

CBI MARKET SURVEY

The pipes and process equipment market in Finland

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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 Finland. 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

Total demand value for pipes and process equipment of Finland amounted to €2.1 billion. Finland ranked twelfth in the EU in 2006 with a share of 2%, behind Austria and Denmark, but ahead of the Czech Republic and Hungary. In the period 2002-2006, demand increased by 4% per year, which showed a better growth rate 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: €729 million (remained stable), accounted for 3% of total EU demand for process equipment.
- Pipes and fittings: €496 million (+8%), 4% of total EU demand.
- Pumps: €305 million (+5%), 1% of total EU demand.
- Valves: €275 million (+6%), 2% of total EU demand.
- Storage equipment: €204 million (+5%), 1% of total EU demand.
- Instruments: €113 million (+2%), 1% of total EU demand.

Production

In 2006, the total production value of Finland reached €2.3 billion. Between 2002 and 2006, production increased by 4% per year, which was below the growth rate in the EU on average (6%). Finland ranked thirteenth in the EU with a share of 2% of total EU production, behind Poland and Hungary, but ahead of Belgium and Ireland.

In 2006, the largest product group was process equipment (€1 billion), which recorded an annual growth of 6% in the period 2002-2006. Between 2002 and 2006, the product groups valves (+9%), pumps (+8%) and instruments (+8%) performed the best. The position of Finland in the EU was strongest in the product groups process equipment (8th with 3% market share) and pipes and fittings (9th with 2% share).

Some examples of producers in Finland are:

- Grundfos – <http://www.grundfos.fi> - one of the world's largest pump manufacturers, part of Denmark based Grundfos group.
- Outokumpu - <http://www.outokumpu.com> - pipes and fittings. Outa Kumpu's domestic sales account for 18 to 20% of total sales.
- Rautaruukki - <http://www.ruukki.com> - one of the largest pipe manufacturers in the EU, representing an estimated market share of 10-20%.

- Larox - <http://www.larox.fi> - pumps

Trends and characteristics

In addition to the trends that are common for Nordic and Western European countries, such as the growing demand for energy efficient products, some other major trends are:

- **Shift to nuclear energy and natural gas.** The upward trend in electricity consumption will continue and a shift towards nuclear energy and natural gas and away from coal is expected. This shift is expected to reduce carbon dioxide (CO₂) emissions in Finland and to drive a healthy demand for pipes and process equipment.
- **Water segment offers good opportunities.** The Finnish water processing market is the most promising market segment in the years to come, according to industry experts. In contrast to this, in the historically important pulp and paper industry, investments are being redirected to South American countries like Brazil and Uruguay.
- **Increasing globalisation leads to specialisation.** Increasing globalisation has led to pressure on prices and has stimulated and even forced several Finnish manufacturers, such as Outokumpu (see textbox), to specialise and to focus on customised products. Meanwhile, the production of commodities is slowly shifting to low cost countries (LCCs) in Central and Eastern Europe (CEE) and Asia.

Specialisation in practice

In March 2007, Outokumpu Stainless Tubular Products (OSTP) sold its flange business to a subsidiary of Indian based Shree Ganesh Forgings. OSTP took this step in order to focus on the production of pipes, butt-welded and threaded fittings.

Opportunities and threats

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

- + Finnish demand showed strong (+4%) results between 2002 and 2006. It is expected that the growing energy market, combined with the switch to nuclear energy and natural gas will lead to an increasing demand for pipes and process equipment.
- + Labour intensive products have good chances while labour costs in DCs are low. The price pressure for standard products and the negative Euro/dollar exchange rate put pressure on the earnings of Finnish manufacturers of pipes and process equipment. Interesting opportunities arise for DC companies that can offer good quality at a reasonable price.
- Growing demand for high value added products which require advanced technological skills. This development is driven by environmental legislation and government policy.

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 Finland are:

- Polarputki - <http://www.polarputki.fi> - pipes, fittings
- Skandinavian Yhtyneet Metallintuojat - <http://www.metal.fi> - distributor of steel pipes and fittings.

Some examples of end-users are:

- Chematur Ecoplanning - <http://www.chematur.se> - chemical engineering
- ExxonMobil Finland - <http://www.exxonmobil.com> - world's largest international oil and gas company
- Gasum - <http://www.gasum.fi> - importer and seller of natural gas and owns and operates the natural gas transmission system in Finland

- Fortum - <http://www.fortum.com> - power and heating company in the Nordic countries

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 Finnish Technical Traders/Teknisen Kaupann Liito – <http://www.tkl.fi> - click on 'in English' and go to 'members'.
- Finnish Natural Gas Association - <http://www.maakaasu.fi> - click on 'Finnish Natural Gas Association' on the left of the site to find a list of members.
- Europages - <http://www.europages.com> - search for a product, click on 'refine your search' on the results page to show Finnish companies.

