

# Why scrapping aluminium import duties will protect EU downstream

By advocating the scrapping the EU’s tariff on unwrought aluminium imports, FACE – the Federation of Aluminium Consumers in Europe – is speaking up in defence of the competitiveness of the downstream industry. By **Mario Conserva\***

It’s a well-known fact that pricing aluminium through the London Metal Exchange’s (LME) daily quotes, the metal’s price should ensure that regions of the global market operate on a level-playing field. The LME base price, plus regional/product premia, directly linked to logistics costs and demand and supply conditions should, ostensibly, yield a ‘fair’ aluminium price. But not all markets are created equal, and a cursory look at Europe’s market situation dispels this fact as nothing more than wishful thinking – just ask Europe’s downstream producers.

Thanks to the bloc’s 6% import tariff on unwrought metal (Fig. 1), the competitiveness of small and medium-sized enterprises (SMEs) in downstream sectors has been curtailed. Rather than increasing access to a steady supply of unwrought aluminium, the import tariff has acted as a hidden subsidy to a handful of large, vertically integrated companies, including non-EU based firms.

This state of play has caused billions of Euros in needless extra costs to the downstream industry and is posing a threat to the competitiveness of thousands

of companies that together employ more than 230 000 people across the EU. To prevent any further damage and ensure the success of Europe’s downstream industry, FACE, the Federation of Aluminium Consumers in Europe, was created by downstream SMEs in 1999. Since then, FACE has repeatedly urged the European Commission to remove the import tariff on unwrought aluminium.

### A brief overview of the tariff regime’s economic effects

Make no mistake, the adverse competitive environment in which European semi-fabricators are operating is familiar to market watchers. And yet, even after 20 years of FACE activity, simple economic principles relating to the policy cause and price effect are still being misunderstood or are wilfully ignored. Yet the veracity of the fact that “The introduction of import tariffs is expected to increase prices of imported goods as well as domestic prices” (Brander 1986; P. Krugman, Obstfeld, & Melitz 2015), has been proven on multiple occasions.

On paper, the European Commission’s

reasoning for imposing and keeping the import duties on unwrought aluminium is supporting primary aluminium smelting in the EU (source: EC 2010). However, the reality is that the duties have had the opposite effect, and as such, have completely failed in their objectives.

Previous studies paid attention to the aluminium industrial chain, such as “Competitiveness of the EU non-ferrous Metal Industries, Final Report” (ECORYS, April 2011), and “Assessment of Cumulative Cost Impact for The Steel and The Aluminium Industry” (CEPS 2013), both of which mainly focused on the upstream segment of the industry, i.e. the producers of primary metals. However, some reference to the downstream sector of semis and foundry castings producers can be found in the Ecorys study, which argued back in 2011 that “Import tariffs should be reduced or eliminated, at least for aluminium; simultaneously other competitiveness issues related to e.g. high energy costs and aluminium scrap market distortions should be addressed through other policy measures” (p.19).

The same study estimated that “a

MFN import tariffs for unwrought aluminium

Product category	HS Code	Code description	MFN Applied tariff (%)	EU law (Regulation No.)
Unwrought aluminium	76.01.100000	Aluminium, not alloyed	3	R0705010
	76.01.202090	Aluminium alloys, Slabs and billets, Other*	4	R1623900
	76.01.100000	Aluminium alloys (other)	6	R9720860

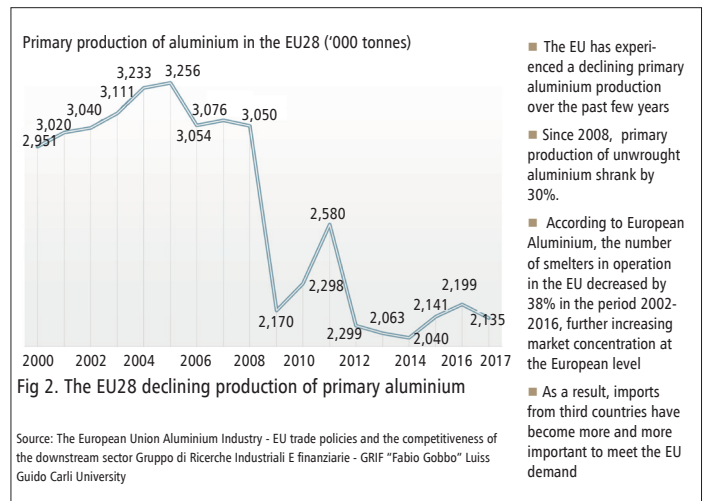
\* MFN Applied tariff for Aluminium alloys, Slabs and billets containing lithium (HS Code 76.01.202010) is 0 %  
 \* Source: Authors based on European Commission, Market Access Database and WTO Tariff Download Facility

