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

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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 cost reduction of downstream users, 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. 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 versus non-EU producers.

The conclusions of this 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 disinvestments, 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 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, the EU’s unwrought aluminium import duty is irrelevant to the competitiveness of downstream producers, as the LUISS study shows, three years on, the situation is even worse. The EU28 continue to be heavily dependent on foreign-produced metal.

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