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THE INTERNATIONAL SITUATION REGARDING METALS, IN PARTICULAR LEAD AND ZINC

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As you may know, I am new to the lead/zinc industry and therefore it was with some trepidation that I accepted the invitation to address you today. What you would really like me to do no doubt is to forecast the course of prices in the near future. If I were to attempt to predict these future trends and tendencies I would indeed need a very powerful crystal ball, but nevertheless I will do my best to give you some views on the international situation of our industry.

I know you are all aware that world consumption of lead and zinc has been increasing each year and in fact the surpluses which have caused so much depression in the markets in recent years are relatively small when compared with the world level of consumption. For instance, although the lead market price has been unsatisfactory to producers in recent years, nevertheless the surplus from 1959 onwards has been well inside five per cent of world consumption, even in the most unsatisfactory years.

We have not heard very much about shortages in recent years, but I firmly believe that the planners who went around forecasting severe shortages are not without blame for the present state of affairs. In my view it is a major fallacy to talk of shortages in lead and zinc. It is true that there have been, and will continue to be, temporary fluctuations in supply and demand, but the record shows that a corresponding fluctuation in metal prices is sufficient to restore equilibrium to the market in the long run. I am firmly convinced that, given the correct conditions, adequate supplies of lead and zinc will always be available to meet requirements, and I consider that the advocates of gloom who forecast shortages of the metals do a great disservice to the industry by the effect which they have on consumer thinking. If consumers of lead and zinc become really convinced that there is a shortage coming I have no doubt that they will redouble their efforts and research to find and adopt a satisfactory alternative material.

You will see from what I have just said that I do not consider that the troubles of the lead and zinc industry arise from any chronic state. I believe that they are the result of temporary imbalances and I would like to examine the reasons why such fluctuations appear to affect our industry in particular. It seems to me that the following reasons are important:

Unlike the operation of certain manufacturing processes, there is a very considerable time-lag between the discovery of an ore deposit and the production of refined metal. Many years are needed to develop a mine and to construct ancillary milling and sometimes smelting plants, and in my view this is one of the most important reasons leading to the temporary imbalances which we suffer. To decide to bring a new mine into operation is really an act of faith in the long term growth potential of the industry, as it may well happen that, when the new facilities come into operation some years hence, the date will coincide with a temporary trough in demand. Mining, milling and smelting on a large scale call for

(Presented by Mr. Frank Gregory, Director, Conzinc Sales Limited, at the Joint Session of the American Zinc Institute and Lead Industries Association, Chicago, Illinois, April 30, 1963) considerable capital outlay, and once a decision has been taken to embark on a project and work has actually commenced, it is a fact that the project will almost certainly go ahead whatever temporary changes may occur in conditions in the meantime. From this you will see that production of lead and zinc is not very easy to adjust to temporary changes in demand.

A further factor causing temporary imbalances and consequent price fluctuations is the fact that many metals, and certainly the lead and zinc with which we are primarily concerned, are truly international commodities. Very large tonnages of lead and zinc ores, concentrates and refined metals move across the world and the pipelines for these products can be said to extend worldwide. This in itself leads to a lack of flexibility because if, for instance, a decision were to be made today to change the rate of mine production in Australia it would probably take six months, and maybe longer, before this decision would be reflected in the physical metal becoming available in the large consuming markets. This lack of flexibility which arises from long pipelines is further complicated by the fact that many smelters and metal consumers choose to cover the bulk of their requirements on forward contracts at unknown prices, and these contracts are often made for periods of six or twelve months, and sometimes years ahead, and are related to the market prices ruling at the time of delivery. A producer entering into such a contract forfeits considerable flexibility in exchange for a secure outlet, and it seems to me that the extent to which lead and zinc are sold many months forward on average price contracts has an important effect on the speed at which producers can react to market circumstances.

On the other hand, it will be an extremely brave or foolhardy producer who attempted to "beat the average" by selling his whole production at fixed prices for prompt delivery. It is clear that a sensible balance between the two methods of selling should be achieved.

It is indeed difficult to commenton this question of temporary imbalances without discussing further the market practices in our industry, although I realize I am treading on dangerous ground. The London Metal Exchange price is widely used as the basis for prices of both metal and ore in many parts of the world, and it seems to be true that this terminal market in London, in current circumstances, is narrow and often reflects purely local U.K. conditions. If business is bad in the U.K. and stocks build up in L.M.E. warehouses, the market prices on the L.M.E. are likely to be depressed and this influences the price of hundreds of thousands of tons of lead and zinc which are sold by producers on average price contracts. I do not pretend to know what the answer is to this particular problem and many of you have no doubt devoted considerable time to the study of alternative methods of marketing outside the U.S.A. It is, however, true that no one has yet evolved a workable alternative, but we should perhaps avoid being too defeatist in our approach.

