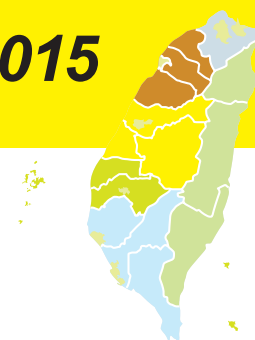


4 Factors Affecting Taiwanese Fastener Industry in 2015

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Compared with the service sector, the manufacturing sector has much more influence on Taiwan and all industries are closely connected to each other. Factors including environmental protection, electricity price, steel price, and euro may all be influential to related industries, so let's explore how Taiwanese fastener industry may be influenced by these 4 factors in 2015.

Environmental Protection

Companies are a part of the society, so if they would like to be sustainable in operation, they must bear a certain level of social responsibility and make contributions to the society and environment for a better future when they make profit. If they reversely do something evil or immoral that is unhealthy, unsafe, and harmful to the lives of people, they will be disliked by the public once it is revealed someday.

2 years ago, a Taiwanese semiconductor manufacturer, ASE, was found to illicitly discharge waste water into the river, which then resulted in temporary stoppages of lots of electroplating plants in southern Taiwan. As there were not sufficient plants qualified to provide electroplating and acid pickling service during the period of time, other industries were also influenced and many Kaohsiung-based fastener manufacturers thus could do nothing but delay the shipments of orders.

Stoppages of electroplating plants can cause great impact on the fastener industry. As a result, the most important task now is to make waste water discharge compliant with the government's regulations and ensure appropriate handling of waste water. It is reported that 11 plants in Kaohsiung were coerced by the government to halt operation because of their illicit discharge of waste water into the river and 8 of them were acid pickling and electroplating plants for fasteners. Not only plants in southern Taiwan but also other electroplating plants in central and northern Taiwan faced strict clampdown from the government, which did cause great impact on the fastener industry.

Through the trial of Kaohsiung regional court in 2014, ASE was, according to the waste processing laws, fined NT\$ 3 million including additional probation for the plant chief. As similar cases may threaten the health of the public, Taiwanese legislative council has approved the draft to the water pollution laws this January, which increases the fine for illicit waste water discharge by hundreds of times and includes life imprisonment as one of the penalty options.

ASE is only one of the cases about environmental pollution, and surely there must be lots of plants discharging waste water illicitly that haven't been discovered yet. The ASE event can be a warning to all other companies, which bear social responsibility. If it is not seriously taken into account, the environment may be polluted and there may be injury to the company and other associated partners, causing a great loss.

Electricity Price

In order to abide by the environmental protection policy of the government, Taiwanese power company has to use more natural gas for power generation. However, as the substantial increase in the fuel cost puts the electricity price under pressure, the average electricity price for 2015 has thus been adjusted upward. A new equation will be used to calculate the electricity price after this April and fluctuations of the fuel cost will also be added into the calculation. When the cost of imported fuel increases/decreases, the domestic electricity price will also increase/decrease. As the price is calculated based on cost fluctuations, it will continue to be ups and downs.

The electricity in Taiwan is mostly consumed by industrial applications and electricity price is of the greatest concern of the steel manufacturing industry with high demand for electricity. As a result, any change in steel prices will cause direct impact on the downstream industries. As previously said, every industry is connected to each other, so a slight move in one part may affect the whole situation. The increase in electricity prices will influence the entire industrial supply chain.

Electricity consumption is highly relevant to industrial competitiveness, but they are not completely in direct proportion. We can see the electricity in Taiwan is mostly consumed in industrial applications, but the largest share in the GDP of Taiwan is contributed by the service sector. Though steel manufacturing is an energy-consuming industry, its related industrial chain is very large in scale, so we can think upon how to create a higher value for steel manufacturing and facilitate the development of downstream industries (e.g., transport: cars, vessels; metallic products: screws and hardware) with reasonable and competitive electricity price, which is not only energy-saving, but also industrially competitive.

Steel Price

Taiwanese steel industry is prone to the influence of global market and currently has lower demand for steel. The decline of iron ore price also dragged down the global steel price. As the development of the fastener industry is deeply related to the change of steel prices, China Steel Corp has played an important role for 30 years in supporting the fastener industry.

Last October China Steel Corp adjusted the steel price downward, which was, however, not helpful in increasing

profit from orders. In addition, the electroplating cost and the electricity price both increased a lot, so Taiwanese companies do not think such an adjustment is helpful. The steel market in 2015 is still in a downward trend and there shows a slight drop in the global steel price, so Taiwanese downstream steel industry faces outside pressure demanding the reduction of price and supply.

Euro

The appearance of euro has caused great impact on the global financial market, which is now dominated by euro, U.S dollar, and Japanese yen. However, it seems that the recent depreciation of euro hasn't come to an end. Wall Street Journal reports, "Goldman Sachs: Euro to U.S. dollar will go into a low price level." The media and public continue to talk about the endless slip of euro and forecast that euro will remain at a low price level until the 2nd half of 2016. As 30% of Taiwanese fastener exports are quoted in euro, financial risk management firms should be cautious of this situation.

How will the change of euro influence Taiwanese fastener industry in 2015? Take OFCO and San Shing Fastech for example, the economic recovery in Europe last year boosted the revenue of OFCO, which experienced a slashing depreciation of euro in the 2nd half of 2014 but still remained continuous growth in order acceptance, so OFCO's distributors in Europe are still optimistic about the development of European market this year. As for San Shing Fastech, its gross margin declined; however, with the addition of more capacity for fasteners this year and the recovering automotive industry, its profit is expected to reach a new high.

The operation as a whole looks positive thus far. However, with the implementation of quantitative easing of European Central Bank, the exchange rate of euro is still the main factor that may influence the operation this year and should be carefully watched. For most Taiwanese fastener companies, in addition to closely looking at the fluctuations of euro, they should pay more attention to the influence on Taiwanese fastener export to the EU which may be brought about by the final determination of the expiry review of European antidumping duties against Chinese carbon steel fasteners.

Conclusions

A simple tiny screw is difficult to manufacture. It has to be treated with various processes. Once an error occurs during the process, it may not be used anymore. For this reason, we can clearly understand that manufacturing a screw not only requires various processes, but is also related to several industries and factors.

The global economy in 2015 is expected to continue to recover and the focus of Industrial Development Bureau of Ministry of Economic Affairs (Taiwan) on "helping industries accelerate the upgrade and transition" this year is also expected to create more benefits for the fastener industry. ■