

MOLYBDENUM DEMAND AND QUARTZ HILL

By Brit Harvey

US. Borax's Quartz Hill molybdenum mining project is the largest non-oil mine planned in the state. It has drawn much interest, particularly from those wishing to diversify Ketchikan's currently struggling local economy. It is possible, however, that this project's contribution to Ketchikan area employment will be delayed substantially.

U.S. Borax and Chemical is a 100% owned subsidiary of Rio Tinto-Zinc, a large multinational mining corporation with headquarters in London^{1/} and extensive operations in Southern Africa. While Borax is a relatively small corporation with only \$400 million in revenues (estimate) and \$374 million in assets,^{2/} Rio Tinto-Zinc is the world's 119th largest non-U.S. corporation, with revenues of \$6.1 billion and assets of \$9.0 billion.^{3/} Considering that estimated front-end costs of the Quartz Hill mine will far exceed one billion in as-spent dollars, it is clear that Rio Tinto-Zinc's financial muscle is behind the Quartz Hill project.

The primary question concerning Quartz Hill is how quickly it will be developed. While a legal challenge by the Southeast Alaska Conservation Council is receiving media coverage, a more important factor is the world market demand for molybdenum. Molybdenum supply capacity currently exceeds demand. This is a result of depressed production by the steel industry, the dominant user of molybdenum. Molybdenum prices have dropped in response. Molybdenum now sells for about \$7.00/pound, down from as high as \$25.50/pound in 1979.

Molybdenum consumption has increased by 4-5% annually, and Borax is counting on a continuation of this long-term trend to provide demand for Quartz Hill molybdenum. This assumes that the current downturn in steel consumption is merely cyclical variation around the secular trend. It is possible, and perhaps probable, that the current downturn in steel con-

1, 2/ *Forbes*; July 5, 1982, page 120.

3/ *Forbes*; July 5, 1982, page 131.

sumption is a structural rather than cyclical decline. *BusinessWeek* cites sources forecasting a 1.0-1.5% growth in U.S. steel consumption through this decade.^{4/} Another major mining company, viewing the outlook for molybdenum demand, recently abandoned plans to develop a mine. Borax also announced in July that it was scaling down initial planned production at Quartz Hill by one-third.

Long-term outlooks are highly conjectural, but continued weak steel consumption and low molybdenum prices would almost certainly result in further downward revisions in planned capacity and delays in mine development at Quartz Hill. U.S. Borax could conceivably conduct bulk sampling to determine the quality of their find, and then delay development until market factors support the introduction of added molybdenum capacity. It is quite possible that Ketchikan will have a long wait before Quartz Hill's economic contribution is realized.

^{4/} *BusinessWeek*; August 9, 1982, page 45.