China's strategy to enter the European aluminium market

March 2020

Executive Summary

China has been building up excess capacity both in primary and semi-fabricated aluminium products for years and this trend shows no sign of abating. This expansion is largely based on industrial subsidies granted by the Chinese government to both state-owned enterprises and independent Chinese firms[1]. A severe consequence of China's expansion of aluminium production combined with lower growth of China's internal demand has been the flood of semi-fabricated and final aluminium product exports to the rest of the world, often at unjustifiably low prices, indicating Chinese producers may be engaged in illegal 'dumping'. Over the mid and long-term, this behaviour would make it the only country capable of manufacturing aluminium, as industries in other countries fold as a result of unfair pricing.

In the past five years, China's exports to the EU have more than doubled. The export of flat rolled products, in particular, has risen considerably in recent years.

In addition to exporting into the EU, **China has also begun supplying and even acquiring domestic EU production capacity likely to be backed by state subsidies** due to the magnitude of state interference in their aluminium industry and the choice of aluminium as a strategic material. While foreign direct investment (FDI) is welcomed in the EU for good reason, it can pose a threat if its intent is to facilitate the entry of improperly traded goods into the EU. Moreover, EU companies do not receive the same welcome or reciprocal access to the Chinese market as Chinese firms enjoy in the EU.

This document outlines recent Chinese investment in the EU-28 aluminium industry.

The Chinese threat to the European aluminium industry is significant due to its massive excess production capacity in primary, semi-fabricated and final aluminium products. **The volumes available make Chinese industry capable of entirely replacing the European aluminium industry**.

European Aluminium supports free and fair trade and a rules-based trade system. We welcome foreign direct investments, as long as these are based on market-oriented mechanisms. In the case of Chinese investments, it is clear that these requirements are not met. **We therefore ask the EU to adopt an appropriate trade policy including effectively implemented trade defence instruments as well as a robust investment screening mechanism.**

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[1] OECD (2019), "Measuring distortions in international markets: the aluminium value chain", OECD Trade policy paper, nr 218, OECD publishing, Paris, January 2019.

1. Introduction

China has been building up excess capacity[2] both in primary and semi-fabricated aluminium products for years and this trend shows no sign of abating. This expansion is largely based on industrial subsidies granted by the Chinese government to both state-owned enterprises and independent Chinese firms.[3]

In the last fifteen years (2005-2020), China's primary aluminium production has increased from 15 percent to 57 percent of worldwide production. Chinese overcapacity alone is currently estimated at 10 million tonnes, which is five times total EU production. Initially, capacity growth in China evolved roughly in proportion to domestic demand (although demand was always around 60 to 65 percent lower than the installed capacity). By comparison, one third of the EU capacity has been lost during the same period of time. Capacity utilisation in the EU is around 80 percent and above, depending on the economic cycle.

Table 1: Growth of Chinese primary aluminium production over last fifteen years[4]

In January 2019, the Organisation for Economic Cooperation and Development (OECD) released the landmark report "Measuring distortions in international markets: the aluminium value chain," which highlights how non-

[2] Installed capacity with no foreseeable return on capital;
[3] OECD (2019), "Measuring distortions in international markets: the aluminium value chain", OECD Trade policy paper, nr 218, OECD publishing, Paris, January 2019.
[4] European Aluminium intelligence

