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Non-Ferrous Metals and Minerals
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MINUTES ON THE MEETING OF THE WORKING PARTY
ON TRADE IN CERTAIN NATURAL RESOURCE PRODUCTS
NON-FERROUS METALS AND MINERALS
HELD ON 24 APRIL 1986

Prepared by the Secretariat

1. The Working Party on Trade in Certain Natural Resource Products met on 26 April 1986 under the Chairmanship of Mr. M. Cartland (Hong Kong) to discuss factors affecting trade in aluminium and its products.
2. The Chairman recalled the terms of reference of the Working Party and the work which the Working Party had undertaken so far in the area of non-ferrous metals and minerals and noted that the progress reports on the Working Party's activities were submitted to the Fortieth and Forty-First Sessions of the CONTRACTING PARTIES in November 1984 and 1985, respectively. He said that after the examination of lead, zinc, copper, tin and nickel, the Working Party would now turn to an examination of problems affecting trade in aluminium and aluminium products. After the discussion on aluminium he proposed that the Working Party consider the preparation of its final report.
3. The Chairman said that factual background documentation on aluminium and aluminium products prepared by the secretariat and circulated as MDF/W/61 and Addendum 1 would form the basis of the discussion. He invited delegations to start with general observations relating to aluminium and to follow with a section-by-section examination based on the secretariat background study. He added that in view of the late circulation of the study, delegations, who needed more time to examine the study could revert to it at the next meeting of the Working Party scheduled for 16 May 1986. He requested delegations to transmit to the secretariat any technical comments or corrections on the study. He reminded delegations that the study was strictly the responsibility of the secretariat, and any comments or corrections would be published in an addendum or corrigendum. In this regard he suggested that the secretariat prepares minutes of the discussion to enable delegations to have clearly on record all views expressed, including remarks and corrections concerning the background study.

General observations

4. Most of the representatives commented that the secretariat's background study was of a very high and professional quality, and that it fully covered all aspects of aluminium, namely production, consumption, trade flows and patterns of trade as well as tariff and non-tariff measures affecting trade. Some delegations welcomed the opportunity of reverting to the aluminium study at the next meeting of the Working Party in May after having more time to examine it. A number of representatives regretted that no more studies on metals were envisaged and noted that there were other non-ferrous metals affected by tariff and non-tariff barriers which needed attention.

5. The representative of New Zealand agreed that the study was of a high quality but felt that perhaps it should have highlighted more the turbulent period through which the aluminium industry had passed in recent years. He remarked that at one point in 1985 primary metal prices fell in real terms to their lowest level in history. One of the factors behind this fall was the decline in demand. He explained that the advent of the lightweight aluminium beer can led to lower consumption of aluminium. He stressed the importance of the aluminium industry for his country. Though it was relatively of recent origin it had become a major industry of New Zealand, and the Tiwai Point smelter was the eighth largest smelter in the world and the largest industrial consumer of electricity in the country. He said that Showa Denko K.K. of Japan was no longer a part owner of New Zealand Aluminium Smelters Ltd. as mentioned in paragraph 125 of the study. Since the beginning of 1986, New Zealand Aluminium Smelters Ltd. was owned 80 per cent by Comalco of Australia with the remaining 20 per cent going to Sumitomo Aluminium Smelting Company of Japan. The representative of New Zealand added that the construction of another smelter planned at Aramoana, mentioned in the study, had been abandoned.

6. The representative of Canada took the opportunity to express his appreciation of, and satisfaction with, the revised study on zinc, especially with its summary and observations, and added that the Working Party was looking forward to the revised studies on copper, lead, tin and nickel.

