CBI MARKET SURVEY

THE CASTINGS AND FORGINGS MARKET IN SLOVAKIA

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Introduction

This CBI market survey gives exporters in developing countries information on some main developments on the castings and forgings market in Slovakia. The information is complementary to the information provided in the CBI market survey 'The castings and forgings 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

Industrial demand

Because no demand data for castings and forgings are available, it has been decided, in consultation with industry experts, to focus on two major end user industries in the EU that offer good opportunities for developing country (DC) exporters: the engineering and the construction industry. Since in both industries many cast and forged parts and products are used, the production output of both industries is a good indication for the demand for cast and forged parts in these industries.

Engineering industry

Slovakian production in the engineering industry increased 96% in the period 2001-2005, to almost €4 billion in 2005. The limited Slovakian engineering industry ranked seventeenth in the EU, behind Ireland and Portugal, but ahead of Slovenia and Greece. Of the main castings and forgings consuming engineering categories, "bearings, gears and other driving elements" (+192%), "machinery for textile, apparel and leather production" (+167%), "pumps and compressors" (77%) and "electric motors, generators and transformers" (50%) performed well. The market position of Slovakia in the EU was relatively good in "bearings, gears and other driving elements" (8th largest producer with 2.1% market share). The output of the Slovakian industry is expected to increase because of the positive global, EU, and Slovakian economy forecasts for 2007 (+3.3%, +2.0% and +6.3% respectively) and 2008.

Construction industry

After a growth of 22.3% in the period 2002-2005, the Slovakian construction industry amounted to €3.1 billion in 2005. For the period 2005-2008 it is expected that the industry will grow by 24% to €3.8 billion in 2008. The Slovakian construction industry ranked seventeenth in the EU, behind Czech Republic and Hungary. It is the third largest consumer of steel, behind the automotive and mechanical engineering industry.

Market segmentation

The largest end user segments of castings in Slovakia are the machine tool industry, the construction industry and the railway industry. In recent years, the automotive industry accounted for the largest growth in market share, as the modernisation of the Slovak die cast foundries resulted in a rapid growth of deliveries to that industry.

Production

Foundry industry

The limited Slovakian foundry industry is in size comparable to Denmark. Ferrous metal castings accounted for more than 60% of total output, leaving the balance for non-ferrous

metal castings. In 2005, the production of metal castings totalled about 85,000 tons, an increase of more than 10% compared to 2003. Main reason was a good growth in production of non-ferrous metal castings, which is caused by the growth of the automotive industry in the country. In 2005, the average turnover per employee in the ferrous metal foundries amounted to almost €30,000 –, an amount which is the eleventh largest in the EU, behind the Czech Republic and Poland, but ahead of Lithuania and Hungary.

Slovakia hosts about 20 ferrous foundries and 20 non-ferrous foundries. The following examples show the diversification of the industry – both technologically and financially:
- Ability - http://www.abilitysro.sk is a zinc and aluminium die-casting foundry
- Eurocast - http://www.eurocast.sk is owned by German Silbitz Guss
- VSS - http://www.vss.sk is a mechanical engineering company with an in-house foundry
- ZSNP Foundry - http://www.foundry.sk is an aluminium die-casting foundry

Forge industry

In 2005, the total production output of the 5-10 Slovakian forges amounted to about 48,000 tons with a sales value of €60 million. In 2004, the average sales margins were low (2.6%), while total added value was about 18% of production value. As the industry employed some 1,500 people, the average turnover per employee amounted to €40,000. KLF-ZVL Kovačňa - http://www.klfkovacna.sk is the largest forge in the country, specialized in forged rings, with an annual production of about 17,000 tons and a value of €20 million (2004). Another example of a Slovak forge is Metalurg Steel - http://www.metalurg.com, which produces die forgings and free shaped forgings.

Trends

A major trend that influences the castings and forgings demand in Slovakia is the growing number of innovative applications of aluminium and magnesium castings. Other trends are:
- Due to the growing care for the environment, in several industries – for example the power generation industry – the search for energy efficiency and the limitation of CO_2 and NO_x emissions has led and should lead to the increased use of energy-efficient applications such motors and generators. Prospects for cast and forged parts in such applications are therefore bright.
- In recent years, a considerable amount of engineering production has been shifted from West European countries to Slovakia.

Overall, the demand for castings will grow in Slovakia over the next few years as the major end user industries, such as the engineering and construction industry, continue to increase their output. Moreover, the niche for casting products made in CEE countries will continue to grow as Western European foundries focus on more technologically sophisticated products.

Opportunities and threats

+ Strong growth of engineering and construction markets will lead to an increasing demand for castings and forgings in the next few years.
+ The strong increase of the Slovakian wage level in recent years (refer to Section 4) – which is expected to continue – in relation to the low average turnover per employee, gives the Slovakian industry a weak position. If investments in efficiency improvement stay away, other LCC countries such as India may take over Slovakian foundry production.
– Shift of engineering production from Western Europe towards Slovakia – although other CEE countries may attract more investments – may lead to an acceleration of demand growth for castings and forgings of the Slovak engineering industry.

