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A Forward-Looking Industrial Project

by Hubert Hoeping, Hamburg *

The formal agreement about setting up at Hamburg a combined aluminium smelter, light alloy rolling-mill, and aluminium and light alloy processing plant of Reynolds International Incorporated was signed in Hamburg on May 28 last. For the Reynolds Group, the signatories were Mr J. Louis Reynolds, Board Chairman of Reynolds International Inc. of Richmond, Virginia, US, for the Senate (City government) of the Free and Hanseatic City of Hamburg, Senator Helmuth Kern, Head of the Department for Economic Affairs and Transport, and Senator Gerhard Brandes, Head of the Finance Department.

The Reynolds Metals Company in Richmond, Virginia, US, is the second-largest aluminium producing group of the United States, and the third-largest in the entire world, the order being as follows: Alcoa (US), Alcan (Canada), Reynolds (US). On average, Reynolds employs about 32,500 workers and staff, and its total assets are valued at over \$ 1,600 mn. Its crude aluminium capacity was 895,000 tons p.a. in 1968, which was 24 p.c. of the overall production of the United States. Its net turnover reached about \$ 844 mn in 1968.

Hamburg's Economic Intentions

The Hamburg project of Reynolds Aluminium is in full agreement with the policy principles laid down by Hamburg's Senate in its declaration of fundamentals, "The Principles of an Economic Policy for Hamburg", within the framework of medium-term financial planning for the years 1969-1973 for the Free and Hanseatic City of Hamburg.

Briefly, the basis of this economic policy are the following general objectives:

- ☐ Measures for enlarging Hamburg's industrial capacities;
- ☐ Measures for promoting growth industries;
- ☐ Measures for improving Hamburg's economic ties with other German and foreign economic centres;
- ☐ Measures of making Hamburg more attractive as a centre of economic, cultural, and social activities.

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Both in Germany and in the whole world, aluminium is one of the most important growth industries. German aluminium consumption has almost trebled during the decade 1958-1968; it had reached about 732,000 tons in 1968, against only 276,000 tons in 1958. Vigorous further growth of this consumption is to be expected in the future. The United States, per head of its population, is using about 80 p.c. more aluminium than West Germany, and even on this high level, annual growth rates in the US have still been of the order of 9 p.c. over the past ten years.

Aluminium is supremely important as a commodity of international trade. The quantities of crude aluminium exchanged between free countries have consistently been of the order of more than 1½ mn tons p.a. International trade absorbs about 600,000 tons of aluminium products annually. The overall value of international trading in aluminium, crude and processed, in the Free World is on a level of about DM 5,000 mn each year.

Aluminium is claiming progressively more numerous modes of application. Reynolds, as the third-largest producer of aluminium in the whole world, has been pioneering new methods of using aluminium constantly. Reynolds, for example, has built the first high-stability railway refrigerated goods truck made entirely from aluminium, it has made high-tensile high-voltage transmission wires for electricity from aluminium alloy, and has supplied the entire aluminium-built equipment for the passenger liner "United States".

The corporation has developed a method for manufacturing at low cost seamless aluminium cans for beer and soft drinks, and has thus become the company with the biggest output of such cans. (The first beer can ever made from aluminium was a Reynolds product.) Making aluminium cans is at present the form of using aluminium with the highest growth rate, and during the current year, the United States will probably use 250,000 tons of the metal for this purpose alone. There are far too many applications of aluminium for enumerating them all in this article, but typical aluminium products are steering-wheels for motor vehicles, window frames, especially for shop

windows, packing materials, printed aluminium sheet and foil, etc. Whole ships' rumps have been built of aluminium.

In this connection, it is interesting to mention the deep-sea submersible "Aluminaut". This special ocean-going submarine is at present being used for oceanological research off the Californian coast. Its owner is Reynolds International, and the company intends to make the port of Hamburg the research submarine's future base onshore, where German research workers could embark in the "Aluminaut" for future trips of discovery. The body of the submarine is designed to withstand water pressures up to ocean depths of 16,500 feet. As the submarine and its equipment have been fully tested and found to come up to design requirements, it is intended to build more and bigger deep-sea going submarines, not only for research purposes but also for economic use, e.g. for exploiting the sea bottom's resources with their robot arms.