7. Referring to the aluminium industry, he stated that like tin, the production process of aluminium began, to a large extent, in developing countries although there were certain developed countries which were major producers of bauxite and alumina. He stressed that energy was the key factor in the cost structure of producing aluminium. The availability of a large volume of electrical power on a regular and uncommitted basis was essential to the industry which necessitated a constant flow of large blocks of energy. This factor had a strong bearing on the geographical structure of the world aluminium industry. In the past most energy was produced in developed countries from hydroelectric resources, and these resources became the basis for attracting aluminium smelters. At present, hydroelectric resources as well as coal-based power remained the basis for locating aluminium smelters and more and more of them had been built in developing countries. This resulted in a marked shift in the pattern of aluminium production and consequently in trade. Of the six metals examined by the Working Party, aluminium was by far the most energy-intensive. The argument to locate smelting plants near large consuming markets to be more economical, did not apply to aluminium. Thus, tariffs on aluminium and aluminium products not only affected trade, they also protected domestic smelters and distorted the economic efficiency of the industry on a worldwide basis. Aluminium was also the newest metal with the highest growth rate in demand during the past thirty years. However, as already mentioned, the last years had become rather difficult for the industry. Some analysts thought that the metal had reached a mature stage in its industry cycle. Nevertheless, he believed that the outlook for aluminium demand and trade was brighter than for some other metals and that the removal of trade barriers would contribute to the industry's better outlook.

8. The representative of Hungary also highly appreciated the study and suggested that the utility of the study could be improved by inclusion of a country-by-country analysis of consumption per capita in order to show the degree of market saturation. He underlined that Hungary had a vital interest in the aluminium industry and trade.

9. The representative of the EEC stressed that aluminium was the metal which corresponded most to the mandate of the Working Party. Its structure of production and location in different economic zones resulted in intense trade flows and a high degree of interdependence. There was intense trade not only among developed and developing countries but also with countries with a State-trading system. He noted that the problems in the aluminium industry were therefore characteristic of the problems in the other non-ferrous metal industries. He supported the suggestion of the representative of Hungary that an examination of the evolution and the level of consumption on an individual country basis might provide interesting information. Such an examination might show that while consumption had reached the level of saturation in certain developed countries it had been still low in most developing countries. In this respect, the EEC was preparing consultations on per capita consumption of different non-ferrous metals in developing countries for 1987.

10. He also pointed out that the structure of protection in the form of tariff and non-tariff barriers in this sector corresponded to a certain form of economic structure. The aluminium industry in the EEC was undergoing a process of structural adjustment and the EEC had not applied any measures which might hinder this adjustment. In contrast, the EEC policy was to encourage restructuring in such a way as to safeguard the capacity which remained viable on the basis of the incidence of raw materials and of energy. On the other hand, the EEC would not wish that adjustment, either on the level of the Community or globally, be conditioned by obstacles to trade. He observed that it was difficult to evaluate the effect of the non-tariff measures indicated in the study. However, direct governmental interventions were very important in favouring or promoting relocation of capacity through policies affecting the price of raw materials and energy, which in the final analysis might be reflected in barriers to trade. It was, therefore, necessary to examine more in depth the real impact of the series of non-tariff measures, restrictive practices, and governmental measures on trade which had prevented a more natural development of the structural adjustment of the aluminium industry.

Section-by-section examination

SECTION I

11. The representative of Switzerland said that paragraph 20 of the study mentioned Swiss Aluminium Ltd (Alusuisse) as being one of the six largest international corporations in the world industry. In this regard he referred to the Annual Report of Alusuisse, a copy of which he would hand over to the secretariat, containing some useful supplementary information. The report indicated that the operations of the company were highly vertically integrated. The analysis of different markets ranged from raw materials up to finished products. Moreover, the Annual Report gave a full list of the principal branches and affiliated companies of Alusuisse in the world.

