

GENERAL AGREEMENT ON TARIFFS AND TRADE

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JOINT CONSULTATIONS UNDER ARTICLE XXII

Consultations with the Member States of the European Economic Community on Aluminium (Bauxite, Alumina and Metal)

Agreed Minutes Submitted by the Participating Contracting Parties

1. The consultation on aluminium under Article XXII of the General Agreement with the Member States of the European Economic Community was held in Geneva on 8 December 1959. The consultation took place at the request of the Government of Australia.
2. In addition to the Member States of the European Economic Community the following other contracting parties participated in the consultation: Australia, Austria, Canada, Ghana, Norway and the United Kingdom. Representatives of participating countries also invited a representative of Jamaica to supplement the statement which the United Kingdom delegate had made on behalf of that country. The Chair was taken by Mr. Savini (Italy).
3. The discussion took account of the Working Party's Report on Aluminium, Alumina and Bauxite (L/805/Add.11) and of various memoranda and data provided by several of the participating contracting parties.
4. In order not to burden the minutes and since the views expressed individually by the representatives of each third country were generally shared by the others, these views are recorded as the views of "representatives of participating countries other than the Six".

INTRODUCTION

5. Representatives of participating countries other than the Six explained that the consultations had been requested to enable them to present their views prior to the negotiation by the Six of the common tariffs for aluminium (bauxite, alumina, metal). They had asked for consultations in order to urge that these tariffs should be fixed at zero. These representatives went on to say that they appreciated the goodwill and spirit of co-operation in which the Six were participating in the consultations and they recognized that the Six would probably not, at the present time, be able to take a position on the views which they would put forward. They hoped, however, that the representatives of the Six would convey these views to their Ministers, so that they would be taken into account when the common tariff rates for this group of commodities were being negotiated.

6. The representative of the Six said that the Six had agreed to enter into consultations on aluminium (bauxite, alumina, metal) on the conditions laid down by the Intersessional Committee and accepted by the six governments of the Member States. He recalled that, in the letter of acceptance addressed by the Chairman of the Council of the Community to the Chairman of the CONTRACTING PARTIES, the Six stated that consultations could only deal with specific cases arising out of the application of the Treaty of Rome by one or several Member States of the Community. Although, in the present case, the existence of a specific case was hardly conceivable in view of the fact that the Member States had not even completed negotiations between themselves on the common tariff rates to be applied to the products under consideration, the Six had not opposed the request for consultations by the Australian Government. However, the Six wished to make it clear that this did not affect in any way the conditions referred to above.

7. The participating countries other than the Six indicated that the view they held of the scope of these consultations differed from the view of the Six. They made reference to the views expressed at the thirteenth session, and particularly to SR.13/19 of 2 December 1958. In the present instance, the participants other than the Six considered that these consultations provided an opportunity of urging the Six to avoid taking action which would damage outside interests.

PART I

SUMMARY OF VIEWS

Points put forward by Representatives of Participating Countries other than the Six

8. The following summarizes the relevant economic considerations presented by participating countries other than the Six:

- (a) The EEC countries will provide in their market the main source of growth for international trade in aluminium in the decade of the 1960's.
- (b) There are large projects for the production of aluminium in the AOT's and similarly placed countries, which could be realized by 1970 on a fully economic basis, so that no protection is necessary. At the same time, there are economic opportunities to expand output in the EEC countries on the basis of new sources of power from gas.
- (c) Therefore an EEC tariff on aluminium would stimulate too rapid investment in new capacity within the tariff-free area, and would lead to an excess of world productive capacity.
- (d) A tariff, by raising internal EEC prices, would have an adverse effect on the growth of consumption in the Six. The way to make room for new aluminium plants, in the AOT's and other areas as well, is to create favourable conditions for the growth of consumption.

9. Damage of the following nature would unquestionably ensue if the EEC tariff on aluminium exceeded 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 and associated countries 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;
- (e) an increase of costs for consumers in protected markets would tend to curtail consumption.

