

CFCM: Copper Fabricators Competitive Monitor

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IWCC's Chairman Erwin Mayr shares his views on the challenges posed by the Covid-19 epidemic with the CFCM, discusses the possible aftermath for the copper industry, and unveils the goals of his IWCC Presidency

This time, our exclusive interview focuses almost entirely on the many issues associated with the coronavirus epidemic.

Given the current difficult times, we felt the need to ask for the advice of the Chairman of the copper community that gathers around the IWCC.

As one of the most authoritative international associations supporting the copper industry, with approximately 150 individual member companies all over the world, the IWCC is a central hub and a privileged information point for observing the whole copper industry.

We, therefore, deemed it particularly interesting and useful for all the CFCM readers to listen to the opinion of its Chairman who, in his institutional capacity, represents the association and, hence, the whole sector.

We want to thank dr. Mayr for his great availability to face and discuss all the topics brought to his attention, for adding his original and interesting insights, and also for sharing the objectives of his IWCC presidency with the CFCM audience.



Dr. Erwin Mayr
Chairman of the IWCC

Dr. Mayr, you cover the role of Chairman of the IWCC at a very special and difficult time, when the global proliferation of the coronavirus epidemic threatens our health and affects the economies of different countries.

While it is almost impossible now to make solid forecasts about the future effects, what do you think are the most critical issues facing the copper industry today along its entire value chain, from ore mining to the use of end products incorporating copper?

In the spirit of *EHS first* (Environment, Health & Safety), we need to put the human aspect upfront. While there are lots of serious economic impacts globally, the first thing we need to do is to take care of our employees and their continued good health throughout this crisis. Our employees are the basis of our success, in the past, present and future.

From an economic perspective, the major drop of demand in the area of automotive and several other industry segments is the most critical issue along the entire copper supply chain. With consumers at home and many shops closed for weeks or even months, this year's demand-supply balance is majorly impacted. In light of the anticipated large copper production surplus in 2020, many analysts have adjusted the short and mid-term copper price forecast accordingly. In summary, along the entire value chain, asset utilization levels and profit outlooks are falling.

And looking ahead, once we have left this storm behind us, which will be the building blocks for recovering? In your opinion, should we change anything in the way we supply, produce, manage logistics, deal with customers, manage our companies, communicate with stakeholders and protect the workforce? What do you think the "next normal" will look like?

Once the storm is behind us – which may be after a few waves of infections around the globe – consumers and producers will largely go back to business as usual. I don't think the "new normal" will be very different from our past experience, which was not too bad considering the past ten years of booming economic development around the globe. I am not part of the "idealists" thinking that this crisis

will lead to fundamental changes to business or society.

However, the corona-crisis is acting like a catalyst to or accelerator for some trends that were on the horizon already, well before 2020. The discussion about advantages and disadvantages of some de-globalization or regional self-sustainability will get additional emphasis and may well change the strategy of some companies in terms of singular supply chain dependencies or long supply chains in general.

What will presumably be in the future, at individual companies' level, the keywords for the aftermath of the pandemic and the "next normal"? Flexibility? Planning? Crisis management? Network of teams? Supply-chain? Digitization? Others?

Given what we are all going through now, I am sure all companies will be better organized to deal with a crisis like this in future. Crisis management or pandemic plans, related check-lists, communication activities, sufficient IT capabilities for remote access, related HR policies etc. will all be in place now and immediately ready the next time we need them.

Improved digital communications and less travel or meetings with physical presence may well stay in place post crisis, given the related positive experience we all make these days. Maybe also more colleagues in administrative and service areas working flexibly from at home rather than commuting to offices every day. However, face-to-face contact remains crucial and will resume: you cannot build genuine personal relationships over the phone or internet.

Finally, and most importantly, at an individual company level, there are strong balance sheets and sufficient liquidity to be able to survive longer periods of economic weakness or even entire shutdowns. Like always, this crisis will be an opportunity for the strongest players along the supply chain to further improve their long-term position.

Do you believe that companies will have to rethink the strategic development plans envisaged before the epidemic?

No, not really. Certainly, some plans have to be shifted by six months or a year, but fundamentals driven by underlying macro-trends will not have changed after the corona-crisis.

Some companies may think about a broader footprint in terms of market segments or regional presence to lower individual dependencies, but I think this will rather be the exception.

Do you think that the positive fundamentals of copper demand will be somehow affected in the near future, or will there only be a delay in the imagined development paths? Will the deep crisis we are going through change consumption patterns, and, consequently, the expected development of drivers relevant for the future of copper, such as sustainability and renewable energies, energy efficiency, new mobility, development of AI and IoT?

I don't see major changes in the fundamentals driving the copper industry due to the corona-crisis.

Most macro trends, such as for example "importance of sustainability" or "economic growth in Asia" will stay largely unchanged. Some trends get highlighted these days such as "digitalization" or "automation of everything" – both are good for copper. Others, as mentioned already, such as globalization, may become less relevant in future, but the corona-virus is at best an accelerator to already ongoing developments in this direction.

Do you foresee any change in the markets and competitive positionings at the geographical level with respect to the tendencies that characterized the last two decades, featured by a clear increase in the role of Asia, in particular of China? And, as for China, could its upcoming exit from the epidemic crisis and its earlier recovery timeframe compared to other world's regions favour a growing presence, also in terms of M&A, of Chinese companies in other areas like Europe?

