

FEDERATION OF ALUMINIUM CONSUMERS IN EUROPE



The European Union must urgently support the sustainability and competitiveness of its downstream aluminium industry

2021

ABOUT FACE

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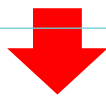
- ✓ The Brussels-based Federation of Aluminium Consumers in Europe (FACE) is a **voice dedicated to Europe's aluminium transformers and final users.**
- ✓ Since its founding in May 1999, FACE has advocated for a fair playing level field of the EU's downstream aluminium sector and has promoted the versatile metal by showcasing its economic, social and environmental virtues.
- ✓ FACE commissioned in 2014 and 2019 two studies made by the LUISS University in Rome devoted to the competitiveness of the EU aluminium downstream and in 2020 a policy paper by FairEconomics dedicated to the German downstream aluminium industry.

Members







- **Achieving fair trade in raw aluminium and aluminium products across all EU markets.**
- Supporting the competitiveness of the EU downstream industry.
- Promotion of **GREEN** aluminium and aluminium products as a superior choice due to their significant economic, social, and environmental advantages.
- Monitoring and evaluating new and emerging technologies for the production, semi-fabrication, trade, use and recycling of aluminium.
- **Stimulating the demand of aluminium by reducing the cost of raw metal for transformers and final users.**

ACHIEVING FAIR TRADE IN RAW METAL: URGENT NEED FOR A TOTAL SUSPENSION OF EU IMPORT DUTIES ON UNWROUGHT ALUMINIUM



IMPORT TARIFFS APPLIED ON UNWROUGHT ALUMINIUM IN THE EU IN 2021

HS Code	Code description	Tariff (2021)	EU regulation No.
76.01.100000	Aluminium, not alloyed , Aluminium content $\geq 99\%$ 	3%	R0705010
76.01.202010	Aluminium alloys , slabs and billets, containing lithium, Aluminium content $< 99\%$ 	0%	R1623900
76.01.202090	Aluminium alloys , slabs and billets, Aluminium content $< 99\%$ 	4%	R1623900
76.01.208000	Aluminium alloys (other), Aluminium content $< 99\%$ 	6%	R9720860



In 2007, following FACE and downstream industry pressure to change the tariffs, a temporary reduction from 6% to 3% was introduced on unwrought unalloyed aluminium.

In 2013, following another initiative of FACE, the alloyed slabs and billets duty rate was temporarily reduced from 6% to 4% and a tariff suspension was applied to aluminium slabs and billets containing lithium, a niche product, by lowering the import duty from 6% to 0%. But FACE's parallel request of lowering or zeroing the duty on foundry alloys (code 76.01.208000) was rejected.



REMOVAL OF THE TARIFF ON UNWROUGHT METAL IMPORTS WHICH DISPROPORTIONALLY DAMAGES THE EU DOWNSTREAM SECTOR



Not-alloyed remelt ingots



Slabs
(sheet / rolling ingots)

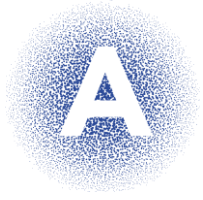


Foundry alloys
(alloys remelt ingots)



Billets
(extrusion ingots)

EU ALUMINIUM INDUSTRY LANDSCAPE



UPSTREAM

8% - of the total employment

30% - of the annual turnover

Raw Al



Scraps



Alumina

DOWNSTREAM

92% - of total employment

60% - of annual turnover

Extruded profiles



Coils, Sheets, Plates



Foils



Rods, Bars



Forgings, Castings



SEMI-FINISHED PRODUCTS

END PRODUCTS

>2500

Companies

€55 bln

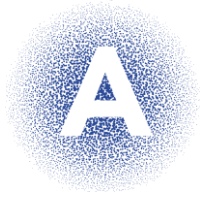
Annual turnover
in 2018
(EU+EFTA)

230,000

Direct jobs

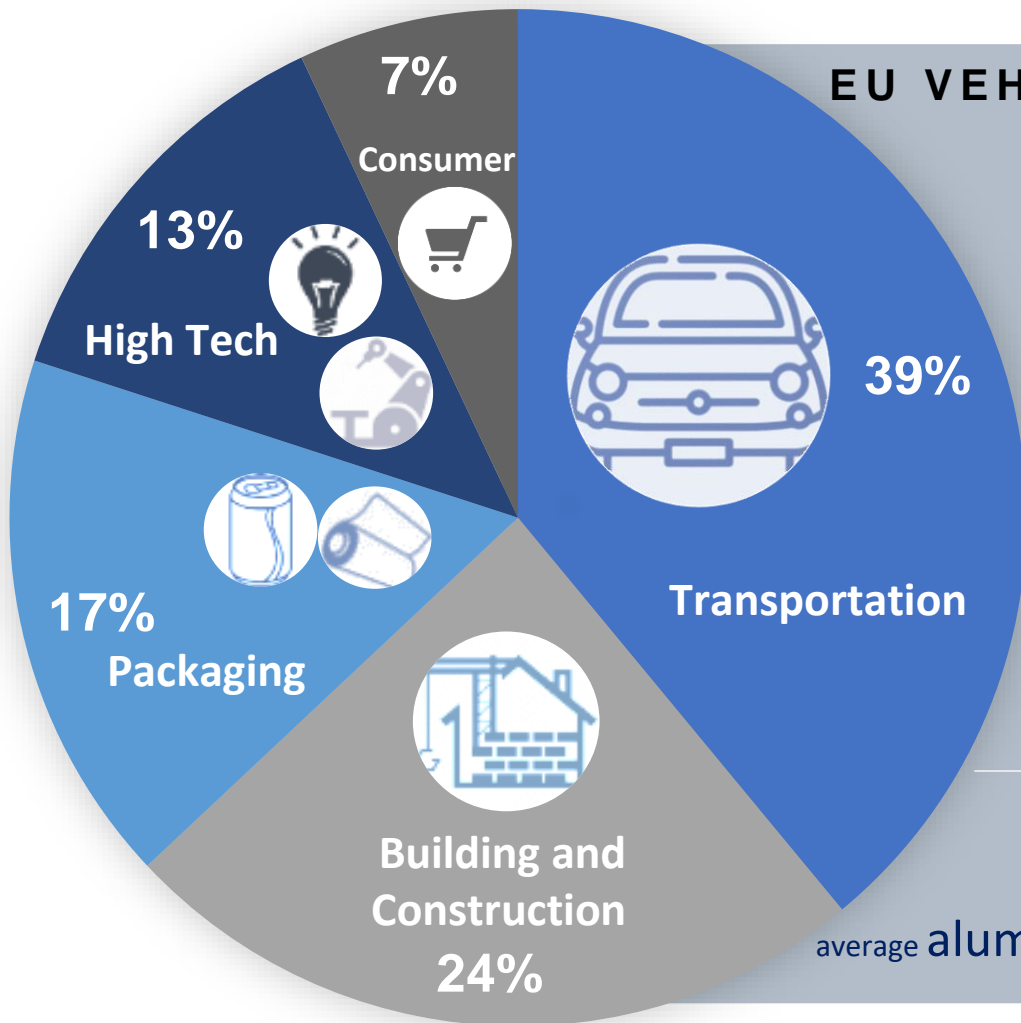
EU depends on imports of unwrought primary aluminium for more than