It was also pointed out that the imposition of a tariff on aluminium would mean a deterioration of the present position and thus be contrary to the avowed principles of the GATT and the Rome Treaty which both advocate freer trade. For the reasons noted above it was considered that the appropriate tariff for the EEC to establish on aluminium should be zero. Participating countries may wish to reopen these consultations if the Six actually should announce a common tariff duty applicable to aluminium.

10. With respect to bauxite and alumina, similar conclusions would apply, as in the case of a tariff on aluminium. It was noted that the common tariff on ordinary bauxite was zero and it was considered appropriate that the tariff on alumina would also be zero. Reference was made to the considerable importance of a steadily increasing export of bauxite and alumina to assist the economic progress of less-developed areas particularly in the Caribbean region, where substantial investment, employment and government finance for development had been created by these industries. These territories would find it particularly difficult to deal with a decline in their markets for these exports.

11. In conclusion, these representatives stressed that protection by means of a common tariff for aluminium would lead in the foreseeable future to damage of the legitimate interests of other contracting parties. It was pointed out that other contracting parties could legitimately expect the maintenance of real opportunities for sharing in the supply of increases in consumption in the Six. If governments avoided placing obstacles in the way of expanding consumption, the growth of the European market for this relatively new and important product would provide scope for considerable development in the new supplying areas including the AOT's and associated countries on the basis of comparative cost considerations. Further, there was the more general consideration that the imposition of duties on basic products in List G would almost certainly have a marked adverse effect on public opinion in countries outside the Community. It was also feared that the imposition of a duty on basic materials would hamper European co-operation in trade liberalisation. It was stated that this co-operation has assumed a new importance since the agreement on the EFTA.

Statement in Reply by the Representative of the Six

12. The representative of the Six stated that he had taken note of the views expressed by representatives of other participating countries. He noted, however, that no case of concrete damage had been brought forward. He stated that these views would be brought to the attention of the competent Ministers of the Member States of the Community so that they could be taken into consideration when negotiations were held in order to fix the common external tariff rates. He further added that the EEC had already given serious consideration to a number of points raised by representatives of other participating countries. He also pointed out that some Members of the EEC are applying fairly high rates of duty on these products, so that the adoption of a rate of duty equal to zero, as suggested by other participating countries, would involve a substantial concession to third countries.

13. In answer to a question on the legal status of Surinam in relation to the Rome Treaty the representative of the Six explained that it was not at present possible to give a definite answer to this question. The association of Surinam with the EEC was still under study by that Government. It was also impossible to give a definite answer at the present time to another question concerning the legal status of Guinea under the Rome Treaty.

14. The representatives of the participating countries other than the Six thanked the representatives of the Community for the goodwill which they had shown in the consultation and for the assurances that the views expressed during the consultation would be placed before their Ministers.

PART IIELABORATION OF THE POINTS PUT FORWARD BY
PARTICIPATING COUNTRIES OTHER THAN THE SIXImportance to the Economies of Participating Countries
of Aluminium Exports (Bauxite, Alumina and Metal) to the EEC

15. It was pointed out that aluminium was a product of substantial importance to several countries. In the case of Canada for example in 1958 exports of primary aluminium were valued at \$208 million of which approximately 10 per cent was shipped to the markets of the Six. In the first nine months of 1959 approximately 12 per cent of Canadian aluminium exports had been shipped to Common Market countries. Direct exports from Canada to the Six at the present time were valued at more than \$20 million annually which made this trade important both in absolute terms and as a proportion of present production and exports. It was perhaps even more significant for Canada to have real opportunities for expanding exports of aluminium to the Six in future years as the consumption of this product was bound to increase within the Common Market. Requests coming from importing countries of the Six for a greater supply of aluminium

had led to major investments in productive capacity within the last several years. Productive capacity in Canada was rated at some 780,000 metric tons of metal annually. Of this capacity about 75 per cent was currently employed. Although world consumption of aluminium was expected to increase rapidly it was noted in this context that existing capacity and projected capacity in the final stage of completion, in Canada as well as in other countries, was sufficient to take care of anticipated demands until about 1965-1966.