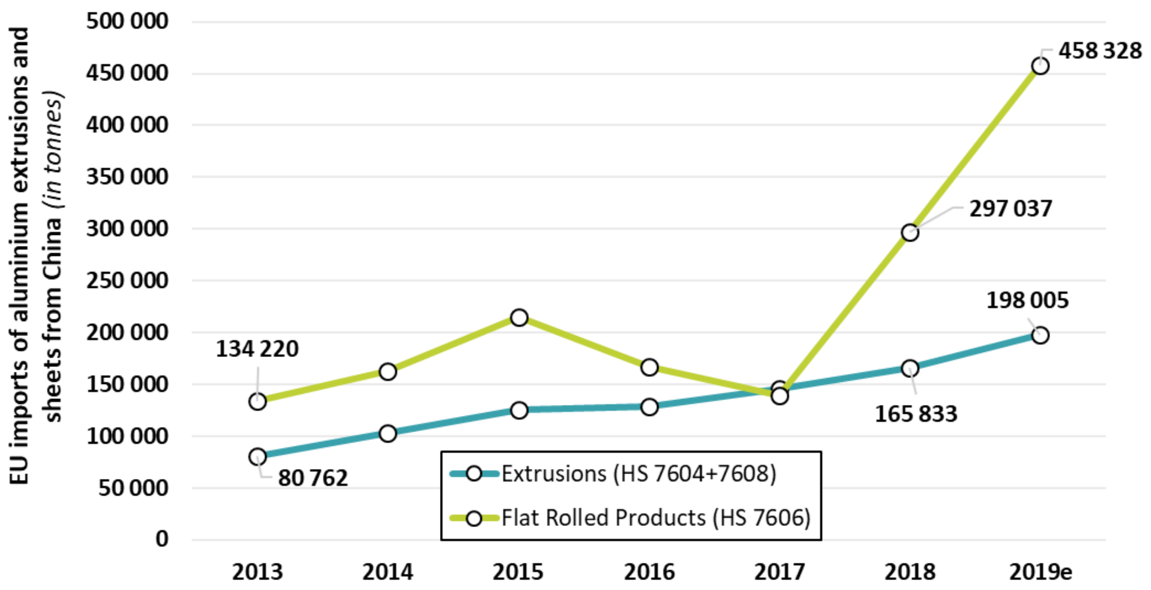
market forces are responsible for some of the recent increases in aluminium smelting capacities, with detrimental impacts throughout the value chain.

The report indicates that global aluminium companies received up to USD 70 billion in different forms of support between 2013-2017. Notably, 85 percent of the documented subsidies went to just five Chinese firms.

A severe consequence of the rapid expansion of China's aluminium production outstripping the growth of China's internal demand, has been the flood of semi-fabricated and final aluminium product exports to the rest of the world, often at unjustifiably low prices, indicating Chinese producers may be engaged in illegal 'dumping'. Over the mid and long-term, this behaviour would make it the dominant aluminium manufacturing country, as industries in other countries fold as a result of unfair pricing. [5]

In the past five years, Chinese exports to the EU have more than doubled. The export of flat rolled products, in particular, has risen considerably in recent years.

Table 2: Rise of Chinese aluminium semi-fabricated products exports to EU[6]



The market penetration of Chinese exports often occurs in close cooperation with EU importers that facilitate contacts between Chinese producers and the EU industries.[7]

[5] Due to Chinese overexpansion in magnesium production 15 years ago most of the western world magnesium plants have been closed down. China has now 80/90 % of the world-wide production and is the price-maker. Use of magnesium has dropped since users do not want to become dependent on one supply source. We do not want this to happen to aluminium.

[6] European Aluminium intelligence. Taking CN Code 7610 trade code also in consideration, the import rise is even more substantial.

[7] As an example, in the extrusion business Chinese extruders have agreements with European companies that act as their exclusive agents to facilitate contacts with EU customers.

It should also be noted that since 2002, the EU has been a net exporter of aluminium scrap. Around one million tonnes of scrap depart from the EU for other parts of the world every year. Around 80 percent of this is exported to Asia, mainly to China.

In 2019 China implemented a quota law system in order to control low quality scrap imports. By the summer of 2020 China is expected to change its scrap classification and import only high-quality material with new standards of packaging and purity.

This may affect EU recycling companies that will see higher quality material leave the continent with non-EU countries offering a competitive price.

Exports of scrap represent a loss of a high energy content material for the EU. Scrap has a strategic value for the future of the EU circular economy and our low carbon industry.

