

Jamaica Bauxite Institute

Covid-19 Impact Preliminary Assessment

Coronavirus and Bauxite Production Performance

The global commodity's value chain is seeing disruptions due to the spread of the Coronavirus, with reports of increased build in inventories of aluminium, steel and zinc. Bauxite enterprises in Jamaica, while concerned about the spread of the virus, have reported, except for Alpart, that currently there is no impact on operations. However, given the increased cases of the Corvid-19 in Jamaica and disruptions in major markets in that of Europe and North America, the risk of disturbance to local operation has increased.

It is important to note that disruption to local operation can arise from significant workforce absenteeism, loss of sales/markets, curtailment of supplies and the suppression of cash flow. Regarding, localized disruptions arising from absenteeism, the predominant trigger is associated with panic and worker's fear of contracting the virus than with the severity of illness or likelihood of death. The Minister of Health, on March 5, reported that if the spread of the virus follows the pattern of SARS, then over 1.7 million people would be affected in Jamaica. However, only 2000 persons in year one (1) would be hospitalized with 360 to 400 persons requiring ICU related admission. Concerning the loss of sales and disruption to supplies (oil, caustic soda, etc.) and cash flow, these are indicative of the events in the donor country.

Bauxite Enterprises Situation

The content below looks at the market situation with bauxite enterprises in Jamaica and briefly presents their expressed concerns and mitigation activity.

Noranda

In 2019, Noranda, the sole crude bauxite exporter, shipped 3.0 million tonnes of bauxite. Eighty-six (86%) was for the US market, and 14% for China. This market segmentation signifies that Noranda's operation would be severely affected if access to the US market collapses. At this juncture, there has been an escalation of Covid-19 cases in the US and disruptions to the automotive industry. It is important to note that measures are being implemented by Congress and the Federal States, like New York, to boost resources to combat the spread of the virus and these measures could temper the extent of the disruptions in the US.

Concerning the export of crude bauxite to China, this market is still developing. Jamaica's push into that region has its genesis with the closure of Sherwin Alumina in Corpus Christi, US, which led to the need to source other markets for crude bauxite exports. In light of the state of the market arrangement for exports to China, disruption to the flow of bauxite to that country can be expected and worsened by Covid-19. However, tempering may ensue if China, which is achieving success in containing the spread of Covid-19, ramps up alumina and aluminium production in the coming months. That, of course, depends on the price of metal and its demand.

The spread of the Covid-19 in China has had a dramatic and widespread impact on all parts of its economy. Most of China's aluminium fabricating sectors had reduced plant's production rate, while others in the quarantine zones were locked down. Alumina refineries had also cut production due to disruptions in the flow of bauxite and caustic soda. With production cuts in place, there were reports of increased bauxite stockpile at Chinese ports. However, now that China in the last two weeks has had low daily rates of infection, the possibility exists for steps to be taken to prioritize the economic recovery. The Chinese government has so far relaxed travel restrictions in Hubei province; the area where the pandemic started. However, with major economies still crippling to contain the spread of Covid-19 and commodity prices falling, the Chinese recovery may be subdued.

Noranda, while noting no disruption to supply of inputs or a situation of extensive absenteeism, has expressed concerns surrounding limited third-party sales and restriction to its cash flow.

JISCO-Alpart

Alpart has suspended its operation for 18 to 24 months to undertake upgrades. The entity has reported that Covid-19 has impacted the upgrading exercise, pointing to access of parts. The expectation is for no alumina production to take place in 2020.

Jamalco

In 2019, Jamalco shipped 62% of its alumina to Europe, 28% to North America and 7% to Africa. No alumina shipments were to Italy, South Korea, Spain, Germany and Iran. Three percent (3%) of alumina was exported both to France and China.

The entity has expressed great concern over the global spread of Covid-19, much of which surrounds the possible impact on its workforce. Currently, there is no impact on supplies of inputs, and its main export markets remain intact. Steps have been taken to sensitize workers about the virus and precautionary measures implemented.

Winalco

Winalco, in 2019, exported alumina to Europe (71%), North America (24%) and Latin America (4%). No alumina shipments were to China, Italy, South Korea, Spain, Germany, France and Iran.

The entity has expressed some concerns about the spread of the Coronavirus, with emphasis on its impact on metal demand and price and global economic activity. However, there are no reports of an impact at this time. Windalco has implemented precautionary measures to safeguard the workforce from the spread of Covid-19.

Regional Market Performance & Disruptions

The primary regional export markets for Jamaica's alumina in 2019 were Europe (69%), North America (26%), Africa (4%) and Asia (1%). In 2019, Europe aluminium production was flat relative to 2018, while consumption fell 1% year-over-year. February, year-to-date, shows no real improvement in production relative to the same period last year and consumption is down 1%. The weakness in Europe's primary consumption is linked to key sectors like automotive and manufacturing, which continue to show weakness. The building and construction sector, is showing signs of strengthening, with the relatively mid-winter causing minimal disruptions. However, there are concerns that if the spread of Covid-19 prolongs then gains made in this sector would be eroded.

In the third week of March, Europe's largest automakers including Volkswagen, Fiat Chrysler, PSA Group, Toyota, Renault, Ford, Ferrari and Lamborghini announced plant closures. These closures and the subsequent reduction in automotive production, as well as the moves to contain the virus, will make the local industry vulnerable to disruption.