16. In Norway natural advantages in the production of cheap hydro-electric power combined with the possibility of producing aluminium near to efficient port facilities which were close to important markets had after the war led to a very marked expansion of the aluminium industry resulting in an increase of capacity from about 27,000 metric tons by the end of the war to about 170,000 metric tons in 1959. A further increase to a capacity of 240,000 metric tons was expected to take place over the next five years. Within a few years it was expected that aluminium exports alone would account for approximately 12 per cent of Norway's total exports. These investment and development plans had been made in the light of Norway's legitimate expectation of participating in the economic expansion within the markets of the European Continent and also on the basis of important long-term contracts for the supply of aluminium to users in one of the Member countries of the Community. The principal markets for the Norwegian aluminium industry in 1958 had been Great Britain, the United States, Germany, Sweden and the Benelux countries. Together the Member countries of the EEC were the largest importers, accounting for some 24,600 metric tons out of 110,000 tons exported by Norway, i.e. 22 per cent of total aluminium exports.

17. Austria, as one of the large producers of aluminium in Europe, also had an important interest in the unimpeded access for this product to the markets of the Member countries of the EEC. Out of the production in 1958 of about 75,000 tons of aluminium, about 42,000 tons, valued at approximately \$16 million, had been exported. Of these exports about 60 per cent had gone to Common Market countries. It was pointed out that over the past four years Austria's exports of aluminium had increased by about 50 per cent, and that the production of aluminium in the current year had increased, attaining about 87 per cent of total production in 1958 during the first nine months of 1959.

18. Several representatives indicated their interest in exporting bauxite and alumina, the raw materials for aluminium production. Australia, for example, was already developing considerable reserves of bauxite and it was expected to export alumina and aluminium within a number of years. Many of the producers of bauxite and alumina were under-developed countries which were particularly dependent upon these exports. Jamaica, for example, which in 1958 had exported 5.7 million tons of bauxite and was thus the world's leading exporter of this commodity, had until recently been almost entirely dependent for its export earnings on the export of bananas and sugar. The fortunate discovery and the development of bauxite and alumina exports had enabled that country's Government to initiate and finance a development programme which had shown some success in reversing the trend of declining per capita incomes which had previously characterized the economy of Jamaica as a result of a stagnation of conventional exports in connexion with a steady increase in population.

The success of this programme had no doubt contributed to the political stability of that country in an area of considerable political unrest. Though most of Jamaica's exports of bauxite were at present moving into the United States and those of alumina, in the following order of importance, into Canada, Norway and Sweden, there was the possibility of developing a market for alumina in the Six provided no duty were imposed. In the long run Jamaica would be interested in increasing the proportion of its exports of alumina as compared to the export of bauxite because of the additional contribution of the processing industry to national income and to the improvement in the standard of living, and also because of the very real limitations flowing from the impossibility of transporting a bulky product of relatively little intrinsic value over long distances. Moreover under a preferential arrangement for imports into the Six from the Associated Overseas Territories (AOT's) there would be a tendency for the mining companies to increase production in the preferential areas at the expense of such countries as Jamaica. While the development of new industrial projects on the African continent was warmly welcomed by other under-developed countries, it was asked that outside producers be given a fair chance to compete in the markets of the EEC.

19. In the case of British Guiana exports of bauxite also moved mainly to the United States and Canada, with little or no trade to the Six. The completion of an alumina plant was scheduled for 1961. In the case of both British Guiana and Jamaica the main concern was with the adverse indirect effects which would result from the establishment of a non-zero tariff on imports of aluminium metal by the EEC countries. This concern was particularly pronounced because both Canada and Norway imported about 80 to 85 per cent of their raw material requirements for aluminium production from Jamaica and British Guiana. Therefore any action which adversely affected the market for aluminium exports of Canada and Norway would have direct repercussions on the trade in bauxite and alumina of Jamaica and British Guiana.

