

Tratos: Cables for a Moving World



Deep dive into managing cost inflation

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Energy Transition | Infrastructure | Materials



**Wire & Cable
2023 Conference**

19-21 June 2023 • Hamburg, Germany

This presentation is based on many previous research also available at ResearchGate:



- Globalisation the Broken Game
- Hoping for the best, preparing for the worst Growth scare, Recession or Soft Landing?
- Price volatility and sustainability of cable making industry
- Sustainable development and the need to reform the carbon tax
- The end of steel price hike?
- Brexit has disrupted the UK economy on top of the Covid-19 pandemic
- Is this sustainable? Record freight rates and delays
- Copper and our sustainable future
- Raw Material Price Increase
- Price volatility and sustainability of cable making industry

You may download this presentation at my website: www.bragagni.uk

Identifying and mitigating cost drivers in the European wire and cable industry



Wire and cable manufacturers face a variety of cost drivers that can impact their profitability and survival, such as:

Raw Materials

Raw materials, such as copper, aluminium, and plastics, are a significant cost driver in the wire and cable industry. Fluctuations in the prices of these materials can significantly impact the bottom line of manufacturers.

Shipping Costs

Shipping cost of raw materials, finished products, and equipment is another significant cost driver in the wire and cable industry.

Labour Costs

Labour costs, such as wages and benefits, are a significant cost driver in the wire and cable industry, especially in countries with high labour costs.

Energy Costs

Electricity and natural gas, are significant cost driver in the wire and cable industry. The industry is energy-intensive, with manufacturers using large amounts of electricity and natural gas to power their operations.

Regulatory Compliance Costs

Substantial new regulation and updates to existing rules are bearing down on the industry and creating a need for firms to juggle ever-changing international regulatory reforms, which is both expensive and resource-draining.



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Raw Materials

Raw materials, such as copper, aluminium, and plastics, are a significant cost driver in the wire and cable industry.

Fluctuations in the prices of these materials can significantly impact the bottom line of manufacturers.

Raw material costs are influenced by various factors such as supply and demand dynamics, global economic conditions, geopolitical events, and natural disasters, among others.

Market demand is high, and constrained supply has kept material prices at levels never seen before. There is no slack in the supply chain as a result of high demand for production mixed with limited supply.

The war in Ukraine has complicated an already challenging situation.

The price of oil has now reached a ten-year high.

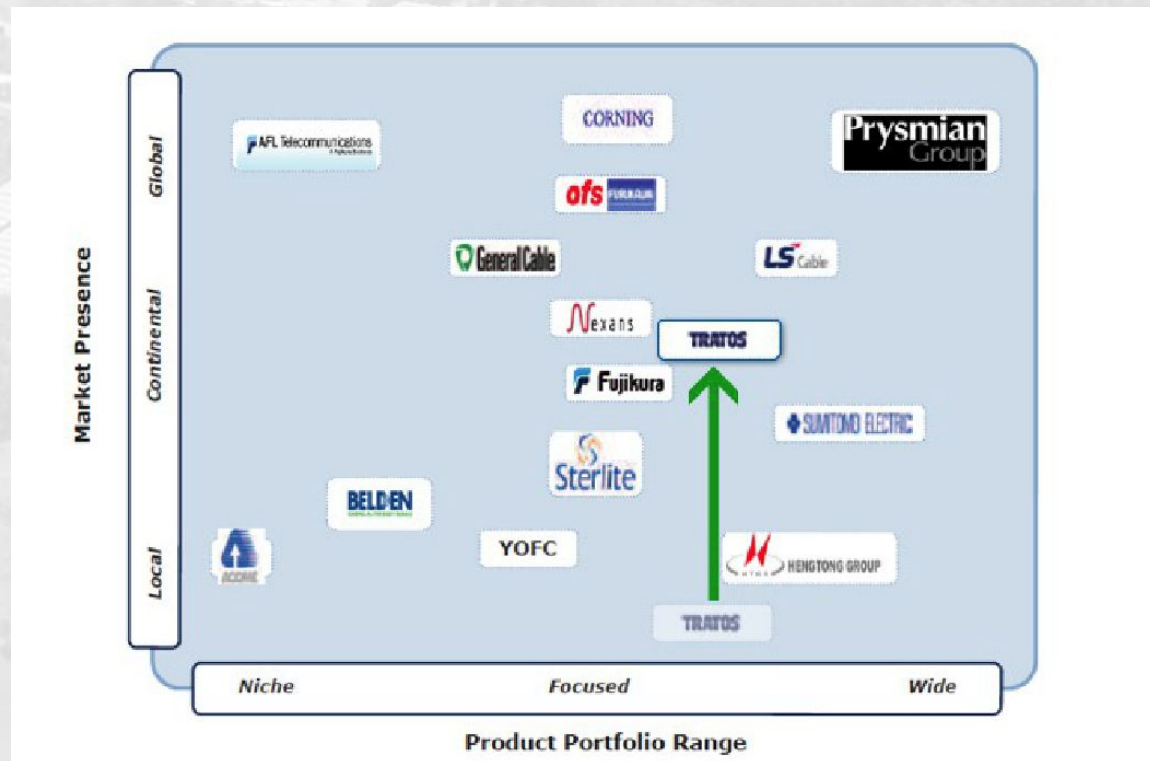
Tratos has taken a proactive approach to secure its supply chain. This includes diversifying its suppliers and building relationships with multiple sources to ensure continuity of supply in case of disruptions. In addition, Tratos has put measures in place to monitor and respond quickly to any changes in raw material prices.



