

Canada's Strategic Resources Policy Briefing

A new era for commodity markets

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As the long-running bull market in commodities continues to rage, perceptions of resource scarcity and concerns over the future control of these assets have emerged.

Of course, this story has played out before: the late-19th century spread of industrialization across the globe, but especially to North America, as well as the post-Second World War re-construction and re-industrialization of Europe and Japan, both gave rise to so-called commodity super-cycles. These are typified by rapid growth in commodity demand combining with tight supply conditions to produce decades-long increase in the real prices of commodities.

What sets present-day experience apart is not only the scale of the underlying demand for resources, which promises to extend the current cycle's timeframe, but also, and more importantly for present purposes, the evolving nature of ownership in the resource industry.

In the late 19th and early 20th centuries, global commodity markets were primarily serviced on the supply side by privately-held firms.

Although oftentimes enjoying considerable support—including diplomatic, financial and military aid—from their respective governments, these firms operated in an environment closer to the classic economics textbook treat-

ment of perfect competition than not.

The example of the Anglo-Persian Oil Company (the predecessor of today's British Petroleum), which was privately founded in 1908 and publicly recapitalized in 1913 in exchange for a controlling interest on the part of the UK government, was very much the exception which proved the rule.

The pattern of private ownership of resources established in this earlier period survived for the most part the combined tumult of the First World War and the fractious inter-war period.

However, the twin shocks of Second World War and decolonization affected a dramatic reorganization in the ownership of resources around the globe.

Wartime mobilization in many Western nations and the reassertion of native political power in the colonies were more often than not followed by calls for the nationalization of domestic resources.

For example, the aforementioned Anglo-Persian Oil Company slipped from British control in 1951 on a rising tide of Persian nationalism and resentment over the repatriation of resource rents abroad.

The predominant form of ownership in key resources such as coal, copper and petroleum thus evolved from private to public, but attempts at cartelization (and in some cases embargo) aside, this did not represent a generalized retreat from global commodity markets: supply was open to all takers.

Enter developments of the past 20 years and prospects for the future become less clear. Rather than the private firms of the early 20th century or the public entities of the late 20th century, it seems that the supply of commodities in general, and strategic resources in particular, may be governed more and more by creatures resembling Anglo-Persian, namely companies which are domestically operated but controlled by foreign governments.

In particular, the establishment of sovereign wealth funds and, above all, the rise of China and its host of state-owned enterprises with foreign affiliates raise new challenges for the equitable and efficient governance of the resource industry.

In this new landscape, surmising the allegiances and intentions of the backing parties is paramount. On the one hand, the continued commitment to maintaining a level playing field in terms of market access and downplaying diplomatic and/or political goals demonstrated by Norway's Petroleum Fund and Singapore's GIC and Temasek Holdings is heartening.

On the other hand, very recent developments with respect to China raise some cause for concern. The decision to first block shipments and then slash annual export quotas of rare earth minerals reflect a potentially all-too-easy willingness on the part of Beijing to allow considerations of diplomacy and industrial policy to impinge upon the working of global commodity markets.

Also, in discussions related to BHP's attempt to buy out the Potash Company of Saskatchewan and Sinochem's also-ran status, Sinochem officials made it clear that their primary objective in any potential takeover would be to monopolize Potash Corp's output for itself and, thus, deal a decisive blow to the burgeoning global market for potash by limiting outside access.

At a minimum, this suggests a few standards to which the Canadian government should hold all potential foreign investors in its strategic resources.

First, beyond the typical disclosure of financials, the full scale of a suitor's operations, ownership, and intentions should be made explicit.

Second, ensuring a commitment to open and non-discriminatory access to resources for all buyers in global markets is not only consistent with Canadian principles and institutions but also represents the provision of an important global public good.

Finally, as with any foreign venture on domestic soil, it is essential that such investments should produce demonstrable benefits for Canadian citizens on grounds of both enhancing native welfare and maintaining legitimacy in the eyes of the public.

