CONSULTATION ON ALUMINIUM

STATEMENT BY THE CANADIAN DELEGATION

INTRODUCTION

The Canadian delegation is pleased that consultation on aluminium under Article XXII are taking place at this time. We are, of course, aware that the Six have been considering the common tariff on aluminium, and that no decision has yet been announced. We would wish to persuade the Six that it is in our mutual interest for them to adopt a zero tariff. Before considering the question of the ACT directly, I would like to examine briefly some relevant background facts.

2. Aluminium is a product of substantial importance to Canada, and Canadian export trade. For example, in 1958 exports of primary aluminium from Canada were valued at $208 million, of which approximately 10 per cent were shipped to the markets of the Six. In the first nine months of 1959, approximately 12 per cent of our aluminium exports were shipped to markets of the Six.

3. Direct exports from Canada to the Six at the present time are valued at more than $20 million annually and this trade is important both in absolute terms and as a proportion of present production and exports. We also consider it to be important for us to have real opportunities for expanding exports of aluminium to the Six in future years as the consumption of this product increases within the Common Market. We believe that other countries outside of the Six have a similar interest in maintaining non-restrictive terms of access to the EEC market.

4. In our own particular case, major investments in productive capacity have been made in Canada within the last several years, directly in response to requests coming from importing countries of the Six for a greater supply of aluminium. Productive capacity in Canada is rated at some 780,000 metric tons of metal annually, of which about 75 per cent is currently employed. There is thus a margin of some 25 per cent of this capacity available to meet any needs for extra metal which may arise in the immediate future. Thus, although world consumption of aluminium is expected to increase rapidly, there is capacity in being, or very near to completion in other countries as well as Canada, to take care of anticipated demands until about 1965 or 1966.

5. The timing of investment in new plant is a highly important consideration for the aluminium industry as a whole. With a product in which demand is expanding steadily, it is of course necessary to ensure that shortages are not allowed to develop. At the same time, the development of large blocks of capacity before there is a need for the output therefrom would lead to idleness and wasteful use of very large amounts of capital over a period, perhaps of years. The investment required per ton of basic capacity is very high for aluminium. For example, facilities for producing steel ingots from ores are estimated to cost roughly $300 per ton as compared with roughly $1,000 per ton for aluminium.

Spec(59)178
English only/Anglais seulement
6. Export trade in aluminium since the inception of GATT has been conducted in the main by countries which produce largely for export. The industries of these countries have been, and indeed are being, expanded in response to the demands from the mainly importing countries, the United States and Western Europe. The aluminium industries of important exporting countries such as Canada and Norway are themselves large purchasers of raw materials, mainly from less-developed or developing areas. A complex pattern of world trade has evolved, based on low-cost production in the exporting countries and on low-duty access to the markets of the importing countries.

7. The actual access of the bulk of the aluminium imported into the Six over the past several years has been duty-free. The Benelux tariff is zero. Germany in particular has granted duty-free quotas, for example for 40,000 tons of unalloyed aluminium in 1959 and for 55,000 tons in 1960. We understand that arrangements within France allow for importation within limits of aluminium for which the importer pays no more than world price, excluding tariff. Indeed, since France is a net exporter and an efficient producer, it is doubtful whether any imports would be made if the duty of 20 per cent had to be borne by the importer. For example, the c.i.f. price for Canadian metal shipped to France is about 50 cents per kg., and the French duty if applied would be 10 cents, a total of 60 cents, as compared with the French price for domestic metal of about 45 cents per kg. In the case of Italy, drawbacks are made on imports of metal which are re-exported in processed form. Imports of aluminium into the Six in 1958 were approximately 153,000 metric tons, consisting of both primary aluminium and alloy. Of this total, Germany imported some 68,000 tons, as compared with the German duty-free quotas of 40,000 tons of unalloyed aluminium, plus 9,500 tons of unwrought aluminium for special purposes, a total duty-free quota of 49,500 tons. Benelux imported some 50,000 tons which entered duty-free. France imported about 29,000 tons, and Italy about 6,000 tons.