20. British Guiana did, however, have a direct trade interest with the Six in the shipment of calcined bauxite, which was exported to all the metropolitan countries of the EEC except Luxemburg. This interest was confined mainly to highly calcined bauxite used for refractory purposes. During the period 1953-57 a large part (46 per cent) of the exports of British Guiana of calcined bauxite classified under EN 38.19 had been imported into France over a zero duty. While the proportion of exports from British Guiana of this commodity into France had further increased in 1958, it was likely that this trade would not suffer substantial injury, as the EEC had recently notified the United Kingdom Government that the common tariff on highly calcined bauxite classified under EN 38.19 would be 4 per cent. With regard to calcined bauxite for abrasive purposes, it was understood that this item would be classified under EN 26.01 and would accordingly attract a zero duty.

21. Reference was also made to the newly established bauxite industry of Sarawak. In 1958 approximately 100,000 long tons, valued at some £200,000, were exported and it was expected that total exports for 1959 would be in the neighbourhood of about 200,000 long tons. The deposits had proved to be larger than had originally been thought, and it was hoped that there would be a further

expansion of production, especially as the bauxite was of good quality. While at present all exports from Sarawak were directed to Formosa and Japan, it was nevertheless possible that at some future date exports to the Six would be contemplated.

22. Ghana was another country largely dependent on one export commodity: cocoa. For this reason it was important for Ghana to be able to expand its exports of such other products for which it had natural cost advantages. While the country at present exported only bauxite it was especially interested in its future prospects for the export of aluminium. Exports of bauxite from Ghana in 1958 had amounted to about 207,000 tons, valued at approximately £496,000. Ghana possessed proven ore reserves of bauxite in excess of 200 million long tons with an average total alumina content of approximately 47 per cent. In view of these reserves and in view of a substantial hydro-electric power production potential from the Volta River it had been estimated that an aluminium smelter with a capacity of 220,000 long tons per annum could be established, producing at costs comparable to those of other low-cost producing areas of the world. It was pointed out that the Government had started preliminary work on the hydro-electric project.

Estimated Import Requirements for Aluminium in
the EEC Countries in the Period 1960-1970

23. Representatives of participating countries other than the Six noted in this connexion the implications of the AOT's link with the Six for world trade in aluminium. Reference was made to the report of the Working Party (L/805/Add.11) issued in August 1958 which clearly set forth the views expressed on this subject by the governments participating in the Working Party.

24. The representatives of the participating countries other than the Six briefly analysed the market for aluminium, alumina and bauxite which was likely to evolve in the countries of the Six during the 1960's. At present the Six, as a group, were net importers of aluminium. On balance, France had been a net exporter, but this position was more than offset by the import requirements of the other members from outside the Community. During the 1960's, as the Common Market gradually was to fuse into a single market, the whole EEC would take on the characteristics of a net importing country. This condition was expected to become particularly pronounced after 1961, and to last for a period of years thereafter up to the mid-1960's at least. It was noted that there were factors of strength in the expectation of increased consumption for aluminium in the EEC countries flowing from the relatively low level of per capita consumption as compared for example with the United States or the United Kingdom. To indicate the order of magnitude, it was pointed out that in 1956, for example, aluminium consumption in the United States had amounted to 25.6 lbs. per capita, to 12.8 lbs. per capita in the United Kingdom and to an average of 7.1 lbs. per capita in the Common Market countries. The way appeared open therefore for a rapid increase in the consumption of aluminium in the Common Market countries, by merely putting this metal to use for purposes which were already well known. Another factor of strength contributing to an expansion in the use of aluminium was the outlook for a high rate of economic growth in the EEC. It could

therefore be expected that the consumption of aluminium in the EEC would grow considerably and that the import requirements of the Six for this commodity would provide a major element, probably the main element, of the growth in this trade between countries during the decade of the 1960's.

