

## CBI MARKET SURVEY

## The pipes and process equipment market in Bulgaria

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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 pipes and process equipment market in Bulgaria. The information is complementary to the information provided in the CBI market survey 'The pipes and process equipment 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**

This section discusses the demand for and production of the six relevant product groups instruments, pipes and fittings, process equipment, pumps, storage equipment and valves. Please note that industrial demand is calculated by using Prodcom data for production, exports and imports (demand = production + imports – exports). These are the best detailed data available.

**Industrial demand**

Total demand value for pipes and process equipment in Bulgaria amounted to €389 million. Bulgaria ranked twenty first in the EU in 2006, behind Ireland and Slovenia, but ahead of Estonia and Luxemburg. In the period 2002-2006, demand increased much faster (+23% per year) than in the EU on average (+3%). The demand for the various product groups, with the annual increase in the period 2002-2006, is as follows:

- Process equipment: €100 million (+28%).
- Pumps: €86 million (+27%).
- Pipes and fittings: €66 million (+23%).
- Storage equipment: €49 million (+38%).
- Instruments: €47 million (+6%).
- Valves: €39 million (+21%).

The expected strong growth of the Bulgarian economy for 2008 and 2009 (+5.9% and +5.6% respectively) in combination with many (foreign) investments in several market segments will result in an increasing demand for pipes and process equipment in the years to come.

**Production**

In 2006, Bulgaria was among the smallest producers in the EU, ranking twenty-second in 2006, behind Slovenia and Luxemburg, but ahead of Estonia and Latvia. Total production value of pipes and process equipment reached €129 million. Between 2002 and 2006, production increased much faster (+46% per year) than in the EU on average (+6%). In 2006, the largest product group was storage equipment (€57 million). The other product groups were either very small or too few data are available to describe relevant developments.

Some examples of producers are:

- Alcomet – <http://www.alcomet-plc.com> - pipes
- M+S Hydraulic - <http://www.ms-hydraulic.com> - valves
- Omega - <http://www.omega-bg.com> - pipes
- Precis Inter Holding - <http://www.precis-inter.com> - steel and aluminium pipes
- Thyssenkrupp Jupiter - <http://www.thyssenkrupp-jupiter.com> - pipes
- Turbo-C - <http://www.turbo-cb.com> - water pumps

### Trends and characteristics

These are the major trends and characteristics that influence demand for, and production of pipes and process equipment in Bulgaria:

- **Increasing demand for energy results in large investments.** In Europe, investments in pipelines and infrastructure have to be made to meet this increasing demand. In Bulgaria, most investments will be related to building new power plants (such as the Belene nuclear power plant) and raising the capacity of existing plants like the Maritsa Iztok 3 plant.
- **Investment in water distribution and treatment.** At present, Bulgaria has poor networking with respect to water distribution and wastewater treatment. Demand for pipes and process equipment will increase as Bulgaria moves to comply with EU energy and water directives. The Bulgarian city of Rousse launched a €46.8 million programme to improve the water and wastewater infrastructure. With the help of EU funding the city will build, among others, a waste-water treatment plant. Moreover, efforts to update existing infrastructure, coupled with growth in the Bulgarian industrial sector will boost demand levels.
- **Pumps manufacturers become total solutions providers.** Market segments for pumps such as water and wastewater and HVAC (Heating Ventilation Air Conditioning) are price driven, and face strong competition from India and China. Companies are under pressure to offer competitive prices, yet they also face quality pressures, with end-users demanding higher-quality products at low prices. Intense competition and a lack of product differentiation are forcing pump manufacturers to become total solutions providers. Therefore, they have to improve their customer service offering and focus on R&D to produce innovative solutions to penetrate the market.

### Opportunities and threats

The main opportunities and threats for DC exporters are the following:

- + Bulgarian demand showed strong (+23%) results between 2002 and 2006. In the years to come, industrial demand for pipes and process equipment could increase due to the fact that Bulgaria, among other things, moves to comply with EU water directives and the growing energy market.
- DC exporters can expect competition from Bulgarian producers, although Bulgarian wage costs are growing fast, which weakens the country's competitive position.

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

Importers are the most important trade channels for DC exporters. Importers play a more important role as regards standard products compared to complex products, but they also count as the most important channels with regard to complex products. Refer to the CBI market survey covering the EU market for a detailed explanation of relevant trade channels in this market.

An example of an intermediary in the pipes and process equipment industry in Bulgaria is pipe distributor Intercom Group (<http://www.intercomgroup.bg>).

Important end-users present in Bulgaria are:

- Bulgargaz - <http://www.bulgargaz.bg> - Bulgaria's largest natural gas distributing company
- Lukoil - <http://www.lukoil.bg> - one of the major fuel exporters in the Balkan region.

### Price structure

Prices and margins depend on many variables. For one thing, standard products have lower margins than complex products. Furthermore, important factors will be the price agreement made, the size of the order, and the terms of delivery. In general, margins in this country are the same as in other EU countries. Refer to the CBI market survey covering the EU market for common margins in this industry.

### Useful sources

Some examples of available sources to find clients:

- Bulgarian chamber of commerce and industry trade directory - <http://www.bcci.bg/services/directory.htm> - log in as guest and select searching criteria for company details.
- Bulgarian Industrial Capital Association - <http://www.bica-bg.org> – choose the English version and click on 'Members'.
- Catalog - <http://catalog.bg> – Bulgarian online trade directory. Choose first 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.