>70%
of its needs



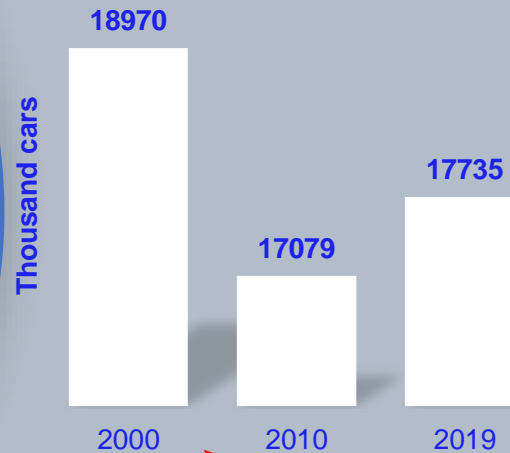
AUTOMOTIVE IS THE MAIN CONSUMER OF ALUMINIUM IN EU

AL SEMIS DEMAND BY END USE



EU VEHICLE PRODUCTION DYNAMICS

CAR PRODUCTION IN EU27



13.3 MILLION EUROPEANS

or 6.1% of the EU employed population work in the automotive sector. The 3.4 million high-skilled jobs in automotive manufacturing represent **11.3%** of the EU's manufacturing employment.

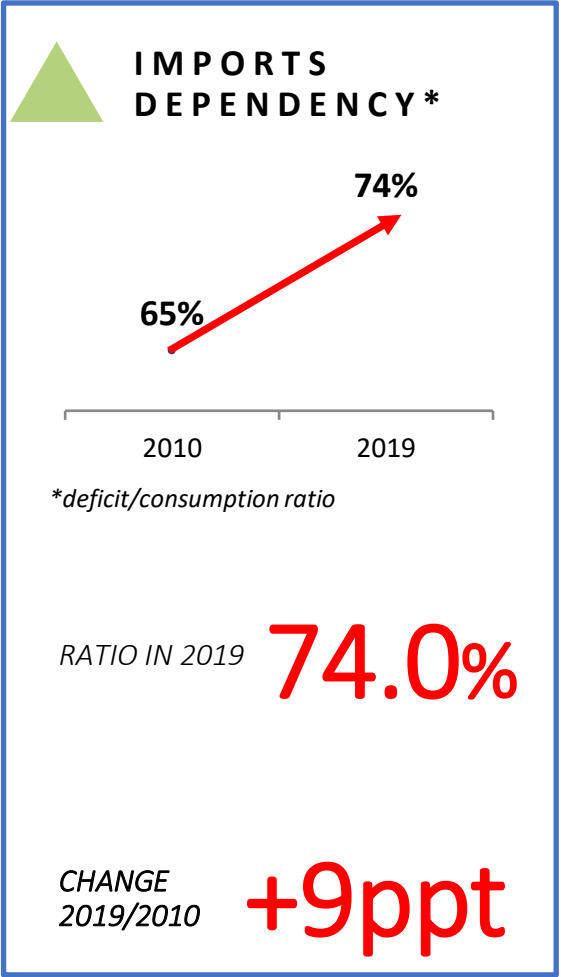
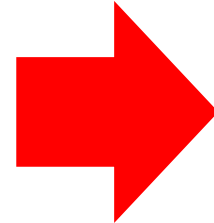
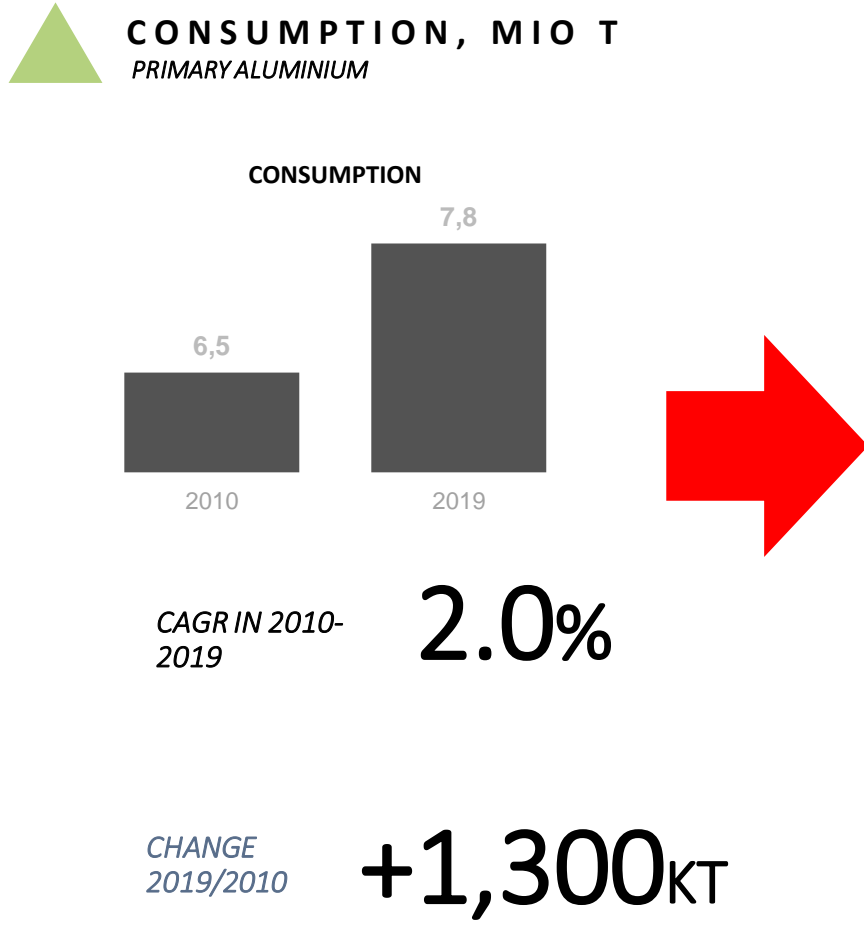
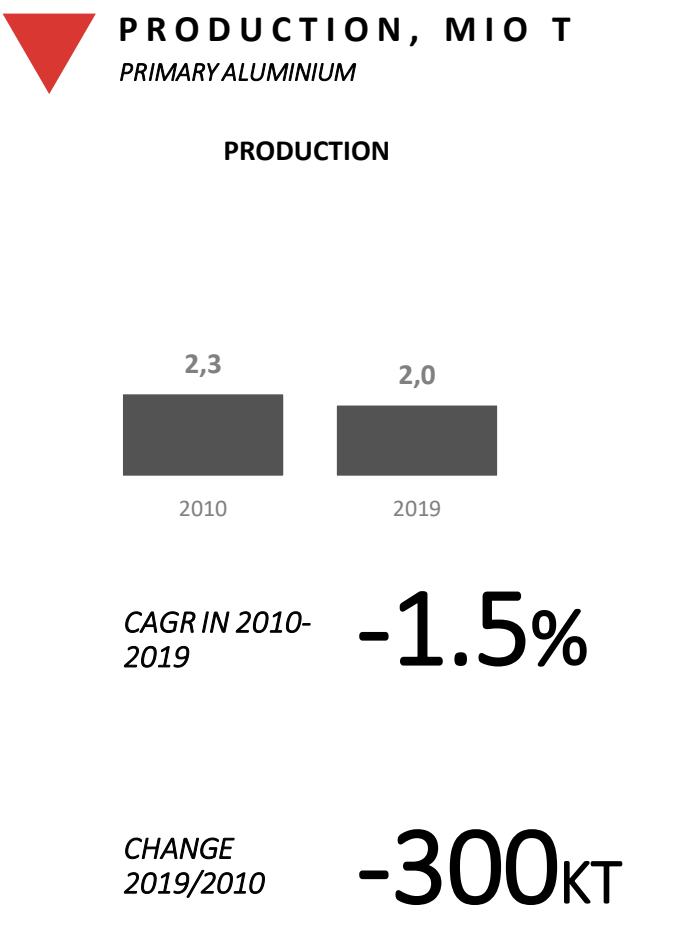
137
car manufacturing factories in Europe

