

EU tariffs on Chinese aluminium to raise costs for European firms

An EU decision to impose **anti-dumping duties** of up to 48 percent on Chinese aluminum extrusion products will have **a limited impact on Chinese aluminum exports in general, but it will increase production costs for downstream EU companies**, Chinese experts and analysts said on Wednesday.

The comments were made after the EU announced that it will apply **temporary import duties ranging from 30.4-48 percent on Chinese aluminum extrusion imports**, effective on Wednesday. The duties will be charged until an investigation concludes in April next year.

The European Commission made the decision **in response to a complaint from industry body European Aluminium**, which has Norsk Hydro and Rio Tinto as members. The commission started an investigation in February.

Liu Lingan, an industry analyst, said that EU tariffs will have a "weak" impact on Chinese aluminum products exports in general, as **most of the new demand this year is coming from Southeast Asia, South America and Africa**.

Chinese aluminum exports have encountered anti-dumping duties in the US, Canada, Australia and Vietnam in recent years.

According to industry site Shanghai Metals Market, the **27-nation EU accounted for about 13 percent of China's aluminum extrusion exports in 2019**, just a little higher than the 12-percent share held by Vietnam.

In 2019, China's exports of aluminum extrusions, used in areas from construction to vehicles, stood at 1.04 million tons. Those exports only accounted for about 10 percent of total output.

However, Liu said that **a 40-percent tariff will effectively wipe out market competitiveness for Chinese exporters focusing on the EU**, forcing them to turn elsewhere or to the domestic market.

Chen Xin, research fellow at the Institute of European Studies at the Chinese Academy of Social Sciences, told the Global Times on Wednesday that trade friction is unavoidable between China and the EU, two enormous economies with bilateral trade of over 560 billion euros (\$657 billion) in 2019.

"Unless the value involved [in the probe] is very large or the investigation is based on ulterior motives, it should be accepted as it is," Chen told the Global Times.

While it is hoped that the dispute could be resolved in a spirit of cooperation, Chen said the tariffs will increase costs for EU companies that use such products.

Chinese aluminum exports to the EU have doubled compared with four years ago, according to

European Aluminium.

The China Nonferrous Metals Industry Association said in a statement in February that there was no harm being done to EU producers and no dumping by Chinese exporters. "EU aluminum extrusion producers should not blame Chinese exporters for their inadequate operations."

Guangdong-based Press Metal International, affected by the EU tariff and probe, declined to comment.

Shares of Shenzhen-listed Guangdong Haomei New Materials Co, which sells to the EU, Africa and Southeast Asia, dropped 1.76 percent on Wednesday.

In its interim report issued in August, Haomei said it exported 733.49 million yuan (\$108.79 million) worth of products in 2019, which generated 24.73 percent of its operating income.

The company noted that certain developed countries are beginning to lean toward anti-dumping policies amid a rising trend of trade protectionism, and it said it will increase its expansion in countries and regions along the Belt and Road Initiative as well as the domestic market to offset the negative impact of these trends.

Commentary

This article describes an anti-dumping tariff that EU has imposed on Chinese aluminium imports. Dumping occurs when a country exports goods at prices lower than their average domestic production costs, prompting importing countries to counteract through the imposition of tariffs – indirect taxes that increase the price of the “dumped” goods.

