

The effects of the Green Transition on the MET industries

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Introduction

The European Commission has set the ambitious goals, via the Green Deal, to reach the global climate target of net zero by 2050 and, via the Fit for 55 package, to reduce greenhouse gas emissions to at least 55% below 1990 levels by 2030. To achieve these challenging goals, industry is playing a pivotal role by rethinking, among other issues, supply & value chains. Undoubtedly, European industry is making great strides in greening its production processes, leading to a deep transformation within our sector.

However, it must be recognised by policy makers that a transformation of this magnitude takes time to implement. It must be done while safeguarding our global competitiveness and ensuring that we at least preserve, and ideally increase, our market share in a globalised world.

An evolution, not a revolution

The role of industry within this green transformation cannot be underestimated and we stand ready to drive that change. However, we must ensure a framework within which industry remains internationally competitive. This is, indeed, the only feasible way to realise the potential which industry holds within this transformation. Furthermore, the invasion of Ukraine by Russia will undoubtedly affect the green transition not least in relation to the possible gas shortages and broader energy challenges. For further information on this topic, please see the Ceemet paper on the economic consequences of the conflict in Ukraine.

MET companies are moving towards more sustainable production. However, this must be a fair transition, while ensuring that we do not overburden companies in certain sectors. We must strike a balance whereby those companies who are unable, in the short term, either for financial or logistic reasons, to make the transition can be given the space to continue their operations.

Inevitably, the green transformation will require changing of business models and mindsets within organisations. Furthermore, this transition is only in its infancy and will take much longer than we expect to embed, new technology simply takes time to implement. However, this transition can take place while we preserve and even increase our competitiveness at an international level. We must deliver a cleaner, but at the same time more competitive, European industry.

Moreover, a better business environment will be necessary in order to realise this transition. We cannot continue with business as usual, with burdensome bureaucracy and other legislative initiatives continuing to hamper EU businesses. On the contrary, new legislative initiatives should stimulate companies to adopt energy efficient production processes.

Finally, meaningful engagement with social partners and key industry leaders will be crucial in order to get the green transition right.

Issues for industry

1. Investment in technology and research, development and innovation

Implementation of the green transition will require a complete transformation of energy generation systems, and in parallel, massive reductions in industrial processes, transport and buildings. The investments in research, development and innovation (RDI) are more important than ever in order to succeed in a rapid green transition. In this context we must see smooth licensing practices in order to secure investment. For example, in some countries, the permit processes for new mines and industrial plants in particular are slow and inefficient, and the right of appeal is contrary to the general European law.

There are many opportunities for investment, such as in the electrical industry, mechanical engineering, rail vehicle construction and part electric and hybrid vehicles. However, there are also many risks due to increases in energy and material costs (mainly affecting foundries and metal products) as well as upheaval in process and value creation structures and customer demand behaviour, mainly affecting automotive including suppliers, aircraft and shipbuilding.

If we look at particular sectors, a rapid switch to full electrification threatens to be accompanied by high job losses, especially in the supplier sector. A Clepa/PWC study from December 2021 suggests that there would be a loss of 150,000 jobs at German suppliers alone in the event of a phase-out of the internal combustion engine by 2030. The situation is not better in other countries with both Italian and Spanish suppliers set to lose over 70,000 jobs each in this scenario¹. In this context, the future competitive position of European OEMs and domestic production volume becomes questionable owing to new competitors and investment requirements.

2. Supply and value chains

Bottlenecks in the supply chain have been hampering MET companies to continue their activities. Access to raw materials, and affordable energy sources, are key for MET companies.

If we focus on another sub sector within the MET industries, we see good market opportunities for the mechanical engineering sector in the medium term. However, this sector has additional risks. These risks come in the longer term due to dependencies on China/Asia for raw materials (cobalt, lithium) and intermediate inputs (batteries, power electronics, electric sheets). This has the potential to be intensified by the threat of the loss of energy-intensive basic material and intermediate input industries (e.g. foundries, steel, plastics) from domestic/internal European supply chains.

