

# **Vision Paper on an industrial policy for the metalworking industry**

## **“Strengthening the Link”**

### **1. BACKGROUND**

“Strengthening the link,” is a metaphor for strengthening the metal articles/ metalworking sector: just as a chain is only as strong as its links, so the metalworking sector is an essential link in the EU’s manufacturing landscape, positioned between its suppliers, the steel and non ferrous metals industry, and its clients, which include most other manufacturing sectors.

With a turnover in the EU25 of 423 billion euro in 2005 according to our industry’s estimates, the metalworking sector is a major manufacturing branch in its own right; it is a major employer providing some 3.6 million jobs in the EU25 and, with some 93 billion euro of intra and extra-trade, it is also a major exporter. According to EUROSTAT data the industry represents about 6.5% of the EU’s manufacturing output and counts some 369.000 companies among which an important part are SMEs, which are family owned. The importance of small and medium sized enterprises (SMEs) in the sector is especially striking. According to EUROSTAT the number of metalworking companies has been rising between 1999 from 358 thousand to 369 thousand in 2001 accounting for a share of 17% of all manufacturing companies in the EU-25.

According to Orgalime economists the sector shows long-term average growth of 1.7%, which is approximately the same growth rate as the manufacturing industry as a whole. Although it has limited dependence on exports, foreign trade still plays an important role. Orgalime experts estimate that in 2006 exports play a key role supporting the sectors estimated growth by 3%, with total exports reaching 7% in volume. In 2005 exports inside the EU are estimated to reach almost 68 billion euro and extra-EU exports 25 billion euro.

The metalworking industry is a heterogeneous industry covering a wide range of products including tools and finished metal goods (accounting for some 40% of production), castings, forgings, boilers and metal containers, as well as secondary transformation on contract basis, such as treatment and coating of metals. It is to a large extent a components industry, which produces inputs or products used in other sectors of engineering, as well as capital goods or parts for all other industry sectors. It also supplies a wide range of consumer products in the forms of tools, fasteners, etc.

This sector then is an essential part of the industrial fabric of Europe and, although the Commission’s own analysis in the framework of its industrial policy Communication, highlights the sectoral competitiveness of this sector (“fabricated metal products”), it has to date shown little interest in this branch of the industry represented in Brussels by Orgalime and in fact has not allocated specific resources to following the development of this sector.

In view of the size of this industry and the essential role it plays in the EU’s manufacturing infrastructure and in industrial employment, Orgalime has initiated this policy paper with a view to facilitating the dialogue with the EU institutions.

## 2. WHY A VISION?

### THE METALWORKING INDUSTRY, AN ESSENTIAL LINK

Orgalime believes that at this point of time developing a vision on the sector is necessary.

We believe that the metalworking sector is the link, which central to the EU's manufacturing supply chain. Two thirds of the raw steel produced in the EU is consumed by the metal articles/ metalworking industry which transforms it into components and finished products for all other sectors of manufacturing:

- The components are supplied essentially to the automotive, aerospace, transport and engineering, including I particular mechanical engineering.
- Steel profiles and sheets are essential to the civil engineering industry (steel frame buildings, reinforcing bars, steel frame infrastructure, cladding for buildings, hardware, etc...)
- Vessels for the processing industries, such as food, pharmaceuticals, chemicals, oil refining industries, etc...
- Products such fasteners (screws, nuts and bolts) and tools used both by industry and by consumers

Besides the industry plays an essential role in metalworking technologies such as surface treatment of metals, hardening, which are essential to the resistance and longevity of the products of their customers.

Nevertheless, in spite of its omnipresence, the metalworking industry is relatively unknown to public authorities.

In the context of the increasing focus on industrial policy, and notwithstanding the importance of the industry in the EU's industrial infrastructure, little attention has been paid to date to the challenges that this major manufacturing sector faces and yet it does face significant challenges which we highlight hereafter. Some of these are common to manufacturing as a whole (Skills, image...). Others are specific to the industry itself.

### 3. WHAT ARE THE MAIN CHALLENGES THE INDUSTRY FACES AND HOW SHOULD THEY BE MANAGED?

#### CHALLENGE 1

#### The metalworking industry: A major link

- a) The whole EU metalworking sector is a major manufacturing sector (see background) even if it is predominantly composed of a rich variety of individually mostly small-sized companies: *The metalworking industry is, and it will to a great extent remain, an SME industry* (more than 90 % of small and medium-sized enterprises and family owned).

