yampi Sound even though it was Brasserts – a company registered in Western Australia – that had officially obtained the leases. Nevertheless, the radical departure noted by the department included the disclosure of an agreement that would mean an influx of Japanese workers.³¹

The memorandum also raised three security concerns related to the presence of Japanese nationals in Australian territory:

1. That the Yampi Sound project "would be an aid to the influx of Japanese into North Australian waters, thereby increasing the possibility of undesirable incidents and constituting a potential threat to Australia";
2. That it had been "observed that the number of Japanese at present engaged in the pearling industry had paved the way for Japanese penetration on North Australian waters"; and
3. That "whereas the development at Yampi Sound under the conditions of the agreement, if it involved the legal right of entry into Australia and residence therein, would carry this penetration to a further stage".

In regard to matters of national economic significance, the Defence Department noted that:

The resources of iron ore in Australia appear at present to be an unknown quantity, but the Committee understands that the supply is by no means inexhaustible, consequently, it is of opinion that the proposal to allow the Japanese to have complete control of the output at Koolan Island for 50 years ... is a very dangerous one.

³¹ Official documents put the number of approved Japanese workers at four, however, Blainey quotes a figure of seventy Japanese engineers. If the numbers were this high, then it may provide a reasonable justification for the Department of Defence's concerns, however, four would appear an inadequate number to seriously support such contentions.

The memorandum contended that the presence of Japanese nationals provided security problems, while implying that the regular visits of Japanese cargo ships was non-controversial. The memorandum also picked up on the 'limited reserves' myth, and placed it within a paradigm that claimed that the Japanese should not have control over output for fifty years. The emphasis of the memorandum appears to weigh in favour of the project, but against the perceived increasing Japanese component of the development.

The memorandum concluded with the opinion that although the Committee perceived problems with the agreement as it stood between Brasserts and Nippon Mining Company, the Department still "adhered to the view previously expressed that there is no objection from the defence point of view to its development on the basis of the proposals quoted".

The thesis contends that the Defence Department's official advice to the government as contained in this memorandum was likely to have been altered to accommodate the concerns that Lyons had been quietly propagating as justifications for the implementation of an iron ore export embargo and in particular, the Australian community's wide-spread xenophobic attitudes towards the Japanese. As mentioned previously, the alleged alterations in the characteristics of the proposed development appear to be insufficient to have such a significant change in the department's opinion.

4.6 Blainey's national security hypothesis

Geoffrey Blainey is of the opinion that the key force behind implementation of the iron ore export embargo was its perceived national security implications and in particular, the perception of Japan as a military threat. It is Blainey's contention that the survey was largely a fabrication which aimed to provide a feasible justification for the government's extreme shift in policy. He also gives some credence to the influence that the myth of limited iron ore reserves may have played in the twenty-two year life of the prohibition. In regard to the prohibition's implementation, Blainey wrote in 1968 that:

Fear of a Japanese foothold on an isolated Australian harbour was probably the strongest motive for the embargo. After 1945, however, that strategic motive became irrelevant, and the embargo could have been removed but for the second motive - the fear that iron ore would someday become scarce in Australia.³²

Blainey cites a private meeting between Lyons and Essington Lewis, Chairman of BHP, on March 9, 1938 to support his contentions. Lyons is claimed to have given "warning that he

³² Blainey, Geoffrey, "The Cargo Cult in Mineral Policy", *The Economic Record*, December 1968, p.471

would probably prohibit the export of iron ore."³³ The justification provided to Lewis was twofold:

He told Lewis that 'the Japanese base' at Yampi Sound would be very awkward in the event of war. He also revealed that Australia's known reserves of iron ore were, according to his official adviser, only sufficient to supply Australian steelworks for several hundred years. Now the simplest way to expel politely the Japanese from Yampi Sound and to conserve Australia's iron ore for future needs was to ban the export of iron ore.

At the same meeting, Lyons informed Lewis of the Commonwealth Government's policy on the investment by Japanese interests in Yampi Sound and asked Lewis for BHP's assistance in implementing that policy. The meeting began with Lyons saying "that the Cabinet was perturbed about the position of iron ore resources in Australia, and also that Japanese position should establish a base at Yampi Sound, which would be an unfortunate thing in the case of hostilities." It was the national security perspective that provided the greatest impact within Lyons' arguments aimed at convincing Lewis and BHP of the correctness of Commonwealth Government's position. Lyons claimed that he "was sure that Australia as a whole would stand behind this decision." Nevertheless, Lyons continued:

It is the above position which is exercising the minds of Cabinet, and they wish to know if they place a prohibition on the export of iron ore to Japan, whether it can be stated that this will be off-set to some extent by the development of either one of the other islands at Yampi Sound by [BHP subsidiary] Australian Iron & Steel Company, and, if so, what tonnage is likely to be taken."

The thesis contends that it can be discerned from this request that the Commonwealth Government wanted to demonstrate publicly that Yampi Sound was needed immediately. This tactic had at least two possible purposes:

1. To satisfy the Western Australian Government; and
2. To refute allegations of discrimination by the Japanese.

The expedient attitude of Lyons is exemplified by his statement that "it might conceivably pay someone to buy out the Japanese interests instead of putting an embargo on the export of iron ore at this time." It is somewhat perplexing that the Prime Minister would be so open about his intentions when he was aware that BHP had indicated that they already held sufficient reserves of iron ore and did not require Yampi Sound. However, since BHP was the

³³ Memorandum of interview held at Commonwealth Offices, Melbourne 10.45a.m. 9 March 1938. Present: Prime Minister Lyons and Mr Essington Lewis (NAA: A1608; C47/1/4 part 2).

only significant purchaser and user of iron ore in Australia (i.e.: BHP was the market) the Prime Minister really had little choice but to make his unusual request.

The interview then turned to the fact that BHP was exporting iron ore to Japan. Lewis offered a justification for the continued export of iron ore by BHP. Lewis explained that the ore being exported was manganiferous and could not be used in Australia. By way of explanation he stated that the Japanese sought to purchase scrap iron, but the supply of scrap was not great enough in Australia to allow any substantial export. In reply, Lyons reassured Lewis that although an iron ore export embargo would be all embracing (in that no exports could take place) there would be no prohibition on the export of scrap. Although it can only be speculated upon, it would appear likely that Lyons' reply was intended to appease BHP for the loss of export income that would result from the implementation of a prohibition on the export of iron ore.

From this meeting two key points can be ascertained:

1. National security and limited reserves of iron ore arguments were used by Lyons to convince Lewis that the government's position on the implementation of an iron ore export embargo should be supported by BHP; and
2. Lyons appears to have offered the continued export of scrap iron as compensation for the loss in income that would result from BHP no longer being able to export iron ore.

The latter point provides some limited support to Rupert Lockwood's contention that the iron ore export embargo policy and the Pig-iron Bob dispute were intimately linked policies. Lockwood (whose views are discussed in chapter 7) rejects the national security hypothesis, maintaining that "Professor Blainey's view is that fear of a Japanese foothold on an isolated Australian harbour was probably the strongest motive for the embargo",³⁴ but that: "This theory is undermined by Australian Government tolerance of Japanese landings, mappings and surveys of North Australian coasts through the 1930s". Although Lockwood's contention provides a valid perspective, it certainly does not completely undermine the national security argument. Lockwood does, however, generally agree with Blainey's questioning of the scientific basis of Woolnough's report, an issue that will be dealt with in chapter 6.

Blainey draws support for his explanation from the private and public opinions of the Lewis. In his biography of Lewis, Blainey recalls how in 1934 Lewis toured Japan, North America and Europe (including Germany).³⁵ Blainey claims that:

³⁴ Lockwood, R., War on the Waterfront: Menzies, Japan and the Pig-iron Dispute (Sydney, 1987) Hale & Ironmonger, p.119.

It is doubtful if any experience in his career had so ruffled Lewis as his sudden realisation of Japan's strength.... He was convinced that Japan was a menace to Australia though he did not know how or when she would attack, "Japan" ... may be described as a big gun-powder magazine and the people as fanatics and any day the two might connect and there will be an explosion.³⁶

Lewis spoke publicly and privately to politicians and fellow businessmen about his concerns of war with Japan and Germany and accordingly, the need for war preparation. Lewis was also involved in what were largely secret war preparation plans that included the development of munitions, ship and aircraft building industries in Australia. Blainey further discusses the meeting between Lyons and Lewis on March 9, 1938 and notes that although Lewis did not seem to accept Lyons' justification for implementing a prohibition on the export of iron ore, Lewis does not appear (at least in principle) to have argued against its implementation.³⁷

The thesis contends that the exchange between these two men highlights the fact that Lewis and Lyons were not thinking along parallel lines. In the above exchanges, Lewis was arguing that Australia's reserves of iron ore were not limited and that export should be allowed to continue. On the other hand, it is generally accepted that Lewis was very concerned about the military threat he believed Japan posed to Australia. However, there is no indication that Lewis felt that the threat to Australia's national security was increased by the development of Yampi Sound by Japanese interests. Accordingly, it is the contention of the thesis that Lyons' perspective makes more sense when considered from a politico-strategic perspective rather than a national security perspective, and that Blainey's emphasis on national security, although present and noteworthy, cannot fully explain the Commonwealth Government's action.

4.7 Conclusion

During 1937 the Commonwealth Government's bureaucracy came to view the investment by the Japanese in Yampi Sound suspiciously. The Department of Defence continued to support the investment, although they appear to have become wary of the apparently increasing Japanese component. The Department of External Affairs was also active (along with Lyons) in considering issues related to Australia's relationship with the British Government and Australia's international reputation. The most significant shift in policy came from the Department of Commerce, under the leadership of Page (one of the chief architects of the iron ore embargo policy). The Department of Commerce came out against the development, although it ironically used issues of national security and not economics to support its position. In this context, it is noteworthy that the advice and intelligence being received from Longfield

³⁵ Blainey, G., *op.cit.*, p.121.

³⁶ *Ibid*, at 122-23.

³⁷ *Ibid*, at 140.

Lloyd appears to have been given considerable weight by the Department of Commerce. Issues of national security were of greatest significance for all three departments, however, none concluded they were of such magnitude as to outweigh the benefits of the project.

The Prime Minister concentrated upon the idea of having the Yampi Sound reserves conserved for Empire purposes. The thesis contends that correspondence with the British Government demonstrates that any attempt to convince the British that they should assist Australia in halting the Japanese development of Yampi Sound would not succeed and that the British were firmly of the opinion that from economic, defence and diplomatic perspectives the development was beneficial to all parties. Australia's pre-existing trade relationship with Great Britain (both traditionally and in the form of the 1932 Ottawa Agreements) also failed to provide any real support for the implementation of the iron ore export embargo.

The Commonwealth Government was also very active in its relationship with the Australian States – particularly Queensland and Western Australia. The Commonwealth Government displayed a clear strategy of seeking to convince the States that Australia might have problems in regard to insufficiency of iron ore reserves and consequently, that Commonwealth Government restrictions might be necessary to conserve Australia's resources. The Australian media (other than the *West Australian*) assisted the Commonwealth Government in its framing of the issues since they were all generally anti-Japanese. Within this context, 1938 began with an air of uncertainty surrounding Australia's reserves of iron ore and the Commonwealth Government's intentions in regard to the proposed development of Yampi Sound.

CHAPTER FIVE

POLICY DEVELOPMENT: 1938

5.1 Introduction

The thesis contends that the Commonwealth Government demonstrated a clear strategy, and undertook quite extreme measures, to implement the iron ore export embargo. Furthermore, the prohibition was not the inevitable consequence of factors beyond the government control, but a carefully selected policy response to what was perceived as undesirable Japanese investment. It was also a policy that the Commonwealth Government recognised was likely to cause great controversy internationally.

In the early months of 1938 the Commonwealth Government made it abundantly clear, both publicly and privately, that they were concerned about Australia's reserves of iron ore. The strategy effectively consisted of firstly, raising alleged concerns regarding scarcity of iron ore and secondly, producing a survey to factually support the alleged concerns. The Commonwealth Government's concerns were made known to the Western Australian and Japanese governments to be a consequence of the unexpected results of Woolnough's incomplete survey.

By April 1938 it can be discerned from Commonwealth Government internal communications that the decision had been made to implement the iron ore export embargo. Lyons was in communication with Page, Menzies and McEwen, and to a lesser extent with Bruce and Longfield Lloyd. From these (and other sources) Lyons received advice on the most diplomatic manner to achieve the desired result (i.e.: halting the Japanese investment in Yampi Sound). The abovementioned members of the Commonwealth Government were all part of the Commonwealth Government's effort to cloud the iron ore export embargo's real objective and make it appear justifiable and non-discriminatory and consequently, diplomatically less objectionable. After the May announcement of the prohibition, the Commonwealth Government's strategy changed into a defensive mode that aimed to neutralise attacks and allegations made by those affected by the iron ore export embargo's. The parties affected in particular were the Japanese Government and the Western Australian Government.

Interestingly, the British Government provided some limited advice and assistance to the Commonwealth Government (both prior to and after the iron ore export embargo was implemented) even though the British remained firmly of the opinion that the development of Yampi Sound by the Japanese was advantageous. It is also noteworthy that neither the Australian, British or Japanese governments ever discussed the iron ore export embargo within the context of British Imperial policy or as part of Australia's central trading policy of the 1930s, the Ottawa Agreements of 1932.

5.2 Setting the scene for the announcement

In early 1938 the Commonwealth Government prepared the foundations of misinformation for the State and Japanese governments in respect of the real objectives and motivations of the iron ore export embargo. The purpose was to have these parties accept the Commonwealth Government's position even if they did not truly believe that Australia's reserves of iron ore needed to be conserved. While publicly maintaining that they could not perceive any reason to implement a prohibition on the export of iron ore, privately the Commonwealth Government continued to inform individuals of its concerns in relation to the possibility that Australia had only limited reserves of iron ore. Evidence of lobbying of the Commonwealth Government by interested parties also indicates that the Commonwealth Government had been successful by early 1938 in establishing an agenda of limited reserves of iron ore and had, by implication, established an agenda that recognised that reserves may need to be conserved.

On March 17, 1938 Lyons sent two similar cablegrams to Longfield Lloyd¹ in Tokyo and Bruce in London. The focus of Lyons' attention was the use of Japanese finance to develop Yampi Sound:

Government is much concerned by the necessity for taking this action particularly in view of the fact that as you are probably aware Western Australian Government has granted leases at Koolan Island Yampi Sound to Brasserts and Company London who had entered into agreement with Nippon Mining Company of Japan under which the latter Company provides substantial loan to operating company for the purposes of working deposits and shipment of ore to Japan.²

The reference to "necessity for taking this action" relates to the implementation of the iron ore export embargo. Although the emphasis is on the source of the capital, Lyons maintains the facade that his reason for acting was based upon the "alarming nature of reports re iron ore resources" in Australia. Bruce's reply was unsupportive of Lyon's position. From the Commonwealth Government's perspective, however, the British may have unwittingly provided some support for the justification for the prohibition which the Commonwealth Government had already decided upon:

[The] British Government ... are a little disturbed at the possible effect on the Japanese Government of sudden cut off of output from Yampi Sound and expressed the hope that the Commonwealth Government will not take the step proposed without

¹ Prime Minister's Department to Longfield Lloyd, 17 March 1938, in Hudson, W.J. (ed), Documents on Australian Foreign Policy 1937-49, Volume I: 1937-38 (Canberra, 1988) Commonwealth Government Printer, Doc.140

being able at the same time to publish reasons for it which will carry conviction of its necessity.³

It may be contended that such a request invited the Commonwealth Government to outwardly appear to have a well-founded justification for the prohibition. As previously discussed, the Commonwealth Government was interested in a justification based upon British or Empire requirements, however, support from the Empire was never forthcoming. On the other hand, Australia's trade agreement with Britain and other nations, the 1932 Ottawa Agreements, also failed to provide the Commonwealth Government with any real support or justification for implementing a prohibition. Consequently, the Commonwealth Government's justification had to be domestically based and the myth of limited reserves of iron ore was considered by the government as best suited to the task.

In March 1938 Wakamatsu wrote to Lyons regarding comments made by Lyons in the press that claimed that Woolnough's survey was producing disturbing results.⁴ Agenda setting was the key to Lyons' public statements: "Anything like an adequate survey will require both time and money but, until such a survey has been completed, I suggest that it would be wise to limit or even prohibit the uncontrolled exploitation of our two reasonably certain sources of iron ore supply."

Wakamatsu expressed the concern that the Commonwealth Government's action may have disastrous effects on the Japanese investment in Yampi Sound.⁵ Nevertheless, Lyons agenda setting exercise continued in his reply which repeated that Woolnough was producing "a report which is most alarming"⁶, and that although "a more detailed examination" was still required before the Commonwealth Government could act with certainty", it was the sovereign right of any national government to safeguard the interests of its people.

Public agenda setting by the Commonwealth Government may have been laying the foundations for the policy's implementation, however, it was also stirring up concern in both foreign and domestic circles. Investors other than the Japanese were affected, although to a lesser degree. British interests in South Australia expressed their concerns to a South Australian member of parliament, Mr Price⁷, in April 1938. Attached to their letter of protest

² Lyons to Bruce, 17 March 1938, *ibid*, Doc.141.

³ Bruce to Prime Minister's Department, 31 March 1938, *ibid*, Doc.175.

⁴ "Australia's Iron Resources: Visible Deposits Limited." Prime Minister's Department, For Favour Of Publication (18/3/1938) (AA: A2908/13; Y2 Part 1).

⁵ Wakamatsu to Lyons, 26 March 1938, in Hudson, W.J. (ed), *op.cit.*, Doc.170

⁶ Lyons to Wakamatsu, 29 March 1938, *ibid*, Doc.171.

⁷ John Lloyd Price had been a South Australian Member of the Federal Parliament from 1928. He was originally a member of the Australian Labor Party, but in 1931 became a member of the United Australia Party. [see: Alexander, *op.cit.*]

was a report from a geologist, Dr Atcherley, who had examined iron ore deposits in South Australia and had determined that a "huge quantity" of iron ore existed.⁸

The British interests intended to mine the deposits for export purposes and accordingly, requested to know whether the proposed prohibition would affect British interests in South Australia. They further inquired whether the prohibition would affect the export of iron ore to Britain or other approved nations and also whether the export of pig iron was to be prohibited. Atcherley's presumptions concerning the iron ore export embargo's implementation are also revealing from the perspective of the public's perception in the months leading up to the Commonwealth Government's announcement of the prohibition:

If, as I take it, the object of the proposed embargo is to control exports of Iron Ore to certain Foreign countries and will not have the effect of restricting trade within the Empire, then I feel confident that on receipt of an intimation from the Commonwealth Government to this effect, my London Principals will go ahead with their project."

Price took up Atcherley's inquiry, writing to Lyons on April 5, 1938 supplying both the professional opinion of Atcherley and his questions regarding the iron ore export embargo. Price took the perspective of the press and quoted stories from that day. Price contended that one story claimed that a prohibition on exports would be implemented (except under licence) once protests from State governments had been considered. It also reported that the protests were unlikely to influence Cabinet and that the prohibition would probably last two years - the time it was expected to take for the survey to be completed.⁹ Price asked: "What does this mean? Does it mean that licence may be issued to British export or favoured countries of the Commonwealth Government?"

The concerns of Atcherley provoked an *urgent* and *confidential* letter on April 27, 1938 from Lyons to McEwen. The following admission by Lyons is significant as Lyons and McEwen were two of the chief architects of the iron ore export embargo policy:

You [McEwen] will notice that technical reports which have been furnished in this regard suggest that quantities of iron ore available in this locality are much greater than the Government was led to believe when considering future policy in relation to the export of iron ore from Australia.¹⁰

Lyons requested that the information supplied by Atcherley be brought to the attention of Woolnough and that his urgent opinion be sought. Woolnough's opinion is not known,

⁸Atcherley to Price Esq M.H.R. (AA: A461/10; G373/1/3).

⁹Price Esq M.H.R. to Lyons, 5 April 1938 (NAA: A461/10; G373/1/3).

¹⁰Lyons to McEwen, 27 April 1938 (NAA: A461/10; G373/1/3).

however, the thesis contends that this geologist's views would have been dealt with in the same manner as other optimistic opinions previously received by Woolnough - summarily dismissed.

The role of foreign investment in Australia itself became a focus of the media's debate, particularly Japanese investment. In an article published on April 16, 1938 issues relating to the rights of foreign companies to investment in Australia were discussed with specific reference being made to the proposed Japanese investment in Yampi Sound. A representative of Nippon Mining Company was quoted as saying that: "The company had made a substantial investment in Australia, which was a friendly country, and it hoped that Australia would not violate the recognised rights that pertained to such an investment".¹¹ The article implied that any government intervention that sought to halt the development of Yampi Sound was unjustified. The article also discussed the controversy surrounding the invasion of China by Japan, with a representative of Nippon Mining Company quoted as saying that:

So far as the war in China is concerned, we were making enquires regarding Yampi Sound three or four years before the war started. We are going ahead with the enterprise and I hope no drastic action will be taken by the Australian authorities.

The emphasis on *drastic* was not uncommon in reports of the Japanese Government's attitude to the prospect of an iron ore export embargo.

In another article, representatives of the Japanese Government took the view that "it was evident that no emergency had arisen necessitating such a drastic measure."¹² Such public protests by the Japanese were based upon similar arguments to those previously expressed personally by Wakamatsu to Lyons. This is especially evident in the Japanese protests that centre on the possibility of a conspiracy between the Commonwealth Government and BHP. The Japanese were quoted as alleging that:

it can only be inferred that the only result of the contemplated measure will be the accumulation of monopolistic profits by iron and steel industries in Australia. Such a measure as will encourage the augmentation of particular industrial profits at the vital sacrifice of legitimately vested foreign interests can in no way be justified.

The editorial in the *West Australian* on April 18, 1938 expressed concern in regard to the effect that an iron ore export embargo might have on business confidence and foreign investment in Australia: "An embargo imposed on the export of iron ore at this late stage, if it

¹¹ "Yampi Iron Ore: Japanese Viewpoint: Big Development Project," *The West Australian*, 16/4/1938.

¹² "Iron Export Ban; In No Wise Justified; Japanese Protest; Bearing on Trade Relations; Sydney June 15", *The West Australian*, 16 April 1938.

has no other consequences, will certainly not enhance Australia in foreign eyes as a field for investment of capital."¹³

The editorial supported the Japanese proposal (that was reported to be) to export 1 million tons of iron ore per annum from Yampi Sound for a period of 25 years. The article claimed that such a program of production was necessary as it would provide the minimum return that could justify the investment. It was also claimed that the amount of iron ore exported would only equate to twenty-five per cent of the total reserves above the high water mark: "In this form the offer certainly seems to be at least a compromise which will permit of the further development of Yampi."

