

CBI MARKET SURVEY

The castings and forgings market in Romania

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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 Romania. 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

Romanian production in the engineering industry increased by 13.3% per year in the period 2002-2006, to €3.4 billion in 2006. Mechanical engineering production totalled €1.8 billion, leaving the balance (€1.6 billion) for electrical engineering. The small Romanian engineering industry ranked eighteenth in the EU, behind Slovakia and Portugal, but ahead of Greece and Slovenia. There are no data available on the separate product groups. However, it can be assumed that the Romanian production output for most groups is small to medium-sized, but much larger than the output of its neighbour Bulgaria. Romanian production output is expected to continue its fast growth of the period 2002-2006. Industry sources specifically mention that production of hydraulic turbines, bearings and electric motors has increased fast in recent years. Additionally, they mention that an increasing number of foreign companies outsource production of advanced parts to Romania, due to the low wages and the high level of education in the country (refer to the textbox below for an example). Economic growth is forecast to reach 5.5% and 5.0% in 2008 and 2009 respectively.

Metakor - <http://www.metakor.com> - is the only Belgian and one of the leading European designers and manufacturers of decorative furniture fittings. In 2006, the company announced the opening of a service and production location in Romania. It only concerned the machining of fittings, since the foundry activities remained in Belgium. Beside lower wages in Romania, another reason was the fact that customers of the company had also relocated to Central and Eastern European (CEE) countries. In a later stadium, the company plans to relocate foundry and machining activities from China to Romania.

Construction industry

The decline in construction that already started before the revolution of 1989 was reversed in 2000. The construction output grew by almost 50% in total in the period 1999-2005. The boom in construction output is expected to continue until 2015 in both the private and public sectors, as a result of post-privatisation investment, demand for new housing as new mortgage instruments are introduced, construction of shopping centres in response to the growth in consumer demand, and growing investment in infrastructure, especially motorways and power generation. The output of the industry – about €7 billion – is higher compared to

Slovenia and Bulgaria, but still lower than in Greece. The next few years will be marked by large-scale construction projects to modernise and build new infrastructure. In addition, the authorities are forced to invest in large-scale infrastructure projects to meet EU environmental regulations, including the renewal of water and sewage systems, particularly in rural areas, where provision is basic.

Production

Unfortunately, recent data of the Romanian foundry and forge production are not available. The most recent data of the Romanian Foundry Association show that Romanian output was higher than Polish and Czech output, but lower than output in Hungary and Slovenia, and also more than output in Western European countries such as Belgium, the Netherlands, Portugal, Finland and Denmark. In 2003, the Romanian output totalled 253 thousand tonnes and consisted for the major part of cast iron (70-80%), followed by steel castings (15-20%) and non-ferrous castings (5-10%). Other characteristics of the Romanian foundry industry are:

- The foundry output peaked at a maximum of 1.5-1.6 million tonnes/year during 1987-1989. The major problem, however, was the existence of a few – mainly steel – state-controlled foundries with a very high production capacity. After the revolution of 1989, production fell to 400,000 tonnes per year after 1997, caused by a dramatic production decrease at these large foundries.
- The industry has been in a restructuring process since the late nineties, leading to plant closures (more than 50% of all steel foundries closed), privatisation and reorganisation. However, in 2003 the major problem was still the low rate of capacity utilisation, which was 60% for iron foundries and even less than 50% for steel foundries. In 2003, the highest castings production in a foundry was no more than 13,000 tonnes.
- In 2001, iron castings were produced in 176 foundries, steel castings in 35 foundries, while non-ferrous castings were produced in 132 foundries, some of the foundries producing several types of metallic materials. As regards iron, most of the foundries produce (grey) iron castings, over 50 produce ductile iron castings, and only 9 produce malleable iron castings.
- The foundry industry supplies virtually all industries possible: automotive, pipes, valves and fittings production, oil equipment, and the machine tool industry.

Two examples of Romanian foundries are:

- Aversa - <http://www.aversa.ro/Casting.htm> - manufacturer of centrifugal pumps with inhouse foundry.
- Electrocon-Tact SA Botosani - <http://www.electrocontact.ro/index.php?lang=en> - production of non-ferrous castings in large series for the engineering, oil, and mining industries.

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 Romania is much stronger than the average economic growth in the EU.
- + Fast growing construction output will lead to an increasing demand for castings and forgings in the next few years.
- + The growing number of foreign companies outsourcing to Romania leads to an increasing demand for mechanical engineering products and also for castings and forgings in these products.
- As a country with low wages and skilled metal workers and metallurgists, Romania is a competitor to DC exporters, and combined with the expected growth of output and efficiency, this will only increase in the next few years. For one thing, the low utilisation ratio of steel casting foundries (2003) makes it possible to attract additional orders of over 100,000 t/year without problems.
- Romania 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. One example of an end-user of castings and forgings is MAT Craiova - <http://www.matcraiova.ro/en/about.html>. This company produces agricultural tractors and machinery. 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 products that need extra handling or even need to be stored.