An international comparison of MFN import tariffs for unwrought aluminium

HS Code	Code description	EU*	USA**	Japan	China	India	Russian Federation
76.01.10	Aluminium, not alloyed, unwrought	3	0 - 2.6	0	5	5	0
76.01.20	Unwrought aluminium alloys	4 - 6	0 - 2.6	0	7	5	0-5

\* MFN Applied tariff for Aluminium alloys, Slabs and billets containing lithium is 0 %  
 \*\* To be verified Source: The European Union Aluminium Industry - EU trade policies and the competitiveness of the downstream sector Gruppo di Ricerche Industriali E finanziarie - GRIF “Fabio Gobbo” Luiss Guido Carli University

Fig 1. Current levels of import tariffs for unwrought aluminium



\*General Secretary of FACE Federation of Aluminium Consumers Europe

## EU28 production of primary aluminium ('000 tonnes)

Country	2000	2005	2010	2015	2016	2017	Δ 00-17
Germany	644	643	401	542	548	535	-17%
France	441	442	357	419	425	416	-6%
Spain	365	397	366	349	353	337	-8%
UK	305	366	186	47	46	40	-87%
Netherlands	302	334	214	31	57	36	-88%
Italy	189	193	135	0	0	0	-100%
Romania	179	244	207	207	208	210	17%
Greece	163	165	135	176	182	181	12%
Slovakia	110	159	163	171	174	174	58%
Sweden	100	103	93	116	123	123	23%
Slovenia	75	121	41	84	84	84	11%
Poland	45	55	0	0	0	0	-100%
Hungary	34	36	0	0	0	0	-100%
<b>Total EU 28</b>	<b>2,951</b>	<b>3,256</b>	<b>2,298</b>	<b>2,141</b>	<b>2,199</b>	<b>2,135</b>	<b>-28%</b>

The decline of unwrought primary aluminium production has been particularly severe in the EU (-28% in 2000-2017). In terms of geographical distribution of production, Germany, France, and Spain are the countries with the largest share of production. In 2017, they produced about 60 percent of the primary aluminium in EU28 (compared to 46 percent in 2008).

Fig. 3 The aluminium upstream: the decline of primary metal production in EU28

somewhat simplified calculation suggests that reducing the import duty tariff (on raw aluminium) by 1%, or EUR 15 at a metal price of EURO 1,500, would result in a loss of revenue for the primary sector of EURO 45 million, at an EU production level of 3 million tonnes. In addition, it would reduce costs in the downstream sector by EURO 117 million, given that 7.8 million tons of primary aluminium are consumed by the producers of semis. Semi-producers located outside the EU with duty-free access to the EU, or benefit of GSP preferential treatment, have a cost advantage compared to EU operators because they pay less for primary aluminium" (p.201).

But neither study provided a comprehensive assessment of the tariffs' effects on the downstream sector.

### The LUISS studies

Enter the LUISS studies. At FACE's initiative, the LUISS University of Rome released in 2015 a thorough study to fully assess the impact of EU policies on the competitiveness of downstream transformers in the aluminium industry. The main questions to be answered were: what is the trade policy of the EU and what is the impact of import tariffs on the EU market price for unwrought aluminium? What is the impact of the EU's trade policy on the competitiveness of downstream aluminium transformers?

The conclusions were clear: the EU lacks raw aluminium production capacities, and the 6% import tariff served no purpose other than causing a hefty 15 billion Euro worth of damages between 2000 and 2013 to the industry's downstream – the most important part of the value chain in terms of revenues and number of employees (Luiss, Centro di Ricerca di Economia Industriale e Finanza "Fabio Gobbo": The impact of EU policies on

the competitiveness of the EU aluminium industry: A focus on non-integrated downstream users", Rome, January 2015).

