



UK/EU Trade Negotiations Position Paper

The Aluminium Federation is the voice of the UK aluminium industry. We represent more than 150 businesses and the wider value chain who process, trade and work with aluminium – fostering innovation, promoting best practice, developing skills and championing industry interests.

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> EXECUTIVE SUMMARY

The aluminium sector generates £10 billion annually for the UK economy and employs more than 20,000 people nationwide. It plays a vital role in the supply chains of key high-value sectors – transport (aerospace, automotive and rail) and construction – as well as mass markets for packaging. It's therefore a sector of profound national significance, in terms of exports and infrastructure.

As a lightweight and highly recyclable material, aluminium is a key contributor to the low-carbon economy. Its role will continue to expand, from replacing single-use plastics to supporting more sustainable transport. The aluminium industrial sector leads the circular economy, adding value to the up- and down-stream UK supply chain. The emphasis on reuse and recycling is key to HMG's green growth strategy and carbon neutral vision.

The Aluminium Federation recognises the Government's ambitions for trade deals with the EU, US and other countries. Here we summarise the priorities for the aluminium industry:

- It's essential that future trade agreements create an environment that fosters aluminium industry growth over the short, medium and long term. Anything else would be devastating to the many areas of UK manufacturing that rely on access to quality, price-competitive aluminium in their supply chain
- We need a preferential trade agreement with the EU ensuring 0% tariffs – Europe is a high-value market for UK aluminium, one that cannot and should not be replaced
- Rules of Origin must be framed to enable tariff-free access for aluminium products at all stages of manufacture. Negotiations should focus on the conversion process qualification rather than value content percentage, adding value to key sectors (auto, transport, aero, construction, recycling) and sustainability objectives
- It's critical that UK aluminium's collaboration with European and international counterparts continue. There's a long history of cooperation and knowledge sharing, which delivers wide economic benefits
- Trade deals with other countries should ensure fair access for UK producers, and the UK should be prepared to use remedies and safeguards to ensure security of supply and protect against dumping
- To be cost-competitive, UK producers need greater industrial investment to drive quality and productivity improvements – these gains are essential to Government ambitions for the low-carbon economy
- We recommend amending UK versions of regulations such as IED and REACH to be less onerous. This will be vital in realising the Government's ambitions for an all-electric economy. It will also help with planning and supporting the manufacturing sector where house building encroaches on existing production plants, perhaps through the introduction of industrial zones
- We recommend provision for short-term movement of people without visas. We welcome HMG's

> TRADE POLICY PRIORITIES

Europe accounts for 54% of total UK aluminium exports by volume and almost 60% by value. It's a high-value market that cannot and should not be replaced. In fact, should the UK vacate the European market, the shortfall will likely be made up by Chinese companies, making it difficult for UK companies to re-enter in future.

The UK and EU aluminium sectors and their supply chains are interlinked – and have come to rely on frictionless movement for materials and products at various stages of manufacture. The established networks and shared knowledge have generated decades worth of valuable R&D.

For example, the UK is a global leader when it comes to using aluminium (which is highly recyclable) for drinks packaging – using an estimated 220,000 tonnes per year. Much of the rolled material for can manufacturing is imported from the EU (the UK is the second largest consumer of European aluminium rolled products, with a 12% share). Used beverage cans from the UK are then recycled and exported to the EU to produce more can sheet. In 2018, 100,141 tonnes of aluminium packaging were collected for recycling in the UK. 95% of it was exported to Europe for onward use. The relationship is the circular economy in action.

Manufacturing processes are connected at different stages of production across the EU and UK. The future trading relationship must therefore streamline trade and facilitate just-in-time processes to protect UK output and jobs. We must continue encouraging investment in the UK – promoting the specialisation of high-value manufacture that links and maintains cross-border supply chains.

Tariffs

The UK's tariff approach must support domestic supply chains and promote UK high-value manufacturing, maintaining our current tariff structure with the EU/RoW protecting developed trading positions and the sustainable flow of materials.

UK Chapter 76 reflects key areas for growth and domestic production. Data reflects the low-value supply chain we have become in domestic manufacturing:

Imports – 1.25 million tonnes at a value of £3.804 billion

Exports – 1.10 million tonnes at a value of £2.261 billion

High-value products are being imported, and low-value products are being exported. Therefore, the industrial strategy must drive a change in direction, delivering high-value UK domestic manufacturing and bringing in high-value jobs.