Useful sources

- Association of Construction Entrepreneurs of Slovakia - http://www.zsps.sk
- Association of Electrotechnical industry of the Slovak Republic - http://www.zep.sk
- Federation of Mechanical Engineering of the Slovak Republic - http://www.zspsr.sk
- Slovak Foundry and Forging Shops Association - http://www.zzks.sk
- Slovak Investment and Trade Development Agency - http://www.sario.sk

2. Trade: imports and exports

Imports

In 2005, Slovakia's imports of castings and forgings totalled €2.6 billion (1.9 million tons). The country was a small importer, ranking sixteenth in the EU behind Hungary, Portugal and Finland, but ahead of Ireland, Greece and Luxembourg. Like the other CEE countries, total Slovakian imports showed a strong increase in recent years: 95% in value (partly caused by the increasing raw material prices; refer to Section 4) and 57% in volume in the period 2001-2005. The product group shares were as follows: iron and steel products (33%), articles of iron, steel or base metal (29%; strongest growth in the period under review), parts of machinery, railway equipment or vehicles (17%), plastic and rubber products (12%) and light, ultra light, copper and zinc products (9%).

The DCs' share in imports in 2005 was only 2%, with China being the most important DC supplier (1%), followed by Turkey, Serbia Montenegro and Malaysia. The DCs' share was the largest (4%) for articles of iron, steel or base metal, with China being the largest DC supplier (2%). This was also the product group that showed the best growth of the DC share compared to 2001. Among the DCs that saw the largest increase in exports to Slovakia were Indonesia, Serbia Montenegro, India, China, Brazil and Thailand.

Exports

Total Slovak exports increased both in value (92%) and in volume (11%) in the period 2001-2005. With a total export value of €3.4 billion (4.1 million tons) in 2005, Slovakia was a medium-sized exporter in the EU, behind Poland, Finland and Denmark, but ahead of Hungary, Luxembourg and Portugal. Unfortunately, the value of re-exports is unknown, as Eurostat does not allow such detailed analysis.

Opportunities and threats

+ Total import value increased rapidly in recent years
+ DC share in total imports increased, although the increase was among the lowest in the EU
– Imports from China grew fast and represented a considerable share of DC imports

Useful sources

- EU Expanding Exports Helpdesk - http://export-help.cec.eu.int
- Eurostat – official statistical office of the EU - http://epp.eurostat.cec.eu.int
- Trade associations mentioned in Section 1.

3. Trade structure

Most often, end users in Slovakia buy their castings and forgings directly from a foundry or forge. Such a direct sourcing concept also gives the DC exporter a larger chance of a long-lasting relationship and therefore they should put efforts into building up supplier relationships with end users in Slovakia. Other relevant trade channels for the DC exporter may be importers and/or agents that supply the end user in Slovakia, and also foundries and forges may be an option. With regard to end users in Slovakia, there are still many prospects without experience in sourcing from DCs. Some examples of prospects in Slovakia are: CSM Tisovec (http://www.csmtisovec.sk; parts for machinery), Machintec (http://www.machintec.sk), Way Industry (http://www.way-industry.sk; parts for machinery) and SES (http://www.ses.sk; power plant equipment). Please refer to the CBI market survey covering the EU market for castings and forgings for a detailed explanation on the trade channels in this sector.

4. Prices

Price pressure in Slovakia was not so fierce compared to most West European countries. This may be underlined by the fact that the average price level of the engineering products industry

increased more than 13% in the period 2000-2005, compared to an average growth of 6% in West European countries. As in other EU countries, the industry also had to deal with increasing raw material and energy prices and wages. Although average wages in the industry increased 58% in the period 2000-2005, the Slovakian wage level was still the second lowest in the EU (€4.06 per man-hour in 2005), only higher than in Poland. Industry specialists expect that wages will rise further in the next few years, which will lead to an increasing price level of Slovak castings and forgings. Please refer to the CBI market survey covering the EU market for castings and forgings for a detailed explanation on these major trends.

Useful sources

- CAEF Eurofoundry - http://www.caef-eurofoundry.org
- European Engineering Industries Association (Orgalime) – http://www.orgalime.org
- London Metal Exchange – http://www.lme.co.uk

5. Market access requirements

Manufacturers in developing countries should be aware of the market access requirements of their trading partners and the country 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

The subject of business practices is concerned with finding prospects and with sales promotion tools, like trade press and trade fairs.

Finding prospects

There are many ways to find potential business partners in Slovakia. Some examples of available sources, beside the ones already mentioned in Section 1:

- Direct Industry - http://www.directindustry.com
- Europages – http://www.europages.com
- Kellysearch - http://www.kellysearch.com
- Kompass – http://www.kompass.com (mostly fee based, but the free part is useful too)
- Thomas Global Register Europe - http://www.trem.biz
- Slovak Investment and Trade Development Agency – business partner search: http://www.sario.sk/?business-partner-search-profile.

For more details about how to search some of these databases, please refer to the CBI Export Manual 'Digging for Gold'. Also refer to CBI's Export Planner (http://www.cbi.eu), an export manual that provides information on the different steps to be taken during the export process to the EU market.

Trade magazines

Some relevant Slovak magazines are Kovove Materialy (metalworking) - http://www.kovmat.sav.sk and Strojnicky Casopis (machinery) - http://www.strojcas.sav.sk.

Trade fairs

Visiting and participating in a trade fair provides more facilities for bringing across the message than any other trade promotional tool. It can also be an important source of information on market development, production techniques and interesting varieties. One relevant trade fair is "East Central Europe" (annually, October, Bratislava - http://www.east-2007.com). Furthermore, visiting trade fairs in neighbouring countries – such as Fond-ex in the Czech Republic (http://www.bvv.cz/fondex) may be a good option as well.

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