

GENERAL AGREEMENT ON
TARIFFS AND TRADE

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PROBLEMS OF TRADE IN CERTAIN NATURAL RESOURCE PRODUCTS
NON-FERROUS METALS AND MINERALS
BACKGROUND STUDY ON ALUMINIUM AND ALUMINIUM PRODUCTS
REMARKS ON MDF/W/61 SUBMITTED BY JAMAICA

Addendum

Re: GATT Working Paper on the Bauxite/Alumina/aluminium Industry

The aim of the paper it appears is to reproduce general information on the processing and economics of the industry. To this end a fair amount of essentially correct, but not necessarily new, data have been generated. However, the adoption of a global approach to the study has resulted, inevitably, in the inadequate treatment of particular issues. The attention given to the energy question as well as the shift in the global location of production is quite weak. Too much effort is devoted to general description; grounds already adequately covered in World Bank and U.N. studies. Notwithstanding, the paper should be of some use to people not au fait with the industry.

As far as the Caribbean is concerned the document attributes the fall in production almost exclusively to the introduction of the bauxite levy in 1974 (paragraphs 31 and 56). This is surprising, given the summary of major structural changes affecting the industry identified in paragraph 27. Why should the Caribbean be immune to these changes?

While we do not deny the fact that the levy did increase production costs, its impact has been highly overstated. Indeed, the general consensus is that the levy contributed less than two US cents to the cost of a pound of aluminium ingot. Further, this contribution has been falling steadily since 1974.

No single factor can be held responsible for the problems of Caribbean producers in general and Jamaica in particular. Apart from the levy we have identified some seven issues that need to be fully examined before arriving at conclusions about policies. These include:

- (1) the slowdown in the world economy since the 1970s (two major recessions in 1975 and 1982) with OECD growth rates averaging 5.05% in the period 1964-73 versus 2.1% over 1974-83;
- (2) lower annual growth rates for aluminium production -
1960-69 - +8.5%; 1970-79 - +4.5%; 1980-85 -
+0.8%;

- (3) energy availability and cost;
- (4) the decline of North America as a major aluminium producer - especially the Gulf Coast region which was the only market for Jamaican bauxite between 1952 and 1984. U.S. alumina capacity has fallen from 7,066 thousand tonnes in 1980 to 5,410 thousand tonnes in 1986, while aluminium capacity has fallen from 4,623 thousand to 4,119 thousand tonnes over the same period;
- (5) take-and/or-pay contracts and consortia arrangements - analysing the rapid growth in bauxite exports from Guinea and Brazil while ignoring these factors is at best superficial;
- (6) surplus of bauxite and alumina capacity which is likely to last into the 1990s;
- (7) the weakened financial position of some of the major companies operating in Jamaica. ARCO has taken the decision to leave the industry altogether while Alcoa, Reynolds and Kaiser are reducing their involvement significantly.

If one accepts the GATT analysis then the solution to Jamaica's problem would be to simply reduce the levy. This is precisely what was done in 1979 and 1984 backed-up by sharp devaluations of the Jamaican dollar. However, output has continued its downward trend. This suggests that our problem has more to do with our lack of indigenous energy resources; the narrowness of our market base and the inefficient energy technology presently utilized in most of our alumina plants.