Hamburg, a Suitable Location for Industry

The potential increase of aluminium consumption in other countries of the European Common Market is at least as great as in Germany, since their aluminium use per head is even lower than the German one. Hamburg is an excellent operating base for Reynolds Aluminium Hamburg to supply other Common Market countries with crude aluminium and with manufactured aluminium goods, as the city is favourably situated for trade. Hamburg is not only a big ocean port but also one of the most important traffic junctions of Europe for the railways, road transport, and airborne traffic. The hinterland of Hamburg's port reaches far beyond the borders of the Federal Republic of Germany, taking in Switzerland, Austria, Hungary, Czechoslovakia, East Germany, and Scandinavia. Ocean-going ships can reach Hamburg at any time via the Elbe estuary, independently of the tides. Its port has the great advantage that it is situated more than sixty miles inland and goods reaching it will travel there at cheap ocean shipping freight rates.

Plant Location and Energy Supplies

The Industrial Estate on the new "Süderelbekanal" (Southern Elbe Canal), which connects the two river arms of the Köhlfließ and the Süderelbe, will be equipped with new berthing facilities capable of handling cargo boats up to 60,000 tons dw. Their traffic connections with the hinterland will be enlarged to optimal performance capacity through Hamburg's infrastructure planning. Hamburg as a trade base is also favoured by the fact that Reynolds operates a number of other subsidiary companies within the Common Market area (in Belgium, the Netherlands, and Italy), whose main source of unprocessed crude aluminium will be Reynolds Hamburg. Reynolds Alu-

minium Hamburg is the only Reynolds associate within the European Economic Community which will make crude aluminium. The production facilities of the Hamburg plant will be technologically far advanced, thus offering the sister companies in the EEC a highly favourable starting basis for supplying superior products to their own markets.

Another of the essential foundations for making an industrial location acceptable is cheap energy. Within the next three years, Hamburg will be able to offer the energy supplies of the future from nuclear fission. The atomic power station planned at Stade near Hamburg, which will be in operation from the autumn of 1972, will earmark one third of the entire electric power generated there for Reynolds, and it is only thus that Reynolds Aluminium has become a feasible proposition. In order to run profitably, an atomic power station must operate at or near full capacity day and night — it can only run on "baseload". An aluminium smelter operates on similar terms: it works continuously, round the clock.

Problems of Labour Supply

Reynolds Aluminium Hamburg will become operative from 1972 on, and since about 1,200 workers and employees will be needed, a labour problem will arise due to the bottlenecks in the German labour market. Already now 200 persons to be employed in the Hamburg plant are being trained in the firm's subsidiary at Nachroth/Westphalia. From 1971 on, Reynolds will undertake to retrain workers within the scope of the Labour Promotion Act. The employment of foreign labour, particularly from countries where Reynolds is already operating, is provided for. The planned settlement of the peripheral areas of Fischbek, Neugraben and Hausbruch, that are supposed to form a separate part of the town, justifies the expectation that part of the new settlers will welcome jobs in the vicinity of their homes. According to experiences made so far the number of Americans employed in the new plant will be very small, for there are Reynolds-works in Europe employing a total labour force of 3,200 persons with only three Americans among them.

Competitive Position

At about the same time with Reynolds, several other German aluminium smelters will become operative. This has led to widespread fears lest surplus capacities and oversupply will lead to cutthroat competition.

However, the Reynolds company is not worried on that account, because already 50 p.c. of its future output at Hamburg is bespoke under contract for existing marketing outlets in the Common Market, in the Middle East, and in Africa. As can be foreseen, the steep rise of aluminium consumption

both in Germany and in other countries, which have been mentioned, makes it practically useless to worry about difficulties of selling and about increased competition. The company's marketing schemes have been planned for the long term, and its projected output has been virtually sold in advance to the full. Thus, the new industrial complex may be confidently predicted to be impervious to the forces of any future recession.

