

Opinion of the European Economic and Social Committee on the 'Changes and prospects for the metalworking industry' (own-initiative opinion)

(2011/C 51/02)

Rapporteur: **Mr RODRÍGUEZ GARCÍA-CARO**

Co-rapporteur: **Mr GIBELLIERI**

On 16 February 2010 the European Economic and Social Committee, acting under Rule 29(2) of its Rules of Procedure, decided to draw up an own-initiative opinion on

Changes and prospects for the metalworking industry.

The Consultative Commission on Industrial Change, which was responsible for preparing the Committee's work on the subject, adopted its opinion on 8 September 2010.

In view of the renewal of the Committee's term of office, the Plenary Assembly has decided to vote on this opinion at its October plenary session and has appointed Mr Rodríguez García-Caro as rapporteur-general under Rule 20 of the Rules of Procedure.

At its 466th plenary session, held on 21 October 2010, the European Economic and Social Committee adopted the following opinion by 72 votes in favour with eight abstentions.

1. Conclusions and recommendations

1.1 Strategic importance

The metalworking industry is absolutely key in the move towards a resource-efficient, low-carbon economy, in line with the objectives of the EU 2020 strategy. The objective of increasing efficiency in the use of resources is a challenge for the sector and at the same time presents a business opportunity: the metalworking industry will have an essential role to play in creating a resource-efficient economy. The metalworking industry is a robust sector that creates significant numbers of jobs, and is a key industry in creating added value. The sector serves to strengthen the European value chain and is an important link in the value chain towards creating a resource-efficient economy.

1.2 The metalworking industry is also extremely important as a sector for innovation and as a supplier, particularly as regards the Resource efficient Europe initiative which aims to help de-couple economic growth from the use of resources, support the move towards a low-carbon economy, increase the use of renewable energy sources, modernise the transport sector, and promote energy efficiency.

1.3 Visibility

The metalworking industry does not have a high enough profile.

1.4 The metalworking sector should not be confused with the production of metal. In European Facts and Figures (a Eurostat publication), the production of iron, steel and ferro-alloys (Nace 27) is analysed together with activities for making metal products – in other words the metalworking industry

(Nace 28). This makes it very difficult to carry out an accurate analysis of employment and industry trends in metalworking. The sector's low profile has meant that impact assessments do not sufficiently take into account the major micro-economic implications of new regulations in the sector. It is essential to support the development of its potential, particularly in the field of export growth, and to learn practical lessons from its culture of entrepreneurship and innovation.

1.4.1 The EESC therefore calls upon the European Commission to take due account of this branch of the downstream industry with regard to its own organisation and in allocating human resources, and to improve the level of the industry's representation and contacts in DG Industry and Entrepreneurship and DG Trade, in keeping with its specific weight and its job-creating capacity, providing 4.3 millions jobs in the European Union. For this reason, the EESC recommends that the European Commission provide the metalworking industry with better formal representation in the Commission's services and activities (e.g. in the EU-China dialogue).

1.5 *Applying the 'think small first' principle would create the right conditions for doing so.*

The administrative burden of providing authorities with the data required under local and EU regulation is heavy. As a result life for SMEs is not becoming easier. Moreover, given the general investment climate in many countries, it is increasingly easy, convenient and profitable for companies to purchase part of their products outside the EU, rather than to increase production, to develop technology, and to invest in innovation. Such practice will compromise long-term competitiveness and alienate young technicians.

The EESC urges that the 'think small first' principle be effectively taken into account when applying the EU 2020 strategy in the area of the industrial policy, as stated at the European Council of June 2010, and in the forthcoming communication on an industrial policy agenda for Europe, which is supported by the flagship initiative An industrial policy for the globalisation era.

1.5.1 The EESC also urges the Member State authorities to provide crucial support for entrepreneurs at all levels, making business start-up procedures easier to use and fostering entrepreneurship.

Social and employment policies are another vital aspect of the general conditions under which companies operate. The EESC calls upon the Member States to strive together – particularly in the area of social policy – to help create a more supportive environment for the growth of competitive and profitable companies, as these make sustainable jobs in the metal industries in Europe possible. It is important to ensure that the industry can anticipate potential business changes or changes in client strategies or in the production of materials, through social dialogue, the provision of information, and timely and effective consultation. Promoting exchanges among EU Member States and social actors in order to learn from each other and identify effective instruments, together with the role of flexicurity, could be envisaged in this area.

