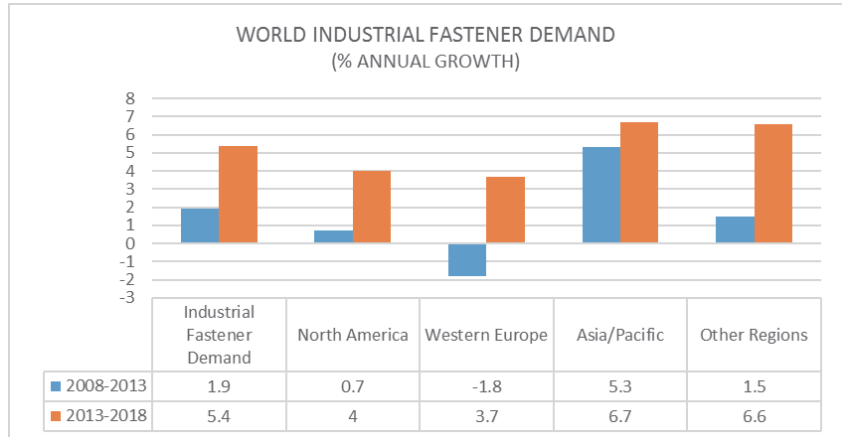
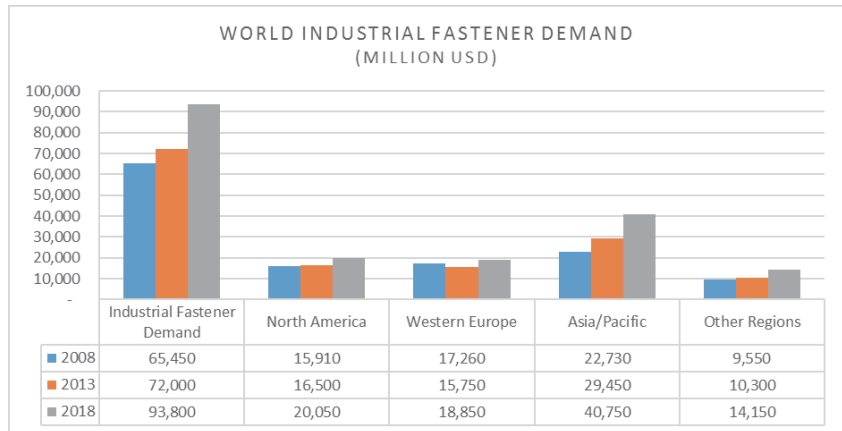


European Market and Global Fastener Demand

by Shervin Shahidi Hamedani



Europe is among the leading manufacturing regions in the world and therefore it is also one of the largest markets for fasteners in the world. With no doubt, growing the global economy and raising the investment expenditures will support fastener market expansion. Accordingly, the improvement of automotive and construction industries, industrial machinery and other durable goods production will drastically increase the demand for industrial fasteners.

The market for industrial fasteners in both developing and developed regions are still projected to be robust through 2018. The global yearly sales for fasteners are estimated to reach £50 billion by 2020. As illustrated in the following figure, based on the analysts' projection, progresses in this market in developing areas and emerging markets will beat demand in the US and Western Europe. Sales increases will be backed by strong economic growth and continuous development efforts in most developing nations, resulting in higher manufacturing output and fixed investment spending. Rising standards of living in these areas will significantly increase demand for automotive and other fastener-containing durable goods. The growth of demand is clearly illustrated in the figure above.

The leading market for fasteners, motor vehicle original equipment manufacturing, will be expected to have its largest value through 2018. Although Western Europe experienced the negative growth from 2008-2013, the recovering levels of fixed investment, as well as higher durable goods productions boost fastener demand in this region. Moreover, the construction sector will gain the fastest growth through 2018 which results in significant changes on fastener demand in the Western Europe.

Chinese manufacturers are expected to be the market leaders by beating US manufacturing levels. Although Chinese manufacturers attempt to reduce the technological gap with Western manufacturers, by obtaining technological and manufacturing expertise, Western Europe and the US

still lead the production level for superior and highly-engineered fasteners.

Asia-Europe Relations

The relationship between Asia and Europe has become stronger and closer over recent decades. This is true both in an economic sense, and when observing links between the two continents from a broader perspective. In spite of the recent slowdown in globalisation since the financial crisis, relations between Europe and Asia are likely to become even stronger, since more Asian countries widen their incorporation in the global economy.

