

MADE ON BEHALF OF FACE

# **BETWEEN COVID-19 AFTER-EFFECTS AND EUROPEAN GREEN DEAL**

*Challenges for small and medium-sized  
aluminium processing companies in Germany  
Case study*

## **EXECUTIVE SUMMARY**

*FAIReconomics  
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## EXECUTIVE SUMMARY:

Aluminium producing companies in Germany are actively exposed to threats, according to a survey conducted by FAIREconomics specifically for this Policy Paper in May and June 2020. Almost all the companies surveyed are pessimistic about the near future.

The consequences of the COVID-19 crisis, a faltering supply chain, the deepest recession since 1945, the challenges of the Green Deal, and the transformation of companies due to the upcoming CO2 pricing are the biggest challenges. In addition, the climate and energy revolution requires reliable access to raw materials.

Due to the pandemic, many companies in the aluminium processing industry are working with restrictions.

However, aluminium is considered a key raw material in the forthcoming Green Deal, as its material properties will support

- a massive wave of the renovation of buildings and infrastructure;
- the further development of recycling management due to its high recyclability through the new development of design-based product innovations
- the introduction of renewable energy projects (especially wind, solar and hydrogen)
- the transformation of transport and logistics (e.g. electric vehicles, rail transport – lightweight construction)

In the past, the task of supporting the aluminium industry on the EU side was mainly based on trade rules. The application of import duties served as the main measure of industrial policy. The German national measures were primarily aimed at supporting existing upstream industries, i.e. the aluminium producing companies and the non-aluminium processing companies, by reducing their energy costs as part of a wider regulatory intervention for energy intensive sectors.

The main focus of European and German politics continues to be on the steel industry. The aluminium processing industry, especially small and medium-sized companies, which could play a major role in the aluminium processing industry in the context of climate change in the European Union, is not receiving the attention that aluminium as a material deserves. However, import duties on aluminium in Germany have meant that increasing international competition from developing countries and limited bargaining power towards their customers have considerably restricted the ability of downstream German aluminium processing manufacturers to pass on import duties directly.

In addition, the German government should work towards establishing an effective and reactive EU trade defence policy against unfair and carbon-intensive semi-finished aluminium products produced in China and imported into the EU.

Due to a lack of raw materials and with primary production having fallen sharply in recent years, the value chain of the German aluminium processing industry depends heavily on foreign metal production. Import duties lead to a cost disadvantage for German semi-finished product manufacturers compared to foreign competitors. As a result of the imposition of a duty on raw aluminium, the annual production costs of downstream aluminium have increased by about 100 million euros in Germany alone and by about one billion euros in Europe. A sum, as shown in the above Policy Paper, which is deprived of the small and medium-sized enterprises in Germany by the virtual premium on aluminium produced in the EU28. However, companies need these resources to master the digital, sustainable transformation and to recover the associated costs.

Per tonne of aluminium, the virtual aluminium purchased by the companies – since the EU primary aluminium producers also produce aluminium within EU 28 – amounts to about 85 euros per tonne. These are resources that small and medium-sized enterprises lack.

From the point of view of the WTO, UNCTAD and OECD, the tariffs levied here are not systematically and completely comprehensible in their effects on all economic entities. Previous investigations indicate that these measures have not had the desired effect since their imposition, but are distorting competition.

Moreover, there are rather a few companies throughout Europe which are producers of primary aluminium, and even for these companies, it is not obvious that the originally intended effect of the duties, namely to protect jobs, has worked. There are rather indications that jobs have been cut or relocated.

In this context, as a simple measure – especially to relieve the suffering of small and medium-sized companies and to revive the economy – the immediate lifting of import duties on raw aluminium is considered to be a simple, easy to implement and immediately available measure which would reduce the production costs of downstream companies and thus support their ability to regain or maintain their competitiveness in Europe and on international markets.

It makes no sense to transfer many billions into the German economy for its survival and to maintain a trade barrier that the aluminium processing industry pays for instead of burdening it. An abolition of these customs tariffs is therefore both economically and systematically logical.

What the aluminium processing companies in Germany now need is a rapid relief from regulatory induced, ineffective cost burdens to master the sustainable transformation in terms of the Green New Deal. They need constructive support from regulatory initiatives, including the following measures:

- Increased support for research and development: Stronger support for research on metallic alloys
- Acceleration of R&D and applications – so that innovative products – related to developments in the aluminium industry (lightweight construction, etc.) can reach the market faster.
- Reduction of bureaucracy – to reduce costs and increase agility. Administrative burdens place a disproportionate burden on small and medium-sized enterprises in their sustainable transformation. Effective safeguards and remedies – to ensure security of supply and protect against dumping from countries such as India and China, which are flooding the markets with high-carbon semi-finished products
- The recovery plan in response to the coronavirus-induced challenge must support long-term growth in domestic production, high-quality manufacturing and low-carbon innovation. It must maintain a strategic advantage in aluminium to ensure security of supply for key sectors. And it must involve working with key trading partners to share best practices in adapting to the new conditions.
- The small and medium-sized aluminium processing industry could now be relieved if, as in the COVID-19 pandemic, aluminium as an important raw material were exempted from import tax.

It is important to keep in mind that

- raw materials are one of the pillars of the circular economy. Aluminium is one of the raw materials of the future for the circular economy. Companies (SMEs and large companies) in Germany and Europe can benefit from the properties of aluminium – especially its durability – in new circular-oriented business models and create new products with design innovations. Thus, in addition to growth impulses, an increase in resource efficiency, and a contribution to climate goals, greater independence of the German and European high-tech industry can be achieved.
- International raw materials policy and international trade policy should be part of the move towards circular economies – especially for small and medium-sized enterprises. Straight within the framework of a growth policy that is also oriented towards small and medium-sized companies, growth-oriented and knowledge-based, aluminium should be given greater attention as a strategic raw material. Alongside other raw materials, aluminium should be given greater consideration in the political agenda because of its importance. This was to enable growth dynamics based on transformation efforts and resulting design innovations through aluminium processing – also on the basis of recycled, but also new aluminium – to enable SMEs downstream.