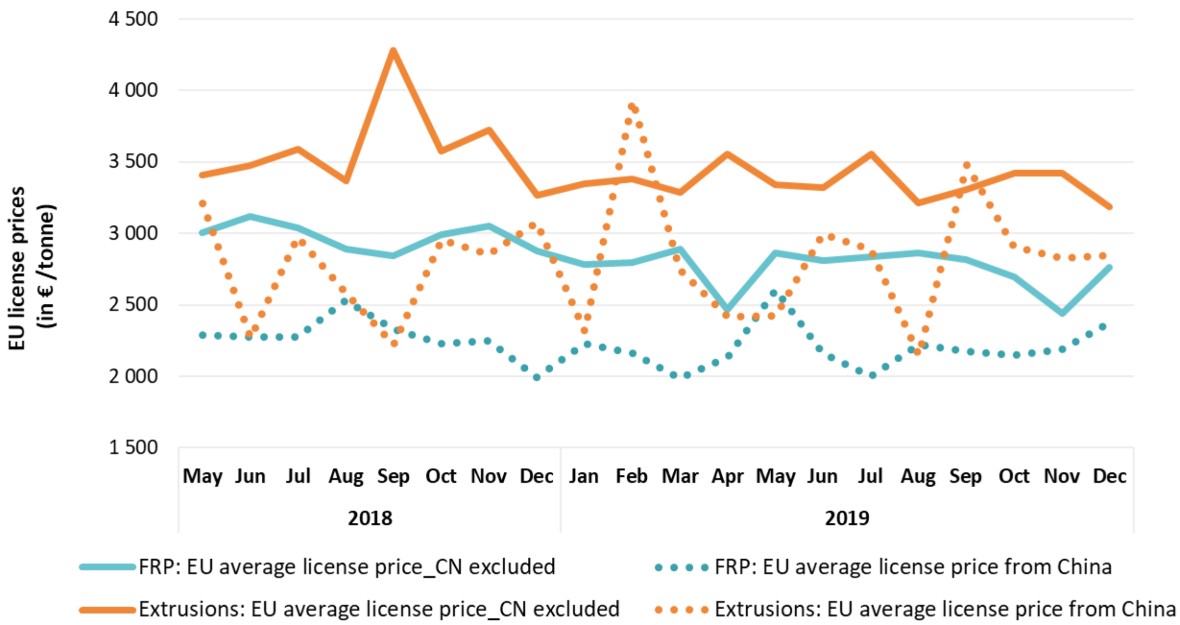
Chinese investment in the EU is not inherently a problem. Foreign direct investment (FDI) into the EU is normally welcomed. FDI can create jobs, drive innovation within the EU rather than outside, and help create global international networks for EU-originating firms. However, when foreign direct investment is used to undercut sustainable market prices for a product, or based on industries that have been unfairly subsidised by their home governments, they can harm the economic competitiveness of EU-based industry.

The behaviour of Chinese exporting producers impacts the European aluminium value chain in different ways. This document provides concrete examples of how China is negatively affecting EU producers throughout the whole the aluminium value chain.

2. China exports Commodity Material into the EU

For over a decade, China has been exporting commodity material to the EU market. Both the low prices and high volumes of these materials have negatively affected EU producers in the building and construction market with particularly strong impacts for European SMEs and family owned extruders. Chinese producers also started to heavily export other product types, such as foil and aluminium wheels. Initially China exported standardised products but has increasingly produced advanced products that benefit from state subsidies and exported them to Europe, threatening EU product development and innovation. It is impossible for EU producers to compete with these dumped Chinese exports.

Prices from licensing: China vs other importers



3. European Producers Lose Export Opportunities as China Is Weakening Their Position Worldwide

The Chinese market itself accounts for over 40 percent of global demand for primary aluminium and it remains, to a very large extent, a closed market. This leaves aluminium producers in the rest of the world to compete (only) for the remaining part of the global market while the European Union is still one of the most open markets in the world, including to Chinese exports.

European producers lose in export opportunities to third countries worldwide due to Chinese exports. This affects higher end segments of the value chain, such as can stock.

These losses have happened primarily in the Asian region, but also in the Middle East, Latin America and Turkey. In comparison to the highly subsidised Chinese alternative[8], European products have become too expensive to compete.