Further correspondence between Wakamatsu and Lyons in April 1938 concerned the arrangements between Brasserts and Nippon Mining Company and concurred with many of the views expressed in the above editorial. Wakamatsu attempted to allay the Commonwealth Government's apprehension about the project and to justify the proposed rate of exploitation. Wakamatsu claimed the agreement between Brasserts and Nippon Mining Company had been formulated in good faith and that the terms of the project had been approved (including the terms accepted by the Western Australian Government and the approval by the Commonwealth Government for the stationing of four Japanese technicians on Koolan Island) and that he wished the Commonwealth Government to "understand that the terms of these proposals have in no way been departed from...."¹⁴

Wakamatsu maintained that the scale of the project was dictated by the economics of iron ore mining (an issue the Commonwealth Government had been considering itself) and discussed the expected export tonnages within the context of the capital already expended by Brasserts and Nippon Mining Company: "It is proper to mention here, that the development in question is an undertaking of considerable magnitude, capable of being handled economically only in enormous tonnages; this point was well known to all parties from the outset."

Wakamatsu also focused upon Australian-Japanese relations, claiming that Nippon Mining Company was granted special permission to export scarce currency for the purpose of investing in Australia not only to satisfy its need for iron ore, but also to remedy the lack of understanding between the two nation's peoples which was a matter that was greatly regretted by the Japanese Government. Wakamatsu also made the point that an iron ore export industry would have numerous other benefits for Australia (and Western Australia in particular):

¹³ "Yampi Sound Development," *The West Australian*, 18/4/1938

¹⁴ Wakamatsu to Lyons, 5 April 1938, in Hudson, W.J. (ed), *op.cit.*, Doc.178

At the present time Japan purchases a very considerable portion of its rapidly increasing meat supply from South America. It is the intention of the Nippon Mining Co. Ltd (through a sister Company) to use ships going from Yampi with iron ore for the purpose of shipping Kimberley cattle to Japan ... Iron ore takes up such a small space that there will be ample room for cattle.

This is an interesting idea, particularly in the context of the TDD, but one not further elaborated on by Wakamatsu. Wakamatsu concluded with a direct attack on the actual report that provided the basis for the Commonwealth Government's concern regarding limited economically available reserves of iron ore:

With regard to Dr Woolnough's report, I have been informed that, at least in that State, no survey or detailed examination has been made on which Dr Woolnough's estimate could be based, and, further, that many large deposits exist in that State in addition to Koolan.

Lyons replied to Wakamatsu on April 8, 1938, but failed to address any of the Consul-General's arguments in favour of the project. Lyons simply stated that consideration of the Japanese investment would be included in any decision relating to exports of iron ore.¹⁵ It is an obvious contention of the thesis that the Prime Minister was not in a frame of mind to be convinced, and that his limited response provides a clear indication of his attitude towards the Japanese.

5.3 Crystallisation of the iron ore export embargo policy

Lyons' unease with the involvement of the Japanese in the project is further demonstrated in a cablegram to Bruce on April 7, 1938. The cablegram illuminates the motivation for the prohibition, although the insight is still clouded by the limited reserves of iron ore myth. Lyons suggested to Bruce that the implementation of a prohibition had been well prepared for by the government with the public agenda having been set through announcements and media debate:

It appears clear that Brasserts is in effect a dummying company for Japanese interests. It further appears that Nippon Mining Company is very closely identified with (sic) Japanese Government and that there is a series of similar and related Japanese companies looking after the shipping and smelting of the ore.... The possibility of Commonwealth Government putting an embargo on export of iron ore has been well ventilated unofficially in Australian Press.¹⁶

¹⁵ Lyons to Wakamatsu, 8 April 1938, *ibid*, Doc.183

¹⁶ Lyons to Bruce and Page, 7 April 1938, *ibid*, Doc.181

In this letter, Lyons is acknowledging his desire to block the Japanese from having any physical presence in Australian. This meant no Japanese company could be part of the Yampi Sound development. The thesis contends that the political dimensions of the investment were the crucial factor motivating the government. It was not the national security implications, but the prospect of political embarrassment that was the single most important factor:

the point on which there is no doubt is that we do not wish to undergo the embarrassment that would probably become cumulative as years go on of having what was in effect a Japanese Government enterprise well installed in Northwestern Australia, close to Broome where there are already large numbers of Japanese engaged in pearl shell industry.

Lyons further mentioned that the iron ore export embargo policy would not be implemented until a survey of Australia's iron ore resources had been completed to the government's satisfaction and further, that compensation would be made available to all effected parties. Lyons concluded with a personal and confidential note to Bruce: "Desire you understand we are not only concerned with preservation of adequate resources but also expressly wish to avoid the establishment of this Japanese enterprise in North West Australia".

This last note crystallises Lyons' thought processes and the motivations of the government. It may also be contended that Lyons was attempting to convince Bruce, and indirectly the British Government, that the Commonwealth Government was genuine in regard to the stated concern regarding limited reserves of iron ore. Bruce replied to Lyons on April 19, 1938 with a positive message from the British Government. The British reply dealt solely with how to most diplomatically halt the development of Yampi Sound by the Japanese. The excuse of limited reserves was supported by the British and it is contended that Lyons would have taken heart from their response:

He [Secretary of State for Foreign Affairs] accordingly suggests that in explaining the reasons for the contemplation of the measure the Commonwealth Government would be well advised to emphasis that the conservation of its natural resources by any Sovereign State is a policy that is very generally acknowledged as reasonable, and one the force of which the Japanese Government will fully appreciate.¹⁷

Lyons received a significant amount of advice in the months preceding the public announcement of the iron ore export embargo. For example, Page addressed aspects of the official justification for the prohibition in a cablegram to Lyons on April 13, 1938. Page firstly reiterated that it was the Commonwealth Government's knowledge of Australia's limited reserves of iron ore that compelled conservation (i.e.. to insure the future economic

¹⁷ Bruce to Lyons, 19/4/1938, *ibid*, Doc.190.

development of the nation). He secondly contended that approval for limited exports of iron ore would be inconsistent with the government's policy of conservation and furthermore, that the prohibition was non-discriminatory, applying equally to Australian and foreign interests.¹⁸ In regard to Japan, Page recommended that: "It has been our experience and the experience of other countries that if we are to avoid progressively increasing difficulties with Japan with regard to any contentious question a firm attitude is required from the outset".

Page further advised Lyons that the Commonwealth Government should only deal with the Japanese Government on the presumption that Nippon Mining Company was a private enterprise. This type of argument was very similar to that used by the Western Australian Government when the issue of whether Brasserts was a dummy company for Japanese interests had been discussed throughout 1936 and 1937. On these occasions the Western Australian Government was accused of taking an *ostrich-like* approach. Page advised that:

Should subsequently Japanese Consul-General under instructions from his Government endeavour to make an inter Government negotiation of the question we consider he should be informed that the Commonwealth Government is prepared to enter into correspondence only on the basis that it concerns an investment by a private company.

The Commonwealth Government was extremely critical of the Western Australians over their *ostrich-like* policy, but were obviously more willing to excuse itself when it was convenient. The purpose of this strategy was, however, different from the Western Australians in that the Commonwealth Government was seeking to avoid being drawn into a debate that concerned Australia acting discriminatorily against the Japanese. In regard to the Australian public's response (and the timing for the announcement of the iron ore export embargo), Page advised that it would be preferable for the prohibition to be implemented immediately and without any hint of possible compromise by the Commonwealth Government:

There is less likelihood of division of opinion among Australian public if [an] immediate embargo [is] imposed than if continual recurring discussions take place with regard to iron ore resources and the possibility of the export of iron ore under the license system... [W]e see it the sooner the decision is announced the better; the less public discussion there is on iron ore resources the better; the firmer our attitude at the outset the better. We would suggest that you might consider taking the press into your confidence with a request for co-operation.

On May 1, 1938 Page recommended that the British Government be used to minimise the objections that the Commonwealth Government was expecting to receive from the Japanese.

¹⁸ Page to Lyons, 13 April 1938, *ibid*, Doc.186.

It should be noted that such unofficial cooperation between the Australian and British governments was outside the bounds of the normal trade relationship and cannot be contended as being within the 1932 Ottawa Agreements. Page suggested that before any announcement was made it should be "communicated to the British Government in time for them to convey it to Craigie¹⁹ so that he would be in a position unofficially to confirm to the Japanese Government that the prohibition is not discriminatory".²⁰

Lyons responded to Page's recommendations by sending him a draft copy of his public announcement of the iron ore export embargo. The full text of the prohibition's announcement in parliament is examined below, however, it is important to note two key points made by Lyons that were omitted in the actual announcement. These points were dropped from the final address after Page, Bruce and Menzies all made objections. The first point was that: "During the early stages of activity at Yampi, ... the Commonwealth Government made no demur to the proposed enterprises."²¹ The second point was that: "The Government will be prepared to consider the provision of a reasonable sum to meet equitable claims for reimbursement". These two points were dropped from the announcement after Page replied on behalf of Menzies and Bruce:

All of us are disturbed by the suggested terms of the statement firstly because we think that making the only specific reference to Yampi is inconsistent with the fact that the prohibition is to be non discriminatory and is to affect other exporters than Yampi company, and secondly because we think the offer to give compensation goes too far.²²

The thesis contends that Page's likely purpose was to see that any controversy provoked by the iron ore export embargo's implementation was minimised. Specifically in regard to the Japanese, the advice from Page was that the Commonwealth Government should only convey information and avoid entering negotiations of any kind: "on the basis of conveying information only, as the decision will affect, apart from one Australian company, viz. Broken Hill Pty Ltd, a British company and a Japanese company."

Lyons replied to his ministers, claiming to have heeded their advice and that all future correspondence with the Japanese Government would be amended along the suggested lines.²³ Nonetheless, Page again cabled Lyons on May 18, 1938 urging Lyons to heed their

¹⁹ Note: U.K. Ambassador to Japan

²⁰ Page to Lyons, 1 May 1938, in Hudson, W.J. (ed), *op.cit.*, Doc.195.

²¹ Lyons to Bruce, 17 May 1938, *ibid*, Doc.198.

²² Page to Lyons, 17 May 1938, *ibid*, Doc.200.

²³ Lyons to Page, *ibid*, Doc.20.

advice in every detail, especially in regard to the issue of compensation.²⁴ However, Lyons changed his position and informed Page on the day of the announcement that:

We feel we cannot possibly ignore the precise nature of this correspondence and write to Consul-General as though merely conveying information of Government's decision as your previous telegram suggested... We share with you some uneasiness regarding the effect on Japanese Government of our action and we believe that reasonable method of avoiding unpleasant reactions by them is to adopt fair attitude regarding compensation.²⁵

5.4 Announcement of the iron ore export embargo

On May 19, 1937 Lyons announced the implementation of the iron ore export embargo in the Federal Parliament's House of Representatives. Lyons opened with the statement that there had previously been the "impression that Australia was so well endowed with iron ore that there was no cause for anxiety as to the adequacy of future supplies,"²⁶ and that: "Eighteen months ago, when this matter of iron ore resources first came to be discussed, no doubt existed as to the adequacy of our iron ore resources and the Commonwealth Government saw no reason to place limitations on their exploitation".

The question of what prompted the Commonwealth Government to commission the survey was not explored by Lyons, nor could it have been without directly causing an international dispute since the Commonwealth Government had previously assured the Japanese that they had no cause for concern from the Commonwealth Government's enquiry into Australia's resources of iron ore. After providing an explanation for why the Commonwealth Government had negotiated and cooperated with the Japanese, he continued as though the matter needed no explanation: "In the light of the report which Dr Woolnough has now made, the Government is satisfied that the accessible iron ore deposits which are capable of economical development are so limited as to compel their conservation for Australian industrial requirements".²⁷

Lyons and the government's intentions were clearly established in the announcement and it is contended that his gesture of commissioning a full survey upon which the Commonwealth Government would reconsider its position would have done little to satisfy the government's critics: "Although the Government has accepted the advice contained in the report of the Geological Adviser, it is its intention to proceed, in collaboration with the technical officers of the States, with a complete detailed survey of Australia's iron ore resources".

²⁴ Page to Lyons, 18 May 1938, *ibid*, Doc.205.

²⁵ Lyons to Page, 19 May 1938, *ibid*, Doc.206.

²⁶ Lyons to Page, 18 May 1938, *ibid*, Doc.202.

As proposed in his letter to Page on May 19, 1938, Lyons dealt with the contested issues of Yampi Sound and compensation (of which he was advised to do otherwise) when writing to Wakamatsu concerning the implementation of the prohibition.²⁸ Lyons also attached a copy of a report by Woolnough (*Report on the Technical Aspects of Iron Ore Reserves in Australia*, April 14, 1938) to the initial letter. The report provided the Consul-General with a comprehensive picture of Australia's iron ore reserves. The report contained a four part overview of the mining industry and a comprehensive discussion of the myth of Australia's ample iron ore reserves.

The report noted that iron ore was a low value commodity that required cheap mining and transportation methods, coupled with a high degree of purity and minimum overlay. This was to facilitate cheap open-cut mining methods. Further favourable characteristics recommended by the report were a uniform quality of extracted ore and mining on a large scale to cover the amortisation of the capital costs of production. Woolnough contended that: "These fundamental demands can be met, especially in the case of infant iron industries like that of Australia, only by a fortunate concurrence of favourable factors." Woolnough did not deny that Australia had significant reserves of iron ore, but claimed instead that they were uneconomic at that time, and unlikely to ever be economic in the foreseeable future: "Many other important deposits are known to exist, but all of these exhibit one or more characteristic excluding them from economic consideration at present, or in the immediate future".

Woolnough also claimed that the Iron Knob Group, in South Australia (which were a group of iron ore bodies already being exploited) only held between 150 and 200 million tons. Ignoring the fact that these estimates were significantly lower than those given by other contemporary experts, Woolnough decreased their value even further, claiming they decreased in quality as the ore body increased in depth:

Unfortunately, the largest deposits of the group show an increasing percentage of manganese, to more than the admissible limit, with increasing depth of exploitation. This must be counteracted by dilution of the ore with other iron ore low in manganese, since the manganese cannot effectively be removed in smelting.

Woolnough explained that Yampi Sound was low-manganese ore and was needed for mixing with this high grade ore so that consistency could be maintained for smelting: "No other completely adequate source of supply of low-manganese ore is actually available or immediately probable within the Australian region." The thesis contends that this proposition of Woolnough's was based on a specious argument as there were in fact no plans for any such development of Yampi Sound by BHP or any other Australian interest. The Chief Geological

²⁷ "Iron Ore Resources of Australia", Statement by the Right Honourable The Prime Minister in the House of Representatives, 19 May 1938 (NAA: A981; AUS 90 Part 1).

Adviser's concluding remarks provide a telling insight into his own, and the Commonwealth Government's, attitudes and clearly demonstrate that they had no intention of allowing the facts to change their opinion:

From their very nature iron ore deposits of dimensions worthy of consideration in the present survey form topographic and geological features so exceedingly conspicuous that it is beyond the bounds of possibility that there exist anywhere within the accessible portions of Australia undiscovered accumulations of such ore of noteworthy dimensions.

5.5 Pro-development interests fight on

On May 24, 1938 Wakamatsu replied to Lyons letter informing the Japanese of the iron ore export embargo's imminent implementation with a strongly worded message that the Imperial Japanese Government deeply regretted the Commonwealth Government's decision as "it can only be inferred that this drastic measure is aimed principally at Japan."²⁹ Wakamatsu made it clear that the Commonwealth Government's offer of compensation was not satisfactory, since "this question is one of such gravity that it cannot be solved simply by reimbursement of the investments". It concluded with an attack on both the *right* of Australia to restrict access to its iron ore resources that were in demand by resource poor nations, and the *justification* given by Australia for its unilateral action:

the necessity for ... [access to raw materials] has not only been recognised by most of the countries in the world, but which has also been earnestly urged by certain Powers as a practical means of achieving appeasement in the world, [the Japanese Government desire that] the Commonwealth Government will reconsider their decision, particularly as it does not appear that any thorough and practical investigation has yet been made which furnishes the peoples of both Australia and Japan with concrete evidence of the realities of the situation.

The Commonwealth Government was also very eager to impress upon the State governments the seriousness of the situation in regard to the alleged scarcity of Australia's iron ore reserves. The States, however, were more concerned with forming their own conclusions. The Western Australian Under Secretary for Mines received a report on the May 27, 1938 produced by the Government Geologist of Western Australia which was a critique of Woolnough's preliminary survey. The Government Geologist believed the "consideration of the economics of mining should not be left entirely to the Geological Survey staff",³⁰ thus implying

²⁸ Lyons to Wakamatsu, 18 May 1938, in Hudson, W.J. (ed), *op.cit*, Doc.203.

²⁹ Wakamatsu to Lyons, 24 May 1938, *ibid*, Doc.208.

³⁰ Geological Survey of Western Australia, Under Secretary for Mines, 27 May 1938. (SROWA: 2822/3729).

that Woolnough's opinions on such matters may either have been flawed or overly conservative:

In my opinion, his [Woolnough] proposal to calculate tonnages only above the zone of contact with surrounding country rocks and below that zone to take into consideration only a wedge of ore extending downwards to a depth equal to the width of the body at country rock level is highly empirical.

The attitude of those affected resulted in shifts in the activity of the Commonwealth Government's advisers. Even before the announcement (but after the announcement of the prohibition had been decided upon) the Commonwealth Government bureaucracy's focus shifted from policy development to the rebuttal of attacks by interested parties. On May 25, 1938 a report was produced that dealt with the arguments presented by the Japanese Government and possible responses by the Commonwealth Government. The Japanese Government were claimed to be largely ignoring the specific investment of Japanese funds in Yampi Sound and instead basing "themselves entirely on the broader issues of friendly relations, political and economic."³¹ In response to such arguments, five arguments (or themes) for the Commonwealth Government were proposed:

- 1 That the iron ore export embargo is certainly not "aimed at Japan" nor any individual nation, but was a general prohibition;
- 2 That a "domestic emergency" has arisen in Australia as a result of Australian geological experts having unexpectedly discovered that Australia's iron ore resources are not of the magnitude originally contemplated;
- 3 "As to access to raw materials, the Commonwealth Government remains of opinion that freedom of access is highly desirable whenever possible";
- 4 That in Australia "iron ore deposits capable of economical development are very limited"; and
- 5 That "the embargo is only a provisional measure pending the technical investigation being undertaken".

The concluding issue encompassed the Commonwealth Government's responsibility to the Japanese company involved in the Yampi Sound development, Nippon Mining Company. In regard to any legal duty of the Commonwealth Government to Nippon Mining Company, the Commonwealth Government's advice was that the Japanese would have a case against Brasserts, but not against the Commonwealth Government, as "it would seem that the Commonwealth Government were not a party to the agreement entered into between Messrs. Brasserts and the Nippon Mining Company of Japan."

³¹ Embargo on the export of iron ore from Australia, 25 May 1938 (NAA: A2908/13; Y2 Part 1).

The core group of Ministers mentioned previously were active in advising Lyons in regard to all his dealings with the Japanese Government. Page cabled Lyons (on behalf of Menzies, Bruce and himself) on May 25, 1938 concerning similar issues as covered in the above May 25, 1938 report. Page made the general observation that any "reply should not go into detailed explanation but should be limited to essential points."³² Page outlined three such points. The first was that the decision to implement a prohibition was based solely on national requirements and was non-discriminatory in nature. Secondly, that Australia had the right to determine what its requirements were and to take what action it perceived as necessary to meet those requirements. And thirdly, so far as Japan or any other party was affected, those parties were welcome to seek compensation from the Commonwealth Government.

It would appear that Lyons largely followed Page's above advice to a significant extent in correspondence with Wakamatsu, emphasising that the Japanese Government must recognise:

the right of a Government to decide what are its own national requirements of essential raw materials, and to determine how these can best be met, will readily be admitted. The decision to prohibit exports of iron ore was made in pursuance of this well recognised principle.... This applies particularly to an irreplaceable commodity like iron ore which is vital to the industrial life of a nation.³³

Lyons noted that within Australia the States of South Australia and Western Australia would be prejudicially effected and furthermore, that the prohibition was of a "general" nature. Lyons wrote that not only would:

foreign countries ... be denied access to our resources of iron ore, but that Great Britain and the rest of the British Empire will be similarly affected. The United States of America purchases substantial quantities of iron ore from Australia, and no further exports will be permitted after 1st July.

This was clever diplomacy by Lyons who was only too well aware that the British did not desire Australian iron ore for consumption by either Britain or the Empire. The diplomacy may, however, have failed to influence the Japanese. Wakamatsu's reply was strongly worded, alleging that the measures taken could not be justified by "conservation" requirements and that the Japanese Government felt that it had a duty "to do its utmost to safeguard" the interests of Nippon Mining Company in Australia.³⁴

³² Page to Lyons, 25 May 1938, in Hudson, W.J. (ed), *op.cit.*, Doc.210

³³ Lyons to Page, 2 June 1938, *ibid*, Doc.213.

³⁴ Wakamatsu to Lyons, 14 June 1938, *ibid*, Doc.216.

Wakamatsu outlined four reasons why the Japanese Government felt that the Commonwealth Government should reconsider its decision. The first was that "[i]n the absence of ... a [comprehensive] survey ... such a drastic and far-reaching measure against foreign interests as is now contemplated by the Commonwealth Government cannot be justified." Secondly, Wakamatsu noted that "no fresh evidence as to the extent of Australia's iron ore resources has appeared to justify the sharp change of policy on the part of the Commonwealth since August last year, when your Government reiterated its affirmation of the adequacy of Australia's iron ore deposits."

Thirdly, the Consul-General insinuated that a capitalist conspiracy may exist between the Commonwealth Government and BHP:

the Commonwealth Government is taking into consideration only the quantities of iron ore which can be developed economically, and also that no embargo on the exportation of pig iron or steel is contemplated, it is evident that nothing vital in this connection has occurred to disturb the basic conditions of the national life of Australia. It can reasonably be inferred that the only result of the contemplated measure will be the accumulation of monopolistic profits by iron and steel industries in Australia.

And fourthly, the economic methodological flaws in the survey (as previously discussed in relation to Blainey's views) were highlighted with Wakamatsu noting that "the iron ore deposits which are capable of economic development, are not absolutely limited, as their capability in that respect will increase according to both the improvement of productive technique and the growing demand."

Wakamatsu concluded with an ominous warning. He declared that the Japanese were a resource poor nation that considered itself to have a right of access to resources at economic prices: "the general current of world opinion ... is urging the remedying of the (sic) mal-distribution of natural resources among nations by such peaceful means as freer access to raw materials and freer markets for export."³⁵ The thesis contends that the implications of this warning may have only reinforced the Commonwealth Government's concerns in regard to the threat posed by the Japanese and the potential political embarrassment that the development of Yampi Sound by the Japanese could cause the government.

