

CBI MARKET SURVEY

The castings and forgings market in Slovakia

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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 Slovakia. 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

Slovakian production in the engineering industry increased 20.8% per year in the period 2002-2006, to €4.5 billion in 2006. The small Slovakian engineering industry ranked sixteenth in the EU, behind Hungary and Ireland, but ahead of Portugal and Romania. Of the main castings and forgings consuming engineering categories, "bearings, gears and other driving elements" (+24.6% per year), "pumps and compressors" (+23.9%), "valves and taps" (+16.9%) and "engines and turbines" (+15.8%) performed the best. The position of Slovakia in the EU was relatively good in "bearings, gears and other driving elements" (7th largest producer with 2% market share).

The output of the Slovakian industry is expected to increase because of the world, EU, and Slovakian economic growth forecasts for 2008 (+3.8%, +1.7% and +7.5% respectively) and 2009 (+3.9%, +1.8% and +5.7%). The engineering industry will remain one of the fastest growing industries in the country. Investments in the sector are expected to continue growing in the next few years, due to several foreign investment projects, which will lead to a growing production output. Please also note that, although the EU is far from running the risk of recession, the EU and Slovak economy are and will be clearly affected by the housing and credit crisis in the United States.

Construction industry

After a total growth of 22% in the period 2002-2005, the Slovakian construction industry amounted to €3.1 billion in 2005. For the period 2006-2008 the industry is expected to grow by 24% in total to €3.8 billion in 2008. This is the result from the rising demand from Greenfield foreign direct investment, EU funds for infrastructure projects, highway construction and the need for new housing in Slovakia. Also after 2008, growth is expected to continue. The small Slovakian construction industry ranked seventeenth in the EU, behind the Czech Republic and Hungary. It is the third largest consumer of steel, behind the automotive and mechanical engineering industry.

Market segmentation

The largest end-user segments of castings in Slovakia are the machine tool industry, the construction industry and the railway industry. In recent years, the automotive industry accounted for the largest growth in market share, as the modernisation of the Slovak die cast foundries resulted in a rapid growth of deliveries to that industry.

Production

Foundry industry

The small Slovakian foundry industry is comparable in size to Denmark. Ferrous metal castings accounted for more than 60% of total output, leaving the balance for non-ferrous metal castings. In 2005, the production of metal castings totalled about 85,000 tonnes, an increase of more than 10% compared to 2003. Main cause was a good growth in production of non-ferrous metal castings, which is set off by the growth of the automotive industry in the country. In 2005, the average turnover per employee in the ferrous metal foundries amounted to almost €30,000 – an amount which is less than in the Czech Republic and Poland, but more than in Lithuania and Hungary.

Slovakia hosts about 20 ferrous foundries and 20 non-ferrous foundries. The following examples show the diversification of the industry – both technologically and financially:

- Ability - <http://www.abilitysro.sk> - zinc and aluminium die-casting foundry
- Eurocast - <http://www.eurocast.sk> - owned by German Silbitz Guss
- VSS - <http://www.vss.sk> - a mechanical engineering company with an in-house foundry
- ZSNP Foundry - <http://www.foundry.sk> - an aluminium die-casting foundry

Forge industry

In 2005, the total production output of the 5-10 Slovakian forges amounted to about 48,000 tonnes with a sales value of €60 million. In 2004, the average sales margins were low (2.6%), while total added value was about 18% of production value. As the industry employed some 1,500 people, the average turnover per employee amounted to €40,000. KLF-ZVL Kovačňa - <http://www.klfkovacna.sk> is the largest forge in the country, specialising in forged rings, with an annual production of about 17,000 tonnes with a value of €20 million (2004). Another example of a Slovak forge is Metalurg Steel - <http://www.metalurg.com>, producing die forgings and free shaped forgings.

Trends and characteristics

A major trend that influences the castings and forgings demand and production in Slovakia is the growing number of innovative applications of aluminium and magnesium castings. Other trends are:

- **Growing demand for light weight and energy-efficient applications.** Due to the growing care for the environment, in several industries – for example the power generation industry – the search for energy efficiency and the limitation of CO₂ and NO_x emissions has led and should lead to the increased use of energy-efficient and light weight applications such as electric variable speed drives and energy-efficient engines, turbines, motors and generators. As a result, prospects for cast and forged parts in such applications are bright.
- **Relocation of engineering production to Slovakia.** In recent years, a considerable amount of engineering production has been shifted from Western European countries to Slovakia.
- **Rising demand for agricultural machinery.** Due to EU interventions, the demand for agricultural machines is expected to increase in the years to come, which will also lead to an increase of agricultural machinery production in Slovakia.

Overall, the demand for castings will grow in Slovakia over the next few years as the major end-user industries, such as the engineering and construction industry, continue to increase their output. Moreover, the niche for casting products made in CEE countries will continue to grow as Western European foundries focus on more technologically sophisticated products.

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 Slovakia 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.
- + Light weight products and eco-friendly and energy-efficient technologies offer good opportunities for those DC exporters that are able to supply such products.
- DC exporters can expect competition from Slovak producers, although wage costs are growing fast (also refer to Section 4), which weakens the country's competitive position.
- Slovakia 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.

Examples of potential trade partners

Some examples of prospects in Slovakia are: CSM Tisovec (<http://www.csmtisovec.sk>; parts for machinery), Machintec (<http://www.machintec.sk>), Way Industry (<http://www.way-industry.sk>; parts for machinery) and SES (<http://www.ses.sk>; power plant equipment).