Key opportunities exist for manufacturing growth. For example, we import 55% of extruded aluminium product into the UK for domestic production. UK producers in this sector provide high-quality, consistent products – and they contribute to the circular economy with recycled scrap, reducing the need for imported primary aluminium.

Reducing key input tariffs would expose this sector dramatically, opening UK domestic extruders to attack from cheap material flows from other countries. For example, Zhangdong, the largest producer of extrusion in China, now has an established presence in Europe – they've signed a deal with JLR to supply extruded automotive parts.

Creation of our own domestic supply chain has to be the correct strategic outcome. Increasing local content on domestic production is a key requirement for any UK industrial strategy.

We need a preferential trade agreement with the EU ensuring 0% tariffs

The UK must agree a zero-tariff deal with the EU, and we welcome the Political Declaration emphasising the mutual commitment to “ensur[ing there are] no tariffs, fees, charges or quantitative restrictions” to trade.

The UK exported 634 000 tonnes (worth £1.45 billion) of aluminium products to Europe in 2019. Most UK aluminium alloy producers export approximately 50% of their production to the EU. On top of that, their UK customers export a further 50% of their output to the EU.

And it's a two-way relationship. In 2019, the UK imported 770,646 tonnes of aluminium products (worth £2.3 billion) from Europe. And aluminium is a critical component in wider supply chains (particularly automotive and aero), as well in scientific cooperation and R&D. If the EU-UK trading relationship reverted to WTO rules, aluminium exports would face duties of 7.5%. The UK currently imports more EU vehicles and components than we export, so tariff-free access shouldn't be controversial.

UK MFN tariffs should remain at current levels

Compared to the EU, the UK is already disproportionately serviced by imports across a wide range of industrial sectors. This is rooted in accelerated de-industrialisation, open borders, a common language and historical ties with other countries. as well as industries aligning for the EU market. Post Brexit, the UK industrial base must be allowed time to invest more specifically for the new trading realities, and sudden wholesale changes in tariff structures must be avoided.

We request that the new UK MFN tariffs for aluminium will be maintained at the current levels and we strongly advise against elimination of tariffs on aluminium. We expect the UK to agree bilateral tariff free, quota free trade for aluminium with future Free Trade Agreement partners achieving mutual access to each other's markets.

Remedies and safeguards should be maintained to ensure security of supply

Access to fairly priced, good-quality aluminium is critical for a wide range of supply chains – both in high-value and mass market industries.

Because the aluminium supply chain is susceptible to unfair trade practices, the UK will need an arsenal of efficient remedies and safeguards, including anti-dumping and anti-subsidies, to protect domestic producers. This includes maintaining current anti-dumping measures on Chinese foil and aluminium wheels. This is essential when it comes to the Government's ambitions for the industrial strategy, low-carbon economy and currency exchange.

We recommend proactive safeguarding rather than the reactive model of collecting data over a period of time to prove there is a safeguarding case.

Robust trade deals are crucial to investor confidence, which is essential for long-term competitiveness

There is enough global alloy demand to absorb displaced EU volumes, but the current environment isn't conducive to seizing that opportunity. Costs associated with UK production (for example, around scrap handling and energy) are too high for the industry to compete profitably with lower selling prices in Asia.

To be cost-competitive, UK producers need greater industrial investment to drive quality and productivity improvements. This will drive progress in key areas such as:

- Low-carbon transport
- Associated transport infrastructure
- New homes
- Sustainable packaging
- Energy-efficient consumer goods

Having the right trade environment is crucial to stimulating this investment – because we need market conditions that give investors' confidence around continued EU trade prospects in the short and medium term. Consumers and producers can accommodate gradual change. However, overnight changes will cause widespread disruption to production, leading to company failures.

Rules of Origin

Rules of Origin must be framed to enable tariff-free access for aluminium products at all stages of manufacture

Value content percentages don't always reflect the actual value UK producers add to products. Using these as the basis for Rules of Origin will therefore have a disproportionately negative affect on the UK. EU manufacturers and producers share similar production processes to those in the UK, and they too will have difficulty meeting the local content/added value thresholds.

We therefore recommend focusing negotiations on conversion process qualification rather than value content percentage. This will put the UK in a stronger negotiating position.

For example, discussing 5% value-added could signal to EU negotiators that we’re opening the door to importing cheaper Chinese materials tariff-free, adding just 5%, and then looking to sell goods tariff-free into the EU as “UK produced”. This would put UK producers in direct competition with EU importers subject to higher tariffs. Focusing on conversion process qualification mitigates this risk from an EU perspective while giving UK producers more robust protection.