3 Trade: imports and exports

Imports

In 2006, Finland was a medium-sized importer of pipes and process equipment, ranking fifteenth in the EU, behind Hungary and Romania, but ahead of Slovakia and Portugal. Between 2002 and 2006, total import value increased annually by 9% to €1.3 billion in 2006 (EU: +8%). The leading supplier to Finland was Germany accounting for 29% of all imports. Other countries with a large share are the Scandinavian countries Sweden (18%) and Denmark (6%). The product group shares were as follows:

- Pipes and fittings: 27% of total imports. Annual increase in import value of 15%.
- Pumps: 23% of total. Annual increase of 7%.
- Valves: 17% of total. Annual increase of 12%.
- Process equipment: 15% of total. Annual increase of 7%.
- Instruments: 12% of total. Annual increase of 2%.
- Storage equipment: 6% of total. Annual increase of 14%.

Between 2002 and 2006, imports from DCs increased annually by 21% in value. In 2006, the total share of DCs in import value remained very low. Compared to 2002, the share increased from 1% to 2% in 2006. DC shares in imports of the different product groups remained virtually stable in most groups, as can be seen below:

- Pumps: growing from 1% to 3%.
- Process equipment: growing from <0.5% to 1% in value.
- Pipes and fittings: growing from <0.5% to 1%.
- Storage equipment: remained stable at <0.5%.
- Instruments: remained stable at 1%.
- Valves: declining from 4% to 2%.

China accounted for 66% of all pipes and process equipment imports coming from DCs. China was followed by Turkey (13%), India (8%), Ukraine (3%), Brazil (3%) and the Philippines (1%). The Chinese share of DC exports to Finland did not grow as fast as in the EU on average (38% compared to 100%). The DCs that saw a larger increase in their share to the country were Turkey 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, Finland was a small exporter, ranking fourteenth in the EU, behind Hungary and Poland, but ahead of Romania and Slovakia. Total export value of Finland showed an annual increase of 8% in the period 2002-2006, totalling €1.5 billion in 2006. Exports consisted of:

- Process equipment, accounting for 30% of total exports (€437 million). Annual increase in export value of 10%.
- Pipes and fittings, 23% of total exports (€340 million). Annual increase of 2%.
- Pumps, 16% of total exports (€229 million). Annual increase of 10%.
- Valves, 15% of total exports (€221 million). Annual increase of 15%.
- Instruments, 12% of total exports (€178 million). Annual increase of 4%.
- Storage equipment, 3% of total exports (€47 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

- + Total import value of all product groups increased in the period 2002-2006.
- + Finland ran trade deficits (more imports than exports) for pipes and fittings (€9 million), storage equipment (€30 million) and pumps (€68 million).
- ± The Chinese share of DCs exports to Finland did not increase much. Several DCs saw a larger increase in their share.
- In 2006, Finland was a net-exporter, running trade surpluses for process equipment (€241 million), instruments (€21 million) and valves (€1 million).
- The import share of DCs grew from 1% in 2002, to 2% in 2006, which is far below the EU average (9%). China accounted for 66% 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. In general, manufacturers in the EU have been able to pass on the higher prices to customers, so that there has only been limited pressure on margins. However, the 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. Although the share of wage costs has slightly decreased in recent years, Finland remains a country with one of the highest wage costs in the EU metal industry. Therefore, wage costs still account for a large share of the cost price in the industry. 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 Finland, you should be aware of the market access requirements of your trading partners and the Finnish 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 Finland 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 Finland, visit the following websites:

- Alihankinta - <http://www.tampereenmessut.fi> - technical trade fair, held annually (September) in Tampere.
- Finnish Heat Pump Association - <http://www.ivtlampopumput.fi>
- Finnish Petroleum Federation - <http://www.oil.fi>
- Hydraulics And Pneumatics - <http://www.finnexpo.fi> - trade fair, held biennially (September) in Helsinki.
- MECATEC - <http://www.finnexpo.fi> - technical trade fair, held biennially (September) in Helsinki.
- Metallitekniikka - <http://www.talentum.fi> - magazine
- Scandinavian Journal of Metallurgy - <http://www.business-magazines.com>
- Technology Industries of Finland - <http://www.teknologiateollisuus.fi> - association

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