1.6 *Skilled personnel, anticipating training needs, and ensuring the sector connects with young people*

Given the average size of companies, it is increasingly important to have sufficient availability of skilled personnel. Measures to combat the shortage of skilled personnel, whether high calibre apprentices, qualified workers, technicians, engineers or researchers, as well as adequate education (both formal and vocational) and training for them, therefore represent a key issue.

1.6.1 The EESC stresses that it is essential to work at all levels to improve the industry's image and attract more young people to the industry. It is essential to ensure that such a relatively labour-intensive sector can retain and if possible upgrade its workforce, in terms of both quantity and quality. The EESC calls upon the Commission to consider the possibility of carrying out a Europe-wide study on the education and technical skills needed in the metalworking industry in order to anticipate training needs. This could be a major reference document for stepping up cooperation between the sector and technical universities and vocational training institutions. The EESC recommends that the recently-established European social dialogue for the metals sector should lead and direct this study, sounding out all opportunities for exchanging

information considered useful in improving the situation of SMEs and their workers.

1.7 *Innovation*

For research and development to be successful, cooperation between metal producers and metalworking industry is particularly important. More European research funds should be dedicated to the metal producing and metalworking industries and in particular to materials technologies and nano-technologies, in order to improve the mechanical properties of metallic materials in corporate research and thereby enhance and promote the sector's competitive and innovative edge. The EESC recommends that when determining the structure of the 8th Framework Programme, the European authorities, and particularly the European Commission, should do all they can to facilitate general access to projects. Cooperation with SMEs should be supported in particular, as they have only limited human resources with which to identify, present and carry forward potential innovation projects.

1.7.1 Given that, generally speaking, innovation in industry is not due to new scientific knowledge alone but rather to a range of forms of innovation, such as new concepts for logistics or marketing, organisational innovation, business model innovation, and product design for example, the EESC calls for EU innovation policies to better reflect this.

1.7.2 As product design and development are transferred down or up the product chain, protection of IPR and the issue of counterfeiting become an ever-greater challenge. Here again, few metalworking companies can afford the resources that larger companies allocate to protect their intellectual property.

1.8 *Non-image*

The metalworking sector suffers from a 'non-image'. Providing an adequate image for the sector and its opportunities is a task for the industry, and would also benefit from support from the authorities. To this end, the EESC recommends that the national and European authorities analyse the sector's condition from the point of view of its role as an industrial barometer and a reliable 'health check' indicator for the industrial production chain and the contribution to its state of health made by small and medium-sized enterprises.

Industry and industrial projects are generally not widely accepted, which is due to the fact that the industry has been depicted in a negative light for decades. Politics, industry and public authorities need to work together in new ways to ensure that companies have a better image and are shown to be complying with all the legal requirements.

1.9 Trade policy

Both DG Trade and DG Industry and Entrepreneurship should have sufficient knowledge of the metalworking industry and adopt a balanced approach when taking measures that have an impact on companies in the sector. The EESC therefore recommends that the European Commission take the appropriate measures and, in its decision-making concerning specific sectors, take account of the Community interest and the ensuing impact at all levels of the value chain and the industrial fabric as a whole. The European Commission should uphold the principle of reciprocity, particularly in trade policy, in its relations with third countries.

1.10 Clusters

There is a clear interest in developing a vision for the metalworking sector, based on the various clusters present throughout the European Union. The following in particular have already been identified: the Basque Country (Spain), Brescia (Italy), Flanders (Belgium), Lithuania, Pays de la Loire (France), Silesia (Poland), South Westphalia (Germany), Vorarlberg (Austria) and Valencia (Spain). However, further research should be carried out in order to assess the implications, major trends, changes in the industrial fabric and opportunities for comparative benchmarking in the different areas.

1.11 Funding

The EESC would welcome a stronger emphasis on the need to provide adequate liquidity mechanisms for the manufacturing industry, especially for SMEs in this sector. This could lead to better practices across Europe.

2. Introduction

2.1 The Lisbon Treaty provides a new operating framework for the European Union, a new European Commission has started work and a new term commenced at the European Parliament in 2009. In the meantime, the European Union in general and the European manufacturing base in particular are facing global dynamics and challenges of a kind unprecedented since the creation of the EU.

2.2 Those challenges must be met decisively if rising unemployment, increasing destruction of the entrepreneurial and manufacturing fabric and the growing loss of public confidence are to be halted.

2.3 With the present own-initiative opinion on the European metalworking sector, the EESC sets out to provide some possible answers to those questions which, in the long run, will decide whether the innovative strength, economic resilience and global competitive position of European metalworking manufacturing can be sustained. The CCMI is exploring the challenges and opportunities for the sector that are emerging in the move towards a sustainable economy and a more efficient use of resources, as defined in the EU's 2020 strategy.

