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DRAFT REPORT OF THE AD HOC MEETING ON BAUXITE

held at the Palais des Nations, Geneva
from 2 to 3 May 1994

Rapporteur: Mr. Mitsunori NAMBA (Japan)

GE.94-51942

INTRODUCTION

1. In accordance with the decision adopted by the Second Ad Hoc Review Meeting on Bauxite at its 2nd meeting on 30 April 1993, the Secretary-General of UNCTAD convened the Third Ad Hoc Review Meeting on Bauxite from 2 to 3 May 1994.

2. In the course of the session, two plenary meetings were held. At its 1st (opening) meeting on 2 May, it was decided, following statements made by six participants on agenda item 3, to pursue discussions on agenda items 3 and 4 in informal meetings.

3. In his introductory statement, the representative of the Secretary-General of UNCTAD said that the bauxite/alumina/aluminium industry continued to be faced with unprecedented problems. The excess of supply of aluminium over demand had led to the accumulation of record amounts of stocks and continued low prices. Moreover, the alumina and bauxite markets, which earlier had been relatively less affected, had begun to feel more of the impact of the imbalance between supply and demand in 1993, in particular as aluminium producers had cut their operating rates.

4. The continued growth in inventories and the absence of indications that exports from the Republics of the former USSR were diminishing had led to calls for concerted efforts or interventions in order to redress the imbalance. Discussions involving Australia, Canada, Norway, the Russian Federation, the United States and the European Community in January 1994 had resulted in a memorandum of understanding according to which the rate of world primary aluminium output in 1994 and 1995 would be reduced by an amount corresponding to 2 million tons per year. He understood that reductions corresponding to 300,000 tons per year had so far been announced in the Russian Federation, while announced cutbacks in other countries since January corresponded to more than 900,000 tons per year. It would thus appear that the process of supply adjustment had been successfully initiated. If the memorandum of understanding was implemented in full and if consumption increased at rates that would be expected in an upturn - although timid - in the business cycle, then it could reasonably be expected that inventories of aluminium would be returned to more normal levels by the end of 1995. He pointed out that the agreed targets for cutbacks concerned only the aluminium stage of the industry. No similar targets for alumina or bauxite output had been determined, and these sectors of the industry would obviously be affected by the reduced demand from aluminium smelters as the cutbacks are implemented. It would clearly not be in the interest of the global industry if the successful implementation of the agreement resulted merely in a shifting of the imbalance upstream to alumina refineries and bauxite mines.

5. He said that the UNCTAD secretariat hoped that discussions during the Meeting would assist governments and the industry to develop a clearer picture of the present market situation and likely developments over the next several months and that this would facilitate decisions that needed to be taken in order to ensure a continued orderly process of adjustment. Furthermore, agreement on statistical definitions and methodology would be of long term benefit to the industry. He had to note, however, that given the present situation as regards resources and the ever increasing demands that were being made on those resources, the secretariat could not indefinitely continue to allocate resources to work on bauxite, alumina and aluminium on an ad hoc basis. In conclusion, he hoped that the meeting would result in clear guidelines regarding the continued work - if any - to be undertaken by the secretariat.

Chapter I

REVIEW OF THE CURRENT MARKET SITUATION AND OUTLOOK
(Agenda item 3)

6. For its consideration of agenda item 3, the Third Ad Hoc Review Meeting on Bauxite had before it the following documents prepared by the UNCTAD secretariat:

"Market situation and outlook for bauxite, alumina and aluminium" - report by the UNCTAD secretariat (TD/B/CN.1/RM/BAUXITE/6)

"Bauxite, alumina and aluminium statistics 1987-1993" - prepared by the UNCTAD secretariat (TD/B/CN.1/RM/BAUXITE/8).

7. A representative of the UNCTAD secretariat introduced the first document. He noted that a small increase in world production of primary aluminium (excluding countries of Eastern Europe and socialist countries of Asia) in combination with constant consumption and continued large imports from the Republics of the former USSR had resulted in inventories increasing by a further 1.2 million tons in 1993 to 4.5 million tons. Cutbacks in operating rates of primary aluminium smelters undertaken following the informal agreement reached in Brussels in January 1994 amounted to a total of 1,207,000 tons on a whole year basis, of which 300,000 tons by companies in the Russian Federation (as of mid-April). Aluminium prices had been stimulated by the cutbacks, rising from just over US$ 1,100 per ton in early January 1994 to US$ 1,250 to 1,300 per ton in recent weeks. As a result of the cutbacks and the consequent reduction in demand for alumina, prices of alumina had decreased further, with spot prices falling from US$ 140 to 160 at the end of 1993 to US$ 120 to 125 in March 1994. Contract prices were also expected to be influenced, and may fall to US$ 140 to 150 per ton. A certain amount of reduction in primary aluminium inventories was likely to take place in 1994. At present, it was estimated that the reduction would amount to 1.15 million tons, and that inventories would fall by a further 2 million tons in 1995, assuming that the cutbacks undertaken remained in place. This would bring total inventories at the end of 1995 to 1.35 million tons, corresponding to a little more than one month’s world consumption (excluding Eastern Europe and socialist countries of Asia). This scenario had obvious implications for the bauxite and alumina markets. Significant additions to bauxite and alumina capacity were planned for both 1994 and 1995. These additions would come at a time when world demand from primary aluminium smelters (excluding smelters in Eastern Europe and socialist countries of Asia) was expected to decrease by about 10 per cent. Since demand from smelters in the Republics of the former USSR was also likely to decline, or at least stagnate, the outlook for bauxite and alumina producers was not encouraging.

