

**MULTILATERAL TRADE
NEGOTIATIONS
THE URUGUAY ROUND**

RESTRICTED

MTN.GNG/NG3/W/26

24 November 1989

Special Distribution

Group of Negotiations on Goods (GATT)

Original: English

Negotiating Group on Natural
Resource-Based Products

NATURAL RESOURCE-BASED PRODUCTS

ALUMINIUM

Submission from the United States

The following submission has been received from the delegation of the United States with the request that it be circulated to members of the Negotiating Group on Natural Resource-Based Products.

1. This paper is intended to provide background on the aluminium industry in addition to that contained in NG3/W/19, and to illustrate certain concepts that may be of use to NG3 in developing a proper approach to negotiations. Structural changes which have taken, and are taking, place in many industries, such as aluminium, offer an opportunity to advance trade liberalization. The trade distorting practices affecting the aluminium industry are not limited to this industry and may be applied in most cases, generically to the non-ferrous metals industry. All GATT contracting parties stand to gain by elimination of trade distorting practices in these sectors.

Structure of the Aluminium Industry

2. The aluminium industry is essentially composed of three sectors: mining and refining, smelting (an electrolytic process dependent on large amounts of energy), and fabricating which is the conversion of ingot into mill products. In the United States, the mill products sector incorporates highly sophisticated technical and marketing innovations and is closely tied to the consumer markets of packaging, transportation and building.

3. The mining and initial processing sector is largely concentrated in Australia and many developing nations, which are the sources of bauxite and alumina production. The production of alumina in the countries that are the source of the bauxite has been a relatively recent development. It provides a value added product for the producer and alleviates shipping costs for the smelter.

4. The world smelting sector is in the process of a transformation. The US share of market economy nation (MEN) primary aluminium capacity has declined from 45 per cent of world capacity in 1970 to 28 per cent in 1987. This decline has resulted from a restructuring of the world aluminium

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UR-89-0406

industry caused primarily by the highly energy intensive nature of primary aluminium production. Energy costs are one of the most important factors in selecting the site for a new primary aluminium smelter. During periods of excess supply, it is these costs that are the most important determining factor for maintaining or discontinuing operations at one smelter relative to another.

5. There have been three major structural changes in the world aluminium industry which were precipitated by increases in energy costs. The first was the systematic phasing out of primary aluminium production in Japan between 1978 and 1986. The decision to enact a managed reduction in capacity was a direct result of the energy crisis of the mid-1970s. At the commencement of the reduction program, the Japanese smelting industry represented a capacity totalling 1.6 million metric tons per year (mtpy). We believe there is now only one 40,000 metric ton smelter operating in Japan, and it has a captive source of inexpensive hydropower.

6. The second is the construction of new smelters in regions with comparative advantages in production, generally this means abundant and inexpensive power. Some examples include Venezuela, Australia, Brazil and Canada, which rely on hydropower, and the Middle East, which uses natural gas.

7. The third structural change was a consequence of the first two. To reduce costs, improve competitiveness and mitigate its position as a swing producer, the US industry closed a substantial portion of its primary aluminium capacity. Capacity has been reduced from a peak of 5.019 million mtpy in 1982 to 3.837 million mtpy in 1987, a 24 per cent reduction.

8. In Europe, the process of restructuring ingot production is in midstage. According to some aluminium industry analysts, primarily affected are 2.3 million mtpy of high-cost energy smelters in Austria, France, the Netherlands, Italy, the United Kingdom, and West Germany.

9. World smelting capacity continues to increase in countries which have available low-cost electricity. It is our understanding that expected increases may include: Brazil (401,000 to 1,046,000 mtpy), Venezuela (446,000 to a desired 2,000,000 mtpy, but currently 548,000), Australia (524,000 to 1,116,000 mtpy) Canada (1,360,000 to approximately 2,000,000 mtpy) Indonesia (83,000 to 248,000 mtpy) and India (397,000 to 520,000 mtpy). In 1982, these countries accounted for 3,200,000 mtpy of capacity and in 1987 they represented 5,200 mtpy of capacity. Currently, there is some government ownership in the aluminium industries of all of these nations. As a result, the expected increases in capacity by some of these nations will lead to a further increase in government ownership, which now accounts for approximately one-third of world capacity.

