

CBI MARKET SURVEY

The castings and forgings market in Slovenia

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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 Slovenia. 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

Slovenian production in the engineering industry increased 6.5% per year in the period 2002-2006, to €1.2 billion in 2006. Mechanical engineering and electrical engineering took a virtually equal share of this total. The small Slovenian engineering industry ranked twentieth in the EU, behind Romania and Greece, but ahead of Bulgaria and Lithuania. Data of 2004 show that the Slovenian production output of the independent product groups was also small. For one thing, production output of bearings and gears totalled €47 million, and production output of electric motors totalled €360 million. In the last category Slovenia is among the medium-sized producers in the EU; the country is a net exporter of motors. More detailed data will probably become available in the next few years.

It must be said that, until 2007, the Slovenian demand and production did not increase as fast as in other Central and Eastern European (CEE) countries. Nevertheless, the outlook is rather positive for 2008 and the years after. The demand for engineering products in the country will grow due to the world, EU, and Slovenian economic growth forecasts for 2008 (+3.8%, +1.7% and +4.6% respectively) and 2009 (+3.9%, +1.8% and +4%). However, it is difficult to predict to what extent the Slovenian manufacturers will benefit from this. Still, the general opinion is positive, as investments are expected to grow and the Slovenian industry is expected to perform well.

Construction industry

After a total growth of 24% in two years, the Slovenian construction industry amounted to €2.0 billion in 2005. The construction industry was among the smallest industries in the EU. Also in the period 2006-2009, the industry is expected to grow fast, as a result of the growing economy and the high level of investments in the country.

Production***Foundry industry***

The small Slovenian foundry industry ranked eleventh in the EU, behind Austria and Hungary, but ahead of Belgium and the Netherlands. Iron castings accounted for 44% of total

production, followed by light and ultra light castings (18%), steel castings (17%) and nodular iron castings (16%). Up to 90% of production output is exported, the vast majority to EU countries such as Germany, Italy, and France. In 2006, the small production of castings totalled 178,000 tonnes, an increase of 5.4% per year since 2002. Main cause was a growth in production of iron castings (+8.2% per year) and steel castings (+7.6%). In 2004, the country was home to some 40 foundries. Most (18) were iron casters, two producing steel, 10 light alloy casters and four casting copper and other non-ferrous grades. While most employed 10-300 people, two foundries had between 600-1,000 employees:

- Livar - <http://www.livar.si> - comprises 2 foundries in the country
- TCG Unitech LTH - <http://www.unitech.at> - owned by the Austrian Trident Components Group, produces mostly for the automotive industry.

Another relatively large foundry is Valji - <http://www.valji.si>. Some other metal producers in Slovenia are Impol - <http://www.impol.com>, a large company that produces aluminium and aluminium-alloy products by casting, rolling, extruding, and drawing, with also locations in Serbia, and Metal Ravne - <http://www.metalravne.com>, part of the Slovenian Steel Industry Group, a producer of tool steels and other steel specialties. Since 2000, the Slovenian foundries acquired several foundries in Croatia, Serbia, Bosnia and Herzegovina and Macedonia; the next few years are expected to see the result as rationalisation measures in these foundries will be completed.

In 2004, the average turnover per employee amounted to almost €60,000 – an amount which is the eighth largest in the EU, after Finland and Portugal, but ahead of the Czech Republic and Poland. This proves the fact that the general situation in the Slovenian foundry industry is relatively good. All foundries are equipped to a fairly high level of technology, using automated systems and electric melting. There is also a good level of technical knowledge available, but to prevent a situation with a lack of technically educated manpower, education and training programmes must be implemented, as well as a better cooperation between industry and universities. Despite the industry's good position, efficiencies do vary from highly efficient automated pressure die casters to iron foundries having wide production programmes that are not prepared for an increase of labour costs and therefore make little profit.

Forge industry

The Slovenian forge industry ranked tenth in the EU, representing a size smaller than Belgium, but larger than Finland. In 2006, the small production of forgings totalled 23,000 tonnes, which is up from 2002, although the exact growth is not known. The largest forge of the country and also one of the largest in the EU is Unior - <http://www.unior.com> with annual forgings sales in 2005 of €52.5 million and sales offices all around Europe.

Trends and characteristics

A major trend that influences the castings and forgings demand and production in Slovenia 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 Slovenia.*** In recent years, a lot of engineering production has been shifted from Western Europe to Slovenia. So far, outsourcing often concerns labour-intensive and series production of standard products and parts that can easily be made in LCCs.

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 Slovenia 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 Slovenian producers, although Slovenian wage costs are growing fast, which weakens the country's competitive position. The increasing wage costs could make it more interesting for Slovenian companies to outsource (part of) their production to DCs.
- Shift of engineering production towards Slovenia, which may lead to an acceleration of demand growth for castings and forgings of the Slovenian engineering industry.
- The output of the Slovenian engineering and construction industry is small.