the average age of car
~10 years

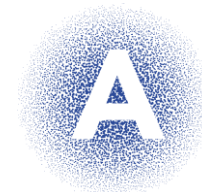
from **50** kg to **180** kg
average aluminium content per vehicle for European car production (1990 vs. 2019)



EU ALUMINIUM INDUSTRY DEPENDS ON IMPORT OF ITS MAIN RAW MATERIAL, PRIMARY UNWROUGHT METAL

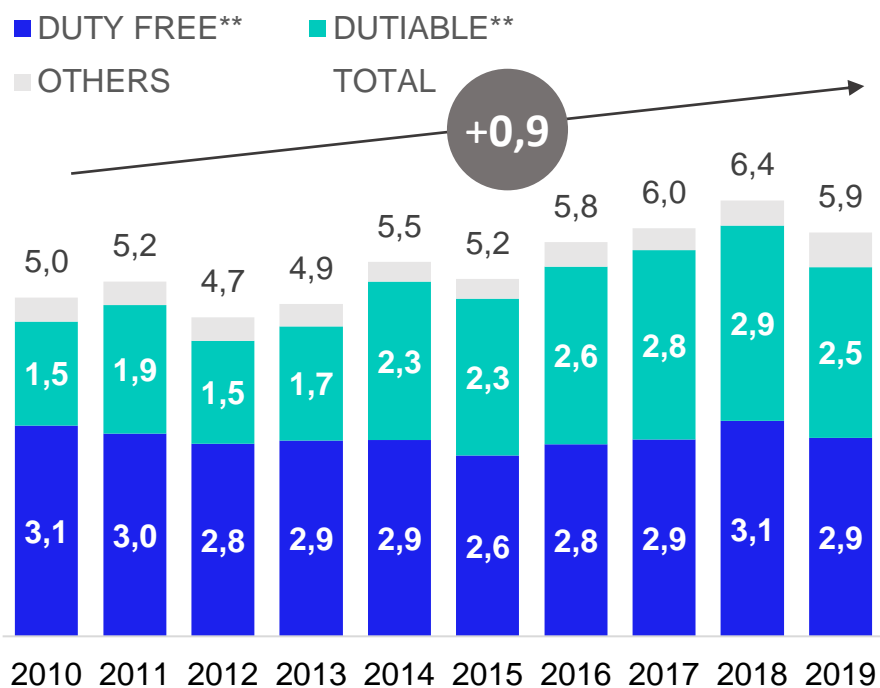


Source: CRU, FACE estimations



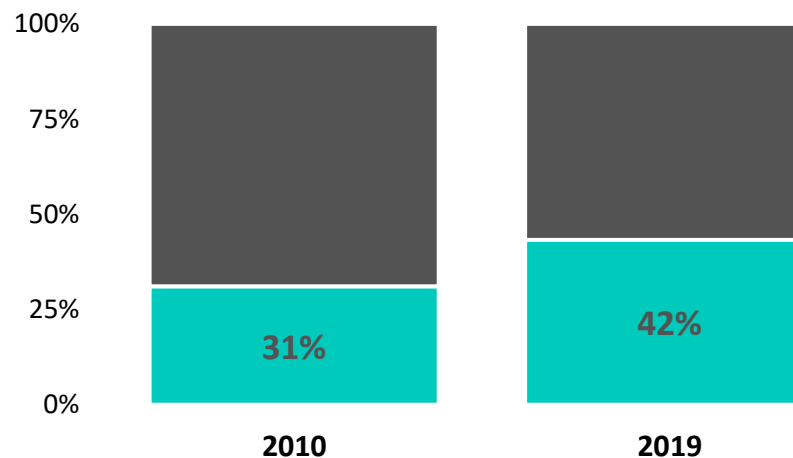
DEFICIT GROWTH IS COVERED WITH DUTIABLE ORIGIN METAL

PRIMARY* ALUMINIUM IMPORTS IN
2010-2019 , MIO T



20 countries

SHARE OF DUTIABLE ORIGIN METAL IN
TOTAL IMPORTS, %



It is economically absurd and damaging to maintain import tariffs on the European aluminium industry's raw material (unwrought metal) in a massively import-dependent market

