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## **REPORT ON THE COMPETITIVENESS OF THE EUROPEAN METALWORKING AND METAL ARTICLES INDUSTRIES (MMA)**

### **Introduction**

As a follow-up of the 2007 mid-term review of Industrial Policy, the European Commission has decided to focus on a largely underrepresented and little known sector of the industry Orgalime represents – the metalworking and metal articles industries.

As a first step, the Commission carried out in close cooperation with Orgalime a study to analyse the state of play of the metalworking industry in Europe and to identify possible strategies for the future of this sector. Upon completion of this report, which the European Commission officially launched in June 2010 in Bilbao, a debate has taken place on the follow-up which is required.

As first measures, it has been decided that further follow-up workshops to highlight the contribution that this sector makes to European manufacturing will be organised under the Belgian and Polish Presidencies of the Union.

Orgalime welcomes the support of DG Enterprise and Industry for having invested the resources on this issue and welcomes the publication of this report which, for the first time in EU history, analyses in some depth an industry sector which has remained largely invisible to European and sometimes national authorities, even though it is the largest manufacturing employer in Europe with some 4,200,000 employed in over 400,000 companies representing 12% of manufacturing employment and 20% of all manufacturing companies. The sector also delivers 10% of total valued-added manufacturing.

In this paper we briefly underline some of the more important issues highlighted by the report and suggest some further steps for follow-up.

### **What are the characteristics of this industry sector?**

The main characteristics of the metalworking industry are reflected in the report which evidences that this industry is special in many ways:

- This is an industry essentially of family owned small and medium enterprises, 95% of which employ less than 50 people and 80% of which less than 10 employees.
- Metalworking and metal articles play an essential role in the supply chain between major suppliers of raw materials (steel and non ferrous metals producers) and large customers such as the automotive, aerospace, engineering and transportation industries.

*Orgalime, the European Engineering Industries Association, speaks for 33 trade federations representing some 130,000 companies in the mechanical, electrical, electronic, metalworking & metal articles industries of 22 European countries. The industry employs some 10.6 million people in the EU and in 2009 accounted for some €1,427 billion of annual output. The industry not only represents more than one quarter of the output of manufactured products but also a third of the manufactured exports of the European Union.*

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- These SMEs are spread all over the European Union, in each region and every town, often close to their customer base.
- These companies, although small compared to those in other sectors, are flexible and versatile, innovative and service-oriented.

Notwithstanding these impressive figures and the importance of this actor in the EU manufacturing industry and its supply chain, currently the 400,000 companies of the metalworking industry are largely unrecognised by public authorities.

***After having thoroughly analysed the report, ORGALIME would like to put forward some suggestions in order to better serve the needs of the SMEs of the metalworking sector.***

In implementing its industrial policy, the European Commission should adopt a more holistic approach to considering the impact of its policies on the supply chain as a whole.

If the EU is to succeed in its growth and jobs policy, it must focus on providing the necessary framework conditions for these industries to be at the top for the future.

It takes very little for a manufacturer of metal articles to become a simple supplier of the products to be replaced by a foreign supplier with the consequences we are all aware of.

We have therefore identified some challenges where we would appreciate the support of the European Commission in order to guarantee the survival and development of this major sector of the EU manufacturing industry.

## **1. Better communication on the sector EU-wide**

The European metalworking industry has a poor or even non-existent image among both the general public and policy makers: this has its roots in the past. The idea the general public has of this industry is that it is dirty, heavy and polluting. All the experts in the sector are aware of the changes that have occurred but prejudices are hard to overcome and the metalworking sector suffers as a consequence. The immediate result is that young people are not attracted by this sector which, contrary to public opinion, is increasingly high-technology oriented and developed in niche-markets. Young graduates are more attracted by finance, trade or other more fashionable sectors. The European metalworking industry can grow only if its companies are at the forefront of the market. The way forward is long because it requires a multidisciplinary approach by authorities and industry (including suppliers and customers) at local, national and European level. Industry has tried to organise national campaigns within universities and for the general public but the results have to date been modest. It is not enough for industry itself to promote the sector; it is essential that the political institutions emphasise the benefits that the industry provides. There is a need for European support via all means of modern communication to attract young people to this sector.

**Orgalime welcomes the efforts that the European Commission has already made to develop the image of the sector at the MMA report's launch in Bilbao, and would request the European Commission to support and partially finance communication campaigns within Europe to reinforce the image of the sector with both the general public- young people in particular- and politicians.**

## 2. Think small first

While in their discourse the EU institutions continuously highlight that they are applying the “think small first principle”, in practice this is rarely, if ever, the case. The increasing layers of legislation, the complexity and bureaucratic nature of such legislation are particularly difficult for the SMEs of the industry to manage. When combined with the often unwelcome reception that companies receive when they propose to invest to expand or modernise their production, the temptation can become strong to seek opportunities for development in higher growth, less constraining areas.

One area where this principle is crucially important is the financial sector. As the recovery comes, companies need access to finance; there is perhaps only a limited amount regulators can do to help here, but there is at least one area where it is important to carefully consider the impact of regulation on the sector. When attempting to better regulate the way banks work in the markets, which we agree is necessary, it is essential that new financial regulations which are introduced that put extra reserve requirements on banks should not end up further limiting access of companies, in particular SMEs, to bank or other funding. This is critical.