SECTION II

12. The representative of Canada stated that his delegation was well satisfied with this section of the study as it accurately reflected the world's bauxite, alumina and aluminium industry. He also expressed satisfaction with the analysis of pricing and price and demand elasticities. The representative of the EEC questioned the validity of the estimates of income elasticity given in Table 13 for the period 1980-1990. He thought that at present these estimates should be lower at around 1.2 or 1.0 and wondered if there were more recent data published by the World

Bank or the OECD. The representative of the secretariat explained that the sources used for the table were, to her knowledge, the latest available. However, the secretariat would verify if there was more updated information on this subject. In this respect, the representative of the OECD mentioned that aluminium was not included in the working programme of the OECD.

SECTION III

13. Referring to Table 18 of the study, the representative of Hungary explained that Hungary's exports of alumina to the USSR had been overestimated by about 20 per cent, while the import data on aluminium stated in Table 17 accurately corresponded to the amount of alumina exported to the USSR, which was about 320,000 tons. There was a special agreement between Hungary and the USSR according to which Hungary, lacking smelting capacity, sends alumina to the USSR for smelting. It receives in return aluminium in the ratio of 2:1.

14. The representative of Canada said that this section accurately reflected the trade flows in the major three products, namely bauxite, alumina and aluminium.

SECTION IV

15. The representative of Canada noted that Section IV reflected all trade policy measures applied by the CONTRACTING PARTIES on aluminium and aluminium products. He said further that while the EEC was the world's second largest producer of primary aluminium and covered two-thirds of its need from domestic smelters, it was at the same time the largest importer of unwrought aluminium metal. However, while the EEC maintained an m.f.n. tariff of 6 per cent on unwrought aluminium, about 90 per cent of its metal imports entered duty-free, mostly from EFTA countries under preferential tariff arrangements. Moreover, there had been a significant increase in imports from EFTA countries in the past few years. He considered that tariff preferences had a significant impact on trade patterns and that the removal of tariffs led to increased trade. This proved the direct linkage between tariffs and trade. Referring to imports of primary aluminium to Japan, he noted that while Japan's tariff on unwrought aluminium was bound at 9 per cent, a trade policy measure introduced in 1982 provided for quotas for imports of unwrought aluminium under an m.f.n. duty of 1 per cent. Although he welcomed this unilateral action, he expressed his concern on the manner in which these tariff quotas were administered. Also, the maintenance of the m.f.n. bound duty of 9 per cent gave no certainty to exporters. He regretted that while Canada had been an important supplier of primary aluminium to Japan, it had not benefited from the quotas. With regard to Portugal's and Spain's entry into the EEC, he hoped that trading practices for aluminium which had been established in past years would continue and potential exporters including those in Canada, would be able to supply these countries even though they had become members of the EEC. Referring to the export subsidies granted to the Spanish aluminium producers in recent years, the representative of Canada feared that this practice would continue to have a bearing on trade in the future. He further said that Jamaica did not supply bauxite to the Canadian plant at Jonquièrre as stated in paragraph 106.

16. Commenting on the remarks made by the representative of Canada on the structure of the EEC imports, the representative of the European Communities stated that although preferential trade represented about 80 per cent to 90 per cent of total imports, depending on the year, it did not originate only from EFTA countries but also from other sources, such as the Lomé Convention countries and Yugoslavia. He added that the structure

of imports would be modified with the accession of Spain and Portugal. The increase in the production capacity of the EEC from about 2.0 million tons to 2.4 or 2.5 million tons might result in a reduction in imports from third country sources, especially since the production of Spain had the tendency to be exported to the EEC. However, the impact of the accession of these two countries could not be assessed before 1986/87. He mentioned further that Portugal would be allowed to maintain preferential access to its market during a certain period in view of its economic situation. Therefore, there would not be any negative impact for third country exporters. Referring to the subsidization of the State companies through energy prices practiced by some governments, he stated that a series of enquiries had been carried out on the basis of Article 85 of the EEC to find out whether these practices were compatible with the Treaty of Rome and to ensure that the capacity of the aluminium industry in the Community remained the most efficient.

