

COMALCO
MINERAL PRODUCTS

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TO THE

ALUMINA QUALITY WORKSHOP

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COMPETITIVE PRESSURES ON THE AUSTRALIAN ALUMINIUM INDUSTRY

Addressing an audience with as much accumulated experience in the aluminium industry as this one possesses is a daunting task. What new dimension can be added that will at least* survive after the last glass of port? Faced with this dilemma I took some professional advice on how best to gain the attention of such a learned audience and make points they would remember long after the address was over.

Fortunately, a professional survey was found which advised on those aspects of a presentation that audiences find most memorable. Heading the top of the list are

Embarrassing gaffes

Jokes about sex

Revealing salary information (These latter two especially if they involve some well-known member of the audience).

Visual aids ... which sounds like a disease

Flatulence

The latter possibility provided the lead that we should start by examining economic forecasts. As an old exploration geologist, I have always envied economists for their predictions which have a success rate somewhere around that achieved by wildcat drilling for oil on icebergs. But somehow they still manage to retain their confidence and professional dignity.

Let's then turn to the world economic scene and in particular the present outlook, particularly as it concerns the aluminium industry. From 1986, despite major currency variations and a stockmarket crash in late 1987, growth in the Western economies moved strongly forward and also changed its character.

Looking back, investment per unit of GDP turned the corner as early as 1984 after trending down since the first oil shock. This change can be attributed to the need for renewal of existing infrastructure in the OECD countries and rapid development in the NIC's. In the preceding period there has been greater emphasis on the growth in services and industry efficiency improvements were achieved with "software" solutions such as better organisation structures and data processing. It is likely we have reached a point now where the next wave of improvements will require "hardware" solutions ... and they need metal.

It can also be argued that down-sizing and substitution for metals is nearing the end of its course. The aluminium can is a good example, where thin walling of canstock has reduced the weight of the aluminium can from 22 kg's- per thousand to around 16 kg's currently, and with 12 kg's perhaps the practical end of the road.

A bullish scenario can be constructed for aluminium consumption which views the flat years between 1973 and 1986 as an aberration, with a return of good times now upon us. However, we must regrettably question seriously this happy interpretation of current events where virtually all the players in the bauxite-alumina-metal chain are making good profits on the back of high prices and sales volumes.

Certainly we have to question how long the US can sustain its extraordinary budget deficits, and how the incoming US President will contend with them. Can the Japanese economy continue to grow at an annual rate of 11% as we have seen in the past six months to 1988? Will the October 1987 stockmarket crash be simply shrugged off when such stockmarket movements have almost invariably in the past been followed by major economic recessions within eighteen months?

This situation reminds me of one of the many stories told of the late Winston Churchill, who was on one occasion (no doubt not the first) speaking in the House of Commons after an intense period of reagent analysis involving a whisky bottle. A lady Member of the House, always a fierce critic of Sir Winston, rounded upon him with a loud, "Winston you are drunk!" whereupon Churchill replied, "I may be drunk, Madam, but in the morning I shall be sober; but you will still be ugly!" I suspect that in the morning the aluminium industry will also still be ugly- tough and competitive.

The aluminium industry in which we must now all live has changed considerably over the lean years. Industry cost curves are now very much flatter than ever before. This is especially so in the case of alumina where in the last five years the costs of mid-range plants in the cost curve have fallen by over one-third. Lower energy prices, especially oil, have helped iron out the differences and the more obvious technological obstructions in plant potential have been reduced or eliminated. There are no longer such clear-cut winners and losers in this game.

Let us review the development of the aluminium industry in Australia, which is very much export oriented and likely to remain so due to the relatively small volume of the

Australian domestic market for finished aluminium products. High volume export industries are vital to the future of Australia with its high living standard expectations and taste for imports. With a foreign debt around

A\$100 billion, which is still increasing at the rate of approximately A\$1 billion per month, we are in the big debt league together with a number of South American nations and, on a basis of debt per head of population, with other "lifestyle" countries such as Norway and Denmark, and big defence spenders like Israel.

The Australian aluminium industry has expanded rapidly over the last two decades. Since 1973 bauxite mining for domestic alumina production has dwarfed bauxite exports, which have remained relatively stable around 5 million tonnes per annum. Since 1983 metal production has climbed very quickly and exceeded 1 million tonnes in 1987.

Australia dominates the bauxite and alumina leg of the aluminium chain with over one-third of world bauxite and alumina production.

At the present time the aluminium industry contributes approximately \$3.3 billion or 9% of Australia's total exports, just behind coal with 14% and wool at about 10%. The industry now directly employs approximately 20,000 Australians.

Traditionally Australia's well situated, low cost natural resources have been the base for our competitive advantage, supplemented by energy availability at moderate cost, a skilled workforce and a conducive environment for major capital investment.

There are, however, some clouds on the horizon. Australia's inflation rate stubbornly remains 2% or 3% above the OECD

average and Australian productivity and productivity growth (at less than .5%) continue to be lower than the OECD average of 2%.

Australia's traditional competitive advantages through its natural resources are presently threatened by indigenous bauxite reserves and low energy costs available in South America. Australia's aluminium smelting industry must confront competition from power which is available at low cost, principally from hydro electricity or gas in Canada, the Middle East, and the Soviet Union.

Perhaps Australia's greatest challenge in maintaining or increasing its competitiveness in the aluminium industry comes from the clear sense of national or regional purpose that we are seeing in Canada, Venezuela, the Middle East and the USSR to develop their aluminium industries. These nations recognise that conditions must be made attractive for major capital investment.

The future competitiveness of the Australian industry against aggressive new players and some well-established ones will therefore rest heavily with the ability of our governments to provide the right environment. Key factors will be energy costs and the access to resources, and government charges such as royalties, excises and levies. Exchange and inflation rates, although outside total government control, will also need to be attractive. Labour productivity can improve through better work practices, and the country will no longer be able to afford fiascos such as the waterfront and coastal shipping industries which impede adding value to our products in Australia.

In essence, Australia needs a supportive national framework to compete effectively with some tough players who do have

national backing. We need to build on our existing natural competitive advantages and not block them by excessive regulation.

There is hardening evidence that the Australian community is becoming increasingly aware of the need to become competitive internationally, and to come to grips with our national debt. Personally, I believe that we will be able to build on the strong aluminium industry already established successfully in Australia and maintain a very high and competitive profile well into the future.

Perhaps the most single important factor in my confidence is faith in the well-proven skills and ability to innovate of our alumina technologists, who are so well-represented here tonight