## 3 Trade: imports and exports

### Imports

In 2006, Bulgaria was a small importer of pipes and process equipment, ranking twenty first in the EU, behind Greece and Slovenia, but ahead of Lithuania and Estonia. Between 2002 and 2006, total import value increased annually by 18% to €367 million in 2006 (EU: +8%). The product group shares were as follows:

- Pipes and fittings: 27% of total imports. Annual increase in export value of 33%.
- Pumps: 25% of total. Annual increase of 16%.
- Process equipment: 20% of total. Annual increase of 20%.
- Instruments: 13% of total. Annual increase of 10%.
- Valves: 10% of total. Annual increase of 15%.
- Storage equipment: 4% of total. Annual increase of 1%.

Between 2002 and 2006, imports from DCs annually increased by 23% in value. Compared to 2002, the total share of DCs in import value increased from 15% to 18% in 2006. DC shares in imports of some product groups showed better growth compared to other product groups, as can be seen below:

- Valves: growing from 3% to 8% in value.
- Process equipment: growing from 3% to 9%.
- Storage equipment: growing from 14% to 24%.
- Pumps: growing from 6% to 9%.
- Pipes and fittings: growing from 52% to 41%.
- Instruments: declining from 12% to 6%.

China accounted for only 11% of all pipes and process equipment imports coming from DCs and for 2% of total imports. The DCs that accounted for a higher share were Ukraine (44%) and Turkey (26%). China was followed by Macedonia (also 11%), Croatia (4%) and Brazil (1%). Next to the fast growing Chinese share of DC exports to Bulgaria (+264% in the period 2002-2006), other DCs that saw a large increase of their share were Croatia and Macedonia. 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 third in the EU, behind Luxembourg and Lithuania, but ahead of Latvia and Estonia. Total export value of Bulgaria showed an annual increase of 31% in the period 2002-2006, totalling €141 million in 2006. Exports consisted of:

- Pipes and fittings, accounting for 36% of total exports (€50 million). Annual increase in export value of 46%.
- Instruments, 21% of total exports (€29 million). Annual increase of 21%.
- Storage equipment, 17% of total exports (€24 million). Annual increase of 42%.
- Pumps, 15% of total exports (€21 million). Annual increase of 20%.
- Process equipment, 7% of total exports (€10 million). Annual increase of 38%.

- Valves, 5% of total exports (€7 million). Annual increase of 11%.

A small part of exports may consist of re-exports to other EU countries, mainly to neighbouring CEE countries, but the exact value of re-exports is unknown because Eurostat does not allow for such detailed analysis.

### Opportunities and threats

- + In 2006, Bulgaria was a net-importer, running trade deficits for instruments (€19 million), valves (€32 million), pipes and fittings (€50 million) and process equipment (€62 million), pumps (€71 million).
- + Total import value of all product groups increased in the period 2002-2006.
- + The import share of DCs increased from 15% in 2002 to 18% in 2006, far above the EU average (9%).
- ± The Chinese share of DC exports to Bulgaria grew fast (+264%), but some other DCs also saw a large increase in their share.
- ± China accounted for only 11% of all imports coming from DCs, lower than in the EU on average (33%). However, Ukraine (44%) and Turkey (26%) accounted for a higher share.
- Bulgaria was a small importer in the EU in 2006.
- Bulgaria ran trade surpluses for storage equipment (€7 million).

### Useful sources

- EU Expanding Exports Helpdesk - <http://exporthelp.europa.eu>
- Eurostat - official statistical office of the EU - <http://epp.eurostat.ec.europa.eu>
- Understanding Eurostat: Quick guide to easy comext → [http://epp.eurostat.ec.europa.eu/newxtweb/assets/User\\_guide\\_Easy\\_Comext\\_20080117.pdf](http://epp.eurostat.ec.europa.eu/newxtweb/assets/User_guide_Easy_Comext_20080117.pdf)

## 4 Price developments

2000-2004 saw a period of heavy price pressure which has eased since then. Prices have risen considerably as a result of rising raw material prices, in conjunction with longer lead-times due to demand exceeding supply. However, global competitive pressure has remained very strong with regard to standard products. Importers, agents, subcontractors and system suppliers will, therefore, continue to keep on looking for opportunities to reduce sourcing costs for standard products. Furthermore, as Bulgarian wages increase, the share of wage costs in the cost price, although still low, is increasing. Please refer to the CBI market survey covering the EU market for pipes and process equipment for a detailed explanation of these major trends.

### Useful sources

- 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 pipes and process equipment 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 under 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. For more information on doing business in Bulgaria, visit the following websites:

- Aquatech - <http://www.fair.bg> - trade fair for water management, held annually (September) in Plovdiv.
- Branch Chamber Of Ferrous and Non-Ferrous Metallurgy - <http://www.bcm-bg.com>
- Bulgaria online - <http://www.online.bg> – Bulgarian portal with a lot of useful business links.
- Bulgarian Industrial Association - <http://www.bia-bg.com>
- Journal of Materials Science and Technology - <http://jmst.ims.bas.bg>
- The Agriculture and Everything for It - <http://www.dobrich-fair.com> - trade fair for food processing equipment, held annually (August/September) in Dobrich.
- Online Bulgarian Catalog - <http://www.tllmedia.bg> - online magazine

This survey was compiled for CBI by Facts Figures Future in collaboration with Kommanet.

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