17. The representative of Australia stated that this study, as the studies on other metals, had shown that there was a common tendency in a number of importing countries to escalate tariffs. This fact was particularly important as the investment decisions in the aluminium industry related not only to the investments in mines or smelters but also frequently necessitated the construction of a new power station. It was therefore important that the comparative advantages that countries might have in aluminium production be observed to the maximum extent in order to ensure that the world had access to the cheapest aluminium. He underlined that his country gave priority to the reduction of distortions caused by tariff escalation as well as to the elimination of quantitative restrictions and other non-tariff measures.

18. The representative of Hungary shared the view expressed by Canada concerning the impact of the preferential tariffs of the EEC. He pointed out that the relatively high tariffs on semi-finished aluminium products applied by the EEC constituted a barrier and a trade diverting factor in the trade of these products. Referring to his comments on Section III of the study, he requested to delete "some of" aluminium from paragraph 118, as all aluminium processed from the alumina exported to the USSR for smelting was returned to Hungary.

19. The representative of Japan informed the Working Party that the trade of Japan in aluminium had experienced very important changes in recent years as a result of technological developments, the saturation of demand and the increase in costs. Japanese smelters were severely hit by changes in the energy costs, provoked mainly by the steep rise in the price of petroleum. In view of this situation the government of Japan introduced structural adjustment measures aimed at reducing smelting capacity. As mentioned in the study, the highest annual smelting capacity of 1,640,000 tons, achieved in 1978, had been reduced by about 80 per cent, to about 350,000 tons per year in 1986. This development had led to a substantial increase in the importation of aluminium ingots which rose from 680,000 tons in 1979 to 1,287,000 tons in 1984. Despite the rapid increase of aluminium imports, the government had refrained from introducing any restrictive measures. On the contrary, the Japanese government had taken measures to improve access to the Japanese market by reducing tariffs on wrought aluminium items from 11.5 per cent to 9.2 per cent as from January 1986. It was further decided to reduce the tariff on unwrought aluminium from 9 per cent to 1 per cent and the tariffs on plates, sheets and strips from 9.2 per cent to 3 per cent as from January 1988. He hoped that these actions contributed to a dynamic growth of world trade in this sector. Referring to the administration of the quota for imports of unwrought aluminium subject to an m.f.n. 1 per cent duty questioned by the

representative of Canada, he said that the special reduction of the tariff to 1 per cent was granted to the smelters which imported aluminium ingots while reducing their production capacities. However, there was no discrimination as to the choice of sources of imports, which was based on market conditions. He stressed again that the objective of the government action was to discourage domestic smelting and to replace it with imports, and that, as mentioned before, from January 1988 all imports of unwrought aluminium would be subject to an m.f.n. duty of 1 per cent.

20. The representative of Switzerland referred to paragraph 139 of the study indicating that the ad valorem incidence of specific rates applied by Switzerland on aluminium products ranged from 0.1 per cent to 9.7 per cent. He informed that about 85 per cent of 1983 trade consisted of alumina subject to bound rates the ad valorem incidence of which was 0.2 per cent. With regard to the export tax on aluminium ashes and scrap indicated in Table 54, the representative of Switzerland said that these taxes were imposed under certain conditions on the basis of Article 6 of the Federal Law on Customs Duties of 19 June 1959. The present rates of these taxes were SwF 10/100 kg. on the tariff item CCCN ex28.03 and SwF 27.75/100 kg. on CCCN ex76.01. However, in 1985, this tax was applied on only 3 tons of exports under the tariff item CCCN 26.03, representing less than 1 per cent of the exports. In the same year, only 1,218 tons of aluminium scrap (CCCN ex76.01), representing 5 per cent of total exports, were subject to the export tax.

21. The representative of Austria stated that the free trade arrangement between the EEC and EFTA was justified under Article XXIV of GATT and was aimed at stimulating trade. With regard to the question of tariff escalation he stressed that his country had bound most of its tariffs and therefore was unable to increase them as some other countries whose tariffs were not bound. He added that the influence of tariffs on trade flows should not be over-estimated, and that the traditional channels of supply should also be taken into consideration.