10. The aluminium mill products industry continues to be concentrated in the major industrial centres of North America, Europe and Japan, closely tied to the large consumer markets offered by the industrialized countries. A major factor in locating a mill product facility is proximity to the end-user.

International Trade

11. Historically, international trade in the industry has largely involved the movement of raw material from the developing nations to the industrialized countries. This was followed by relatively large movements of aluminium ingot between the industrialized countries which were influenced and directed by regional, economic cycles. The final stage was a relatively small trade in mill products between the industrialized countries to the developing nations.

12. As a result of the influence of higher energy costs, the historic patterns of trade are changing very rapidly and dramatically. First, raw materials are increasingly processed in the countries of origin. Second, international aluminium trade increasingly involves the movement of ingot from developing to industrialized countries. Finally, world trade in aluminium mill products is showing signs that developing countries are attempting to add value to their aluminium exports to the industrialized countries by further fabrication.

13. Recent capital outlays for new primary smelting capacity have been in locations that, in addition to inexpensive energy, offer security of investment and integration of new smelter capacity into downstream fabrication plant systems. Mill product facilities are normally located in proximity to the end-user. Ideally, such a location would also provide unrestricted access to a large end-user market. Canada is an example of a nation benefiting from both of these factors: cheap hydropower, and access to the US market via the US-Canada Free Trade Agreement.

14. For additional information on the structure of the aluminium industry see Background Study on Aluminium and Aluminium Products published by the GATT in June, 1987.

Trade Distorting Practices

15. Several developing nations have emerged, due to a comparative advantage resulting from inexpensive electricity, as the world's lowest-cost primary aluminium producers. It is completely logical for these producers to want to derive as much added-value as possible from their primary aluminium production through downstream integration. However, trade distortions may arise due to government intervention and ownership in many of these producing locales, and lead to unfair competitive advantages on the international market. Governmental measures often create artificial market conditions which distort the marketplace for all participants.

16. Restrictive market access policies and the protection of a domestic aluminium mill product industry, in addition to distorting trade and investment, are an economic impediment to the emergence of an internationally competitive industry within a nation. The effect of such restrictive policies is to stifle demand for, in this case, semi-fabricated aluminium products, and hinder the development of downstream industries. Demand is stifled because prices are maintained at levels higher than would otherwise prevail in the presence of competition from imports.

17. The increasing share of government ownership, control, or influence in the world aluminium industry results in market distortions is due to a lack of, or slow adjustment to changes in the marketplace, and government intervention which alters the economics of free trade. For instance, governments may directly influence production, international marketing, and imports and exports. Although certain of these practices may be addressed through existing provisions of the GATT, such as the anti-dumping and countervailing duty provisions which have been applied to some semi-fabricated aluminium products entering the United States, it would be preferable to compete in a fair market based on economic principles. In regard to this question see also NG3/W/23, US statement on Article XVII, 25 May 1988, and NG7/W/55. The United States is further discussing these issues in the context of NG7 and NG10.

18. In order to create a more competitive marketplace it is necessary to eliminate both the protection of domestic markets, and discriminatory competitive advantages in third country markets. This includes making meaningful progress in eliminating subsidies, and improving the procedures for redressing subsidies and dumping.

19. Moreover, benefits would accrue to all participants through the binding and reduction of tariffs to the least common level and a similar elimination of non-tariff measures. There are both developing and developed nations which maintain some very high tariffs on a range of aluminium products. These concerns are reflected in many of the preliminary US market access request lists.

20. The elimination of measures which distort fair competition would ensure that aluminium industries emerging around the world would develop based on competitive economic principles. New investments would be based on market-determined factors. This would facilitate their smooth integration with established aluminium industries. This, in turn, would yield an increase in international aluminium trade. In regard to this question see also NG10/W/20.

21. Additionally, state-of-the-art aluminium facilities, merely because of their location in a developing nation, do not need special import protection, such as infant industry. Such protection permits these new facilities to escape the tests of economic viability and the disciplines of competition adhered to by privately-owned companies.

Conclusion

22. All participants in the trade of aluminium will benefit from the elimination of existing restrictions to trade and the implementation of strengthened GATT rules and disciplines would ensure the effective creation and continued existence of a fair competitive marketplace.