[8] OECD (2019), « Measuring distortions in international markets: the aluminium value chain, OECD Trade policy paper, nr 218, OECD publishing, Paris, January 2019.

4. China Exports Added Value Products into the EU

High-end segments normally require a close relationship between supplier and customer (due to the made-to-order nature of many of these products). Long testing periods are often required by the customer before recognsing the supplier as acceptable. This process can take a year or longer.

Chinese producers have started to set up sales offices in the EU in order to enter this segment of the European market. They have now developed a customer base and continue to expand their contacts with European users.

Examples

- **Zhongwang Group**, the largest Chinese extruder has set up a sales office in *Germany.* Zhongwang recently also signed an important supply contract with Jaguar Land Rover in the UK[9]. Zhongwang is under indictment in the United States for evading USD 1.8 billion in anti-dumping duties.[10]

- In 2017, **Shandong Nanshan Aluminum Co**. established a wholly owned subsidiary in Montabaur, *Germany*, which sells aluminium, aluminium alloy products, and processed products.[11] The subsidiary has a registered capital of €1 million and targets customers in the high-end automotive and aviation manufacturer industries.[12]

- Also, in *Germany*, **Minth GmbH** was founded in 2010 in Heidelberg. The German company is the interface for European original equipment manufacturers (OEMs) and suppliers and reports directly to company headquarters in China. Minth still mostly produces in China, with delivery to European warehousing in several places located close to OEM's factories. This operation has grown to over 150 employees.

- In the *Czech Republic,* **Zhongwang Group** signed an agreement in 2016 with Czech Express to supply aluminium for three of its train lines. These lines are expected to open in 2020 after passing initial tests.[13]

5. China Also Targets Niche Markets

Chinese exporters seem to target the entire aluminium value chain. They compete not only with standard aluminium and high-end products, but also with niche products. For instance, in the wake of the financial crisis, all EU aluminium producers lost market share to Chinese exports in the solar panel industry[14]. More recently, it

[9] https://aluminiuminsider.com/china-zhongwang-inks-supply-contract-with-jaguar-land-rover/
[10] https://www.justice.gov/usao-cdca/pr/federal-indictment-alleges-scheme-avoid-payment-18-billion-anti-dumping-duties-chinese.
[11] http://static.sse.com.cn/disclosure/listedinfo/announcement/c/2018-08-30/600219_2018_z.pdf
[12] http://finance.china.com.cn/roll/20170411/4170342.shtml
[13] http://3g.albiz.cn/news/display-lid_2-news_id_201638.html
[14] https://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2013:325:0001:0065:EN:PDF.

appears that Chinese producers export hard alloy solutions, and compete successfully with European producers in a very specialized market.

6. China Invests Heavily in the EU

China is also increasingly buying its way into the EU via investments. If these investments are in fact backed by state subsidies, and not based on market-oriented mechanisms, they could become problematic for the future of the European aluminium industry.

Examples

- The **Chinese Aluminium Cooperation Ltd (Chalco)** bought several aluminium facilities under financial stress. A Bloomberg article dated 23 April 2018 names the company as the third biggest acquirer in Europe.[15]

- In 2017, **Zhongwang Holdings** acquired *German* aluminium extrusion firm Aluminiumwerk Unna AG for €75 million, giving them a controlling stake. Aluminiumwerk Unna AG mainly supplies aircraft manufacturers[16]. The company provides high-end extrusion products, predominantly seamless tubes, to aircraft manufacturers.

- **Sedant Holding** acquired APT production facilities in the *Netherlands, Germany* and the *Czech Republic* in 2015. In Germany, Sedant's investment in APT was sold to GP Holding GmbH.

