

CBI MARKET SURVEY

The pipes and process equipment market in the Czech Republic

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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 the Czech Republic. 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 industrial 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

In 2006, the market for pipes and process equipment in the Czech Republic amounted to €1.8 billion. The country ranked thirteenth in the EU with a share of 2% of total EU demand, behind Denmark and Finland, but ahead of Hungary and Romania. In the period 2002-2006, demand increased much faster (+15% 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:

- Pumps: €500 million (+18%).
- Process equipment: €468 million (+21%).
- Pipes and fittings: €269 million (+8%).
- Instruments: €212 million (+7%).
- Valves: €211 million (+20%).
- Storage equipment: €156 million (+12%).

The expected strong growth of the Czech economy for 2008 and 2009 (+4.7% and +5.4% 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, total production value of pipes and process equipment in the Czech Republic reached €3.1 billion. Between 2002 and 2006, production increased much faster (+26% per year) than in the EU on average (+6%). The Czech Republic ranked tenth in the EU in 2006 with a share of 2% of total EU production, behind Sweden and Austria, but ahead of Poland and Hungary.

The largest product groups were pumps (€1.3 billion), pipes and fittings (€549 million) and process equipment (€513 million). Between 2002 and 2006, all product groups recorded a better growth than in the EU on average. The groups valves (+37% per year), pumps (+27%), process equipment (+26%) and pipes and fittings (+25%) performed very strongly. The position of the Czech Republic in the EU was the best in the product group pumps, ranking 5th with a market share of 4%, behind France and the UK, but ahead of Denmark and Belgium. Other product groups with a strong position in the EU were pipes and fittings (8th with 3% share) and storage equipment (8th with 2% share).

Some examples of producers in the Czech Republic are:

- Mittal Steel Ostrava (Nova Hut) - <http://www.mittalsteelostrava.com> - major pipe manufacturer.
- Armatury - <http://www.armaturygroup.cz> - valves, pumps and fittings. According to this company, it is one of the major players in the local market for valves, pumps and fittings with a market share of about 40%.
- US Steel Kosice - <http://www.usske.sk> - one of Europe's largest steel producers serving the Central and Western European market.

Trends and characteristics

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

- **Export driven production.** The increase in Czech production of pipes and process equipment in the period 2002-2006 was mainly export driven as a result of increasing subcontracting activities and growing production capacities of Western European facilities. The local market did not grow as fast in that period.
- **Investment in water distribution and treatment.** At present, the Czech Republic has poor networking with respect to water distribution and wastewater treatment. Demand for pipes and process equipment will increase as the Czech Republic moves to comply with EU energy and water directives. Moreover, efforts to update existing infrastructure, coupled with growth in the Czech industrial sector will boost demand levels.
- **Pumps manufacturers become total solutions providers.** From the production figures it can be seen that the Czech Republic is home to a relatively large pump production. Also in this country, pumps manufacturers are becoming total solutions providers. Market segments such as water and wastewater and HVAC (Heating Ventilation Air Conditioning) are price driven, and face strong competition from India and China. With overlapping product portfolios, the main competitive factor is price, and end-users increasingly demand higher-quality products at lower prices. The strong competition and a lack of product differentiation are forcing pump manufacturers to become total solutions providers. Therefore, they are improving their customer services and focusing on R&D to produce innovative solutions to penetrate the market.
- **Increasing demand for energy results in large investments.** In Europe investments in pipelines and infrastructure have to be made to meet increasing demand, such as the construction of a €1 billion gas pipeline by German company RWE between the Czech Republic and Belgium. Other investments in this segment will be related to improving the existing infrastructure and building new storage facilities.

Opportunities and threats

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

- + In the years to come, demand for pipes and process equipment is expected to increase due to the fact that the Czech Republic, among other things, moves to comply with EU water directives.
- Relatively strong competition from Czech manufacturers in some product groups, such as pipes, pumps and process equipment. This threat is expected to weaken since 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.

Some examples of intermediaries in the Czech Republic are:

- Aqua - <http://www.aquapol.cz> - pumps, fittings
- Frank Stahl - <http://www.frankstahl.cz> - pipes
- Rego - <http://www.rego.cz> - valves
- Sigmia - <http://www.sigmia.cz> - pumps, valves

Important end-users present in the Czech Republic are:

- Česká rafinérská - <http://www.ceskarafinerska.cz> - the largest crude oil processing company and the largest producer of oil products in the Czech Republic
- EGS - <http://www.egs.cz> - process installations
- Ekosystem - <http://www.ekosystem.cz> - water treatment installations
- Transgas - <http://www.rwe-transgas.cz> - part of German RWE, responsible for importing and transiting natural gas, the inland pipeline grid and underground storage facilities.