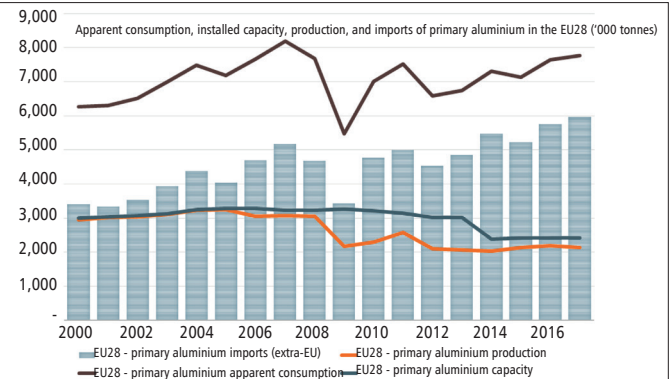
Three years on, the situation is even worse. The EU28 continue to be heavily reliant on imports of primary aluminium. Since 2015, alumina output has slowed, mirroring the sharply declining production of primary unwrought aluminium. Primary aluminium producing countries like Italy, the Netherlands and the UK have ceased or drastically reduced their production, meaning that the European aluminium industrial value chain is critically dependent on foreign-produced metal.

Meanwhile, pressures from Chinese companies and protectionist US trade policies are only exacerbating the already precarious market conditions. In light of this increasingly critical situation for the future of the entire aluminium downstream chain, the LUISS study was updated in 2018 in order to assess and forecast the relative position of EU non-integrated downstream producers.

The first conclusions of the new study, "The European Union Aluminium Industry Trade Policies and the Competitiveness of the Downstream Sector" (Gruppo di Ricerche Industriali e Finanziarie GRIF Fabio Gobbo, LUISS University, Rome 2018), to be finalized before the end of the year, are damning.

In spite of the 6% tariff, the dependence on unwrought aluminium imports has skyrocketed, as primary aluminium production is declining ever-faster (Figs. 2, 3 and 4). The EU lost more than one quarter of its smelting capacity in the period 2008-2016 because of disinvestment, resulting in several smelter closures. According to the European Aluminium, the number of smelters in operation in the EU decreased by 38% between 2002 and 2016.

This means the tariff failed to achieve



Source: The European Union Aluminium Industry - EU trade policies and the competitiveness of the downstream sector Gruppo di Ricerche Industriali e Finanziarie - GRIF "Fabio Gobbo" Luiss Guido Carli University

In 2017, the EU primary aluminium production was about 27 percent of EU primary aluminium apparent consumption, defined as primary aluminium production plus imports minus exports. Furthermore, in the same year, as a consequence of the process of profound disinvestments and the resulting several smelter closures started in 2008, the EU total installed smelting capacity was instead 31 percent of the EU primary aluminium apparent consumption. Capacity utilisation of smelting facilities can be thus estimated to be around 88 percent in 2017, signalling that the production capacity of EU primary aluminium firms is nearly fully exploited

Fig 4. (Right) The EU primary aluminium deficit

its stated purpose. What it did achieve, however, is to act as a break on the competitiveness of the EU's downstream producers. As the LUISS study points out, (Fig. 5) the breakdown of the extra costs for such producers over the period 2000-2017 can be estimated at €19.2 billion – or an average cost for every aluminium tonne consumed of over 100 Euros.

### Brussels' imperative to act

It is obvious that the duty is doing the SMEs in the aluminium industry no good. The numbers in the LUISS study should speak by themselves: the EC should change its approach and abandon the unwrought aluminium import tariff completely. Not only would this reduce the burden on SMEs by over a €1 billion a year, it would also protect jobs and business opportunities.

Duties are a protection tool that must be deployed carefully, as they necessarily imply a value judgment by the regulator, which decides to alter market conditions to fit certain priorities. But what the EU needs is an effective and comprehensive industrial policy for the aluminium industry that takes into account the entire value chain, starting from the end-user industries to the upstream activities. Such an approach must necessarily include cross-sectoral measures from different policy areas, especially in energy, trade, research, raw materials, and public administration.

Appropriate support schemes other than customs duties have to be designed for maintaining smelters, and for encouraging secondary metal production. Therefore, abolishing the unwrought aluminium customs duty should be a first important step. Numbers don't lie: the duty unnecessarily raises downstream costs without offering any tangible benefit of upstream production. ■