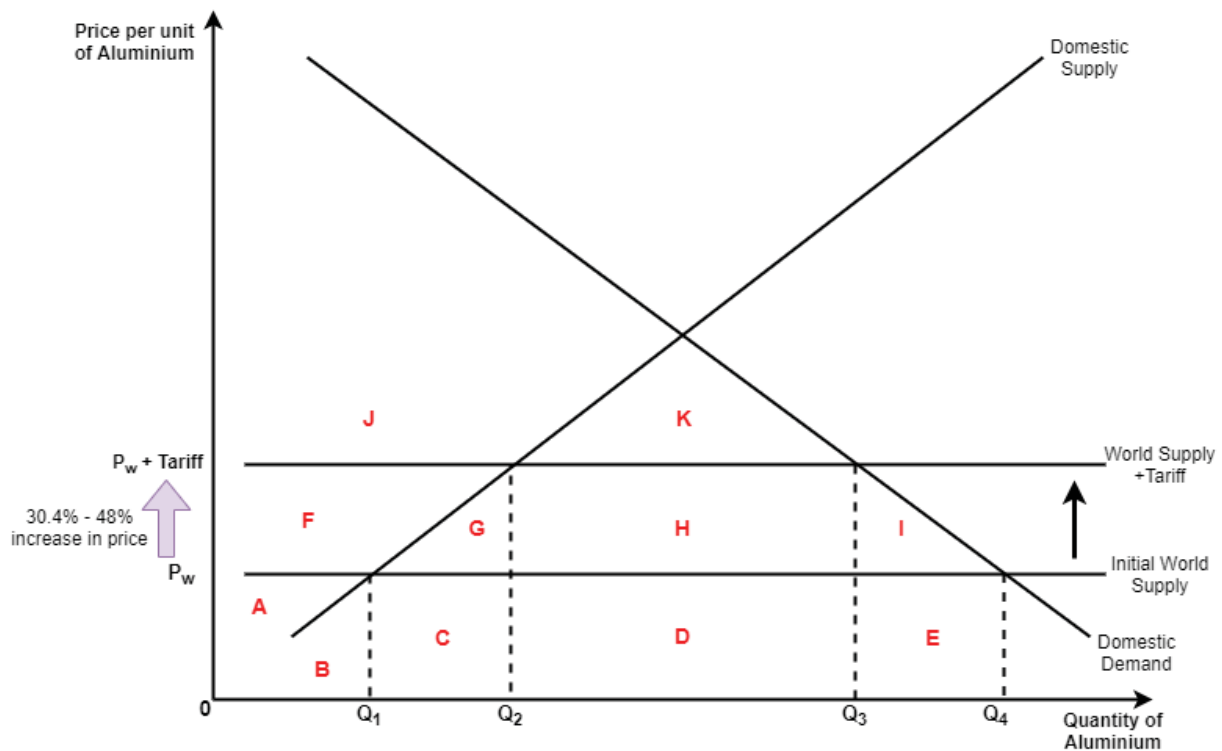


Figure 1: Impact of a tariff on EU's domestic market for aluminium

Figure 1 illustrates the effect of the tariff on EU's domestic market for aluminium. With free trade, the equilibrium lies at (P_w, Q_4) , where P_w , World Trade Price, represents the price at which aluminium is sold in an international market. The corresponding supply of aluminium (Initial World Supply) is horizontal as the quantity of aluminium available is perceived as almost infinite within an individual market. At this price, the domestic

demand for aluminium is $0-Q_4$; domestic supply accounts for $0-Q_1$ and imported supply accounts for Q_1-Q_4 . Area FGHIJK represents the consumer surplus and Area A represents the producer surplus. These refer to the prices of aluminium at which certain consumers/producers would have still been willing and able to consume/supply at but did not have to.

After being suspected of receiving subsidies from the Chinese government, rendering EU producers in an unfair disadvantage, a 30.4%-48% tariff was imposed on Chinese aluminium imports, shifting the equilibrium to $(P_w + \text{Tariff}, Q_3)$, thus removing the unfairness of the alleged dumping. The increase in price of aluminium allows EU producers to compete better with the imported supply, increasing domestic supply to $0-Q_2$ while decreasing the imported supply to Q_2-Q_3 . This benefits domestic producers since their revenue increases from AB to ABCFG, and the producer surplus increases to AF. Since area H represents the tariff revenue collected by EU governments, the revenue of importers decreases from CDE to D.

Consumers will have to pay higher prices for aluminium, which reduces consumption and thus the consumer surplus (now JK). Resources also become less efficiently allocated. Hence, the tariff promotes inefficiency in two ways: consumption welfare loss (area I) and resource allocation welfare loss (area G). Both areas do not benefit any economic party and are thus considered deadweight losses.

With domestic industries supplying more, a tariff encourages the hiring of workers, which increases EU employment levels and job security within these industries. However, being a commodity, an increase in aluminium prices will trigger cost-push inflation. Consumers of raw aluminium, who in this case are also manufacturers/producers of