2. STRENGTHS AND WEAKNESSES

2.a. Structural

Canadian operations are comparable to international standards in size of operations and quality of product.

Inco, Kidd Creek and Falconbridge like the other Canadian companies are integrated backwards but have enough mine production to satisfy their own requirements.

The ore bodies mined by Inco and Falconbridge are nickel properties with copper classed as a co-product. Production decisions are based on nickel requirements.

The Kidd Creek property has copper and zinc as co-products. Production decisions are based on optimizing its returns from sales of both metals.

Noranda and Hudson Bay do not have enough captive mine production to satisfy their smelter requirements and consequently must obtain feedstock from independent mines. These custom smelters were initially built to serve major mines in fairly remote inland areas of Canada. Noranda's Gaspé smelter is close to tidewater. Because of the relatively low metal-to-concentrate ratio, the proximity of a smelter to the original mines resulted in relatively low transportation costs. This enhanced the competitive position of Canadian mines and smelters and, in some measure, shielded them from the vagaries of the international copper concentrate market. Unfortunately, the ore bodies which originally supported these operations are nearing depletion or have been closed. Noranda is examining the possibility of obtaining concentrates from foreign sources. Hudson Bay will continue to treat their own concentrates but may have to adjust their production levels.

For these two smelters, treating British Columbia concentrates or importing off shore concentrates would entail a substantial transportation cost disadvantage. Because of a shortage of supply of economic concentrates Canadian custom smelters find themselves in a vulnerable position.

The use of copper in industrialized countries is at the saturation point and as a result only a low rise in consumption rate is anticipated. Substitutable materials such as fibre optics, plastics and aluminum continue to replace copper. Technology allowing downsizing and miniaturization of products also decrease the amount of copper required. The recent recession coupled with the above factors have been reflected in decreased world consumption of copper by some 8 percent in 1981 compared with 1979.

2.b. Trade Factors

This sector is heavily oriented towards foreign trade. Canadian exporters have two main markets, the European Community (EC) and the United States, which account for over 90 percent of exports. Transportation costs from Canadian refineries make other markets uneconomic except for spot sales. Under normal circumstances the seller negotiates any tariffs with the buyer.

Tariffs & Trade Barriers

Canada and the EC do not have any tariffs or trade barriers restricting trade in copper. The United States tariff on copper is 1.1 percent and has been considered as only a nuisance by both sellers and buyers. The main danger facing copper exports is possible action taken under Section 201 of the U.S. Trade Act. This type of action is usually resorted to by American producers during times of depressed markets and defence against it is costly and time consuming.

There are no tariffs imposed on trade in concentrates. The newly industrialized countries (NICs) Brazil, Taiwan and Korea have adopted