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Capital expenditures in energy industries (millions of dollars)

	2005	2006	2007	2008	2009
Conventional oil and gas extraction	32,190.5	36,054.6	29,949.1	29,532.3	19,803.9
Non-conventional oil extraction	9,857.4	12,228.0	16,815.8	20,663.1	13,538.7
Coal mining	605.9	407.7	405.3	809.5	444.3
Uranium ore mining	x	x	x	x	x
Support activities for mining and oil and gas extraction	2,681.8	4,172.2	5,167.5	5,713.3	2,566.9
Pipeline transportation	838.5	2,001.1	2,255.0	5,417.8	4,752.3
Petroleum and coal products manufacturing	2,759.3	2,688.3	2,478.7	3,009.2	1,837.5
Petroleum product wholesaler-distributors	241.7	299.7	327.0	282.3	384.4
Gasoline stations	770.8	790.8	741.8	892.5	756.4
Natural gas distribution	1,158.2	1,380.7	1,563.1	1,527.1	1,242.0
Electric power generation, transmission and distribution	9,814.1	11,774.9	14,179.8	15,570.8	18,843.5

Sources: Natural Resources Canada; Statistics Canada.

Notes: Mineral trade includes coal. Totals may not add due to rounding.

Foreign Direct Investment Stocks (in millions of dollars)

Industry	2005	2006	2007	2008	2009
Oil and gas extraction	49,548	50,129	64,754	69,718	71,634
Mining (except oil and gas)	10,352	22,518	24,805	25,268	25,432
Support activities for mining and oil and gas extraction	4,224	5,404	5,173	7,046	7,206
Total	64,124	78,051	94,733	102,033	104,272
Wood and paper industry		2007	2008	2009	
United States		11,233	7,371	6,603	
United Kingdom		x	x	x	
Other EU countries		1,318	1,380	1,371	
Japan		756	706	636	
Other OECD countries		x	x	x	
All other countries		652	678	692	
World		15,577	12,436	11,628	
Energy and metallic minerals industry		2007	2008	2009	
United States		78,422	76,858	80,415	
United Kingdom		25,148	34,597	30,176	
Other EU countries		28,054	37,996	39,865	
Japan		1,023	1,209	1,247	
Other OECD countries		2,755	5,525	7,248	
All other countries		32,649	36,278	40,060	
World		168,052	192,463	199,011	

x = withheld for reasons of confidentiality

Source: Department of Foreign Affairs and International Trade

Value of Canadian Mineral Trade by Country, 2009 (\$000s)

Country	Total Imports	Total Exports	Total Trade	Balance of Trade
United States	30,305,780	36,615,452	66,921,233	6,309,672
EU-27	4,662,912	12,862,149	17,525,061	8,199,237
China	5,025,196	3,913,254	8,938,450	-1,111,942
Japan	979,956	2,910,054	3,890,010	1,930,098
Mexico	2,059,995	599,335	2,659,329	-1,460,660
Peru	2,438,537	18,863	2,457,400	-2,419,674
South Korea	571,482	1,884,972	2,456,454	1,313,490
Norway	90,154	1,473,526	1,563,681	1,383,372
Brazil	1,024,027	500,051	1,524,078	-523,976
India	437,267	827,500	1,264,768	390,233
Chile	943,895	165,221	1,109,116	-778,674
Taiwan	669,441	423,280	1,092,721	-246,161
Australia	10,032,048	4,814,043	14,846,091	-5,218,005
Total Canada	59,240,690	67,007,700	126,248,390	7,767,010

Value of Canadian Mineral Trade, 2009 (\$000s)

	Domestic Exports	Total Exports	Total Imports	Balance of Trade
Stage 1	19,714,503	19,890,588	6,959,352	12,931,236
Stage 2	21,873,693	22,049,792	7,740,236	14,309,556
Stage 3	12,389,174	13,155,479	15,272,430	-2,116,951
Stage 4	10,086,131	11,304,476	25,216,798	-13,912,322
Total	64,063,501	66,400,335	55,188,816	11,211,519

Sources: Natural Resources Canada; Statistics Canada.

Notes: Mineral trade includes coal. Totals may not add due to rounding.

Value of Canadian Metal Export Trade by Commodity, 2008 and 2009 (\$000s)

Commodity	2008	2009
Iron and steel	17,003,013	10,313,075
Gold	8,968,838	9,381,023
Aluminum	11,848,355	7,650,155
Miscellaneous metal products	6,289,748	4,669,160
Copper	6,585,103	4,099,917
Nickel	7,468,721	3,470,382
Iron ore	3,086,186	3,369,454
Uranium and thorium	2,037,647	1,747,656
Zinc	1,885,066	1,424,778
Silver	806,280	813,884
Lead	652,893	524,854
Vanadium	373,850	346,019
Cobalt	765,992	321,340
Molybdenum	560,138	250,962
All other metals	1,048,798	736,821
Total metal exports	69,380,629	49,119,479

Sources: Natural Resources Canada; Statistics Canada.

Notes: Totals may not add due to rounding.