In proportion, it is even becoming ever smaller compared with its large supply chain partners<sup>1</sup>, which, unlike the metalworking industry, are engaged in a major consolidation process.

The opportunities for consolidation within the metalworking sector are, however, generally speaking and for structural reasons, very limited.

As a consequence, as far as size and economies of scale are concerned, we foresee that *the relations of the metalworking industry with its clients and suppliers will become increasingly asymmetric in the years to come.*

- b) The metalworking industry is therefore (and increasingly so) in sandwich position<sup>2</sup>, which diminishes the range of possibilities to control its fate and influence its business environment.

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<sup>1</sup> The increasing consolidation to achieve economies of scale of both its supply (steel companies) and its customer base (ex automobile) is putting pressure on metalworking companies. The recent merger between Mittal and Arcelor is just an example but it will not be the last act of a consolidation wave, which increasingly gained pace over the last 20 years. The results are mega-sized, global, companies, based on an economy of scale philosophy.

1986: Merger of Usinor and Sacilor (France)

1992: Merger Krupp with Hoesch (Germany)

1998: Usinor (France) acquires Cockerill Sambre (Belgium, also owner of EKO Stahl)

1 September 1997: Merger of Hoesch-Krupp with Thyssen (Germany), at that time considered a milestone

1999: Merger UK-owned British Steel and Dutch-owned Hoogovens resulting in Corus at the time Europe's biggest steel company

February 2001: Merger Usinor (France), Arbed (Luxembourg) and Aceralia (Spain) into Newco (5% of world steel production) Later renamed Arcelor (December 12, 2001).

25 June 2006: Merger Arcelor with Mittal Steel into Arcelor-Mittal ( biggest world steel producer: 10% of world steel production)

20 October 2006: India's Tata Steel Ltd takeover bid for Anglo-Dutch firm Corus Group, creating (if successful) the world's fifth-largest steelmaker

<sup>2</sup> It purchases its inputs from major suppliers (for example steel and other metals and energy), and sells to major capital goods producers (for example the automotive engineering industry), or to distributors or retailers serving the consumer market (e.g. Do-it-yourself chains).

## STRENGTHENING THE LINK

### CHALLENGE 2

### A neglected link in the supply chain

Due to the relatively small size of its individual companies and the fact they mostly work on a B2B basis, even the most performing, well-managed and successful companies within the metalworking sector are relatively unknown to the general public, nor to public authorities, including at the level of the European Commission. The problems these companies face then rarely attract any political attention at Commission's level.

As a consequence, the metalworking sector is often an overseen factor when it comes to devising and implementing industrial policy.

However, the metalworking sector is an *essential and necessary link* between its major partners in the supply chain. The companies in the industry provide the flexibility, niche knowledge, problem-solving approach necessary for the supply chain to function well, swiftly and efficiently.

Without that link, the chain would simply fall apart.

### CHALLENGE 3

### An industrial link thriving to survive in an increasingly difficult operating environment

#### a) RAW MATERIALS

1. There is a distinct impact of raw materials issues in an increasingly globalised market on the metalworking sector. Therefore, adequate access to raw materials at competitive conditions is essential.

EU metalworking companies can neither expect to compete in the EU at the level of labour costs nor, due to the small size as individual companies, can they expect to achieve the economies of scale which their suppliers, for example the steel mills, can. This makes the access to competitive inputs essential, in particular raw materials and energy.

However, both factors are distinctly out of an SME manufacturer's control. In these specific fields political support and involvement is therefore key.<sup>3</sup>

2. Ability to plan and deal with the volatility and different possible scenarios (Risk management)

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<sup>3</sup> Indeed, it is out of our control although we can try to foresee that at the end of the consolidation process within some years there will be probably 5 to 6 major steel producers worldwide, which may well lead to steel prices stabilising at a relatively high level: as far as price levels and delivery conditions do not differ substantially from one area of the world to another or between small and big users, this would not be detrimental. We would foresee that the volatility of prices would tend to diminish with oscillations flattening out and ups and downs stretching out over longer periods. The forecast for the increase of steel consumption in Western Europe is estimated around 1 %, the one of Eastern Europe by 4 % per annum. Steel production capacities in Western Europe are expected in our view to increase by 4 % per annum, essentially through higher productivity and by renewal of and investments in existing mills. A possible consequence in Europe would then be that by the years 2008 and 2009 there would be steel overcapacities again.