While the debate continued in Australia, the media in Japan also contributed to the controversy. On June 14, 1938 the *Japan Times* published an article that expressed the opinion that the Commonwealth Government's decision treated the Japanese prejudicially and

³⁵ Ibid.

that the Japanese authorities thought likewise.³⁶ Emphasis was placed firmly on the possible effects that the Commonwealth Government's decision could have on international trade and most specifically on Australian-Japanese bilateral relations. The attitude of the Commonwealth Government was claimed to have greatly displeased influential Japanese economic organisations. The article concluded by focusing on the public debate within Australia, with a Japanese Foreign Office spokesman being quoted as saying that: "It may further be asserted that the fact that views opposing the decision are being entertained even among the Australian authorities indicates that the arrangement is irrational."

Although domestic opposition to a government decision is not necessarily indicative of irrationality, it may be contended that there was still some truth to the above claim. The number of individuals who actually knew what was occurring were few. Definitely Lyons, McEwen, Menzies, Page, Woolnough, Bruce, and the Secretary of the Department of the Interior, Mr Carrodus. But other than these men, it is hard to know whether anybody else was fully aware of the strategy being employed.

Longfield Lloyd was another who had insight into the Commonwealth Government's policy and it is indisputable that Longfield Lloyd took the Japanese threat very seriously. In June 1938 he met with representatives of Nippon Mining Company and the Japanese Government in Tokyo to discuss the iron ore export embargo. He relayed to Lyons that a Nippon Mining Company representative had "quietly informed ... that they understood the situation and as the Commonwealth decision is recognisable as a matter of Australian domestic policy there is nothing more to be said."³⁷ That the Japanese were convinced of the correctness of the Australian position is extremely unlikely and consequently, such an acknowledgment (if it occurred) can only be explained as diplomacy. Their diplomatic attitude was, however, not to last very long as throughout late 1938 and 1939 the Japanese Government and its representatives made many statements on an official level to the Commonwealth Government (and to the media) that disputed the domestic nature of the Commonwealth Government's actions. Nevertheless, even at this time Longfield Lloyd noted that such an attitude was "in notable contrast to the extravagant Japanese official comments" and that although compensation was not brought up by the Japanese for discussion, this may have occurred for ulterior motives in respect of creating "a conciliatory atmosphere in which any contemplated claims might have easier results for them."

Longfield Lloyd was, however, far less enthusiastic in regard to his discussions with Japanese Government representatives. The officials were claimed to have asked that Japan be

³⁶ "Australian Reply On Iron Ore Issue Held Unfavorable. Gaimusho Likely To Renew Protest; Economic Bodies Displeased," *The Japan Times*, 14 June 1938.

³⁷ Longfield Lloyd to Prime Minister's Department, 15 June 1938, in Hudson, W.J. (ed), *op.cit.*, Doc.217.

permitted to import one million tons of iron ore annually.³⁸ Longfield Lloyd also reported that the officials had expressed the opinion that the Japanese military authorities regarded the exports from Yampi Sound as important, while the "project itself was purely inter company and that Japan did not claim that it was inter Governmental."

In mid-June 1938 Bruce had a meeting with the Japanese Ambassador to the United Kingdom, Shigeru Yoshida, a transcript of which was forwarded to Lyons with a further written representation from the Japanese Government that the Ambassador had personally handed to him. The issues discussed in the meeting were of a general nature:

In his [Japanese Ambassador's] statement to me he said very little with regard to the facts of the case but talked generally about good relations with the British Empire and pointed out that the present action of the Commonwealth Government was not helping to improve those relations.³⁹

Bruce's reply consisted of explaining the responsibility that the Commonwealth Government had for planning Australia's future, which he noted included the conservation of natural resources of a strategic nature:

I pointed out to him that the question which arose in this matter was in no sense one between Governments save in the sense that the financial interests of commercial concerns might be affected. This being the case the matter would only be one for the consideration of his Government in the event of Australia not according to the commercial concern involved fair and equitable treatment.

The written representation handed to Bruce outlined the Japanese investment in Yampi Sound and considerable explanation in regard to the Japanese attitude toward the iron ore export embargo. In regard to the investment in Yampi Sound:

[The] Japanese Government, notwithstanding the strict foreign exchange control in operation in Japan, gave special permission for this particular investment abroad, not only for the purpose of securing iron ore supplies from Australia, but also with a view to the furtherance of the amicable trade relations between Australia and Japan - two great Powers of the Pacific.

This was extremely flattering to Australia who was certainly not a great Power of the Pacific. The written representation further explained that the investment had occurred with the

³⁸ Longfield Lloyd to Prime Minister's Department, 17 June 1938, *ibid*, Doc.218.

³⁹ Bruce to Lyons, 18 June 1938, *ibid*, Doc.225.

cooperation of the Australian authorities and that the cooperative nature of the relationship had changed without any prior warning or justification:

At the time, the Yampi Sound Mining Company reached an understanding with the Government of Western Australia, who gave their assurance to the Company that the export of iron ore to Japan would not be hampered in anyway by Government action. Besides this assurance, the Prime Minister of the Federal Government of Australia stated on more than one occasion that the Government would not interfere with the enterprise undertaken by the Yampi Sound Company.

The Japanese perspective of the Commonwealth Government's decision on this and many other occasions revolved around the damage it would do to the two country's bilateral relationship. The Japanese contended that not only would companies trading with Australia be affected, "but ... the Japanese people as a whole, who had looked for a strengthening of the commercial ties existing between the two countries." The representation concluded with a scathing attack on the policy-making procedures of the Commonwealth Government, criticising it from both the perspective of the Japanese investors directly affected and the damage it was doing to general confidence in international trade:

If it be admitted that Governments are entitled to take drastic measures of the nature in question, on the ground of an investigation which is by no means conclusive, the basis of confidence necessary to foreign investment will be entirely shaken, and there will be no scope for international co-operation in the development of natural resources.

Within the context of these ongoing representations from Japanese Government officials and private citizens, Lyons replied to Wakamatsu's letter of June 14, 1938 on June 22, 1938:

Your letter under reference contains the observation that the Commonwealth Government has taken into consideration only the quantity of iron ore which can be economically developed. That is true. The Government Advisers have stated that there are quantities of ore in Australia which by reason of their inaccessibility cannot be economically developed. For the purpose of placing Australian industry in a position to meet competition of other countries which have access to cheap raw materials these deposits are valueless. Moreover, improvements in method of treatment etc. are not likely to alter this state of affairs within any foreseeable period.⁴⁰

⁴⁰ Lyons to Page, 22 June 1938, *ibid*, Doc.219.

A ban on the export of all iron related products, including scrap and pig iron, was discussed by Lyons. Such a prohibition was considered unnecessary with the explanation being that "up to the present the quantities which are exported are comparatively small." Lyons also showed sensitivity to the allegation that a conspiracy existed between the Commonwealth Government and BHP:

Your Government's reference to monopolistic profit must be based on a misapprehension as to position. The proposed prohibition will be enforced solely to conserve ore for Australian requirements. Any question of danger of development of a monopoly within Australia is entirely a matter of domestic concern.

Lyons also ruled out the possible development of Yampi Sound for export on the basis of a strict quota system, providing the reason that on Constitutional grounds such a conditional export program would have to be applied to all States in the Federation and consequently, it would defeat the purpose of having the prohibition. Lyons concluded on the bilateral ties issue, expressing the concern that damage was being done by the Commonwealth Government's action: "The Commonwealth Government views with concern [the] suggestion that its decision in respect of exportation of iron ore may have some effect upon traditional amicable relationships of our respective peoples." The thesis contends that these concerns are no more than convenient rhetoric and that the goal of excluding the Japanese was paramount and any damage inflicted on their bilateral relationship being an acceptable outcome for the Commonwealth Government.

During this period a significant source of intelligence on Japan's attitudes came from the British Government. Craigie was the United Kingdom's Ambassador to Japan and his reports on the issue were forwarded to the Commonwealth Government. The issue of the Commonwealth Government's justification was of concern to Craigie who it may be contended sympathised with the Japanese Government's surprise at the remarkable results of Woolnough's preliminary survey. Nevertheless, Craigie's focus place the most significant emphasis on the manner in which the Commonwealth Government implemented the prohibition: "It was very difficult for [the] Japanese Government to believe that shortage thus suddenly discovered could be so acute as to justify so drastic a measure" ⁴¹. The issue of most concern to Craigie though was the "bad impression which was being created throughout Japan at what seemed [a] deplorable departure from [the] generally accepted principle of free access to raw materials."

The Commonwealth Government received a second report based upon Craigie's intelligence the following day. The report reiterated Longfield Lloyd's intelligence on the domestic politics of Japan and its militarist character. Craigie suggested that a hard-line approach should be

⁴¹ Craigie to U.K. Foreign Office. 24 June 1938, *ibid*, Doc.222.

taken by the Commonwealth Government if it was intent on implementing the iron ore export embargo:

There is at the best of times a tendency amongst some sections of Japanese public opinion to align [sic] themselves with those in Germany and Italy who consider that the only means by which "have-not" States can ensure themselves [of] adequate supplies of raw materials is so to strengthen their armaments that they can eventually "take" what they require; ... I do not recommend any hint of compromise at [the] present juncture but if at a later stage [the] Japanese Government shows signs of adopting a more reasonable attitude perhaps exports to Japan of relatively small supplies of iron ore from South Australia over a limited period might be considered as an act of grace? ⁴²

The month of June ended with Lyons giving a second address on the iron ore export embargo to the Federal Parliament.⁴³ The speech dealt with many of the same issues that were the core of the Prime Minister's letters to the Japanese Consul-General on June 22 and 24, 1938. Lyons outlined the criticisms of the policy decision as twofold. Firstly, that until a complete survey of Australia's iron ore resources had been made the prohibition could not be justified and secondly, that no fresh evidence had appeared since August 1937 to warrant the change of policy.

Lyons response to such criticism was to claim that Woolnough had assured him that if the known supplies of high grade ore were not conserved, Australia would become an importer rather than a exporter of iron ore within a generation. Lyons admitted that there were considerable quantities of iron ore in Australia, but maintained that they could not be developed economically at that time, nor at any in the foreseeable future. The issue of implementing a parallel prohibition on exports of iron products was dismissed upon the justification that up until that time the quantity of pig iron and steel products exported had been very small.

Lyons noted that the prohibition on the export of iron ore was to be general in its application and that it should not be discriminatory against any country. Lyons did, however, announce a concession. Back orders of iron ore from already developed deposits to Japan would be allowed to be fulfilled after the iron ore export embargo's implementation:

In these circumstances and with a genuine desire to maintain good faith with the people of Japan and other countries interested in these shipments the Commonwealth Government has decided to permit the export under licence of ...

⁴² Craigie to U.K. Foreign Office, 25 June 1938, *ibid*, Doc.223.

quantities of ore which were arranged for prior to the announcement on 19th May and which will not have been shipped before 1st July, provided that these shipments are made on or before 31st December next.

Lyons concluded his address with the same justification for the Commonwealth Government's action as was given when he first announced the iron ore export embargo's implementation in May 1938:

The right of a Government to decide what are a country's requirements of raw materials and by what means these can best be met is inherent and cannot be disputed.... This applies particularly to an irreplaceable commodity like iron ore which is vital to industrial life.

The Commonwealth Government was warned of the negative impact that the policy would have on Australia's economic development and international reputation as a safe destination for foreign investors. Throughout May, June and July 1938 private interests also continued to lobby the Commonwealth Government, dealing in many of the same issues as the Japanese Government. In May 1938 Lyons received a representation that emphasised the need to induce people to populate the north of Australia. The representation regarded that:

the principal reason why no action should be taken by the Commonwealth is that if the Commonwealth refrains from taking action to prevent exports the Island will be so developed that should the occasion arise the Commonwealth could restrict or refuse to permit any exports and they would have at hand an immense deposit of iron ore all ready developed for Australian use.⁴⁴

The representation also contended that BHP was exporting iron ore and that such exports were inconsistent with the claim that the Australian iron and steel industry needed to conserve its resources. In a separate, but equally critical, representation it was argued that the worst aspect of the prohibition was the effect it may have on Japanese public opinion:

I am very jealous of the honour of this country, as I am sure you are. Also I am anxious that its dignity and prestige should be maintained and this, I realise, is an objective of your government. In the circumstances, you will appreciate my feelings when I say that I am seriously disturbed by the possibility that the Japanese, having been allowed to incur certain responsibilities at Yampi Sound, may be led to regard the government's belated decision to prohibit the exportation of iron ore as a breach of

⁴³ "Iron Ore - Prohibiting of Exportation from Australia", Statement in the House of Representatives by Prime Minister Lyons, 29 June 1938 (NAA: A461/10; G373/1/3).

⁴⁴ Letter from Gregory to Lyons, 2 May 1938 (NAA: A1608; C47/1/4).

faith. If this view should be taken - and probably it will - Australia's reputation will sustain an injury which will not be healed by the payment of a money indemnity.⁴⁵

In regard to the issue of Japan, the representation dealt with the possible ramifications in a very direct manner, with racism and political expediency being strongly argued against:

I am aware that many Australians - some of them highly placed - are inclined to adopt an uncompromising attitude towards Japan. This is unfortunate because, while it is indiscreet to alienate the good-will of any foreign country, it is especially indiscreet to alienate the goodwill of Japan whose friendship, because of geographical and economic circumstances, may be of exceptional value to Australia.

It is the contention of the thesis that the logic of these arguments could only have carried limited weight with the government as their conclusions were incompatible with the Commonwealth Government's policy which sought to exclude the Japanese from investing in Australia. Consequently, the excuse of insufficient reserves was necessary to justify the decision and the following sentiments a largely irrelevant consideration for the government:

it would be of advantage to Australia if the government could see its way to reconsider the decision and permit the exportation of a limited quantity of iron ore until a complete examination of Australia's resources has been made. If this were done ... the good faith of Australia would be established and a cause of international friction would be removed.

The Western Australian Government (which was being directly disadvantaged by the implementation of the iron ore export embargo) were certainly suspicious of the accuracy of the survey of Australia's iron ore resources being completed by Woolnough and urged that the implementation of the prohibition wait the completion of a satisfactory survey. Such suspicions in regard to the survey's accuracy were discussed on July 12, 1938 when the Government Geologist of Western Australia wrote to the Under Secretary for Mines:

As you will see I am of the opinion that Dr Woolnough's report does not run counter to our own ideas as to the existence of very large tonnages of iron ore in this State. On the other hand, most of his criticisms of our deposits involve questions of mining economics and governmental policy as regards transportation charges.⁴⁶

⁴⁵ Letter from Mr G.B.V. Melbourne, University of Queensland, to Prime Minister Lyons, 14 July 1938 (NAA: A1608; C47/1/4 Part 4). [Note: G.C.V. Melbourne is not A.C.V. Melbourne the distinguished Historian from Queensland University].

⁴⁶ Geological Survey of Western Australia: Government Geologist to the Under Secretary for Mines, 12 July 1938 (SROWA: 2822/3729).

The Geologist felt that the total tonnage estimates for the deposits were too conservative and that more weight should be given to the possibility that they might be mined economically in the future. It is a contention of the thesis that mining economics like all economics, involves dynamic concepts with movements in commodity prices or the development of new technology having a significant effect on any deposit's economic viability. A further example of relevance involves governmental charges which are always open to variation and should be viewed as a dynamic variable in any analysis. The criticism made here by the Government Geologist, and shared by the thesis, is that Woolnough was taking an inappropriately static approach to the analysis of all these variables.

Accompanying this letter was a Western Australian Government report that provided estimates of the State's reserves of iron ore. The report stated that other than Yampi Sound, the State had "extensive deposits"⁴⁷ of iron ore. The Geologist admitted that extensive examinations of these known deposits had not taken place, but claimed expert opinion held them as of significant quality and quantity:

No estimates of the tonnage available in these deposits has been attempted but the descriptions appearing in the various publications of the Geological Survey indicate that they must be very considerable and of high grade.... It is safe to say ... that deposits of iron ore are very considerable and that future examination will add considerably to tonnages at present known to be available.

The report criticised Woolnough's estimates of Yampi Sound, contending that he had insufficient knowledge to have reduced the previous estimates so greatly. The report recommended that the estimates provided by the Western Australian geologist, Montgomery, should remain the accepted estimates: "I maintain ... that, until such time as a re-examination of the Yampi Sound deposits is made by an investigator having better facilities than Mr Montgomery had and spending more time in his investigation, Mr Montgomery's estimate of 97 million tons must stand." The Western Australian State Government Geologist further advised that:

he [Woolnough] in no way suggests that iron deposits of this State are less in quantity than have been determined by Geological Survey Officers. The only remarks made by him regarding Western Australia appear on Page 3 of his report and read as follows:- "Yampi Sound deposits have been variously estimated to contain from 63 million to about 90 million tons of ore. These estimates, however, assume a depth of profitable mining which is almost certainly excessive in the existing economic conditions of Australia.... Very large tonnages of iron ore are known to exist in the interior of

⁴⁷ "A Summary of the Iron Deposits of Western Australia," by the W.A. Government Geologist, 12 July 1938 (SROWA: 2822/3729).

Western Australia but none of these is comparable in respect of transportation even with the Cafia deposits of New South Wales.

The report contended that Woolnough was changing the parameters by which profitability was determined and downgrading the size and quality of deposit while failing to provide any explanation why or how profitability had been overestimated in the past. It was also implied in the report (and previously admitted by Woolnough) that he was not an expert in the field of mining economics or the production of iron and steel:

These are both questions which I have not studied and which I consider require very careful consideration before Dr Woolnough's statements are accepted. From casual reading I have gained the impression that, in most of the iron producing countries in other parts of the world, deep underground mining methods are the rule rather than the exception and so far back as 1911, the exploitation of the Lake Superior deposits in the United States of America required transport by rail for distances up to 120 miles. Until it is known at what rate the Government is prepared to haul iron ore from the interior to the coast, surely it is too early to condemn any of our deposits on the grounds of excessive transportation charges.

Although there could not be any reasonable argument against the contention that transportation distance and the use of underground mining techniques increased the cost of production, the Government Geologist's argument was concerned with how to determine the threshold when production became uneconomic. Woolnough's reports did not attempt to formulate any specific depth of underground mining that breached an economic threshold, nor did Woolnough formulate a process whereby transportation costs could be factored into mine production plans to find at what point it became a barrier to economic delivery of ore. The survey simply excluded all iron ore that involved underground mining and arbitrarily set 200 miles as the economic limit for transportation. In his reports Woolnough provided no basis for either economic criteria.

The issue of compensation for the damage inflicted upon Western Australia's economic development by the prohibition was never far from the Commonwealth Government's agenda and it was discussed by Woolnough in a letter to McEwen on July 18, 1938. Woolnough recounted his discussions with the Western Australians in regard to whether the northern region was too much of a burden on the State government. It had been suggested to the Western Australians that they may give the area to the Commonwealth Government in a manner similar to when South Australia had previously relinquished the Northern Territory to the Commonwealth Government:

In compliance with your request, I sounded numbers of people as to the possibility of Western Australia being willing to surrender to the Commonwealth the northern

unproductive portion of the State. In almost every instance the reaction was excessively violent, and I think you will encounter much heated opposition on our visit to Perth.⁴⁸

It may be contended that such a proposition was either the Commonwealth Government attempting to gain direct responsibility for a large proportion of Western Australia or simply attempting to take a portion of the State that the State government found a burden. Either way the Western Australian's responded to the offer by claiming that they believed there were reasons other than an actual shortage of iron ore behind the imposition of the prohibition. They were reported to have asked: "Why cannot the Government take us into its confidence in this matter?"

This request for transparency was, however, completely ignored by the Commonwealth Government. The iron ore export embargo had already been implemented and the need for such consultation was certainly not perceived as necessary. The Western Australian Government was not active in raising its views publicly in regard to the possibility that factors other than the downgrading of Australia's iron ore reserves was behind the iron ore export embargo's implementation. This was fortunate for the Commonwealth Government as media attention in Western Australia increased dramatically following the iron ore export embargo's announcement in May and it covered a wide range of issues and perspectives.

On June 17, 1938 the *West Australian* ran a series of articles on the prohibition. The first issue was whether the Commonwealth Government should allow limited exports under licence, a proposition that had been raised by the Japanese Government among others. Indecision on this matter was blamed for the Commonwealth Government's delay in replying to the Japanese Government's representations.⁴⁹ The article implied that such delays were adding further confusion to the whole controversy. A second issue raised was the impact of the prohibition on the development of the northern region of Western Australia, with the article's conclusion being emphatic that both Perth, and the State as a whole, would suffer.⁵⁰ Thirdly, Commonwealth Government's policy-making procedures were criticised with the injustice of the process being used as a justification for Western Australia receiving compensation:

There had been colossal bungling with the whole business, and if Western Australia was to be penalised, and one of our great industries shut up, allegedly because it was necessary to protect Australia as a whole, then we were entitled to compensation.⁵¹

⁴⁸ Letter from Woolnough to McEwen, 18 July 1938 (NAA: CP5/1/1; 269 Bundle 16).

⁴⁹ "Iron Export Ban; Not Likely To Be Lifted; Japan's Protest Before Cabinet," *West Australian*, 17 June 1938

⁵⁰ "Derby's Hopes Dashed; Incalculable Loss to Hinterland," *West Australian*, 17 June 1938.

⁵¹ "Colossal Bungling; Mr Ross McLarty's M.L.A. Comment," *West Australian*, 17 June 1938.

The possibility of a parallel prohibition on the export of scrap and pig iron was also discussed, with the article stating that the quantities exported did not warrant it. The article also implied that this was the correct policy for Australia.

On the same day as these articles appeared in the *West Australian*, the *Kalgoorlie Miner*⁵² ran a story that contended that the Commonwealth Government was unlikely to modify the iron ore export embargo as the still-to-be completed survey was producing unfavourable results: "Ministers are becoming more concerned with the position and there is no likelihood that the Cabinet will lift the ban."⁵³ The statement demonstrates the success of the Commonwealth Government's propagation of the myth of limited reserves of iron ore.

Agitation by Western Australia for increased transparency in the Commonwealth Government's policy-making procedures were common (as noted above), and received significant press coverage. A Western Australian Federal member of Parliament, Mr Henry Gregory⁵⁴, called for nothing less than full transparency, stating that: "The rumour that the British Government had suggested or concurred in the imposition of the iron ore embargo is wholly without foundation, and so one must seek here in Australia for the reasons actuating the Government."⁵⁵ The thesis contends that Gregory was correct in his understanding of the Commonwealth Government's motivation for implementing the iron ore export embargo. Gregory further expressed the view that Woolnough's report findings were "ridiculous" and he insinuated that the Commonwealth Government was involved in some kind of conspiracy with private interests - most probably BHP: "It is difficult to determine whether the Government was actuated by fear or by pressure from certain industrial organisations."

