

Performance

During the years from 1946-1973, the demand for aluminum grew at a rate in excess of 8 percent per annum. Much of this growth resulted from the relative stability of the price which remained low due to the number of new producers which entered the market and improvements in production technology. Canada's major producer, Alcan, also expanded during this period in spite of the relatively small domestic market and became the western world's major aluminum exporter. However, as Alcan had not integrated forward to the degree that other major producers did, Alcan's markets were not assured and the company was subjected to excessive fluctuations of orders and consequently price pressures. Even in periods of heavy demand in the United States, its major market, the improvement was late in developing and slumps would be felt immediately. Alcan took remedial action by acquiring more fabricating capacity in countries and areas of high demand. These steps, together with the energy crisis which caused a number of plant closures where plant operations were based on power from gas or oil, improved Alcan's position considerably. Even during the recent recession both Alcan and Canadian Reynolds, with low cost hydropower, were able to continue to operate at almost 90 percent of capacity while the majority of smelters, without government assistance, were forced to cut back to 60 percent or lower.

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2. Strengths and Weaknesses

a) Structural

With the growth in aluminum demand now reduced to some 2 1/2 percent per annum and the increasing number of government owned or subsidized smelters coming into operation, the market share of the privately owned companies is being reduced. This is however offset, in the case of Alcan, by the number of plants which have been shut down by other producers because of high energy costs. These curtailments are resulting in an increase in the need for imports in Alcan's three major export markets: the United States, Japan, and the E.E.C.

b) International Trade Related Factors

Insofar as Canadian Reynolds' aluminum production is concerned, the market is well assured since shipments of the bulk of its production are made to other Reynolds facilities in Canada and the United States for further fabrication. Alcan on the other hand has a very sophisticated world-wide distribution and metal management organization which has proved effective. An improvement in return would be brought about mainly through increasing the company's degree of forward integration. Steps in this direction are being taken as in the current acquisition of ARCO's facilities in the United States.

With respect to foreign markets, Alcan is well placed to serve the U.S. market where tariffs on ingot will shortly be entirely removed. In regard to the tariffs of 9 percent and 7-8 percent which apply to shipments to Japan and the E.E.C. respectively, it is unlikely that a change there would significantly improve Alcan's market share or margin.

c) Technological Factors

Both Alcan and Reynolds have purchased state of the art reduction technology for their latest expansions. Further, Alcan has developed new large cells which it plans to use in the Labrador plant due to be put in operation in 1988. Much of current technological development is aimed at improving energy efficiency but both of the Canadian companies have secure supplies of cheap hydro power. Therefore, while modernization is important and is being planned for, it is not as crucial to Canadian production as it is in other areas of the world.