2.4 These questions include the following: How are these challenges to be met? Are the EU institutions going to deliver? Where can they bring value-added? Is *Europe 2020 - A strategy for smart, sustainable and inclusive growth* the right recipe for success?

3. Metalware is everywhere

3.1 Metalworking companies are located across the whole of the EU, in almost every European region and city. They are flexible, innovative, often (relatively) small, pragmatic, service-oriented, job-creating (and job-maintaining) companies, and are entrenched in our familiar industrial supply chain landscape. These companies are so much part of the scenery that they are often taken for granted. The first steps towards improvement have been taken and are to be welcomed, notably a first European-wide study recently published by the European Commission. However, some companies in the metalworking sector - possibly due to their size, diversity, versatility and endurance, - have to a large extent remained out of the public eye.

3.2 This invisibility is reflected, for instance, in Eurostat's *European Facts and Figures* publication, where manufacturing of iron and steel and ferro-alloys (Nace 27) is analysed together with the downstream activity of the manufacture of fabricated metal products, in short, metalworking (Nace division 28). This makes it very difficult to properly analyse employment and industrial trends in the metalworking sector separately.

3.3 There is no longer any justification for this invisibility. The metalworking sector is the 'hidden' fundamental link, central to the EU's manufacturing supply chain and, despite the relatively small size of its individual units, boasts some strikingly impressive figures within the European economy.

3.4 The following data illustrate in a nutshell the size and strategic importance of the metalworking sector for the European economy and workforce.

3.4.1 It contains myriad SMEs: 400 000 metalworking companies across Europe, most of which (some 95 %) employ less than 50 people.

3.4.2 The metalworking industry provides jobs throughout Europe: 4,2 million people work for the metalworking industry, i.e. about 12 % of total manufacturing employment.

3.4.3 It is an employment-generating sector: it is significant that, unlike most other sectors, employment rates in the industry in Europe over the last decade had risen consistently until the recent economic downturn. For example, employment in the industry rose by some 8 % between 2000 and 2006.

3.4.4 It represents a sizeable economic sector: production value (in 2008) was estimated at EUR 530 billion.

3.4.5 It plays a pivotal role in the EU's industrial fabric, producing components for other industries.

4. Strategic importance of the metalworking sector

4.1 A fundamental link in the supply chain

The European metalworking sector is a fundamental link in the European manufacturing supply chain, producing components and finished products for all other sectors of manufacturing:

- Components are supplied essentially to the automotive, aerospace, transport and engineering industries, and in particular to mechanical engineering, which is a key element in helping the sector move towards an economy which manages resources more efficiently.
- 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, petrochemicals, etc.
- Products such fasteners (screws, nuts and bolts) and tools used both by industry and by consumers.

4.2 A robust industry

The metalworking sector is a structurally robust sector which does not suffer from enormous overcapacity.

4.3 A job-creating sector

The metalworking sector employs around 12 % of the total EU27 manufacturing workforce and accounts for around a fifth of the total number of manufacturing enterprises operating in the EU27.

4.4 A value-added generating sector

The European metalworking sector delivered 10 % of the total manufacturing value-added in the EU27, while (in 2006) accounting for 7,4 % of manufacturing output. In this respect the metalworking sector (gross operating output and manufacturing turnover) is a European 'value-adding' champion clearly outperforming other manufacturing sectors.

4.5 A large sector made up of small companies

The European metalworking sector is a major manufacturing sector in its own right even if (or maybe, because) it is predominantly composed of a rich variety of individually mostly small-sized companies⁽¹⁾ (more than 90 % are small and medium-sized enterprises and are family owned). Moreover, in many countries – Germany being the main exception – the sector is dominated by micro enterprises (10 or fewer employees), accounting for 80 % of enterprises in the sector (2006).

4.6 A sector strengthening the European supply chain

4.6.1 The industrial structure of the metalworking sector is probably not due to any random factor, but rather to a practical adaptation to market needs, which have ultimately shaped the manufacturing supply chain in Europe to provide the required flexibility, innovative and niche function that the metalworking industry boasts today. In this respect, the small/medium sized profile of the average metalworking company should not be interpreted as a perceived weakness but rather as a relative strength.

4.6.2 All the more so, since research shows that the European metalworking industry is and will, to a great extent remain, an SME sector. They are effectively becoming smaller in proportion to their large supply chain partners who, unlike the metalworking industry, are engaged in a major consolidation process. In contrast, the opportunities for consolidation within the metalworking sector are, generally speaking and for structural reasons, very limited.

