

[2009-11-16] **Metal Stockpiles – Time to Learn the Lessons of History?**

“We’re good at two things in Washington”, lobbyist, Jeff Green, a delegate to The ‘Critical and Strategic Metals’ conference on October 21st-23rd 2009 said, “Doing nothing...and over-reacting”. In fact, the conference was probably guilty of both – over-reacting by using the words ‘critical’ and ‘strategic’ in connection with the word ‘metal’ (Does no one remember the scams and scare-mongering of the 1970s?) and causing inaction with a paralysing list of apocalyptic outcomes.

But these are post-crash febrile times. As we look into almost every other abyss, why not resources? The academic lens through which to view the debate is a report published by The National Academy of Science in 2007, entitled Minerals, Critical Minerals and the U.S. Economy.

Top of the Armageddon list, was the U.S.’s perceived exposure to China’s 95% dominance of Rare Earth supply; elements such as Neodymium, ‘critical’ to permanent magnets made up of NdBF_e and used un-substitutably in fighter planes to avert demagnetization by the enemy. Certainly, Jeff Green didn’t like the idea of being dependent on China for this, as he went on to say that ‘China’s recent quota restrictions and export taxes amounted to “a declaration of war on the U.S.”’ Not much in line with the diplomatic message being peddled by President Obama in Beijing in the last few days.

Another tricky idea that was sprinkled round the conference was that the U.S. and the West in general was being held to ransom by ‘foreign’ sources of critical raw materials. The list of elements involved includes Niobium, Lithium, Titanium, Platinum and Palladium and industries exposed include automotive, electronics, aerospace, – in fact most. Whether paranoia and xenophobia are a valid driver of U.S. policy does not appear up for question – it is already fact in the corridors of impotence. If the U.S. was your childhood friend you’d just take him gently aside.

Identification of the problem is one thing, action another. In both cases I beg to differ.

China knows that it is as a result of Western expediency and ‘holier than thou’ environmental legislation that heavy industry has been exported to the hungry in Asia, denuding our own economies of both jobs and skills. Can it be a surprise then that Asia now wishes to control not only the added value but the raw materials that lie behind the products? China doesn’t want to supply rare earths to build a Prius or Volt car battery, she wants to build and market the vehicle.

This is the outline of the problem. China’s actions are not a declaration of resource war; and the answer is not re-building metal stockpiles with tax-payers money and disrupting markets (egged on by lobby groups who could well stand to benefit from collective bureaucratic paranoia).

Self-sufficiency in raw materials for any country, no matter the size, is not a realistic goal. The USSR tried it for 70 years and beggared itself in the process. Stocked by 1990 with nothing but obsolete weapons and metal predicated on the need to fight the 3rd World War, it caved in under the dead weight of its stockpiles. The U.S. pursued the same policy but with less deadly effect – by 1972 the General Services Administration of the U.S. had acquired so much Tin – 250,000 mt – that it owned more than the entire world supply for one year. The U.S. Government then spent the next thirty years trying to get rid of it without disrupting the market and then diverted the proceeds to pay for military salaries and pensions. And all because Congress was fed the line that the Korean War might have led to the communist overthrow of the Tin producing countries of Indonesia, Thailand and Malaysia.

Metal history tells us that, even if this had happened, this would not have been apocalypse now. The way out is actually provided by the beating heart of the once greatest trading nation on earth - trade. It is through trade alone that countries rectify the imbalances that all nations have and from which no nation is immune. As Benjamin Franklin, in his Thoughts on Commercial Subjects, declared, ‘No

nation was ever ruined by trade'. If Soviet Russia did not have Titanium it bought it from Australia. If China did not have Nickel it bought it from Russia. If the U.S. did not have Tin it bought it.

Metal merchants, like me, shed no tears about the results of this national tom-foolery. In fact, when in 1991 the Soviet dream came to an end, we gladly assisted the new Russians in their mission to chop up all their metal and send it overseas to buy bread. The metals didn't just come in the form of shiny ingots either, but in T50 tanks, Komsomolets class submarine casings of the best quality 6/4 Titanium, bathoscopes, MIG fighter wings and Vodka distilleries, as well as mint tungsten and molybdenum sintered bars complete with Gost (State standard) certificates with dates in the 1980s. It was the peace dividend delivered in metal. The submarine grade titanium ended up in Sheffield melted into Ferro Titanium, and their atoms are now in knives and forks all over the UK. Think about that next time you sit down to eat.

The trouble with the policy-making of paranoia is that it does not lead to rational policy. Why, for example, does the US charge a tariff of 5 % upon the import of Neodymium when the metal has been identified as 'critical' and when there is no industry to protect? Secondly, why does the DLA persist in selling cobalt when, by one estimate, the projected demand for Lithium-Ion powered car batteries could raise world cobalt demand from 60,000mt to 90,000mt by 2030.

The truth and conclusion is that governments are not best placed to manage resources but rather to concentrate on encouraging a framework in which free trade may seed itself, persist and bear fruit. It behoves governments not to obsess with the details of resource economics but to act on its principles. Lower trade barriers and encourage interchange with all nations on fair and equal bases. Indeed, China does regard its rare earths as 'national treasure', but is that so bad a thing? It means at least that these resources will be conserved and managed and therein lies the bargaining chip to reach a deal in which the U.S. trades some other element in which China is deficient. I must say that I can think of many candidates in which the U.S. is even predominant. Take just copper and aluminium. But when China wanted to buy into RTZ when the company needed funding suddenly a Chinese owned U.S. dollar wasn't as attractive as one from the market. You just can't have it all ways.

But there is hope. And the conference was perhaps the place where this hope, based on open debate and discussion was born. It is that the lessons of the past can be learnt. As the American philosopher, George Santayana, said "Those who do not study the past are condemned to repeat it". Instead of repeating the genuflection of stockpiling, the answer lies in a different area completely. We live in a globalised world in which one of the greatest forces for good was actively created by the invention of the U.S. mind – the internet – which daily brings the price of cocoa, copper, sugar and tin, alike to an African, Chinese or Indian village as much as to a Wall St financier.

The US needs to have confidence in the free trade that it espouses. As a metal merchant we see and know that a temporary shortage is a gift. It shines a beam of light onto an issue that no amount of policy-making can achieve. As great as the shortage, so the beam of light, expressed through price, shines its beam. As it remains trained on it, miners start mining, scrap dealers start looking in their stock to see if it is in their yard, users start thrifting, rationing, husbanding and substituting. Investments are made, intelligence gathered. In this way metals are brought to the market – and no amount of belly-aching about resource wars will do a better job at it either.

Eventually, in much less time than it takes to recoup the fruits of paranoia, supply is brought to the market and the world moves on. This is called Lipmann's Law, 'Light = Efficiency'. When it comes to raw material supply, it works 100% of the time ... or you can have your money back.

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16.11.09