Limited cable supply capacities



Unfortunately, many cable manufacturers don't exist any longer!



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Shipping Costs

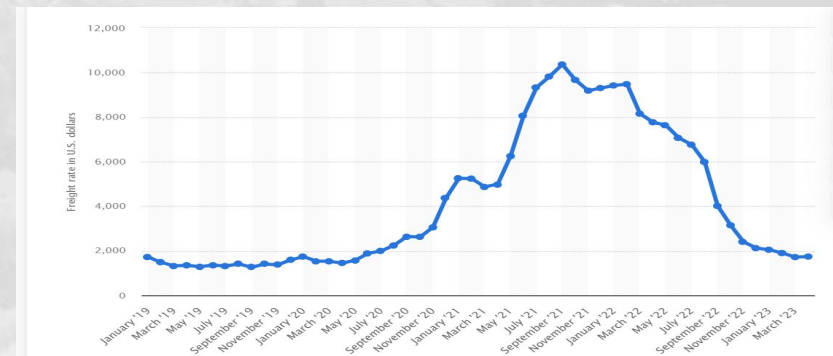
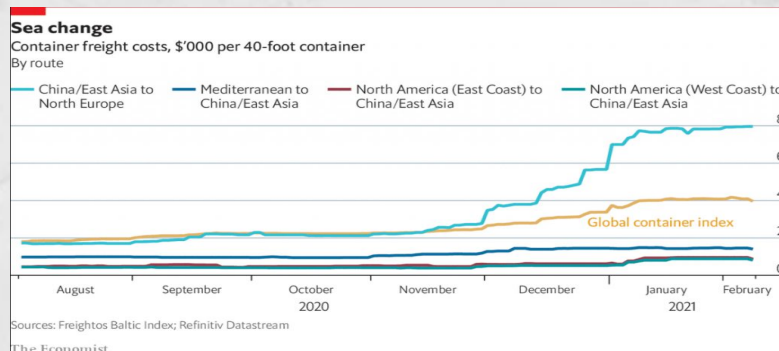
Shipping cost of raw materials, finished products, and equipment is another significant cost driver in the wire and cable industry. The shortage of logistics personnel and HGV drivers, particularly for delivering hazardous products, resulted from the large number of people compelled to self-isolate due to Covid and the continued impact of EU-Exit in the UK.



At the peak of the Covid-19 pandemic, it was reported in the media that some shippers, in order to comply with tough and critical deadlines, were willing to pay over \$18,000 for a 40ft high-cube from China to the UK, which is 7-8 times more than usual cost.

According to The Economist, in February 2021 the cost of shipping a container from Asia to the European region has increased from around \$2,200 to a whopping \$7,900. In September 2021 the cost of shipping a container was \$10,361. The year 2021 saw an especially steep increase in global freight rates, reaching a record price of nearly 10,400 U.S. dollars in September 2021. In April 2023, the global freight rate index stood at more than 1,700 U.S. dollars.

To mitigate this cost driver, manufacturers can explore alternative transportation methods, such as rail or water transport, or optimise their transportation routes to reduce costs.