8. The representative of Japan stated that demand for aluminium in his country had decreased by 3.5 per cent in 1993 to 3,420,000 tons. There were various reasons for this decrease, including depressed automobile sales caused by the appreciation of the yen, a decline in demand for electric household appliances, low demand for beverage cans due to extremely low summer temperatures, and stock adjustments. He expected, however, that the stimulus to domestic demand from the comprehensive package of economic measures announced in February of this year would lead to an increase of demand for aluminium to 3,460,000 tons in 1994. He noted that London Metal Exchange prices for aluminium had risen as a result of the reductions in production undertaken by some producers. His government was of the view that it was not appropriate for world supply and demand for aluminium to be examined by producers only, and considered that this examination should be undertaken by both producers and consumers based on an exchange of information. In doing so, his government considered that Japan as a consuming country could make positive contributions to solutions of the various problems concerning the aluminium market.

9. The representative of Canada stated that, following strong growth in previous years, nominal production capacity for primary aluminium in Canada had remained unchanged at 2.3 million tons per year in 1993. However, due to the oversupply situation on the world market, production cuts corresponding to an annual production capacity of 85,000 tons had been announced since November 1993. Canadian primary aluminium production had gone from 1,830,000 tons in 1991 to 1,972,000 tons in 1992 and 2,285,000 tons in 1993. Monthly production had fallen from 190,000 tons in October 1993 to 180,000 tons in February 1994, while domestic consumption was expected to increase slightly this year to around 530,000 tons. He went on to say that the present situation in export markets was preoccupying to Canada. World supply had grown rapidly, without corresponding increases in demand taking place. The resulting disequilibrium would probably make itself felt on the market for some years to come. The effects, which were often serious and even dramatic, illustrated nevertheless to what extent transparency of world markets was crucial to their functioning and how far this transparency was from being achieved. His government wished that the present Meeting would allow participants to better appreciate the dynamics of the markets as well as the importance of assuring transparency through more frequent and regular exchanges of reliable and complete data on production, trade and consumption.

10. The representative of the United States of America said that three companies operated surface bauxite mines in his country in 1993, supplying ore for the production of non-metallurgical products. The five alumina refineries in the United States, including the Virgin Islands, with a total production capacity of 5.7 million tons, were dependent on imported bauxite. Primary aluminium production in 22 operating smelters in 1993 was 3.7 million tons, an 8.6 per cent decrease from the previous year. In the first quarter of 1994,

production had decreased by a further 5.1 per cent compared to the fourth quarter of 1993 to an annualiyed operating rate of 3.36 milion tons. Low aluminium prices and large exports from the Russian Federation, as well as a power curtailment by the Bonneville Power Administration, were the principal reasons for the reduction in capacity utilization rates. Currently, 25 per cent of total capacity had been idled. He went on to say that the relative strength of the United States economy and the abundance of primary metal on world markets had resulted in an unusual situation. Although domestic primary aluminium consumption had increased by over 10 per cent in 1993, total domestic shipments had decreased by 2.7 per cent. It was expected that the economic recovery under-way would result in a 3 per cent increase in aluminium shipments in 1994. However, domestic primary aluminium production was likely to decrease further by approximately 11 per cent. He emphasiyed the need for improved disemination of data and the United States commitment to improving market transparency.

11. He further stated that, as of 31 December 1993, the National Defense Stockpile contained 11.4 million long dry tons (ldt) of metal grade bauxite from Jamaica, 4.9 million ldt of metal grade bauxite from Suriname, 221,600 tons of refractory grade bauxite, and 63,000 short tons of aluminium. The fiscal year 1994 Annual Materials Plan allowed the Defense National Stockpile Center to sell a maximum of 600,000 ldt of Jamaican bauxite, 300,000 ldt of Suriname bauxite, and 50,000 tons of refractory bauxite.