From a Western perspective, it is indeed impressive to see how quickly and deeply China acted to overcome the corona-crisis. Many countries in the West could learn from China's crisis management in this case. On top we have seen in countries like South Korea handling the crisis relatively well and

quickly; that's good crisis management irrespective of politics or culture.

However, it is far too early to talk about winners and losers here. We may well face several waves of infections around the globe over the coming months, entirely depending on medical / vaccine developments during that period of time.

In terms of any impact on M&A in the copper industry, I don't see a significant change due to the corona-crisis. In particular, in the area of semis production the wave of consolidation has started a few years ago in Europe and in North America due to economic factors and will simply continue for those reasons. In China, the copper industry is still at an earlier stage than in the "West" in terms of consolidation, but eventually economic reality should drive the same development there.

Before you mentioned possible changes about globalization. In your opinion, how the globalization of markets, as we have experienced it until now, will be affected? Could external closure policies prevail in certain regional or continental markets? And could the role of the States in the metallurgical companies increase in certain regions compared to today, in particular in China?

I don't see any major change here due to the coronavirus. Some supply chains may shift towards regional suppliers. However, as mentioned already, this trend of regionalism (duties, border tax, etc.) was already happening.

In your opinion, is today's crisis comparable to the financial and economic crisis of 11 years ago in terms of effects on production activity and development models? Or does it contain completely new disruptive elements?

Today's crisis is very different from the financial crisis 11 years ago. The corona-crisis impacts everyone on our planet significantly as usual life or freedom is now limited. Social distancing is mandated, restaurants are closed and public as well as cultural activities are forbidden. So, very different from 11 years ago.

The same is true for the industry: the corona-crisis negatively impacts a much larger part of the global

industry than the financial crisis in 2008/9 did. The demand is gone for so many things, not just the financing. Therefore, we should expect that the ultimate recovery will take much longer and will not come as a quick and full recovery in a V-shape this time. More likely, the economic development will take a U-shape with a long corona valley.

According to some recent studies, including one from McKinsey, the decline in economic activity that Europe and the United States could experience in the second quarter of 2020 might be greater than the loss of income suffered during the Great Depression. Do you share this view? And, apart from the necessary government support measures, what will be the role of the "endogenous" component, namely the tools that companies in our industry can put in place to recover?

I think in Europe and North America we will see a low double-digit GDP decline in Q2 2020. For the entire year, GDP may be slightly below 2019, very much depending on whether we experience a 2nd and 3rd wave of infections later this year.

However, it is very encouraging to see how quickly demand and industrial production came back in China after the eight weeks downturn from mid-January to mid-March.

In terms of managing through the crisis, I personally think Europe will do relatively well, given many government-driven schemes in place – such as "Kurzarbeit" (short-time work) in Germany – supporting companies to keep all employees employed during times of much lower demand and work requirement.

The copper industry had to cancel major gathering events, including the IWCC Joint Meeting, which was initially scheduled to take place in Montreal next May. Was this decision difficult? Do you plan to reschedule it to the second part of 2020, or will we go directly to the 2021 Joint Meeting in Bangkok?

To cancel the IWCC Joint Meeting at Montreal in May 2020 was disappointing, but not a difficult decision. We took into account many factors before we announced the cancellation, but top of the list

was health and safety concerns for everyone involved with the Montreal meeting. I am glad we acted quickly to minimize travel and other organizational costs. In the end, participants would not even have been able to travel to Montreal, given flight restrictions due to the corona crisis.

No rescheduling in 2020 is planned due to ongoing corona-related uncertainty, but as one of the key events in the copper industry calendar, planning for the 2021 Joint Meeting is already underway. Next year's global IWCC Joint Meeting will be in Bangkok. That has already been decided.

In this troubled period, when the opportunities for industry gathering are prohibited, does the IWCC plan to support its associates with new services to foster interaction and discussion? And, in your opinion, can an international organization such as the IWCC act as a catalyst for ideas and exchange of information? Does the IWCC have any activities or projects in this regard?

The IWCC is a very lean organization with a small budget, focusing on networking amongst senior executives in the copper fabrication industry. It is not a lobbying organization. The work of the IWCC continues but clearly in a different way from before. I am hoping normal service will resume, may be in a couple of months.

In the meantime, we initiated an exchange of information regarding corona crisis related developments in various countries and regions and what industry associations could do to support our industry and its members' business continuity during this time.

What are the targets of your IWCC Presidency?

Given the current state of the IWCC, I would like to support two developments.

First, it would be great to have a more global representation in the IWCC. Right now, we have many European and Asian members, while the Americas are under-represented. There will be increasing value of the IWCC network for all participants, if we can get all copper fabricators on board globally and address critical topics or needs with one voice.

Second, I would like to encourage the level of engagement of all members within the IWCC. The more active discussions and critical exchanges we have the better the outcome on critical topics such as for example sustainability developments and what the industry can do here together.

As Chairman of the IWCC, is there a message that you think is important to convey to the "copper community" in these times of great uncertainty?

This difficult phase will pass – macro trends in favour of copper growth will stay! Let us use this difficult time to engage with our employees and demonstrate that we care indeed. We will all be better off thereafter.

Thank you very much for your time and good work!

IWCC\Covid-19\Developments

Excerpt for IWCC

**For info on the entire report:
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SIDE BY SIDE

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