THE CHALLENGES FACED BY THE EUROPEAN METAL, ENGINEERING AND TECH INDUSTRY

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Ceemet, the employers’ association of the metal, engineering and technology-based industries at a European level, is celebrating its 60th birthday at a time of fast technological change and an insecure trade environment.

Prices are skyrocketing, skill requirements for the workforce are rapidly evolving due to technological change, and supply chains are disrupted. In two articles, EURACTIV takes a look at the challenges faced by the industry.
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Pushed by record-high energy prices, year-on-year inflation reached 7.4% in April of this year for the euro area. This is squeezing industrial companies in Europe, according to Rainer Ludwig, president of Ceemet, a European employers’ organisation representing the interests of the metal, engineering, and technology-based industries.

"On the one side we have higher costs due to higher energy and resource prices, and on the other side we might have less customers that can afford the products," Ludwig told EURACTIV, adding that “profits are massively under pressure in most industries.”

DIFFICULT TO RAISE

WAGES

This pressure on profit makes it much more difficult for companies to substantially raise wages for employees to offset their loss in purchasing power, Ludwig continued.

"Companies cannot afford completely offsetting the effect of inflation on wages since this would put into question the competitiveness of our entire industry," said Ceemet president Rainer Ludwig.
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European industry is also under pressure from the lack of resources and essential intermediate products like semiconductors.

“We have to strengthen our supply chains again,” Ludwig said, lamenting the fact that many important products and technologies are not produced in Europe anymore.

“We have permitted that these technologies were supported in other regions, be it battery technology, semiconductors or other technologies of the future. [...] We have to make sure that the supply chains are secured and that we have stable production processes again in order to get out of this relatively long crisis mode,” he added.

YES TO STATE SUBSIDIES, NO TO STATE REGULATION

Supply chain issues are at the top of the EU Commission’s agenda, as evidenced by the Chips Act proposed earlier this year, and the single market emergency instrument that should be presented in the third quarter of this year. Both aim to bring back some control over the supply chain of strategic industries.

Currently, the Commission’s policy on industrial strategy appears to be leaning in a more interventionist direction – one that is increasingly cynical of the free market’s ability to deliver on strategic priorities if left alone.

Asked where he thinks the state’s role should lie in industrial policy, Ludwig hesitated. “You will understand that I’m not somebody who thinks that the state should take any entrepreneurial functions,” he said.

“What would certainly be good and important, however, is if Europe or the state more generally supported research and development efforts to attract these technologies to Europe.”

Ludwig stressed that these were supportive measures to help entrepreneurs. “I don’t think that we should contemplate any form of state control,” he said. “It can always only be about supporting the companies,” he said, arguing that financial incentives could be envisaged but that the state should refrain from “exaggerated regulation.”

RESKILLING THE WORKFORCE

Adopting these new technologies will also require new skills in the workforce. This workforce, meanwhile, is under pressure from demographic change as the baby boomer generation is starting to enjoy its retirement.

Speaking from his experience as the managing director for human resources at the car company Ford in Germany, Ludwig used the example of the car industry that is now switching towards electric motors.

“For one, we have the demographic developments that are not particularly surprising. But combined with technological change, this leads to a situation in which we have too few employees with the relevant qualifications,” he said.

According to Ludwig, this development would make large-scale reskilling necessary. While larger companies might be able to organise this mostly on their own, SMEs would probably need some state support to reskill their workforces, he said.
The pandemic and Russia’s invasion of Ukraine have sent shockwaves through global supply chains, leading companies and policymakers to rethink their priorities, from efficiency to resilience.

Until recently, “just in time” was the name of the game in supply chain management. Stocking up on resources, intermediary and finished products was considered costly and inefficient.

Well-integrated supply chains, abundant and cheap shipping, as well as data on customer behaviour allowed this to work out for companies – at least for a while.

Then, the pandemic and the war led to highly volatile resource prices, soaring shipping costs, disrupted supply chains, and large swings in customer behaviour. Suddenly, having some resources and products in stock no longer seems such a bad idea.

TURNING TOWARDS RESILIENCE

“Long-standing supply chains of manufacturing have been turned upside down,” Nancy Pallares, international business development director at the defence industry company Teledyne FLIR, told a panel discussion that was held on Wednesday (1 June) in Brussels to celebrate the 60th birthday of the tech and industry employers’ organisation Ceemet.

“Companies are moving from ‘just in time’ to ‘just in case’,” Pallares said, adding that resilience and responsiveness to unexpected developments were becoming essential.

Her argument is supported by a study by the business consultancy Boston Consulting Group that found that firms with resilient supply chains consistently outperformed their peers, especially during crises.

Pallares argued that many companies were trying to find suppliers closer to home and stocking companies might start operating with higher inventories to increase their resilience to supply chain disruptions. [Friedemann Vogel (EPA-EFE)]
up on their inventories to reduce their exposure to supply chain disruptions. According to her, this development is here to stay.

“Let’s face it, we are going to face more of these risks in the coming years,” said Pallares, who is also vice president of Ceemet.

EU policymakers are also reacting to this new environment.

For example, they are trying to ensure that strategically important parts of the supply chain like semiconductors will be produced in the EU in future. That is why the European Commission proposed the EU Chips Act, which is currently being discussed by member states and by the EU Parliament.

**DIVERSIFYING SUPPLY CHAINS**

Another way for supply chains to become more resilient is by reducing their dependency on a single trade partner.

“We need to diversify our supply chains,” said Christiane Canenbley, deputy head of cabinet of the Commission’s Executive Vice-President Margrethe Vestager, while talking to representatives of European industry at the same event on Wednesday.

New trade agreements with Chile and New Zealand might be concluded this year, and the EU is also set to start negotiations for an ambitious free trade agreement with India this month.

Such trade agreements would be a way to diversify away from the one obvious elephant in the room when it comes to trading partners the EU is highly dependent on: China.

However, while there is a lot of talk of “near-shoring” and “re-shoring” production, trade patterns do not yet show much adaptation to a new focus on reshoring when it comes to trade with China.

As the figure below shows, trade in goods increased strongly in 2021 in spite of the pandemic, but also despite the fallout between the EU and China over human rights concerns and the mounting geopolitical tensions.

Of course, aggregate trade figures do not yet show whether the traded products are of strategic importance or not. Nevertheless, it remains to be seen whether the EU and its industry are serious about diversifying their supply and reducing dependency on geopolitically unstable trading partners.