Useful sources

Some examples of available sources to find clients:

- ANEIR – <http://www.aneir-cpce.ro> - Association of Romanian exporters and importers.
- Casting net - <http://castingsnet.com/d/search.php?keyword=romania&nstart=1> – directory, also containing Romanian foundries.
- Doing Business in Romania - <http://mcir.doingbusiness.ro> – possibility to browse companies by industry.
- InfoCompanies Romania <http://www.infocompanies.com> - directory with companies and opportunities in Romania - click on 'Industrial'.
- Romanian Association of Hydraulics and Pneumatics - <http://www.fluidas.ro/members>
- Romanian Chamber of Commerce and Industry – <http://www.ccir.ro> – choose the English version and click on 'Members'.
- Romanian Trade Promotion Centre - <http://tpb.traderom.ro> – choose the English version and click on 'Trade promotion center', 'Virtual exhibitions' and 'Companies'.
- Ropartners - <http://ropartners.traderom.ro> – database of Romanian companies. It requires registration free of charge.
- Roportal - <http://www.roportal.ro> – click on 'Directory', 'Business/economy' and 'Business'.

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, Romania was a medium-sized importer of castings and forgings, ranking fifteenth in the EU, behind Hungary and Portugal, but ahead of Slovakia and Finland. Between 2002 and 2006, the total import value annually increased by 31% to €3.9 billion (3 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: 36% of total. Annual increase in import value of 32%.
- Articles of iron, steel or base metal: 25% of total. Annual increase in import value of 36%.
- Parts of machinery, railway equipment and vehicles: 15% of total; +23%.
- Plastic and rubber products: 14% of total. Annual increase in import value of 27%.
- Light and ultra light products: 6% of total. Annual increase in import value of 28%.

- Copper and zinc products: 4% of total. Annual increase in import value of 54%.

Between 2002 and 2006, imports from DCs annually increased by 41% in value. Compared to 2002, the total share of DCs in import value increased from 8.2% to 11.1% in 2006. The DCs' shares in imports of some product groups showed better growth compared to other product groups, as can be seen below:

- Light and ultra light products: growing from 5.4% to 13.5% in value.
- Plastic and rubber products: growing from 5.1% to 10% in value.
- Parts of machinery, railway equipment and vehicles: growing from 2.8% to 4% in value.
- Articles of iron, steel or base metal: growing from 11.2% to 14.3% in value.
- Iron and steel products: growing from 11.2% to 12.2% in value.
- Copper and zinc products: declining from 11.9% to 8% in value.

Turkey accounted for 73% of all imports coming from DCs, followed by China (13%), Moldova (4%), Mexico (4%), India (2%), and Brazil (1%). Next to the fast growing Chinese share of DC exports to Romania (+152% in the period 2002-2006), other DCs that saw a large increase of their share were Argentina, Mexico, Brazil, Bosnia and Herzegovina, Croatia, South Africa, Thailand and Turkey.

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, Romania was a medium-sized exporter, ranking seventeenth in the EU, behind Hungary and Luxembourg, but ahead of Slovenia and Portugal. The total export value of Romania showed an annual increase of 23% in the period 2002-2006, totalling €3.1 billion in 2006. Exports consisted of:

- Iron and steel products, accounting for 46% of total exports (€1.4 billion). Annual increase in export value of 16%.
- Parts of machinery, railway equipment and vehicles, accounting for 21% of total exports (€662 million). Annual increase in export value of 25%.
- Light and ultra light products (16%; €514 million; +35%).
- Articles of iron, steel or base metal (13%; €397 million; +33%).
- Plastic and rubber products (2%; €74 million; +42%).
- Copper and zinc products (1%; €44 million; +38%).

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

- + Romania ran large trade deficits (imports are higher than exports) for articles of iron, steel or base metal (€242 million) and plastic and rubber products (€151 million).
- + The total import value of all product groups increased in the period 2002-2006.
- + The import share of DCs was 11.1% in 2006, above the EU average (8.2%).
- + China accounted for only 13% 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 73% of all DC exports to Bulgaria.
- The DC share of total imports grew by only 35% in the period 2002-2006.
- The Chinese share of DCs' exports to Romania grew fast in the period 2002-2006 (+152%), but also some other DCs saw a large increase of their share.
- In 2006, Romania was a net-exporter of castings and forgings, running trade surpluses for parts of machinery, railway equipment and vehicles (€68 million), light and ultra light products (€149 million), iron and steel products (€836 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%. 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>
- 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 Romania, you should be aware of the market access requirements of your trading partners and the Romanian 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 Romania 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 Romania are:

- Business Review - <http://www.businessromania.ro> – general Romanian business magazine with lots of topics in different sectors.
- Romanian Foundry Technical Association - <http://www.foundry-attr.ro>
- TradeRom - <http://www.traderom.ro> - Romanian trade promotion centre
- East Central Europe 2008 - <http://www.east-central-europe.com> - fair dedicated to manufacturing industry in Central and Eastern Europe, held once a year in Romania
- 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.

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
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