

Press Release

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Raw Material and Energy Prices: Existential threat to the European Foundry Industry - Call for Bilateral Agreements

Prices for raw materials, energy and logistics have soared on a broad front while an increasing number of input factors is prone to run out of European stocks within the next weeks. Forwarding these unavoidable cost increases is however not taken for granted.

Key input materials such as scrap, pig iron, aluminium, copper, coke, alloys and chemicals, as well as wooden pallets and mesh boxes, are just some of the materials that have increased in price by up to 250% over the past 12 months. Latest concerns focus on the dramatic global shortage of magnesium, a metal that is predominantly mined in China. European stocks will be exhausted as early as November, causing an explosion in the magnesium price from USD 2 000 to USD 12 000 recently. This is putting additional pressure on liquidity in foundries. Magnesium is not only poured in its pure element but mainly applied as critical alloy for iron and aluminium applications. In other words: It represents the baker's yeast in foundries. These castings are virtually needed – though in small quantities – everywhere, from automotive and aviation, over energy production, to medical devices.

Another serious issue is that energy providers have started to terminate contracts of their often long-standing and reliable customers and rather pay the fine instead of continuing delivery. Closing new contracts results in significantly higher costs for foundries. Particularly problematic for the small and medium-sized (SME) foundry landscape is that these heavily increasing prices have not been able to be anticipated within the calculation scheme, as they were not foreseeable at all. If that is not yet enough, customers broadly keep on demanding *solidarity agreements*, in other words cost sharing despite already burdensome *cost saving expectations*. This must be further understood at the background that the profit margin of foundries often lies between 2-3 percent.



In short: Many foundries face a serious survival threat and might eventually shut down production, fuelling the existing frictions of the already distressed European value chain. Since most foundries are deeply embedded in a regional context, their disappearance would coamplify the already difficult employment and economic situation of these regions having suffered from industry transformation already for several decades.

Foundries have so far always been reliable partners in customer relations. Now customers should be open to bilateral discussions with their suppliers in order to take adapted measures in this tense situation and a new way of fairness. Among others this includes an adjustment of the calculation to the dynamic raw material situation, a prompt payment of supplier invoices or the introduction of advance payments. However, reliable and regular demand reports from customers to suppliers would at least contribute to better planning of the raw materials to be procured. However, this alone would not calm the price situation. In the long term, we are urged to develop strong bonds along the entire value chain with a large European footprint.

Preserving employment and succeeding in the pursuit of the EU Green Deal demands not only governmental support but also a mutual understanding between suppliers and customers!

Background information on CAEF:

CAEF is the umbrella organisation of the national European foundry associations. The organisation, founded in 1953, has 22 European member states and works to promote the economical, technical, legal and social interests of the European foundry industry. At the same time, CAEF implements activities which aim at developing national foundry industries and co-ordinating their shared international interests. The General Secretariat is situated in Düsseldorf since 1997.

CAEF represents 4 700 European foundries. Nearly 300 000 employees are generating a turnover of 43 billion Euro. European foundries are recruiting 20 000 workers and engineers per year. The main customer industries are e.g. the automotive, the general engineering and the building industries as well as the electrical engineering industry. No industrial sector exists without using casted components.

Further information at www.caef.eu.

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