CBI MARKET SURVEY

The castings and forgings market in Bulgaria

Publication date: May 2008

Introduction

This CBI market survey provides exporters in developing countries (DCs) with information on some of the main developments in the castings and forgings market in Bulgaria. The information is complementary to the information provided in the CBI market survey 'The castings and forgings market in the EU', which covers the EU in general. That survey also contains an overview and explanation of the selected products dealt with, some general remarks on the statistics used, as well as information on other available documents for this sector. It can be downloaded from http://www.cbi.eu/marketinfo.

1 Market description: industrial demand and production

Industrial demand

Because no data for the demand for castings and forgings are available, this survey puts a focus on two major end-user industries that offer good opportunities for developing country (DC) exporters: the engineering and the construction industry. Since both industries use many cast and forged parts and products, the production output of both industries is a good indication for the demand for cast and forged parts in these industries.

Engineering industry

Bulgarian production in the engineering industry remains small, but it increased by 12.1% per year in the period 2002-2006, to more than €1 billion in 2006. Mechanical engineering production totalled €737 million, leaving the balance (€400 million) for electrical engineering. The small Bulgarian engineering industry ranked twenty-first in the EU, behind Greece and Slovenia, but ahead of Lithuania and Estonia. More detailed data will probably become available in the next few years.

Bulgarian production output is expected to continue its fast growth in the years to come; analysts even expect an annual increase of 15%. As in recent years, the years to come are expected to show an increase in investments in production facilities by Western European engineering companies, such as bearing manufacturers. Economic growth is forecast to reach 5.9% and 5.6% in 2008 and 2009 respectively.

Construction industry

In terms of output, the Bulgarian construction industry is (still) a small one in the EU. However, growth figures are high. The construction output is booming, with housing, industrial and commercial construction all growing strongly. Infrastructure projects are likely to become more important in the next couple of years, related to the large number of infrastructure investments funded by the World Bank, the European Investment Bank and the EU.

Production

Unfortunately, data of the Bulgarian foundry and forge production are not available. However, it can be assumed that both industries are small. Clearly, of the two newest EU countries (Romania and Bulgaria), production output in Romania is the highest by a long way, and also attracts more foreign investments. There are some foundries in Bulgaria which have (so far) survived the transition to a free market economy, such as:

- Bilbobul - http://www.bilbobul.com/index-en.php
- Centromet - http://centromet.mtgbg.com - foundry producing centrifugal steel and iron castings. The production range includes, among other things, tubes for the chemical industry. Centromet is part of the Metal Technology Group - http://www.mtgbg.com.

- ZMM Draganovo - http://www.zmm-draganovo.com/index_en.htm

The only information available is that the industry experienced a historical dip in 2001-2002, caused by extremely low prices of both ferrous and non-ferrous metals. After that, the foundry industry regained growth, both in value and in volume.

Opportunities and threats

The main opportunities and threats for developing country (DC) exporters are the following:

+ The fast growing economy is expected to drive a healthy demand for engineering products in the years to come, which will also stimulate local engineering production. The economic growth in Bulgaria is much stronger than the average economic growth in the EU.
+ Growing construction output will lead to an increasing demand for castings and forgings in the next few years.
– Bulgaria is a small producer of engineering products.

Refer to Section 7 of the CBI market survey covering the EU market for more information on opportunities and threats.

2 Trade channels for market entry

Trade channels

The most common trade channels for DC exporters are direct sales to end-users, trade via traditional importers, supply agents, traditional agents, or subcontracting by EU foundries or forges. Although there are several options, supplying directly to end-users has some advantages and could be one of the most interesting trade channels, because there is a larger chance of a long-lasting relationship. DC exporters should therefore put efforts into building up supplier relationships with end-users. Refer to the CBI market survey covering the EU market for a detailed explanation of relevant trade channels in this market.

Price structure

It is very difficult to give a general idea of the price structure in this industry, as prices and margins differ to a great extent. They may depend on size of the order, length and type of distribution chain, terms of delivery, added value / finishing and materials concerned. Bearing this in mind, some rough indications of margins in the chain could be given. Agents work with margins between 3-7%, for importers this is 15–35%. The margin depends on the level of care and attention an intermediary has to give to the process. Products that do not need much extra care, like finished and ready-to-use products such as valves, will be sold with a smaller margin than productsthat needs extra handling or even need to be stored.