- The automotive supplier **Fuyao** acquired the German SAM automotive group that was in foreclosure.[17]

- In *Greece* and *Italy*, China invests in the more upstream segment of the industry. China also provides equipment for investments in the European aluminium sector. In 2018, Chinese **Non-Ferrous Metals Corporation** announced that it would be providing the equipment for the planned expansion of Mytilineos' alumina plant.[18]

- In 2016, the *German* scrap recycling company Scholz was taken over by **Chico Tiande Group**.[19]

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[15] https://www.bloomberg.com/graphics/2018-china-business-in-europe/
[16] http://www.zhongwang.com/about/milestone.htm
[17] https://www.glassonweb.com/news/chinese-automotive-supplier-fuyao-acquires-sam-automotive-group
[18] http://www.cnmc.com.cn/detail.jsp?article_millseconds=1545654592890&column_no=010317
[19] https://www.euwid-recycling.com/news/business/single/Artikel/chiho-tiande-takes-over-scholz-for-one-euro.html

- In 2019, a subsidiary of **Chinalco (China Aluminum International Engineering Corporation Ltd**.) – signed a general contract for the upgrade project of the electrolytic aluminium plant in Portovesme, *Italy*.[20]

- In 2018, the **Bohai Automotive Systems Co.,** Ltd. and TRIMET Aluminium SE completed their joint venture for TRIMET's Automotive Division. Via a *German* subsidiary, Bohai Automotive now holds 75 percent of the shares in TRIMET Automotive Holding GmbH, which, along with its subsidiary plants in Harzgerode and Sömmerda, manufactures high-quality die-casting components for vehicle construction.

- In 2017, the Chinese Group **Dingshen** bought the *Italian* foil and container producer Comital, after it went bankrupt.[21]

- **Kamaite Material Technology**, active in the cable business, installed a slitting centre at a European customer's premises in *Germany*.[22]

- **QualityFoil**, an aluminium foil company with a presence in *Luxembourg,* has an exclusive long-term partnership agreement with the number one producer of thin aluminium foil manufacturing in China.[23]

- The Chinese can maker **CPMC**, part of the State-owned Chinese conglomerate Cofco, announced the construction of a joint-venture plant in *Belgium*.[24] This project includes the investment of more than €50 million.[25]

7. Technology Transfer in EU Member States

We are also witnessing increasing knowledge transfer between EU member states and China. This is happening in several high-end product segments such as aeronautics and in segments with significant future potential for aluminium demand, such as automotive applications and recycled aluminium products.

Examples

[20] http://www.chalco.com.cn/zgly/xwzx/qydt/webinfo/2019/06/1560819754325497.htm
[21] http://www.dingshenggroup.com/en/about/index.aspx?NodeCode=105025002001006
[22] https://de.kemaite.com/aboutus.html). In many other cases, Chinese material is supplied to local slitting centers like Flejes Especiales in Spain (http://www.flejesespeciales.com/), Fislage in Germany (https://www.fislage.de/) or Cable Tec in Belgium (https://www.cabletec.be/).
[23] http://www.qualityfoil.com/about-qualityfoil/
[24] https://www.canmaker.com/online/chinese-canmaker-to-build-a-joint-venture-plant-in-europe/
[25] https://www.pnoconsultants.com/be/nieuws/chinese-leading-manufacturers-invest-in-genk-after-flemish-support-of-e-3-million-creating-jobs-for-150-people/

- In 2019, **the China-*Bulgaria* New Materials Technology Transfer Forum** announced that the Ningbo Branch of the Academy of Ordnance Sciences had signed an agreement with the Institute of Metal Materials of the Bulgarian Academy of Sciences to establish a China Technical Transfer Centre. [26]

- In July 2018, Figeac Aero and **Shandong Nanshan Aluminium** officially finalised the creation of their joint-venture production facility in China, set up to design and produce aluminium parts for a wide range of aerospace applications.[27]

- In 2017, it was reported that the **Chinalco Material Research Institute signed a collaboration framework agreement with the Brunel Centre for Advanced Solidification Technology** (BCAST) at Brunel University in the *UK*. Research will focus on MC-DC casting technology, new aluminium alloy and magnesium alloy. materials, automotive parts, magnesium alloy material preparation technology, waste aluminium treatment and recycled aluminium technology.[28]

- The British "**Future Metallurgy Centre**" is to develop new casting technologies and "next generation" aluminium and magnesium alloys for automotive and aerospace applications. The financing comes in part from Chinalco.[29]

8. China Invests in the EU's Neighbouring Countries

It is also part of the Chinese strategy to gain access to the EU market by creating joint ventures or investing in the EU's neighbouring countries of the EU which have duty-free access for their exports to the EU.