*HS7601

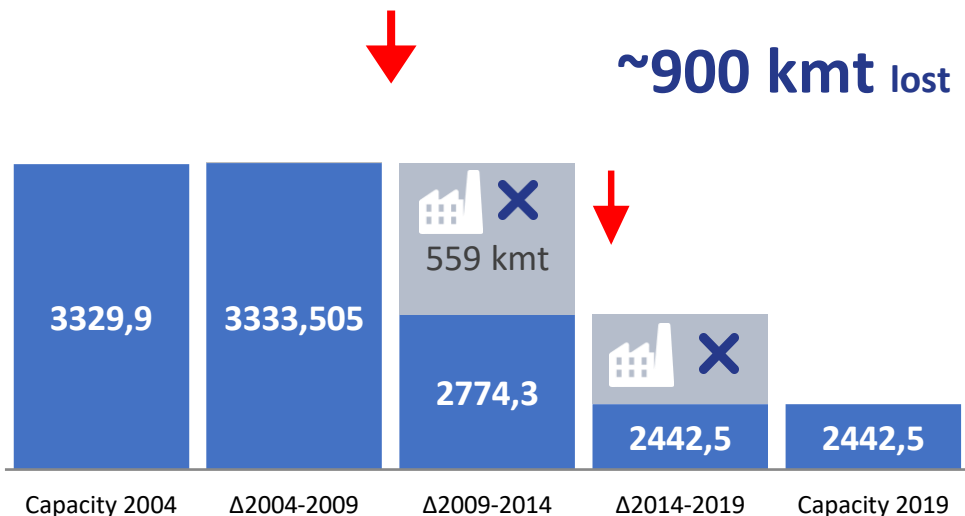
**represent 95% of total imports



EU PRIMARY ALUMINIUM INDUSTRY

CONTINUES LOOSING CAPACITY

PRIMARY ALUMINIUM CAPACITY DYNAMICS IN EU28



1/3 of EU primary aluminium **OUTPUT** was **LOST** between 2010 and 2019

7 smelters have closed up shop

38% the **NUMBER** of smelters in operation in the EU decreased in the period 2002-2016

3 smelters were **CLOSED** in Spain in 2019-2020 due to structural issues (~350 kmt lost)

DOMESTIC PRODUCTION DECLINES AND SMELTERS CLOSURES ARE DUE TO:

High **LABOR** costs

Lack of **INVESTMENT**

High **ENERGY** tariffs

Outdated **TECHNOLOGY**

Pressure from **ENVIRONMENTAL** legislation

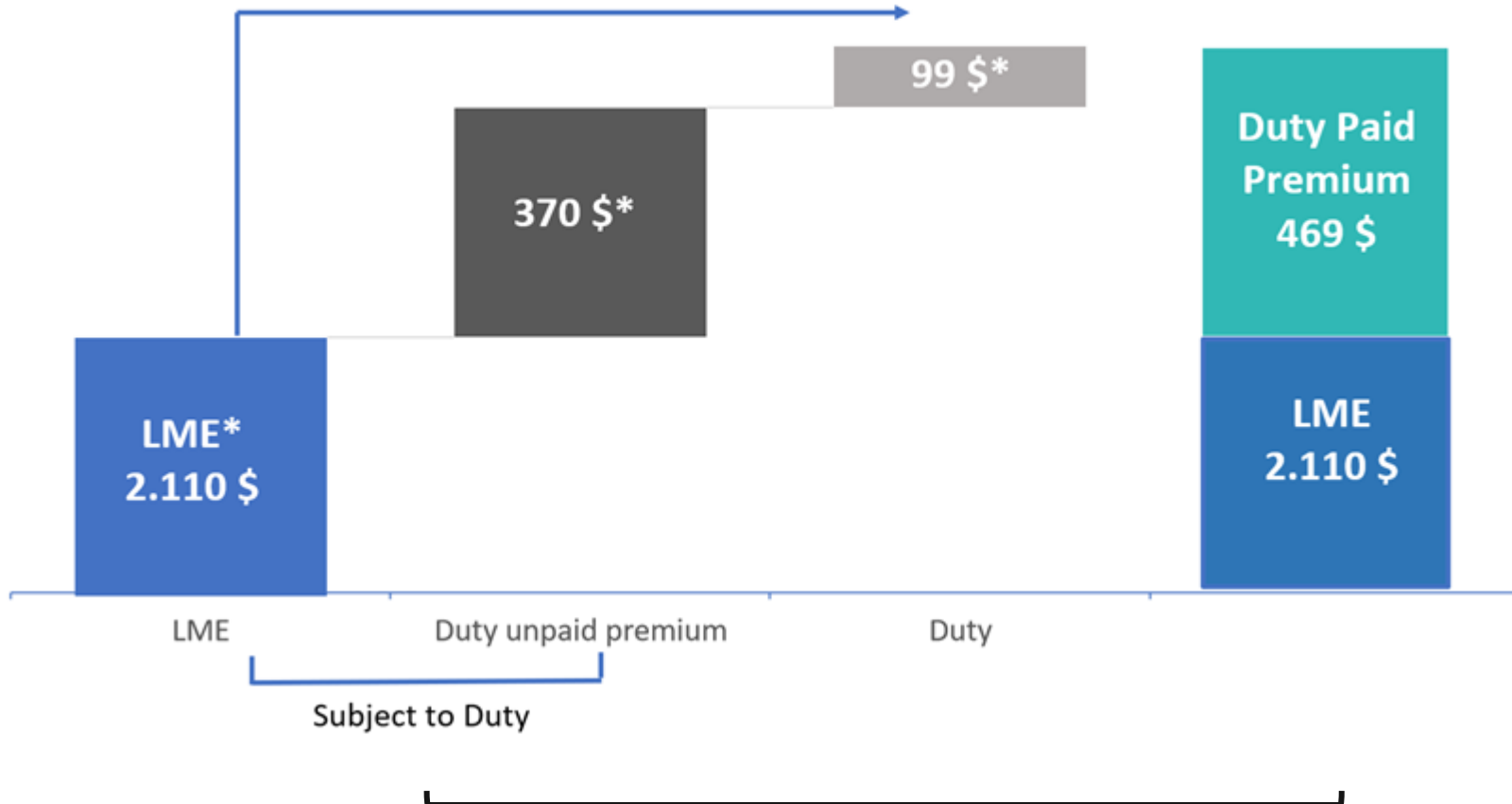
Source: CRU, FACE estimations

IMPORT TARIFFS

MAKE THE DIFFERENCE



**DOWNSTREAM CONSUMERS, PAY MORE THAN SHOULD FOR RAW MATERIAL.
THE EXAMPLE OF ALUMINIUM BILLETS 4% DUTY**



European consumers do not have access to duty-free priced unwrought aluminium in the EU