The UK is an important market for the EU, and modern Rules of Origin will be mutually beneficially for maintaining supply chains and supply continuity. For example, BIW (Body in White) is aluminium sheet used in the manufacture of vehicle body panels, the production process moves across the Channel up to 7 times before final assembly in the UK.

Specifically, with regard to scrap (7602) – we recommend a government driven reuse/recycle strategy reducing the export of 500 000 tonnes a year of Aluminium scrap, a valuable resource that supports the UK’s green growth strategy, develops UK domestic production and reduces GHG emissions.

We also recommend that the Rules of Origin agreed with the EU be similar to those in CETA:

Chapter 76	Aluminium and articles thereof
7601.10 7601.20	A change from within any one of these subheadings
76.02-76.06	A change from any other heading
76.07	A change from any other heading; or A change from within this heading, whether or not there is also a change from any other heading, provided that the value of non-originating materials of this heading does not exceed 50 per cent of the transaction value or ex-works price of the product
76.08-76.16	A change from any other heading

This will protect both parties from third countries circumventing higher tariff rates and flooding markets with low-cost, low-quality products. In addition to supporting UK aluminium, these rules will help EU maintain access and develop growth opportunities in UK markets.

Customs Procedures

Streamlined customs arrangements are key to competitiveness

We recommend the UK pursue a facilitated customs arrangement with the EU, including trusted trader schemes, simplified procedures, data sharing between customs authorities and streamlined verification.

This will ensure there's no undue disruption to just-in-time supply chains. For example, in automotive – which depends heavily on aluminium – SMMT research showed that every minute of border delay could cost approximately £50,000 in gross value added to the industry, totalling over £70 million per day (based on five-day working week).

Additionally, delays and administrative burdens disproportionately affect small and medium-sized companies, which make up 80% of UK aluminium and 90% of UK automotive.

HMG should also introduce measures to help avoid VAT-related cash flow issues, particularly on UK imports. By minimising the cash burden on UK companies – for example, through VAT deferment on UK/EU trade – the Government will boost companies' agility and promote valuable trade flows between the UK and EU.

Regulation

The UK should capitalise on opportunities to reduce the administrative burden on companies – while ensuring robust protection

The aluminium industry is firmly committed to environment protection with respect to its operations and compliance with EU and UK legislation. The industry has contributed to the development and updating of both the EU Industrial Emissions Directive and the associated EU Best Practice Reference Notes for operation of non-ferrous metals processes (EU NFM BREF 2016).

However, the aluminium industry is mindful of the HM Government Transposition Guidance on How to Implement European Directives Effectively, in particular that Directives should have the most minimal impact UK industry (while being compatible with the regulation's intent). In particular, UK industry should not be disadvantaged compared with EU competitors.

The industry also welcomes the BEIS Growth Duty Statutory Guidance under Section 110 of the Deregulation Act 2015 (March 2017). We look forward to the clear application of this Statutory Guidance in all its aspects. Industry also looks forward to developing its working relationship with regulators under the requirements of the BEIS Regulators Code.

The aluminium industry would also, should the opportunity arise after December 2020, welcome the opportunity to work closely with UK regulatory bodies to help boost competitiveness. We share an ambition to streamline and ease the regulatory burden on companies, while allowing them to fully comply with the objectives of protecting human health and the environment.

We see EU trade negotiations as a two-way process where we copy sensible legislation from the EU and they copy sensible legislation from us

We cannot – and should not – always follow their (often self-defeating) example. For example, if the UK wants to legislate for an all-electric economy ahead of any EU timetable, we must have mechanisms to support energy-intensive industries and ensure they remain viable. Otherwise, without access to EU critical materials networks, we risk not having the planning machinery in place to realise the Government's ambitions.

We therefore recommend the UK take this opportunity to amend our versions of regulations such as IED, REACH and BAT/BREF to be less onerous to industry – while maintaining high environmental standards.

- **The Industrial Emissions Directive (IED) permitting**

The aluminium industry is generally subject to the IED because of “emissions to air” pollution. Because of the way the IED environmental permitting is structured, companies must also comply with requirements for all other pollutants, including noise, odour and light. However, aluminium plants aren't as noisy or odorous as unregulated neighbourhood activities such as roads, railways, workshops and takeaways.