## STRENGTHENING THE LINK

### b) CHANGES IN THE SUPPLY CHAIN

We foresee that steel mills will further occupy steel users' territory by going further into down stream production. They will move into new steel grades for a broader application and even by enabling increased substitution of other metals, mainly aluminium and plastics due to high crude oil prices and environment regulations.

These changes will hit the whole manufacturing chain and put mainly smaller steel transformers under extremely high pressure. A large number of them will simply lose certain market segments and may well disappear altogether.

### c) TOUGH INTERNATIONAL COMPETITION

EU based companies are faced with ever tougher competition both in the internal market from imported products and on export markets.

## CHALLENGE 4

### General framework conditions

As for other sectors of industry, there are a number of factors of a horizontal nature, which affect metalworking companies. These include:

- Shortage of skilled personnel, whether high calibre apprentices, qualified workers, technicians, engineers and researchers<sup>4</sup>.
- The image of the sector needs to be improved, which is a task both for the industry and would benefit from the support of authorities.
- As of product design and development are transferred down or up the product chain, so the protection of IPR and the issue of counterfeiting becomes an ever-greater challenge. Here again few metalworking companies can devote the resources that larger companies allocate to protect their intellectual property.
- The administrative burdens of providing authorities with the data required under local and EU regulation is already heavy and is tending to become worse. If the EU and national institutions call for the "think small first principle" when devising new regulation, there is little evidence of this principle being applied. As a result life for SME does not become easier. Also given the general investment climate in many countries, it is increasingly easier for companies to purchase part of their products abroad, rather than to increase production.

Example: a small producer of car parts in Western Germany wanted to extend their finish products storage – a 1000 square metre hangar. After multiple proposals and plans and negotiating for over a year with the local authorities in the village over the fate of 5 apple trees on the proposed extension site, it was only possible to obtain planning permission after the company threatened to close down operations in the village and move production to a third country.

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<sup>4</sup> If companies are to maintain their competitiveness, technological development and innovative potential, it is essential that they have access to a highly skilled, committed and adaptable workforce. This is becoming particularly important as more and more of the detailed product design and development is being transferred from OEMs to their suppliers.

## STRENGTHENING THE LINK

### **CHALLENGE 5 Regulatory issues: Product and process legislation and environmental policy**

There are a number of areas where EU regulation does have an impact on the industry. However these are managed by different sectors, which do not, as a matter of standard procedure, maintain regular contacts with the metalworking branch, which thereby does not have a respondent in the EU institutions.

Among the areas where EU regulation affects companies in the industry are:

- Regulations affecting pressure equipment of different types and destinations (Pressure equipment directive, Simple Pressure Vessel directive, Transportable pressure equipment directive)
- Regulation on gas appliances (gas appliances directive),
- Eco design of Energy Using Products the directive (for example for boilers),
- The Construction Products directive (water piping)
- Food safety legislation for metal products in contact with food or beverages.
- Substance legislation also affects certain products such as those made of stainless steel (nickel) in contact with the skin.
- With the increasing focus on resources and waste and in the perspective of sustainable production there is an evident need to promote the use of the products of the metalworking industry which by their very nature are among the easiest to recycle. What is important however is whether these metal products can compete at all. For example recycling the materials of a steel frame bridge is easy when compared to the recycling of a concrete bridge. The same goes for metal acoustic materials compared to cement or fibre products etc... Nevertheless at the level of investment the less eco-friendly options are often more competitive, particularly in recent years.
- More important however is the impact of legislation affecting production processes, since here other countries outside the EU do not adopt much of the regulation found in the EU. Typical of the differentials faced are the requirements arising from the IPPC directive and existing chemicals legislation (SEVESO). REACH, the chemicals regulation, which is in the regulatory pipeline, will once again add to the regulatory burden, particularly if companies are rushed into changing processes through enforced substitution.

Finally in the area of trade, anti dumping and competition issues, which regularly have an impact on companies in this industry, neither DG Trade, nor DG Enterprise and Industry have the knowledge of the industry or the respondents to adopt a balanced approach which takes into account the impact of measures on metalworking companies.

