

**Targeted consultation**  
**Eurometaux – Summary**  
**15 December 2020**

**Most distortive subsidies:**

The copper sector is mostly affected by localized price regimes in China. In the aluminum sector, the predominant types of subsidies are Chinese preferential loans and subsidization of energy and other inputs. China is the third country granting the most distortive subsidies, but also Russia and ex-Soviet countries. The practice of subsidization in general results in price undercutting and price suppression.

**Consequences of subsidies:**

Distortion 1 (offer localized prices deviating from global standard prices set at London Metals Exchange) and distortion 2 (more easily expanding operations) are the biggest issues, though the form, consequences and objectives of subsidies depend on the sector concerned:

As regards the purchase of copper raw materials, be it primary materials like concentrates or recycling material, (Chinese) subsidized companies can offer a higher price. Hence, the access to raw materials is more difficult for companies in other countries. Foreign subsidies do not only have a negative consequence on the price of scraps, but also result in large amounts of good quality copper scraps flowing in the Chinese market. This also incentivizes EU scrap dealers to sell high-purity copper scraps to China.

Producers of primary aluminium receive subsidies, which feeds overcapacity, and then pass on the benefits to producers of semi-fabricated aluminium products. Generally, metals are traded globally, which means that subsidies impact global prices (at the London Metal Exchange).

**Policy options:**

Eurometaux does not support the option of doing nothing. The preferred option is to have new legislation. Adapting existing rules might also work, depending on the new tools. Complementary to a new instrument, the implementation and enforcement of existing instruments can be improved, especially the guidance and rules on conducting the union interest assessment need to be particularized. International rules to be improved in parallel.

Eurometaux favours having new legislation covering modules 1 and 2. They are not opposed to module 3 and the proposals on EU funding, but generally are less directly affected by subsidies in public procurement

(customers are however). In the latter two situations, strict ex post sanctions are needed to incentivize companies to cooperate.

Eurometaux highlights that an authority at EU level should enforce the new instrument. For good implementation, redressive measures and sanctions should be at the core of the instrument. Procedure should strike the right balance, with a mix of complaints by EU stakeholders and ex officio cases by the Commission. Eurometaux also believes that it might be very useful to place the burden of proof on the subsidized companies.

### **Impact of policy options:**

If the policy option is doing nothing, there is a risk that companies from foreign countries (such as China, Russia or Indonesia) take EU markets. In addition, foreign subsidized companies in the Aluminium sector could possibly move down the supply chain and gain more and more of the higher value-added segments in the downstream. Furthermore, in the copper sector, the risk is a loss in the competitive advantage in recycling as volumes of scraps are absorbed by Chinese competitors who will move up the supply chain and gain a greater share of high value added segments in the recovery of metals. Staying at the baseline would also result in a shift of employment out of the EU, and some companies already have done so.

The Chinese primary aluminium has a carbon footprint that is three times higher than that of primary aluminium produced in the EU. It is thus impossible to transition to a green economy if you are using aluminium with a very high footprint. This reasoning applies for nickel and chrome as well.

EU copper producers use best available technologies and electrified large parts of their production so that cathodes coming from EU producers have an up to a twice lower life cycle footprint than the global average copper cathode. Given the critical importance of copper in the sustainability transition due to its unique properties as electricity and heat conductor as well as a crucial contributor to high energy efficiency appliances, demand will substantially rise over the next decades (World Bank and ICSG reference) and it will not be possible to achieve a green economy by relying on the use of copper with a high environmental footprint.

### **Administrative burden:**

Based on the experience of Eurometaux in trade defense instruments, the administrative burden on complaining companies is high. Thus, when it comes to the new foreign subsidies instrument, they therefore suggest introducing a reversed burden of proof for certain categories of wrongdoings and consequences for repeat offenders.