25. There appeared to be differences in the estimates of the size of projected import requirements of the EEC for aluminium which had arisen mainly from varying expert judgments about the annual increase in consumption which would occur within the EEC. In the estimate which the Six had made at the time of the Working Party the rate of increase of consumption had been estimated to be as high as 10 per cent per annum. The forecast worked out by experts of the non-Six at the same time had on the other hand assumed a rate of increase of consumption of 6 to 7 per cent per annum. An independent source, the staff of the World Bank, in a report published in September 1959, had 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 per annum between 1965 and 1975. On the basis of their estimate the Six had forecast an aluminium consumption in the Common Market of 1,550,000 metric tons in 1970. The estimates of the Bank's staff and of the non-Six participants for aluminium consumption in the EEC in 1970 were 1,400,000 and 1,106,000 metric tons respectively. From these projections the estimated production within the EEC had to be subtracted from the consumption figures arrived at above in order to determine the amount of aluminium the Six would have to import from all sources in 1970. In the Working Party report referred to above, members of the Six had pointed out that even if certain development projects in Africa (Konkoure, Kouilou and Inga projects) were realized by 1970, there would still remain a demand for imports from outside countries of 100,000 to 200,000 metric tons. It was noted by representatives of participating countries other than the Six that this figure compared roughly with the amount by which the demand projection of the Six for 1970 exceeded the demand projection of the staff of the World Bank for the same year, namely by 150,000 tons.

26. In a re-examination of the supply and demand situation, account was taken of the links between the Six, the AOT's and other associated countries, which joined a large industrial area, where aluminium consumption was bound to grow rapidly, with a group of overseas areas having resources in the form of large reserves of bauxite and low-cost power possibilities to become economic producers of aluminium. It was also noted that plants located in the AOT's would have at their disposal the most modern and efficient techniques for producing aluminium which, together with the duty-free access to the EEC market, would favour the establishment of highly efficient industries. It was recognized that if pushed ahead certain hydro-power developments in Africa could be completed by 1970. Of these projects those falling within the AOT's or within countries which were likely to be accorded equivalent treatment, included the Konkoure River Project with a planned capacity of 150,000 metric tons per annum, the Kouilou River Project with a planned capacity of 250,000 metric tons per annum and the Inga River Project with an envisaged annual capacity of 500,000 metric tons. It was also expected that a plant which was scheduled to start operation in Surinam

by 1965 would produce another 54,000 metric tons of aluminium. Surinam had very large high-grade bauxite reserves of about 50 million tons and potential low-cost hydro-electric power possibilities. So far as the projects in Africa were concerned technical plans for the Konkoure Project were complete and those for the other two projects were also well advanced. Thus, it was known that a capacity of more than 900,000 metric tons was realizable by 1970. Representatives of the participating countries other than the Six particularly noted that their own estimate of import requirements of the EEC in 1970 from all sources including the AOT's and associated countries of 585,000 metric tons, as well as the estimates of the staff of the World Bank of 830,000 metric tons for the same import requirements, were well below the supply of more than 900,000 tons which could be realized by 1970 from the above-mentioned projects.

