

POSITION PAPER

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Geopolitics and unfit policies imperil the European aluminium industry.

"Radical change" is urgently needed to build strategic resilience and support prosperity through Green Competitiveness.

Europe is caught in the jaws of great power competition and hasn't really waken up to the fast evolving trends and to the piling up of new threats in a world in upheaval.

Petty political games still have preeminence over strategic foresight, agility, courage and resolve.

The EU aluminium industry, which is at the heart of the transition to the green economy, is an example of self-inflicted damage, of the toxic role of vested interests and of flawed policy-making.

Therefore, while this light and infinitely recyclable material has a very promising future in our climate-ambitious continent, we are slowly offering our market on a silver plate to our competitors and we are devitalising our industrial tissue.

The conference on "Green Competitiveness" organised by FACE in Rome at the *Ara Pacis Augustae* (the Altar of the Peace of emperor Augustus) on Thursday 28 November, on the occasion of its 25th anniversary, is a call to action on the eve of the new mandates of the EU Institutions and a few weeks before the start of an assertive Trump 2 administration.

FACE is presenting facts and analysis and a set of policy recommendations.

The GRIF - Gruppo Ricerche Industriali e Finanziarie "Fabio Gobbo" - of the Luiss "Guido Carli" University of Rome has prepared a Policy Brief titled "The EU approach to industrial policies: a critical view", that will be commented at the conference.

We must, as Mario Draghi wrote in his fundamental Report, bring "radical change" in the way we respond to mounting threats and we mobilise our assets, to avoid Europe's definitive decline, and instead deliver on President Von der Leyen's promise of becoming the "first world sustainable power".

"But to be a power, stresses Dott. Mario Conserva, president of FACE, we need to have a robust industry, and to become a sustainable power we need the investments, innovation,

productivity and competitiveness that can finance and sustain the energy, climate and digital transitions".

The hard truth is that **we must reindustrialise to decarbonise**, in a new paradigm where all EU public policies must be aligned to deliver gains of productivity and of competitiveness.

Mario Conserva develops: "this equation, reindustrialisation for sustained decarbonisation, is the very reason why FACE has been advocating for an EU Green Competitiveness Agenda where competitiveness and SMEs are the top priorities; with climate resilience and environmental regeneration as the result of sustainable prosperity and not as abstract goals pursued at the cost of our economic strength and social cohesion".

The European aluminium industry is a critical example of the contradictions between proclaimed EU policy priorities and the realities faced by most of our sector, whose workforce is at 90% comprised of downstream transformer SMEs, which also represent around 70% of the value-chain's output.

The EU proclaims that SMEs are the backbone of our economy and must be supported, but in its 25 years of fights FACE constantly saw them de facto sacrificed either to untransparently subsidise big producers and recyclers or to use tariffs that hurt them as bargaining chips in bilateral or multilateral trade negotiations.

The EU speaks of reindustrialisation and of competitiveness but the European downstream aluminium tissue has seen in our 25 years of existence constant losses of domestic and global market share and erosion of competitiveness by a mix of bureaucratic burden, artificially higher costs for its raw material and, inter alia, now a penalising choice, with the Carbon Border Adjustment Mechanism (CBAM), of taxation and complexity, when our American competitors, thanks to the Inflation Reduction Act (IRA), are enjoying the benefits of incentives and agility.

"Instead of preventing delocalisations, the EU has created a policy and regulatory matrix that incites an industrial drain or is unable to counter the attractiveness and competitive edge of other parts of the world and a fierce and often unfair international competition", Conserva adds.

Today, our industry's survival is further threatened by the global polycrisis and conflicts, by risks on our southern maritime trade routes, by calls for bans on vital and not substitutable low carbon aluminium supplies, and by recent measures to increase import tariffs on raw aluminium, when we have an import dependency of 85% and while higher costs for raw aluminium are a killer in such a low margin industry where the purchase of our raw materials represents often 60-80% of production costs.

With the likelihood of the Trump 2 U.S. Administration targeting Europe, imposing universal 10-20% tariffs and possibly very high tariffs on China, our industry must be geared for the massive shocks of tensions with the USA and redirection of Chinese and other exports towards Europe.

"This is certainly not the time to further deepen our vulnerabilities with suicidal measures harming European downstream aluminium transformers, who are the future of our industry, if we allow our industry to have a future in Europe", states Conserva.

On the contrary, the EU must massively support all our factors of competitiveness, starting with lowering the costs of imports of raw aluminium, avoiding any restrictions on our supply chain of low carbon aluminium which is essential for innovative applications, competing and decarbonising, and, inter alia, courageously implement the recommendations of the Reports by Enrico Letta and Mario Draghi, notably common borrowing to invest 800-1000 billions euros annually in the energy, climate, digital and industry transitions.

To foster "radical change" in the strategic aluminium sector, FACE is presenting a set of policy recommendations, based on its quarter of century experience and action and on a unique series of studies on the competitiveness and sustainability of the European downstream aluminium industry and the whole value-chain:

- All EU policies, initiatives, legislations, instruments, must undergo ex ante and ex post impact assessments to ensure that their combined result delivers gains of productivity and of competitiveness.
- The EU policy matrix must have an agile strategic compass fit for a fast evolving multipolar world where States are increasingly transactional and where we must urgently reinvent our partnerships, notably in the Global South.
- Trade policy must be conducted to serve industrial policy and trade negotiations and measures must primarily support our industry growth.
- SMEs must be given much more concrete and not just rhetorical attention, and in particular must be given fast track access to funding and subsidies, have a deeply simplified administrative environment and stronger support to source and train talents, benefit from AI, participate into R&D programs and receive massive public aid to lower electricity prices.
- The EU should create a Green Aluminium Label to stimulate responsible and preferential consumption by European manufacturers, end users and the citizens of products with the lowest carbon content overall.
- The Carbon Border Adjustment Mechanism (CBAM) should be replaced by full liberalisation of imports of lowest carbon raw materials and products and by a powerful IRA-style EU stimulus initiative. Since the Covid-19 emerged and the war in Ukraine erupted, EU institutions and Member States have pledged or decided more than 2400 billion euros of funding, only partially used. From that partially untapped wealth, we must now mobilise at least 1000 billion euros to compete with the IRA, in a WTO-consistent manner.

- All our supplies of raw aluminium must become duty-free to support our competitiveness, while we should maintain the 7,5% import tariff structure on goods to protect our manufacturing base.
- Secondary aluminium production and increased use of our low grade scrap must be encouraged, while keeping in mind that primary aluminium, in a medium range of 30%, must be blended with secondary metal for most applications, and that therefore even in the most ambitious recycling and circularity scenarii, the EU demand, imports and thus deficit for primary aluminium will continue to grow.
- The EU should create and monitor a new category of "unfair green goods", covering low carbon products manufactured and traded with unfair and distortive practices and that target our lucrative green economy market, and deploy quick and potent trade defense instruments to help avoid our low carbon champions be wiped out, starting with the automotive sector and key sustainability-centred value-chains.
- Civil nuclear energy and the promise of SMRs should be considered as a key strategic asset, supported and deployed vigorously, to help restart primary aluminium production in the EU, to give to our continent the advantages enjoyed by France since decades, and to help secure our future factors of prosperity, our social model and our economic sovereignty.