CBI
Ministry of Foreign Affairs

CBI Product Factsheet for Rubber and Metal Parts for Vehicles in Eastern Europe

'Practical market insights for your product'

Eastern European demand for rubber-to-metal bonded automotive parts is increasing strongly. Poland is the largest import market, followed by the Czech Republic and Romania. The share of imports from developing countries (DCs) is relatively low, with the exception of Bulgaria and Romania, where it stands at one-fifth of imports. DC exporters compete with the Eastern European manufacturers in what is a relatively small market.

Product definition

Automotive rubber and metal parts (HS codes 40169952; 40169958; 40169958) are grouped under the Automotive Parts and Components sub-category. This Product Factsheet analyses the market for rubber and metal parts in Eastern Europe, including Poland, the Czech Republic, Hungary, Bulgaria, Romania, Slovakia and Slovenia.

Product specifications

Quality: Compliance with international standards and the European standards on safety is required, as is conformity with existing EU and national legislation and practices. The ISO/TS 16949 standard is considered to be the highest level of quality. This standard is important for the European automotive industry as it outlines best practices when designing, developing, manufacturing, installing or servicing automotive products.

Materials: These products are made of vulcanized rubber, forged steel or rubber-to-metal bonded parts, and are intended exclusively or primarily for use in motor vehicles. They are used in most parts of a vehicle, such as for connecting joints, protecting moving surfaces, to transport liquids/gases, and to isolate vibrations. Rubber and metal parts include various types of bushing, rods, sealing, joints and dust covers, among others.

Considerations for action

- For further information on requirements for exporting casting and forgings to the EU, please refer to the CBI Buyer Requirements: Automotive Parts and Components

***Packaging & Labelling**:* In general, packaging is dependent on the buyer - either the OEM or end-user (the aftermarket sector). For aftermarket applications, the packaging is typically disposable packaging, where the packaging is discarded after being used just once. Returnable packaging is most often used by OEM suppliers, so as to reduce cost and improve the efficiency of packaging operations. Returnable packaging is not discarded after use and the empty packaging is recycled by the OEM or by a designated packaging operator. In order to export to the EU, product packaging must comply with all EU standards. To reduce the harmful impact of packaging on the environment, the EU has instituted legislation concerning the management of packaging and packaging waste.

Considerations for action

- For more information packaging and packaging waste requirements, please refer to the EU legislation on packaging and packaging waste.

Figure 1: Vehicle rubber and metal parts

Source: Fotolia

Legislative Requirements

Legislative Requirements: The most important requirement for automotive components is that they comply with the technical standards set by EU legislation in order to guarantee vehicle and environmental safety.

Type-approval is a certification for various types of motor vehicles and their components, which includes agricultural and forestry tractors. The type-approval or certification is valid in all EU Member States and is required when selling any products in the EU. Many automotive components are not approved until the final assembly, in which case certification of individual components is not necessary, although these components will still have to comply with type-approval requirements.

The End of Life Vehicles (ELV) Directive aims to avoid environmental pollution during the scrapping process through reducing the hazardous materials used in vehicle production. Vehicles must be designed to facilitate proper dismantling and recycling (by coding the components), and the use of heavy metals such

Considerations for action

- Check with your buyer, or with the approval authority of the country you want to export to, what the specific standards are for the parts you are manufacturing.
- Read more about type approval at the EU Export Helpdesk.

- Check if your buyer uses the International Material Data System (IMDS). This is a collective, computer-based data system developed by automotive OEMs to manage environmentally relevant aspects of the different parts used in vehicles. It has been adopted as the global standard for reporting on material content in the automotive industry.

as lead, mercury, cadmium and hexavalent chromium is prohibited (with the exception of a few applications).

Common buyer requirements: In addition to legislative approval, there are other common buyer requirements. While these are not obligatory in the legal sense, they are implemented by various competitors in the market and are thus necessary in order to compete effectively.

Quality Management: In order to apply for type-approval, production processes need to meet quality management criteria. ISO TS/16949 and ISO 9001 are accepted as standard requirements and EU buyers and manufacturers often insist on them..

Corporate social responsibility (CSR) and the extent to which buyers expect a certain level of social and environmental performance is becoming increasingly important. Bigger EU companies have developed their own CSR policies and require their suppliers (and their sub-suppliers) to conform to these. Signing a supplier code of conduct is often a prerequisite. These codes of conduct generally cover compliance with local laws, protection regarding workers' health and safety, respecting basic labour rights and also business ethics. The implementation of an environmental management system is often a requirement for core suppliers.