8. The mainly exporting industries as a whole have had the responsibility of ensuring that adequate supplies were available to meet the needs of importers. Despite periods of shortage in the last decade, they have succeeded in this task. They have counted upon increasing consumption, particularly within the Six, and on continued freedom of access to the markets of the importing countries, to provide reasonable outlets for the capacity which has been created in response to consumer demands.

9. The Link between the AOT's and the EEC

The implications of the AOT's link with the Six for world trade in aluminium were considered in some detail when the Working Party on this product reported in August, 1958. At that time, the non-Six participants set forth their view clearly. We think it will be unnecessary to recapitulate the whole of that ground in every detail, since the report of the Working Party is available. It should suffice to review the implications of the link between the AOT's and the EEC in perspective, and also to examine in what ways our knowledge of the position has changed since the Working Party reported about sixteen months ago, to see what conclusions emerged from these new, or more fully-known circumstances.
10. Before embarking on this line of discussion, however, I would like to consider for a moment the kind of market the Six themselves will constitute as a group, or as a single entity in Europe during the 1960's. As a group at present, the Six constitute a net importer of aluminium. On balance, France has been a net exporter, but this position is more than offset by the import requirements of the other members from outside the Community. During the 1960's, as the Common Market fuses gradually into a single market, the whole EEC will take on the characteristics of a net importing country. This characteristic is expected to become particularly pronounced after 1961, and to last for a period of years thereafter, up to the mid-1960's at least. There are factors of strength in the aluminium situation in the EEC countries. The first of these is the relatively low level of per capita consumption as compared with the United States, or the United Kingdom. For example, in 1956 the United States consumed 25.6 pounds per capita, the United Kingdom 12.8 pounds, and the Common Market countries an average of 7.1 pounds per capita. The way is open for a rapid increase in consumption of aluminium in the Common Market merely by putting this metal to use for purposes which are already well-known. The second factor of strength is that there is expected to be a high rate of economic growth in the EEC, which will entail an expanding use of aluminium. For these reasons, consumption in the EEC is expected to grow steadily, and the import requirements of the Six are expected to provide a major element, probably the main element, of growth in trade between countries during the decade of the 1960's. This is a highly important factor.

11. The link between the Six and the AOT's joins a large industrial area where aluminium consumption is bound to grow rapidly, and a group of overseas countries which have the resources, in the form of large reserves of bauxite and low-cost power possibilities, to become economic producers of aluminium. In addition, plants located in the AOT's will have at their disposal the most modern and efficient techniques for producing aluminium. Together with duty-free access to the EEC market, these conditions allow for the establishment of highly efficient industries.

12. I would like to turn now to the matter of supply and demand during the 1960's. There have in the past been differences of view between the Six and the non-Six about the size of the import requirements of the EEC, particularly at the end of the decade in 1970. These differences of view arose mainly from different expert judgments about the annual increase in consumption which would occur within the EEC. The Six put the rate of increase of their consumption as high as 10 per cent per annum. The non-Six, however, assumed a growth rate of 6-7 per cent per annum. In a report published in September 1959, the staff of the World Bank assumed a rate of increase for EEC consumption of aluminium up to 1965 of 8.5 per cent per annum and an annual increase of about 9 per cent between 1965 and 1970. Thus, an independent source has taken an intermediate figure which is somewhat closer to the judgment of the Six in the latter part of the decade.

