

CBI MARKET SURVEY

THE CHEMICALS MARKET IN HUNGARY

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Introduction

This CBI market survey gives exporters in developing countries information on some main developments on the chemicals market in Hungary. The information is complementary to the information provided in the CBI market survey covering the EU chemicals market. 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

- Hungary is a small consumer of chemicals, accounting for 1.2% of total EU industrial demand for chemicals.
- In 2005, total Hungarian industrial demand amounted to € 6.9 billion, representing an annual average growth rate of 10% during the review period (European Chemical Industry Council (CEFIC), 2006).
- The good performance is due to the high degree of privatisation in the chemical industry and strong foreign direct investment, as well as strong domestic growth of consumption of, for example, plastic.

Table 1.1 Industrial demand for chemicals in the EU and Hungary, 2001-2005, in € million

	2001	2003	2005	Average annual growth
EU25	496,581	507,835	564,598	3.3%
Hungary	4,706	5,957	6,935	10.2%

Source: CEFIC (2006)

- As demand for (intermediate) chemicals is directly related to the structure and performance of the chemical industry in Hungary, more information on demand can be derived from the next section on production.

Production

- Hungary has a small chemical industry, accounting for 1% of turnover of total EU chemical industry. The largest sub-sectors of the Hungarian chemical industry are pharmaceuticals and plastic raw materials.
- In 2005, the Hungarian chemical industry turnover amounted to € 5.8 billion, representing an annual average growth rate of 18% during the review period (CEFIC, 2006). According to the Hungarian Chemical Industry Association, the chemical industry continued to grow in 2006, though at a lower rate. The main driving factors for the growth of the industry are the solid performances of the automotive, electronic and construction industries in the region. The coatings and paints sector increased its production by 9%.
- As in most of the EU, the pharmaceutical sector also performed well. Production of this sector increased by 12% in 2006.
- The slowdown of the growth in 2006 was caused by the disappointing performance of the selected sub-sectors. The petrochemical and polymer sector, which is the largest sub-sector in the Hungarian chemical industry and showed very good growth figures in recent years, increased by a moderate 4.9% in 2006. Some of the sub-sectors which performed worst were organic chemicals (-17.9%), pesticides (-8.8%) and fertilizers (-14%). The production of detergents and household cosmetics decreased by more than 30%.

- Petrochemicals is the main sub-sector of the Hungarian chemicals sector. It was developed in the late '60s and early '70s based on Soviet oil. After the collapse of the Soviet Union, the sector went through a process of privatisation and restructuring, accompanied by modernisation. Petrochemicals remained the strongest sub-sector of the industry. Other strong sub-sectors are fertilizers (based on natural gas) and the fine chemicals business, in which Hungary has a strong tradition and much expertise. The downstream sectors - paints, detergents, and fibres - are also relatively robust, with a strong presence of foreign strategic investors.
- According to industry sources, contract manufacturing is of limited importance, Hungarian producers being mainly active in the production of "standard" chemical products.
- Restructuring and environmental expenditure remains necessary for several fine chemical producers. One fine chemicals producer -Nitrokemia- has not yet been privatised (PriceWaterhouseCoopers, 2006).

Trends

- Accession to the EU has brought little direct change to the chemical sector in Hungary.
- The general trends, which have been described in the CBI market survey covering the EU chemicals market, are also applicable to Hungary.

Opportunities and threats

- It is expected that both production and consumption will further increase in the future. This offers opportunities for chemical companies in developing countries. However, Hungary itself can also be seen as a competitor to developing countries on the EU market.

Useful sources

- For further information, please refer to Hungarian industry association mentioned in section 6 of this survey. The European Federation CEFIC (<http://www.cefic.org>) is also of interest.
- The Hungarian statistical agency can also be a source of information: http://portal.ksh.hu/portal/page?_pageid=38,119919&_dad=portal&_schema=PORTAL.
- The Report "The Chemical Industry Sector in the CEECs": <http://www.pwc.com/pl/eng/about/ind/cips/chem/chemia05.pdf>

2. Trade channels for market entry

- In general, the trade channels in Hungary do not differ from the trade channels which have been mentioned in the CBI market survey covering the EU chemicals market. The traditional approach of contacting traders, intermediate processing companies, agents and wholesalers (either with or without processing capacity, dependent on the chemical) remains the most effective method.
- A good source to find Hungarian companies is the Hungarian Chemical Industry Association: <http://www.mavesz.hu/index.php?id=tagvall&lang=eng>.
- TVK Tiszai Vegyi Kombinat Rt (TVK) is Hungary's largest chemical company. The company accounts for 20% of the petrochemical capacity in central Eastern Europe: <http://www.tvk.hu>.