More broadly, the Green Deal threatens to have a negative net impact on the MET industries due to increasing supply dependencies on Asia. Put simply, price volatility due to supply chain issues leads to an increase in the cost for companies of transitioning to a greener industry.

3. Finance for the green transition

It is clear that massive investments will be required to realise the green transition of industry. In order to achieve the reduction of greenhouse gas emissions of 55%, companies will need to redouble their efforts and will invest unprecedented amounts.

MET companies are conscious that a certain portion of this investment will be private. However, this must be bolstered by EU funding; if not, it will leave a gap in the required investment. In this context, the recovery and resilience funds will go some way to plugging this gap and will be key to supporting businesses in their efforts. Without effective financial incentives for companies, the shift to more sustainable production methods risks not being affordable.

The Green Deal has the potential to have a negative net impact on the MET industries due to the loss of know-how and domestic market potential as a result of creeping deindustrialization, despite short- and medium-term market opportunities. It is therefore crucial that the structural change forced by climate policy is accompanied by a package of measures for better framework conditions for industrial value creation in Europe.

¹ <https://clepa.eu/wp-content/uploads/2021/12/Transition-Impact-Study-Summary-brochure-study-EV-Impact-Assessment.pdf>

4. Rightly skilled workforce

The pandemic has exacerbated an already existing skills gap; with vacancies in companies increasing steeply, companies' ability to recover from the pandemic has been hindered. In order to benefit from the possibilities of the greening of industry, extensive investments in upskilling and reskilling of the industrial workforce will be needed.

The transformation of industry will affect national and regional labour markets and entail a redesign of skills needs. However, this will occur with varying degrees of intensity depending on the country or region. Sectoral differences will also manifest themselves; sectors such as automotive and aerospace, already badly hit by the COVID-19 pandemic, will face a double impact. The changes occurring within the automotive sector have already affected around 15 million Europeans employed, either directly or indirectly, within the automotive value chain. The waterborne sector employs, either directly or indirectly, around 1 million people. Technological change in this sector is leading to skills shortages, particularly among engineers. Furthermore, this sector has an ageing workforce, 40% of which will retire within the next 10 years².

In order to anticipate these skills needs, policy makers at all levels must therefore ensure meaningful social partner engagement. Social partners are closest to companies and are thus best placed to foresee the skills of the future and promote the training and development required for their realisation.

Conclusion

The European Commission has come forward with ambitious targets via both the Green Deal and the Fit for 55 package. The role of industry in achieving these targets should not be underestimated. However, we must be conscious of the fact that changing of business practices takes time. Furthermore, we must see a fair green transition, particularly for certain companies and regions. In this context, we must deliver a more competitive industry.

There are many opportunities for investment, however there are also many risks in doing so. This holds particularly true for the automotive sector in many countries as has been outlined above. Bottlenecks in the supply chains are hampering companies' access to raw materials and products. Our dependence on China/Asia for raw materials and intermediate inputs continue to threaten production. Unprecedented amounts of investments will be required to realise this change. However, despite short- and medium-term market opportunities, the Green Deal has the potential to have a negative net impact on the MET industry. This is in part due to the loss of know-how and domestic market potential, and increasing supply dependencies on Asia. The skills gap which already existed risks being turned into a chasm as a result of the pandemic. The transformation of industry will affect national and regional labour markets and entail a redesign of skills needs, also for specific sectors. Sectors such as automotive and the waterborne sector will be badly affected. It is essential that we have the right anticipation of skills requirements in these sectors.

The green transformation of industry holds great potential, however there are also many associated risks. Following meaningful engagement with social partners and key industry leaders, policy makers must ensure the right mix of initiatives in order to support Europe's industry in becoming more sustainable. This is essential in order to get the green transition right, allowing industry to become the engine of Europe's transformation.

² SWD(2022) 16 final

About Ceemet

- Ceemet represents the metal, engineering and technology-based industry employers in Europe.
- Member organisations represent 200,000 companies in Europe, providing over 17 million direct and 35 million indirect jobs.
- Ceemet is a recognised European social partner at the industrial sector level, promoting global competitiveness for European industry through consultation and social dialogue.