These insinuations will be further discussed in chapter 7 from the perspective of the more elaborate conspiracy hypothesis proposed by Lockwood, however, it has already been discussed in chapter 4 with regard to the meetings between Essington Lewis and Lyons. Very little documentation exists that provides even circumstantial support to a capitalist conspiracy between the Commonwealth Government and BHP. The media, nonetheless, consistently aired such concerns. However, the media failed to perceive the Commonwealth Government's real motivations or the strategy that the Commonwealth Government was using to implement its policy of excluding the Japanese from investing in Yampi Sound. There was certainly little

⁵² Although Kalgoorlie would not have been directly effected by the iron ore export embargo, Kalgoorlie is a mining town in Western Australia and the type of regulation of the mining industry would have been perceived as setting a precedent, which presumably could have at a later date resulted in regulation of gold and other minerals mined in Kalgoorlie. Commonwealth Government interference in the mining industry was consistently argued against by the *Kalgoorlie Miner*.

⁵³ "Iron Ore Embargo; No Prospect of Cancellation," *Kalgoorlie Miner*, 17 June 1938.

⁵⁴ Henry Gregory had been a Member of the Western Australian Parliament since 1922. [see: Alexander, *op.cit.*]

⁵⁵ "Federal Actions; Insurance And Iron Ore; Mr Gregory [M.H.R.] Attacks Ministry," *West Australian*. 28 July 1938

or no discussion of the domestic political impact of allowing the investment to proceed. As noted above, all of these issues will be further addressed in chapter 7.

A significant amount of lobbying took place in Great Britain following the Commonwealth Government's announcement of the prohibition. On July 22, 1938 a letter to the editor of *The (London) Financial Times* from James MacCallum Smith⁵⁶ accused the Commonwealth Government of damaging Australia's international reputation.⁵⁷ MacCallum Smith contended that the swiftness that characterised the Commonwealth Government's actions (after three years of indecision) amounted to poor policy development and implementation. The interests of Western Australia were clearly of great concern to MacCallum Smith, with the prohibition's possible effects on Australian trade and Australia's bilateral relations with Japan being of only secondary importance: "I am not so concerned about the rights of Japan as I am with the serious injury the embargo on the export of iron ore from Yampi will do to Western Australia, and what I say only faintly echoes the feelings of the people in that State." The letter was very emotive, contending that: "Western Australia is going to get it "in the neck," as it always does with the Federal Government." The:

embargo is very effective in stopping the production of iron ore in Western Australia. I suppose we should be thankful that we are allowed to sell our gold, our wheat and our wool. It is useless for Lyons to say he is doing this so as to conserve supplies for our future requirements. Western Australia will never require iron ore so long as she is in the Federation. The Eastern States iron masters will see to it that no smelters are established in the West. One thing is clear, however, and that is, if the embargo is established, the big iron interests of eastern Australia would be assured of a splendid supply of iron ore at their own price.

The letter finishes with the threat of secession: "In conclusion, let me say that the grievances of Western Australia are great and many, and I am convinced that there will be no justice for us until Western Australia walks out of the Commonwealth."

The idea of Western Australia developing its own iron and steel industry was considered by the Western Australian Government, although secession was not. However, if the Commonwealth Government would not allow export of the State's iron ore reserves, and the eastern States did not require them, then one of Western Australia's few options was to create its own market. On August 5, 1938 a report by the Western Australian State Mining Engineer raised issues relating to the development of an iron and steel manufacturing industry in

⁵⁶ James MacCallum Smith had been the a Member of the Western Australian Parliament since 1914, representing a Perth electorate. He was also a prominent businessman and director of newspaper companies. [see: Alexander, *op.cit.*]

⁵⁷ Letter to the Editor: "Embargo on Yampi Iron Ore," by J. MacCallum Smith, Member of the Legislative Assembly of Western Australia. *The Financial Times*, London. 22 July 1938.

Western Australia. The primary concern was the cost of production from an economic perspective. The State Mining Engineer began his report by writing (in regard to the establish of an iron smelter) that the: "Ideal conditions would be an ironstone quarry, a limestone quarry, and a suitable coal seam all alongside a smelter."⁵⁸ These were explained to be only the most ideal conditions and that such a coincidence would only occurred under very rare circumstances. Dealing specifically with iron ore, the report noted that in Australia most of the iron ore was railed 30 miles from Iron Knob, South Australia, and shipped to Newcastle, New South Wales.

The report provided a summary of the types of cost involved in iron and steel manufacturing, the first of which was the mining of the iron ore and its freight to smelter. The second cost was the purchase (or manufacture) of coke, and its freight to the smelter. The third cost involved methods of dealing with impurities, and freight costs. The fourth cost was the actual smelting of the iron ore, limestone and coke to form pig iron. And finally, the fifth cost involved related to the conversion of the pig iron into its final form, steel.

The report does not at any stage disagree with Woolnough's contention that costs can restrict the development of iron ore deposits. This can be seen in the following statement which attempted to put the economic threshold concept into perspective: "Long railroad freight is a more serious obstacle as far as cheap iron ore is concerned and naturally a high grade ore can stand a higher freight charge than a low grade one, so that each deposit will require to be considered on its merits." However, the report noted that:

It will be clear ... that the cost of mining iron ore, and the freight on the iron ore are only two of the costs involved in the manufacturing of iron and steel and until we know the other costs, and in particular the cost of converting iron ore into steel, we are not in a position to say how much more per ton a company could afford to pay for iron ore and still make a profit.

Accordingly, the State Mining Engineer concluded that there was "no reason why any hard and fast rule should be laid down in regard to the depth below which ore cannot profitably be mined." This memorandum provides a further example of the flexibility of economic concepts and highlights the overly static approach taken by Woolnough

In early September 1938 the Commonwealth Government received a representation from Wakamatsu concerning the iron ore export embargo, and an attached report by Mr K. Fujimura, Chief Geologist of Nippon Mining Company. The representation repeated many of the arguments that the Prime Minister had been responding to over the prior weeks, however,

⁵⁸ Report: "Iron Ore Deposits of W.A.," State Mining Engineer to Under Secretary for Mines, 5 August 1938 (SROWA: 2822/3729).

on this occasion the representation placed increased significance on domestic political ramifications in Japan and the nation's bilateral relationship with Australia.

The report contended that results of practical studies made by a number of experts were sufficiently convincing to confidently conclude that in Australia there were enormous quantities of iron ore in Australia that was economically accessible. Accordingly, the report contended that before a prohibition could be justified, a comprehensive survey (such as that which the Commonwealth Government had only subsequently commissioned) needed to be completed.⁵⁹ The report by Fujimura disputed the opinions and estimates of iron ore reserves and also reiterated that the prohibition's allegedly unjustified implementation was a rebuff to the "goodwill" trade missions in which the two nations had engaged during the 1930s. The report also contended that Nippon Mining Company had estimates from experts that the Middleback Range had not less than one thousand million (1000,000,000) tons of high grade ore that could be mined economically.

Fujimura concluded his appraisal with the contention that the Commonwealth Government's expressed view that reserves of iron ore "were so small that the position was alarming" was simply wrong and that any evidence to the contrary was a consequence of lack of demand in the past to systematically seek out and measure iron ore deposits. This contention corresponds with the opinion of Geoffrey Blainey which was discussed in chapter 4.

In further correspondence with Wakamatsu in October 1938, Lyons propagated the limited reserves justification and proposed that the comprehensive survey being completed at that time was producing a still gloomier picture. Even in regard to Australia's two greatest known deposits, Iron Knob and Yampi Sound, a "progressive decrease in the estimated reserves has unfortunately been revealed as the investigation has proceeded."⁶⁰ Lyons maintained that any exports of iron ore from Yampi Sound (or Iron Knob) would crush the domestic iron and steel industry's opportunity to compete internationally on a long term basis: "In effect, the accessible ore would be removed and Australian industry would have to resort to costly mining operations to obtain any ore that is required from this deposit."

The thesis contends that Lyons' argument is specious. The known reserves of Yampi Sound were far greater than the quantities that were expected to be mined by the Japanese in the 25 year timeframe being considered for the project. On the other hand, the argument being put forward also ignores the advice coming from the British Government and Department of Defence, that in the event of a national emergency the reserves would be extremely useful to Australia and the British Empire if they were already developed, but useless if not.

⁵⁹ Wakamatsu, 8 September 1938, in Hudson, W.J. (ed), *op.cit.*, Doc.249.

⁶⁰ Lyons to Wakamatsu, *ibid*, Doc.320.

The (Melbourne) *Herald* published an article on October 20, 1938 that dealt with the Commonwealth Government's justification of the iron ore export embargo. The article made specific reference to severe criticism of the prohibition's justification by members of the Federal Parliament and other interest groups. In particular, the article criticised the policy for unfavourably affecting international harmony. The criticism also claimed that in regard to Australia specifically:

It was ... contrary to the interests of Australia because it depreciated export credits, jeopardised our markets for primary products, created unemployment, deprived South Australia of industries, and would create a monopoly in the Australian iron and steel industry.⁶¹

On this occasion the Commonwealth Government's reply to such criticism was based almost entirely upon the premise that the preliminary survey of Australia's iron ore reserves, had found Australia severely lacking in economic reserves: "It was found that iron ore deposits which had been supposed to contain millions of tons, contained very much less, Australia had been living in a fool's paradise." The Commonwealth Government's reply also included a statement that claimed that any rumours regarding the involvement of BHP in the formulation of the iron ore export embargo policy were simply incorrect as the Commonwealth Government had not sought BHP's opinion on the estimates arrived at by Woolnough. This last point in particular was not true, as BHP's involvement discussed previously would indicate.

On December 3, 1938 Wakamatsu contended in a letter to Lyons that modern underground mining techniques used by the Japanese could in fact help Australia increase its reserves of iron ore. The contention was that the Yampi Sound deposits could only have part of their ore bodies extracted by Australian interests, but much more by the Japanese interests. Accordingly, Australia's estimates of iron ore resources in economic terms would be greater if the Japanese were allowed to mine and export iron ore and not the other way around as argued by the Commonwealth Government. The proposition was that demand would lead to new discoveries and better and more efficient methods of mining, and that:

in modern mining technique, underground mining below sea-level differs very little in method and expenditure from underground mining above sea-level, deposits even below sea-level are not economically inaccessible. It follows, therefore, that deposits below sea-level should naturally and necessarily be taken into account in making a reasonable decision on such matters as the reservation of iron ore resources, or embargo on its exportation, unless it should be the intention of the Commonwealth Government to leave undeveloped all those deposits which cannot be exploited by open-cut methods. In the latter case, the production of iron ore in Australia would be

⁶¹ "Protest Against Ore Ban, Minister Defends Action," (Melbourne) *Herald*, 20 October 1938.

far smaller than if the embargo were lifted and the exploitation work at Koolan Island were carried on by the Yampi Sound Mining Company, which is in a position to mine economically even the iron which is below sea-level.⁶²

The letter concluded with the assertion that the Commonwealth Government should reconsider the iron ore export embargo for the reasons mentioned and for the sake of "amicable political and economic relations between our two countries". The Prime Minister's reply ignored all the points made by the Consul-General and simply stated that he wished "to inform you [Wakamatsu] that the views which you have expressed have been noted for consideration when the report on the survey of resources of ore is available."⁶³

5.6 Conclusion

The thesis contends that as the implementation of iron ore export embargo grew near in time (and in the post announcement activity), the Commonwealth Government demonstrated a clear policy implementation strategy. The strategy aimed for the least controversial and most diplomatic implementation of the iron ore export embargo. During 1937 and early 1938 the Commonwealth Government continually made public and private representations (particularly to the Japanese and Western Australian Government) that although they were concerned about Australia's reserves of iron ore, that their concerns provided no basis for any action to be taken. It is a contention of the thesis that the purpose of these representations was to raise the very concept or possibility of limited reserves of iron ore and then maintain it on the public agenda.⁶⁴

After the May 1938 announcement of the iron ore export embargo, the Commonwealth Government (out of necessity) altered its strategy to one of defence of the policy's weaknesses in respect of its publicly stated motivations. The need to defend the policy was heightened by the need to respond, both privately and publicly, to the representations of the Japanese Government.

The Japanese objections were fairly broad and generally focussed on international relations as opposed to issues related to private foreign investment. They argued that the investment in Yampi Sound was not only for the purpose of securing iron ore supplies from Australia, but also to the furtherance of amicable trade relations between Australia and Japan. They also contended that if governments were entitled to take such drastic measures on inconclusive grounds, the basis of confidence necessary for foreign investment would be greatly weakened and further, that there would be little scope for international co-operation in the development of natural resources.

⁶² Wakamatsu to Lyons, 3 December 1938, in Hudson, W.J. (ed), *op.cit.*, Doc.324

⁶³ Lyons to Wakamatsu, 6 December 1938, *ibid*, Doc.327.

⁶⁴ Lyons to Bruce and Page, 7 April 1938, *ibid*, Doc.181.

The British Government was extremely quiet throughout this particular period. The need to conserve resources for Empire purposes was the Commonwealth Government's preferred justification for the implementation of the iron ore export embargo. However, such a justification required the cooperation of the British Government which, disappointingly for the Commonwealth Government, was never forthcoming.

It is also the contention of the thesis that Australia's relationship with the British was never a critical aspect of the iron ore export embargo policy. Nevertheless, some reassuring advice to the Commonwealth Government was received via the British Ambassador to Japan. That advice impressed upon the Commonwealth Government the fact that whether or not the decision was correct was not perceived as the main issue and it would appear that the British Ambassador to Japan sympathised with the Japanese Government's frustration. The issue of the Commonwealth Government's justification was the only real concern of the Ambassador. In this regard, his advice was to base the justification upon the grounds of limited reserves of iron ore and further, to show no hint of compromise to the Japanese.

The basis for the British advice was that from an international perspective the implementation of the iron ore export embargo appeared to the Japanese and others a deplorable departure from internationally accepted principles of free access to raw materials. In such circumstances, weakness in conviction was not to be shown or the Japanese Government may have been more difficult to contain in their protests. It is contended by the thesis that the British advice was largely followed by the Commonwealth Government in its dealings with the Japanese Government.

CHAPTER SIX

WOOLNOUGH & THE IRON ORE SURVEY

6.1 Introduction

The Commonwealth Government's official justification for the implementation of the iron ore export embargo was that Australia had more limited reserves of iron ore than had previously been estimated and that the relative scarcity of reserves necessitated the implementation of conservation measures. In particular, the government maintained that conservation was necessary for the long-term economic viability of Australia's iron and steel manufacturing industry. The alleged discovery of iron ore scarcity was claimed to have arisen from a preliminary survey completed by the Commonwealth Government's Chief Geological Adviser, Dr Woolnough. He was responsible for overseeing both the Commonwealth Government's preliminary and final surveys of Australia's iron ore reserves.

Woolnough submitted numerous reports and made recommendations in regard to the necessity of Australia implementing a prohibition on the export of iron ore. Woolnough was responsible for providing the Commonwealth Government with its official justification for the iron ore export embargo. The chapter will focus upon his activities and motives and how they provided the Commonwealth Government with the excuse they desperately desired to justify the exclusion of the Japanese from investing in Yampi Sound.

It is a contention of the thesis that Woolnough was working to the agenda of his political masters. It will be shown that the reports and surveys that he produced were economically unsound and the conclusions politically driven from the day he was commissioned. It can be clearly discerned from the following material that Woolnough was working to a political agenda determined by his political masters. Woolnough arbitrarily set parameters that excluded almost all known deposits of iron ore from his survey (other than Yampi Sound and those deposits already developed in South Australia) and consistently provided advice on matters about which even he admitted himself to have little or no knowledge.

The thesis also contends that Woolnough demonstrated that hypocrisy and double-standards were a useful tool of Commonwealth Government policy formulation. On many occasions he criticised and failed to accept estimates of iron ore reserves that were based upon surface testing, while himself including estimates based upon personal opinion where no survey had actually taken place, but where the estimates supported his hypothesis that Australia had limited reserves of iron ore. Furthermore, whenever private sector geologists gave reports of substantial economic iron ore bodies they were criticised as being biased in favour of development and generally unreliable, while if they gave pessimistic estimates they were accepted as accurate.

The chapter begins with an overview of the survey's commissioning and the involvement of private sector geologists in providing solicited advice to the Commonwealth Government. The Australian press took an interest in the survey from the outset and accordingly, pressures external to the Commonwealth and State governments are discussed. The chapter then examines Woolnough's advice to the Commonwealth Government and his responses to those lobbying the government or providing it with estimates of reserves. The chapter concludes in 1939 – over 12 months after the prohibition was implemented – with Woolnough's advice shifting from the survey to issues regarding the Western Australian Government's objections to the prohibition and justifications for its retention.

6.2 The survey's commissioning

Supervision of the iron ore surveys was the responsibility of the Department of the Interior. At the critical time in the preliminary survey's production – 1937 and 1938 – the Minister responsible was John McEwen. The key departmental official was Woolnough. In his autobiography, McEwen describes the manner in which the Commonwealth Government commissioned Woolnough to complete the survey. As Minister of the Interior, McEwen held primary responsibility for matters relating to immigration and it was in this context that the entry of Japanese nationals into Australia to oversee the Yampi Sound development came to his attention:

Finally I asked, 'What is behind this ? Why are these Japanese coming here ?' Probing it, I found that some Australian interests in Western Australia, who had the leases for the Yampi Sound iron-ore deposits, had negotiated for a British syndicate to take over the leases. The British in turn had arranged for the Nippon Iron and Steel Company to purchase the product of the leases for the life of the ore body.... This immediately smelt to me like the Japanese getting too big a foothold in a remote part of Australia - a greater foothold than I thought was good. Yampi Sound was one of only two extensive iron-ore deposits then known in Australia (the other one being Iron Knob in South Australia). I went to Lyons to say that we should block the Japanese from coming in and getting hold of what was then the biggest known iron ore deposit in Australia. We could do this by saying - as I thought to be the case - that it was doubtful whether we had enough iron ore for our own purposes, in the long term, to warrant our selling this. Lyons agreed.¹

It was McEwen who was responsible for asking Woolnough to complete a survey of Australia's iron ore reserves. McEwen's recollection clearly plays down his overt attempt to manipulate the Commonwealth Government's Chief Geological Adviser, maintaining it was motivated by naiveté and the desire to get the best result (i.e. excluding the Japanese from Yampi Sound):

In my innocence, I told Woolnough what our attitude was and asked him to give me a report that would substantiate the fact there were doubts about the adequacy of our iron ore resources. I said that, if he would do this, I would use his report to block the Japanese purchase of the Yampi Sound ore body.

McEwen claimed that at the time he received an unfavourable response from Woolnough, although his opinions, actions and the reports he produced, all indicate that Woolnough accommodated McEwen's request. It is the contention of the thesis that McEwen was successful in influencing Woolnough to accommodate the Commonwealth Government's need for a survey that would provide a basis to justify the implementation of a prohibition on the export of iron ore:

Woolnough, who was a little Englishman of great character, rebelled at once and said, if I recall his words correctly, that I was seeking to make use of him for my own political convenience. He would not dream of putting himself in such a position.... Eventually, Woolnough talked himself around to the point where he told me that, in fact, he also doubted whether we had enough iron ore for our long-term needs. He gave me a report which had stated that, bearing in mind the expansion of our own iron and steel industry, our ore reserves would be sufficient for only two generations. The report said that unless supplies were conserved we would be a net importer of iron ore by that time.

McEwen was referring to the preliminary report received by the Commonwealth Government in early 1938. It was on the basis of that report that exports of iron ore were initially prohibited in May 1938, although a supposedly more comprehensive survey was claimed to be necessary before the Commonwealth Government would (or could) make a final decision: "We decided to suspend the Japanese operation, placed an embargo on all iron ore exports and set in train an inquiry into the size and adequacy of our iron ore deposits." In reality the Commonwealth Government (or at least key members of the Federal cabinet) had been considering the implementation of a prohibition as one policy option to halt the Japanese development of Yampi Sound for the prior three years. The Commonwealth Government's motives for implementing the iron ore export embargo are exemplified in the following statement by McEwen, whose own words totally contradict everything that the government publicly stated in the 1930s: "The ban on iron ore exports was technically an overall embargo, but since no one else was interested to buy from us it in fact applied only to the Japanese."

Woolnough's survey updates provide a useful insight into Woolnough's motives and the Commonwealth Government's objectives. A survey update in May 1939 made the admission

¹ McEwen, J., His Story, (Canberra, 1983) Privately Publish, pp.17-18

that it was foreign investment that was the motivation for the survey's initial commissioning in 1935: "With the entry of foreign companies into the business of exploitation it became necessary to take stock accurately of the reserves available."² Foreign investment had been occurring since 1788 and accordingly, it is the contention of the thesis that the term *foreign investment* was in fact a euphemism for Japanese investment. Woolnough claimed that: "Geological and Geophysical Survey, submitted to the Prime Minister on July 22, 1937 revealed cause for alarm, and indicated that, in at least some instances, original estimates had been unduly optimistic." The allegedly surprising discovery that arose out of the preliminary survey was implied to be the sole factor behind the implementation of the iron ore export embargo in 1938 and also the further motivation for the commissioning of a second more extensive survey. The material discussed in the chapter and thesis would indicate otherwise.

6.3 The propagation of Woolnough's survey

The existence of a survey that estimated considerably more limited reserves of iron ore did not, in and of itself, provide a suitable political solution to the policy objective of excluding the Japanese from investing in Yampi Sound. Two further factors were required. They were firstly, that its findings needed to be widely known and secondly, the findings needed to be considered scientifically credible. The Commonwealth Government consequently had to justify the commissioning of the survey, establish that there was a possibility that Australia had more limited reserves of iron ore than had previously been thought and finally, convince the State governments and general public of the serious implications of the survey's findings. It will be discerned from the following articles, and correspondence between the Commonwealth Government and State governments, that the propagation of the myth of limited reserves of iron ore was a task taken very seriously by the Commonwealth Government.

In August 1937 the *Sydney Morning Herald* reported that the Commonwealth Government had received preliminary intelligence that indicated Australia might only have fifty years supply of economically viable iron ore. The article reported that the issue had come to a head because the Western Australian Government had granted a lease to a Japanese firm. This had, for an unexplained reason, prompted the Commonwealth Government to instigate an investigation into Australia's economically accessible iron ore reserves. This preliminary survey was reported to have found "that at the present rate of consumption the known deposits of economic iron content within reach of transport and working facilities would meet Australian requirements for only 100 years."³

² Memorandum: Progress Report on the Iron Ore resources of the Commonwealth (NAA: CP5/1/1; 269 Bundle 16).

³ "Iron Ore, Only 50 Years' Supply, Ministry Perturbed," *Sydney Morning Herald*, 3 August 1937.

This supposedly controversial finding was claimed not to be enough to convince the Commonwealth Government to act and stop the Yampi Sound development. The only power the Commonwealth Government had was reported to be the Customs Act, but this was considered too drastic. On the other hand, the Commonwealth Government was reported to be engaging in informal discussions with the Australian State governments in an attempt to co-ordinate and regulate the mining of Australia's iron ore deposits:

It was learned today that informal discussions have taken place with the Queensland Government on the future of the important iron deposits at Portland Roads. As a result of these discussions it is most unlikely that the Queensland Government will agree to grant leases for the development of these deposits for the export of the ore.