27. There was, however, still another factor which had only recently come into view on the supply side, namely the additional production of aluminium for the thermal power based on supplies of natural gas from the Sahara. The previous estimates which have been referred to above assumed that new production in the EEC itself would be based mainly on hydro-power. However, this assumption was apparently no longer entirely valid. It had been learnt, for example, that an aluminium smelter with a substantial capacity, possibly around 150,000 metric tons, was contemplated within the EEC at Mostaganem in Algeria. The important point in this development was not merely that an extra 150,000 tons of metal might be produced by thermal power, but the possibility existed for further increases of production on the same basis. For example, it was quite possible to transport natural gas across the Mediterranean and to set up power facilities based on natural gas within the European continent. Therefore, the assumptions which had been made about the future level of output in the EEC, assumptions based on the availabilities of hydro-power, were now far from certain. It was pointed out that productive capacity based on thermal power could be brought into being more quickly than could similar capacity based on hydro-power, which required time for the planning and construction of dams on sites each of which was unique in some respect. This development made the long-range prediction of supply within the Common Market more difficult, with the result that estimates of production within the EEC had now to be regarded at best as minimum figures. It also seemed necessary therefore that the estimates of the import requirements of the Six from outside the EEC proper should be reviewed in the light of this new factor. Allowing for only 150,000 tons of new thermal-based production of aluminium within the Six, the estimates by the non-Six participants of the import requirements of the EEC from all sources by 1970 had to be adjusted downward to 435,000 tons (i.e. the original estimate of 585,000 tons, less 150,000 tons). A similar adjustment of the estimate by the staff of the World Bank, of imports required by the Six in 1970, would bring this figure to 680,000 tons. These figures clearly indicated that realizable supplies in the AOT's and associated countries in 1970 greatly exceeded the estimated import requirements of the Six.

Arguments in Favour of a Zero Tariff

28. Representatives pointed out that the imposition of a new common tariff on aluminium by the EEC would be a clear incentive towards an acceleration of the construction of aluminium capacity within the AOT's and other associated countries. Such a tariff would confer on internal suppliers a price advantage which would last until internal production was sufficient to produce keen competition within the whole region. It had to be expected that investors in new plants would wish to bring those plants into early production to take advantage of the market benefits which would be available behind a protective tariff. In view of the situation referred to above the over-rapid expansion of productive capacity in the AOT's would probably mean surplus world capacity with a consequent threat to the long-term structure of prices and the danger of a wasteful use of scarce capital resources. It was pointed out that in the case of aluminium such a waste resulting from idle plant capacity would be especially great because of the high level of

required investment outlay per ton of basic capacity. For example, facilities for producing steel ingots from ores were estimated to cost roughly \$300 per ton as compared with approximately \$1,000 per ton for aluminium. These representatives stated that the discussions had made it clear that there was no world shortage of bauxite. Despite the expected rapid increase in aluminium consumption there was sufficient productive capacity in being, or very near completion, to satisfy the anticipated demand for this product for at least another five years. It was emphasized that these representatives did not object to the development of productive capacity as such in the AOT's and similarly placed countries. It was thought, however, that the most appropriate and sound way to promote such development was to phase in new production as market conditions warranted and to avoid tariffs which would lead to over-rapid investment and to excess capacity in the world industry.

29. Representatives of participating countries other than the Six also pointed out that the actual access of the bulk of the aluminium imported into the Six over the past several years had been duty free. The Benelux tariff was zero. Germany in particular had granted duty-free quotas, for example for 40,000 metric tons of unalloyed aluminium in 1959 and for 56,000 tons in 1960. Arrangements within France had, within limits, allowed for the importation of aluminium for which the importer paid no more than world price, excluding tariff. Since France was a net exporter and an efficient producer it was 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 aluminium shipped to France was 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 were granted on imports of metal which was re-exported in processed form. Imports of aluminium into the Six in 1958 had amounted to approximately 153,000 metric tons, consisting of both primary aluminium and alloy. Of this total Germany had 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, or a total duty-free quota of 49,500 tons. The Benelux countries had imported some 50,000 tons which had entered duty-free and France and Italy had imported 29,000 tons and 6,000 tons respectively. It was noted, moreover, in this context that productive capacity in outside countries had been expanded specifically for the purpose of supplying the needs of the importing countries of the Six in order to avoid shortages as demand expanded.

30. These representatives also pointed to the adverse effects which the establishment of a tariff would tend to have on the growth of consumption within the Six during the period when prices were relatively high. Also the 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 the 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 alumina and bauxite to the mainly metal exporting countries. For example, it had been shown that the aluminium industries of important exporting countries such as Canada and Norway were themselves large purchasers of raw materials, mainly from less-developed or developing areas.