13. In brief, the Six have estimated aluminium consumption in the Common Market in 1970 at 1,550,000 metric tons. The Bank's staff have estimated 1,400,000 tons, and the non-Six have estimated at 1,106,000 tons.
14. Each of the three projections goes on, of course, to subtract estimated production within the EEC from the consumption figure arrived at, in order to obtain a picture of the amount of aluminium the Six will need to import from all sources in 1970. I do not think it necessary to go through all these statistics. The Six themselves said in the working party that even if the Konkoure, Kouilou and Inga projects were realized by 1970, there would still remain a demand for imports from outside countries of from 100 to 200,000 tons. This figure compares roughly with the amount by which the demand projection of the Six exceeds the demand projection of the Bank's staff for 1970, that is 150,000 tons.

15. It is, however, also necessary to consider afresh the prospective level of supply. There are certain projects in Africa which, if pushed ahead, could be realized by 1970, on the basis of hydro-power development. Of these plans, those falling within the AOT's are as follows:

<table>
<thead>
<tr>
<th>River</th>
<th>Capacity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Konkoure River</td>
<td>150,000 metric tons</td>
</tr>
<tr>
<td>Kouilou River</td>
<td>250,000 metric tons</td>
</tr>
<tr>
<td>Inga:Congo River</td>
<td>500,000 metric tons</td>
</tr>
</tbody>
</table>

To these figures, we may add 54,000 tons for Surinam, which is expected to be in production around 1965. So far as the AOT's of Africa are concerned, technical plans for the Konkoure are complete, and those for the other two projects well advanced. Thus we know that a capacity of more than 900,000 tons is realizable within the AOT's by 1970.

16. The non-Six had estimated that the EEC would need to import 585,000 tons of aluminium from all sources, including the AOT's, in 1970. The World Bank's staff estimates this same import requirement at 830,000 tons in 1970. It may be noted that both of these estimates are well below the supply of more than 900,000 tons which the AOT's could realize by 1970.

17. It is essential, however, to take account of a new factor which has only recently come into view on the supply side, that is to say the production of aluminium from thermal power based on supplies of natural gas from the Sahara. Both our own estimates and those of the Bank's staff assumed that new production in the EEC itself would be based mainly on hydro-power. This assumption, however, is apparently no longer entirely valid. We have heard, for example, that a smelter is contemplated within the EEC, that is to say, at Mostaganem in Algeria, with a substantial capacity, possibly around 150,000 tons. Accordingly, we conclude that the estimates of the import requirements of the Six from outside the EEC proper will need to be reviewed in the light of this new factor. Productive capacity based on thermal power can be brought into being more quickly than can similar capacity based on hydro-power, which requires time for the planning and construction of dams on sites, each of which is unique in some respects. It is not only that an extra 150,000 tons or so of metal may be produced by thermal power, but the possibility is apparent that further production may be developed on the same basis. For example, it is quite possible to transport natural gas across the Mediterranean, and to set up power facilities based on gas within the European continent. In a word,
the assumption we have all made about the future level of output in the EEC, assumptions based on the availability of hydro-power, are now far from certain. The time needed to create new thermal capacity is much shorter, and this makes long-range prediction of supply within the Common Market more difficult. Estimates of production within the EEC need now to be regarded as best as minimum figures.

18. We may summarize the position with respect of supply in the AOT's and the import demand of the Six in 1970 as follows: realizable supplies in the AOT's by 1970 are more than 900,000 tons. Allowing for only 150,000 tons of thermal based production of aluminium within the Six, our own estimates of the imports required by the Six from all sources in 1970 are adjusted to 435,000 tons (i.e. the original estimate of 585,000 less 150,000). A similar adjustment would bring the Bank staff estimate of imports required by the Six to 680,000 tons. It is apparent from these figures that realizable supplies in the AOT's in 1970 greatly exceed the imports which the Six are estimated to need in that year.