A Favourable Perspective for Hamburg

Full production of Reynolds Hamburg may only be achieved about three years after completion of construction: building work on the site is to begin in 1970, completion of the first building stages and first production runs are scheduled for 1972, and full operations for 1975. Estimated construction costs for the aluminium smelter and rolling mill are more than DM 600 mn, a total which does not include the costs for providing berthing and handling facilities for cargo ships of 60,000 tons.

The contractors for construction work worth more than half a billion DM will mainly be building and sub-contracting companies based on Hamburg. Beyond this, economic experts predict even far broader direct and indirect effects worth, according to their estimates, five times the budgeted effect of the aluminium plants, taken alone. The coming to Hamburg of Reynolds will form a nucleus attracting important subsidiary and auxiliary industries to Hamburg, for aluminium is an indispensable raw material for making many and diverse products by foundries, producers of transport equipment, building accessories, electrical and electronic engineering, the packaging industry and general engineering. Aluminium making in Hamburg will act as an economic magnet which makes industrial satellites cluster round it. Hamburg will thus grow into one of the few aluminium-making centres of the world where it is possible to set up enterprises processing aluminium in close contiguity with both the sources of their raw material and their markets for finished articles. It is to be expected that these affiliated industries which use and process aluminium will create personal incomes, employment, and revenue for the finances of the City at least to the same extent as the assets created by the aluminium plant itself.

As in the case of most other projects for establishing new industries at a new location, the project under discussion will enlarge not only one branch of industry but many other sectors of the entire local economy — wholesale and retail trade, public utilities, transport, banks, foreign trade, and public services. In 1967, there were in Hamburg per industrial worker 2.8 persons gainfully employed in other sections of the economy. Increased employment, which will be the effect of Reynold's arrival in Hamburg and of the settle-

ment of other industries that are likely to follow its advent, may produce an overall rise in the working population, in total income and tax revenue of about three times the volume created directly by Reynolds. Taking in subsidiary and auxiliary industries and the service trades which have been mentioned, the economic uplift for Hamburg will certainly be even bigger — possibly more than five times the direct increase caused by the aluminium project itself. Probably, more than 6,000 additional persons will thus find gainful employment.

The output of the aluminium complex is valued at about DM 350 mn p.a., which is more than 2 p.c. of the present total turnover of Hamburg's industries (DM 16,300 mn in 1967). Non-iron metals will grow to become one of the principal industries of the Hamburg area, surpassed in importance only by the oil refineries and by electrical engineering. The direct tax income yielded by the Reynolds company and its labour force is estimated to be of the order of an annual DM 60 mn. Another source of additional income from the project will be ground rents, surface rents, commissions on guarantees extended, port dues, etc., which will strengthen the City's coffers by another estimated DM 3.5 mn p.a.

Hamburg as an Economic Centre

New investments of the order of DM 600 mn, which are to be sunk in a basic industry centred on Hamburg, will attract the attention to the city not only of interested overseas industries but also of European and German manufacturers who intend to set up new or enlarge existing production capacities. Such industrial facilities will add to the purely subsidiary and auxiliary industries dependent on the aluminium project.

Past experience has always shown that the best method for ensuring continuous industrial growth is to set up industrial "centres of gravity" by establishing important, internationally well-known, basic forms of production of a high reputation. Smaller companies will be impressed, believing that the big corporations have studied all the possible alternatives with great care, basing their choice of location on a painstaking and detailed feasibility analysis. They will therefore be inclined to emulate their "big brothers" and seek their neighbourhood.

The move of Reynolds Aluminium to Hamburg will thus act perpetually as a strong magnet attracting new industries, which will scrutinise the possibility of choosing Hamburg as a location for their own activities. Reynolds will therefore make a powerful contribution to transforming Hamburg into a similarly dynamic growth area as the competing ports of, e.g., Rotterdam and Antwerp that have shown themselves capable of attracting new types of industry by providing the required incentives.