Regarding the economic relations, the two-way trade volumes and investment flows have been observed between these two continents. For example, in 2013, total EU and Asia trade reached EUR 1.25 trillion, almost double the value documented a decade ago and representing over one-third of total EU trade. At the same time, the EU accounted for over 28% of Asian trade, far ahead of any other trading partner, including the United States. Most of EU imports coming from Asia arise from China (16.6% of total EU imports), but Japan (3.4%), India (2.2%) and South Korea (2.1%) are also among its top ten import source countries. As mentioned, this is a two-way relation and accordingly, EU is also a

major investor in Asia. In 2011, 22% of EU external investment went to Asia, while 20% originated in the region. Financial links are also enlarging and firming. These economic growths have driven, and have themselves been enhanced by, an increasing number of agreements with a gradually growing scope. The first comprehensive EU Free Trade Agreement (FTA) with an Asian partner (South Korea) has been in force since 2011, rendering 70% of bilateral trade duty-free. At the end of 2012, the EU and Singapore concluded a comprehensive FTA, the first EU agreement with an ASEAN country covering trade and services.

The robust relations between Asia and Europe have deepened the interdependency of the two areas. For example, based on the estimates from IMF, -1% growth shock in emerging markets would have a negative impact on euro area output of -0.3%. Another estimates suggest that a shock of that size in China

alone would bring down GDP in the euro area by 0.1% to 0.2%.

European Fastener Market and Asian Manufacturers

The major production of European fastener manufacturers are both cold and hot forged products as well as expert facilities for manufacturing home designed fastener products.

The major leading importing countries in Europe provide attractive market and great opportunities for Asian and developing country exporters. To date, European countries generally supply their fasteners from Asia, which are China, India, Vietnam and Malaysia. Imports dominated by China and Taiwan, followed at some distance by India, Vietnam, Thailand and Malaysia. In the past decade, Taiwan has been the primary beneficiary of the anti-

dumping tariffs legislated for imports from China.

The main reason that European countries source their fasteners from Asian manufacturers derived from the two significant trends that lead the market; the demand for application specific products, and price competition.

Accordingly, these trends have created the strategic directions for Asian manufacturers in order for them to increase their production output and expand their European footprints. Manufacturers understand that they need to supply relatively standard

fasteners to European importers in high volumes at low prices, or develop and specialise in customised manufacturing.

High volumes strategy in spite of specialized manufacturing, translate to minimal labor costs and the ability to spread equipment cost and overhead across many hours. High volume orders simply allow manufacturers to add more hours to the day to facilitate the ongoing delivery of value to customers.

On the other hand, the strong competition between industrial fastener suppliers in



Asia has resulted in the development of fasteners with more features and capabilities to provide enhanced performance. In addition, with the increase in technological developments, a number of manufacturers are developing industry-specific fasteners for increased efficiency.

Specialisation in any segments such as machinery building, motor vehicle production, aircraft and household equipment may give Asian exporters a competitive advantage, as there is an increasing demand for customised solutions. European importers therefore prefer specialised suppliers who are able to offer customer support and joint engineering in specific market segments.

For instance, manufacturing alloy fasteners and wrenchable nuts with increased strength and corrosion and temperature-resistance properties for the aerospace and defence sector. Another example, could be the developing self-clinching and self-locking fasteners that are expected to enhance the operational efficiency for plastic assemblies.

The profitability of fasteners imports is influenced by the exchange rate between the

euro and the US dollar, as products that are sourced globally are paid in US dollars. This is having a major effect on the price imports. Particularly if it persists for several years, this situation is likely to have a negative impact on the level playing field of European imports paid in US dollars to Asian exporters, relative to local European production.

Removal of Anti-Dumping Duties on Steel Fasteners from China

China is the second-largest trading partner of the EU after only the US and accordingly the European Union is China's largest trading partner. The high duties in the EU on fasteners from China made it uneconomical to source some of these products from China in the past. Its recent removal creates the opportunity for EU importers to extend more fastener import activity to the Mainland Chinese supply market. Most of the importers and wholesalers of fasteners will now therefore include more Chinese manufacturers in their sourcing activities for various product groups.

Although European manufacturers are reasonably horrified at this removal, China believes that there will be no adverse effects on the EU by eliminating the inconsistent measures. Anti-dumping duties have been considered as essential shields for EU suppliers against low cost fasteners from China; however, China claims that China-EU trade in general and fasteners trade in particular is mutually complementary and both sides will benefit from the new policy. Probably the figures in near future could clearly exhibit the real impact of this new WTO ruling.

Sources

The Freedonia Group Inc., World Industrial Fasteners / Central Bureau of Investigation (CBI), Fasteners in Europe / European Central Bank, Growth Challenges for Asia and Europe / Reuters, Global Industrial Fastener Market 2014-2018

