Aluminium Tariffs Are Starting to Impact the U.S. Market

In January 2018, the U.S. Department of Commerce tabled a report that found that aluminium and steel imports were a threat to national security. Subsequent to the finding, Donald Trump announced that he intended to impose tariffs of 10% on aluminium and 25% on steel. Since then, several countries have received temporary exemptions, but aluminium prices are already feeling the impact of the protectionist measures.

Since the report was submitted, the spread between the prices on aluminium futures contracts in the U.S. market and the international market has gone up. The premium in the United States is therefore diverging further from the premium paid in Europe and East Asia. Since the series began, the U.S. premium has been, on average, US$100 a tonne higher than elsewhere, recently, the spread went over US$240 a tonne. This means that U.S. buyers are now paying more than they would normally have paid. At the same time, the international aluminium prices surveyed by the LME (London Metal Exchange) have tumbled nearly 10% since the year began.

Evidently, given the higher production costs than those of major aluminium exporters and rising import prices, markets are expecting prices to go up in the United States. Internationally, the pressure on prices is down instead, as a higher U.S. price would decrease the demand from one of the biggest consumers. There are also fears that a genuine trade war would hurt the global economy and demand for metals.

IMPLICATIONS
These protectionist measures were introduced to benefit the aluminium and steel industry in the United State, for which a U.S. price surge would be desirable. However, such an increase would penalize industries that depend on these imports, as well as consumers in general. Moreover, according to a study by The Trade Partnership, in the event of tariff retaliation, 18 jobs would be lost in the United States for every job the aluminium and steel industry gains (considering only the Canadian and Mexican exclusions). This is mainly because related sectors like the automotive and construction industries would be less competitive. What remains to be seen is whether the exemptions will include more countries and be permanent, as this will be critical for the tariffs’ medium- and long-term impacts.