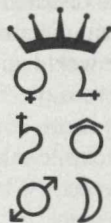




Simon D. Strauss

TROUBLE in the THIRD KINGDOM



Trouble in the Third Kingdom: the Minerals Industry in Transition by Simon D Strauss. Mining Journal Books Limited (London) 1986. 227 pp.

In this clear and informative book Simon Strauss discusses the third of those kingdoms which encompass all objects in the old guessing game 'Animal, Vegetable, Mineral'. The post-war years brought prosperity to the minerals industry, the Third Kingdom, but now that Kingdom is in trouble. Drawing on almost sixty years experience of the industry, the author endeavours to analyse the root causes of the changed outlook for minerals, a subject which he rightly claims is at once complex, fascinating and baffling.

Strauss takes as his starting point the *Report of the United States' President's Materials Policy Commission*, better known as the *Paley Report*, of 1951. This was a timely and comprehensive work, based on eighteen months of study. It dealt with all major industrial commodities, excepting food. Its analysis projected supply and demand for

market economy nations for the subsequent twenty years to 1975. The Report concluded that the United States, deemed the 'Free World's Biggest Materials Consumer', faced an ominous situation of rapidly depleting finite resources. Time, like the minerals, was running out. The conclusions of the Paley Report were sombre. They were also wrong.

By 1973 and the OPEC oil shock, world consumption of minerals was at least double the amount the Paley Report had forecast for 1975. In the case of aluminium where the Report estimated a 332 per cent growth, actual aluminium consumption in 1973 was 852 per cent greater than in 1950. The role of the United States changed. Consumption there lagged behind other market-economy countries due to changing patterns of trade and substitution. But everywhere else consumption forged ahead. Growth was often erratic since demand for raw materials is highly sensitive to the business cycle but nonetheless it did dramatically occur. To meet this growing demand, existing reserves were recalculated; new sources of supply were discovered; changing technology made for more efficient production. The woeful predictions of the Paley Report, like those of the Club of Rome in 1972, were not fulfilled. Explanation of why the Report miscalculated and how things turned out forms much of the book.

In providing this explanation, however, author also manages to give an excellent basic introduction to the world of minerals. He begins by looking at availability and the changing geography of mineral production. After giving broad examples — the Bingham Pit in Utah, USA, the growth of Australia, the resources lying under the oceans — each major mineral is examined in turn. This examination contrasts output by country in 1950 with 1985 and shows how dramatically the mineral producing world has changed. In bauxite, for example, four countries — Surinam, Guy-

ana, the USA and France — accounted for 81 per cent of world production in 1950. By 1985 none of these was a significant producer. They had been replaced by Australia, Guinea, Brazil and Jamaica. These countries together accounted for 76 per cent of world bauxite production in 1985, 41 per cent of which came from Australia.

The review of supply is followed by chapters on Money, Pricing and Trading minerals. The risks of mining investment are delineated, both during the period when governments in developing countries largely took control of national mining industries, and more recently when governments and transnational mining corporations (TNCs) have moved towards accommodation. The skill of the London based mining houses, and of the South African Anglo-American in achieving a *modus vivendi* with host governments is commented on, as is the aggressive buying policy of Japanese companies. However, the author does not go from there to contrast possible lack of skill amongst US base-metal companies. Instead he tactfully notes that in the past these had maintained hegemony in Latin America and that many had now been taken over by oil majors. The retreat of the oilmen, having come a cropper in metals, presumably occurred after Mr Strauss had completed his text.

The variety and complexity of the various forms of pricing minerals are discussed clearly and simply. The role played by oligopolies in producer pricing; the importance of independent arbiters such as the London based *Metal Bulletin* or the silver refiners *Handy and Harman* of New York; the growth of contract sales arising from direct negotiations between metals producer and consumer; are all straightforwardly presented. Commodity Exchanges fare less well, "In the minds of the lay public" says the author "a reference to prices inevitably conjures up the prices quoted on the commodity exchanges", which puts COMEX and the LME in

their place. Nor, being a mining man, does the author seem to care much for speculating traders and brokers although he is too polite to say so outright. He indicates the 'magnitude of speculative operations' by examining figures for trading copper, gold and silver on COMEX, where copper contracts in 1984 were the equivalent of more than three times the world consumption of the metal. The Hunt brothers attempt at a silver corner in 1979 is also examined, although the, equally unsuccessful, 1982 attempt on tin on the LME is not.

