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THE CANADIAN IRON-ORE INDUSTRY

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Steel is unquestionably the most important single metal used in an industrial society and iron ore, the principal source of the metal, is therefore a most important ore. The importance of the iron-ore industry to Canada can be gauged by the fact that the country was in 1971 the world's fifth-largest producer of iron ore, with 43.3 million tons⁽¹⁾, valued at \$560 million, being shipped; it was the world's second-largest exporter, with 33.6 million tons, valued at \$413 million, exported. The industry supplied some four-fifths of the iron-ore needs of Canada's iron-and-steel industry, the world's twelfth largest.

The industry had humble beginnings in Canada, only 6.5 million tons of ore being produced during the period 1886 to 1924, with no production for the next 14 years. Between 1939 and 1948, almost all Canada's iron-ore production came from mines in Ontario but, after Newfoundland joined Confederation, shipments from mines in that province were included in Canadian figures for the first time. Since production was resumed in Ontario in 1939, the industry has grown rapidly, particularly since shipments began from mines in the Quebec-Labrador Trough area, in 1954 and especially since 1960.

A total of 17 companies with 18 operations produced iron ore and by-product iron ore in 1971. Ten operations were in Ontario, four in British Columbia, two in Quebec, two in Newfoundland (Labrador) and one in Quebec-Labrador. The leading province in production was Newfoundland (Labrador) with 20 million tons, followed by Quebec with ten million, Ontario with 11 million and British Columbia with about two million.

International Trade

The U.S.S.R., most East European countries and Spain were the only major exceptions in an otherwise world-wide decrease in crude-steel production in 1971 as total output fell by 16 million net tons, or by about 2.4 per cent,

(1) The long or gross ton (2,240 pounds) is used throughout unless otherwise stated.

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to an estimated 642 million net tons. Crude-steel production fell 11 million tons to 121 million tons in the United States, six million tons to 114 million tons in the ECSC countries (with West Germany experiencing the greatest decline), 5.3 million tons to 97.6 million tons in Japan, and 4.6 million tons to 26.6 million tons in Britain. The U.S.S.R. gained first position among world steel-producers in 1971, when it produced an estimated 133 million net tons of steel, up about 5.3 million tons from 1970. Minor losses were recorded by Canada (12.2 million net tons compared to 12.3 million in 1970) and by India, Finland and Sweden; minor gains were made by Spain, Brazil, South Africa, Austria and most East European countries.

The World iron-and steel-industry demonstrated again in 1971, as it has done so many times since the end of the Second World War, its inability to match supply with demand, to the detriment of the world iron-ore industry. While world iron-ore consumption, at an estimated 708 million tons, was down some 17 million tons from 1970 to parallel the decline in world steel production, a non-concomitant fall in shipments from 741 million tons to 733 million tons resulted in a buildup of inventories at incoming ports and world steel plants. Added to the 17 million tons estimated to have been overbooked in 1970, total stocks may have been 42 million tons at year-end, almost all imports and all in Japan, Western Europe and the United States. World iron-ore production of 762 million tons, compared with 751 million tons in 1970, also indicates a buildup in inventory of some 30 million tons at mines and shipping ports at the end of 1971.

The oversupply situation had its beginning late in 1969, when, at the time of traditional renegotiation of iron-ore contracts by Western Europe, Swedish iron mines were closed by a labour strike. This aggravated an already tightened supply situation brought on by peak European steel production and decreased supplies from Canada. The strike helped to strengthen the bargaining position of most world suppliers to Europe, who obtained price increases for 1970 delivery ranging from 10 per cent to 15 per cent. Contracts that were signed for longer terms, of two years and more, to assure supply at prices no greater than what was newly agreed on, resulted in over-commitment towards the end of 1970 and especially in 1971.

The oversupply situation in Japan began to develop about mid-1970, when crude-steel production began to decline as a basic reflection of a similar and more pronounced decline in domestic steel demand. The policy of obtaining future supplies by means of long-term contracts works to Japan's advantage in expansionary times, since it assures adequate supply and low guaranteed prices, and it certainly works to the advantage of suppliers who have a guaranteed market and can raise capital for expansion based on these contracts. Not only did Japan not achieve its anticipated high growth-rate in 1971 but its steel production was down some five million tons from the previous year and this aggravated the excess iron-ore stock situation that began to develop in mid-1970. Furthermore, it has now become abundantly clear that Japan will not be able to meet its production goal for 1972 and absorb the whole volume of iron ore contracted even if it took into consideration a full exercise of its option for a 10 percent decrease of

purchase volume. Other means to reduce imports may be taken to reduce supplies, such as renegotiation of contracts, re-export, diversion of exports, pollution-motivated *force majeure*, etc. Taking all the foregoing points into consideration, the prospect for the world iron-ore industry does not appear good for 1972.