These unnecessary obligations are a huge burden both for the regulated industry and the regulators – with minimal environmental benefit. Brexit gives us the opportunity to eliminate this. A more effective approach would be to remove these “pollutants” from environmental permitting and make them subject to the same statutory nuisance controls governing other activities with a similar impact.

It's very hard to see the EU claiming this would distort the competitive market and justify tariffs. In fact, it's a sensible approach they should also consider implementing.

- **Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH)**

ALFED is concerned over the proposed UK system for a parallel REACH. Regulatory alignment will be necessary for frictionless free trade with the EU. Industry's preferred option is for the UK to be a member of or have an equivalent membership to EU ECHA. This will minimise supply chain disruption.

The costs of funding a parallel REACH system are very unclear at the moment. In fact, such costs for chemicals and formulated products imported into the UK may be prohibitive (non-commercially viable) under a UK system for non-UK manufacturers and UK importers acting as agents.

Specifically, we recommend:

- Consistency between UK and EU standards and a general product safety system should be achieved regarding the manufacture, movement and import/export of chemicals
- Minimising the costs for UK companies to re-register substances and obtain test data/fact sheets
- Avoiding the complications arising from additional processes. For UK companies registered in the EU, duplication will create an administrative burden and increase costs
- HMG show support, underpin current data and minimise re-testing. Re-testing will create a significant burden – and potentially mean the supply of certain irreplaceable substances and formulated products is no longer commercially viable in the UK

Near alignment of REACH would ensure multinational companies based in the UK could continue supporting their manufacturing plants. Any additional costs obviously affect the viability of keeping production in the UK. SMEs need to avoid additional costs and process-related uncertainty to ensure continuity of existing business and capitalise on opportunities for strategic growth.

- **Best Available Techniques (BAT) and BAT Reference Documents (BREF)**

The UK has been a significant contributor to BAT and BREF documentation, with input coming from regulators and industry. The Non-ferrous Metals BREF was completed in 2016 with considerable industry input. We recommend being engaged with the EU in this process to ensure ongoing information exchange.

- **Carbon Border Tax**

We recommend remaining engaged with the EU's development process as far as possible, taking a mutually beneficial approach to achieving emission reduction goals.

However, UK industry would benefit from simplified processes – particularly regarding the Carbon Border Tax Adjustments. UK businesses can't have a higher price than their EU competitors, and the EU is unlikely to accept a lower one.

We also recommend introducing a UK Carbon Border Tax for countries with overcapacity, that benefit from illegally supported energy prices, and are dumping material into global export markets. This something the EU are considering, too, and it will protect trade, investment and jobs. Crucially, it will also identify the real cost of moving product across the globe.

- **Standards**

A common rule book should allow the British Standards Institution (BSI) to retain its ability to apply the 'single standard model' in conjunction with existing ISO standards.

- **Movement of People**

We recommend provision for short-term movement of people without visas

We welcome HMG's ongoing engagement with stakeholders on new immigration frameworks. The Aluminium Federation recognises skilled and unskilled labour is employed across the whole UK Aluminium value chain; organisations will need access to a multi-level skilled workforce from the EU/ROW to ensure vacancies are filled quickly, ensuring productivity and competitiveness are maintained. The UK/EU trade agreement should ensure that these movements and activities, for people of all levels, can continue without any unnecessary restriction, delay or cost to business.