12. The representative of the European Community said that the European aluminium industry had been strongly affected by the increased exports from the Republics of the former USSR because of the geographical proximity of the European market to these countries. The massive sales of aluminium from the Republic of the former USSR had led to a marked reduction in prices. The situation of European producers had been further exacerbated by the overvaluation of European currencies vis-à-vis the United States dollar, which had eroded their competitiveness. Temporary or permanent closures of primary aluminium production capacity undertaken from 1991 to 1993 in the European Union amounted to 500,000 tons per year. Further cuts of 250,000 tons, corresponding to 10 to 12 per cent of capacity, were being made in 1994. He said that the European Union considered it necessary that countries which had not so far reduced production be prepared to do so in order to ensure a reestablishment of market equilibrium.

13. The representative of Norway said that primary aluminium production in the seven smelters in his country was 812,850 tons in 1992 and 814,007 tons in 1993. Several developments in the markets for bauxite, alumina and aluminium made the issue of increased transparency an important one. In this context, new participants in the world market and changes in the structure of trade were significant.

14. The representative of Australia acknowledged the positive contribution that the UNCTAD secretariat was making to improving market transparency for bauxite, alumina and aluminium and indicated his government’s preparedness to assist this process.

Chapter II

REVIEW OF ACCURACY AND COMPLETENESS OF AVAILABLE STATISTICS ON BAUXITE, ALUMINA AND ALUMINIUM AND POSSIBLE MEASURES TO BE TAKEN THEREON (Agenda item 4)

15. For its consideration of agenda item 4, the Third Ad Hoc Review Meeting on Bauxite had before it the following document prepared by the UNCTAD secretariat:

> "Review of the accuracy and completeness of statistics on bauxite, alumina and aluminium" - report by the UNCTAD secretariat (TD/B/CN.1/RM/BAUXITE/7)

16. A representative of the UNCTAD secretariat introduced the document. He emphasized that, compared to statistics on other minerals and metals, availability of data for the bauxite/alumina/aluminium sector was relatively satisfactory. Among the major remaining gaps those which required priority attention related to the availability of official data from the Republics of the former USSR. The problem concerning the lack of data on some intra-European Union trade was likely to be resolved within the coming year.

Action by the Second Ad Hoc Review Meeting on Bauxite

[17. At its 2nd (closing) meeting, on 3 May 1994, the Review Meeting decided to recommend that the Secretary-General of UNCTAD convene a fourth ad hoc Review Meeting on Bauxite not later than early 1996 for a duration of two days and agreed on the following provisional agenda:

1. Election of officers

2. Adoption of the agenda and organization of work

3. Review of the current market situation and outlook

4. Review of accuracy and completeness of available statistics on bauxite, alumina and aluminium and possible measures to be taken thereon.

5. Other business

6. Adoption of the report of the Ad Hoc Review Meeting.]

Chapter III

ORGANIZATIONAL MATTERS

A. Opening of the meeting

18. The Third Ad Hoc Review Meeting on Bauxite was opened on 2 May 1994 by the representative of the Secretary-General of UNCTAD who made an introductory statement.

B. Election of officers (agenda item 1)

19. At its 1st (opening) meeting on 2 May 1994, the Review Meeting elected the following officers to serve on its Bureau:

Chairman: Mr. Ioannis KINNAS (Greece)

Vice-Chairman-Cum-Rapporteur: Mr. Mitsunori NAMBA (Japan)

C. Adoption of the agenda and organization of the work (agenda item 2)

20. At the same meeting, the Review Meeting adopted the provisional agenda for its Third session (TD/B/CN.1/RM/BAUXITE/5) as follows:

1. Election of officers

2. Adoption of the agenda and organization of work

3. Review of the current market situation and outlook

4. Review of accuracy and completeness of available statistics on bauxite, alumina and aluminium and possible measures to be taken thereon.

5. Other business

6. Adoption of the report of the Ad Hoc Review Meeting.

21. With regard to the organization of the work, the Review Meeting at its opening meeting, following statements made by six participants on agenda item 3, agreed to take up agenda items 3 and 4 in an informal working group, to allow for a free-ranging discussion of the issues.

D. Membership and attendance[1]

22. The following States members of UNCTAD were represented at the session: Australia, Canada, France, Germany, Greece, Jamaica, Japan, Netherlands, Norway, Russian Federation and United States of America. The European Union was also represented.

23. The following non-governmental organization was represented at the Meeting: International Primary Aluminium Institute.

E. Adoption of the report of the Third Ad Hoc Review Meeting on Bauxite to the Standing Committee on Commodities (agenda item 6)

24. At its 2nd (closing) meeting on 3 May 1994, the Review Meeting adopted its draft report (TD/B/CN.1/RM/BAUXITE/L.3) and authorized the Rapporteur to complete the final version as appropriate.

[1] For the list of participants, see TD/B/CN.1/RM/BAUXITE/INF.2