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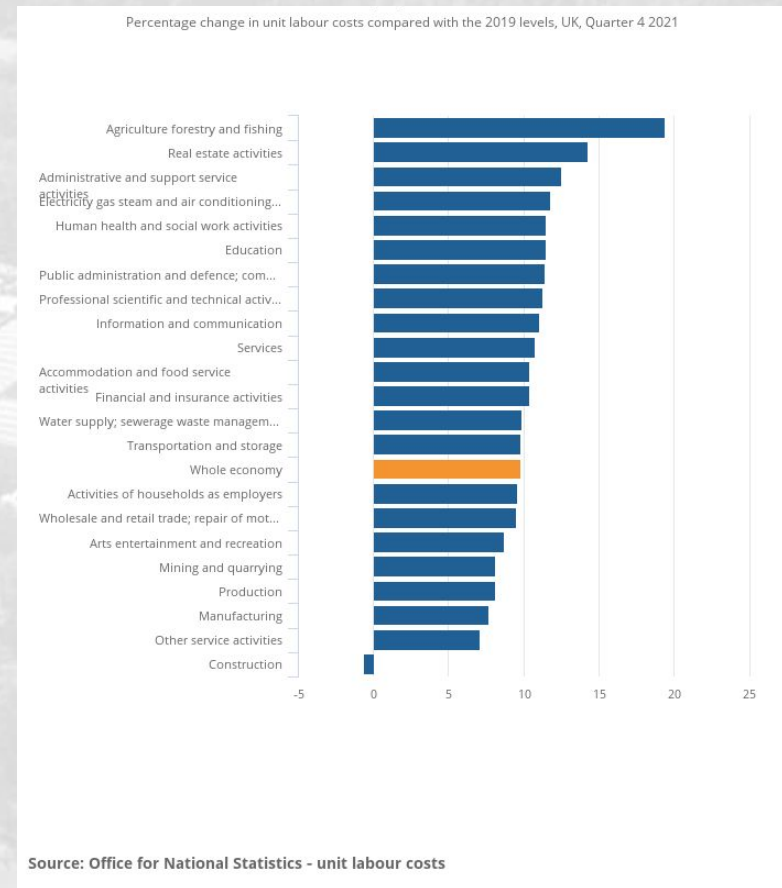
Labour Costs

Labour costs, such as wages and benefits, are a significant cost driver in the wire and cable industry, especially in countries with high labour costs.

In the UK, the growth in total nominal employment costs for the whole economy was primarily driven by the growth in total nominal employment costs in services. The service sector accounts for 80.7% of the UK economy's total nominal employment costs. Total nominal employment costs in the services sector grew by 10.8%.

Manufacturers can mitigate this cost driver by investing in automation technology, which can reduce labour requirements and increase productivity.

Manufacturers can also explore offshoring production to countries with lower labour costs, although this may come with additional challenges.



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Energy Costs

Energy costs, such as electricity and natural gas, are significant cost driver in the wire and cable industry. The industry is energy-intensive, with manufacturers using large amounts of electricity and natural gas to power their operations.

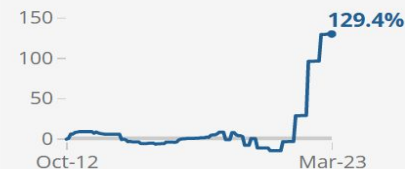
Food and energy prices have been rising markedly over the past year, particularly gas prices, largely in response to the conflict in Ukraine. Global recovery from the coronavirus (COVID-19) pandemic is putting further pressure on prices.

Electricity prices in the UK rose by 66.7% and gas prices by 129.4% in the 12 months to March 2023, and were some of the main drivers of the annual inflation rate. Energy prices have also had an indirect effect on the prices of goods and services, as businesses experienced increased costs.



Gas prices up 129.4% in the year to March 2023

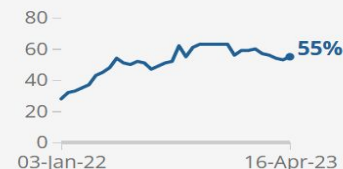
Gas annual CPIH inflation rates, UK



Source: Office for National Statistics

Around 11 in 20 adults are using less fuel in their homes due to cost of living increases

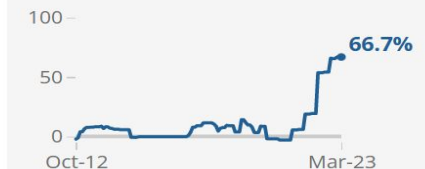
Adults in Great Britain



Source: Office for National Statistics

Electricity prices up 66.7% in the year to March 2023

Electricity annual CPIH inflation rates, UK



Source: Office for National Statistics

To mitigate this cost driver, manufacturers can invest in energy-efficient equipment, implement energy management systems, and explore alternative energy sources, such as solar or wind power.

