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The World Copper Industry: Structure & Economic Analysis, R. Mikesell

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BOOK REVIEWS

THE WORLD COPPER INDUSTRY: STRUCTURE & ECONOMIC ANALYSIS

By R. MIKESELL

Baltimore: Johns Hopkins University Press. 1979. Pp. 389. \$24.00

Raymond Mikesell provides us with an all-inclusive review of current knowledge about the factors underlying the domestic and world supply and demand for copper. These markets have been researched in detail in the past several years in order to provide information to those concerned about three major policy issues: 1) whether the existence of a few large firms means that the market structure is a non-competitive one which calls for government regulation; 2) whether prices which have fluctuated widely, trebling in the 1973-74 period and subsequently falling by over 50 percent only to break again the \$1.00 per pound barrier in 1979, can or should be "stabilized through market intervention;" and 3) whether future growth, because of the substitution of plastic and aluminum and the potential for increased recycling as well as increasingly stringent pollution requirements, can be accommodated in accordance with the existing distribution of productive capacity among developed and developing nations with known and potential reserves.

Mikesell reviews the history of the industry and its associated markets, the technology of copper production, descriptive and econometric models of demand, supply and investment, and descriptions and analysis of proposals and results of government intervention in copper markets [The Intergovernmental Council of Copper Exporting Countries (CIPEC) cartel, proposals for international buffer stock and supply management, expropriation and government participation in mine ownership, and the 1977 proposed U.S. National Copper Stockpile]. The bulk of this material is drawn from secondary sources, although the author does include additional original research and updates seminal studies with more recent data. Policy questions are addressed, but the book is organized to conform with the scope of separate industry studies rather than in accord with the policy questions themselves. The result is disjointed at times; furthermore, the question of pollution regulation, an important aspect of the industry because of high sulfur concentrations in most ores, is not examined as completely as other areas.

With respect to the three major policy questions posed above, the author concludes as follows: 1) the 1973-74 copper price increase was an aberration, for otherwise copper prices have remained at the high end of a band of constant real marginal costs as had been found

for the 1920 to 1957 period by Herfindahl in his seminal study, and there is little evidence of oligopoly pricing; 2) industry practice of long term contracting at U.S. or world producer prices with relatively few exchanges taking place at spot or future London Metal Exchange or New York Commodity Exchange prices, and erratic expectations have prevented future markets from stabilizing prices. Proposals by developing countries for a cartel and for a buffer stock operation aimed at stabilizing prices and export earnings would be detrimental to foreign exchange earnings and probably would not work, and U.S. "strategic" reserves proposed by Senator Pete Domenici would not aid U.S. industry; 3) forecast copper industry growth requires an investment of approximately \$2.7 billion per year from 1977 through 2000, with one half taking place in developing countries in order for them to retain present shares. This amount of investment capital may be difficult for developing countries to raise, because of past burdensome tax policies and expropriation and take overs at below market prices. However, added requirements for pollution control may force an increased degree of smelting in developing countries.

Mikesell presents a thorough examination of the economics of the copper industry which is particularly refreshing and enlightening in its merging of descriptive material and pragmatic business decisions with the economic theory of resource exhaustion.

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