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THE CURRENT LEAD MARKET*

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I find myself in a rather embarrassing position today. I am to discuss a seemingly non-existent situation—the lead market. A market presupposes a free interplay between supply and demand, with prices reflecting the relationship between these two factors. Today, however, the Government makes the market. It tells consumers how much lead they may use and it tells producers what price they may charge. Before this year is over, I have a hunch that the Government will tell consumers to what use they may put the lead, and tell producers to whom they may sell and how much.

I know that many producers and consumers feel that lead need not come under the same strict control as the Government will impose on copper, aluminum and steel. What they overlook is the fact that lead is a member of the metal family and if there is an epedemic of Government "controlitis," if I may coin such a word, if several metals fall prey to it, the others are hardly likely to escape.

I recall last year, when lead appeared to be the ugly duckling in the metal group, Lead appeared to be immune to the panicky buying that raged in the copper and zinc markets, and there were many who believed that this immunity would continue indefinitely. You may recall that while the prices of copper and zinc were moving up, the price of lead was going down last year. On June 23, two days before the Korean war, the price of lead dipped from 12 cents to 11½ cents, and on June 28, three days after the start of the war, the price dropped another ½ cent to 11 cents. At the time when the price of lead dropped to 11½ cents a pound, the price of zinc moved up to 15 cents. It took but one more rise to bring the price of zinc to 17½ cents, whereas it took 7 price advances from the 11 cents level to bring lead up to 17 cents a pound. It is true that lead lagged behind copper and zinc, but it caught up with the others eventually.

Lead lagged behind the others last year because of the large unsold stocks that producers carried over from 1949, and because the Munitions Board gave the market a swift kick in what, in humans, is referred to as the lower part of the anatomy, by discontinuing to buy lead for the stockpile. That threatened the metal market with a recurring monthly surplus of some 29,000 tons, of which 16,000 tons had been going into the stockpile. The situation caused dismay among producers and something short of elation among consumers. That's why the price dropped to 11 cents a pound. To make matters worse, foreign countries with devalued currencies were dumping a good portion of their lead on the domestic market to get dollars.

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This, then, was the lead picture at the time the Korean war broke out. Consumers of copper, zinc and aluminum were already well advanced on their buying spree, and it didn't take long before lead consumers joined the parade. The consumers of lead products began stepping up their demands because of the fears of shortages, fears of Government restraints on consumption and inventories and principally because of the fear of inflation.

As long as lead producers had large stocks to draw on, they could allay those fears by selling freely, marking up the price, of course, as they dipped into their reserves. But when their stocks were down to a low level, they, too, had to put a check-rein on their sales. But as soon as it became more difficult to get lead, the more anxious became consumers to build up their inventories.

Back in April 1950, consumers felt perfectly safe in keeping their inventories at 90,000 tons, knowing that the producers were carrying a stock of 211,000 tons. By February 1951, however, lead consumers had boosted their inventories to 126,000 tons, an increase of close to 40 percent, while the stocks in the hands of producers were down to 134,000 tons, a decrease of 36 percent. In other words, there has been a shifting of the stocks from the hands of the producers to those of consumers.

The Government apparently also thought that lead was going to remain immune to the shortages that were felt in other metals. When the NPA issued its first metal inventory order in September of last year, lead was not included in that order. And when in February of this year, the NPA began to control lead, it permitted consumers to carry a 60-day inventory, which was more than they had been carrying. Seeing the cutbacks in civilian consumption and compulsory set-asides for DO ratings in other metals, many lead consumers put on steam to increase their inventories, and others turned to the use of lead as a substitute. As you know, the buying binge was on in real earnest.

The Government suddenly realized that there might not be enough lead for its defense program, and therefore ordered a cutback in civilian consumption and limited consumers' inventories to a 30-day supply.

This brings us up to the present, and the question now is "Where do we go from here?"

Well, that certainly is the $64 question, and no one should be naive enough to look to Washington for an answer, because there confusion reigns supreme.