Tratos has recently significantly improved its independent power generation capacity by installing solar panels, which contribute to the supply of about **30%** of the total energy used by Tratos Group.

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Regulatory Compliance Costs

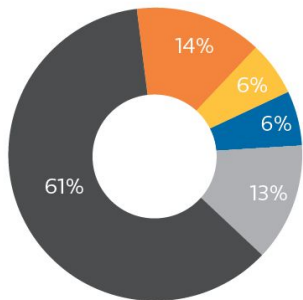
Regulatory compliance is needed to provide greater investor and consumer protection while convincing businesses that this commitment is central to their continued performance.

But, substantial new regulation and updates to existing rules are bearing down on the industry and creating a need for firms to juggle ever-changing international regulatory reforms, which is both expensive and resource-draining.

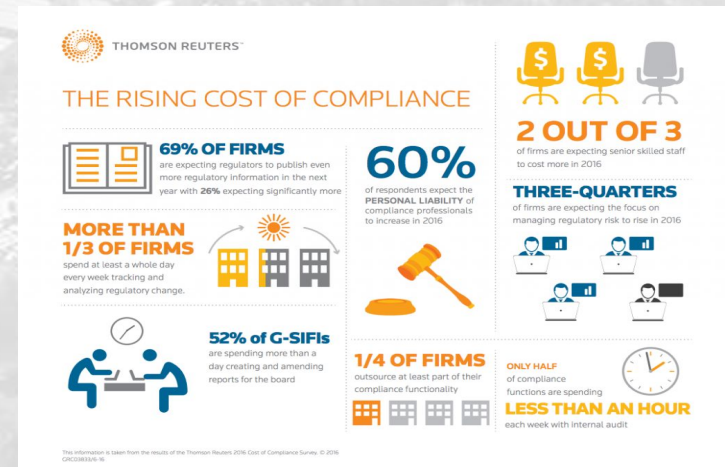
Regulatory compliance costs, such as environmental regulations and safety standards, can be significant cost drivers in the wire and cable industry.

Over a third of a compliance officer's time is spent tracking and analyzing regulatory developments, reporting to the board, amending policies and procedures and liaising with the other control functions.

TYPICAL WEEK OF A COMPLIANCE OFFICER



- Tracking and analyzing regulatory developments
- Board reporting
- Amending policies and procedures
- Liaison with control functions
- Other compliance tasks



Manufacturers can invest in compliance management systems and prioritise environmental sustainability initiatives to reduce their environmental impact, in order to mitigate this cost driver.

Identifying and mitigating cost drivers in the European wire and cable industry



Are we innovating enough?

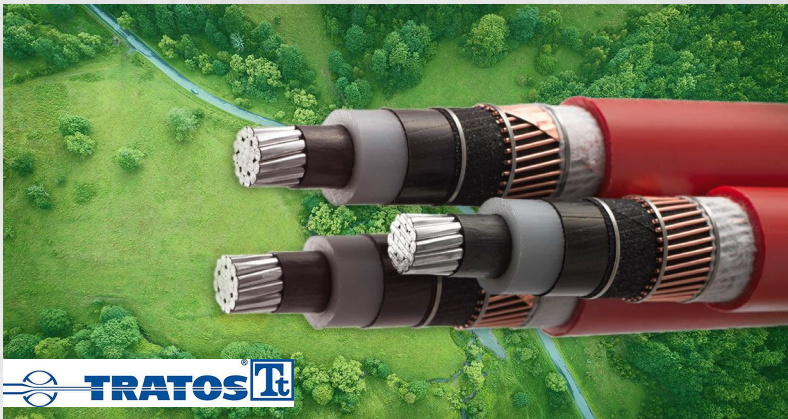
The wire and cable industry is constantly evolving, with manufacturers adopting new and innovative manufacturing techniques to improve their operations and reduce costs.

A genuine culture of innovation is needed for any business to survive!

Automation can be used to streamline the cable-making process, reducing the need for manual labour and improving consistency and quality.

Digitalisation can be used to optimise the supply chain, reducing costs and improving efficiency.

Both, digitalisation and automation can enable remote monitoring and control of the cable-making process, allowing for greater flexibility and agility.



Tratos in cooperation with Borealis has made possible the first use of Bornewables™ in the energy industry.

Along with it being the first cable presented with a jacketing made from renewable feedstock, it delivered a bigger CO2 footprint reduction per ton and with ICCS PLUS accreditation.

