Click here for Full Issue of EIR Volume 4, Number 10, March 8, 1977

Stockpiling — Waiting For War

RAW MATERIALS

The present glut of raw materials stockpiled by U.S. industry, particularly those of strategic value, such as copper, manganese, and chromium, has created a situation where metals industry insiders and their bankers are privately mooting regional wars in Africa or Latin America as the only way to restore some semblance of market equilibrium. While the recently released "Report of the National Commission on Supplies and Shortages" calls for the establishment of more stockpiles for precisely this reason, the situation has actually been brewing since 1974.

Faced with falling real demand as a result of the world industrial downturn and rampant international inflation, bankers and the industry have since 1974 been urging U.S. industry to build up their stocks of primary raw materials, using the threat of possible wars and hedging against further inflation as their rationale. This policy kept some demand up despite declining usage, enabling such Third World producers as Zambia and Chile to maintain a semblance of their debt repayment schedules to New York. But now the glut of stocks is so severe, that regional wars are seen in Wall Street circles as the only way to revive collapsed demand and prices.

During 1976, U.S. imports of copper rose to 520,000 tons from 324,000 tons in 1975, while exports were decreasing from 234,000 tons to 170,000 tons. Part of this increase in imports was an unusual shipment from Zambia during the first ten months. Domestic production increased 14 percent to 1.61 million tons.

While consumption also rose somewhat, it in no way equaled the increase in imports and domestic production. As a result stocks soared. Stocks at Commodity Exchange, Inc., warehouses rose from 100,000 tons at the end of 1975 to 193,000 tons as of Dec. 10, 1976, while American Bureau of Metal Statistics figures reveal that inventories at domestic refineries are 260,000 tons, just a shade below the record figure of 272,800 tons reached during 1975. Total world stocks are estimated at 2 million tons.

Copper prices, which reached an all-time high on the London Metal Exchange of 152 cents per pound in April, 1974, began 1976 at 56 cents, and, although they reached 76 cents in July, fell back to 56 cents by November. While the present price is in the 65 to 70 cent range it is still substantially below the estimated minimum price of $1.00 per lb. needed to justify new investments, except in underdeveloped countries, where the exploitation of labor and the necessity of foreign exchange (i.e. debt payments to Chase Manhattan) have made it possible.

At present there are only two ways of alleviating the situation. One is war, being mooted for southern Africa and also South America (Chile is the second largest producer in the world behind the U.S. and Peru is also a large producer). Of lesser value, as it would have to last a minimum of three months to begin to be effective, is a copper strike. This, in fact, is now being pushed by the industry. According to John R. Bogert, vice president of Paine Weber Jackson and Curtis, copperworkers have been told by United Steel Workers of America officials to "prepare for a long strike." Copper producers are also offering customers the option of pre-shipments before the expiration of labor contracts, most of which expire on July 1.

The glut in U.S. manganese ore and ferro manganese stocks is even worse than that of copper, extending from consumers clear back to the mines. In fact all available storage space is filled at or near capacity. Still, and in spite of the fact that the main user of manganese, the steel industry, has been in a period of collapse since late 1974, shipments of this material continue to arrive here. While the U.S. published price has been reduced from $440.00 per ton to $425.00, foreign material, especially from southern Africa can be purchased at prices up to $100.00 per ton below the U.S. price. This is an obvious attempt by South Africa and Rhodesia to export as much material as possible before the outbreak of violence, as laid out in the NCSS report.

The conditions of the U.S. chromium market are similar to that of manganese. Perhaps the best indicator of this is the lack of U.S. opposition to the repeal of the Byrd Amendment, which for the last few years has allowed the U.S. to import chromium ore and ferrochrome from Rhodesia despite the United Nations embargo against that country. The looting operation of the past two years, in which total U.S. imports of ferrochrome rose to 270,000 tons from 150,000 tons in 1972 and from 42,000 tons in 1970, and the increase of consumer stocks from 573,000 tons in 1974 to approximately 950,000 tons at present, has made the Byrd Amendment unnecessary. Also, U.S. government stockpiles are estimated at 3.82 million tons. As with manganese, the major consumer of chromium, the stainless steel industry, has been hard hit by the decline in capital spending, greatly reducing consumption of the metal. At present depressed levels of consumption, stockpiles are sufficient to last a minimum of two to three years.