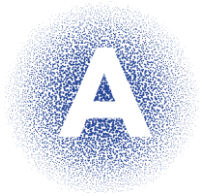
All quantities of aluminium in the EU are sold at a duty-paid price, irrespective of their origin

* Based on 2021 figures, data subjected to variation according to Market conditions

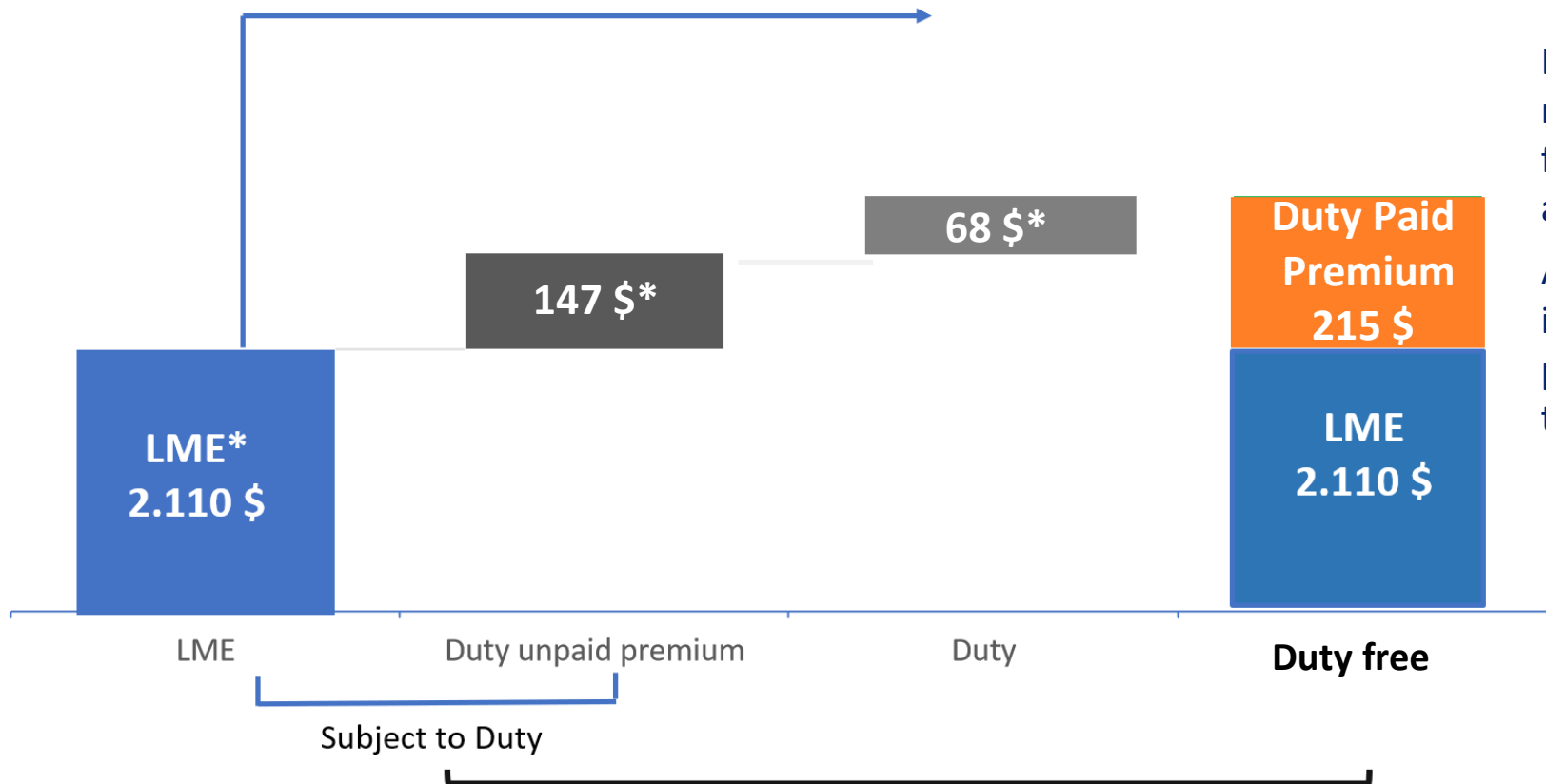
SUPPLY SOURCES

IMPORT TARIFFS

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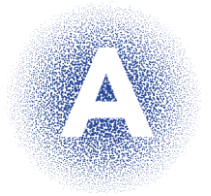
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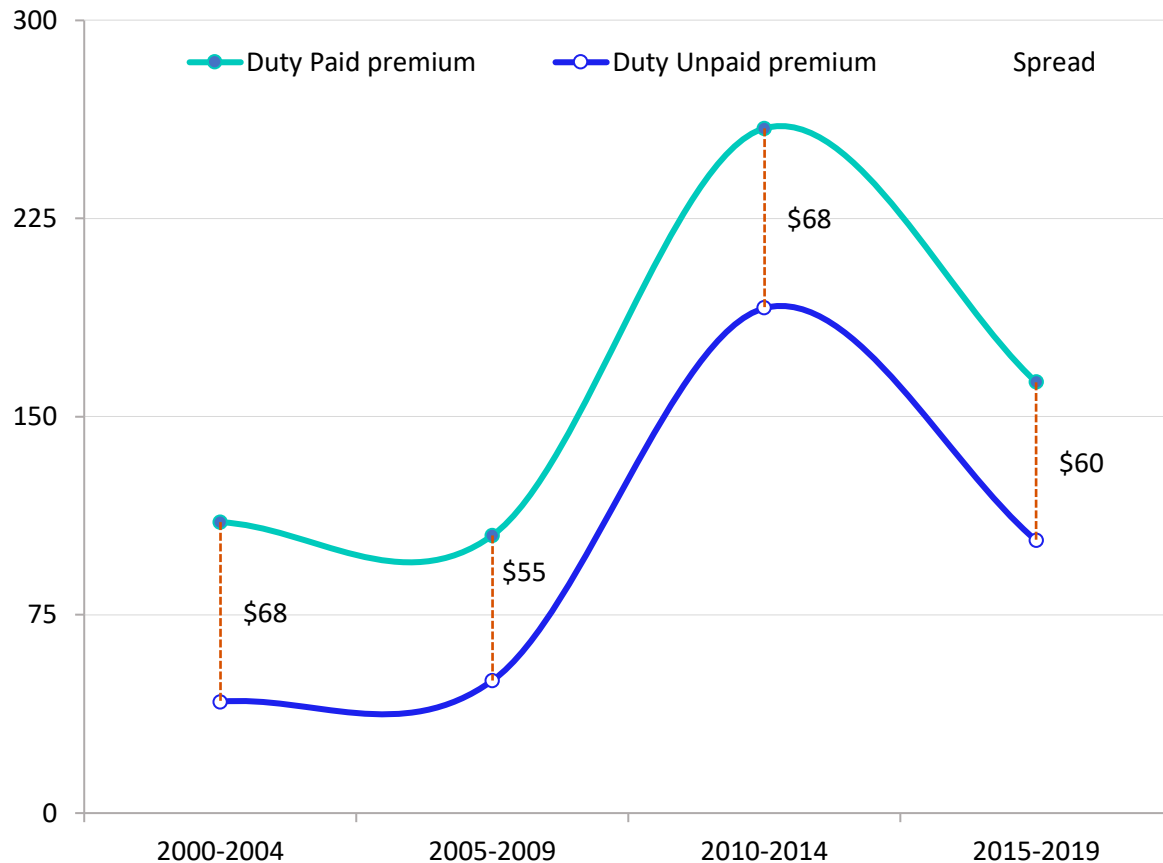
IMPORT DUTY INFLATED

ALUMINIUM PRICE



ALUMINIUM INGOT P1020, IN-WAREHOUSE ROTTERDAM, \$/TONNE

Data is averaged for 5-year periods

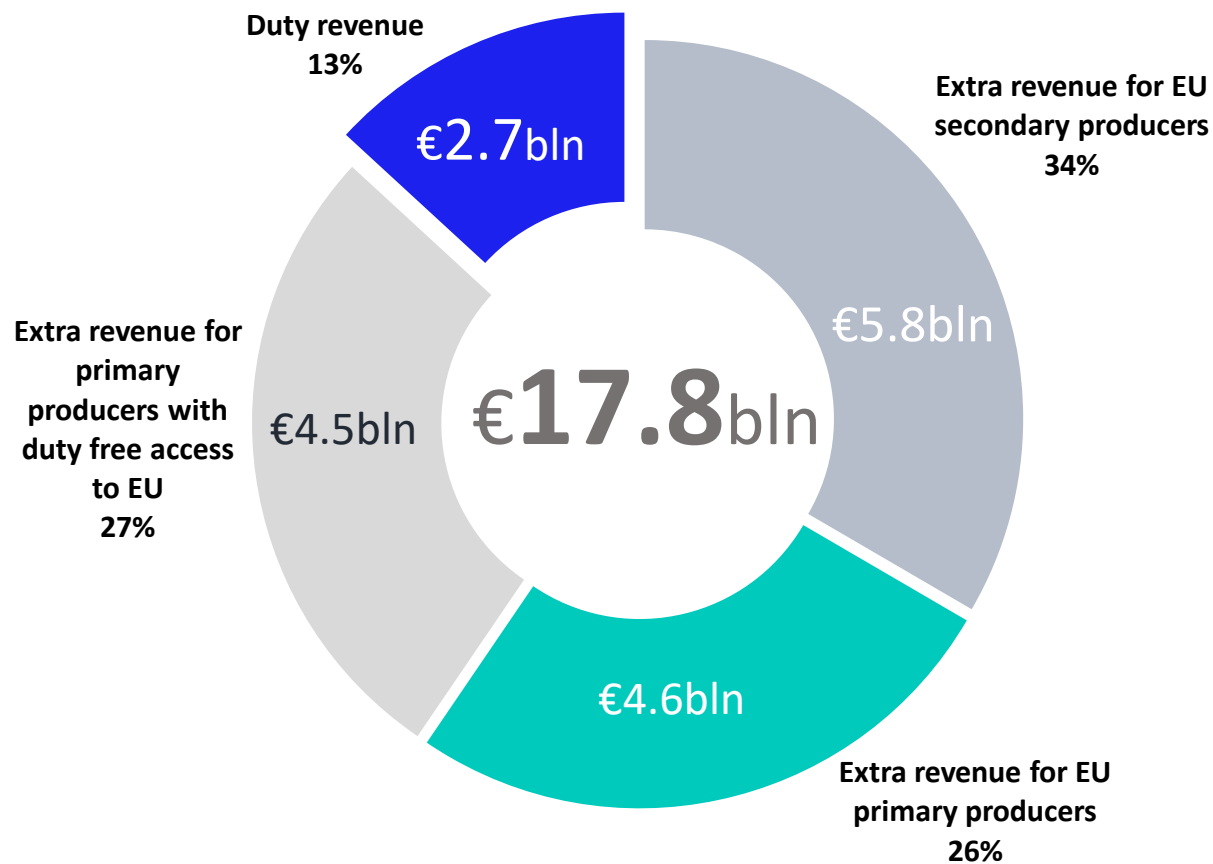


- Tariffs applied to imports of unwrought metal in EU-28 affect prices of both aluminium originated from dutiable countries and aluminium made in the EU or in countries that entered into zero-duty PTAs with the EU.
- As result, EU market prices for unwrought aluminium always include the custom duty and EU-28 downstream producers pay higher prices for all imported unwrought Al.
- The structural shortage of primary aluminium in EU will become a major issue and a growing challenge for European aluminium transformers and final users. The import tariffs on unwrought metal put upward pressure on premiums for secondary alloys, thus further harming the cost competitiveness of EU foundry casters.
- This situation generates artificial extra costs of around €1 billion annually for the EU downstream sector, and acts as a hidden subsidy and extra-benefit for EU and non-EU aluminium producers.