In this connection I would like to refer for a moment to other metals. I know that certain other metals do not present quite such a complex problem as lead and zinc. You are all well aware that there is in existence an International Tin Scheme and in quite a different way the aluminum producers of the world have succeeded in large measure to date in maintaining price stability by being willing to adjust supply to demand. In the field of copper we have all been following with great interest the events of the last year or so in the copper market. This experiment which is being carried out in copper has certainly proved successful at least in the short term.

Now I would like to say a word about Russia. When talking of copper and thinking of possible action in lead and zinc I know I do not have to point out the fundamental difference so far as Russia is concerned. In the case of copper Russia is a net importer, whereas in the case of lead and zinc it would really be very difficult to achieve any form of international arrangement to adjust supply to demand without the full cooperation of the exporting countries behind the Iron Curtain and notably Russia. I do believe that if ideas for an international scheme for lead and zinc were to be developed the Russians would give the proposals their very earnest and serious consideration. In considering Russian exports in current circumstances, however, it does appear from time to time that transactions by the U.S.S.R. are motivated by specific reasons such as a need for foreign exchange. Barter transactions involving the export of Russian metal can be particularly depressing in their market effect, as a merchant who may have made a good profit at one leg of the barter transaction can afford to sell his lead or zinc at a discount, if the need be, in order to close out the deal. This is particularly true when such metal is imported into the U.K. rather than the European Continent and is delivered on the L.M.E., as has recently been the case with Russian lead.

Perhaps here I should refer to the International Lead and Zinc Study Group which has been meeting now for several years without any conspicuous success. I do feel that this Study Group provides a forum in which we can all meet and discuss the problems of our industry and furthermore it is a meeting place which is acceptable to certain countries who would otherwise be precluded by Anti-Trust considerations from taking part in such discussions. Moreover, the Study Group provides a common ground on which discussions can take place with Russia and, despite the fact that the Study Group does not appear to have made any great progress, I would strongly counsel that we continue to support such meetings.

I would now like to say a word about Government stockpiling as I am quite sure that many of the ills of the lead and zinc industry stem from the activities of Governments. I will of course admit that my Group, in common with many others, has participated in Government programmes to purchase and accumulate large stocks of zinc, lead and other metals. I question, however, whether Government stockpiling has been for the true good of our industry and we are now faced with a situation where the Government of the U.S.A. is holding very large stocks of lead and zinc which are overhanging the world market. The very announcement early in 1962 of the enormous quantities of both metals that were dubbed "surplus to strategic requirements" was sufficient at the time to depress open market prices by several pounds a ton. I know that many of you have given much thought to the problem. The first essential is certainly that before any disposal is even contemplated a further assessment should be made of what is truly surplus to the strategic requirements of the U.S A. Until this point has been properly resolved one cannot begin to get to grips with the real problem. I fully appreciate that the rules for U.S. stockpile disposals are governed by U.S. legislation, but I do feel that this is a matter of concern not just to the U.S. lead/zinc industry alone but to our industry throughout the world. The whole situation requires very careful handling and no one with any knowledge of the markets can pretend that tonnages of the size held in the U.S. stockpile can possibly be disposed of under normal circumstances without seriously endangering the stability of the market.

I would now like to turn to another aspect of our industry which is causing great difficulty at the present time. I refer to the protectionist policies of certain countries who, for local and political reasons, subsidise domestic mining and smelting operations which are not truly economic by world standards. I am fully convinced that the world can obtain sufficient quantities of lead and zinc at economic prices and I am sure it is quite wrong to support uneconomic production for local and political reasons. The world is not perfect, however, and we must face the fact that Governments will not abandon these policies overnight. I am sure, however, that we must strive to ensure that Governments have positive plans to decrease the support of uneconomic production and move gradually towards a point where the international laws of economics apply. In this connection it is interesting to note reports regarding the Italian situation. You all know that the Italian market for lead and zinc is protected by a very high tariff until 1966, but I understand that the E.E.C. have emphasized to the Italians that the purpose of the tariff is certainly not to allow them to continue to subsidise uneconomic production until 1966. I believe they have been told that they are to use the time to put their house in order and it is reported that the Italians are developing important plans to open up deposits of lead and zinc and establish mines and smelters which will be truly economic and able to operate at world prices. I feel that here we have an example of the right sort of thinking and some other Governments would be well advised to take a leaf from the same book.

All those countries who have resorted to protection of their lead and zinc industries should be in no doubt that protectionism tends to snowball in its effect. Any country which establishes a high level of local protection by means of tariffs, quotas or subsidies should bear in mind that it is setting an extremely bad example to the rest of the world and most bad examples tend to be followed. I have no doubt whatsoever that the high level of protection in, for instance, the U.S.A. and Japan has lent strength to the arguments of the European Economic Community for a corresponding protection.