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:

- Slovak Investment and Trade Development Agency – <http://www.sario.sk/?business-partner-search-profile> - business partner search.
- Association of Electrotechnical industry of the Slovak Republic - <http://www.zep.sk> – choose the English version and click on 'Company categories' or 'Alphabetical firm order'.
- Federation of Mechanical Engineering of the Slovak Republic - <http://www.zspsr.sk> – choose the English version and click on 'List of members'.
- Slovak Foundry and Forging Shops Association - <http://www.zzks.sk> – choose the English version and click on 'Membership' to find company details.

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, Slovakia was a medium-sized importer of castings and forgings, ranking sixteenth in the EU, behind Portugal and Romania, but ahead of Finland and Greece. Between 2002 and 2006, the total import value annually increased by 23% to €3.4 billion (2.5 million tonnes) in 2006. The increase in value was partly caused by the increasing prices of raw materials (refer to Section 4). The product group shares were as follows:

- Iron and steel products: 33% of total. Annual increase in import value of 34%.
- Articles of iron, steel or base metal: 27% of total. Annual increase in import value of 19%.
- Parts of machinery, railway equipment and vehicles: 19% of total. Annual increase in import value of 15%.
- Plastic and rubber products: 11% of total. Annual increase in import value of 18%.
- Light and ultra light products: 5% of total. Annual increase in import value of 18%.
- Copper and zinc products: 4% of total. Annual increase in import value of 43%.

Between 2002 and 2006, imports from DCs annually increased by 31% in value. Compared to 2002, the total share of DCs in import value increased from 1.5% to 1.9% in 2006. The DCs' shares in imports of some product groups showed better growth compared to other product groups, as can be seen below:

- Articles of iron, steel or base metal: growing from 2.2% to 3.7% in value.
- Light and ultra light products: growing from 1.5% to 2.5% in value.
- Iron and steel products: growing from 1.6% to 1.6% in value.
- Parts of machinery, railway equipment and vehicles: declining from 0.5% to 0.5% in value.
- Plastic and rubber products: declining from 1.6% to 1.3% in value.
- Copper and zinc products: declining from 1.8% to 1.2% in value.

China accounted for 44% of all imports coming from DCs, followed by Turkey (25%), India (11%), Kazakhstan (9%), Moldova (4%), and Malaysia (2%). The Chinese share of DC exports to Slovakia did not grow as fast as in the EU on average (37% compared to 57%). The DCs that saw a larger increase of their share to the country were Kazakhstan, India, Moldova 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, Slovakia was a medium-sized exporter, ranking fourteenth in the EU, behind Finland and Denmark, but ahead of Hungary and Luxembourg. The total export value of Slovakia showed an annual increase of 22% in the period 2002-2006, totalling €4.3 billion in 2006. Exports consisted of:

- Iron and steel products, accounting for 56% of total exports (€2.4 billion). Annual increase in export value of 23%.
- Articles of iron, steel or base metal, accounting for 18% of total exports (€749 million). Annual increase in export value of 24%.
- Parts of machinery, railway equipment and vehicles, accounting for 15% of total exports (€628 million). Annual increase in export value of 21%.
- Plastic and rubber products, accounting for 8% of total exports (€355 million). Annual increase in export value of 15%.
- Light and ultra light products, accounting for 2% of total exports (€101 million). Annual increase in export value of 26%.
- Copper and zinc products, accounting for 1% of total exports (€43 million). Annual increase in export value of 3%.

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

- + Slovakia ran trade deficits (imports are higher than exports) for plastic and rubber products (€153 million), articles of iron, steel or base metal (€72 million), light and ultra light products (€20 million), copper and zinc products (€19 million).
- + The total import value of all product groups increased in the period 2002-2006.
- + The Chinese share of DCs' exports to Slovakia did not increase as fast as in the EU on average (37% compared to 57%). Several DCs saw a larger increase of their share.
- ± The DC share of total imports grew by 30% in the period 2002-2006, which was slower than in the EU on average (81%).
- In 2006, Slovakia was a net-exporter of castings and forgings, running trade surpluses for parts of machinery, railway equipment and vehicles (€10 million), iron and steel products (€2.6 billion).
- The import share of DCs was 1.9% in 2006, far below the EU average (8.2%).
- China accounted for 44% of all imports coming from DCs. This was a higher share than in the EU on average (39%).

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

Price pressure in Slovakia was not as fierce as in most Western European countries. This may be underlined by the fact that the average price level of the engineering products industry increased more than 16% in the period 2000-2006, which is a much higher growth compared to Western European countries. As in other EU countries, the industry also had to deal with increasing raw material and energy prices and wages. Although average wages in the industry increased 58% in the period 2000-2005, the Slovakian wage level was still the second lowest in the EU (€4.06 per man-hour in 2005), only higher than in Poland. Industry specialists expect that wages will rise further in the next few years, which will lead to an increasing price level of Slovak 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 Slovakia, you should be aware of the market access requirements of your trading partners and the Slovakian 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 Slovakia 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 Slovakia are:

- East Central Europe - <http://www.east-2008.com> - trade fair, held annually in October, Bratislava
- 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.
- Association of Construction Entrepreneurs of Slovakia - <http://www.zsps.sk>
- Kovove Materialy - <http://www.kovmat.sav.sk> - metalworking magazine
- Strojnický Casopis - <http://www.strojcas.sav.sk> - machinery magazine

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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