EXTRA-COSTS FOR DOWNSTREAM IS AN “HIDDEN SUBSIDY” FOR EU AND NON-EU UNWROUGHT METAL PRODUCERS

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THE STRUCTURE OF DUTY EXTRA-COST FOR DOWNSTREAM



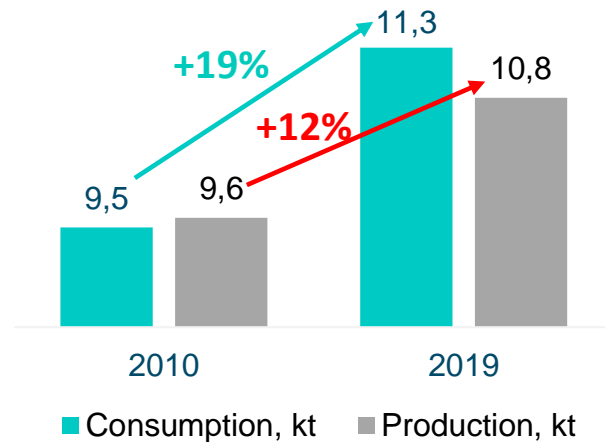
- LUISS estimated the impact of duties on revenues and costs.
- 2000-17 cumulative **extra-costs** for EU-28 downstream producers was estimated at **€17.8bn**.
- **Only 16%** of these costs realized in EU duty revenue.
- The major part transferred to extra-revenue of EU primary and secondary Al producers.
- Also, **25%** of costs translated into **extra revenue** for **primary Al producers with duty free access** to EU-28
- EU downstream SMEs are unwillingly “subsidising” EU and non-EU producers.
- On average, EU SMEs pay € 80 more than they should per ton of unwrought aluminium purchased.

NEGATIVE EFFECT OF THE DUTY FOR

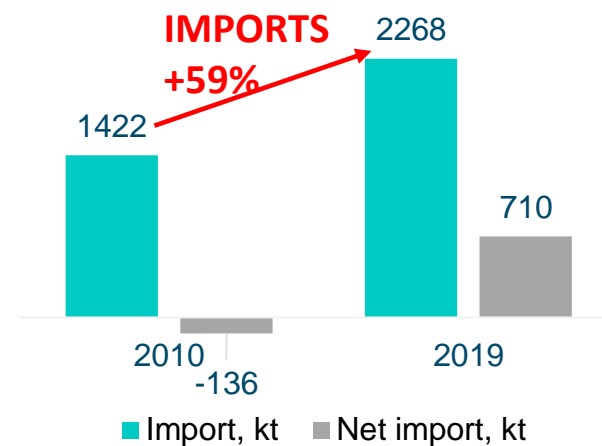
EU DOWNSTREAM



GROWTH OF SEMIS PRODUCTION LAGS BEHIND THE INCREASE OF DEMAND



IMPORTS OFFSET INSUFFICIENT DOMESTIC PRODUCTION



The European downstream has become a net importer from its previously strong net exporter position; downstream producers are unable to invest enough to even meet growing domestic consumption

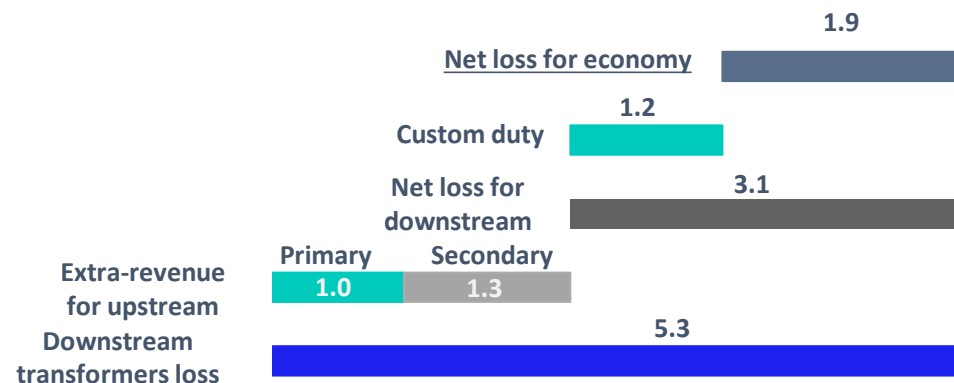
- EU downstream producers' extra costs of €17.8bln caused by the import duty negatively affected profits, leading to underinvestment in the development of production capacities.
- The share of domestic downstream producers in total demand decreased 21% while imports of semis to the EU increased by 59%.
- By lowering the domestic sales share by 4%, EU downstream producers lost at least €2 bln revenue per year, which brought them at least €200mln less profit annually. As result of the underinvestment, the European economy lost at least 14,000 direct jobs which could have been created by European downstream producers.

ESTIMATED EXTRA COST OF EU DUTY ON UNWROUGHT ALUMINIUM FOR GERMAN DOWNSTREAM INDUSTRY

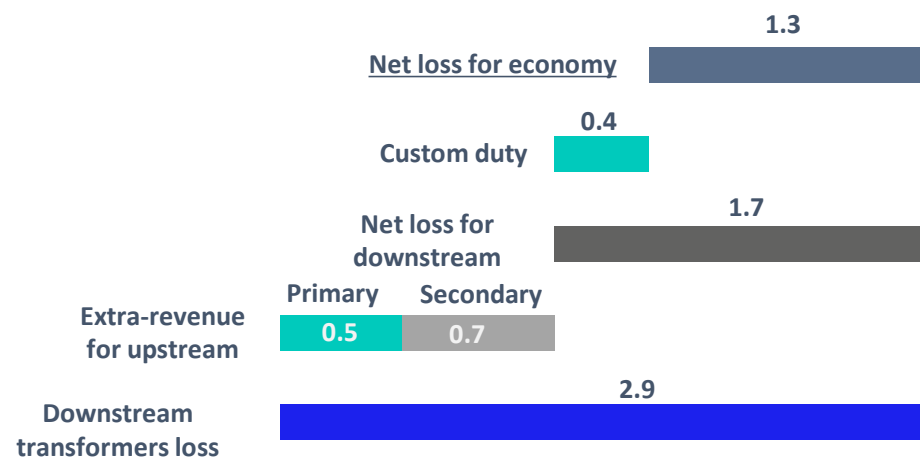


- FACE- commissioned survey estimated Germany downstream producers' loss at €5.3-2.9bln in 2000-17.
- The loss for downstream producers partially offset by extra-revenue generated by upstream sector. LUISS estimated it at €4.8-2.6bln for primary producers and €5.8-3.1bln for secondary producers. This translated into €1.0-0.5bln revenue for German primary and €1.3-0.7bln for German secondary segment at different scenarios.
- Despite the partially offset, net loss for aluminium industry estimated at €7.2-4.0bln for EU and €3.0-1.7bln for Germany at upper and lower bound scenarios.
- Imposed import duties estimated to bring €3.9-1.4bln as a custom duty to EU budget. The share of duty for Germany is assumed at €1.2-0.4bln.
- Net loss for economy: estimated total net loss for Germany at €1.9-1.3bln.
- German downstream producers' extra costs of €5.3bln from import duty negatively affected their profits, leading to underinvestment into the development of production capacities.
- The additional cost pressures for EU-28 downstream transformers vis-à-vis their main international competitors comes from high energy costs and tighter environment regulation; this further deteriorates their competitive position

