

ALUMINUM ALERT

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Section 232 Tariff Exemptions Update and What We See Ahead

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SECTION 232 ALERT. Agreement in principle reached for permanently exempting Australia, Brazil, and Argentina. Tariff exemptions renewed temporarily for Canada, the EU, and Mexico amid ongoing negotiations. We see other eligible countries likely facing a quota-tariff system that helps keep MW premiums high enough for US smelters to restart.

FACTS.

Section 232 aluminum tariff exemptions have been renewed until May 31 for Canada, the European Union, and Mexico in order to allow negotiations for “a final 30 days.” Australia, Brazil, and Argentina already reached an agreement in principle with the US and have been exempted indefinitely. Only South Korea had its aluminum tariff exemption revoked, despite securing a permanent exemption on steel.

In an official statement, the White House added that: “In all of these negotiations, the Administration is focused on quotas that will restrain imports, prevent transshipment, and protect the national security.”

For all other countries, Section 232 tariffs of 10% on US imports of aluminum have been in effect since March 23, 2018. These tariffs apply to US imports of unwrought aluminum (includes both primary and secondary/RSI metal), as well as the following aluminum semi products: flat rolled products (plate, sheet, strip, and foil), wire/wire rod, extrusions (bars, rods profiles, tubes, and pipes), and castings/forgings.

ANALYSIS.

Permanent exemptions for the most relevant countries remain uncertain. Countries whose exemptions remain temporary (Canada, EU members, and Mexico) exported 2.59 million mton of unwrought aluminum to the US in 2017, or 52% of total US imports during that period, and produced 5.43 million mton of primary aluminum, which equates to 1.1x times what the US imported last year. These countries also exported 730 kmton of aluminum semis to the US last year, or 36% of US imports.

Countries with permanent exemptions (Australia, Brazil, and Argentina) exported 0.37 million mton of unwrought aluminum to the US in 2017, or 7% of total US imports during that period, and produced 2.72 million mton of primary aluminum, which equates to 55% of US total imports last year. These countries exported only 53 kmton of aluminum semis to the US last year, or 3% of US total imports.

There are no details yet regarding import quotas being agreed for Australia, Brazil, or Argentina.

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OUR VIEW.

We believe the US wants to maintain high MW premiums in order to incentivize US idled primary aluminum capacity to restart. This means President Trump will probably opt for a system of quotas-tariffs, with few true permanent exemptions.

Concerns about fewer than expected countries eventually achieving a permanent Section 232 duty exemption are currently limiting the downside for US MW premiums, which were assessed by HARBOR yesterday at 11.0–13.6 cent/lb duty-unpaid, and at 20.30–22.25 cent/lb duty-paid.

We believe the US will probably opt for a quota-tariff system for eligible countries to keep premiums high. We estimate that at least six primary aluminum exporting countries, in addition to Canada, the EU, and Mexico, are eligible for exemptions based on the “fair trade partner” and “US military ally” principles: the UAE, Qatar, Bahrain, Oman, New Zealand, and Saudi Arabia. However, India has been denied aluminum tariff exemptions despite being considered a close military ally and fair trade partner, which could be a bad omen for the other countries seeking an exemption. **It seems to us that the most likely scenario for these countries is at best a soft quota-tariff system where exports surpassing 2017 levels (quota could be as low as 70% of 2017 exports) would be assessed a 10% duty.**

Section 232 Aluminum Tariff Exemption Status

PARTNER	STATUS	USA MILITARY ALLIES (1=closest)	USA GOODS TRADE BALANCE WITH PARTNER (USD millions)	UNWROUGHT EXPORTS TO USA (kmtton)	% OF USA UNWROUGHT IMPORTS	PRIMARY ALUMINUM PRODUCTION (kmtton)	% OF USA UNWROUGHT IMPORTS
Argentina	Permanent	3	4,532	249	5%	433	9%
Australia	Permanent	1	14,300	99	2%	1,488	30%
Brazil	Permanent	3	7	20	0%	801	16%
Canada	Temporary	1	-25	2,515	51%	3,212	65%
EU	Temporary	1	-296,055	52	1%	2,216	45%
UAE	Negotiating	1	15,451	658	13%	2,453	49%
Qatar	Negotiating	1	1,877	118	2%	618	12%
Bahrain	Negotiating	1	-127	112	2%	981	20%
Saudi Arabia	Negotiating	2	-3,351	52	1%	916	18%
Oman	Negotiating	2	966	15	0%	276	6%
New Zealand	Negotiating	2	-407	5	0%	337	7%
India	Unsuccessful	1	-25	121	2%	3,257	66%

Source: HARBOR Aluminum.

[1] Positive value means the US has a trade surplus.

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US Aluminum Mill Products Imports in 2017 (kmtton).

	Foil	Sheet/plate/strip	Wire	Extrusions	TOTAL
TOTAL IMPORTS	277	1,138	312	275	2,002
Temporarily Exempted	47	320	191	172	730
<i>Canada</i>	15	153	186	97	451
<i>EU</i>	31	164	4	32	231
<i>Mexico</i>	1	3	0	44	48
Permanently Exempted	13	23	17	0	53
<i>Brazil</i>	13	23	0	0	35
<i>Australia</i>	0	0	2	0	3
<i>Argentina</i>	0	0	15	0	15
from Non-Exempted	264	1,115	296	274	1,950

Source: HARBOR Aluminum.

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