

## **Funding Support for UK Aluminium – An Update**

The Government has announced an unprecedented scale of coronavirus business support, but the UK aluminium industry continues to struggle with the impact of COVID-19. Although we welcome the initiatives announced to date, many aluminium companies are unable to access the promised funding. This situation is creating short- and long-term economic risks for the UK.

### **Aluminium companies are struggling to access funding under Government schemes**

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 markets essential to managing the COVID-19 crisis, including medical device manufacture, electricity transmission, building materials and packaging.

However, commodity prices, Chinese trade dynamics, Brexit uncertainty and US tariffs affected aluminium companies' financial performance over the past 2 years. This has put them in a weaker liquidity position than in the run up to the last financial crisis in 2008. Therefore, they urgently need Government support to manage the challenges caused by coronavirus. However, they're struggling to access funding under the 3 major loan schemes:

- **Coronavirus Business Interruption Loan Scheme (CBILS)** – our members are reporting an inability to secure funds: banks are rejecting their applications for viability reasons due to the effects of the above-mentioned Brexit uncertainty and global trade dynamics, interest rates are prohibitive, and the £5 million limit doesn't cover their requirements
- **Coronavirus Large Business Interruption Loan Scheme (CLBILS)** – many companies exceed the £500 million turnover threshold, and the £25 million maximum doesn't cover many of our members' requirements
- **Covid Corporate Financing Facility (CCFF)** – UK aluminium can't access this because they lack the required investment-grade credit ratings

### **Funding criteria ignore the economic reality for aluminium companies**

Funding isn't forthcoming at the scale aluminium companies need to deal with this unprecedented situation. For example, many ALFED members are being rejected for CBILS because market conditions like Brexit and US tariffs affected 2019 profit. Since 23<sup>rd</sup> March, 14% of ALFED members have been forced to close temporarily.

- **Demand is contracting and supply chains are disrupted** – in March, the UK manufacturing PMI fell 3.9 points to 47.8, reflecting a dramatic contraction due to lockdown and automotive shutdowns. Our members are reporting order book reductions at levels not seen even during the 2008 financial crisis – some as high as 80%
- **Customers are delaying payments** – not only does this affect immediate liquidity, but it affects the ability to secure invoice financing, closing off another traditional source of credit
- **Fixed costs remain high** – it's possible to reduce some costs in line with reduced output, including raw materials, energy consumption and excess labour (thanks to

the Coronavirus Job Retention Scheme). However, with so many aluminium companies continuing production, fixed costs remain high – even with lower output levels. Even shut-down companies have significant ongoing capex requirements – and they’ll need major liquidity injections when they start up again, to bridge the gap until payments come in

Too many aluminium companies therefore lack the safety net in the Government intends – and are at risk of collapsing despite the essential short-, medium- and long-term role they play in the UK economy.

### **The Government must adjust its support packages to help UK aluminium**

Making straightforward changes to UK funding schemes will make a massive difference not only to aluminium companies, but to UK manufacturing more widely.

Countries such as France and Germany provide useful examples. These countries have no restrictions based on company size or credit rating, with guarantees covering up to 90%. Loans are available for up to 2x the annual wage bill, 25% of 2019 turnover or specific liquidity needs for 12 months.

We recommend:

- **Easing eligibility criteria** – opening loans to all, in line with France and Germany – so companies whose balance sheets reflect pre-coronavirus market challenges can be approved
- **Removing the CLBILS threshold** – so businesses that don’t qualify for CCFF and have a turnover above £500 million can secure funding
- **Eliminating the credit rating requirement for CCFF** – or allowing companies to have an imputed rating, so more can access this facility
- **Increasing maximum loan amounts** – so they’re based on a percentage of average annual turnover, for example 25% as in France and Germany, to ensure available funding accounts for the reality of liquidity needs
- **Providing payment guarantees** – to ensure ongoing liquidity if customers are unable to meet contracted payment terms
- **Ensuring credit insurance continuity** – so companies can manage credit control and aren’t negatively affected by reactive insurance companies passing on risks or removing facilities

### **The UK must maintain its strategic advantage in aluminium**

The aluminium sector is of profound national significance. Not only is aluminium a vital input material in the fight against coronavirus, but it’s also essential to the UK’s medium- and long-term competitiveness after the immediate COVID-19 crisis has passed.

The Government must ensure aluminium companies get the funding support they need immediately – so they can continue their essential role in the country’s post-Brexit success story.

## **About the Aluminium Federation**

*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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