ESTIMATED EXTRA COST AT UPPER BOUND SCENARIO, 2000-17, €bln



ESTIMATED EXTRA COST AT LOWER BOUND SCENARIO, 2000-17, €bln



Sources: LUISS, CRU, Eurostat, FairEconomics, Prof Rollwagen

SUMMARY OF THE GERMAN SURVEY

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More than



80%

describe the economic outlook for 2020 as very poor and bad, and the same applies to 2021

Over

1/2



believe in a positive economic development starting 2022, at the level of 2019 or higher

Only

1/3



of the companies surveyed were aware that an import tariff, i.e. a duty, is levied on imported primary unwrought aluminium

Almost

3/4



were unaware of that primary unwrought aluminium produced in the EU and primary unwrought aluminium imported into the EU have the same price, so they did not know that they were paying a virtual premium when purchasing it

What the companies would use the funds thus released if import duties were removed:

- business security;
- investment in innovation;
- investment in jobs;
- energy-saving measures.



For more than

90%



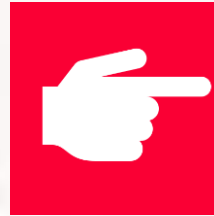
if import duties were removed, the impact of the removal of duties would be consistent, rather positive, positive, and very positive

EU IMPORT TARIFFS ON ALUMINIUM

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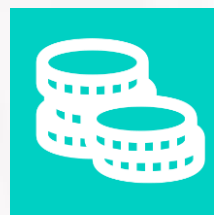
The **main argument** for imposing an **import duty** on unwrought aluminium is to **support** the presence of this production segment of the **aluminium industry in the EU-28**.



BUT sharp **cost disadvantages for EU-28 smelters** vis-à-vis their main international competitors comes from **high smelter energy costs**. Import tariffs do not address the competitiveness issue behind the high cost environment in the EU, such issues would be better addressed through appropriate EU energy policies, labor laws or other trade policies.



EU-28 is a **net and growing importer** of unwrought primary aluminium. There are **international aluminium producers** that are based in areas where primary aluminium can be purchased on a duty free basis, who then **export their semis to the EU-28 on a duty paid basis**, cashing in the duty-paid/duty-free difference at the expense of EU consumers.



EU-28 downstream transformers paid the **same price** for unwrought aluminium from **duty-paid, duty-free and from the domestic EU production**. This additionally **inflates their production costs** and deteriorates their competitive position, while generating artificially high revenues to EU and non-EU aluminium producers.

INDUSTRIAL POLICY RECOMMENDATIONS FOR

THE EU ALUMINIUM INDUSTRY'S COMPETITIVENESS

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EU import tariffs on unwrought aluminium should be abolished, as they artificially raise downstream costs without offering any appreciable results in supporting the upstream.



The maintenance of primary aluminium production can be justified by recognising its strategic value for the entire EU economy. Government intervention will be needed to ensure the EU will not be totally dependent on imports.



Secondary aluminium production should be encouraged through appropriate support schemes other than customs duties, by also ensuring that the second raw materials produced in the EU would be fully recycled and reused domestically rather than exported to third countries. EU consumers should not be obliged to pay EU-made secondary aluminium at a duty-paid price.



The suggested suspension of import tariffs on unwrought aluminium would generate additional financial resources (estimated at up to €1 billion per year) for EU downstream transformers' investments. Incentives should be primarily directed to expand innovative, research and technological capacities and to improve sustainability, resource efficiency and environmental performances.



Improving the competitiveness of the whole EU aluminium value chain requires enhancing the co-development and the relationships between EU transformers and relevant end-user industries.



To improve policy making, reliable data and economic statistics would be needed, thus allowing to better take into account the overall impact of proposed measures all along the value chain and, ultimately, on European consumers. There are still important data gaps in the EU aluminium sector. Industry knowledge must improve.

CONCLUSIONS



- The EU aluminium industry is experiencing massive structural changes with a strong decline and disinvestment in aluminium primary production in the past two decades.
- The competitive advantage of the EU aluminium industry lies in the technological leadership of the downstream segments, i.e. producing innovative semi-finished products and foundry castings for many end-user industries.
- The aluminium downstream sector accounts for about 60% of the annual turnover and 92% of the total employment in the whole EU aluminium industry, while purchases of unwrought aluminium are no less than 50% and up to 80% of total production costs for downstream transformers.
- Rising dependency on imports of raw materials and intensifying competition from third countries are increasingly influencing the competitiveness of EU downstream activities.
- EU import tariffs on unwrought aluminium have been ineffective to sustain primary aluminium production, while imposing additional costs to downstream transformers up to €17.8 billion in 2000-2017. The extra-costs for EU downstream producers resulted in additional revenues for EU primary and secondary producers and primary producers with duty-free access to EU internal market.
- The LUISS study suggests to abolish import tariffs on unwrought aluminium, to define ad-hoc measures for primary and secondary production, and to provide incentives to downstream transformers to expand their innovative and technological capabilities and to enhance the relationships with relevant end-user industries.
- FACE calls for urgent action from EU leaders and stresses that the full suspension of EU import tariffs on unwrought aluminium is a policy tool immediately available to support this strategic sector. Trade policy measures must support competitiveness and sustainable growth as a priority.



Federation of Aluminium Consumers in Europe
Rond Point Schuman 6, Box 5 B-1040 Brussels Belgium
Mr. Mario Conserva, Secretary General
Ph. +39 335 7194359, E-mail: m.conserva@face-aluminium.com
Web site: <https://face-aluminium.com/>