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ALUMINIUM LIMITED

Report

OF THE TWENTY-SIXTH

Annual Meeting

OF THE SHAREHOLDERS OF THE COMPANY

held at Montreal, Canada, April 29th, 1954

and

CHAIRMAN'S REMARKS

by

Nathanael V. Davis

PRESIDENT

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PROCEEDINGS

Mr. Nathanael V. Davis, President of Aluminium Limited, acted as chairman of the meeting and welcomed the 121 shareholders in attendance, which was a larger number than at any previous annual meeting. There were present in person and represented by proxy 13,355 shareholders, holding in the aggregate 7,758,106 shares. Mr. Davis stated that the representation of 86 percent of the total outstanding shares of the Company entitled to vote at the meeting was appreciated by the board of directors and management. Mr. J. A. Dullea, Secretary of the Company, acted as secretary of the meeting.

After the appointment of scrutineers and other usual formalities, the Annual Report of the Directors and the Financial Statements for the year 1953, together with the Auditors' Report, were submitted to the meeting. Mr. Davis then addressed the shareholders as reported in the remainder of this booklet.

The election of a board of twelve directors next took place. Unanimously re-elected were: Dana T. Bartholomew, Dr. Donald K. David, Nathanael V. Davis, James A. Dullea, Dr. E. C. Harder, N. Baxter Jackson, Paul LaRoque, E. G. MacDowell, Edwin J. Mejia, R. E. Powell, H. H. Richardson and John L. Sullivan.

The meeting concluded with the re-appointment of Messrs. Price Waterhouse & Co., of Montreal, as Auditors of the Company for the ensuing year. At a meeting of the Board of Directors following the Shareholders' Meeting, retiring officers were re-elected or re-appointed.

REMARKS

by

Nathanael V. Davis

President, Aluminium Limited

The highlights of the Company's financial and other activities during 1953 are described in some detail in the Report to the Shareholders which was sent out to all of you several weeks ago. The report describes the progress that has been made in our over-all expansion programme which is scheduled to be completed during the summer, adding 90,000 short tons to our primary ingot capacity. Although the 90,000 tons coming into operation at Kitimat will add only 17 percent to our present primary capacity, it may be appropriate in these remarks to comment upon the Company's sales outlook.

The Aluminum Sales Outlook

Many people have recently asked whether we expect to be able to sell our increasing output, particularly during the next few years. The question is especially pertinent when one considers that world production of primary aluminum has doubled since 1949.

Even if one disregards the impact of general business conditions and the uncertainties of international relations, it will, I am sure, be understood that no categorical answers can be given. In the formulation of our plans, however, we do attempt to weigh those elements which we believe will have a bearing on future demand. Putting it another way, we try to reach informed estimates although they must remain subject to many qualifications. A brief exposé of some of the elements which go into the formulation of our estimates may, therefore, be of interest.

Free world production of aluminum in 1949 was 1,240,000 tons and is estimated to be 2,600,000 tons in 1954 — a 110% increase over the period. When contrasted with the recorded growth in demand over several decades — the historical growth trend — it becomes immediately apparent that the recent surge in production is exceptional. Historically, demand and production have approximately doubled every ten years. Even assuming the continuance of this favourable growth rate, recent production increases exceed by substantial margins the normal growth in demand measured by the same historical standards. One is consequently led to question the ability of the market to consume the enlarged production capacity in the near term.

Today's Demand for Aluminum

Today, and for several months, there has been adequate primary aluminum to meet all demands in fields of consumption. Consumption has, however, been supplemented and may continue to be supplemented by government stockpiling. The stockpiling programmes bring an important but unknown factor into the determination of current and near-term demand. What these stockpiling reserves are at the moment, what they may be in future years, and how they may be handled are matters of conjecture. In the United States a large part of the output of the new United States production facilities is, in effect, underwritten by governmental contracts to purchase for several years such new U.S. production as may be offered to the government. In the near term, therefore, many uncertainties and unknowns do exist and governmental actions which cannot be forecast may and probably will play an important part in shaping demand for our primary aluminum.

With a view to minimizing these and other uncertainties the Company has entered into a number of long-term contracts both in the United States and in the United Kingdom. These con-

tracts have been described on several occasions and most recently in the last Annual Report which you have before you. As a result, a sizable percentage of our present and authorized production facilities is, in a sense, committed to meet the sales contracts entered into and the balance is available to meet the needs of customers who are accustomed to buying on a current basis. Broadly speaking, the Company feels that there is today a reasonable balance between our production facilities on the one hand and our contractual sales commitments and estimated spot sales on the other hand.

The Longer Term View

Taking the longer term view, we have confidence that aluminum will find increasing uses which not only promise to sustain present and authorized production facilities but will, in addition, justify further expansion in the future.

Aluminum today competes with the other major non-ferrous metals, certain forms of the ferrous metals, plastics, woods, and numerous construction materials. Since the applications of aluminum embrace nearly every phase of industrial activity, our position is difficult to analyze briefly. The two most important present competitive materials, however, are the non-ferrous and the specialized ferrous metals. I would like to touch upon these two.