## FACING THE CHALLENGE STRENGTHENING THE LINK

### 1. INTRODUCTION

In implementing its industrial policy, it is, in our view, clear that the Commission must adopt a more holistic approach to *considering the impact of its policies on the supply chain as a whole*.

EU manufacturers are world leaders in many of the major manufacturing branches: this is true of the transport industries, mechanical and electrical engineering and many process industries.

If the EU is to succeed in its “growth and jobs” policy then it is clear it must focus on providing the necessary framework conditions for these industries to be the champions of today and tomorrow.

These champions too depend on the availability in their markets of competitive inputs, including metal articles, whether they are parts for the automotive industry, vessels for the chemical industry, parts for machinery or for agricultural machinery, etc...

It takes very little for a manufacturer of metal articles to become a mere supplier of the products or to be replaced by foreign supplier but then an essential link has gone missing....

We have already identified the major challenges. How should these challenges be faced?

### 2. HOW SHOULD THESE CHALLENGES BE FACED?

#### CHALLENGE 1      **The metalworking industry: a major link**



**Policymakers need to get interested in the sector and to know it!**

Orgalime feels that it is time that the Commission should take due account of this branch of the engineering industry, which, unlike its supply and customer base, today has no counterpart either within DG Enterprise and Industry or within DG Trade.

Even if it is an industry, which is largely unknown to the public authorities, perhaps because of the size of the companies involved and their limited political activism, *it is an important producer, employer and exporter and does pay a significant role as an input to other manufacturing sectors*.

Orgalime asks therefore for the creation of a metalworking/steel user's Unit in the European Commission.

## CHALLENGE 2 A neglected link in the supply chain



### Think supply chain!

1. Closer cooperation both upstream and downstream (Steel producers/metalworking companies/clients) should be encouraged in the EU.

The whole manufacturing process is interdependent and its efficient inter-linkage is key to the competitiveness of EU manufacturing.<sup>5</sup> Therefore Orgalime strongly believes that there are clear benefits for both producers and users to co-operate closely in order to define the range of products required by users and their specifications, which can also be most commercially viable for all concerned.

2. Think supply chain and take a balanced approach to the interests of the metalworking industry in relation to its major suppliers and its major clients. This requires a change in the approach used today and could perhaps be reinforced not only through a direct representation of the interests of the industry in the institutions, but also through engaging in regular dialogue with the industry.
3. Probably due to the limited size of its individual companies, the EU metalworking sector is today a neglected yet essential link in the framework of the EU's industrial policy. However, if a sound steel and non ferrous metals production and transformation in Europe is to be preserved, the neglected link will have to be better known and taken into account.

It should become imperative to create a very intensive dialogue between the steel mills and the steel transformers. The latter should become a close cooperation in developing new technologies by innovation and R&D.<sup>6</sup>

Such an institutionalised dialogue could help in creating synergies between steel users and producers when being installed by and at the European Commission

4. The industrial policy approach of the Commission, should therefore, in our view, not only focus on sectoral issues and on a broad horizontal approach on certain issues (e.g. IPR, skills) but also consider the supply chain: missing links in the supply chain or policy which endangers links in the supply chain inevitably undermine the EU's manufacturing infrastructure as a whole, its competitiveness and therefore the long term future of the EU as a manufacturing location.

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<sup>5</sup> The key to Europe's competitiveness lays in efficient, mutually enriching inter-linkage since it may be easy to copy individual products or even certain processes but it is far more difficult to copy or relocate a well-functioning and efficient industrial network, with an unique and particular blend of knowledge and technology at the right price, where the different actors in the supply chain and outside (Universities, adequate political measures, etc) interact efficiently with each other. This is in particular the case, where the technological improvement of production methods through automation and the creation of grades of iron and steel products, is allowing the development of the increasingly complex products, such as skin plates, required by users.

<sup>6</sup> The need for co-operation between the iron and steel producers and user industries, such as the metalworking industry has already been looked at in some detail, particularly in terms of defining and perfecting new iron and steel products in line with requirements of the user industries. Orgalime is participating in the Steel Technological Platform. Such initiatives are welcome and should be further supported.



