

BACKGROUNDER ON ALUMINUM & THE TARIFF ISSUE

August 2020

The Metal

In nature, aluminum does not exist in a pure state. The production of primary aluminum metal begins with bauxite ore, which is composed of hydrated aluminum oxide (40% to 60%) mixed with silica and iron oxide.

It takes approximately 4 to 5 tonnes of bauxite ore to produce 2 tonnes of alumina. In turn, it takes approximately 2 tonnes of alumina to produce 1 tonne of aluminum.

No bauxite is mined in Canada. The U.S. has small amounts of bauxite ore located in Arkansas, Alabama, and Georgia. However, very little mining of bauxite is done in the U.S. today. Almost all of the bauxite used in both Canada and the U.S. is imported.

The world's three largest producers of bauxite are Australia (25.45%), China (24%) and Brazil (9.1%).

Why Canada is a Major Aluminum Producer – Hydro-Generated Electricity

Next to the ore, the most important input in making aluminum is electricity. This can represent some 20% of the manufacturing cost. The vast supplies of relatively cheaper hydro generated electricity available in Quebec (and in British Columbia) – and deep-water ports for receipt of imported ore – made Canada a cost-effective and leading producer of aluminum.

Although the industry began in Canada in the early 20th century, the demand for aluminum during the Second World War (especially for aircraft), combined with the ability to develop cheap hydro-generated electricity, led to a vast expansion of production centered in Quebec. At the height of the war, Canada produced some 40% of the aluminum used by the Allies with a significant portion supporting U.S. wartime manufacturing.

Canadian Aluminum Industry Today

Today, there are 10 primary aluminum smelters in Canada: nine in Quebec and one located in Kitimat, British Columbia. By using mostly hydroelectricity and the latest generation of technologies, Canadian aluminum producers have the lowest carbon footprint compared with the world's other large producers.

However, the industry has been shrinking over the last two decades. In 2018, the Canadian aluminum industry employed more than 8,700 people, compared to more than 14,000 in 2003. Competition from China, India and the Middle East is one cause of this trend, as is the increased use of secondary (recycled) aluminum.

Canada is now the world's fourth largest producer of aluminum. China alone makes more than half of the world's aluminum (55%) followed by Russia (6.2%), India (6.1%) and then Canada (4.9%). The U.S. is in ninth place (1.5%) followed by Iceland (1.4%) and Brazil (1.1%). With a significant supply of both bauxite and electric power, China has been well positioned for dominating world aluminum production.

As Canada and the U.S. share a highly integrated market with a combined trade in aluminum of some \$14+ billion annually, about 76% of Canada's primary aluminum production is exported to the U.S. where it is used in the production of products for both domestic and export markets (including finished goods exported to Canada).

Imposition of Tariffs by the Trump Administration

On May 31st, 2018, during NAFTA negotiations, the Trump administration announced the imposition of tariffs of 25% on steel and 10% on aluminum imported from Canada that took effect on June 1st, 2018. The U.S. administration claimed that they were entitled to do so under Section 232 of the 1964 Trade Adjustment Act which allowed them to impose tariffs where they deemed the situation to be a "threat to national security" without the approval of Congress or review by the U.S. International Trade Commission. The Canadian Government challenged the assumption that Canadian imports of steel and aluminum were a risk to U.S. "national security" citing the long friendship between our two countries and our highly integrated economies.

Eventually, after the conclusion of the new NAFTA, an agreement was reached to remove the tariffs in the spring of 2019, and Canada agreed to certain restrictions on steel and aluminum exports to the U.S. going forward.

Early in 2020, as the COVID-19 pandemic spread with significant economic disruption including the shutdown of factories to contain the virus, several U.S. aluminum producers called for a renewal of the tariffs on Canadian aluminum. Other aluminum producers, industries that use aluminum, and the U.S. Chamber of Commerce have opposed the move. The American beverage industry, for example, is estimated to have paid some \$582 million in tariffs in 2018.

The Aluminum Association of Canada (AAC) has indicated that shipments of aluminum ingots did increase as the demand for aluminum parts declined as factories were shutdown for the pandemic. However, a re-balancing has now occurred as those plants re-open and ingot exports have fallen by 16% in June and 40% in July. The AAC estimates that the U.S. can only meet about one-sixth of their consumption, and the tariffs on Canadian imports may make imports from China and Russia more appealing.

The Canadian Government has announced that counter measures will be put in place on American aluminum imports. The actual list of these imports is now under consultation which closed on September 6th.

It is not expected that this trade dispute will be resolved until after the November 3rd U.S. elections.

Concern for our Industry

Cosmetics and personal care products are a highly integrated industry in North America. Trade disputes that can affect supply chains or have our products subject to tariffs and/or counter measures, are disruptive and costly. In the case of the Canada and U.S., they also serve to undermine the effectiveness of our highly integrated economies that have long made North America stronger and more competitive in the world.

In the case of aluminum, Canada's abundant supply of cheaper hydro generated electricity has provided U.S. manufacturers with a "local" and reliable advantage in the production of aluminum, while Canada has provided a market for many of the finished goods produced with that aluminum (i.e. autos, appliances etc.).