Competition with Non-Ferrous Metals

In relation to the major non-ferrous metals, aluminum has attained a strong competitive position. For a given area or volume, copper costs about five times as much as aluminum while lead and zinc cost about twice as much as aluminum. This economic advantage in favour of aluminum has accounted for a sizable part of the increase in demand for aluminum and continues to offer the opportunity for the development of many

outlets that are today restricted mainly on technical grounds. For example, copper has been the standard material in the fields of house wiring, telephone and telegraph lines, and motor and generator components. Aluminum is making progress in these fields as a result of its inherent economic advantages and additional progress can be expected as further technological advances are made. In the broad field of competition with non-ferrous metals, aluminum will also be favoured as a result of the abundant availability of the requisite raw materials.

Specialized Ferrous Metals

Turning to the ferrous metals, aluminum is at a price disadvantage. On a volumetric basis, aluminum ingot sells for about twice as much as steel billets, making it apparent that outlets in competition to general steel products would require price incentives on a scale difficult to foresee. In certain specialized fields, however, the price position of aluminum more closely approaches prices of the competitive materials, particularly tinplate, galvanized products and enameled steel. Through the eyes of aluminum people, each of these fields is large. The major outlet for tinplate of which 6,000,000 tons was consumed last year is in the canning industry which continues to expand. The relative price position of aluminum container sheet and tinplate varies from market to market. Currently in the United Kingdom, the price ratio is approximately 1.4 to 1 in favour of tinplate — a considerable closing of the price gap as compared to raw aluminum and steel. In Norway, where on a price basis tinplate and aluminum sheet are approximately on a parity, aluminum has made considerable progress in the container field. On a worldwide basis, aluminum consumption in the field of canning is not yet substantial. However, when one considers the large volume of tinplate which is currently consumed in the field of containers, a small measure of success for aluminum would have far-reaching effects on demand.

Many of the same considerations apply in analyzing the competitive position between aluminum and certain other specialized ferrous products such as galvanized sheet and enameled steel. The past few years have seen, particularly in the United States, a most impressive development of aluminum in the field of construction as evidenced by several aluminum-faced buildings recently built and more in process of planning or construction. There is also the promise of progress in the large automotive field where aluminum offers weight advantages as compared to the ferrous metals. We estimate roughly that the free world consumption of aluminum in road transportation during 1953 was 250,000 tons as compared with 175,000 tons in 1950 — an increase of 43%. We are led to feel, therefore, that although in the huge field of ferrous competition only segments are within practical range, there are many opportunities to advance the use of aluminum well above current levels.

Price: The Main Factor

As a sequel to the above, we are often asked: What steps is the Company taking to cultivate the present and future uses for our output? In answer, oddly enough, the cornerstone upon which we rely for the main support of present and future markets is not always mentioned — perhaps because it is so fundamental. It is price. Basically, retention of present markets and development of new ones can best be assured by putting ourselves in a position to supply aluminum at favourable prices as compared with competitive materials. From the foregoing it seems clear that if there are reasonable future prospects of acquiring for aluminum a portion of the markets now served almost wholly by specialized ferrous products, an increasingly favourable relationship of aluminum prices takes on vital importance. Small changes in the relative price of aluminum, particularly in this field, are likely to have significant effects upon the relative acceptance of aluminum. By developing our ingot-

producing facilities in areas capable of giving economic costs we expect to have a basic strength which will act as a major support for our competitive position and a growing demand.

Research and Development

The Company is following other traditional lines aimed at strengthening our position as a seller of primary aluminum. In the field of research and technical development, considerable work is being carried forward in our laboratories not only to seek improvements in the basic processes of production, but also in improving present fabricating methods and developing new ones. Other producers of aluminum and many of the growing number of fabricators are carrying on their own research programmes to increase the usefulness of aluminum. The combined efforts of all who are working for the advancement of aluminum should make important contributions for the benefit of the industry as a whole.

International Sales Development Unit

Within our selling organization a new international sales development unit has been formed, having as its primary objective to increase the consumption of aluminum by making available to present and potential consumers the advice and assistance of qualified specialists in several major fields of consumption, such as housing and construction, automotive and other transport, electrical, canning and packaging, and irrigation. This group of specialists will be mobile in the sense of being free to move throughout the world and will thus be able to contribute to a given industry technical and commercial knowledge based on worldwide experience.

The Company's Fabricating Activities

Lastly, reference should be made to the expansion of our own fabricating activities. Since the end of the second World War,

Aluminium Limited has greatly increased its investment in fabricating, both through expansion of the facilities of existing companies and by creating new companies in the fabricating field. In so doing, the management of Aluminium Limited has decided to proceed with two principal objectives in mind — one being to invest in a business that promises to be profitable and the other to increase the consumption of aluminum by making it readily available in semi-fabricated forms. The prerequisite of every such investment is the prospect of a satisfactory return but frequently there is also an important sales promotion element in such investments.