Reports of such discussions, in circumstances where the Commonwealth Government maintained a public position of non-intervention must have appeared contradictory and somewhat confusing for interested parties who were continually hearing on the one hand, that Commonwealth Government intervention was unnecessary, on the other hand, observing the Commonwealth Government taking some limited action.

An example of such confusion can be discerned in an article in *The Sydney Morning Herald* in August 1937 that discussed the survey. The editorial was titled "Quest for Iron", and it attempted to deal with the contradictory elements of the Commonwealth Government's public statements within a global perspective that focused on Australia as a member of an international community of states. The article began with the statement that:

The suggestion that a new survey, made by the Commonwealth in conjunction with the States, has shown Australia's easily accessible iron ore reserves to be much smaller than had been supposed ... is difficult to accept as a reason for a reversal of Federal Policy.⁴

The article quite rightly queried the term "easily accessible", claiming that it was "a flexible term". The British view was also examined within the scope of the opinions that had been expressed on the Yampi Sound project. It consisted of the argument that the Empire's reserves of iron ore were significant and that although the Empire did not require the Yampi Sound deposits, if in a time of emergency the reserves were required, then they would be of far greater utility if they were already developed. The editorial focus then shifted to a more macro perspective, dealing with the probable negative ramifications of any possible prohibition on Australia's international reputation:

⁴ "Quest For Iron" (Editorial), *Sydney Morning Herald*, 10 August 1937.

Overcrowded nations already are inclined to question our claim to hold this vast continent with but a slowly growing population of [six and three quarter] millions. If to an exclusionist migration policy we were to add, without full justification, restrictions upon exports of raw materials of which less fortunate countries are in urgent need, we should find ourselves, to say the least, unpopular abroad.

These two articles from August 1937 demonstrate that, at least in regard to the public agenda, the issue of iron ore reserves was being widely discussed. Such discussions also included the Australian State governments. On April 18, 1938 the Premier of Western Australia was quoted as dismissing the Commonwealth Government's claims that Australia's reserves of iron ore were more limited than previously believed. The Premier's conclusion was said to be based upon the application of simple economic principles to the iron ore market:

It is easy to paint gloomy pictures of future shortages. This was done only a few years ago in the case of oil supplies and gold, but increased markets and prices have brought increased production and, so far as iron ore is concerned, I have no doubt that, with increased markets, a more than plentiful supply of iron ore will be found to be available in this country. The theory of some economists of 100 years ago that, with increasing population, the world would be now facing an acute shortage of food supplies has been proved entirely wrong. Rather (sic) is restriction of production more generally spoken of now. Probably we will have the same experience regarding iron supplies.⁵

Public discussion of the survey was mirrored by private discussion concerning the survey's accuracy as compared with other estimates. On certain occasions the Commonwealth Government actually invited the opinions of private sector mining experts who they presumably hoped would provide the Commonwealth Government with opinions that supported their own. However, this was not often the case, and so while the Commonwealth Government was stealthily implementing its iron ore export embargo policy in mid-1937, it was also receiving solicited advice that contradicted the government's justification for the policy.

6.4 Opinions of private experts and the issue of overestimation

The thesis contends that the opinions of experts from the private sector were generally at odds with those of Woolnough and that Woolnough responded in a very negative manner to their opinions. On the July 10, 1937 J.W. Ashworth (M.I.M.M.) replied to a request from Dr J.R. Atherley of the Commonwealth Government for an estimation of ore deposits west of Spencers Gulf, South Australia. Ashworth's estimations were ignored by Woolnough, with the principal reason being that Woolnough's reports were designed to exclude all large deposits

⁵ Yampi Iron Ore: Threatened Embargo: Premier Urges Development," *The West Australian*, 18/4/1938.

other than those already developed. Atherley's subsequent report to Woolnough was glowing in his recommendation of the South Australian deposits of iron ore: "It is impossible ... to give even an approximate estimate of the colossal tonnage of Ore available, or the various grades of Ore contained in the leases - the full width has yet to be determined by further work."⁶ Atherley conclude with the remark that:

I have no hesitation in saying that there are many million tons of Iron Ore that can be mined economically, and for generations Iron Ore will be won from the Middleback Ranges, without making but a slight impression on the existing deposits.

In general such reports were ignored by the Commonwealth Government while it continued to encourage the State governments of Tasmania and Queensland to halt all prospective iron ore developments by foreign nationals or Australians seeking to export. In May 1938 Ashworth once again brought his estimates to the attention of the Commonwealth Government. He wrote to Senator George McLeay providing details of the iron ore reserves of South Australia. His letter reiterated the views expressed in July 1937 claiming that no less than one thousand (1000) million tons of high grade iron ore could be mined from the Middleback Range.⁷ Woolnough refuted these claims:

On the strength of "three weeks" work in the area, it is claimed that a reserve of iron ore in the neighbourhood of 800 million tons has been proved to exist... The time spent on the area by men totally unfamiliar with the conditions is itself sufficient to condemn the accuracy of their figures. From reliable sources, it appears certain that, far from the Iron Knob group of deposits being more extensive than the preliminary investigations of the past have suggested them to be, it is doubtful whether they will measure up to anything like the quantities suggested by those figures.⁸

Woolnough did not disclose his sources, nor did he explain why their views were more worthy of consideration than Ashworth's who had been specifically requested by the Commonwealth Government to give his professional opinion. Woolnough concluded by writing in quite an emotive manner:

I very earnestly and respectfully urge that there be no weakening in relation to conservation of Australia's meagre iron ore resources, and venture to suggest that the position should be made completely clear with as little delay as possible.

⁶ Letter: Reply by J.W. Ashworth M.I.M.M. to a request for a report on ore deposits west of Spencers Gulf S.A. by Dr J.R. Atherley, 10/7/1937 (NAA: A461/10; G373/1/3).

⁷ Letter: J.W. Ashworth to Senator George McLeay, 4th May 1938 (NAA: A461/10; G373/1/3).

⁸ Report: Woolnough: Claims made in regard to iron ore deposits at Whyalla, 9 May 1938 (NAA: A461/10; G373/1/3).

On May 23, 1938 a report by Woolnough attempted to discredit the opinions of private sector mining experts who had provided positive estimates of available reserves of iron ore. The estimates in question concerned Yampi Sound and were produced by a man known as Mr Vail. Woolnough began his report defensively, claiming that "the estimates used by me are the best official data available at the moment. They have not been manipulated by me in any way to afford a more convincing reason for the Government's action."⁹

Woolnough attempted to discredit Vail's estimates for Yampi Sound (which were 100 million tonnes) by claiming that "[c]oming from this source [private individual] at the present juncture it is improbable that the estimates err on the side of conservatism." Woolnough argued for the completion of his own supposedly objective and comprehensive survey to put to rest any doubts as to the accuracy of his own opinion. The survey was, however, to be severely constrained by Woolnough's opinions which were implicit within its structure, including his opinion that open-cut methods of mining were the only economically viable method with all deposits that required underground mining techniques excluded from his official estimates.

The expediency of the Commonwealth Government's attitude towards the survey and the issue of Yampi Sound can be clearly discerned in the attitude Woolnough took to the advice received from a BHP geologist in regard to iron ore deposits leased by BHP in Tasmania. As discussed above, Woolnough strongly argued against accepting the estimates of private geologists. However, he changed his attitude after the geologist claimed Tasmania had no economic deposits.¹⁰ That was the conclusion Woolnough desired and the only one that he was willing to accept.

In March 1938 Woolnough provided an overview of the iron ore industry in Australia that included an international and historical perspective. The report had a solemn tone and implied that iron ore reserves could be easily overestimated: "It is unnecessary to stress the need for supplies of steel for all industrial and defence purposes. Certain facts in relation to this supply, however, may not be generally appreciated"¹¹.

Woolnough expressed the view that the estimation of iron ore reserves by geological experts was always difficult and that in regard to a strategically important resource, such as iron ore, he was of the view that estimation should err on the side of caution. Woolnough used opinions expressed at the International Geological Congress at Stockholm in 1910 to support his opinion. At the Congress it was "estimated that the world's ascertained resources of first class ore would last only some sixty years", with the implication being that such an estimate

⁹ Report by Dr Woolnough; re: Mr Vail's Statement, 23 May 1938 (NAA: A1608; C47/1/4 Part 3).

¹⁰ Report: Woolnough to Secretary of the Department of Interior, 2 March 1939 (NAA: A1146; N7/10 part 1).

¹¹ Report by Woolnough: Iron Ore Resources of Australia, 8/3/1938 (NAA: A1608; C47/1/4 Part 2).

demonstrated that world reserve were indeed limited. Nonetheless, the view expressed at the Congress was that this dire situation might be avoided through the execution of a three-fold action plan:

1. New techniques might be developed to allow the use of iron ore deposits with a lower tenor or grade of iron;
2. Through growth in the use of electrical furnaces, the economics of the iron and steel industry would be altered and would thus allow for a new geographical spread of manufacturing. This movement in the location of iron manufacturing industries would impact on transportation costs and the economic viability of iron ore deposits; and
3. New discoveries of iron ore would need to occur continually.

In Woolnough's opinion, progress had been made in regard to the development of new techniques to utilise lower grade ore, while progress with electrical furnaces had been only limited. Woolnough was, however, pessimistic in regard to the possibility of uncovering previously unknown and substantial reserves: "great discoveries of iron ore deposits have not been very remarkable during the two decades involved ... [and] it is certain that the majority of major deposits of iron ore actually exposed at the surface are already known."

Woolnough further expressed the view that technological advances in the field of transportation had been quite significant (especially since the economics of mining was heavily dependent upon transportation): "Of later years improvements in transportation facilities have increased the radius of economic carriage of iron ores to fuel supplies." Such an admission was still not enough to stop him drawing an arbitrary line of 200 kilometres as being the maximum distance from the coast before Woolnough determined a deposit (no matter how large or rich) was uneconomic.

Woolnough's report maintained that the only significant iron ore bodies in Australia were at Yampi Sound, Western Australia and Iron Knob, South Australia. Woolnough also proposed three ominous and possibly expanding problems for Australia's future:

1. Estimates pointed to the conclusion that the reserves could only last a couple of generations;
2. If estimates of tonnages were over-optimistic, the situation would be very serious; and
3. If rapid growth in Australia's Iron and Steel Industry occurred, then the situation was even more serious.

In Woolnough's opinion, government action was required and he proposed that "it would be wise to limit or even prohibit the uncontrolled exploitation of our two reasonably certain sources of iron ore supply" until a comprehensive survey had been completed.

It should be noted that in all of Woolnough's reports and advice he clearly attempts to position himself as only having the best interests of Australia at heart, while all those who held more optimistic opinions on Australia's reserves were really the spokespersons for vested interests. It is, however, necessary to appreciate that the State of Western Australian was being forced to suffer economic deprivation as a consequence of his advice, while the country as a whole was to have a viable export industry strangled in its infancy. An outward appearance of heart-felt concern was consequently a necessary element in the objective of convincing the State governments that Australia's reserves were limited in the face of considerable evidence and persuasive opinion to the contrary. Consequently, it is the contention of the thesis that it was Woolnough himself who was the spokesman for a special interest group, with that special interest group comprising the Prime Minister and senior ministers who sought the exclusion of the Japanese from Yampi Sound.

In a report dated March 1938, Woolnough dealt specifically with the iron ore reserves of South Australia and Western Australia. He claimed that specialists believed Australia's reserves had been over-estimated and that Australia's predicament required urgent government action. As was his practice, Woolnough only commented on the deposits he claimed to be economic. On this occasion it was Iron Knob and Yampi Sound. Woolnough maintained that the South Australian deposit had been "seriously overestimated."¹² In regard to Yampi Sound he maintained that a recent report "indicates that previous estimates of the tonnages available from the Western Australian deposit are probably excessive." Accordingly, Woolnough recommended the "desirability of conservation of our strictly limited resources."

On other occasions Woolnough mentioned that, for example, a sizeable ore body had been proved at Koolyanobbing, but he justified its exclusion from the Commonwealth Government's estimates on the grounds that it did not meet the survey's other guidelines for the assessment of an economic deposit.¹³ In general, however, Woolnough expressed the opinion that no economic deposits existed in Queensland, New South Wales or Victoria and that in the case of Tasmania, many deposits that had been previously "cherished" had been shown to be economically insignificant.

When Woolnough was not engaged in a process of down-grading individual deposits, he often argued that both academic opinion and his experience would lead to a general reduction in estimates of Australia's reserves of iron ore. In one instance he alleged that:

study of the technical literature, and the actual experience of development of Australian iron resources in the immediate past, show that there is a universal

¹² "Report by Woolnough: Iron Ore Resources of Iron Knob, South Australia, and of Yampi Sound, Western Australia", Department of the Interior (8/3/1938) (NAA: A1608; C47/1/4 Part 2).

¹³ Summary by Dr Woolnough, 17 May 1939 (NAA: CP5/1/1; 269 Bundle 16).

tendency to overestimate the values of such deposits In every instance in which extensive proving and or development of an iron ore deposit has been carried out in Australia, the result has been a drastic, and in some instances an appalling reduction in the quantity of ore found to be available.... The ore has proved to be limited in extent laterally, longitudinally and in depth.¹⁴

Woolnough argued that extensive excavation was required to discover structural details and make sound estimates. The flaw in Woolnough's contention is that he only directed that such a physical examination be carried out on Iron Knob and Yampi Sound. These deposits were widely accepted to be of substantial size with further testing simply providing further confirmation. So although his contention appears reasonable, the context within which it was made shows it to have been a hollow guarantee of accuracy and objectivity. Deposits were excluded by the survey's strict criteria and this had the consequence of disqualifying them from examination and inclusion in estimates of Australia's economic reserves of iron ore.

Woolnough, nonetheless, accused earlier officials of being biased toward overestimation and further, that their preconceived opinions had distorted their estimates.¹⁵ In light of the Commonwealth Government's expressed intentions, and Woolnough's behaviour, he may be accused of gross hypocrisy:

We recognise that a great deal of the ambiguity which has arisen in this direction is caused by the subjective nature of most of the earlier investigations. Geologists who have failed to appreciate the consequences of some of the very great complexities of structure developed have, not unnaturally, read into their partial observations meanings which agree with their preconceived ideas - with disastrous results.

Woolnough established the guidelines for the survey. The guidelines determined which deposits were to be examined. The guidelines were also an important influence on how the selected ore bodies were to be estimated. Woolnough has been shown to have had very definite and conservative views on underground mining, etc. For him to claim that his survey was not going to be influenced by preconceived ideas demonstrates that he was either naive, or more likely, employing a convenient double standard.

6.5 International competition and transportation costs

Woolnough confidently discussed and advised on issues related to the economics of iron ore deposits and mining. It is a contention of the thesis that he either deliberately provided economically flawed advice that was bias in favour of the Prime Minister's objectives, or

¹⁴ Confidential Memorandum, by Dr Woolnough, 12 June 1938 (NAA: A1146; N7/10 Part 1).

¹⁵ Dr Woolnough: Preliminary Draft of Report on Iron Ore Deposits of Yampi Sound, Western Australia - Geological Consideration (NAA: CP5/1/1; 269 Bundle 16).

alternatively, failed to adequately appreciate the practical economic workings of the iron ore mining industry, or possibly a combination of both.

On March 30, 1938 he wrote that all economic questions must be viewed within the scope of international competition and that the precarious economic nature of iron ore mining resulted in a situation where: "The entry of even one markedly unfavourable condition may spell the difference between success and failure in the industry".¹⁶

An obvious point made by Woolnough was that miners tended to concentrate on high grade iron ore deposits in preference to using lower grade deposits even when this resulted in higher transportation costs. He nonetheless implied that Australia's inland deposits would not fit this general pattern and could not sustain high transportation costs.

By way of further explanation, Woolnough noted that although Britain possessed almost unlimited quantities of low grade iron ore it imported almost all ore that was smelted. He claimed that the reason for this was that iron ore is "relatively cheap." Woolnough used these two facts to conclude that the high-cost methods of mining iron ore (i.e. methods other than open-cut) were not sustainable on economic grounds: "It is for this reason that new sources of ore supply have very little chance of success unless they can be operated by open-cut methods."

Transportation costs were considered by Woolnough as a barrier to the development of any deposit since iron ore was "a commodity of such low intrinsic value." To highlight the problem Woolnough compared iron ore with coal (the latter being a higher value commodity). The key point made by Woolnough was that it takes more than one ton of coal to smelt one ton of ore and that freight costs would be reduced if the ore was taken to the fuel. "Experience has shown that it is a better economic proposition to carry high grade ore to suitable coal than to carry coal to even cheap ore." This is not, however, always the case as it ignores the complexity of the matter with such variables as the availability of suitable freight to back-load (i.e. freight taken on board for a return journey) not being considered. Woolnough used the Japanese investment in Yampi Sound as an example of this alleged trend of carrying coal to iron ore:

The proposal to carry ore from Yampi Sound in Western Australia to Japan is another illustration of the same trend. There are iron ore resources in Manchuria, but Yampi is apparently "closer" to Japan in an economic sense.... Unless an inland deposit is close to coal of suitable quantity and, equally important, to markets for the products, it is economically unimportant at this stage of world development.... While there are

¹⁶ Some Economic Considerations in Relation to Exploitation of Iron Ore, by Dr Woolnough, 30/3/1938 (NAA: A981; AUS 90 Part 1).

known to be extensive deposits far inland in several States, and while these deposits have potential value in long range discussions, they cannot enter into serious consideration at present or in the near future.

Woolnough maintained that the deposit size was an extremely important factor in the economics equation¹⁷ with "50,000,000 tons of ore of average and uniform grade"¹⁸ being a minimum deposit size (providing about 25 years output). The reason why only large and consistent deposits were considered economic was that changes in ore quality required technical alterations in furnaces and consequently, deposits need to be large with relatively constant quality.

As he often did, Woolnough concluded his report with the recommendation that a comprehensive survey was necessary to demonstrate that Australia's reserves had been exaggerated in both size and quality. It should be noted that Woolnough's position is stated explicitly: Australia has limited reserves of iron ore. This is the same position that the government took when it sought a justification for the implementation of a prohibition to halt the development of Yampi Sound by the Japanese. Why a more comprehensive survey was necessary is consequently difficult to understand, except that it may have been considered a useful time wasting exercise that would further assist the Commonwealth Government in its objective of frustrating the Japanese investment in Yampi Sound, yet also possibly be perceived as an outward illustration of the government's genuineness.

A British comparison or analogy was used in many of Woolnough's report. One such comparison concerned the British importing iron ore from Spain, worth less than ten shillings a tonne, even though official British estimates had their own reserves at ten fold those of Australia. Britain was said to be largely dependent on imports, although such an option for Australia was not considered by Woolnough. Australian conditions meant that iron ore cost about one pound a ton in local currency, which was interpreted by Woolnough as necessitating that "every penny must be saved in ore winning if it is to be carried out at a cost which will not impose a burden upon the direct and indirect users of steel within Australia - that is every man, woman and child in the community."

¹⁷ Woolnough's criteria was constantly changing. The time horizons under which iron ore reserves were supposedly to become economic varied from just 50 years to hundreds of years. Likewise his criteria for deposits needing to be situated near existing rail and port facilities varied. A particularly interesting variation is in regard to what distance from the coast a deposit became uneconomic due to transportation costs. Woolnough originally set the distance at 200 miles, but later reduce it to 100 miles. All needs to be noted is that the criteria was changed every time a new deposit came under consideration, and that the key influence was excluding it from consideration so that the survey's estimate of Australia's economic reserves of iron ore was minimised.

¹⁸ Dr W.G. Woolnough, Commonwealth Geological Adviser: Report on the Technical Aspects of Iron Ore Reserves In Australia 14/4/1938 (SROWA: 2822/3729).

Woolnough ignored the possibility that a burden may have already been imposed upon Australia through the cost of domestically mined iron ore. Instead he recommended that exports be banned: "is it fair to Australia's posterity to permit a foreign company to take the cream of our limited deposits and to leave only the skim milk for our children". The question that may have been more appropriate was whether Australia could import all its ore requirements at a price less than it cost to mine ore in Australia. BHP was already importing ore in the 1930s from New Caledonia. However, such an option was completely ignored. Even in drawing his analogy between Britain and Australia Woolnough never considered such a possibility.

In the same discussion paper Woolnough dealt further with technical and economic aspects of Australia's iron ore mining industry. He stressed the importance of economic fundamentals maintaining that only through "the fortunate concurrence of favourable factors" could an Australian industry succeed. The first favourable factor was that only "deposits favourably situated for water transportation are economically possible of exploitation" and in Woolnough's opinion only Iron Knob and Yampi Sound met that criteria. In regard to Western Australia, all its deposits were claimed to be uneconomic on the single ground of unsuitable water transportation. Even some New South Wales deposits (e.g.: Cadie) were claimed to be more likely to be mined than deposits in Western Australia, particularly because suitable fuel was also available:

The world trend at the present time is towards rapid increase in the development of iron ore industries in those countries possessing the two absolute essentials of adequate ores, and, above all, suitable fuel supplies. Australia possesses the latter. As pointed out above, however, the ore supplies appear to be definitely limited.

By *adequate ores* Woolnough meant deposits that were economic according to his criteria. His statement also implied that no significant iron ore reserves (within economic transport distances) could still be unknown within Australia. This last point was made very clear by Woolnough who confidently concluded that:

From their very nature iron ore deposits of dimensions worthy of consideration in the present survey form topographic and geological features so exceedingly conspicuous that it is beyond the bounds of possibility that there exist anywhere within the accessible portions of Australia undiscovered accumulations of such ore of noteworthy dimensions.

