American & European Companies Are Rethinking Foreign Production Options

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Our Global Experience Helps With Risk Identification & Decision-Making

Ventoco's recent trip to the Hamburg WindEnergy Fair solidified our assumptions about the near-term future of renewable energy OEMs and supply-chain partners around the world.

We went to Hamburg thinking that, with recent changes in the geopolitical landscape, the potential for global health threats and social change around the world, many American and European companies would be thinking about moving their production facilities out of China and Russia, if they hadn't already. Conversations on the floor confirmed what we suspected.

We left the fair thinking more deeply about how Ventoco's experience and expertise can help OEMs and supply-chain manufacturers best position themselves for the future, with the ideal mix of costs, location, long-term stability and time.

Geopolitical Affairs and Social Demands

Over the past two decades or so, dozens of renewable energy OEMs and supply-chain manufacturers either moved their production facilities from Europe and the United States to China or constructed additional plants there to take advantage of low labor and transportation costs.

Over the course of the ensuing 20-plus years, labor costs in China have risen slowly but steadily, continuing a decades-long acceleration that is the result of societal demands. As new generations of Chinese people who have experienced at least a little western culture through technology have entered the workforce, they've insisted upon higher wages. The higher labor costs have driven up the overall cost of doing business in China, as well, but that is just one element of the complex cost-of-ownership puzzle. Companies in China also have been dealing with higher logistics handling costs, overseas transport and more tariffs and custom costs in consumer nations. For example, we've seen upwards of 20 percent inflationary rates on labor in China, and in recent years, transport logistics costs have quadrupled for renewables manufacturers.

The results of the recent Chinese Communist Party Congress add even more uncertainty to conducting business there.

As *The New York Times* points out, "(Chinese President) Xi Jinping has created a new ruling elite packed with loyalist officials primed to elevate his agenda of bolstering national security and of turning China into a technological great power."

Another part of Xi's agenda is to press China's claim of ownership of Taiwan, which, like China itself, has long been a location of choice for parts and component suppliers in a wide range of industries. With Xi maintaining power and adding loyalists to his inner circle, the potential for a Chinese invasion of Taiwan has increased.

Meanwhile, the world continues to deal with another substantial supply-chain disrupter: Russia's ongoing invasion of Ukraine. The war is causing significant problems, not just for Europe and the USA, but worldwide; food, energy, manufacturing and dozens of other industries either have been interrupted or, at minimum, have become unreliable.

With this insecurity as the backdrop to global supply chains, the western world has realized just how dependent we've become on China and Russia for parts, components, equipment and finished products, and that our dependence impacts nearly every aspect of our everyday lives.

Citizens of western nations are demanding that companies no longer do business with Russia, let alone do business *in* Russia. There's already similar pressure regarding China, but we expect it to intensify if China invades Taiwan.

COVID-19, Supply Chains & Future Pandemics

Prior to any of that, the COVID-19 pandemic provided an exceptional, albeit horrible, education on risks to the supply chain.

As you recall, lockdowns around the world essentially ground production of nearly everything to a halt. First, no one was producing anything because nonessential people were not allowed to work. Materials that were somehow produced, anyway, or that were part of stockpiles didn't help because ships could not be unloaded anywhere. At one point hundreds of ships waited for months near Long Beach, Calif. because nobody was on the docks to unload them. As the lockdowns ended demand rose again, but damage to the supply chains was already done. Even today, COVID continues to cause problems with supply chains connected to China due to the nation's zero-COVID-incident policies.

Looking ahead, we're likely to encounter more pandemic situations that impact manufacturing, supply chains and just about every other part of our lives. A study by the Duke Global Health Institute has found that the probability of experiencing a pandemic with similar impacts is growing, which "...highlights the need to adjust perceptions of pandemic risks and expectations for preparedness."

Supply-chain-damaging pandemics will happen again. The question for renewables OEMs, suppliers, construction companies and contractors is, "How do we de-risk?" Relocating or building new or retrofitting production facilities elsewhere in the world will be the first step, but, again, that's only one part the comprehensive solutions companies must develop moving forward.

Worlds of Possibilities for Renewables

Renewable energy companies and suppliers want to move production capacity out of China or Russia. But where to?

Even before COVID, Ventoco was looking forward, formulating our assumptions about doing business in China in the future. To prepare for helping our clients diversify their production, we explored other regions such as Latin America, North Africa, the Mediterranean, the Black Sea and Eastern Europe. We already had extensive experience with globalization, regionalization, localization and related analyses in Europe, North America and South America.

Among the locations we explored, specific nations of note included Albania, the Czech Republic, Morocco, Poland, Romania and Turkey, and we already had extensive experience with Argentina, Brazil, Canada, Mexico and, of course, the USA. Speaking of which, the recent passage of the Inflation Reduction Act has improved the potential for OEMs and supply chain manufacturers here.

However, 'Where in the world...?' is a question that encompasses dozens of more pointed questions about alternatives and risks:

- Is this potential location a demographic fit?
- Is it a cultural fit?
- Is the necessary talent available?
- Are the suppliers you need accessible?
- Can you get raw materials in? How? And how much will it cost?
- Can you get the final products out? How? And how much will it cost?
- Speed is essential, so how quickly will you be able to deliver?
- Geopolitically speaking, is this location secure?
- What type of government does the nation have, and how will that impact operations?
- Do we understand the country's laws?
- What is the demand or requirement for locally manufactured content?
- Are there tax ramifications?
- American companies, are certain things specific to U.S. laws and businesses that actually are applied globally?
- Rather than only looking at hour-for-an-hour tradeoffs, are there smarter, lower-labor-intensive methods to produce?
- Do you know all your relocation options?
- Can you partner with like-minded companies?

Each scenario for every company is unique, with these and numerous other variables impacting decisions. As a result, Ventoco often analyzes options in the context of country #1 vs. #2 vs. #3, or supply-chain partner A vs. B vs. C, or products X, Y and Z.

Certainly the companies we work with can answer these questions themselves, but it would require significant time and right now speed is of the essence. Not only can Ventoco ask and answer many of these and other situation-specific questions to help you compare options and make decisions, but we'll do it efficiently and in ways that limit the time and effort required for your internal staff. In the process, we'll also make sure you understand what you'll be passing up if you choose one option over another.

We Need China's Partnership

All of this is predicated on the hypothesis that companies feel the need to leave China, which we verified in Hamburg. However, as an industry we can't make the mistake of equating political and social environments with knowledge, innovation or ability.

China might no longer be the most logical or attractive option for maintaining or lowering total cost of ownership, but renewable energy manufacturers still have a lot to learn from the people who have been managing and operating plants there. Over time they've improved upon the technologies, processes and know-how they started with when companies first began building manufacturing facilities in their country. It will be crucial to transfer those lessons learned and improvements made to new and possible production locations.

As a company with team members who have facilitated technology transfer to China and multiple other nations, and who have extensive networks of colleagues in those countries, Ventoco is ideally positioned to help companies reverse course.

Make the Best Move

Ventoco does not have all the answers when we start on specific projects for our clients.

However, we have proven methods and processes for gathering and evaluating the qualitative and quantitative data you need to make the best possible decisions. We also have decades of experience and expertise gained while running manufacturing facilities and serving as executives in global renewable energy companies. Our clients benefit from the lessons we've already learned.

We’re ready to explore all the possible routes of a move from China or Russia to a more predictable, friendly and controllable business environment. Contact us today.