This is surprising, since Mr Strauss moves logically from discussing the free market in metals to discussing attempts at price stabilization. Citing the example of Zairean cobalt he notes that 'sustained volatility exacerbates the normal problems of producing and consuming industries'. He discusses the reasons for the failure of CIPEC members to agree a price stabilization formula for copper; points to the private sector cartel De Beers runs in diamonds through the *Central Selling Organization (CSO)*; and then traces the fall of the *International Tin Council (ITC)*. The 1982 corner played an important part in that fall, it served to hike prices and then when it failed the ITC Buffer Stock Manager had to support buy, thus in effect picking up the tab. This omission apart, however, Mr Strauss gives an accurate enough picture of the ending of the world's longest running commodity agreement. Unlike some, he refuses to blame the BSM, stating, rightly, that mismanagement is an ever present risk that could occur 'in any arrangement no matter how tightly drawn': instead he suggests that maintaining artificially high prices was the fundamental defect of the ITC.

The Paley Report ignored the centrally planned economies, as much for lack of data as for ideological reasons. Mr Strauss acknowledges that data sources have not improved much since then, but makes some well attributed guess-

imates as to production and potential of these countries. He looks at the Soviet Union, which he terms 'a giant miner', discusses the vast resources and the range of metals imported and exported and the links with markets and market economies when it comes to gold, diamonds and such strategic minerals as chromite, manganese and the platinum group. He also provides an assessment of Soviet minerals strategy at home and abroad. The Peoples' Republic of China is subject to the same dispassionate scrutiny with the conclusion that the Chinese goal of minerals self-sufficiency will take time and sacrifice to achieve, mainly because of lack of capacity. The mineral producers of the other centrally planned economies are each given a thumbnail sketch. As a group these are well endowed with bauxite, chromite, copper, lead, nickel and zinc. All are far short of minerals self sufficiency. These countries look primarily to the Soviet Union for their import needs, but, Mr Strauss emphasises, the world minerals trade is very far from being divided into two watertight camps even though trade between the two segments is far less than trade within each one.

Trouble in the Third Kingdom looks also at non-metallic minerals, an often ignored group. In the turbulent economic environment since 1973 these have outperformed metallic minerals both in volume of production and in the ability to offset inflation through compensating price changes. Of the metals only tin, with a price rise of 161.8 per cent between 1973 and 1985, outpaced inflation, a gain that was subsequently wiped out with the ITC collapse. Mr Strauss gives capsule descriptions of twelve non-metallic minerals to provide an overview of the significant trends in their development. If he is right then barite, flourspar, potash, sulphur and the other eight non-metallics are the minerals to follow. They, he suggests, will be unlikely to experience widely fluctuating prices in times of economic adversity nor experience the problems

of major market loss through substitution.

The only criticism to be levelled at this admirable and lucid book, is that perhaps it is just a bit *too* objective. Despite a chapter on 'Minerals and National Security' the author can be said to duck the geopolitics that are part and parcel of metals mining, trading and existence. The dropping of French paratroopers into Kinshasha, Zaire in 1977, for example, following an uprising in Shaba province and a soaring price for cobalt, is mentioned simply as 'order was restored'. Similarly the USA stockpile is discussed, although as Mr Strauss reminds us, everybody is stockpiling these days, but no mention is made of the more contentious issue of how US stockpile sales may have affected the tin market. With his knowledge and experience of the minerals industry the author must surely feel strongly on some issues? What a pity he did not throw caution to the winds and discuss these with passion. Yet perhaps his very experience debars such an approach. For as he states in his conclusion, "Realities are seldom clearly divided between black and white. In most cases one has to select between various shades of grey". For all that, *Trouble in the Third Kingdom* remains a most useful book.

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Books received:

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H Lechner, C W Sames, F W Wellmer, *Mineralische Rohstoffe im Wandel*, Verlag Glückauf GmbH, Essen 1987.

Helmut Wilsdorf, *Kulturgeschichte des Bergbaus, Ein illustrierte Streifzug durch Zeiten und Kontinente*, Verlag Glückauf GmbH, Essen 1987.