19. If, in these circumstances, an EEC tariff on aluminium were established, there would be a clear incentive towards accelerating the construction of aluminium capacity within the tariff-free region. As was pointed out earlier, the Six as a group will begin the 1960s in a net importing position. If a tariff is imposed, this would eventually confer on internal suppliers a price advantage which will last until internal production is sufficient to produce keen competition within the whole region. Investors in new plants would wish to come into production early to take advantage of the market benefits which would be available behind a protective tariff.
20. Moreover, establishment of a tariff would tend to have adverse effects on
the growth of consumption within the Six during the period when prices were
relatively high. At this point, we wish to emphasize that there is no objection
on our part to the development of productive capacity as such in the AOT's.
We do, however, consider that the most appropriate and sound way to promote such
development is to phase in new production as market conditions warrant, and to
avoid tariffs which would lead to over-rapid investment, and to excess capacity
in the world industry. Creation of a market for AOT aluminium by artificial
means would damage outside countries by leading to a diversion of trade which
might even lead to exclusion of outside suppliers from EEC markets. Damage by
diversion of trade, moreover, would go beyond the traditional suppliers of the
metal, and would affect the established suppliers of aluminium and bauxite to
the mainly metal exporting countries. These established producers of bauxite
and alumina are themselves mainly less-developed countries.

21. To sum up, damage of the following nature would unquestionably ensue if
EEC tariff exceeds zero:

(a) diversion of trade in the metal, particularly in the latter part
of the 1960's;

(b) over-rapid expansion of capacity in the AOT's would mean unnecessary
duplication of productive facilities and excess capacity, and would
lead to a wasteful use of scarce capital resources;

(c) damage would spread to the established suppliers of bauxite and
alumina;

(d) other countries which could reasonably expect to share in the
creation of new capacity in due course would be hindered in their
attempts to develop industries of this kind.

22. For the reasons noted above, we consider that the appropriate tariff for
the EEC to establish on aluminium is zero. We appreciate that the Six have not
yet announced what their tariff on aluminium will be under the Rome Treaty. If
the Six do actually announce a common tariff duty applicable to aluminium, we,
for our part, may wish to re-open these consultations.

23. So far, these comments have been directed to the matter of the EEC tariff.
We also consider that non-tariff preferences of various kinds could, if employed,
divert trade and cause exactly the sort of damage which has been mentioned. In
the case of quantitative restrictions, of course, it is relevant to note that
all but one of the Six are not in balance-of-payments difficulties and that
each of the group is in a sound international position financially. This is a
situation which we may expect to continue, and to which the anticipated rise in
economic efficiency within the EEC will no doubt contribute substantially. We
would not think that the Six would have any basis for the employment of non-
tariff preferential arrangements.

24. With respect to the products of bauxite and alumina, we would think
similar conclusions would apply and that zero rate of duty would be appropriate.
Canada is not an exporter of these products, at least in considerable amounts,
but we would recall to the attention of the group that we are a considerable
importer, and that a multilateral flow of trade has been established which has
been of considerable assistance to the economic progress of less-developed
areas, particularly in the Caribbean region, where substantial investment and employment has been created in these industries, and shipping facilities have been established which are of benefit to the regional area generally.

Conclusions

25. We wish to place before the Six the view that protection by means of a common tariff on aluminium, or by non-tariff arrangements, for production of aluminium would lead in the foreseeable future to damage to the legitimate interests of other contracting parties. It is considered that other contracting parties may legitimately expect the maintenance of real opportunities for sharing in the supply of increases in consumption in the Six. If governments avoid placing obstacles in the way of expanding consumption, the growth of the European market will provide scope for considerable development in the new supplying areas, including the ACT's, on the basis of comparative cost considerations.

26. We have in the past heard opinions expressed to the effect that an EEC tariff is necessary because of the supposed danger of much lower prices for the Canadian metal. This is an argument for protection of a contingent nature which we cannot accept. We should like to point out that the capacity now unused in Canada for the time being consists of older facilities than are being employed in current production. It is natural for producers who reduce output during a recession in demand to maintain their most efficient lines in operation. The corollary to this is that when output is expanded again there is a tendency for unit costs of production to rise. The extent of the cost advantages available to Canadian producers seems to have been exaggerated at times.