Many countries of the world have been without local manufacturers of aluminum sheet, tubing, foil and other fabricated forms. In other countries the local fabricators have frequently been handicapped by inadequate machinery, insufficient capital or inefficient and outmoded fabricating practices. The use of aluminum in such countries has been held back as a consequence. Our experience over the years has shown that a rapid increase in the consumption of aluminum in such countries invariably follows the establishment and efficient operation of modern local fabricating facilities provided the conditions in a given country are otherwise favourable.

Fabricating Expansion \$60,000,000

Most of the Company's expansion in fabricating has taken place outside of Canada and may not have received the notice it merits. Since the end of the second World War, fabricating investments by Aluminium Limited plus those made by others associated with us in the ownership of fabricating companies outside Canada, have amounted to a total of \$60,000,000, including local and internal financing. These funds have been invested primarily in the United Kingdom, Australia, Brazil, Holland, India, Japan, Germany, Mexico, Norway, South Africa, Switzerland and Spain. In some of these markets per

capita consumption of aluminum is small but based upon past experience we look upon the establishment of local fabricating facilities to bring about large percentage increases in the consumption of aluminum. Individually, the consumption of aluminum in some of these countries cannot be expected to assume large proportions but taken as a whole a significant potential exists, a potential with the inherent strengths of diversification.

Summary

In summary, although we are faced with unusual uncertainties in estimating the near-term demand for aluminum and we must consequently consider the possibility of an oversupply, the longer term view seems to offer encouraging prospects of a constantly increasing demand for primary aluminum which will support the development of new production facilities. If the longer term forecast materializes, as we expect it will, the Company, having laid the basis for rapid and low-cost expansion in British Columbia, should be in a favourable position to meet the needs of a growing market.

Recent Court Settlement

Before closing these remarks I would like to refer to the action taken last Friday (April 23rd, 1954) in New York by the United States District Court in settlement of the Government's petition to cancel the 600,000-ton contract between our U.S. subsidiary, Aluminum Import Corporation, and the Aluminum Company of America. Under the terms of the Court consent order, deliveries under the contract, which have gone forward since it was signed in May 1953, will continue without threat

of interruption. For any of you who may not have read of the Court action, and for the record, I would like to summarize the sequence of events which have led to the settlement of the case on terms entirely satisfactory to the Company.

The market for our ingot in the United States is comprised of two principal segments. The first consists of the non-integrated fabricators who do not produce ingot but purchase it for fabrication into sheet, extrusions and the like. The second segment consists of the three integrated producers, Alcoa, Kaiser and Reynolds, who are smelters as well as fabricators. They purchase metal to the extent their requirements exceed their retained ingot production. We estimate these three producers have over three-quarters of the total fabricating capacity in the United States that uses ingot.

Our subsidiary, Aluminum Import Corporation, has concentrated its efforts on expanding its sales to the non-integrated fabricators since they hold greater promise of a continuous market than do the producers. Early in 1953, with the Kitimat project well advanced, our sales forecasts showed that after 1955 we would have substantial tonnages of ingot available for sale in the United States over and above the amount required to supply our share of the requirements of the non-integrated fabricators. Negotiations were started with Alcoa, Kaiser and Reynolds, and offers were made to contract with each to supply ingot to them during the years 1953 to 1957 inclusive. As the result of those negotiations, Alcoa and Kaiser contracted to purchase 600,000 tons and 186,000 tons respectively, for delivery 1953-1958.

We were unwilling to enter into contracts with the producers that would jeopardize our ability to continue supplying our share of the requirements of the non-integrated fabricators. To avoid any apprehension on that score, simultaneously with the announcement of the Alcoa and Kaiser contracts, a public

announcement was made that 110,000 tons per year for the next seven years would be reserved for the *non-integrated* fabricators in the United States. The amount so reserved was greater than we had ever sold to those fabricators.

Soon thereafter the U.S. Department of Justice filed a petition with the Court to enjoin Alcoa from performing under its contract. The Kaiser contract was not challenged. Neither Aluminium Limited nor any of its subsidiaries was named a party to the action. Our subsidiary, Aluminum Import Corporation, *nevertheless sought and obtained the Court's permission to intervene to protect its interest as the seller.*

Last Friday, Judge Knox signed a consent order whereby deliveries under the Alcoa contract will continue. By the terms of the Court order, we have accepted the obligation to defer deliveries to Alcoa if it should be necessary in times of shortage to permit fulfillment of our commitment to make 110,000 tons per year available to the independent fabricators. There is no present indication that we will be unable to make all deliveries required under the Alcoa contract and to the independent fabricators in the United States as well.

As was indicated in the proxy statement sent to each shareholder in connection with the solicitation of proxies for use at this meeting, the petition filed by the U.S. Department of Justice not only sought to have the Alcoa contract set aside but it also sought to have set aside the Judgment of January, 1951, whereby certain shareholders who owned stock in both this Company and Alcoa were required to dispose of their shares in this Company within ten years and whereby, pending such disposition (now more than half completed), the voting rights attached to their shares were vested in three trustees appointed by the Court. The order signed by Judge Knox on April 23rd, 1954, dismissed that part of the Department of Justice's petition.