With the Bornewables™ solution, for a 185 mm² MV cable, Tratos reduced by 320 kg/km the CO2 emissions when compared to the traditional solution based on fossil feedstock.

Food for thoughts

Is inflation high because of

- Government interventions in the economy?
- Quantitation/Pumping money into economy?
- Greening the economy?

Are we innovating enough to survive?

Food for thoughts

During the Covid-19 pandemic, government interventions **aimed at mitigating** the impact on various industries, including the cable-making industry by:

- **providing financial support** to businesses in the cable-making industry through various programs, such as grants, loans, and tax relief. These measures aimed to help companies cover operational costs, retain employees, and ensure their sustainability during the economic downturn caused by the pandemic.
- **intervening to address disruptions in the global supply chain**, which directly impacted the cable-making industry. They implemented policies to secure the availability of raw materials and critical components, facilitating the smooth functioning of production processes and preventing shortages.
- **implementing measures to support the workforce in the cable-making industry**. This included initiatives such as wage subsidies, unemployment benefits, and training programs to help workers retain their jobs, acquire new skills, and navigate the challenges brought about by the pandemic.

Food for thoughts

Here are some specific government interventions that have been implemented, which have affected the **industry adversely**:

- **Lockdown Measures:** Governments imposed strict lockdown measures, resulting in disruptions in the supply chain and hampering the production and distribution of cables. Factory closures, restrictions on movement, and reduced operational capacities have significantly affected the industry's ability to meet demand and fulfil orders.

- **Trade Restrictions:** Governments implemented trade restrictions, such as tariffs and export controls, to safeguard domestic supplies of essential goods and equipment during the pandemic. These measures have disrupted global supply chains and affected the import and export of cable-related materials and components, leading to increased costs and delays for cable manufacturers.

- **Regulatory Hurdles:** Governments imposed stringent regulations and bureaucratic procedures to ensure compliance with health and safety protocols during the pandemic, which have increased administrative burdens and added additional costs for cable manufacturers. Compliance with social distancing requirements and other regulations has also impacted production efficiency and capacity.

Food for thoughts

- **Reduced Infrastructure Investment:** Governments facing financial constraints during the pandemic have diverted funds away from infrastructure projects, leading to a decrease in demand for cables used in construction and infrastructure development. This reduction in investment has directly impacted the cable-making industry, resulting in decreased orders and revenue.
- **Uncertainty and Market Volatility:** The dynamic nature of government interventions during the pandemic has created uncertainty and market volatility for the cable-making industry. Frequent changes in regulations, trade policies, and economic stimulus measures have made it challenging for businesses to plan and adapt their strategies effectively, leading to increased risk and decreased investor confidence.
- **Lack of Financial Support:** While some governments have provided financial support to businesses during the pandemic, others have been unable to offer substantial assistance. The lack of sufficient financial aid, such as grants or loans, has left many cable manufacturers struggling to sustain their operations, maintain their workforce, and meet financial obligations.

Food for thoughts

Transitioning to the **green economy** has brought some specific challenges and negative consequences on the cable-making industry:

Changing Demand Patterns: As countries shift towards renewable energy sources and green technologies, there has been a decrease in demand for traditional cables used in fossil fuel-based industries. This transition has resulted in reduced orders and revenues for cable manufacturers that primarily catered to non-green sectors, such as oil and gas or coal.

Regulatory Challenges: Meeting new environmental regulations and sustainability goals, can introduce additional compliance requirements for cable manufacturers. This can incur significant costs and pose challenges for cable makers, especially smaller or less financially equipped companies.

Supply Chain Complexity: The transition to the green economy necessitates a complex and diversified supply chain. Cable manufacturers may face challenges in sourcing specialized materials, components, and rare-earth minerals required for manufacturing cables used in renewable energy projects. This can result in supply chain disruptions, increased costs, and delays in production, impacting the overall competitiveness of the industry.

Food for thoughts

Workforce Transition: As the green economy expands, the demand for new skills and expertise in areas such as renewable energy, energy storage, and smart grids increases. Traditional cable manufacturers may struggle to retrain or retool their workforce to meet the changing demands of the industry. This mismatch between skills and requirements can lead to job losses and employment challenges for workers in the cable making industry.

Uncertain Investment Landscape: The transition to the green economy involves significant investments in renewable energy projects and infrastructure. However, the uncertainties associated with the pace and scale of this transition can create hesitation among investors. This uncertainty may result in reduced investment in traditional cable manufacturing, impacting the industry's growth and development prospects.

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Thank you!

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