The Future

The growth of the Canadian iron-ore industry is primarily dependent on the growth in exports because 80 per cent of production is now exported and domestic demand will increase only moderately. Therefore, to properly assess the role that Canadian iron ores will play in world markets of the future, one must assess the iron-ore demand-supply patterns of the world's major steel-producing countries and the role that both domestic and imported ore will have in them.

Canada's raw-steel production in 1972 may set a new record, approaching 12.8 million net tons, if there are no interruptions because of strikes; it would be up sharply from the 12.2 million net tons produced in 1971, surpassing the previous record of 12.3 million in 1970. The sharp increase forecast appears to be reasonable because, notwithstanding a decline in steel production in 1971 from the previous year, indicated raw-steel consumption was up by one million net tons in 1971 to 13.2 million. Exports of steel were at 1970 levels, but imports were up by an estimated one million net tons to 3.2 million, to more than take up the loss in steel production, which declined mainly because of blast-furnace problems. An increase in pig-iron and crude-steel capacities in 1972 and the upward revaluation of most world currencies *vis-à-vis* the Canadian dollar should result in steel-import reductions.

The lifting of the United States import surcharge augurs well for Canadian steel exports to that market and, with domestic demand for capital and consumer goods remaining high, record steel production in 1972 is anticipated.

To parallel the rise in steel production, domestic iron-ore consumption is forecast at 11.7 million tons, up 0.9 million from 1971. Imports are expected to remain at the 1971 level of 1.4 million tons but, because of some 0.4 million tons of excess iron-ore stocks at steel plants, domestic shipments are expected to be up by only 0.3 million tons, to ten million.

Iron-ore export-demand patterns are somewhat uncertain for 1972. Most countries expect their steel industries to continue producing at 1971 rates throughout most of 1972, with recovery expected only in the latter part of the year. Notwithstanding labour strikes at all three Quebec-Labrador operations (Iron Ore Company of Canada (IOC) from June 16 to September 12, Quebec Cartier Mining Company from June 20 to August 25, and Wabush Mines Division at Wabush from July 7 to August 18), which lowered production by some 3.5 million tons, shipments were not affected to that degree because of shipments by IOC and Wabush from stockpile during the strike. Since the Port

Cartier employees supported the strike action by those at the Gagnon mine and concentrator, all shipments from Quebec Cartier Mining Company ceased during the strike. Therefore, while production for 1972 is forecast at 44 million tons, down 1.7 million from 1971, shipments are expected to pick up in the latter part of the year because of possible increased rates of steel production in the United States, Western Europe and Japan, Canada's three major markets for iron ore.

Taking all factors into consideration, total shipments for 1972 are expected to increase by about two million tons from 1971 to about 45 million, consisting of 35 million tons of exports and slightly over ten million tons of domestic shipments. Shipments should exceed production for the year by about one million tons, and stocks will decrease accordingly.

Iron-ore shipments in 1975 are expected to reach 65 million tons, composed of 53.4 million tons of exports and 11.6 million of domestic shipments. The export estimate will be realized if Canada increases its share of the market in the United States, Britain and Western Europe and begins major shipments to Japan from new or expanded facilities in Quebec and Labrador. Iron-ore plants under construction or planned as of 1971 will add some 34.67 million tons of production capacity a year by 1976. On the negative side, production may decline or be discontinued at some mines in the same period. Gains in annual capacity will far outweigh any losses in the years ahead.

Annual shipments totalling 90 million tons, composed of 74 million tons of exports and 16 million tons of domestic shipments, are expected for 1980. The estimate for exports may appear high, but the 74 million tons as a share of the total potential world market, or 15 per cent, is only slightly above the estimated 13 per cent recorded in 1970, when Canadian exports reached their peak. The principal factors that could account for this growth include: the inability of new and traditional world sources to meet the increasing demand for beneficiated high-grade ore; the proximity of Canada's large beneficiating-grade iron-ore deposits to the United States and Europe; the existence of deepwater ports on the St. Lawrence River, enabling concentrates and pellets to compete in major markets, particularly Japan; the existence of mine infrastructure that facilitates expansion or new building; and continuing favourable political and fiscal policies. The United States will continue to be the largest market, with 32 million tons, followed by Japan with 20 million tons, the ECSC with 13 million, and Britain with nine million; the domestic market should absorb about 16.4 million tons. It is expected that the total annual capacity will be approximately 105 million tons by the end of 1980.

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