6.6 The selectivity of Woolnough's survey

The thesis contends that the selectivity of Woolnough's survey was a policy objective and consequently, a fundamental flaw in its accuracy as it sought to deliberately misrepresent

Australia's reserves of iron ore. A report in October 1938 provides an example of the way the survey was manipulated to exclude deposits from investigation and thus provide a justification for the imposition and retention of the iron ore export embargo. In the report Woolnough made reference to the surveys that the State governments were completing on behalf of the Commonwealth Government:

I suggest that the proviso be inserted that deposits selected for investigation be limited to those which are already known to be of major dimensions, and which are situated:- within sixty miles from port facilities and within 30 miles of an existing railway line.¹⁹

By November 1938 Woolnough was not the only bureaucrat urging the survey to be limited. The Secretary of the Department of the Interior also wanted cost saving measures implemented. The survey that the Commonwealth Government had been publicly claiming to be so important was viewed somewhat differently by the departmental Secretary. The Secretary's solution was to limit the survey and consequently, make it a highly selective survey. This was quite at odds with the comprehensive survey that the public and Japanese Government had been promised and that the Commonwealth Government had propagated as being so important:

The Geological Adviser has been instructed to confine his investigations, for the present, to deposits of iron ore ... occurring in bodies sufficiently extensive, of suitable form for cheap extraction without recourse to underground mining, of high grade in a chemical sense, and conveniently situated in relation to economic transportation to fuel. Deposits of merely academic interest by reason of characters rendering them unsuitable for economic exploitation are definitely excluded from the investigation.²⁰

The Secretary explained that "only deposits exposed at the surface fall within" this acceptable category, and that "iron deposits in the eastern States may be eliminated from further consideration." The Secretary suggested that only deposits that were capable of producing economic results should be included and consequently, any characteristic rendering a deposit uneconomic at that time would be excluded. The Secretary further stated that:

¹⁹ Report: "Survey of iron ore resources in Western Australia," Woolnough, 17 October 1938 (NAA: A1146; N7/10 Part 1). Note: As mentioned previously there appears not to have been any methodology employed by Woolnough. The arbitrariness of the criteria is again demonstrated by the fact that the criteria were set without any explanation or scientific justification. In this situation, the criteria suggested is 60 miles from port facilities, while on other occasions, the criteria suggested was that the deposit be not more than 200 miles from the coast. As previously discussed, the thesis contends that the variations were the result of political consideration. The exclusion of deposits was the key objective.

²⁰ "Survey of Iron Ore by Geophysical Methods," from Mr Carrodus, Secretary of Department of the Interior to the Prime Minister's Department, 25 November 1938 (NAA: A1608; 47/1/4 Part 6).

iron ore deposits not exposed at the surface cannot yield conclusive results without very costly proving operations including drilling and shaft sinking; and that in the majority of such cases, the deposits are certain to prove unworkable by reason of lack of size or inferiority of quality, while underground working itself is too costly to be considered economically possible.

The Secretary justified this position by alleging that the limits proposed for the survey:

have been endorsed by not only leading official geologists, but by leading mining engineers. The three Doctors of Science who advise the Government in regard to geological matters, have jointly and severally advanced the views [sic] above put forward.

The government experts were of course open to political pressure as is demonstrated by the manner in which McEwen commissioned Woolnough to produce a survey. As noted previously, the Minister in his own recollection asked Woolnough to produce a report that would justify the Commonwealth Government's decision to implement an iron ore export embargo.

In replying to the above advice of the Secretary, Woolnough endorsed the Secretary's opinion while seeking to further narrow the scope of the survey. Woolnough noted that he accepted the Secretary's advice "subject to the proviso that deposits selected for investigation be limited to those which are already known to be of major dimensions and which are favourably situated in relation to economic transportation."²¹ Once again Woolnough's attitude raises the question of what purpose the survey could be when it was limited to what was already known?

These two pieces of correspondence demonstrate that the Prime Minister, the Minister for the Interior, his departmental Secretary, and Woolnough were all aware and in agreement on limiting the scope of the survey and consequently, limiting the tonnages estimated by the survey. Such limitations were discussed by the West Australian State Government on February 7, 1939 when the State Mines Department produced a report dealing with the guidelines proposed by Woolnough:

Dr Woolnough and Mr McEwen ... very clearly stated that they did not want any investigation made into our inland iron ore deposits and very clearly laid down geographical conditions, which I (sic) will enumerate below, governing the nature of the deposits they did want investigated.²²

²¹ "Survey - Iron Ore Deposits Other Than At Yampi Sound, Western Australia," Department of the Interior. 25 November 1938 (NAA: A1146; N7/10 Part 1).

²² Iron Ore Survey For Mines: Iron Ore Survey, 7 February 1939 (NAA: 2822/3730).

The Western Australian Acting Government Geologist was informed by Woolnough and McEwen "for economical purposes ... these deposits and any others similarly situated might as well be on the moon" and should not be investigated. The geographical guidelines imposed on the survey were:

1. That for a deposit to be investigated it must be located 50 miles by road from a point on an existing railway;
2. The railway point must be not more than 100 miles from the coast; and
3. There must be an existing port at the end of the railway.

These were considered "hard conditions, and after a careful search through the available information on our iron deposits, I find that only one, Talling Peak, comes within the requirements of the conditions." The Geologist was curious why Woolnough refused his request to provide the Western Australian Government with these guidelines in writing. The Geologist claimed to have "endeavoured to get Dr Woolnough to put these instructions in writing and have them signed by him. I asked several times to do this and on each occasion, he evaded the issue." The Acting Government Geologist does not state directly that he was suspicious of the Commonwealth Government's intentions, although he does indicate that Woolnough's opinions should be contested:

It would be unwise to let the Commonwealth Government be in a position to state that the iron ore resources of Western Australia were simply those of Yampi and Talling Peak ... In this respect I might point out that Dr Woolnough is firmly convinced that iron ore can only be won by open-cut methods, and that to mine it in the ordinary way is absolutely prohibitive. Our State Mining Engineer holds a different opinion.

The report concluded with the observation that progress on the survey was extremely slow and that Western Australia may need to push ahead with development before it was completed:

I gained the impression when in Melbourne that the other States were doing very little in the way of [an] iron ore survey, and Dr Woolnough's original Commonwealth-wide census of iron ore resources was not going to be carried out as he first outlined it.... I feel that this Branch should no longer be inconvenienced by the indecision at present existing.

The Western Australian's did push ahead and on March 13, 1939 the Premier of Western Australia wrote to the Prime Minister with information that the Commonwealth Government would not have welcomed: "I wish to advise you that an investigation by the officers of the Mines Department has revealed the presence of a very large deposit at Koolyanobbing, near

Southern Cross.”²³ The deposit’s estimated total reserves were upgraded by the Western Australian Department for Mines from around one million tons to seventy-two million tons. The Premier felt that such a discovery may alter the Commonwealth Government’s resolve to prohibit the export of iron ore. Nonetheless, the Premier’s attitude was that:

If ... it is finally decided that the embargo will be enforced [permanently], then I submit that an obligation rests on your Government to encourage the establishment of branches of the heavy iron and steel industry in this State, in order that the people of Western Australia may gain the benefit from the working of the large iron ore deposits which are in existence.... Compensation [i.e.: monetary] ... could not hope to (sic) compensate adequately the people of Western Australia for the loss of trade and the general increase in the national income which could be expected to arise from the establishment of a thriving export trade.

The Premier’s request for the Commonwealth Government to subsidise the establishment of an iron and steel industry in Western Australia received attention from the Commonwealth Government in April 1939. McEwen wrote to Minister Perkins (Trade and Customs) concerning the Premier’s correspondence of March 13, 1939 and the advice McEwen had received from Woolnough on the subject. Woolnough had argued that it was impractical to consider the establishment of iron works in Western Australia in the absence of coking coal in that State.²⁴ Woolnough further provided a threefold course of action:

1. That the Commonwealth Government reaffirms the necessity of the iron ore export embargo;
2. That the prohibition be modified to allow the export of iron ore from deposits situated more than 100 miles from the nearest point on the coast line; and
3. That owing to the lack of suitable fuel supplies for an iron and steel industry in Western Australia, that the establishment of such an industry would be economically impossible.

McEwen recommended that Woolnough’s advice be accepted and that the Premier be informed accordingly. The first and third recommendations were eventually accepted by the Cabinet, however, the second was expressly rejected on August 2, 1939.²⁵

²³ Letter from Premier Willcock of Western Australia to Prime Minister Lyons, 13 March 1939 (NAA: A425/122; 39/6280).

²⁴ Letter from McEwen (Minister for Interior Affairs) to Perkins (Minister of Trade and Customs), 13 April 1939 (NAA: A425/122; 39/6280).

²⁵ “Iron Ore: Embargo on export of”, 28 July 1939 (NAA: A1608; C47/1/4 Part 6).

The second recommendation made by Woolnough may be reflective of the fact that he was of the mind that having achieved his objective of excluding the Japanese development of Yampi Sound exports from Australia (and in particular Western Australia) should be allowed to go ahead. He may further have been influenced by the time delay between when the announcement was made and when a particular new mine could become operational. Nonetheless, there was also a possibility that the Japanese could have been willing to start over again on a completely new inland project. Such a possibility would have shown the flaws in the survey and prohibition policy and accordingly, it is not surprising that the Cabinet did not follow his advice on this matter.

In April 1939 Woolnough produced an update on the iron ore reserves survey for Western Australia. It should be noted that the survey was being conducted by State government employees under Commonwealth Government guidance. An issue of contention was that the State employees were of the opinion that the guidance shown by the Commonwealth Government would result in an underestimation of the State's reserves. The Commonwealth Government had only agreed to include Yampi Sound and Talling Peak, however, the "State Government does not feel disposed to proceed with the iron ore investigation unless it embraces the other possible important deposits in addition to Talling Peak."²⁶

The Commonwealth Government's position was "that only those deposits should be investigated which were so situated as to be within economic transportation range" which, as mentioned previously, had been set at the distance of 100 miles from the coastline. This distance was claimed to be reasonable, or even possibly generous, although Woolnough provided no evidence to support his conclusion that 100 miles was an insurmountable barrier to the economic development of an iron ore deposit.

The thesis contends that it was not simply coincidental that only the proven deposits of Yampi Sound and Talling Peak fell within 100 miles of the coast. Woolnough did not, however, deny that Western Australia had extensive reserves of iron ore and even compared them favourably to some of the greatest iron ore reserves known in the world at that time:

There exist within the interior of Western Australia large numbers of major iron ore deposits, similar, in general geological type to the worlds greatest known iron ore deposits such as those of the Lake Superior Region in the United States, the deposits in the interior of Brazil, and some of the Indian deposits.

It is not surprising that with such an admission (and under such circumstances) the Western Australian Government was objecting to these rich reserves of iron ore being excluded from

²⁶ "Iron Ore Investigations in Western Australia," Report: Dr Woolnough. 29 April 1939 (NAA: A1146; N7/10).

the survey that they were being asked to complete. Woolnough even accepted that the Commonwealth Government was opening itself up to criticism from Western Australia:

Failure on the part of the Commonwealth Government to accede to this request may be made use of as a weapon of political attack; on the grounds that the imposition and retention of the embargo have been carried out without investigation of all the relevant facts.

Nevertheless, Woolnough concluded that he would "not withdraw in any way from the position ... maintained from the outset of these investigations that the deposits in question are beyond the limits of economic development."

A consequence of the survey's selectivity was that it exacerbated state government frustrations and claims for compensation. Throughout 1939 a key policy consideration was how to pacify the Western Australian Government's claim that the State was being unfairly affected by the iron ore export embargo. In particular, the Western Australian Government considered that the 100 mile from the coastline criteria was illogical as it was considered to be neither soundly based upon either science or commonsense.²⁷ It should be noted that Talling Peak was not included in the initial survey and that its inclusion in the second and supposedly more comprehensive survey was a result of it being an extremely rich deposit. Nevertheless, its inclusion was portrayed as a compromise that was for the benefit of Western Australia. However, it needs to be noted that its inclusion only occurred after the State government had objected to the supposedly comprehensive survey that took a static (not dynamic) approach to investigation: "The Minister for Mines of that State is of opinion that, as economic conditions are changing daily, it would be futile and a waste of time and money to examine only a very small proportion of the iron deposits of the State."

The result of the criteria was that initially only Yampi Sound and Talling Peak were even considered in the survey. Woolnough nonetheless maintained that any deposit that failed to satisfy this (or any of his criteria) was presently uneconomic and furthermore, that they were useless for the purpose of inclusion in the national estimations. Woolnough did, however, acknowledge that he "would nevertheless welcome an examination of the more important deposits." Such a compromise would appear aimed at pacifying State demands and allegations of discrimination and not serious proposal for investigation, or a reappraisal of the iron ore export embargo policy:

When the survey in Western Australia is concluded, the Government will decide whether the embargo on the export of iron ore is to be continued or not. It is extremely

²⁷ Brief For Cabinet: "Iron Ore Investigation," by Minister H.S. Foll, Department of the Interior. 11 May 1939. (NAA: A1146; N7/10 Part 1).

desirable that, when a decision is given, particularly if it be that the embargo is to be continued, the Government of Western Australia should not have an opportunity of lodging an objection on the ground that the survey was inadequate.

One particular deposit that caused considerable anxiety for both the Commonwealth Government and the Western Australian State Government was Koolyanobbing. Koolyanobbing was excluded as it was more than 100 miles from the coast (it was actually more than 200 miles from the coast). A Cabinet briefing was very insistent that it should not be included in the official survey.²⁸ Koolyanobbing is a very large and rich deposit and it is the contention of the thesis that the Cabinet's insisted that it be excluded because its inclusion would almost have certainly increased pressure on the Commonwealth Government to include and investigate many other deposits:

the deposits at Koolyanobbing cannot be considered as economically available for at least 75 years and, therefore, in the present time may be accepted as an influence in the direction of the lifting of the embargo only in respect of the more inaccessible deposits.²⁹

The Commonwealth Government was able to resist the pressure relating to the exclusion of Koolyanobbing, but the pressure still induced discussion of policy options that had previously been considered totally unacceptable. It would appear that the objective of pacifying the Western Australians led Woolnough to recommend that although the establishment of an iron and steel industry in Western Australia was not possible (due to the lack of adequate fuel supplies), the prohibition could be modified to allow exports from deposits located more than 100 miles from the coast:

If the position is as stated, it is obvious that the granting of permit to export iron ore from deposits situated more than 100 miles from the nearest point on the coastline, as proposed to be recommended to the Government, would mean nothing and would not result in any actual modification of the present prohibition, at any rate so long as the transportation difficulty remains. It seems safe to assume that the Premier of Western Australia looks upon the Koolyanobbing deposit as a reserve for the future and that he desires to know what influence such a reserve would have on the intentions of the Government regarding exports from deposits now commercially accessible.

²⁸ What needs to be considered is how the criteria was in many ways an alternative policy option to the iron ore export embargo, or at least a supplementary policy to the prohibition. Even if an absolute prohibition had never been implemented, the Commonwealth Government's survey, with its carefully crafted criteria (which excluded all the known reserves of iron ore), would have been able to be utilised as the basis of a partial prohibition – a policy option which was considered at different times during and after the prohibition's implementation.

²⁹ "Iron Ore: Embargo on Export of", Draft For Cabinet, 27 July 1939 (NAA: A1608; C47/1/4 Part 6).

As previously discussed, this recommendation was rejected by the Secretary of the Department of the Interior.³⁰ The recommendation had complex political implications, especially if iron ore mined from more than 100 miles from the coast was exported successfully. This would have potentially destroyed the Commonwealth Government's justification for the prohibition. As noted above, it may be argued, however, that it does provide an indication of Woolnough genuinely considering that a 100 mile transportation barrier was a reality. Furthermore, on what basis Woolnough was of this opinion remains a mystery as he never provided an explanation of his criteria to either the Western Australian Government or the Commonwealth Government.

6.7 Conclusion

The survey's commissioning (and the involvement of private sector geologists in providing solicited advice to the Commonwealth Government) cast doubt on the unbiased nature of Woolnough's survey. McEwen's own admissions provide a graphic illustration of political expediency. The categorisation of private or industry geologists was equally clear - if they gave reports of substantial economic iron ore bodies they were biased in favour of development and unreliable experts, while if they gave pessimistic estimations they were accurate and professionally reliable. Woolnough was also hypocritical in criticising estimations that were based upon surface testing, while himself including estimates based upon personal opinion where no survey had actually taken place. For example, he set guidelines for transportation distances that were based upon State government charges while having no knowledge in relation to how the charges were determined. From the evidence, Woolnough appears to assume that the charges would be set at an economic rate, however, the setting of government charges involves political considerations and consequently, the actual cost of transportation cannot be simply dismissed as an absolute barrier to investment and mining.

The thesis contends that what motivated the Commonwealth Government was the desire to formulate a justification for implementing an iron ore export embargo which was itself motivated by the objective of frustrating the Japanese development of Yampi Sound. As mentioned previously, the Commonwealth Government in May 1939 acknowledged that it was foreign investment that was the motivation for the survey's commissioning in 1935: "With the entry of foreign companies into the business of exploitation it became necessary to take stock accurately of the reserves available."³¹ Foreign investment was common, so the term *foreign investment* must in fact be read as a euphemism for Japanese investment. The thesis further contends that this motivation, and Woolnough's subsequent behaviour, are consistent with one another.

³⁰ Minute Paper: Exportation of iron ore from Australia (NAA: A425/122; 39/6280).

³¹ Memorandum: Progress Report on the Iron Ore resources of the Commonwealth (NAA: CP5/1/1; 269 Bundle 16).

The press took an interest in the survey from the outset and interested parties lobbied the Commonwealth Government against implementing a prohibition. Woolnough was, however, unrelenting in his criticism of any estimates that conflicted with his own, usually arguing that the party was biased, misinformed or incompetent. By mid-1939 Woolnough was advising the Commonwealth Government on ways to pacify the Western Australian and Japanese governments – issues on which he was by no means qualified to advise.

Woolnough successfully provided the Commonwealth Government with a survey that effectively provided a justification for the implementation and retention of the iron ore export embargo. He was aware of the survey's purpose when he was commissioned to produce it and he effectively dealt with all issues (whether or not they were related to geology) in a manner that assisted the Commonwealth Government in its policy objective of excluding the Japanese from Yampi Sound. Accordingly, it is contended that the whole process must consequently be considered flawed in that it was unscientific and highly politicised.

CHAPTER SEVEN

PIG-IRON BOB

7.1 Introduction

While the Commonwealth Government had been concerned with stopping the Japanese investing in Yampi Sound, a group of wharf labourers in Port Kembla, New South Wales, decided in late 1938 that they would halt the export of scrap and pig iron to Japan. The wharf labourers justification was that Japan was a hostile, militarist nation and that scrap and pig iron could be used to support the Japanese Government's invasion of China.

The Commonwealth Government labelled the wharf labourer's action a dictation of foreign policy by a trade union and furthermore, that it was illogical to stop exports of scrap and pig iron while still exporting other commodities to Japan. It was, however, the wharf labourers who eventually won as the government banned the export of scrap iron. Nonetheless, once Japan had entered into a pact with Germany in the Second World War the iron ore controversy effectively ended as no trading relationship continued to exist once that pact was formed.

The significance of the Pig-iron Bob dispute within the context of the thesis is that it involved exports of processed iron ore – either as pig-iron or as scrap iron – by the same company that was mining iron ore in South Australia and manufacturing Australia's iron and steel. For all essential purposes BHP was a monopoly producer and as previously discussed, was also involved in negotiations with the Commonwealth Government prior to the implementation of the iron ore export embargo.

There were some journalists in the media who drew an inference from BHP's monopoly position and its role in the iron ore export embargo's implementation, and hypothesised on the existence of a conspiracy between the Commonwealth Government and BHP. The conspiracy hypothesis focused on the relationship between BHP and the Attorney General, Robert Menzies. The purpose of the conspiracy was alleged to be to restrict Japanese access to the raw materials that were required to manufacture iron ore on the one hand, while at the same time allowing exports of manufactured scrap iron by BHP to Japan. In 1938 and 1939 the Japanese themselves speculated about such a conspiracy and an Australian journalist, Rupert Lockwood,¹ has written a book concerned with the controversy and in particular, the conspiracy hypothesis.

The thesis contends that Lockwood's conspiracy is by itself an inadequate explanation of what motivated the Commonwealth Government. His conspiracy is, however, based upon real

¹ Lockwood, R., War on the Waterfront: Menzies, Japan and the Pig-iron Dispute. (Sydney, 1987) Sydney: Hale & Iremonger Pty Limited.

pressures that could have been factors that concerned the Commonwealth Government. Consequently, aspects of his conspiracy highlight the pressures that may have contributed to the general domestic political environment in which the government was developing policy, and from this perspective, those factors may have been an influence on the development of the iron ore export embargo policy. In this sense, the type of pressures brought to bear on the Commonwealth Government in Lockwood's analysis are similar to those relevant to Blainey's national security perspective.

The chapter begins with an explanation of the conspiracy theory as propagated by Rupert Lockwood. It subsequently examines BHP's relationship with the Commonwealth Government in 1938 and the speculation by affected parties on the possibility of a sinister relationship at that time. The media played a key role in casting the dispute as a battle between Menzies and the wharf labourers and it may be contended that the driving force behind the conspiracy can be linked to this battle played out in the media. The role of the press is consequently central to the chapter's explanation of the conspiracy hypothesis. It should be noted that misinformation and a lack of transparency created by the Commonwealth Government's own policy-making processes were important factors. The chapter concludes with an examination of the conspiracy hypothesis' flaws within a broad political and economic context.

7.2 The wharf labourers dispute

The dispute in late 1938 involved a group of wharf labourers who refused to load a freighter (the *Dalfram* bound for Asia - allegedly Japan) with scrap iron owned by BHP. Scrap iron is used iron or off-cuts that are able to be recycled. The justification of the wharf labourers was that since Japan was at war with China, if Australia continued to supply Japan with scrap iron (which could potentially be used to make munitions) then Australia was itself culpable for the deaths wrought upon the Chinese by Japanese aggression and further, could also possibly be putting itself at risk. The Waterfront Workers Federation (the "WWF") had been involved in anti-Japanese activities since September 1937 (i.e. after the Nanking Massacre), when members refused to service a Japanese owned whaler in response to Japanese aggression towards China.² Lockwood argues that the wharf labourers of Port Kembla shared the common "determination not to load the *Dalfram* with pig-iron to be turned to guns to point at their heads."³

The WWF members in Port Kembla were under Communist leadership during the 1930s.⁴ Murray contends that union militancy in general was on the rise throughout the 1930s and that although the number of work days lost in Australia through industrial disputes had collapsed in

² *Ibid.*, pp.107-109.

³ *Ibid.*, p.136

the first few years of the 1930s economic depression, by 1937 some 506,745 days were lost and in 1938, 1.3 million days were lost. Militancy in Port Kembla is contended by Murray to have been exacerbated by the Communist union leadership that had the objective of radicalising their members and the workforce generally.

