

Russia's invasion of Ukraine has accentuated price increases for energy and had caused further disruption to supply chains

Construction industry hit hard by war in Ukraine

On February 24th, Russia invaded Ukraine, marking a steep escalation of a conflict going back to 2014. The invasion is having a significant impact on EU industry, including construction. Even before the outbreak of the war, there had been disruptions to supply chains and price increases for energy and raw materials were being observed across several countries in the EU. The war in Ukraine has exacerbated these problems.

SUPPLY CHAINS DISRUPTED

The Covid-19 pandemic caused significant disruptions to global supply chains, with several contractors experiencing delays in the delivery of products. The ongoing war in Ukraine has further strained the supply of certain raw materials in Europe, especially in Member States that relied heavily on Russian and Ukrainian imports. This is the case with Germany, for

example, a country that imports nearly half of its bitumen and iron ore from the Ukraine or Russia. For certain products, such as concrete reinforcement, securing alternative supply routes has proved difficult and comes with a price. As a result, contractors in Member States with a high dependency on Ukrainian and Russian imports are facing shortages for several construction materials. Many within the industry warn that if the conflict persists, resulting shortages could halt construction works and negatively impact the ability of companies to bid in tenders.

SHORTAGES FOR STEEL

Disruption to supply chains of raw materials is particularly noticeable when it comes to steel products, tightening the already strained steel market in the EU. Roughly one-fifth of EU steel imports comes from these two countries. Since the onset of the war, Ukrainian steelworks have been forced to stop production and the EU has placed a ban on steel imports from both Russia and Belarus. In addition, the EU continues to apply safeguards for certain steel products such as reinforcing steel, making it difficult to compensate for the loss of the flows of steel products that use to come from Ukraine and Russia. In this respect, FIEC has called for the European Commission to temporarily suspend steel safeguards and also anti-dumping duties against certain steel imports.

MARKET MISUSE

In addition to the loss of supply routes from Ukraine

and Russia, there have been accusations of misuse of the current crisis by certain market actors. Material manufacturers have been reported to engage in opportunistic behaviour, withdrawing offers of supply and further straining the market. To avoid more pressure from being put on contractors who already have difficulties facing extra costs, the European Commission should use its role as "guardian of the internal market" to guarantee that no market actor misuses the current crisis to its advantage.

PRICES SKYROCKET

Another problem that has been reported by construction companies all across Europe is the substantial increase in prices for construction materials. This problem is not new and was already being observed last year due to rising inflation. In Germany and France, for example, the price of steel had increased by more than 70% in between November 2020 and March 2021.

The outbreak of the war in Ukraine has caused prices to increase even further. In Italy, for example, prices of steel increased by 40% in a month following the war. This trend is also observed for other products such as bitumen, cement, or wood. According to the Italian Ministry of Transport, out of 56 raw materials monitored, all but two have exceeded the "red alert" threshold.

In addition to rising prices for construction materials, energy prices have also gone up significantly since February. In France, the price of oil has

shot up nearly 40% in two months. The war in Ukraine had a significant impact on the spike in prices. The sixth package of sanctions against Russia, which includes a ban on buying Russian oil, could aggravate this problem further. As such, the impact of these sanctions on EU industry, including construction, should be carefully assessed as several contractors are already having difficulties coping with increasing prices.

PUBLIC CONTRACTS

Rising prices and supply-side issues related to certain construction materials have led many companies to refrain from participating in new tenders. In most Member States, contracts do not take into sufficient account price increases, even if such increases are provoked by unforeseeable and disruptive events. Clauses of price revision, often excluded from contracts altogether, mostly fail to compensate for the extra costs faced by contractors. To add to the problem, contracting authorities in certain Member States also continue to enforce completion deadlines.

FIEC has called on Member States to implement adequate price revision mechanisms for ongoing contracts and adjustment clauses to the completion deadlines. The European Commission could also step in, issuing guidance to Member States with the aim of establishing a legal framework that would help companies face extra costs in events that have significant disruptive effects on the market.

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