

Today's Notes:

1. A Semblance of Sanity in Washington

1. SANITY

Finally there is a semblance of sanity in Washington. Alaska's Senator Lisa Murkowski (R-Alaska) the ranking member on the Senate Energy and Natural Resources Committee recently presented a Congressional briefing on our future pending resource dependence. In her briefing, focused on clean energy, Senator Murkowski said,

“Over the long run, however, our most difficult challenge may be our most fundamental: ensuring a stable supply of the raw materials needed to manufacture clean energy technologies in the first place.”

The clean energy (note the Senator's refreshing use of “clean,” not “green”) issue provides a necessary focal point on US natural resource dependence. Till now a powerful environmental lobby has hijacked the extractive resources industries. Claiming that the Mining Law of 1872 is antiquated they are insisting, and Congress is following meekly not wanting to offend, that all domestic mining and natural resource extraction should be halted. This trend is not new; the current administration in Washington refuses to allow development of off shore oil and gas resources. The Secretary of the Interior recently issued a two year moratorium on new exploration and mining of uranium on the Arizona Strip. These are some of the highest grade uranium resources in the country. Twenty million pounds of uranium were mined on the Arizona Strip in the 1980s with no environmental impact whatsoever.

The proposed “new” Mining Law, already passed by the House, would assess an 8% gross royalty on new mines. While existing mines would receive an exemption (similar to the cap and trade bait) new resource exploration in the US would, for all intents and purposes, cease. This would occur at a time in our history when we are attempting to repair and reinvent our crumbling infrastructure. For example the proposed new electrical grid will require a wide array of minerals including copper, zinc, molybdenum, steel and, of course, rare earth elements. The fine Senator from Alaska opines,

“According to the U.S. Geological Survey, our nation's reliance on foreign minerals has “grown significantly” over the past several decades. Last year, we imported more than 50 percent of our supply of 43 different minerals and materials.”

Take one example – the old reliable red metal - copper. In 1953 the US government supported the price of copper so that the massive copper deposit at Yerington, Nevada could be developed by the Anaconda Company. This copper was used in the post war US infrastructure build out. The employment necessary to mine and process the copper was even more important. By 2008 the US imported 38% of its copper needs just as we began to consider the rebuild of the infrastructure.

Today we observe the threat of mining contract revocation in the Democratic Republic of the Congo, shootings at copper mines in Indonesia and mining strikes by workers at copper mines in Chile and elsewhere in South America.

Still, environmentalists oppose the development of US natural resources. Some experts have suggested that the US should use the natural resources of other countries to save our own for the future. I don't buy that argument. It's really quite simple. A small but vocal minority are out of touch with a new reality in the world, resource nationalism everywhere expect the US.

That new reality is that within a decade or two a billion additional humans will want all the benefits of modern lifestyle. At one level these benefits are provided by infrastructure; homes, cheap transport, roads, bridges, airports, electricity as well as potable water and adequate nutrition. All these amenities of a higher quality of life will require significant discovery and development efforts, both domestically and abroad. One only has to study the policies of the Russians, Koreans and Chinese in the developing world to foresee the resource tsunami that will, within a decade or two, envelop the world. Chinese demand for copper and oil is still very high. There may be plenty of minerals in the earth but they must be discovered and developed. In many cases this is a decade long and hugely expensive process.

Senator Murkowski points out that we import 100 % of the quartz crystal used in photovoltaic panels, indium used in LED lighting, and the rare earth metals used in batteries and permanent magnets. She notes that a single wind turbine can contain more than 1 ton of rare earth elements — in addition to more than 300 tons of steel, 5 tons of copper and 3 tons of aluminum. China is, for the first time, out producing the US in autos. The Chinese potential auto market is at least 5 times larger than that of the US.

Copper is ubiquitous. In the US in the 1970s, a 1,500 square-foot house used about 280 pounds of copper. Today, a 2,200 square-foot house uses about 450 pounds of copper. A car in the 1970s used about 35 pounds of copper. Today, 50 to 80 pounds of copper will go into one automobile. Each computer contains about 2.5 pounds of copper. There are 400 million computers in the world, 120 million in the US.

Copper is only one, albeit important, example of a critical, even strategic, metal that we must import. If we ignore our domestic extractive industries and penalize them with punitive legislation that demands unrealistic and uneconomic royalties we shall become more dependent upon other countries for our needs. There are many other metals in short supply according to the USGS including tungsten, molybdenum and manganese.

We have grown increasingly dependent on foreign oil through both Republican and Democratic administrations. Now the resource chickens are coming home to roost at the same time that the environmental lobby has hijacked Washington. Senator Murkowski notes quite rightly,

“We're left with quite a paradox. Even as many political leaders take steps to limit mining, a reliable supply of minerals has become essential to the manufacture of clean energy technologies. If allowed to continue, we will simply trade our current dependence on foreign oil for an equally devastating dependence on foreign minerals.”

“I understand that many people do not want land used for mineral extraction and a wide variety of other purposes. The truth, however, is that those views are both short-sighted and counterproductive. Our standard of living requires us to generate a significant amount of energy, and that energy must be produced somewhere. All resources carry some cost to the environment, whether in carbon content or the raw materials and physical area needed to tap their potential.”

There are two companies I can think of that fit into these new rules. I own both companies. Last week I visited Quaterra Resources’ (QMM NYSE) South West Tintic copper target south of Salt Lake City near Eureka. The company recently signed a 70/30 agreement with Freeport McMoRan for a “carry” to bankable feasibility on the copper potential of this property. Freeport will explore the property for its copper potential next year. Freeport McMoRan is the second largest copper producer in the world and the largest molybdenum producer. Quaterra also controls the Yerington, Nevada copper district. The company has a 43-101 oxide copper resource at MacArthur and an option to acquire the Yerington pit and the nearby Bear Deposit.

Revett Minerals is a second company that deserves your attention. Revett is mining the Troy mine (silver and copper) and controls the much larger Rock Creek copper and silver ore body in Montana. At present Revett has a permit for developing Rock Creek even as it is opposed by the environmental lobby. As always please perform a thorough due diligence when considering any companies mentioned.

As we move forward in this country it is important for Americans to realize that strategic resource dependence will extend beyond oil and energy fuels. Water, grains and energy commodities will all fall into the same category – and very soon. Senator Murkowski’s well placed admonitions need to be understood and acted on.

Dr. Michael Berry is the former Wheat First Professor of Investments at James Madison University and an Assistant Professor of Business Administration at The University of Virginia. He is also a former Wall Street money manager. He has spent the last 5 years developing the discipline of Discovery Investing. Dr. Berry believes that the coming resource constraints in the world, stimulated by a rising Quality of Life Cycle in the emerging world, will require significant discovery efforts in many different areas including natural resources, bio tech, high tech and infrastructure development. He publishes Morning Notes by Michael Berry. These are complementary and may be accessed at:

www.DiscoveryInvesting.com