> OTHER NON-EU TRADE POLICY CONSIDERATIONS

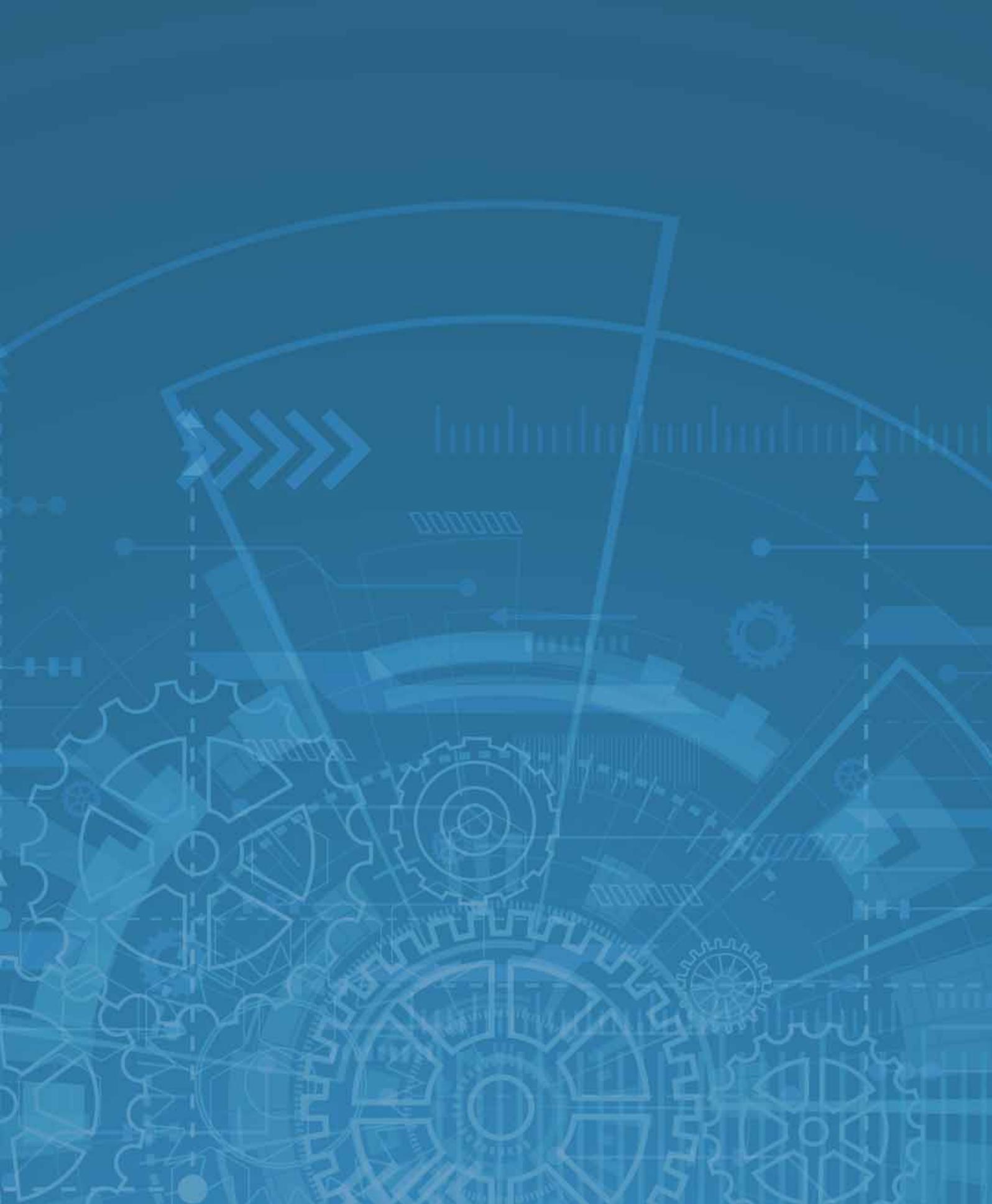
The UK's priority is to pursue FTAs with countries we currently enjoy trade with through the EU, and to develop a wider FTA programme with preferential countries, striking a balance on strategic trade objectives.

In 2019, the UK imported 400,000 tonnes of aluminium (worth £1.3 billion) from the rest of the world. It exported 455,241 tonnes (worth £850 million). As with the EU FTA recommendations above, we suggest including similar elements in FTAs with the US, Japan, South Korea, Canada and other key strategic trading partners.

Specific recommendations are to:

- Secure 232 exemption from the US as a matter of priority– the US is a critical growth market for the UK, and we are not a threat to US national security
- Ensure strategic trade objectives have a commitment to developing countries at the forefront. The UK should take the lead in mutual trade development and wealth generation
- Maintain tariffs on key production inputs. Removing them would damage our already struggling manufacturing industry and create a negative environment for developing the UK's value chain
- Encourage home development in UK manufacturing rather than remove tariffs where the UK has zero or little domestic production. This is an opportunity to invest in UK domestic production, develop the high-value supply chains and create high-value jobs

With regards to Most Favoured Nation status – the UK Government needs to account for countries that promote unfair competition through illegal price and resource support. There are ongoing concerns about Chinese and Russian producers not operating on a level playing field, which presents real risks for the UK being flooded by cheap aluminium products balancing the affect of restricted material flows may impact on UK manufacturing. The EU has announced an anti-dumping investigation into Chinese extrusions, and we recommend the Government monitor the situation to protect the UK market as necessary.



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