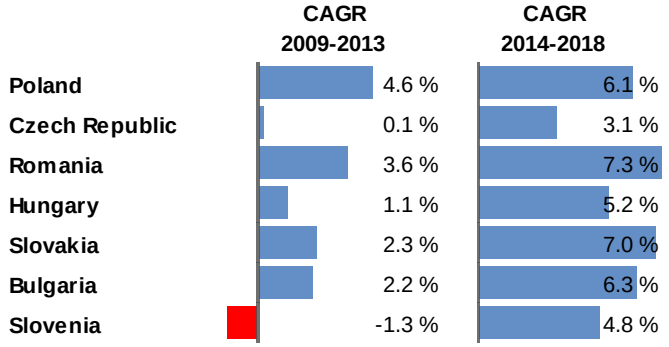
Considerations for action

- Implement ISO 9001 and ISO TS/16949, as it is a standard requirement of EU buyers. Click here for more information on ISO TS/16949 at the ISO website
- Most big car brands publish their CSR policies and supplier code of conduct on their websites. An internet search for these may give valuable insight into assessing your company's performance by comparison.
- Implement an environmental management system, such as ISO 14001, as it is a common requirement.

Macro-economic statistics

In 2013 Eastern Europe saw an average growth of 5.5% after the previous year's 6.8% contraction. Forecasts for 2014 and 2015 growth are estimated at 4.1% and 5.7% respectively. Poland, one of Eastern Europe's largest markets, as well as Romania and Slovakia are all forecast to experience an average growth of more than 6% through 2018.

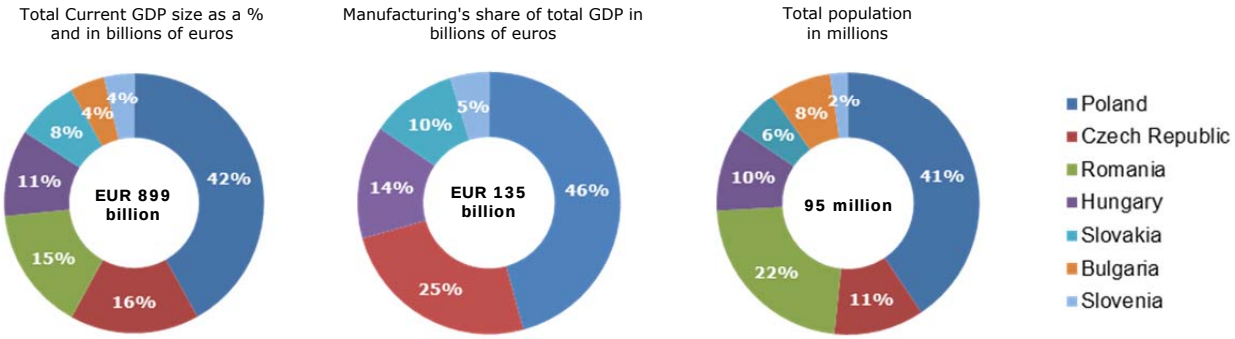
Figure 2: GDP (current prices) Compound Annual Growth Rate (CAGR) for 2009-2013 and estimate for 2014-2018 for selected Eastern European countries



Data source: IMF 2014, World Economic Outlook Database

The value of the GDP for the seven Eastern European countries covered by this document was estimated at €899 billion (or roughly one-tenth of the GDP value for the EU5 countries i.e. the biggest Western European economies Germany, France, the UK, Italy and Spain) in 2013. Poland is the largest market in Eastern Europe, with a GDP of approximately €377 billion and a production value at €62 billion, accounting for more than 40% share of total GDP and manufacturing values for the seven Eastern European nations in question. The Czech Republic is the second largest Eastern European economy with a strong manufacturing base, followed by Romania and Hungary. Bulgaria and Slovenia are relatively small economies, together accounting for less than 10% of the total Eastern European GDP.