In North America, particularly the US, there is an increased risk of disruption due to limitations on the supply value chain arising from the manufacturing curtailment in China. Hindalco subsidiary Novelis has partially shut down some of its plants as a result of the closures seen in the car industry. Further, there is mounting uncertainty surrounding the ability of US aluminium producers to be competitive, given the collapse of oil prices.

Primary aluminium consumption in the US, waned in 2019, down 4% year-over-year. Meanwhile, in Canada, consumption dropped 7%. February, year-to-date, shows an escalation in the pace of decline for the US, with consumption dipping 7%. However, on a positive note, the reverse is observed for production, with US bolstering growth of 24%. Canada's consumption and production fell 2% y-t-d February. Both countries remain a net importer of aluminium, importing 1.668 Mt in 2019 to satisfy demand.

Of the dominant countries in the global aluminium industry (Table 1), China is mostly affected with 81,747 persons contracting the virus. However, China has taken measures to contain the spread and is achieving much success. US and Europe have now been deemed as the epicenter for the pandemic due to the escalation in cases. The total number of persons in the US contracting the virus was 42,164 persons as of March 24. Significant steps are being taken at the Federal and State level to limit the spread of the virus, and the US Senate is moving towards

a bipartisan deal to deliver \$2 trillion in government relief to offset the impact of Covid-19 on the economy. The other countries that are of particular interest to Jamaica's bauxite/alumina industry are Canada, Russia, Norway and Iceland. These countries are not reporting significant levels of infection, and new cases are limited at this time.

Based on the foregoing, it is evident that the likelihood of disruption to the local industry has increased. This view is aligned with events in Jamaica's alumina regional export markets in that of Europe and North America. Particularly, those events relating to the automotive industry and the subsequent closure of plants. Given the acceleration of the Covid-19 pandemic, the interdependence amongst economies and the non-immunity of dominant producers within the global aluminium industry to the effect of weaker economic activity and demand, there is the risk of a further slowdown to Jamaica's export of bauxite and alumina in 2020.

The IMF expects the 2020 global economic growth to be below the 2.9 percent rate for 2019 due to the spread of the virus. The European Central Bank has also indicated that Europe is at risk of a major economic shock similar to the global financial crisis unless the spread of the Coronavirus is contained. Another global recession could mirror the 2009 collapse of the Jamaica's bauxite/alumina industry when three (3) of its refineries curtailed operation.

Conclusion

The risk of disruption to local operation has increased in light of the reported cases of Covid-19 in Jamaica and the closure of plants in North America and Europe. An escalation in the localized incidence of Covid-19 infection and declines in global economic activity and demand will result in an exponential increase in the likelihood of disruption.

On a positive note, bauxite enterprises are not reporting any localized disruption due to absenteeism at this time. Steps have been taken by all bauxite enterprises to implement precautionary measures to limit the impact on workforce.

Although disruptions to the global supply value chain are taking place, local bauxite enterprises, except for Alpart, have not reported any disruption in respect of access to inputs or markets for its exports.

A mitigating factor that could limit localized disruption is the recognition that refineries utilize a shift system. This system allows more than one worker to know the procedures related to a core function at the plant. So if one person contracts Covid-19, then a suitable replacement for the infected person can be found. There is the risk that other workers, concerned about their health, may stay away from work. Nevertheless, if the entities and workers take adequate precautionary measures, then this could alleviate some of the concerns.

Table 1: Dominant Countries in the Global Aluminium Industry & Covid-19 Incidence

COUNTRIES	COMMODITIES			COVID-19 IMPACT						
	Bauxite	Alumina	Aluminium	Population (million)	Total Confirmed Cases	Total Confirmed New Cases	Total Deaths	Total New Deaths	Transmission classification	Days since last reported case
United States	✗	✓	✓	331	42164	10591	471	69	Local transmission	0
Australia	✓	✓	✓	25	1709	313	7	0	Local transmission	0
Bahrain	✗	✗	✓	2	377	40	2	0	Local transmission	0
Brazil	✓	✓	✓*	213	1546	642	25	14	Local transmission	0
Canada	✗	✓	✓	38	1432	48	20	1	Local transmission	0
China	✓	✓	✓	1,439	81747	146	3283	7	Local transmission	0
Iceland	✗	✓	✓	0	199	19	0	0	Local transmission	0
India	✓	✓	✓	1,380	137	23	3	1	Local transmission	0
Indonesia	✓*	✗	✓	274	172	55	5	1	Local transmission	0
Jamaica	✓	✓	✗	3	19	0	1	0	Local transmission	1
Malaysia	✓	✗	✗	32	553	0	0	0	Local transmission	1
Norway	✗	✗	✓	5	1169	92	3	2	Local transmission	0
Russia	✓	✓	✓	146	93	30	0	0	Imported cases only	0
Saudi Arabia	✓	✓	✗	35	133	30	0	0	Local transmission	1

COUNTRIES	COMMODITIES			COVID-19 IMPACT						
United Arab Emirates	✗	✗	✓	10	98	0	0	0	Local transmission	1
Vietnam	✓	✓	✗	97	61	4	0	0	Local transmission	0
* Not a dominant producer										
Countries with reported laboratory-confirmed COVID-19 cases and deaths. Data as of 24 March 2020*										
<i>Source: WHO</i>										