

CBI MARKET SURVEY

The pipes and process equipment market in Hungary

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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 Hungary. 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, total demand value of pipes and process equipment in Hungary amounted to €1.6 billion. Hungary ranked fourteenth in the EU in 2006 with a share of 2% of total EU demand, behind Finland and the Czech Republic, but ahead of Romania and Slovakia. In the period 2002-2006, demand increased by 5% 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:

- Pumps: €700 million (+21%).
- Process equipment: €275 million (-3%).
- Instruments: €216 million (+10%).
- Valves: €147 million (-4%).
- Pipes and fittings: €134 million (-5%).
- Storage equipment: €108 million (-11%).

The expected strong growth of the Hungarian economy for 2008 and 2009 (+2.5% and +3.6% respectively) in combination with many (foreign) investments in several market segments, such as the wastewater and energy market, will result in an increasing demand for pipes and process equipment in the years to come.

Production

Total production value of pipes and process equipment in Hungary reached €2.3 billion. Hungary ranked twelfth in the EU in 2006 with a share of 2% of total EU production, behind the Czech Republic and Poland, but ahead of Finland and Belgium. In the period 2002-2006, production increased by 37% per year, much faster than in the EU on average (+6%). The production growth was mainly export driven as local demand increased by only 5% on average; demand for four product groups even declined in that period.

In 2006, the largest product groups were instruments (€928 million), pumps (€698 million) and process equipment (€422 million). Between 2002 and 2006, the product groups pumps (+101% per year), instruments (+46%) and process equipment (+42%) performed the best and recorded better growth than in the EU on average. The position of Hungary in the EU was strongest in the product groups instruments (5th with 6% market share) and pumps (10th with 2% market share).

Some examples of producers are:

- Ganz Energetika - <http://www.ganz-holding.hu> - Hungarian engineering conglomerate which supplies pumps in mainly the Middle East.
- Grundfos Hungária (part of Danish based Grundfos group) - <http://www.grundfos.com> - This company has doubled the capacity of its pump production facility and opened its third manufacturing unit as well as a new competence centre, resulting in an increase in the number of employees in Hungary to 1,500.

From the production figures it can be seen that Hungary is home to a relatively large pump production. Also in Hungary, 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 are increasingly demanding 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.

Opportunities and threats

- + In the years to come, the industrial demand for pipes and process equipment could increase due to the fact that Hungary, among other things, moves to comply with EU energy and water directives.
- Relatively strong competition from Hungarian manufacturers in pumps.

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. Hungarian importers usually prefer exclusive arrangements with foreign suppliers since they are responsible for the quality of the products they sell. Successful Hungarian importers offer full customer support, including an after-sales service network, after-sales maintenance and spare parts coverage. Importers often specialise in certain product areas and are, in most cases, regional suppliers.

In general, the manufacturing industry in Hungary is concentrated around Budapest. With expected improvements in motorway and airport connections in this decennium, the Debrecen region may become a manufacturing growth area by the end of this decade. Refer to the CBI market survey covering the EU market for a detailed explanation of relevant trade channels in this market.

Some examples of major end-users in Hungary are:

- Agip Hungaria (part of Italian ENI) - <http://www.agip.hu> - oil and gas company
- MOL - <http://www.mol.hu> - oil company
- Montázs 4 - <http://www.montazs4.hu> - water distribution
- ProMinent Magyarország - <http://www.prominent.hu> - water distribution

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 the Hungarian Steel Industry - <http://www.mvae.hu> - choose the English language and click on 'member'.
- Hungarian Association of Gas Distribution Companies - <http://www.hungas.hu>
- Europages - <http://www.europages.com> - search for a product, click on 'refine your search' on the results page to show Hungarian companies.