4.6.3 There is a need for close cooperation at every stage in the supply chain. In this regard, the EESC calls upon the European Commission and the Member States to look into the important issue of enhancing partnership and stepping up cooperation throughout the chain, and in particular advocates creating channels through which the metalworking sector can identify and influence the development of new qualities and classes of steel, in line with expressed requirements.

⁽¹⁾ European Commission FWC Sector Competitiveness Studies - Competitiveness of the EU Metalworking and Metal Articles Industries, final report, 18 November 2009, p. 91. Industry structure and size distribution of companies, point 2.7.1 - Extent and role of SMEs in the MMA sector: 'An analysis of the MMA sector by firm size (by employment) [...] shows that the sector is dominated by micro enterprises (less than 10 employees), which accounted for 80 % of all enterprises in the MMA sector in 2006. At the same time, around 17 % of all enterprises in the MMA sector could be classed as small in 2006 (10-49 employees). Thus, over 95 % of all MMA enterprises employed less than 50 people in 2006; 3 % could be classed as medium-sized (50-249 employees), while only around ½ % of enterprises were large (250+ employees).'

4.7 *A sandwich sector*

Where size and economies of scale are concerned, the metalworking industry's relations with its clients and suppliers will become increasingly asymmetric in the years to come. As a result, the metalworking industry (increasingly) finds itself in a sandwich position, which diminishes its scope to control its own fate and influence its business environment. This situation exerts ever-growing pressure on fixed costs and the quality of employment in the sector.

4.8 *Answers for the future based on accurate analysis*

Based on these strategic elements, the own-initiative opinion sets out to draw answers from the real life experience of the metals sector, a sector with companies and clusters which invigorate every major European region with jobs, training and opportunities. A versatile, resilient and innovative sector with an extraordinary capacity to adapt and to maintain jobs under the most varied circumstances, which could serve as a model for identifying responses to the challenges ahead and in particular on how to champion change.

5. **What needs to be done at European level**

5.1 *The metalworking industry: a champion of SMEs*

5.1.1 Although there are regional differences in absolute terms (German metalworking companies tend for instance to be comparatively larger than companies in the rest of EU), the metalworking sector, relative to the size of other economic sectors, is clearly marked out by the predominant, widespread presence of small and medium-sized enterprises.

5.1.2 The EESC feels that this aspect should not simply be briefly acknowledged and then put aside by politicians with no further action. Recent analysis has shown that this distinctive SME aspect should not be classified as a marginal feature of the metalworking sector or as an accidental attribute, but rather as a crucial factor in the sector's strength.

5.1.3 The EESC encourages the European Union to continue to examine all the key attributes of the industry in detail, and to clearly and precisely identify which aspects of the metalworking sector are beneficial, constitute its core strengths and consequently represent factors for value-added within the EU manufacturing chain.

5.1.4 The European Union should subsequently provide suitable European SME policies to meet these specific needs. Best practices and optimum policies should be devised, where

appropriate using benchmarking tools, to accommodate the specific needs of European metalworking SMEs. This would enhance and support the qualities and strengths of the sector and support it in retaining its position as the European SME manufacturing champion.

5.1.5 In addition, strengths-based studies of the sector would also serve to confirm that it is one of the driving forces behind innovative manufacturing in Europe, to highlight its strengths and to boost its image, which is badly needed if the sector is to attract workers (especially young people). Political vision is needed to position European manufacturing on the political front as a 'job creator' and an innovator within the manufacturing chain.

At a time when theoretical, rhetorical and often vague pledges regarding the importance of European SMEs are emanating from various administrations across Europe, it is important to precisely and accurately define practical, down-to-earth, realistic measures designed to understand, strengthen and champion this key sector instead of issuing vague, 'one-size-fits-all' approaches.

5.1.6 As the companies in the sector are medium-sized, most employees in the metalworking industry do not have access to European works councils or similar European networks to represent their interests. However, most companies in the sector are already working as part of the European value chain or have competitors in other companies in the sector operating from outside the EU. As a result, pay, hours and working conditions are often subject to direct competition. In order to avoid variations in the amount of information provided, the EESC advocates the proper and timely provision of information, consultation of employees, and promotion of social dialogue. Given the number of people employed in SMEs in Europe, European policy should be able to meet the needs of these employees.

5.2 *Availability of raw materials, particularly steel*

5.2.1 Securing availability of raw materials at fair prices is a key issue for the metalworking industry, as the impact of raw materials in a transformed, globalised market is increasing.