**Orgalime therefore asks the European Commission to really try to understand and apply the think small first principle when devising regulation and to be particularly sensitive to the knock-on effect on the SMEs of the MMA industry of any regulation of the banking and finance sector.**

## 3. Due recognition of the sector and representation within the EU

Orgalime thanks the European Commission for having carried out this study but would now hope that the institutions take more account of this branch of the engineering industry, by having counterparts in DG Enterprise and Industry and in DG Trade, as it is the case for the suppliers and the customers of the industry. Without human support within the institutions, all the efforts will be useless. Although up to now this industry was largely unknown to the public authorities, whether national or European, we must not forget that it is an important producer, employer and exporter and plays a significant role as an input to other manufacturing sectors.

**Orgalime therefore requests that the European Commission reinforces the resources, and particularly the human resources, it allocates to this sector.**

## 4. Adoption of free and fair trade in raw materials

In the framework of trade policy, one of the main raw materials of the MMA industry, steel, is still largely managed in the EU, whereas the EU's MMA industry and its customers face competition from finished products operating out of markets where access to raw materials is largely unregulated. A trade policy with few or no barriers to trade, in particular one that ensures reliable and timely supplies of steel at competitive market conditions is in the interest of our sector. This can only be achieved if the European authorities adopt a fair and open trade policy in the iron and steel industry which takes due account of the interests of both the MMA companies and their suppliers. Given the fact that the MMA sector and its customers are major employers in the EU, it would be very much in the Community interest to pursue a balanced policy to ensure free and fair trade.

In face of growing steel production in countries such China, when constraints are placed on exports to EU's markets, a shift up of the value chain is occurring in China, leading to new competition for the EU's MMA industry.

It is therefore essential to carefully consider the impact on the sector of any trade defence measures such as anti dumping and quotas.

**Orgalime urges the Commission to continue working on the liberalisation of trade which to date has brought significant benefits to the EU economy in general and to the MMA sector in particular which has seen its employment in the EU climb by some 8% during the period from 2000-2006.**

## 5. Think supply chain

Linked to the 'think small first' principle, it is essential that closer cooperation is established both upstream and downstream and that a balanced approach is taken to the interests of the metalworking industry in relation to major suppliers and clients. Even if some positive changes are occurring, the European Commission should help to install a regular dialogue between steel suppliers and transformers. For too many years, the EU metalworking sector has been neglected although it is an essential link in the framework of the EU's industrial policy. It is essential that this important actor of the supply chain is taken into consideration if both steel providers and non-ferrous metals producers and transformers in Europe are to be preserved.

**Orgalime asks the European Commission to focus more on the supply chain and not only on sectoral issues and a broad horizontal approach. If the supply chain element is not taken into consideration, this will 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.**

## 6. IPR protection and improved market surveillance

The production of high-quality metalworking products in the EU can only survive on a competitive basis if all products available on the internal market effectively respect the law. Therefore, more active and proper market surveillance is desirable not only when safety issues are highlighted, but also when other infringements, for example to environmental legislation are found. Efficient market surveillance and the enforcement of regulation will facilitate maintaining a competitive position for SMEs from the MMA sector, in particular in the high-end, high value-added markets.

The report also evidences that good protection of intellectual property rights is of paramount importance for the MMA sector. The two directives on design protection and enforcement can have a positive impact on the SMEs of the MMA sector. These directives could increase investment in innovation, design and R&D and therefore increase the competitiveness of the MMA sector. At the same time, they could facilitate the fight against counterfeited equipment. It is important that the MMA sector enjoys an IPR regime which is simple, more flexible and even less expensive. A modern IPR regime would allow companies in the sector to increase exports and develop collaboration within a more solid framework.

**Orgalime would therefore welcome that the EU institutions progress in this area for IP protection in both the internal and export markets. We would also welcome more support from the EU institutions to enforce market surveillance in accordance with the provisions of the New Legislative Framework.**

## 7. The greening of the economy: an opportunity or a threat?

The report stresses that more energy-efficient solutions could constitute an opportunity for the MMA sector. Although, in the short run, the production costs to meet the requirements of energy efficient products and the introduction of eco-design measures would probably be a significant challenge for the SMEs of the MMA sector, energy efficient products and innovation may offer opportunities for sectors of the industry to become more competitive, including on international markets.

Orgalime believes that the greening of industrial policy could and should provide benefits in terms of growth and jobs for the MMA sector, essentially but not exclusively as a supplier to other industries. However, if much more needs to be done at national level where capital investment budgets and tax incentives should be more heavily concentrated on energy efficiency measures and technologies, this may be difficult to achieve due to national budgetary constraints. Nevertheless developing markets for our green technologies here in the EU is a prerequisite for keeping the research, development and manufacturing of these products here. These will in the end go to where the markets are.

**Orgalime therefore believes that, rather than focusing on legislation which tries to force the development of green products (as it happens increasingly with the eco design directive) it is essential to try to create the framework conditions that will lead to customers developing and taking up green technologies here in the EU. At the present time, we are indeed in a race with our major trading partners who, we believe, are slowly but surely catching up and beginning to erode the competitive advantage that we have enjoyed in this area.**

### Conclusions

Orgalime welcomes the efforts that are currently being made by the European institutions to create awareness among policy makers of the role that the MMA sector plays in the European economy.

We hope that these efforts will continue and would welcome the European Commission taking into account the requests of our industry in the context of the forthcoming Communication on industrial policy.



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