Useful sources

Some examples of available sources to find clients:

- Bulgarian Branch Chamber Machine Building - http://www.bbcmb.bizhosting.com/us - choose first the English version, then click ‘Members’ for information on companies.
- Bulgarian chamber of commerce and industry trade directory - http://www.bcci.bg/services/directory.htm - log in as guest and select search criteria for company details.
- Bulgarian Industrial Capital Association (BICA) - http://www.bica-bg.org – choose the English version and click on ‘Members’.
- Catalog - http://catalog.bg – Bulgarian online trade directory. Choose English language and then click on the relevant category for company details.
- Invest Bulgaria Agency (IBA) - http://www.investbg.government.bg – click on ‘Success stories’ to find information on companies per industry sector.
- Machine Building Fair website - http://www.fair.bg/en/events/machine07.htm - click 'List of exhibitors' first and then choose Bulgaria.

One example of a general source is Direct Industry - http://www.directindustry.com - you can search by product, company (‘exhibitors’) or catalogues and technical brochures.

3 Trade: imports and exports

Imports

In 2006, Bulgaria was a small importer of castings and forgings, ranking twenty second in the EU, behind Slovenia and Luxembourg, but ahead of Lithuania and Estonia. Between 2002 and 2006, the total import value annually increased by 36% to €1.6 billion (2 million tonnes) in 2006. The increase in value was partly caused by the increasing prices of raw materials. The product group shares were as follows:

- Iron and steel products: 46% of total. Annual increase in import value of 48%.
- Articles of iron, steel or base metal: 15% of total. Annual increase in import value of 36%.
- Parts of machinery, railway equipment and vehicles: 12% of total. Annual increase in import value of 23%.
- Plastic and rubber products: 12% of total. Annual increase in import value of 24%.
- Light and ultra light products: 9% of total. Annual increase in import value of 24%.
- Copper and zinc products: 6% of total. Annual increase in import value of 55%.

Between 2002 and 2006, imports from DCs annually increased by 67% in value. Compared to 2002, the total share of DCs in import value increased from 7.4% to 16.6% in 2006. The DCs' shares in imports of some product groups showed better growth compared to other product groups, as can be seen below:

- Copper and zinc products: growing from 18.8% to 54.4% in value.
- Parts of machinery, railway equipment and vehicles: growing from 2.4% to 6.8% in value.
- Iron and steel products: growing from 4.5% to 12.3% in value.
- Light and ultra light products: growing from 9% to 22.4% in value.
- Plastic and rubber products: growing from 8.9% to 14.4% in value.
- Articles of iron, steel or base metal: growing from 13.8% to 21% in value.

Turkey accounted for 79% of all imports coming from DCs, followed by China (8%), Chile (8%), India (1%), Bosnia and Herzegovina (1%), and Croatia (1%). The Chinese share of DC exports to Bulgaria did not grow as fast as in the EU on average (27% compared to 57%). The DCs that saw a larger increase of their share to the country were Chile, Bosnia and Herzegovina, India and Croatia.

Of all intra-EU imports a small part may be re-exports, but the exact value of re-exports is unknown because Eurostat does not allow for such detailed analysis.

Exports

In 2006, Bulgaria was a small exporter, ranking twenty first in the EU, behind Portugal and Greece, but ahead of Ireland and Estonia. The total export value of Bulgaria showed an annual increase of 28% in the period 2002-2006, totalling €1.5 billion in 2006. Exports consisted of:

- Iron and steel products, accounting for 48% of total exports (€727 million). Annual increase in export value of 21%.
- Copper and zinc products, accounting for 20% of total exports (€297 million). Annual increase in export value of 101%.
- Parts of machinery, railway equipment and vehicles, accounting for 12% of total exports (€175 million). Annual increase in export value of 21%.
- Light and ultra light products, accounting for 8% of total exports (€121 million). Annual increase in export value of 33%.
- Articles of iron, steel or base metal, accounting for 8% of total exports (€113 million). Annual increase in export value of 17%.
- Plastic and rubber products, accounting for 5% of total exports (€68 million). Annual increase in export value of 33%.

Probably a small part of exports consists of re-exports to other EU countries, mainly to neighbouring countries, but the exact value of re-exports is unknown because Eurostat does not allow such a detailed analysis.

