

EUROPEAN INDUSTRIAL POLICY

“The Steel Trap”

Europe is raising barriers to save its steel mills. But it protects only one link in the chain, and the result is a chain of consequences: major increases in steel prices, inflation in European products, loss of competitiveness for the manufacturing and processing industry and, once again, a contraction in industrial volumes. The opposite of what the measure sets out to achieve.

STRATEGIC REPORT

July 2026

Armando Donazzan
President, Orange1 Holding

There is a paradox at the heart of Europe's new trade policy on steel. Between 2025 and 2026, Brussels built the most ambitious protectionist package of recent decades to defend its steel mills from global overcapacity and low-cost competition. Yet, as it is designed, that package risks weakening the most valuable part of European industry: not those who produce steel, but those who work it, transform it and sell it to the world in the form of machines, motors, components and household appliances.

The thesis of this analysis is clear, and reads like a sequence. The barrier significantly drives up the internal price of steel; the increases are passed on to finished products and fuel inflation; European goods become more expensive and less competitive than imports; and the loss of competitiveness ultimately translates into a new reduction in industrial volumes. This is the paradox: a measure designed to defend European production risks compressing it, shifting the damage from the steel mills — which do capture a few additional margins — to the far more numerous companies that transform steel, and to the consumers who pay the bill.

Three levers pushing in the same direction.

The wall is made of three bricks that act in a convergent way. The first is the CBAM, the Carbon Border Adjustment Mechanism introduced by Regulation (EU) 2023/956: from 1 January 2026, importers of steel, aluminium, cement, fertilisers, electricity and hydrogen must pay the CO2 differential compared with European production, by purchasing certificates whose price is linked to ETS allowance prices. It is the border twin of the internal carbon market, and its grip will tighten progressively: the free allowances still enjoyed by European steel mills will be phased out between 2026 and 2034, transferring a growing share of the bill to importers.

The second and third bricks come from Regulation (EU) 2026/1384, in force from 1 July 2026, which replaces the old safeguard with a much tougher permanent regime. Zero-duty import quotas have been reduced to 18.3 million tonnes per year, a cut of around 47% compared with 2024 volumes, and the duty on out-of-quota imports has been doubled from 25% to 50%, with a melt and pour rule of origin designed to prevent steel from bypassing the wall through third countries. The

European Parliament approved the measure on 19 May 2026 with 606 votes in favour and only 16 against, driven by a steel industry at historic production lows and with plants operating at just over 65% utilisation, while imports had reached a record level close to 30% of European consumption.

The immediate effect of this apparatus is to close the valve of the low-cost supply that for years had kept European prices in check. With imports discouraged by duties and quotas, and with carbon now embedded in the cost of entry, the internal price of steel stops being set by the global market and starts being set by regulation. According to S&P Global Commodity Insights, at the beginning of 2026 foreign offers for hot-rolled coils delivered in Europe, once CBAM is included, stand at around EUR 600-620 per tonne, substantially in line with domestic prices: the traditional import discount has largely been cancelled, and at that point — analysts note — it is the rule, no longer demand, that sets the price.

“Once competition is neutralised, the European producer no longer needs to compress margins in order to defend market share: it can raise list prices.”

This is not conjecture. An analysis by Orgalim of more than one hundred and forty Eurostat product categories shows that the average price of European steel products has increased by more than 40% since 2018, the year of the first safeguards. Protection, in other words, tends to turn into pricing power for domestic producers rather than into a structural recovery in cost competitiveness.

The decisive flaw of the package is an asymmetry of scope. CBAM, quotas and duties cover crude steel and semi-finished products — billets, coils, sheets, bars and sections — but not the finished products that incorporate that steel: mechanical components, machinery, electric motors, house-

hold appliances and automotive parts. The extension of CBAM to around 180 downstream products was only proposed by the Commission on 17 December 2025, with entry into force not before 1 January 2028 and still entirely subject to negotiation. Until then, and to a large extent even afterwards because of partial coverage, a dangerous window opens up.

Within that window, the European processor is caught in a vice. On the one hand, it pays for input steel at prices kept artificially high by the barriers; on the other, it enjoys no equivalent protection on the product it sells, forced to compete on unequal terms with extra-European imports. This is not a partisan alarm: even EUROFER, the association of steel producers, admits that the proposed downstream extension concerns «only a very limited number of products» and «leaves gaps along the value chain». On the user side, the assessment is even harsher. ESN, Orgalim, ACEA, and other associations in downstream sectors have described the new safeguards as «a blow to European industrial competitiveness», quantifying the additional costs for the supply chain in a range between five and nine billion euros per year.

The consequences move along two parallel tracks. The first is internal inflation. The increase in the cost of steel does not remain confined to steel mills: it rises up the value chain and is passed on to the prices of European finished goods, from household appliances to machinery and motor vehicles, which use steel pervasively, even if only in screws, fittings and metal parts. It is a price increase that comes at the worst possible time, with the manufacturing and processing industry already under strain: the European «technology industries» monitored by Orgalim closed 2024 with turnover down 5.6%. On such a fragile fabric, further cost pressure translates into industrial inflation and compressed margins for those who transform.

The second track is more insidious, because it overturns the very objective of the measure. The asymmetry of scope creates a direct incentive to

move both imports and production downstream. A Chinese competitor can incorporate steel at domestic cost — Chinese hot-rolled coil remains structurally 30-40% cheaper than its European equivalent — and without carbon costs, and then export the finished product to Europe, paying neither steel duty nor CBAM. The numbers already show this trajectory: in 2025 European imports of semi-finished products grew by about one third, with China up 134%; imports of finished steel products from China rose by 31%; and already in 2024 Beijing led European imports of iron and steel articles — screws, bolts, fittings, tubes — with EUR 12.5 billion, more than one third of the total.

This is the final paradox, and the most costly one. Carbon dioxide is not reduced on a global scale: the transformation phase is simply moved outside Europe, the phase with the highest added value and the greatest employment intensity. The carbon leakage that CBAM sought to stop moves downstream, accompanied by equally concrete jobs leakage and by an incentive to relocate manufacturing investments.

Taken together, these effects form a self-reinforcing spiral. The starting point is price increases that are anything but marginal: the out-of-quota duty alone, according to estimates by Orgalim, will raise the cost of imports for the downstream supply chain by up to nine billion euros per year, while the domestic «floor» of around EUR 600 per tonne also locks European-produced steel at high levels. These increases do not remain static: they are passed on to finished product price lists and fuel industrial inflation.

This is where the second link begins. More expensive European products mean less competitive European products, at home as well as on export markets, just as Asian competition offers finished goods at prices that incorporate low-cost steel and no carbon burden. The market share of European processors thins, orders slow — European mechanical engineering already closed 2025 down by almost 7% — and with them industrial volumes contract. This is the last, bitter paradox: a measure created to recover production volumes in steel ends up destroying them downstream, where added value and employment are greater. And the contraction of downstream volumes, in turn, feeds back into internal demand for steel, weakening the very sector it was intended to protect.

The lesson that emerges is as simple as it is uncomfortable. An effective protectionist measure must defend the entire value chain, otherwise it risks doing more harm than good. Protecting only upstream steel, while leaving the downstream gate open, does not strengthen the competitiveness of European manufacturing: it erodes it, because it increases its costs without shielding its markets.

Without a rebalancing of the protective perimeter, the European steel package risks being remembered not as the measure that saved the continent's steel industry, but as the one that exported its transformation. And with it, part of Europe's industrial future.

Armando Donazzan

President, Orange1 Holding