Figure 3: Key 2013 macroeconomic indicators for Eastern Europe, in billions of euros (population in millions)



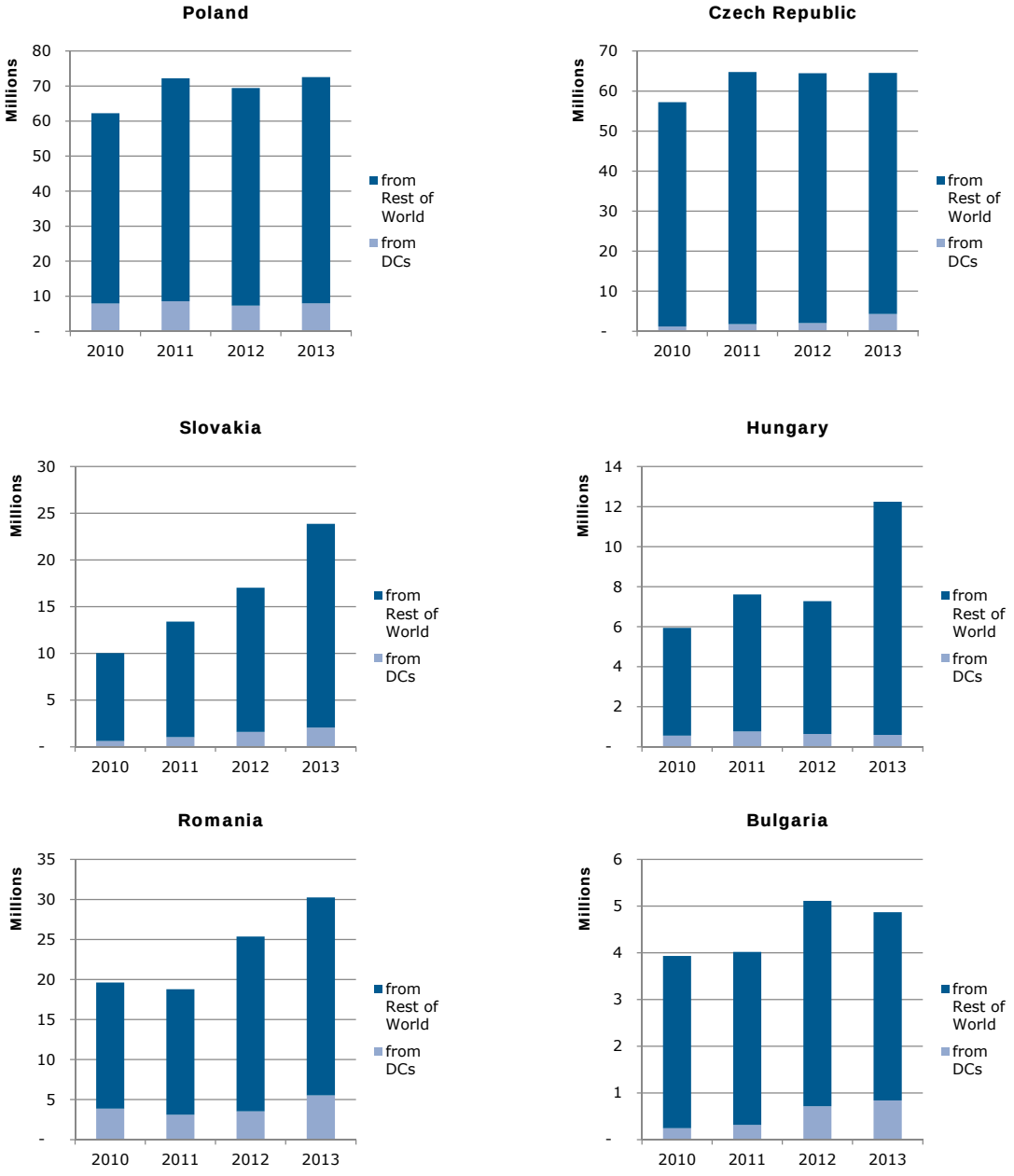
**No data available for Bulgaria and Romania*
Data source: IMF and OECD 2014

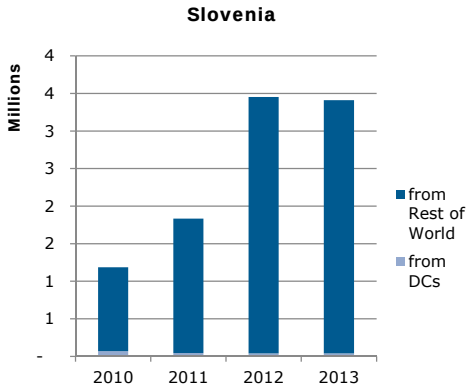
Trade Statistics

Imports and exports:
Eastern Europe imports roughly €212 million worth of rubber and metal parts a year. Taken together, Poland, the Czech Republic and Romania represent over 79% of the total imports of rubber and metal parts into Eastern Europe. The imported parts are shipped mainly from Eastern and Western Europe as well as other developed countries such as Korea and Japan.