Opportunities and threats

+ Bulgaria ran trade deficits (imports are higher than exports) for articles of iron, steel or base metal (€65 million), plastic and rubber products (€35 million), light and ultra light products (€5 million).
+ The total import value of all product groups increased in the period 2002-2006.
+ The import share of DCs was 16.6% in 2006, above the EU average (8.2%).
+ The DC share of total imports grew by 125% in the period 2002-2006, which was faster than in the EU on average (81%).
+ The Chinese share of DCs' exports to Bulgaria did not increase as fast as in the EU on average (27% compared to 57%). Several DCs saw a larger increase of their share.
± China accounted for 8% of all imports coming from DCs. This was a much lower share than in the EU on average (39%). However, DC exporters are facing strong competition from Turkish exporters, which represent 79% of all DC exports to Bulgaria.
- Bulgaria was a small importer of castings and forgings in the EU in 2006.
- In 2006, Bulgaria was a net-exporter of castings and forgings, running trade surpluses for parts of machinery, railway equipment and vehicles (€11 million), copper and zinc products (€37 million), iron and steel products (€126 million).

Useful sources

- EU Expanding Exports Helpdesk - http://exporthelp.europa.eu ➔ go to: trade statistics
- Eurostat - official statistical office of the EU - http://epp.eurostat.ec.europa.eu
- Understanding Eurostat: Quick guide to EasyComext - http://epp.eurostat.ec.europa.eu/newxtweb/assets/User_guide_Easy_Comext_20080117.pdf

4 Price developments

One of the major trends that affect the costs and revenues of castings and forgings in the European market is price pressure, which results in importers/agents and OEMs as well as their suppliers continuing their search for opportunities to reduce cost prices of parts by 10-30%. Although average wages in the industry increased 7-8% per year in 2003-2005, the Bulgarian wage level was still much lower than in other CEE countries (€1.12 per man-hour in 2005). Industry specialists expect that wages will rise further in the next few years, which will lead to an increasing price level of Bulgarian castings and forgings. Please refer to the CBI market survey covering the EU market for castings and forgings for more information on trends related to price developments.

Useful sources

- CAEF Eurofoundry - http://www.caef-eurofoundry.org
- European Engineering Industries Association (Orgalime) – http://www.orgalime.org
- Eurostat – official statistical office of the EU – http://epp.eurostat.ec.europa.eu - by comparing import value and volume, it is possible to get an idea of import prices.
- London Metal Exchange – http://www.lme.co.uk

5 Market access requirements

As a manufacturer in a developing country preparing to access Bulgaria, you should be aware of the market access requirements of your trading partners and the Bulgarian government. For information on legislative and non-legislative requirements, go to 'Search CBI database' at http://www.cbi.eu/marketinfo, select castings and forgings sector and Bulgaria in the category search, click on the search button and click on market access requirements.

Detailed information on packaging can be found on the ITC website on export packaging: http://www.intracen.org/ep/packaging/packit.htm. Information on tariffs and quota can be found at http://exporthelp.europa.eu.

6 Doing business

Information on doing business, such as approaching potential business partners, building up a relationship, drawing up an offer, handling the contract (methods of payment, and terms of delivery) and cultural differences can be found in CBI's export manuals 'Export Planner', 'Your image builder' and 'Exporting to the EU'. These can be downloaded from http://www.cbi.eu/marketinfo - go to search publications. Beside a number of sources already mentioned in previous sections, other useful sources that contain market information and information on doing business in Bulgaria are:

- Branch Chamber Of Ferrous and Non-Ferrous Metallurgy - http://www.bcm-bg.com/english.html
- Bulgaria online - http://www.online.bg – Bulgarian portal with a lot of useful business links.
- Bulgarian Industrial Association - http://www.bia-bg.com
- Online Bulgarian Catalog - http://www.tllmedia.bg
- Machine Building Fair - http://www.fair.bg/en/events/machine07.htm - annual trade fair on machine building.
- Hannover Messe - http://www.hannovermesse.de – the largest engineering trade fair in Europe, held in Hannover, Germany every year. This fair is also home to a large section on castings and forgings. Please refer to Auma (http://www.auma.de) and EventsEye (http://www.eventseye.com) to find more information on relevant fairs.
- Journal of Materials Science and Technology - http://jmst.ims.bas.bg - magazine
- Kwint Essential: for practical tips on business culture and etiquette in Bulgaria - http://www.kwintessential.co.uk - click on 'Country Profiles' at Resources and click on 'Bulgaria'.

In general, German trade magazines contain very good information, also for this country. One example is 'Giesserei', a foundry magazine (http://www.giesserei-verlag.de). To find more relevant trade magazines, consult the CBI market survey covering the castings and forgings market in Germany.

This survey was compiled for CBI by Facts Figures Future
in collaboration with Effox Turbine and Gietech.

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