I think that you will agree with me that ever since Washington stepped into the picture, there has been market chaos and confusion. You will recall that when the freeze regulation was issued on January 26, it was supposed to be a mere stop-gap, a quickie, so to speak. It quickly stopped the flow of foreign metals to the United States, and it has created greater gaps between prices for the same metal than existed before the freeze.

The present price of lead, at 17 cents a pound, is the cheapest in the world. Our Government can compel the domestic producers to sell at that price, and it can compel consumers to limit their use of the metal; but its legal arm cannot reach out and compel producers and consumers in other parts of the world to do likewise. What's been the result?

Foreign lead, instead of coming to the U. S., is going to markets in other parts of the world, where the prices are higher.

Last year, for example, our net imports of lead in all forms averaged 43,400 tons a month. If this year's imports average 20,000 tons a month, we will be doing well.

Is there any good reason why foreign lead concentrates or refined lead should be offered for sale in the domestic market, when we impose an import duty on them, even though beginning on June 6 the import duties will be cut by 50 percent as a result of the Torquay agreement?

Let me state my position clearly. I am in favor of protecting the domestic mining industry with adequate tariffs against foreign competition, when there is danger of such competition. But even the most ardent protectionist can hardly claim that any such danger exists at present. The logical thing, therefore, would seem to be to suspend the import duties on lead, even though they have been reduced, but suspend them with adequate safeguards, as was done in the case of copper, so that in case there is a sharp drop in price, the duties would be reimposed automatically within a definite period.

Foreign lead producers have been getting as much as 28 cents a pound in Japan and between 22 and 23 cents a pound in South America and 26 cents on the Continent, without having to absorb any duty at all. Why should they try to sell in the domestic market at 17 cents a pound?

Our Washington authorities would do well to take a realistic view of the world price situation. If foreign lead is to be attracted to the United States, we must either free the domestic market from price control, or else have the Government take over the importation of foreign lead at whatever price it has to pay and resell this lead to domestic consumers at the ceiling price and pocket the loss. Of course, that would constitute a subsidy for foreign lead producers, which would not sit well with the domestic mining industry. But the Government can't escape this issue by burying its head in the sand, ostrich-wise, to avoid the approaching storm.

Our Government is carrying on negotiations with some of the world producers of lead, zinc and copper, in the hope of reviving the Combined Raw Materials Board that functioned during World War II. I have my doubts whether the countries that produce the metals we need, want world allocations and price controls.

I cannot help but feel that the longer our Government pursues its unrealistic policy of keeping our lead market under artificial price control while the rest of the world enjoys a free market, the smaller will our imports become and the greater our lead shortage, and don't forget that we rely on imports to furnish approximately one-third of our requirements.

We can't expect much lead from our domestic mines, which last year produced on an average of 36,000 tons a month. With the price where it is, this year's average output may be stepped up to 36,800 tons a month. We may get as much lead from scrap this year as we did last year, say about 33,000 tons a month, and if we suspend our import duties entirely and raise the domestic price level our imports may average this year, 20,000 tons a month. This would give us a recurring supply of about 90,000 tons a month.

During the second half of last year our civilian consumption averaged 119,000 tons a month, and it certainly would be as high today, if the Government had not stepped in and cut back the civilian consumption. It had to take this drastic action because you simply can't meet a civilian demand of 119,000 tons and Government needs, I don't know how large, with a monthly supply of 90,000 tons, especially when producers no longer have stocks to draw on. The civilian consumption has been cut by about 30 percent. Now, if you have a monthly supply of 90,000 tons and the Government is permitting civilian industry to consume 82,700 tons a month, there is little left over for defense. I therefore believe that the NPA will find that setting aside 20 percent of the domestic production for defense will not be enough. I doubt whether 30 percent will be enough. As the defense program is stepped up, more drastic civilian cutbacks may have to be made; and when that happens the NPA may have no other alternative but to put lead under the CMP.

From where I sit, and it's not an ivory tower, I can see little hope for relief in the lead supply situation for months to come, certainly not for the balance of the year. It's not a pleasant prospect to face, but we may as well be realistic about it. The disappointments will then not be as great.