



INTERVIEW: Section 232 measures won't alleviate Al electricity cost challenge - lawyer says

A key challenge for US primary aluminium production facilities is the high cost of electricity, which trade restrictions measures such as Section 232 do nothing to alleviate, according to a senior lawyer and former commissioner and vice chairman of the US International Trade Commission.

According to Dean Pinkert, senior counsel at New York-based law firm Hughes Hubbard & Reed, trade measures are often an ineffective, indirect approach to challenges that can be addressed by policymakers in a more direct manner.

“Clearly, the original [Section 232] measures, as well as the countermeasures introduced by some US trading partners, have imposed substantial direct and indirect costs on US consumers and have disrupted global supply chains,” he told Fastmarkets in an interview.

“The fact that, in January 2020, the Administration moved to increase tariffs on derivative aluminium products is consistent with adverse effects on downstream industries from the action taken two years ago,” Pinkert said. “However, those actions may have enabled price increases for the domestic aluminium industry.”

Premiums

On January 22, 2018 - the day that US Commerce Department Secretary Wilbur Ross delivered the Section 232 report on the impact of aluminium imports to United States President Donald Trump - Fastmarkets' assessment of the aluminium P1020A premium, ddp Midwest US was 10.25-10.75 cents per lb.

During March 2018, Section 232 import tariffs were formally imposed on aluminium and steel imports into the US at a rate of 10% and 25% respectively.

The premium more than doubled over the next several months, peaking at 22-23 cents per lb in April 2018. The current premium

level, assessed at 13.5-14.5 cents per lb on Tuesday March 10, is down by 27.3% from 19-19.5 cents on March 23, 2018, when Section 232 tariffs came into force.

US Section 232 tariffs were removed on imports from Canada and Mexico in May 2019, while from February 8, 2020, the measures were extended to apply to downstream products.

“I’m skeptical about the net effect of all this,” Pinkert said. “The trade restrictions may in fact be causing US domestic aluminium manufacturers not to undertake investments in new, more efficient technologies.”

Election year

There is a chance to change the aluminium trade policy if the US election in November brings in a new administration, however.

“A new administration is more likely to embrace multilateral approaches, though it’s too early to say precisely how it might wish to engage our trading partners,” Pinkert said. “Additionally, there could be more interest in tackling the issue of the high electricity costs that the domestic primary aluminium industry faces.”

An unprecedented 15-fold increase in spot electricity prices in the US Pacific Northwest region, after long-term power contracts expired, led to the curtailment of 10 aluminium smelters in the region between 2000 and 2001. The US had 23 operating plants in 1998, while currently it has eight, operated by Alcoa, Century Aluminium and Magnitude 7.

The energy-intensive nature of

producing aluminium means that regions with low-cost hydroelectric power or natural gas have a natural advantage. The location of green-field smelting capacity has shifted as a result, with low-cost producing regions such as the Middle East thriving along with Iceland, Norway, Russia and Canada.

Coronavirus

More immediately, the novel coronavirus (2019-nCoV) is starting to accelerate what the trade conflict had started: the diversification of global supply chains.

Aluminium smelters in China have largely continued to operate during the containment period, but faced issues sourcing raw materials due to reduced or shuttered refinery capacity as well as logistical and staffing issues. While the virus continues its global spread and more extreme containment measures are enacted, market participants are bracing themselves for further supply chain problems.

“The harm to world trade and to macroeconomic performance might lead policymakers to increase the priority given to the health of the global economy,” Pinkert said. “This could even include working to enhance the robustness of global supply chains.”

Reported by: Andrea Hotter