



WHY FACE CONSIDERS THAT THE MAINTAINING OF THE EU IMPORT TARIFFS ON UNWROUGHT ALUMINIUM ACTS AS A DE FACTO HIDDEN SUBSIDY MECHANISM

The denomination “hidden subsidy” used in FACE’s communication campaign against the tariff on import of unwrought aluminium is not a legal term or a legal qualification. In FACE’s view, it is a two-word depiction of a complex mechanism, ensuring high economic benefits to the EU-based and other duty-free suppliers of aluminium. This mechanism operates as a “vicious circle” involving the EU tariff, its beneficiaries and the public actors that support it, at the expense of the EU’s downstream metal consumers, who are not only 92% of the aluminium industry employment, but also mostly vulnerable SMEs. The mechanism continues to provide targeted benefits with the assistance of some Member States and tacit support from certain Commission services, probably misinformed by the beneficiaries. For that ‘public element’ reason, FACE does not point to the mere existence of benefits to certain economic operators at the expense of others, but to a disguised subsidy and its effects conferring such distortive benefits.

FACE explains the operation of this complex ‘vicious circle’ mechanism in some detail below.

The European Community, and later the EU of 28 Member States, has maintained import tariffs on aluminium at 6%, since decades. In the 1980s and the 1990s, the existence of import tariffs appeared to be justified, because there was significant metal production in Europe and Europe cared for the operation of its aluminium smelters. However, since the 2000s, raw aluminium production consistently declined in Europe, while EU demand for it consistently grew. These trends created a deepening EU local production deficit in raw aluminum. Since the early 2000s, the EU tariffs on raw aluminium no longer had any economic justification and should have been removed. EU smelter closures also continued, including most recently, but tariffs on aluminium remained largely unchanged.

Since the mid-2000s, the Member States and the Commission have been continuously confronted with numerous aluminium tariff suspension requests, essentially at the initiative of FACE – a tariff suspension is the lawful EU trade and customs policy

instrument to correct economically absurd tariffs. However, only two modest and partial tariff suspensions were granted, one in 2007, and another, not overlapping the first, in 2013. However, even these partial EU suspension measures prompted counter-action by the beneficiaries. Several Member States, acting on behalf of the beneficiaries, consistently voted to block the predominant majority of suspension requests or to limit the ambition of the decided suspensions. As a result, today, the bulk of the tariffs on raw aluminium remains unaffected, and there is a 'moratorium' on any further tariff changes until 2023. The European Commission actively assisted the 2007 and 2013 partial tariff suspensions, but remained passive as regards the complete removal of raw aluminium tariffs.

FACE firmly believes that, in the light of the deepening deficit of raw metal production in Europe, the economically absurd EU tariffs on raw aluminium would not currently exist, if there were no hidden mechanism in place, ensuring the passing on of economically distortive benefits to its beneficiaries.

The disguised mechanism involving the tariff and the benefits to the EU and duty-free suppliers has a circular mode of operation. A "vicious circle" keeps the tariffs in place, in order to maintain the benefits, granted to the remaining European metal producers and to their subsidiaries in duty-free metal sources. The vicious circle runs as follows: tariffs maintained – high market premiums charged – damage to the consumers caused by the artificial premium – the damage to consumer generates the benefit to the EU and duty-free suppliers – a crony industry association says, and the EU believes that the entire industry is happy or consensual – and tariffs are again maintained. The vicious circle goes on for years more, until the tariffs remain.

The existence and maintenance of the EU tariffs enables the EU-based and duty-free metal suppliers to sustain artificially high mark-ups (local market premiums) on sales of aluminium in the EU. The existence of import tariffs also creates and increases what FACE considers to be a market distortion. The market distortion at issue, enhanced by the complex aluminium import tariffs structure, consists in the uniform practice by EU sellers - mostly the same EU and duty-free metal producers, **to align their premiums at the highest possible level** – the 6% tariff level of the EU import tariff structure for unwrought aluminium. As a result, **the artificial duty-paid premium is included in the EU market price charged for all raw aluminum sold in the EU**, whether locally produced, imported duty-paid or imported duty-free. This situation generates the benefit for the EU and duty-free suppliers, but penalises the EU aluminium consumers with an additional cost of EUR 1 billion per year (LUISS, June 2019). This damage to the downstream of 1 billion per year provides the basis for the existence of the benefit, enjoyed by the European and duty-free metal suppliers.

Using that market situation, the EU and duty-free raw aluminium suppliers pocketed (and continue to do so) more than half of that EUR 1 billion amount into their profits, approx. EUR 530 million a year, for at least the last 17 years (LUISS, June 2019). This

is the actual huge, hidden and unfair benefit they receive. The artificial extra-burden imposed on the EU aluminium transformers (92% of the industry's workforce) amounted to up to €18 billion from 2000 to 2017 according to the calculations of the LUISS University.

However, the vicious circle continues. For a subsidy to exist, there must be a benefit conferred, but through a contribution from a government or government resources/government assistance. FACE charges that the unfair and distortive benefit to the EU and duty-free suppliers is maintained for so many years, because the European producers and duty free suppliers have created a crony industry association, which actively solicits and receives EU and Member State government support in order to maintain this mechanism.

Indeed, the EU producers and duty free suppliers do not wish their subsidy – collected artificial economic rent - to be considered as benefiting them (targeting them) specifically, because this would be unquestionably market-distortive. Accordingly, they need to disguise the EUR 530 million they receive under a seemingly legitimate cover. This is why FACE insists on the “hidden” subsidy wording. This benefit in disguise has become seemingly legitimate, by making it appear as if the tariff/premium mechanism benefits the industry as a whole, or at least that the tariff and the market mechanism it entails, is based on a “consensus” among the different segments of the entire industry. The vehicle used for making up this disguise is industrial associations. FACE is aware that EU-based and duty-free suppliers often methodically act as the main sponsors and the driving force of such associations. FACE is also aware that dissenting voices on tariffs within the associations have been discouraged or removed. Then the associations officially advise the policy decision-makers of the industry's interests and concerns, and the appearance of consensus on tariffs from the entire aluminium industry is maintained.

Accordingly, when these crony associations ultimately defend the interest of the beneficiaries but speak on behalf of the entire industry, the political decision-makers, misguided by the beneficiaries, step into the vicious circle.

The public decision-makers are told that that when their officials and governments block suspension requests and maintain the tariffs against the background of deepening production deficit, they act to protect an industry-wide position, a compromise of different interests in the entire industry. However, in fact the tariff, and the resulting market mechanism, benefit only the metal-supplying beneficiaries of the hidden subsidy, and damage the strategic survival prospects of the vast majority of the industry workforce. By defending the existence of the tariff, the public decision-makers maintain and protect the hidden, unfair and distortive subsidy and benefit.

The above explanations show that the tariff/premium mechanism is a closed vicious circle. The tariff and the hidden extra-high premiums receive public support, and SMEs

continue to bear extra high costs, facing the risk of industrial extinction in the medium to long term, unwillingly “subsidising” EU and non-EU aluminium producers. This is a shocking situation, in clear contradiction with EU Treaty provisions, principles, values and policies.

That is why FACE, the only independent aluminium downstream transformers representative organisation, denounces this vicious circle as a hidden subsidy and benefit mechanism. FACE draws the attention of the EU and Member States’ decision-makers and the wider public to a deeply unfair and market distortive situation, maintained through misguided public support. FACE calls for the dismantling of this vicious circle and market-distortive mechanism, by giving it the right denomination – a hidden subsidy, or in other words, an unfair market distortion, and calls for its definitive elimination by removing the EU raw aluminum tariffs.

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