- In 2019, **Weiqiao Venture Group**[30] signed a comprehensive cooperation agreement with *Switzerland's* AM Fund. Both parties will be looking for industrial cooperation opportunities in Europe, with AM Fund providing support for financial services.

- The Bosnian Government is discussing the approval of an offer for the primary smelter in *Bosnia* from Israel's M.T. Abraham Group in partnership with China **Machinery Engineering Corporation (CMEC)** and **China Non-ferrous Metal Industry's Foreign Engineering & Construction**.

- The **Minth Group** has invested in *Serbia* (Loznica) in the construction of a factory that will employ around 1,000 people. Minth invested €100 million in the facility, where it will produce aluminium roof base carriers, vehicle covers, aluminium door frames and car batteries, all of which are considered high end products.

[26] https://www.xianjichina.com/special/detail_428301.html
[27] https://www.figeac-aero.com/sites/default/files/figeac_aero_cpuk-nanshan-figeac-vdef.pdf
[28] http://zx.zhongseyun.com/n_12_652.html
[29] https://www.foundrymag.com/materials/uk-launches-new-casting-tech-research-center
[30] https://www.alu.cn/aluNews/NewsDisplay_1081500.html

With targeted investments in North Africa in particular, Chinese companies are also trying to gain market share from EU suppliers.

- In 2018, **Citic Dicastal** invested €350 million in building two aluminium car wheel factories in northern *Morocco*, with the aim of producing 6 million units annually, largely meant for export.[31] A second factory was established in 2019 in Kenitra.

- In 2018 **Shaanxi Automobile Group** opened a truck assembly plant in Algeria, with Chinese financing.

- In 2019 an important exporter of aluminium wire, **China's Hangzhou Jinjiang Group** announced its plans to establish a 6 million-square-meter aluminium complex *in Egypt* in partnership with Saudi Arabia's Al Ajlan Group.

- **BYD**, the Chinese electric vehicle maker has signed an agreement to open a factory in *Morocco* to build battery-powered passenger cars, buses and trucks.[32]

9. European Companies do not have reciprocal access to Chinese market

China does not grant the same conditions for foreign investments as the EU. This lack of reciprocity is an important consideration when looking at the Chinese strategy for entering the EU aluminium market.

In China, several factors can hinder investments, such as the lack of transparency, legal uncertainty, the low level of protection of intellectual property rights, corruption or protectionist measures which favour local businesses etc.

In fact, China is cited as the country with the highest level of recorded barriers, with 37 obstacles hindering EU export and investment opportunities.[33]

[31] https://www.reuters.com/article/us-citicdicastal-morocco/chinas-citic-dicastal-to-produce-aluminum-car-wheels-in-morocco-idUSKBN1KG33R
[32] https://europe.autonews.com/article/20171209/ANE/171209787/china-s-byd-plans-ev-plant-in-morocco
[33] http://trade.ec.europa.eu/doclib/docs/2019/june/tradoc_157929.pdf, p.6.

10. Conclusion

As multiple sources suggest, Chinese aluminium companies' strategy aimed at entering the European Union market is based on state interference and subsidisation. These mechanisms are present in every part of the value chain, and in all segments of the market.

The Chinese threat to the European aluminium industry is significant due to the massive excess capacities in primary, semi-fabricated and final aluminium products. With the volumes of product available to it, Chinese industry is capable of entirely replacing the industry in the EU.

European Aluminium supports free and fair trade and a ruled based trade system. We welcome foreign direct investments, as long as these are based on market-oriented mechanisms. Our association also applauds the agreement between the European Union, Japan and the United States to work towards the strengthening of the existing World Trade Organization's (WTO) rules on industrial subsidies.

In case of Chinese investments, we believe that these investments are not based on market-oriented mechanisms. We therefore ask the EU to adopt an appropriate trade policy including effectively implemented trade defence instruments as well as a robust investment screening mechanism.

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