22. In response to the question raised by the representative of the United States on the Japanese aluminium stockpile, the representative of Japan confirmed that all aluminium was completely released from stocks in November 1985 as indicated in the study in paragraph 123.

23. The representative of Australia stated that there was no reason why his country should be singled out on the question of bindings. His country had indicated its willingness to approach the issue of binding Australian tariffs in the Preparatory Committee, among other instances, as it recognized the role that bindings could play in enhancing the stability and predictability of the international market and in trade liberalization. He added that his country was looking forward to offers from other contracting parties that would make bindings a worthwhile exercise.

SECTION V

24. No comments.

SUMMARY AND OBSERVATIONS

25. The representative of Canada questioned the implication of the first sentence of paragraph 196 which in his view insinuated that the industry's integration had been the most important factor affecting the pattern of world trade. This could be interpreted that large integrated companies did not rationalise world production facilities on the basis of comparative advantages and commercial policy measures. He added that further in the

paragraph it was rightly pointed out that since 1960 an increasing share of world production of aluminium had been entering the world trade system. This increase coincided with the decreasing degree of concentration of the aluminium industry as well as of its integration. The increase in world trade in aluminium metal could be attributed to several factors, including changes in the pattern of aluminium production and consumption. These in turn were due to a number of factors such as the desire for increased processing of bauxite and alumina in producing countries, changes in energy costs and comparative advantages, and finally, structural adjustment. Another factor influencing trade were changes in the commercial policy situation. Consequently, he suggested deleting the first sentence of paragraph 196 and introducing after the words - "higher energy costs -" in the second sentence the following: "and changes in comparative advantages, structural adjustments, and changes in the commercial policy situation." He further proposed to add to paragraph 197 an additional sub-paragraph, indicating trade values of the five different product categories of aluminium, that is, bauxite and alumina, unwrought aluminium, wrought aluminium, chemical products and finished aluminium products, similarly to sub-paragraph 108(a) presented in the zinc study. These figures could be used in the final report of the Working Party. In response to the suggestion by the representative of Canada to introduce a sub-paragraph summarizing trade flows under different product groups for the countries mentioned in the study, the representative of the secretariat pointed out some of the difficulties inherent in compiling trade statistics for the different product categories since information on country flows in these categories referred to different years.

26. The representative of the EEC agreed with the representative of Canada regarding factors which affected the changes in the pattern of world trade. However, he considered that the reference on the impact of the industry integration on trade flows should remain. The integration of the aluminium industry was quite important even in instances where production had been relocated. He thought that the text proposed by Canada could be retained, however, without neglecting to mention the effect of integration on world trade. He wondered whether it was judicious to introduce a table in paragraph 197 of the summary rather than in the main text.

27. The Chairman reminded the members of the Working Party that it was not the intention to negotiate the text of the study which was done under the responsibility of the secretariat. Nevertheless, he assured delegations that any views expressed in the discussion would be reflected in the minutes of the meeting. He further said that factual corrections or amendments would be reflected in a corrigendum to the aluminium study.

28. In concluding the discussion on aluminium, the Chairman said that the Working Party had a substantive exchange of views on different aspects of the aluminium industry, trade and trade policy measures applied to aluminium and aluminium products. He suggested to revert to the aluminium study at the next meeting of the Working Party scheduled in May to enable delegations who had not yet had sufficient time to examine the study to express their views and comments. He further suggested to continue the work of the Working Party by examining the draft prepared by the secretariat of the final report of the Working Party to be presented to the Council and the CONTRACTING PARTIES. In this respect, the representative of Canada informed that his delegation had prepared some points regarding the final report and requested to distribute the paper to the members of the Working Party for their consideration.

29. Several delegations gave preliminary comments regarding the suggestion by the representative of the EEC to have the studies on non-ferrous metals and minerals published. It was decided to discuss this subject at the meeting in May.