**CHALLENGE 3 A neglected industrial link thriving to survive in an increasingly difficult operating environment**



**Help us to improve our operating environment on the factors beyond SMEs' control!**

**3.1 An improved trade policy on steel**

Certain areas, such as steel, are still “managed” in the EU, whereas the EU’s metalworking industry – a much larger producer and employer sector - faces competition from finished products from suppliers operating out of markets where access to raw materials is largely unregulated.<sup>7</sup>

A trade policy with few or no barriers to trade in our inputs is clearly in the interests of our sector, in particular to ensure reliable and timely supplies of steel at competitive prices.

This requires that the Community should adopt an open trade policy in the iron and steel sectors industry including the removal of barriers to trade. The free exchange of goods offers the best guarantee of sustaining steel prices at reasonable and competitive levels and will help to provide some counterweight to the increasingly oligopolistic situation of the industry brought about by successive consolidation.

In a nutshell some of our main trade- related demands would include the following:

- Abolishing import quotas (Russia, Ukraine)
- Avoiding anti dumping measures (grain oriented electrical steel, Chinese steel)
- The collection of statistics on global trade flows (raw materials & steel)?
- Fight trade restrictions of third countries (Ukraine: scrap / China: coke)

We count on the Commission to provide their support for the liberalisation of trade, which has brought significant benefits to the EU economy as a whole.

**3.2 Energy issues**

Although companies in this metalworking sector are not among the leading consumers of energy, their suppliers are. The knock on effect of penalising producers of raw materials such as steel and aluminium has an inevitable impact on metalworking companies. Is this being considered today in the framework of the EU’s industrial policy? We believe not. We stress that the supply chain dimension in this area in the ongoing discussions in the High Level Group on Competitiveness Energy and the Environment will be of paramount importance for the metalworking industry in the coming years.

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<sup>7</sup> This is becoming an increasingly sensitive issue for this industry, which feels that the EU’s trade policies in this area are jeopardising the competitiveness of the branch. In an increasingly globalised economy, the present measures taken by EU authorities to “manage” essential parts of our supply chain, are counterproductive for our industry, which otherwise largely operates under free trade conditions.

**CHALLENGE 4**

**General framework conditions**



**Horizontal measures complemented with sector specific initiatives!**

In the face of globalisation and intense international competition, we welcome the launching by the European Commission last October, 5<sup>th</sup>, 2005 of a new, more integrated industrial policy to create better framework conditions for manufacturing industries in the coming years.

The new EU industrial policy, which will complement work at Member State level, should support a strong and dynamic industrial base and create the right framework for industry to thrive. Orgalime supports its seven new cross-sectoral initiatives<sup>8</sup>, which, we believe, will also benefit the metalworking industry.

However, these horizontal measures should be complemented in the sense expressed in this paper to meet the needs of the sector.

Key requests to the European Commission on these matters would include the following:

- Take due account of the industry which plays an essential part in the manufacturing landscape.
- Transparency
- Fair treatment of the interest of steel users vs. steel producers
- Fair burden sharing across the supply chain
- Accurate, balanced, independent reports from the steel market (prices, stocks, capacities)
- Formal representation of steel users at Commission's services and activities (e.g.: EU-China dialogue)
- Industrial policy: no pressure to reduce steel production in the EU
- Commission should not ask for reductions of capacity at any level (Art 133-Committee, OECD or others)

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<sup>8</sup> The seven new, cross-sectoral policy initiatives are the following:

1. An intellectual property rights and counterfeiting initiative
2. A High Level Group on competitiveness, energy and the environment
3. External aspects of competitiveness and market access
4. New legislative simplification programme
5. Improving sectoral skills
6. Managing structural change in manufacturing
7. An integrated European approach to industrial research and innovation

**CHALLENGE 5      Regulatory issues: Product and process legislation and environmental policy**



**Really apply the “Think Small First” principle!**

When devising or revising legislation, the Commission and national governments should really take into account this principle both at the stage of impact assessment and in writing draft policy and legislation.

Proposals for “simplification” of existing legislation such as the proposed merger of the three directives dealing with equipment operating under pressure are strongly opposed by the industry, which sees this as an essentially bureaucratic exercise aimed at reducing the number of pages of EU regulation without taking into account the impact that yet more changes in regulation will have on metal articles producers.

In the same vein, the industry would appreciate a much greater focus of regulators on ensuring that internal market is made effective by reducing differences in national application of EU directives as well as workers protection legislation, which introduces unwarranted differences.

Finally competition authorities should keep a much closer eye on possible abuse arising from the comparative size of the industry compared to that of its clients and in particular suppliers.