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THE DEFENSE MINERALS ADMINISTRATION AND THE LEAD INDUSTRY*

by

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Mr. Chairman and members of the Lead Industries Association. Several months have passed since your able Secretary, Bob Ziegfeld, extended me an invitation to attend your annual meeting and tell you of the activities of the Defense Minerals Administration and its relationship to the lead industry. I was honored and pleased to receive the invitation to speak for it is always a pleasure to meet with members of your group. At the time of Bob's invitation, however, it appeared that lead was one of the few essential industrial metals for which there was no great supply problem. It seemed, therefore, that there would be very little interesting information that I could tell you with respect to the Defense Minerals Administration and the lead industry. But as you all know the lead supply situation has become increasingly critical in recent weeks and, contrary to my early expectations, I had no difficulty in assembling material which I believe should be of interest to all in your association. I am pleased, therefore, to have this opportunity today to tell you something of the lead program and other activities within the Defense Minerals Administration as they pertain to the lead industry.

The functions and responsibilities of the Defense Minerals Administration are many. We are charged with responsibility relating to more than 80 minerals and metals. With respect to lead and other nonferrous metals and minerals our responsibilities cover their raw state through the process of smelting and refining. One of our principal responsibilities is that of bringing the supply of strategic and critical minerals into balance with requirements. To exercise this responsibility we must currently analyze and forecast prospective metal and mineral supply and develop programs to put into operation the objectives of the Defense Production Act of 1950. However, before a program of mineral expansion can function it is necessary to know mineral requirements during the emergency period. Requirements for lead and other metals and minerals are assembled by and made available to us through the Defense Production Administration. It is their job to tell us the requirements for the military services, for civilian use, and for all agencies of the Federal Government including the strategic stockpile. Having received these requirements we must ascertain the sources of supply to meet the established need. In this regard we feel that our figures on lead supply during the emergency period are the best obtainable, for after all much of our information comes from you people.

As in the case of many strategic metals the anticipated requirements for lead substantially exceed the estimated available supply from domestic mines, secondary sources, and imports. There is thus a gap between supply and demand which must be filled by new or increased production and imports.

Creating an increase in the output of minerals and metals in short supply is a major function of the DMA. To fulfill this function the Defense Production Act has provided us with tools in the form of financial assistance such as accelerated amortization certificates, loans, guarantees of loans, procurement contracts, and incentive payments for new or expanded production. All are designed to encourage industry to expand mineral and metal output.

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It is upon the recommendation of the Defense Minerals Administration that certificates of necessity for accelerated amortization of capital investment for tax purposes are made. During the last war the certification of accelerated amortization was either 100 percent or nothing. Congress has been critical of this approach and has insisted that this time only a percentage of the total amortization be granted. Such a percentage will be industry wide and based upon the estimated degree of market obsolescence occasioned by the need to expand beyond normal needs to meet the emergency. In arriving at an answer regarding peacetime potentialities of a facility, we have developed information which projects the market for products of that particular plant against the total supplies, indicating how long these plants could be expected to continue in production after the five-year emergency period. Additional adjustments are made to allow for relative size and costs. Such adjustments may be up or down from the industry average percentage.

If the Defense Minerals Administration is satisfied that private enterprise cannot undertake desired expansion of production in the absence of an assured market for the output, it may arrange for procurement contracts with individual enterprises for the purchase by the Federal Government of their projected output at a minimum price for a specific period of years, provided authorizations for the commitment of funds for this purpose now pending before congress are approved.

The Government agency which makes the actual pruchases is the General Services Administration; but it acts on the certification of Defense Production Administration which, in turn, relies on the recomendations of the Defense Minerals Administration.

As in the case of zinc, it is proposed to establish procurement contracts for lead based on smelter settlement at the current market price with a floor price and a time period to be determined by negotiation. Such a contract with an operator of a lead mine would contain an option for the Government to take the production with the provision that unless the Government exercises its option the material will continue to be sold to industry through usual market channels. To date, DMA has entered into some contracts whereby a floor is guaranteed to the producer so that he can finance his own operation. The only case where Government funds are directly expended is when the market should fall below the established floor price. Then the Government would have to step in and pay the difference. It is not anticipated, however, that the taxpayer will have to pay additional money for this prupose during the period the contracts are in force, for if military and civilian requirements increase as anticipated, there will be a demand for all the metals and minerals that the domestic industry can produce, under existing conditions.

Loans for expansion of capacity, development, and production of minerals are offered in cases where financial assistance from private sources are unobtainable or available only on unreasonable terms. The function of DMA in this respect is confined to recommendations that such assistance is necessary to carry out the objectives of the Defense Production Act. To date every few loans have been granted for mineral expansion. The Administration has adhered to a preferential policy of utilizing tax amortization certificates and procurement contracts. Loans require checking into credit and detailed estimates of the possibility of repayment.

Financial assistance is also given for the purpose of encouraging the exploration of unknown or undeveloped sources of minerals and metals. It is anticipated that this type of assistance, which is under the full responsibility of the DMA, will be helpful to lead mining. We feel that this program answers a need evident during the past three to five years for encouragement to small miners and operators in their work of exploration development. It was not, however, designed as a relief program for the miner, but as a means of assistance in the search for new ore bodies to improve our mineral position. For lead, zinc and copper deposits the applicant under

the exploration program must match government funds on an equal basis. Funds advanced by the Government are to be considered as a grant to be repaid if the exploration is profitable, but to be cancelled if unsuccessful. It is gratifying to note, in the short time the exploration program has been in effect, the willingness on the part of most of the applicants to match funds with the Federal Government in shaping up their respective exploration programs.