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:

- Association of Czech Steel Stockholders - <http://www.sohm.cz>. Click on 'Členové SOHM' and 'Seznam členů'.
- Czech Steel Federation - <http://www.hz.cz> - click on 'Katalog'.
- Europages - <http://www.europages.com> - search for a product, click on 'refine your search' on the results page to show Czech companies.

3 Trade: imports and exports

Imports

In 2006, the Czech Republic was a medium-sized importer of pipes and process equipment, ranking eleventh in the EU, behind Poland and Sweden, but ahead of Denmark and Hungary. Between 2002 and 2006, total import value increased annually by 14% to €2.4 billion in 2006 (EU: +8%). Leading suppliers to the Czech Republic were Germany (45% of total imports) and Italy (8%). In addition, neighbouring countries, such as Slovakia (4% of total imports) and Poland (16% of storage equipment imports), were large suppliers. The product group shares were as follows:

- Pumps: 28% of total imports. Annual increase in import value of 11%.
- Pipes and fittings: 23% of total. Annual increase of 20%.
- Process equipment: 20% of total. Annual increase of 14%.
- Instruments: 14% of total. Annual increase of 13%.
- Valves: 12% of total. Annual increase of 13%.
- Storage equipment: 4% of total. Annual increase of 8%.

Between 2002 and 2006, imports from DCs increased annually by 37% in value. Compared to 2002, the total share of DCs in import value increased from 2% to 5% in 2006. DC shares in imports of some product groups showed better growth compared to other product groups, as can be seen below:

- Process equipment: growing from 2% to 10% in value.
- Pipes and fittings: growing from 1% to 4%.
- Pumps: growing from 1% to 4%.
- Valves: growing from 2% to 6%.
- Storage equipment: growing from 2% to 4%.
- Instruments: declining from 7% to 3%.

China accounted for 32% of all pipes and process equipment imports coming from DCs and for 2% of total imports. The only DC that accounted for a higher share was South Africa (35%). China was followed by Thailand (10%), India (7%), Ukraine (6%) and Turkey (4%). The Chinese share of DC exports to the Czech Republic did not grow as fast as in the EU on average (21% compared to 100%). The DCs that saw a larger increase of their share to the country were South Africa, Brazil, Bosnia and Herzegovina, Thailand, India 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, the Czech Republic was a medium-sized exporter, ranking eight in the EU, behind Austria and Belgium, but ahead of Spain and Sweden. Total export value of the Czech Republic showed an annual increase of 21% in the period 2002-2006, totalling €3.5 billion in 2006. Exports consisted of:

- Pumps, accounting for 41% of total exports (€1.4 billion). Annual increase in export value of 22%.
- Pipes and fittings, 21% of total exports (€727 million). Annual increase of 27%.
- Process equipment, 11% of total exports (€397 million). Annual increase of 8%.
- Storage equipment, 10% of total exports (€339 million). Annual increase of 17%.
- Valves, 10% of total exports (€331 million). Annual increase of 22%.
- Instruments, 7% of total exports (€241 million). Annual increase of 29%.

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 such detailed analysis.

Opportunities and threats

- + Total import value of all product groups increased in the period 2002-2006.
- + The Czech Republic ran trade deficits (more imports than exports) for process equipment (€68 million) and instruments (€85 million).
- + The Chinese share of DC exports to the Czech Republic did not increase much. Several DCs saw a larger increase in their share.
- In 2006, the Czech Republic was a net-exporter, running trade surpluses for pumps (€776 million), storage equipment (€246 million), pipes and fittings (€194 million) and valves (€49 million).
- The total share of DCs in import value increased from 2% in 2002 to 5% in 2006, which is still below the EU average (9%). China accounted for 32% of all imports coming from DCs.

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

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 Czech 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 the Czech Republic, you should be aware of the market access requirements of your trading partners and the Czech 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 the Czech Republic 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 the Czech Republic, visit the following websites:

- Aqua Set - www.aquaset.cz - trade fair with a focus on water treatment, held annually (March) in Prague.
- Czech Pump Manufacturers Association - <http://www.cpma-svc.org>
- Czech Gas Union (CPU) - <http://www.cpu.cz> - association
- Envibrno & Vodovody-Kanalizace - <http://www.bvv.cz/envibrno-gb> - trade fair for water and wastewater treatment, held annually (May) in Brno.
- For Industry - <http://www.forsurface.cz/2007/en/chavy.asp> - trade fair, held biennially (uneven years in April) in Prague.
- Interchem - <http://www.terinvest.com> - technical trade fair, held biennially (uneven years in April) in Prague.
- Konstrukce <http://www.konstrukce.cz/prezentace.php?lang=2> - engineering magazine
- MSV - <http://www.bvv.cz/msv-gb> - trade fair for process engineering, held annually (September) in Brno.
- Water Management and Environmental Technology - <http://www.bvv.cz> - trade fair, held annually (May) in Brno.

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

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