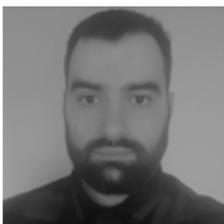


EMERGING EUROPE

The dash to relocate: CEE's nearshoring opportunity



Global supply chains are being disrupted, and major players are looking to shift production closer to home. Central and Eastern Europe is well-placed to take advantage.



Nikola Đorđević - February 11, 2021

The energy, manufacturing, and petrochemical sectors have seen a shift away from globalisation in recent years, to regionalisation and nearshoring. Issues such as climate change and related regulations, as well as economic growth in developing nations have been the drivers of this shift, but the ongoing Covid-19 pandemic has also exposed potential supply-chain vulnerabilities in complicated global systems.

This is why many companies in the energy and petrochemical sectors are now eyeing plant relocations as a potential solution to the challenges their sectors are facing.

According to a recent report from the McKinsey Global Institute, up to 35 per cent of the petrochemical industry's annual EBITDA could be at risk due to supply-chain disruptions.

"As it relates to the Covid-19 global pandemic, just like our consumers, corporations are suffering from a major disruption of supply chains," says Stephen Hightower, the CEO of Hightower Petroleum Corporation.

Relocation as a solution

Relocation offers a possible solution to these problems, say many analysts. That the Covid-19 pandemic continues to disrupt supply chains means that there is more interest in relocation than before.

"Many of the projects currently being priced and negotiated are related to the Covid-19 pandemic and there is definitely a trend towards shortening the supply chain," says Bartosz Świderek, CEO of Pol-Inowex, a company that has already helped relocate plants and factories around the world.

Mr Świderek tells *Emerging Europe* that the situation right now is similar to that of the 2008 global recession.

"The economic crisis in 2008 caused international business to stagnate for several months. Companies held back decisions on major projects. In the second half of 2009, we had significantly more inquiries than before, and the peak came in 2010, when we carried out a large number of relocations. I am convinced that it will be the same this time. I predict that by the end of 2021 there will already be a huge demand for industrial moving services worldwide," he says.

According to John Boyd, the CEO of The Boyd Company, a site selection consultancy, the pandemic has also revealed the hidden costs of concentrating production in Asia.

"Years ago companies were lured to Asia by two US dollars an hour labour costs. Today, companies factor potential labour cost savings versus long wait times in the Pacific, concerns about intellectual capital, concerns about infrastructure and doing business in a less-than-transparent country like China," he explains.

For those in the energy sector, there are additional reasons why relocation might be attractive.

"In the case of energy they are mostly similar to changes in the fuel industry and are due to regulation of CO2 emissions, increasing the share of renewable energy sources, changes in building technology, and so on," says Mr Świderek.

Despite a recent report by Pol-Inowex and PwC noting that relocations to the Central and Eastern Europe region have somewhat stalled, primarily due to the region's development and increasing

labour costs, the region could still benefit from its closeness to Western Europe as nearshoring is becoming a real trend.

While labour costs are a significant part of why a company might choose to move its plant or production line, other factors such as keeping production closer to research and development and market demand are also important, according to Mr Boyd.

“The Covid pandemic put a spotlight on supply chain risks and hidden costs associated with offshore production,” he says.

Cristian Buşoi, a Romanian member of the European Parliament, says that nearshoring is the only way the the EU can become less dependent on external support.

“The Covid-19 pandemic had revealed many inefficiencies in our industrial sectors, supply chains, and has deepened existing challenges such as shortages [...] and clearly demonstrated the need for the European Union and its member states to invest more to bring production back to Europe to become resilient,” he explains.

It is also important to note that while labour might not be as cheap in CEE as it once were, the region still offers significant operating cost advantages compared to Western European nations.

“The Covid pandemic has forced companies to improve the bottom line on the cost side of the ledger,” says Mr Boyd. “This is leading to new economic development opportunities in Central and Eastern Europe – which not only enjoy lower operating costs but also governments more aggressive in attracting corporate investment from countries like Germany, France and the UK.”

Environmental implications

As with the energy and manufacturing sectors as a whole, environmental concerns are important. The European Union has very ambitious environmental plans, but more and more companies are themselves beginning to take ESG (Environmental, Social, Governance) principles seriously.

“Responsible leaders are looking at ESG holistically – throughout the whole value chains of their companies. They are putting long-term interests of stakeholders in all the countries in which they are operating above short-term gains to shareholders,” Agnieszka Gajewska, public sector and industry leader for the CEE region at PwC, tells *Emerging Europe*. “Given the growing pressure from investors, regulators and consumers, I expect more and more companies to adapt and actually embed ESG into their strategies and supply chains.”

In a relocation context, there is a bit of a conundrum. As companies try to stay abreast of rules and regulations, would moving a plant somewhere else merely move the pollution too?

“The relocation of power plants always has a positive impact on the environment. Very often the technologies used meet all the requirements, and the cessation of their operation is often

associated with issues of operating costs or other non-technological factors,” explains Mr Świderek. “It is also true that relocated plants from highly developed countries usually replace old and environmentally harmful technologies used in developing countries.”

The Covid-19 pandemic has both revealed and hastened trends that are now pushing many industries to reconsider their strategies when it comes to selecting the locations for their plants, refineries, and assembly lines. Nearshoring in particular has emerged as a possible answer to issues like climate change, pollution, and concerns over intellectual property and the influence of China.

“One of the silver linings with Covid is that fact that it offers new opportunities for both reshoring and nearshoring. The winners will be nations and cities that have their fiscal houses in order, low taxes and a pro-business regulatory environment,” concludes Mr Boyd.

The opportunity for nearshoring is also an opportunity for companies in the relocation business, as their services will be required to execute any relocation or dismantling plans.