

# Riding the Storm Out: European Distribution Outlook



**With supply chain disruptions, a chip shortage and geopolitical events like Brexit all creating a perfect storm of challenges, industrial and electronics distributors in Europe have a lot on their plates in 2021.**

Last year was tough for distributors around the globe, with very few (if any) being spared the impacts of a global pandemic, mandatory shutdowns and the loss of life across all continents. In Europe, industrial and electronics distributors faced these challenges head-on, with the subsequent supply chain interruptions compounding those issues through most of 2020.

Coming into 2021, organizations across the board took a cautious-but-optimistic stance on what the next 12 months might bring. The global vaccine rollout and the flattening of the COVID curve in at least some (but not all) countries shed some hope on the distribution sector. But when shipping containers started piling up at the world's ports, raw material costs increasing (steel, lumber and resin, to name a few), and a global chip shortage making headline news, distributors were again forced to think about how they could best ride out the storm.

## Looking Back

Reflecting on 2020, EMEA Power Transmission Distributors Association (EPTDA) President Des Spillings told *MDM* that the year didn't turn out quite as bad as predicted. "When we first started looking at the numbers, we were thinking maybe a 30%-40% reduction in revenue, but that's been closer to a 12%-13% reduction over that period," said Spillings, managing director for Acorn Industrial Services Ltd.

In Europe, he said the impacts are harder to pinpoint because some areas were more impacted than others, with the UK, Spain and France feeling the brunt of the pandemic. Spilling

told *MDM* that the food, beverage and medical sectors were among those that fared the best in 2020. "If we look at our transactions, we're probably in front of where we were pre-COVID, but what we've seen is that the big orders aren't quite there," he added. "Efficiencies in the business have been key to making sure we can handle the extra capacity."

## Brexit Takes Hold

The UK's exit from the EU ("Brexit") is another current event that European distributors are contending with this year. With the UK and the EU officially agreeing on a Brexit deal, JD Supra says companies doing business in Europe should be thinking about the reintroduction of customs and customs formalities.

"With the end of the transition period, customs between the UK and the EU have been fully reintroduced," it says. "Importers and exporters alike will have to fill in customs declarations and comply with all customs' formalities." On a positive note, JD Supra points out that goods imported into the EU and the UK will pay zero tariffs as long as they are originating goods. For example, a good that has been imported from a third country to the EU and re-exported (with no transformation) to the UK market will not be originating, it adds.

It's also time for distributors to familiarize themselves with rules of origin, which state that goods will only pay zero tariffs if they comply with the Free Trade Agreement's rules of origin, which determine what goods originate from either the EU or the UK. For example, a product will be considered as originating if it is "wholly obtained" in the UK or the EU; produced

in the UK and the EU exclusively from originating materials; or the non-originating materials incorporated into the good satisfy certain rules that are set out in the agreement's annexes.

Brexit is also having an impact on supply chains—yet another issue that European distributors should be watching closely this year. “Brexit creates legal and logistical challenges for travel and shipping,” *Investopedia* cautions. “Both the EU and U.K. have allowed a six-month ‘grace’ period for flights between and within the two areas under present licensing and safety qualifications. But future flights within the EU, across and within member states borders, will be restricted.”

These are just a few of the key changes that Brexit is bringing about, and that industrial and electronics distributors will be thinking about as 2021 progresses and as the final Brexit rules are ironed out.

### **Addressing the Chip Shortage**

The EU may represent less than 10% of the global production of semiconductor chips, but that isn't stopping manufacturers in the region from doing what they can to address the chip shortage that distributors and end users have been dealing with for months. According to *CNBC*, the EU wants to become less reliant on technologies that are traditionally manufactured outside of the bloc, including the ramping up of chip production.

“Amid a global shortage of semiconductors, as well as tensions between China and the U.S., the bloc believes it is time to improve its digital sovereignty,” *CNBC* points out. “It is our proposed level of ambition that by 2030 the production of cutting-edge and sustainable semiconductors in Europe including processors is at least 20% of world production in value,” the European Commission said.

As they address pandemic impacts, geopolitical shifts, component shortages and other challenges that may arise in 2021, expect resilient European distributors to rise above the rest and find new ways to work better, smarter and faster in these conditions. As the vaccine rollout continues and as business normalizes, these companies may find themselves in a good position to conquer new markets, take on new product lines and find entirely new customer bases that need their products and services.