There may, of course, be some justification for domestic reasons for seeking temporary protection and here I feel I should refer to the U.K. where you have a prize example of the snowballing effect of protectionism. In view of the proximity of the U.K. to Europe it has been necessary for the U.K. zinc smelter to seek parallel tariff protection with the Six countries of the Common Market so that it may compete on equal terms for its raw materials. This does not mean that I am in favor of high tariffs on zinc but merely that, in order to remain in existence, the important and long-established U.K. zinc smelting industry must have parity of tariff treatment with Europe. I would indeed be perfectly happy if the U.K. zinc tariff were nil, provided it was also nil into the countries of the E.E.C. and other protected markets of the world.

A further development in our industry which is causing a fundamental change in the pattern of trade is what I might refer to loosely as a trend towards "do it yourself." For reasons of nationalism you are well aware that countries owning sufficient mine deposits are tending to build smelters in their own countries and usually as close as possible to the mine. This modern trend towards processing materials as close as possible to the source is in itself leading to problems for our industry. There is a positive encouragement from Governments in many countries to increase smelter capacity and compete for supplies of ore at a time when metal production is already showing a surplus. You may well feel that it is strange that I dare refer to this problem in view of the fact that the company with which I am associated has developed and is engaged in licensing a new Zinc/Lead Smelting Process throughout the world. I would merely say that I firmly believe that the trend towards local smelters and refineries is an established fact, and I am convinced that as industrialization progresses throughout the world many more countries will build these plants.

The trend towards local smelters is, of course, causing a major change in the pattern of ore supply in the world and in particular there is a current trend towards a scarcity of supplies to smelters which have been long established in certain industrial areas such as the European Common Market and the United States.

I am sure you would not wish me to omit from my speech some comments on the market outlook for lead and zinc as I see it.

There is no doubt that with the rapidly expanding economies of the emergent nations, and with the extremely valuable work which is being done through the Expanded Research Program to develop and extend new uses for lead and zinc, one can foresee a steady and appreciable increase in world consumption of both metals. In addition, the welcome improvement in the U.S. consumption figures, in line with a general upturn in the economy in your country over the last year or so, may be followed -- as it so often is -- by a similar improvement in Europe in the not too distant future. As far as zinc is concerned, provided producers exercise a certain amount of self-control in bringing any increased supplies of metal onto the market, there seems no reason why the zinc market should not maintain its recent improvement. In the case of lead I am hopeful that the more balanced statistical position which has recently become apparent will have a beneficial effect on prices.

Before I finish I hope you will allow me to ride a favorite hobby horse of mine concerning freedom of trade.

When the imposition of U.S. quotas was first discussed those opposing them pointed out the danger that world surpluses of production would be thrown upon the only free market, namely the London Metal Exchange, and thereby have a disproportionate effect on world prices outside the U.S.A. This, of course, has come about and the spread between the U.S. price and the L.M.E. price has widened very considerably, to an extent far greater than would have been caused by an increase in U.S. import tariffs. Hence the whole burden of carrying unwanted stocks has been transferred to one center of the free world's economy, leaving the greatest area of industrial consumption protected by an insurmountable barrier. This is indeed an unfortunate situation because most of the production that is suffering from this form of victimisation originates from the newly developing nations of the world. Exports from these countries play a significant part in their balance of payments and serve to increase the growth of the standard of living which is so important for the peace and prosperity of the free world.

If I were a dictator today in lead and zinc I would have no hesitation in scrapping all the duties, quotas and subsidies that are at present in existence and I confidently believe that, whereas there might be some local hardships of a limited nature, the rise in prices on the L.M.E. that would ensue would give an adequate reward to all other producers throughout the world.

If I were asked to guess at what price level equilibrium between supply and demand would be reached, I can see no reason why this should not be in the region of nine cents for lead and 11 cents for zinc. I appreciate that it is

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impossible, even by inter-governmental action, to remove all the tariffs, subsidies and quotas that are at present in operation, but if by such agreement their operation could be suspended for a period of say two years, it would not only be interesting but, I believe, most exciting to see what effect this would have on the market price of the two metals.

In conclusion I would like to stress as strongly as I can that, although I believe that the lead/zinc industry is entitled to a fair return on capital invested, we must never become greedy and seek to make an unreasonable profit. This would be quite senseless and against the long term interests of our industry because in the end it would be the customers who suffered. And if the customer once decided that he was being taken for a ride in lead and zinc he would devote all his research and energies to the use of alternative materials, which would obviously be to the ultimate disadvantage of all lead/zinc producers here today.

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