5.2.2 EU metalworking companies cannot compete on labour costs within the EU and neither, due to their small size as individual companies, can they achieve the economies of scale that their suppliers, for example the steel mills, can. This makes access to inputs – in particular raw materials and energy – at competitive market conditions essential.

5.2.3 The EESC also recommends that in its relations with third countries, the European Commission insist on upholding the principle of reciprocity and that, in this regard, it look closely at a series of factors that put European businesses at a disadvantage in gaining access to raw materials compared to companies from other countries, such as China, that compete within Europe to buy scrap metal, while European firms do not have the same opportunity to buy scrap since this market is closed.

5.2.4 It is also important to support the ability to plan ahead and respond to volatility and a range of various scenarios (risk management), as well as to ensure that the regulatory environment for the European steel industry does not put obstacles in the path of investment in this EU sector. The shift from multiannual or annual contracts to ever-shorter term contracts or, increasingly, to spot transactions, is likely to accentuate this trend and increasingly constrain the planning capacity of metalworking companies. The EESC recommends that the European institutions take account of this trend in order to formulate measures so that the growing price volatility facing the metalworking SME sector can be managed. More specifically, the EESC recommends that this important aspect be taken into account when the forthcoming communication on the European Raw Materials Strategy is drafted.

5.2.5 Similarly, the EESC would draw attention to the growing concentration in the iron ore mining sector, and calls upon the European Commission to take account of the risks that the creation of virtual worldwide monopolies could entail for the European industry, as reflected in the stance taken by the European steel sectors, the engineering sector and the automotive sector with respect to the announced merger between the BHP Billiton plc and Rio Tinto plc mining companies.

5.3 Energy

5.3.1 Securing a stable supply of electricity is of vital importance to the EU metalworking industry, which needs to ensure supply of all energy sources under competitive market conditions.

5.3.2 The creation and funding of infrastructure and the necessary cross-border connections, together with the removal of barriers at national borders, in particular for the transmission of electricity, is a key issue in ensuring competition between electricity suppliers and distributors.

5.3.3 Furthermore, it is important to strike the right balance, when adopting energy policy decisions, between the environmental aspect and the economic effects on both the stability of supply and supply prices: this balance is a key factor for the competitiveness of this sector.

5.4 Competing on a level playing field

5.4.1 EU-based companies are also faced with ever tougher international competition both in the internal market from imported products and also on the export markets. The situation is exacerbated given that conditions vary so much across the EU in terms of energy prices, permission procedures for installations / plants, and operating conditions for example. The EESC urges the European Commission to ensure that competition within the EU and international competition with other countries takes place on a level playing field.

5.4.2 The EESC urges the European Commission to ensure that international competition with other countries takes place on a level playing field.

5.4.3 Lastly, competition authorities should keep a much closer eye on possible abuse arising from the size of this sector relative to that of its clients and in particular suppliers.

5.5 Financing

5.5.1 Financial institutions play a major role in attaining industrial political objectives through either taking or not taking risks, and through their degree of accessibility. The financial crisis which has clouded the outlook for the real economy since late 2008 has not left the metalworking industry unaffected. While loan demand was relatively slack in the adverse economic climate of 2009, the stronger than predicted upswing during 2010 is increasingly leading to shortages in the supply of finance to businesses as loan demand is picking up. Such shortages are felt more acutely by SMEs, which almost exclusively depend on bank financing. The metalworking industry with its high percentage of SMEs is feeling a pinch which threatens to turn into a serious crunch.

5.5.2 Banking institutions have not been risk averse when investing in hedge funds and other securities and yet seem to have rediscovered risk aversion when it comes to their basic job of providing funds for the real economy. It is important to emphasise that the financial sector must serve as a means to an end. At this juncture the banking sector is bracing itself for the implementation of the EU capital requirement directive (CRD) which will impose additional deleveraging pressures on the banks and a much more restrictive stance on risk-taking. Closer inspection of the regulations is needed to avoid negative side effects for the availability of credit for the entire sector.

5.5.3 The EESC would welcome a stronger emphasis on the need to provide adequate liquidity mechanisms for the manufacturing industry, especially in this sector where SMEs are concerned. This could lead to better practices across Europe.

5.5.4 The metalworking industry is an important European exporting sector. The EESC would welcome steps to support the development of its potential, particularly in the field of export

growth. Part of this will certainly be about improving their access to finance and export credits.

Brussels, 21 October 2010.

The President
of the European Economic and Social Committee
Staffan NILSSON