The Australian media was active in publishing stories dealing with the controversy. When the dispute spread to Sydney, where two cargo ships were waiting to have scrap iron loaded for Japan, the press propagated the grass-roots nature of the worker's actions. The media also claimed that there was a sense of mateship between the Australian wharf labourers and the crews of the foreign cargo ships. For example, the (Melbourne) *Herald* claimed in regard to the wharf labourers that: "In their attitude they are backed by the Chinese crew of the Nellore, who say they will not take the ship to sea if the pig-iron is loaded, and have sent a message to this effect to the Chinese Consul."⁵

Even when the wharf labourers were told that the cargo was not destined for Japan they still refused to load the cargo ships under the pretext that they did not even believe their own officials. The Secretary of the WWF informed his members that "he had not asked them to touch the pig-iron until he had made inquiries about it. He had obtained clear assurances that the destination of the metal was to a British firm at Shanghai and had nothing to do with Japanese shipments."⁶ However, the workers refused to change their minds, continuing to "claim that it will be used by Japan to manufacture munitions." It is noted that Shanghai was by that time under Japanese occupation, having been occupied by the Japanese in November 1937⁷. In the (Melbourne) *Argus* it was reported that the Chinese crew of the ship actually took up a collection to thank the wharf labourers for not loading the ship:

When the Men (sic) refused to load the iron to-day some of the Chinese crew of the Nellore took up a collection amounting to £3/5/, and handed the money to one of the men saying that the crew wished to "shout" drinks.... The Chinese, it was stated, said that the crew would refuse to take the ship to sea if the iron was loaded.⁸

It should be noted that in 1939 the media's focus clearly shifted from the iron ore export embargo to the waterfront strike. On February 14, 1939 the Federal Cabinet was scheduled to discuss the issue of a ban on the export of pig iron to Japan. The *West Australian* quoted the unions involved in the waterfront strike at Port Kembla as saying that if the Commonwealth

⁴ Murray, R., The Ironworkers: A History of the Federal Ironworkers' Association (Sydney, 1982) Hale & Ironmonger, pp.99-102

⁵ "Pig-Iron Dispute Extends To Sydney," (Melbourne) *Herald*, 12 December 1938.

⁶ "Pig-Iron Ban Spreads, 2 Sydney Ships Involved," (Melbourne) *Herald*, 13 December 1938.

⁷ Boyle, J., H., China and Japan at War 1937-1945: The Politics of Collaboration, (California, 1972) Stanford University Press, pp.54-5.

⁸ "Pig Iron For Shanghai, Men in Sydney Demur," (Melbourne) *Argus*." 13 December 1938

Government refused to implement a prohibition on the export of scrap iron to Japan they were ignoring the *will of the people*. However, a government official was quoted as having replied that: "If any restriction is decided on it would be on a general basis, and it would not apply only to certain overseas purchases."⁹

It may be contended that if the Commonwealth Government had shown an early inclination to implement a prohibition on scrap and pig iron it would have high-lighted the possibility that the iron ore export embargo was also directed at Japan. Ironically, in its objective of distancing itself from any such accusation, the Commonwealth Government was in a position where the *West Australian* became its unlikely ally. On February 15, 1939 the Cabinet decided against implementing a prohibition on the export of pig iron to Japan:

The decision is based partly on information which indicates that pig iron can be exported at the present rate without prejudicing Australian industries, and partly on a recognition of the fact that an embargo while Japan is at war would be provocative and might have serious repercussions.¹⁰

The *West Australian* (which had been against the iron ore export embargo) supported the government's determination not to implement a scrap iron export embargo for the same reasons that it had argued against the iron ore export embargo. The lack of logic in the Commonwealth Government's two differing stances was rightly criticised by an editorial on February 20, 1939: "the ordinary mind will have real difficulty in discerning any real difference between iron ore and pig iron exports, since both must obviously deplete Australia's iron resources."¹¹ Western Australian self-interest was also shown to be an important factor on the editorial: "It seems that the Government is so concerned not to discriminate against Japan that it does not mind discriminating against Western Australia." These parochial State based concerns were further reinforced when the editorial concluded that the:

Truth is that since South Australian iron can still be exported in the form of pig iron Western Australia is the only State that is being called upon to conserve Australia's supplies of accessible iron by leaving its deposits unworked.

The above concerns of the State Government of Western Australia raised the issue of compensation. The issue was dealt with publicly by Premier J.C. Willock in March 1939 together with the claim that the only opportunity for real economic progress within the State was through projects similar to that proposed for Yampi Sound:

⁹ "Pig Iron Exports, Federal Cabinet Review," *The West Australian*, 15 February 1939.

¹⁰ "Pig Iron Exports, Restriction Not Justified, Decision By Federal Cabinet," *The West Australian*, 15 February 1939.

Unfortunately no compensation which the Commonwealth Government is likely to pay could recompense the State for the loss of this valuable trade.... If the reasons for the embargo are that the iron ore resources of Australia are so limited as to make it unwise to allow them to be exported, then Western Australia has every reason to expect those industries which will utilise our raw materials establish their factories and workshops within our border.¹²

Nonetheless, the Premier maintained that the Commonwealth Government's conclusion that Australia, and in particular Western Australia, had only limited reserves of iron ore was quite simply incorrect: "This contention is disputed by the authorities in this State, but quite apart from the dispute another substantial deposit has been discovered at Koolyanobbing in the Yilgarn Goldfields." Finally, it should be noted that the Premier's conclusions were consistent with the State's position in regard to the iron ore export embargo:

If the Commonwealth Government intends to prohibit the use of these natural resources by way of an export trade then there is every obligation resting on that Government to assist in the establishment of industries in this State which will make use of the resources for the benefit not only of the people of this State but of the whole of the people of the Commonwealth.

7.3 The Commonwealth Government & BHP

In the political environment of 1938, with a high level of anti-Japanese sentiment in the public arena and in circumstances where the Commonwealth Government claimed that Australia's iron and steel industry was threatened by the exports of iron ore, BHP was a logical target for the media. The media particularly focused on BHP's business interests. The *West Australian* published Australia's export figures for late 1938. Australia's exports as of November 1938 were 62,667 tons of iron ore, 1,604 tons of pig iron and 11,114 tons of scrap.¹³ The exporters of iron ore were BHP and Brown and Dureau Pty Limited. Pig iron was exported by BHP and the Australian Iron and Steel Limited. Scrap iron was exported by Brown and Dureau Pty Limited, Holden's Motor Body Works Pty, and Kanematsu (Aust.) Pty Limited.

The Australian Iron and Steel Company was a subsidiary of BHP and consequently, all exports of scrap iron were controlled by BHP. Accordingly, BHP was the dominant company involved in the mining and export of Australia's iron ore resources and therefore, open to the accusation that it was depleting a natural resource from a position of monopoly. It may be contended that the issue of discrimination by the Commonwealth Government against Western Australia in the context of the implementation of the iron ore export embargo gained

¹¹ "Pig Iron Exports," *The West Australian*, 20 February 1939

¹² "State's Claim On Australia, Another Large Deposit," *The West Australian*, 13 March 1939.

¹³ "Iron Ore Embargo, Shipments Since Its Application," *The West Australian*, 1 December 1938

credence from these figures as BHP obtained its ore from South Australia and smelted it in New South Wales, thus leaving Western Australia void of any economic benefit.

The Commonwealth Government publicly supported BHP and came out strongly against the public criticism of BHP, with Menzies condemning those involved in the strike and defending the Commonwealth Government's policy of allowing exports of scrap iron. Menzies reportedly claimed that the strikers action "amounted to an attempt by a section of the community to dictate the foreign policy of the country."¹⁴ Menzies was also reported to have stated that:

Interference in international matters by sectional interests would lead to chaotic conditions and would only increase the risk of international strife.... To be logical and consistent the men should refuse also to load wheat and wool, which were just as necessary for war as pig iron.

The thesis contends that Menzies' arguments are logical since guns and munitions are just a small part of the sinews of war. However, the media was not impressed and contended that the government's position lacked logic. Nevertheless, scrutiny of the Commonwealth Government's policy position led to a focus on justifying the two differing approaches taken in regard to the export of iron ore and that of pig and scrap iron. On January 12, 1939 the Commonwealth Government released a document justifying its differing stances. Lyons was quoted as saying that:

The principle on which the Commonwealth acted is well-known in the realm of international relationships and it was affirmed by the Raw Materials Committee of the League of Nations. This principle is that each country has the first right to its own raw materials and that only when there is a reasonable surplus of those materials is it to be expected that such materials will be available to other nations.¹⁵

The iron ore export embargo was justified on the grounds that Australia had limited economic reserves of iron ore and that exploitation of small scale deposits was not economical. Lyons maintained that an economic unit for iron ore production is accepted as having an output of 10 million to 20 million tons, however:

Pig iron is in a different category. It is obtained from developed deposits of iron ore - developed because they are needed to supply our own blast furnaces for our own requirements of steel. The export of pig iron can be restricted at any time if the volume of exports justifies such action. Such restriction of exports would not provide grounds for compensation, because no important dislocation of industry would result.

¹⁴ "Mr Menzies's Attitude, Threat to Democratic Government," *The West Australia*, 5 December 1938

¹⁵ "Pig Iron Export, Why Not At Present Prohibited", 12 January 1939 (NAA: A2908/13; Y2 Part 2).

The Commonwealth Government relied upon reports of the League of Nations to support their policy on a merits level. In 1936 a League of Nations Information Paper¹⁶ discussed the issue of raw materials within the context of colonialism. The general focus of the paper was on the proposition that colonies are both a source of raw materials and a market for exports. In this context nations without colonies were very concerned with the control exercised by colonial powers over raw materials.

The paper specifically discussed Japan's grievances. The paper contended that the central concern for the Japanese was that they considered that for Japan's economy to mature (and also economically sustain and advance its rapidly growing population) it required access to foreign sources of raw materials and foreign markets in which to sell its exports. However, Japan was of the view that it was being restricted by tariffs and quotas imposed by western nations. Japan was claimed to have sufficient coal, copper and graphite (obtained from Korea), but lacking cotton, petroleum and iron ore. The latter two are strategic raw materials in the sense that they are crucial to industrial economies and their military capabilities. It can be extrapolated from this and other League of Nations publications that Japanese dissatisfaction was well known in international affairs by the mid-1930s. The fact that Japan left the League of Nations in 1931 due to international criticism of its activities in Manchuria is also noteworthy.

In these circumstances the Commonwealth Government's concern with being as diplomatic as possible while implementing the iron ore export embargo can be readily appreciated. The comments of Lyons reported in the media were squarely focused on rebutting accusations that the Commonwealth Government was doing anything other than providing Australian industry with first access to Australia's resources. It may be contended that the Commonwealth Government's decision to allow Japan continued access to scrap and pig iron can be readily understood in this context. Although the limited reserves of iron ore argument could justify restrictions on iron ore exports, it could not justify restricting what was in effect surplus iron production.

The attitudes of Lyons, Menzies and the Commonwealth Government may also be appreciated from the perspective that the policy stances of the WWF under Communist leadership posed a radical alternative to the policies and ideology of the Commonwealth Government. Murray argues that "Communist initiatives" were the main factor behind the strike and consequently, also the main factor in the eventual implementation of a prohibition on the export of scrap and pig-iron.¹⁷

¹⁶ League of Nations, "Raw materials and colonies", *Information Department Papers*, No.18 (1936) Oxford University Press.

¹⁷ Murray, *op.cit.*, p.102

The Pig-iron Bob and iron ore export embargo controversies received significantly different treatment from the media. The Pig-iron Bob controversy was depicted by the media as a personal conflict between Menzies and the wharf labourers, while the iron ore export embargo controversy had been portrayed as a dispute between Australia and Japan. The different focus may be readily appreciated within the context of the dispute being one that also involved differing political ideologies.

Menzies was obviously the central character in the Pig-iron Bob dispute. Menzies entered protracted negotiations with the WWF leadership, but initially had little success in gaining their cooperation. He attacked their position using similar arguments to those presented by Lyons on January 12, 1939. Menzies was quoted on occasions as claiming that the WWF justification for the strike would at least be logical and consistent if it demanded a ban on the export of all commodities to Japan: "But you do not ask me to do that. You select pig iron because you feel that it is something which is going to be manufactured into guns for the Japanese to shoot down the Chinese people."¹⁸ On common sense grounds, Menzies argued that Japan's capability to wage war against the Chinese would be equally affected if the Japanese were deprived of warm woolen clothes or food.

The *West Australian* had, throughout the controversy surrounding the iron ore export embargo, consistently criticised the Commonwealth Government's justifications. Interestingly, the *West Australian* defended the Commonwealth Government and Menzies in relation to their stance on the export of scrap iron issue, attempting to discredit what it termed the "confused and self-contradictory attitudes of the trade union movement in the Eastern States towards foreign policy and defence"¹⁹. Furthermore, the *West Australian* repeated many of the Commonwealth Government's arguments which ironically were the same arguments that the *West Australian* had used to challenge the Commonwealth Government's iron ore export embargo policy:

The Federal Government has maintained that Australia is not in a position by herself to apply economic sanctions to Japan, and that no section of the community has the right to take to itself the control of foreign relations. The Federal Labour Party goes even further in that it is opposed to Australia participating in or imposing economic sanctions at all.

The article concluded with the remark that the trade union's threat to further extend the strike to BHP's steelworks was damaging to Australia's international relationships: "This ultimatum

¹⁸ "Port Kembla Dispute; Mr Menzies Jeered; No Settlement at Conference," *The West Australian*, 12 January 1939.

¹⁹ "Current Comment, Pig Iron Dispute," *The West Australian*, 16 January 1939.

strangely combines an offensive policy towards a powerful neighbour with a heavy blow at Australia's own defence."

On March 3, 1939²⁰ the Prime Minister attempted to demonstrate to the Japanese that its iron ore export embargo policy was not directed toward the Japanese. The Prime Minister pointed out the strength of will the government had shown in resisting trade union and public pressures to implement an embargo on the export of scrap and pig iron:

A recent and striking example of this is to be found in the question of the export of pig and scrap iron to Japan, which, as you know, involved my Government in considerable industrial trouble, and which, I think you must agree, was handled by us with strict fidelity to the general policy to which I have referred.

The Japanese government had already publicly, and privately, stated that the iron ore export embargo was a discriminatory measure implemented as an affront to Japan and that one of the purposes of it was to provide BHP with an opportunity to increase its exports of pig iron to Japan. In these circumstances the contention of the Commonwealth Government that it was in fact inconveniencing itself for the benefit of Japan must have seemed ludicrous and could possibly have added to the antagonism felt by the Japanese towards Australia.

The public debate was perceived by Lockwood as exemplifying the polarisation of interest groups within Australian society. Those in support of the Commonwealth Government were co-conspirators, while the wharf labourers, and the general public (which appears to have largely supported their stance), were Australia's oppressed masses. Lockwood wrote that the Illawarra Trades and Labour Council (the "TLC") reacted to the Commonwealth Government's threat of intervention in the dispute by claiming it "an open declaration that the profits of BHP and the interest of our potential enemy Japan occupy first place in the counsels of the Government, while humanitarian principles and the democratic liberties of the workers are given no consideration"²¹.

Lockwood contends that by November 1938 the general public were behind the striking wharf labourers and that this was demonstrated by the fact that: "Clergymen, representatives of the women's organisations, the TLC and the Illawarra District Assembly of the Labor Party were already broadcasting in support of the struggle over the local radio." This contention is supported by Murray.²² In the face of such public support the Commonwealth Government

²⁰ Lyons to Wakamatsu, 3 March 1939 in Hudson, W.J. (ed) Documents on Australian Foreign Policy 1937-49, Volume I: 1937-38, Department of Foreign Affairs (Canberra, 1988) Commonwealth Government Printer, Doc.34.

²¹ Lockwood, R., *op.cit.*, p141

²² Murray, *op.cit.*, p.102

modified its position, with their compromise allowing all existing contracts to be completed while a prohibition on further exports of scrap iron would be implemented. Lockwood contends that the Commonwealth Government's reluctance to do so earlier resulted from the continued export of scrap iron being the second part of the two stage plan that was aimed at bolstering BHP's position domestically and as an exporter of manufactured iron production.

Prior to an examination of the evidence that contradicts Lockwood's conspiracy hypothesis, it is appropriate to deal with two other issues that Lockwood perceived as being relevant to the iron ore export embargo:

1. That the Commonwealth Government was concerned about the national security implications of the Japanese developing Yampi Sound; and
2. The influence of the White Australia policy and racism within the Australian community on the government's policies.

Firstly, Lockwood contends that his hypothesis is supported by the national security imperatives, with the Yampi Sound development appearing not to have been accorded importance in Commonwealth Government deliberations. The thesis contends that although Lockwood's interpretation is disputable, it was certainly true that the Defence bureaucracy considered favourably the Japanese plans to develop Yampi Sound.²³

On the other hand, although official advice from the Department of Defence considered the Yampi Sound development favourably, it must not be forgotten that the Prime Minister and Cabinet received advice from other sources on issues of national security. One such source was Longfield Lloyd whose views are simply summarised by Lockwood as being virulently anti-Japanese: "He told the Lyons-Menzies Government that it would be increasing the threats to Australian security if the Nippon Mining Co. was permitted to consolidate its foothold in North-West Australia."²⁴

Lockwood dismisses such alternative advice on the ground that Japanese fisherman were present throughout the 1930s in Australia's northern waters and that the Japanese had already acquired significant knowledge of the ocean and coastline: "This theory [i.e.: of Japanese presence] is undermined by Australian Government tolerance of Japanese landings, mappings and surveys of North Australian coasts through the 1930s." Although these facts are indisputable, Lockwood's conclusion that the Commonwealth Government could therefore not be concerned in anyway by the Japanese gaining a further and more extensive foothold in Australia's northern region lacks any substantive evidence and is directly

²³ See chapter 4.

²⁴ Lockwood, R., *op.cit.*, p119

disputed by Blainey. Lockwood nevertheless firmly supports the arguments of the trade union movement and the Japanese Government:

The embargo's only result, the Japanese Foreign Ministry declared, would be "the accumulation of monopolist profits by the iron and steel industries of Australia". For once, Australian trade union leaders agreed with the Japanese Government.²⁵

Such concerns as discussed by Blainey can be discerned in a report by an Inter-Departmental Committee (attached to the Department of External Affairs) as late as July 28, 1939:

Following upon reports from various sources on the intensification of efforts by the Japanese to develop their fishing industry in waters adjacent to Australia, as well as requests from the Premier of Western Australia for an indication of the policy of the Commonwealth Government in regard to poaching and protection of the local industry, the Commonwealth Government approved of an Inter-Departmental Committee to consider and report on what steps, if any, should be taken to check the activities of Japanese engaged in fishing for pearl and other shell in waters adjacent to the Commonwealth of Australia and its Territories.²⁶

The Commonwealth Government's options to reduce this Japanese activity were discussed, with the conclusion being that direct action would be counter-productive:

A certain degree of control over Japanese activities could be effected by independent action on the part of the Commonwealth. This method, which would involve legislative and administrative measures intended to place serious restrictions upon activities within Australian territorial waters, would be unsatisfactory in that, while it would tend to provoke Japan, it would be largely ineffective because it could be applied only in territorial waters, [and] it would be difficult to police adequately.

The Inter-Departmental Committee on the encroachment by Japanese ships into Australian waters prepared four recommendations for Cabinet in August 1939.²⁷ The first was that steps should be taken to secure an agreement with Japan that would govern the movement of Japanese ships in Australia's northern waters. Secondly, that a patrol vessel should be stationed at Broome. Thirdly, that the Department of Defence should consider aerial reconnaissance of Australia's northern coastline and waters. And lastly, that there should be a

²⁵ *Ibid*, p124

²⁶ *Report of Inter-Departmental Committee on Japanese Encroachment in Australian Waters*, 28 July 1939, in Hudson, W.J. (ed) *Documents on Australian Foreign Policy 1937-49*, Volume II: 1939, Department of Foreign Affairs (Canberra, 1988) Commonwealth Government Printer, Doc.125.

²⁷ *Encroachment by Japanese in Australian Waters*, Cabinet Minute, Minute 146 23 August 1939, *ibid*, Doc.145.

permanent departmental committee established. It is the contention of the thesis that Lockwood cannot simply dismiss Commonwealth Government concern as an irrelevancy.

Nevertheless, Lockwood's view gains some support from media reports on the formulation of the Commonwealth Government's iron ore export embargo policy. In September 1938 a newspaper article attacked the prohibition as a sinister plot between the Commonwealth Government and BHP. The article quoted a bitter attack in the House of Representatives upon BHP, "ascribing the embargo to the company's *sinister influence*."²⁸ The article concluded with the view that BHP was too powerful and that it must not be allowed to dictate government policy:

Why had the Commonwealth not acted earlier? There was growing conviction that the Broken Hill Proprietary was exercising a sinister influence on the financial life of the Commonwealth.

It should be noted, however, that the media, trade union movement and the Japanese Government were all unable to provide any substantive evidence of a conspiracy. On the other hand, records of meetings between Commonwealth Government ministers and BHP would appear to provide considerable support to the contention that there was no conspiracy. That BHP was consulted is beyond doubt, however, there is no clear evidence of a conspiracy. This lack of evidence to support a conspiracy is highlighted by a September 1938 briefing paper produced for Minister Casey²⁹ who was scheduled to meet with Essington Lewis. The Yampi Sound development was the primary concern, with the central issue being the possible development of Yampi Sound by BHP for the purpose of creating a perception that Australia required Yampi Sound's iron ore for its own immediate use.³⁰

Of particular note in the briefing paper is a suggested contingency plan for the development of Yampi Sound if the Commonwealth Government were unable to convince BHP to co-operate: "If the B.H.P. Company cannot be induced to develop Cockatoo Island, would it be worthwhile sounding a British Company like Baldwins Iron and Steel in this regard?" The Lockwood conspiracy theory is contradicted by the fact that the Commonwealth Government was considering using a foreign (although British) firm to develop Yampi Sound that was not at that time manufacturing iron and steel in Australia. The ore was obviously not intended solely for the use of Australia's monopoly producer.

²⁸ "Iron Ore Embargo, Minister's Suspicions, Broken Hill Company Assailed," 30 September 1938. (NAA: A1608; C47/1/4 Part 5). [Note: Emphasis in original]

²⁹ The Hon. Richard G. Casey entered Federal Parliament as the M.H.R for the Victorian electorate of Corio in 1931. He had served firstly as Assistant Treasurer (from 1934) and then as Treasurer (from 1935), and was also the Minister in Charge of Development, & Scientific & Industrial Research (from 1937). [see: Alexander, *op.cit.*]

The contradictions and inconsistencies of the Commonwealth Government's policy formulation are clear, however, this particular contingency plan is based on an exceptionally naïve outcome. The Japanese were still protesting vigorously against the iron ore export embargo in September 1938. If the reason for the implementation of the iron ore export embargo was Australia's limited iron ore reserves, then it would have been difficult to justify allowing another foreign nation to develop the reserves after refusing the Japanese. It would also have been counter productive as the iron ore export embargo's justification was largely concerned with rebuffing Japan in the most diplomatic manner possible.

In further correspondence on October 4, 1938 the Prime Minister's Department wrote to Essington Lewis with the department's letter carrying an implication that BHP was likely to bring the leases it held in Yampi Sound into production within twelve months. The letter asked whether it: "Would ... be possible to speed up development so that B.H.P. could commence lifting at the rate of 250,000 tons of ore per annum in, say, six months time?"³¹ Not only did the letter expect BHP to assist the Commonwealth Government in defusing the controversy surrounding the iron ore export embargo that was affecting the State of Western Australia directly by excluding Japanese investment, but it also asked whether BHP could engage in a second favour by acting as a cargo carrier for cattle from the northern region of Western Australia: "Another idea which occurs to me is that it may be possible for your boats to make a sort of round trip taking cattle from Yampi to the Townsville Meat Works. Would this be a feasible proposition?"