Although there is a current shortage of lead, the information we have obtained from industry concerning present expansion programs indicates that supply and demand will be in substantial balance after 1953. There is, however, the problem of meeting promptly a deficit during the next two or three years resulting from the depletion of stocks in the hands of smelters and consumers and the lead requirements of our domestic industries and our allies. This problem is complicated by the uncertainty of imports. Therefore, we have come to the conclusion that it will be necessary to enter into an incentive program for both lead and zinc, and these two metals are commonly produced from small mines, the administrative burden of entering into individual small contracts, except for very large producers, is naturally impossible. Therefore, we have been working diligently to develop a satisfactory incentive program equally adaptable for small producers. In this connection we have met with the Secretary of the Interior's Zinc and Lead Advisory Committee which is made up of representatives of small independent, medium and large business enterprises from various geographical areas in the United States. The advice and assistance we have received from members of this committee, many of whom are also members of the Lead Industries Association, has been extremely gratifying. The general feeling of our advisors in the lead and zinc industry is as follows:

> "As to other metals customarily domestically produced under free market conditions, the committee believes that a flat premium for excess production, whether from new or established mines, fixed at a rate high enough to bring supply and permissible demand in balance, would be the most efficient and economical method of solving the problem."

Unfortunately the requirement of an incentive program in lead and zinc involves the commitment of substantial sums of Government funds. The proposal to pay a bonus for new and expanded production as set forth in the advice of the National Minerals Advisory Council, would require a minimum Government commitment of $8,000,000 a year for approximately 100,000 tons of recoverable lead and it would have to be committed for two or three years in advance. Budget presentations now before Congress include funds for this purpose.

If these funds are approved, D.M.A. has a plan in advanced stage of preparation which would be immediately recommended for adoption. This plan is based upon the industry's recommendation. For obvious reasons of raising possible false hopes, it is not wise to announce such plans until they have been finally approved.

There are other factors which have a bearing on future supply of lead and which call for assistance from the Defense Minerals Administration by other means than those which I have outlined for you this morning. One of these is the continuation of maximum production at existing mines through assistance in obtaining machinery supplies and equipment. Inasmuch as general control orders on mining machinery and equipment have not yet been put into effect, the activity of DMA in this respect has been of necessity on a case-by-case basis and our staff has handled virtually thousands of individual expediting actions.

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Manpower for the mining industry has also been a problem with which the DMA has had to cope. Military manpower requirements began to tap personnel from industry almost immediately after the opening of the Korean conflict. Moreover in areas of stringent labor supply, such as the Coeur d'Alene Region of Idaho, there has been a noticeable migration of mine labor to mushrooming defense industries in the Pacific Northwest and to Government hydro-electric construction projects in that area. DMA entered the manpower discussions at the very beginning of its existence last Fall, and in presenting the case for the metal mining was able to establish with the Department of Labor the necessity for including the underground metal miner on the list of critical occupations. Furthermore, a large number of cases involving individual reserve officers have been presented to the military authorities and the DMA has in many instances been able to secure stays and deferments for irreplaceable men in key positions.

Those methods of assistance to the lead industry in expanding the domestic lead supply to meet requirements during the national emergency are by no means a comprehensive resume of the full duties of the Defense Minerals Administration. They do, however, serve to indicate that the DMA is ready and able to work with the metal industries to provide the strategic minerals which are the life blood of our industrial economy and defense effort. We are confident that in the Defense Minerals Administration we have a constructive program for the lead industry, one which will provide the necessary lead to meet essential civilian and military requirements and which will provide expansion of the lead mining industry through development of new deposits. We know that we can count on the continued cooperation of the lead industry in fulfilling those objectives.

We have in the past ten years been through two emergency periods, both made more difficult in the beginning by serious shortages of materials. Most of the controls are the result of such deficiencies. Much unnecessary dislocation in the economy during a transition period is brought about by the relative inflexibility of material supplies. I hope that we may learn from these experiences and find a way to solve at least part of the problem.

In conclusion I wish to make a few remarks concerning the situation in which the Defense Minerals Administration finds itself with respect to its operations. As you gentlemen undoubtedly know, we are short of skilled and qualified personnel. I cannot emphasize too strongly our need for competent men who can assist us with our work in Washington. Early in the year, Frank Case of Anaconda Copper Company did a splendid job of helping us staff up for our preliminary task and largely on the impetus of this original effort we have carried on so far. Unfortunately this has not been enough and we are now seriously impeded in our work because of not only a shortage of manpower but also because we lack the type of manpower that is most effective in getting a job done in Washington. We need younger men and we need vigorous men who have knowledge of mining and who know their way around Washington. I appreciate that it is almost impossible to locate such individuals without drawing upon many who are in critical positions in industry, but I do not see how we can make rapid progress in this program under the present set-up.

I wish to call your attention to the fact that the petroleum industry, immediately upon passage of the Defense Production Act, wasted no time in coming to the assistance of the Department of the Interior in the staffing of the Petroleum Administration for Defense. They not only furnished to the Department some of the best men available but groups from the Petroleum Advisory Council put their fingers on individuals and literally stated, "You are going to Washington to do a job". The petroleum industry recognized the importance of having an adequate staff available in the Federal Government to do this job.

It is often difficult, due to Civil Service regulations, to put men on immediately but as a general rule we have been able to assign a man to a position in Washington within a reasonable period. At the present moment we do not have Deputy Administrator — I am looking for a man for this position now. I cannot over-emphasize to you the importance of having in Washington a competent and knowledgeable group because the industry will be profoundly influenced by decisions made in the Defense Minerals Administration possibly for many years to come.