3 Trade: imports and exports

Imports

In 2006, Hungary was a medium-sized importer of pipes and process equipment, ranking thirteenth in the EU, behind the Czech Republic and Denmark, but ahead of Romania and Finland. Between 2002 and 2006, total import value increased annually by 6% to €1.6 billion in 2006 (EU: +8%). The product group shares were as follows:

- Pumps: 43% of total imports. Annual increase in import value of 7%.
- Pipes and fittings: 16% of total. Annual increase of 13%.
- Instruments: 14% of total. Annual increase of 10%.
- Valves: 13% of total. Annual increase of 9%.
- Process equipment: 8% of total. Annual decrease of 9%.
- Storage equipment: 6% of total. Annual increase of 2%.

Between 2002 and 2006, imports from DCs increased annually by 3% in value. Compared to 2002, the total share of DCs in import value remained stable at 5% in 2006. DC shares in imports of some product groups showed better growth compared to other product groups, as can be seen below:

- Storage equipment: growing from 2% to 9%.
- Pipes and fittings: growing from 4% to 13%.
- Pumps: growing from 1% to 3% in value.
- Valves: remained stable at 5%.
- Instruments: declining from 2% to 1%.
- Process equipment: declining from 22% to 2%.

China accounted for 20% of all pipes and process equipment imports coming from DCs. The only DC that accounted for a higher share was Ukraine (27%). China was followed by Turkey (17%), Thailand (12%), Vietnam (5%) and Brazil (5%). In addition to the fast growing Chinese share of DC exports to Hungary (+278% in the period 2002-2006), other DCs that saw a large increase in their share were Vietnam, Bosnia and Herzegovina, Macedonia, Thailand, Turkey, Ukraine, China, Croatia and Brazil.

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, Hungary was a medium-sized exporter, ranking twelfth in the EU, behind Sweden and Denmark, but ahead of Poland and Finland. Total export value of Hungary showed an annual increase of 36% in the period 2002-2006, totalling €2.3 billion in 2006. Exports consisted of:

- Instruments, accounting for 39% of total exports (€910 million). Annual increase in export value of 39%.
- Pumps, 31% of total exports (€726 million). Annual increase of 35%.
- Process equipment, 12% of total exports (€283 million). Annual increase of 62%.
- Valves, 9% of total exports (€206 million). Annual increase of 27%.
- Storage equipment, 5% of total exports (€110 million). Annual increase of 13%.
- Pipes and fittings, 4% of total exports (€93 million). Annual increase of 30%.

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 pumps, pipes and fittings, instruments, valves and storage equipment increased in the period 2002-2006.
- + Hungary ran trade deficits (more imports than exports) for valves (€5 million) and pipes and fittings (€168 million).
- ± China accounted for 20% of all imports coming from DCs, lower than in the EU on average (33%). The DC that accounted for a higher share was Ukraine (27%).
- ± The Chinese share of DCs exports to Hungary more than tripled in the period 2002-2006, but some other DCs also saw a large increase in their share.
- Total import value of process equipment decreased in the period 2002-2006.
- In 2006, Hungary was a net-exporter, running trade surpluses for instruments (€687 million), process equipment (€147 million), storage equipment (€17 million) and pumps (€16 million).
- The total share of DCs in import value remained stable at 5%, far below the EU average (9%).

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, 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. Furthermore, as Hungarian 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 Hungary, you should be aware of the market access requirements of your trading partners and the Hungarian 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 Hungary 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 Hungary, visit the following websites:

- Association of Hungarian Construction Materials Industry – <http://www.measz.hu>
- Association of Hungarian Engineering Industries – <http://www.magosz.hu>
- Central Hungarian Statistical Office - <http://www.ksh.hu>
- Chemexpo - <http://www.hungexpo.hu> - trade fair for chemical industries, held biennially (even years in April/May) in Budapest.
- Hungarian LPG Association - <http://www.mpe.mtesz.hu>
- Hungarotherm - <http://www.hungarotherm.hu> - trade fair, held annually (April) in Budapest.
- Industria - <http://www.industria.hu> - trade fair, held annually (May) in Budapest.
- Ökotech - <http://www.okotech.hungexpo.hu> - trade fair for water and waste management, held annually (November) in Budapest.

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

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