Such cooperation appears to have been expected by the Commonwealth Government and may be considered as adding credibility to the suspicions of the Japanese Government (and Lockwood) who maintain that the iron ore export embargo was a conspiracy between the Commonwealth Government and BHP. However, the fact that the planning of the Commonwealth Government's policy appears to have been done in an *ad hoc* manner, whereby the Commonwealth Government developed policy options and then tried to convince BHP to participate, clearly contradicts the proposition that a conspiracy existed between them.

As was discussed in chapter 4, Essington Lewis became a key figure in Australia's preparations for a possible war in the Pacific after he had completed a tour of Japan, Germany and North America in 1934. Within this context a request for Lewis and BHP to assist the Commonwealth Government to halt the Japanese investment by developing Yampi Sound would appear as just another strategic precaution. Nonetheless, Lewis apparently did not share the Commonwealth Government's concern in regard to the Japanese development.

³⁰ "Yampi," Mr Casey To See Mr Essington Lewis, 13 September 1938 (NAA: A1608; C47/1/4 Part 7).

³¹ Letter: Prime Minister's Department To Essington Lewis, 4 October 1938 (NAA: A1608; C47/1/4 Part 7).

Further evidence that contradicts the allegation that a conspiracy may be perceived is BHP's continuing applications to the Commonwealth Government for an iron ore export licence after the iron ore export embargo had been publicly announced.³² BHP was to some degree within the Commonwealth Government's confidence and consequently, it is contended that their insistence on applying to export iron ore can only be explained by BHP not taking the situation as seriously as the Commonwealth Government, nor believing that the government had extended them a favour. Alternatively, they may not have been as well informed as has been presumed by Blainey and Lockwood. The very fact that BHP needed to be told that the export of iron ore was out of the question would also indicate that the Commonwealth Government had not fully articulated their position to BHP and that no conspiracy existed. The Commonwealth Government and BHP simply do not exhibit the level of collusion that would evidence a conspiracy.

7.4 Conclusion

In chapter 3 the similarities between the TDD and the iron ore export embargo were discussed. There are also obvious similarities between the Pig-iron Bob dispute and the iron ore export embargo. At the centre of the two disputes was Australia's trade relationship with Japan, and both disputes revolved around iron – whether in the raw or processed form. But that is where the similarities end. Like the TDD analogy, the motivating factors behind the Commonwealth Government's policy were different and the policy objectives clearly differentiate the disputes.

The significance of the Pig-iron Bob dispute is that it involved exports of processed iron ore (either as pig-iron or as scrap iron) by the same company that was mining iron ore in South Australia and manufacturing the nation's iron and steel. BHP – for all essential purposes a monopoly producer – has been shown to have also been involved in negotiations with the Commonwealth Government that preceded the implementation of the iron ore export embargo. The inference drawn from its monopoly position and its role in the iron ore export embargo's implementation led some in the media to speculate on a conspiracy aimed at restricting Japanese access to the raw materials necessary for iron and steel manufacturing, while at the same time allowing exports of manufactured iron. The Japanese themselves speculated about such a conspiracy and it is a hypothesis strongly propagated by Rupert Lockwood.

The Lockwood conspiracy hypothesis is clearly contradicted by a considerable body of evidence. BHP was not particularly interested in developing the deposit at Yampi Sound and consequently, the Commonwealth Government was also considering using a foreign firm to develop Yampi Sound. Another factor ignored by the Lockwood conspiracy hypothesis is that the economics and commercial realities of exporting iron ore are entirely different to the export

³² "Exportation of Iron Ore," For Cabinet, 16 November 1938 (NAA: A1608; D47/1/4 Part 1; Att. D).

of scrap or pig iron. In this instance the Commonwealth Government was correct in arguing that only the export of surplus manufactured iron was readily able to be regulated since the industry was based upon relatively short-term sales, unlike iron ore exports which required a production plan of around twenty years. A further factor that should not be underestimated is the Communist leadership of the WWF and the Commonwealth Government's likely objective of resisting any show of strength by such political radicals.

These arguments also provide further weight to the implication that the key issue for the Commonwealth Government was Japanese involvement in the development of Yampi Sound. This was not made clear by the government and consequently, a key factor in the propagation of the conspiracy hypothesis was the misinformation and lack of transparency created by the Commonwealth Government's own policy making procedures. That does not, however, deny that the pressures that Lockwood draws upon in support of the proposition that a conspiracy existed were significant domestic political pressures. Such pressures must not be excluded from the equation when considering the motivations and objectives of the Commonwealth Government in implementing the iron ore export embargo. In this sense, the contention of the thesis that it was domestic political pressure that was the key factor behind the Commonwealth Government's policies is not inconsistent with many of Lockwood's observations. Nonetheless, the thesis rejects Lockwood's conclusions.

CHAPTER EIGHT

CONCLUSION

The iron ore export embargo was a complex response to the proposed Japanese development of Koolan Island, Yampi Sound. There are three dominant hypotheses concerning the objectives and motives for the Commonwealth Government's implementation of the iron ore export embargo and all are best understood within the political, social and economic environment of the 1930s.

Popular opinion has either accepted the Commonwealth Government's official justification for the iron ore export embargo's implementation (i.e. limited reserves of iron ore), or have perceived the government as motivated by a desire to exclude the Japanese. It is the unambiguous contention of the thesis that the latter was the sole objective of the Commonwealth Government in implementing the iron ore export embargo. But what motivated the Commonwealth Government to set such an objective is far more complex. Neither popular, nor academic, opinion has provided an adequate explanation in regard to why it was perceived as desirable to exclude the Japanese, or what role the geological survey of Australia's reserves of iron ore played in the policy-making process.

As discussed previously, these explanations concerning the motives behind the Commonwealth Government's implementation of the iron ore export embargo fail to place any reliance on Australia's central trade agreement of the 1930's, the Ottawa Agreements of 1932, and the thesis contends that they are correct in that regard. The thesis has also highlighted that critiques of the iron ore export embargo are almost unanimous in perceiving the objective of excluding the Japanese from investing in Yampi Sound. However, none provide an adequate explanation as to why. The only explanations offered have either implied that it was either for reasons of national security, or a racist response by the Commonwealth Government that which can be best understood within the social and political environment of the 1930s and in particular, the White Australia policy.

Undeniably, the 1930s was a period of considerable domestic and international controversy and accordingly, it is not surprising that commentators have drawn analogies between the iron ore export embargo, the TDD and the Pig-iron Bob dispute. It is within the general context of the 1930s, and specifically in relation to these three controversies, that the thesis has considered the three dominant hypotheses relating to the prohibition's implementation. The first is Tweedie's hypothesis which contends that the iron ore export embargo was a racist response by the Commonwealth Government. The context for Tweedie's hypothesis is provided by the 1930s which was indisputably an era when Australians held prejudicial views in respect of Japanese people and Asians in general, and was an era when the Federal and State governments of Australia were unambiguously in support of the White Australia policy.

Secondly, there is Blainey's contention that the iron ore export embargo was a response to a perceived military threat that was heightened to an extent by Japan's invasion of China. And lastly, there is Lockwood's conspiracy hypothesis that contends that the iron ore export embargo was the first limb of a strategy to provide support for an expansion in exports of Australian manufactured iron and steel.

The thesis contends that all three hypotheses are flawed, Tweedie's more than the other two. Nonetheless, they all have one common characteristic – their focus on domestic factors that had significant domestic political implications. It is a clear contention of the thesis that the iron ore export embargo developed out of domestic political pressures.

As previously discussed, racism was prevalent in the 1930s and is undeniably a factor in the implementation of the prohibition, but its influence has been shown to be relatively insignificant compared with other factors. The analogy between the TDD and the iron ore export embargo is suggested by Tweedie as the most appropriate context in which to appreciate the Commonwealth Government's behaviour. She contends that the 1936 dispute and the iron ore export embargo were both racist responses by the Commonwealth Government. Furthermore, Tweedie argues that Australian racism and anti-Japanese prejudice was the dominant force behind the prohibition with Commonwealth Government policies being a reflection of the community's sentiments.

It is indisputable that many similarities exist between the two controversies. Many of the same politicians were involved, including Lyons, Page, Menzies and Bruce. There is, nevertheless, a considerable body of academic research on the TDD. The weight of opinion on what motivated the Commonwealth Government supports a contention that the TDD was part of a complex series of diplomatic trade negotiations that had as its objective the securing of a better trade deal for Australia in regard to its dominant trading partner, Great Britain. The general academic consensus contends that Australia extended a favour to Great Britain for which it sought to obtain a *quid pro quo*. None of this evidence disputes Tweedie's general observation that racism was widespread in Australia in the 1930s. However, the causal link is provided by economic, not ideological, factors. Racial penetration¹ was certainly a concern, but it was considered a manageable issue by the Commonwealth Government.

Accordingly, although the TDD provides an interesting comparison to the 1938 iron ore export embargo controversy, the fact remains that the objective that underpinned the Commonwealth Government's motivation in each case was different. The government's policy objectives clearly distinguish the disputes. No favour from the British was to be forthcoming as a consequence of the Commonwealth Government's implementation of the iron ore export

¹ "Yampi Sound - Development of Iron Ore Deposits By Japanese", Department of Defence, 6 December 1937 (NAA: A461/10: B373/1/3 Part 2).

embargo. That was inherent in the iron ore export embargo policy, since Australian iron ore was of no utility to the British if it could not be exported. The iron ore export embargo was incompatible with the policy outcome sought by the Commonwealth Government in the TDD, which was to obtain trade concessions from the British Government in respect of Australian meat exports.

The two alternate hypotheses for the iron ore export embargo are firstly, Lockwood's conspiracy hypothesis and secondly, Blainey's contention that national security concerns were paramount. As in the case of Tweedie's hypothesis, both these explanations contend that domestic concerns in relation to economic, political and national security implications of the development were the dominant motivating factors underpinning the prohibition. The thesis, nevertheless, contends that these hypotheses are flawed or, at the least, insufficient to comprehensively define the motivations and objectives of the Commonwealth Government in implementing the iron ore export embargo.

In regard to Blainey's hypothesis, Department of Defence records demonstrate that from a strictly national security perspective the development was insignificant. Any negative opinions that emanated from the department appear to have been related to racial prejudice and concerns regarding whether the company proposing to develop the mine was in fact Australian as purported by the Western Australian State Government.

Lockwood's capitalist conspiracy was examined in chapter 7. Lockwood analyses the 1938 iron ore export embargo and the 1939 Pig-iron Bob dispute within a context where they are considered to be two halves of the same policy. Lockwood contends that the Commonwealth Government's prohibition on the export of iron ore was aimed at increasing the demand for Australian scrap and pig iron which in turn was considered to have potentially been of great benefit to BHP (which was for all essential purposes a monopoly producer). Lockwood considers that discussions preceding the implementation of the iron ore export embargo (between the chairman of BHP and the Commonwealth Government) provide reasonable grounds to contend that there was a conspiracy.

It is the contention of the thesis that for a conspiracy to have existed it must be demonstrated that the factors motivating the Commonwealth Government were the same in both the 1938 iron ore export embargo controversy and the 1939 Pig-iron Bob dispute. Lockwood ignores, or at least fails to consider, many of the circumstances surrounding the implementation of the iron ore export embargo and the Pig-iron Bob dispute. Lockwood leaves many questions unanswered. Why was the Commonwealth Government's concern about the Japanese presence in Australia's northern waters insignificant? Why would BHP have wanted the iron ore reserves of Yampi Sound? How was the iron ore export embargo going to protect or increase BHP's sales of scrap or pig iron?

Lockwood's conspiracy also lacks conviction in that the resources expended on (and the political implications of) the Pig-iron Bob dispute were far greater than any foreseeable benefit from the potential increase in the export of scrap and pig iron. As previously contended by the thesis in regard to the Pig-iron Bob dispute, it is more probable that the Commonwealth Government was motivated by the goal of appeasing Japan in the face of allegations that the iron ore export embargo was directed at Japan, rather than it being a complex trade policy aimed at increasing Australian exports. It must also not be forgotten that Japan was perceived as a potential national security threat to Australia and furthermore, that its 'Southward advance' policy (that was allegedly spearheaded by private capital) was of considerable concern to Australian authorities. In this context the exclusion of Japanese capital was undoubtedly a relevant objective for the Commonwealth Government. An additional factor that must not be underestimated is the Commonwealth Government's determination to break the waterfront strike as a consequence of the WWF's leadership being Communist and, therefore, being considered an organisation of dangerous political radicals by the government.

Like Lockwood and Tweedie, Blainey's hypothesis is an analysis of the domestic politics of the 1930s. Blainey contends that the Commonwealth Government had significant concerns in regard to the infiltration of Japanese nationals into Australia's northern regions. In Blainey's hypothesis, the proposed Yampi Sound development is considered to be an extension of the activities of Japanese nationals in Australia's northern waters in the 1930s where significant Japanese pearling and fishing was already occurring. Lockwood disregards these factors, maintaining that such activity was tolerated and could not have been a serious influence on government policy. However, government records demonstrate that such activities were of considerable concern to the Commonwealth Government throughout the 1930s. Lockwood's conclusions are contradicted by the fact that illegal fishing and pearling continued to be a serious concern to the Commonwealth Government after the two prohibitions (i.e. on the export of iron ore and scrap iron) had been implemented.

Evidence examined in the thesis demonstrates that the Department of Defence favoured the development of Yampi Sound by the Japanese financed firm Brasserts. The Commonwealth Government bureaucracy's opinion of the development was examined in chapters 2 and 4. As discussed, the Department of Defence was in favour of the proposed development, however, other Commonwealth Government departments, and individuals within the bureaucracy, held less favorable opinions.

The Department of Commerce was one such department that held less favourable opinions and the Minister for Commerce, Earl Page, was one of the key ministers involved in the formulation of the iron ore export embargo policy. Longfield Lloyd was another prominent opponent of the project. It is contended by the thesis that Longfield Lloyd's background in Military Intelligence, and his later career as Director of the Commonwealth Security Service (during the Second World War), indicate that his professional opinion in matters of national

security was probably held in some regard within the bureaucracy. It is certainly indisputable that Longfield Lloyd's opinion was known by many bureaucrats and senior ministers.

Ignoring these flaws in Lockwood's conspiracy hypothesis for a moment, there remains an additional factor required for his hypothesis to be plausible. BHP needs to have been intended to benefit from having Yampi Sound available for its use and furthermore, that the iron ore export embargo needs to have been intended to protect or increase BHP's sales of manufactured pig or scrap iron. As discussed in chapter 7, a September 1938 briefing paper produced for Minister Casey discussed the need to encourage BHP to develop the Yampi Sound reserves along with the possibility of having a British company take the leases over and develop them if BHP was not interested. Lockwood's conspiracy hypothesis is contradicted by the Commonwealth Government considering the extension of an invitation to a foreign (although British) firm to develop Yampi Sound. If the latter had occurred, the iron ore was obviously not intended solely for the use of BHP.

Furthermore, Lockwood also fails to demonstrate how the exclusion of the Japanese from obtaining iron ore from Yampi Sound would protect or increase BHP's sales of manufactured pig or scrap iron. The differences between the iron ore mining industry, and the export industry for scrap and pig iron, provides strong support for the contention that the two policy decisions were not linked. The economics of iron ore mining requires long-term investment and a large quantum of output, while the scrap iron export industry revolves around surplus production. Consequently, the export of the latter could be allowed to occur with some limited government supervision without prejudicing the long-term viability of Australia's iron and steel manufacturing industries.²

What the thesis has described as Blainey's national security perspective comes closest in its explanation to the conclusions of the thesis. However, the national security dimensions are less significant than the political and accordingly, Blainey's explanation should be modified to a politico-strategic perspective. The term politico-strategic is used as a way to express the concept that the national security concerns of the Commonwealth Government were really concerns about domestic political pressures in Australia associated with xenophobic public opinion and the possible future military threat posed by Japan.

As discussed in chapter 5, the political dimensions are patently demonstrated by Lyons' letter to Bruce less than a month prior to the prohibition's announcement. Lyons made it clear to Bruce that he had a genuine desire to block the Japanese obtaining any physical presence in Australia. This meant that a Japanese company could not be part of the Yampi Sound development. National security implications were not the focus - they were only a side issue.

² "Pig Iron Exports, Restriction Not Justified, Decision By Federal Cabinet," *The West Australian*, 15 February 1939.

The thesis contends that it was in fact potential political embarrassment that was the key focus:

the point on which there is no doubt is that we do not wish to undergo the embarrassment that would probably become cumulative as years go on of having what was in effect a Japanese Government enterprise well installed in Northwestern Australia, close to Broome where there are already large numbers of Japanese engaged in pearl shell industry.³

Lyons suggested to Bruce that the implementation of the iron ore export embargo had been well prepared for by the government with the public agenda having been set by announcements and media attention: "The possibility of Commonwealth Government putting an embargo on export of iron ore has been well ventilated unofficially in Australian Press." Lyons concluded with a personal and confidential note to Bruce: "Desire [that] you understand we are not only concerned with preservation of adequate resources but [I] also expressly wish to avoid the establishment of this Japanese enterprise in North West Australia."

As much of the 1938 circa documents in chapter 5 suggests, Lyons and his key ministers were not involved in the transparent formulation of a rational and generally acceptable trade policy. The Commonwealth Government's bureaucracy was in favour of the Yampi Sound development. The States were in favour of the development of resources by foreign interests. The British Government saw the Japanese investment as positive for Australia and for the British Empire. And to state the obvious, the Japanese were in favour of the development.

It is a contention of the thesis that the irrational and generally unacceptable implications of the policy lead the Commonwealth Government to engage in a series of exercises aimed at creating a false impression in regard to the government's real objective. The Commonwealth Government was, however, consistent in the reason that it provided to the State governments and the Japanese Government. The comments made by Lyons to Bruce mentioned previously are one of the few times that there is inconsistency. The thesis contends that this inconsistent explanation is a brief instance of honesty and frankness, where the domestic political environment is admitted to be the key factor behind the government's actions.

The objective of excluding the Japanese necessitated the commissioning of a flawed survey of Australia's reserves of iron ore. Accordingly, the thesis contends that McEwen's commissioning of Woolnough to produce the survey of Australia's iron ore reserves was political. Furthermore, the thesis contends that the agenda setting program engaged in by Lyons was political. It can be clearly discerned from the available documents that the survey's

architects used the survey to manipulate the States into a misapprehension concerning the Commonwealth Government being genuinely concerned about Australia's reserves of iron ore. But most significant of all is Lyons' admission to Bruce that the development would produce cumulative embarrassment to the Commonwealth Government. It is the contention of the thesis that such an admission gives the highest priority to the domestic political implications of the project.

Woolnough was under significant political pressure to produce a report that provided a solution to the Commonwealth Government's dilemma of how to exclude the Japanese from Yampi Sound in the least contentious manner. In chapter 6 it was demonstrate that Woolnough was able to use economics as a tool to manipulate which iron ore deposits were included in the survey. In retrospect, some of his statements seem quite ludicrous:

From their very nature iron ore deposits of dimensions worthy of consideration in the present survey form topographic and geological features so exceedingly conspicuous that it is beyond the bounds of possibility that there exist anywhere within the accessible portions of Australia undiscovered accumulations of such ore of noteworthy dimensions.⁴

In regard to the national security implications of the proposed development, the thesis contends that the Commonwealth Government was quite right to view the development as amounting to a Japanese Government sponsored enterprise that would involve a large port in reputedly the best harbour on Australia's northwestern coastline. It was also an extremely isolated region of Australian territory and one that was already supporting extensive Japanese pearling and fishing activities. However, the Department of Defence still supported the proposed development. The Department of Defence's analysis of the proposed development concluded that possible future conflict with Japan was unlikely to have any significant implications from a national security perspective as far as they related to the Yampi Sound development. The department's explanation for this was that Australia's northern coastline would, in the case of a war in the Pacific, be controlled by either the British or the Japanese, and that in either case the development of a port in Yampi Sound would not play a significant role.

A further issue raised by the Department of Defence was that although the reserves of iron ore were not required for Australian consumption, if Yampi Sound was developed it could provide a useful additional source in an emergency. The Department of Defence also

³ Lyons to Bruce and Page, 7 April 1938, in Hudson, W.J. (ed) Documents on Australian Foreign Policy 1937-49, Volume I: 1937-38, Department of Foreign Affairs (Canberra, 1988) Commonwealth Government Printer, Doc.181.

⁴ Dr W.G. Woolnough, Commonwealth Geological Adviser: Report on the Technical Aspects of Iron Ore Reserves In Australia, 14/4/1938 (SROWA: 2822/3729).

concluded that from an economic perspective the investment had many positive implications for Australia (and particularly for the development of its northern region) and that for those positive implications the project should be considered favourably by the Commonwealth Government.

The fact that Japan was considered a possible future military adversary raises two significant issues. Firstly, the national security dimension and secondly, the domestic political dimension. As has been contended, the national security implications of the project was considered to be of limited significance by the Department of Defence . However, the department largely ignored the political dimension. The Department of Defence's analysis appears to have finished once it had determined that the national security implications were not a significant factor in the proposed development. In the event of war, the political implications for the Commonwealth Government of having permitted the Japanese to develop a port in a remote harbour could have been disastrous – even if the national security implications were insignificant. The Australian electorate may have been very unforgiving when it realised that the Commonwealth Government had allowed an enemy into Australian territory.

The thesis also contends that an appreciation of the possible ramifications of alterations in Australian foreign policy is necessary when considering the existing tensions in the 1930s between Australia and Japan. The domestic implications can be appreciated by drawing an analogy with the Pig-iron Bob dispute and the public hysteria it involved. The tensions in the Pacific would have inevitably produced a further negative change in public opinion toward the Japanese development of Yampi Sound. From a domestic political perspective, the national security implications of the development were significant and consequently, the Pig-iron Bob dispute may have exonerated the iron ore export embargo policy-makers in their own eyes. It is the politico-strategic implications of the iron ore export embargo controversy that provides the most comprehensive explanation for the Commonwealth Government's motivations and objectives in halting the Japanese development of Yampi Sound.

Accordingly, it is indisputable that domestic political factors were crucial in motivating the Commonwealth Government, however, which particular factor (or factors) is more difficult to determine. What can be concluded with confidence is that the Australian political and electoral environment in the 1930s was not conducive to the investment by Japanese interests in Australian territory. Interestingly, the Commonwealth Government's records reveal a great deal of consistency in the reasons and justifications used by the Commonwealth Government in official and private correspondence. Any inconsistency that does appear comes out clearly in support of the view that pragmatic domestic political considerations was the key to the motivations and objectives of the government. It is these rare admissions that provide the most accurate explanation of the motivations and objectives of the Commonwealth Government's implementation of the iron ore export embargo.

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