3. Trade: imports and exports

Imports

- Hungary is a small importer of chemicals, accounting for 0.9% of EU imports.
- Hungarian imports of chemicals consisted of organic chemicals (51%), oleo chemicals (35%), dyes and pigments (11%) and inorganic chemicals (3%).
- In 2006, Hungary imported € 488 million / 300 thousand tonnes of chemicals, representing an average annual increase of 13% during the review period.
- In 2006, developing countries supplied 8% of all Hungarian imports, which is just a little above the EU average. Imports from developing countries increased dramatically by an annual average rate of 31% in the period reviewed, amounting to € 41 million / 36

thousand tonnes in 2006. The most important developing country suppliers to Hungary are India and Ukraine, each accounting for 3% of total imports of this country.

- France is Hungary's main supplier of chemicals, accounting for 30% of total Hungarian imports. A second relatively important supplier is Germany, accounting for 17% of total Hungarian imports.
- According to the Hungarian Chemical Industry Association, the greatest volumes in imports in 2006 were represented by the pharmaceutical products, the plastic raw materials and products and the oil industry products. Furthermore, imports had its greatest surplus in 2003 and has been decreasing since.

Exports

- Hungary is a small exporter of chemicals, accounting for 0.7% of total EU exports.
- Between 2002 and 2006, Hungarian exports of chemicals amounted to € 497 million / 439 thousand tonnes, representing an annual average increase of 7%. According to MAVESZ (Hungarian Chemical Industry Association), exports of the chemical sector increased by 11.5% in 2006, which is somewhat less than the average number of the national industrial export. Even so, it is a high rate for Hungary.
- All four selected products groups showed an increase in exports. Export of dyes and pigments showed the strongest annual increase during the review period, by an annual rate of 25%. The export growth in 2006 was largely the result of the extra high increase (22%) of the export of the pharmaceutical products. Total growth of exports was dampened by the decreased export of household cosmetics and pesticides.
- In 2006, exports to Russia and Romania grew considerably.

Opportunities and threats

- Hungary's trade in chemicals experienced considerable growth over the past four years and developing countries play a significant role in Hungarian imports, especially in the supply of organic and inorganic chemicals.
- A possible threat, in relation to other European markets, could be Hungary's strong and growing presence in the supply of chemicals; the country is a net exporter of chemicals and its exports grow faster than its imports. The country can be seen as a competitor to developing countries on EU markets.

Useful sources

- EU Expanding Exports Helpdesk - <http://export-help.cec.eu.int>
- Eurostat, the official statistical office of the EU - <http://epp.eurostat.cec.eu.int>

4. Price developments

- The CBI market survey covering the EU chemicals market, presents general information on prices. These price indications do not differ from those in Hungary.
- The prices of most commodity chemicals can be found relatively easily. Useful sources are <http://www.cnionline.com> (subscription site with information on companies, markets, products, strategies, mergers, acquisitions, capacity expansions, forecasts and trends in the chemical industry) and <http://www.icislор.com> (subscription site for prices on the petrochemical and oil markets).
- However, the prices of fine and specialty chemicals are more difficult to obtain. They are not published and can vary widely from one application area to another. Obtaining reliable price information in these segments often requires asking a distributor, or asking a producer for a quotation.

5. Market access requirements

- Manufacturers in developing countries should be aware of the market access requirements of their trading partners and the country's government. Requirements are demanded through legislation and through labels, codes and management systems. These

requirements are based on environmental, consumer health and safety and social concerns.

- For more information go to 'Search CBI database' at <http://www.cbi.eu/marketinfo>.

6. Business practices

Information on doing business like 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:

Industry Associations

- Hungarian Chemical Industry Association, Magyar Vegyipari Szövetség (MAVESZ) - <http://www.mavesz.hu>

Trade Fairs

- Chem, International Chemical & Plastic Industry Expo - <http://www.chemexpo.hu>

Trade Press

- Vegyipar - <http://www.mavesz.hu/index.php?id=kiadv&lang=eng>
- InforMed - <http://www.informed.hu/english>
- No other chemical trade press was encountered. However, an interesting source for the pharmaceutical sector in the country is <http://www.e-pharma.hu> (Hungarian only).

This survey was compiled for CBI by ProFound – Advisers in Development in collaboration with Jan Ramakers Fine Chemical Consulting Group.

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