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 (subcontractors to) OEMs in Slovenia are ADK (<http://www.adk.si>; lifting equipment), Litostroj EI (<http://www.litostroj-ei.si>; mechanical engineering: a.o. cranes, gear drives, die-casting machines etc.), Palfinger (<http://www.palfinger.com>; cranes and lifting vehicles), SIP (<http://www.sip.si>; agricultural machinery), Sistemska tehnika (<http://www.viator-vektor.com>; vehicles), SZ Stroji In Tehnoloska Oprema (<http://www.sz-oprema-ravne.si>; mechanical engineering).

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:

- Chamber of Commerce and Industry of Slovenia, also home to the Metal Processing Association - http://www.gzs.si/register_eng - possibility to search the company database.
- Find Slovenia foundries at Casting Area - <http://www.castingarea.com> - click on 'Foundry Activities' and on 'Slovenia'.
- Members of the Slovenian Foundrymen Society - <http://www.drustvo-livarjev.si> - click on 'Foundries and Suppliers'.

With Europages - <http://www.europages.co.uk>, Kellysearch - <http://www.kellysearch.com> and Kompass - <http://www.kompass.com>, it is possible to search by product, by company name or by business sector. Another 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, Slovenia was a small importer of castings and forgings, ranking twentieth in the EU, behind Greece and Ireland, but ahead of Luxembourg and Bulgaria. Between 2002 and 2006, the total import value annually increased by 15% to €2 billion (1.6 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: 41% of total. Annual increase in import value of 18%.
- Articles of iron, steel or base metal: 18% of total. Annual increase in import value of 11%.
- Parts of machinery, railway equipment and vehicles: 14% of total. Increase of 11%.
- Light and ultra light products: 11% of total. Annual increase in import value of 24%.
- Plastic and rubber products: 10% of total. Annual increase in import value of 7%.
- Copper and zinc products: 6% of total. Annual increase in import value of 26%.

Between 2002 and 2006, imports from DCs annually increased by 32% in value. Compared to 2002, the total share of DCs in import value increased from 3.6% to 6.3% in 2006. The DCs' shares in imports of some product groups showed better growth compared to other product groups, as can be seen below:

- Iron and steel products: growing from 1.8% to 7% in value.
- Parts of machinery, railway equipment and vehicles: growing from 4.4% to 7.7% in value.
- Light and ultra light products: growing from 2.3% to 3.1% in value.
- Articles of iron, steel or base metal: growing from 6.3% to 8% in value.
- Plastic and rubber products: growing from 3.6% to 3.8% in value.
- Copper and zinc products: declining from 4.4% to 2.6% in value.

Bosnia and Herzegovina accounted for 52% of all imports coming from DCs, followed by Croatia (24%), China (15%), Turkey (3%), Egypt (2%), and India (1%). Beside the fast growing Chinese share of DC exports to Slovenia (+96% in the period 2002-2006), other DCs that saw a large increase of their share were Egypt, Bosnia and Herzegovina and India.

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, Slovenia was a small exporter, ranking eighteenth in the EU, behind Luxembourg and Romania, but ahead of Portugal and Greece. The total export value of Slovenia showed an annual increase of 19% in the period 2002-2006, totalling €2.2 billion in 2006. Exports consisted of:

- Parts of machinery, railway equipment and vehicles, accounting for 31% of total exports (€697 million). Annual increase in export value of 16%.
- Iron and steel products (26%; €590 million; +27%).
- Light and ultra light products (17%; €370 million; +18%).
- Articles of iron, steel or base metal (16%; €362 million; +14%).
- Plastic and rubber products (6%; €141 million; +18%).
- Copper and zinc products (4%; €83 million; +30%).

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

- + In 2006, Slovenia was a net-importer of castings and forgings, running trade deficits for iron and steel products (€736 million), plastic and rubber products (€10 million), copper and zinc products (€1 million), articles of iron, steel or base metal (less than €0.5 million).
- + The total import value of all product groups increased in the period 2002-2006.
- + China accounted for 15% of all imports coming from DCs. This was a much lower share than in the EU on average (39%).
- ± The DC share of total imports grew by 75% in the period 2002-2006, which was slower than in the EU on average (81%).
- ± The import share of DCs was 6.3% in 2006, below the EU average (8.2%).
- ± The Chinese share of DCs' exports to Slovenia grew fast in the period 2002-2006 (+96%), but also some other DCs saw a large increase of their share.
- Slovenia was a small importer of castings and forgings in the EU in 2006.
- Slovenia ran trade surpluses for light and ultra light products (€28 million), parts of machinery, railway equipment and vehicles (€92 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>
- 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 Slovenia, you should be aware of the market access requirements of your trading partners and the Slovenian 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 Slovenia 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 Slovenia are:

- Foundry - <http://www.expoua.com/Event/lang/en/id/5708> - trade fair, held in Celje, annually in April.
- 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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