The value of rubber and metal parts imports from the Developing Countries (DCs) to Eastern Europe was estimated at €21.4 million (10.1% of total rubber and metal parts imports) in 2013 and grew at a 13.8% CAGR between 2010 and 2013. Poland imports the most rubber and metal parts from the DCs in absolute terms (€8 million), followed by Romania (€5.5 million) and the Czech Republic (€4.3 million). The value of rubber and metal parts imports from the DCs to the Czech Republic, Slovakia and Bulgaria grew more than threefold between 2010 and 2013. The biggest DC exporters of vehicle rubber and metal parts to Eastern Europe are Turkey, China and India. If the current trends continue, DC imports will continue to grow at the same or a higher rate than the overall growth rate of imports (9.7%).

Figure 4: Import of vehicle rubber and metal parts, in millions of euros (the range of the y-axes varies by country due to different import levels)



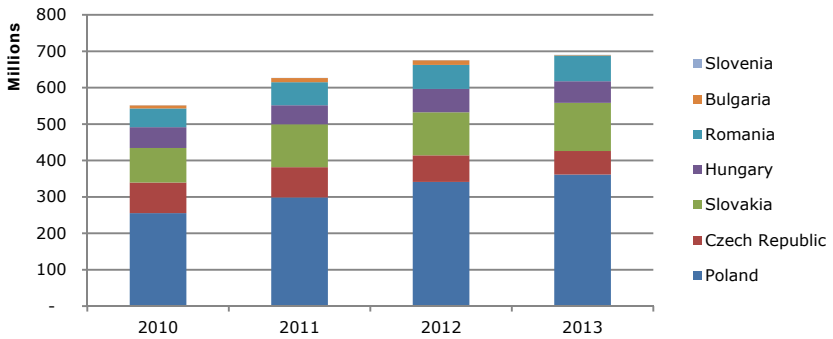


Data source: Eurostat 2014

Between 2010 and 2013, the export of rubber and metal parts has grown steadily across the region. Even in 2012, which proved to be an economically challenging year, manufacturers still saw sales and exports increase. The exports largely go to the EU market, China and US, with the latter two the most important overseas destinations.

Eastern Europe is a net exporter of rubber and metal parts, having exported approximately €690 million worth in 2013. Poland is the largest exporter with €361 million in exports (or over 52% of total Eastern Europe rubber and metal parts exports), followed by Slovakia at €132 million and Romania at €71 million. Together, these countries account for nearly 82% of Eastern Europe's rubber and metal parts exports. The parts are mainly exported to other EU nations as well as to other developed countries. Roughly €36 million worth of rubber and metal parts is exported to the DCs (approximately 5.3% of all exports).

Figure 5: Export of vehicle rubber and metal parts, in millions of euros



Market trends and opportunities

Eastern Europe is in a prime position to capitalize on the decline in the European automotive market, with lower labour costs, a solid infrastructure and locations close to major Western European markets. Before the economic crisis started in 2008, many European OEMs invested in production sites across Eastern Europe. Few of these plants have been closed and production volumes have remained stable. Eastern Europe looks set to remain a strong hub of automotive manufacturing for the near future, although the risk does exist that OEMs might move labour intensive operations to lower-cost regions, such as North Africa and Southeast Europe. This presents an opportunity for the DC exporters to do business with these countries.

Eastern European demand for rubber-to-metal bonded automotive parts is growing strongly, mainly due to investments by OEMs and the growing aftermarket demand for mechanical parts. As the vehicular OEM market is covered by Tier 1 and 2 solution providers, developing country (DC) suppliers' opportunities can be mostly found in the automotive aftermarket sector (such as bushings and rods for suspension) and in the OEMs for commercial vehicles, agricultural/construction equipment, motorcycles, and outdoor power tools. Despite the growing value of rubber and metal parts imports, the level of DC-sourced products has remained low. The reason behind this trend is the intense local production and the business culture that exists in these countries, as well as the price difference between Eastern European countries and the DCs, which is smaller than the price difference when compared to, for example, the Western European countries.

Poland is the biggest import market for rubber and metal parts in Eastern Europe, with imports in 2013 estimated at €73 million (up from €62 million in 2010). It is followed by the Czech Republic at €65 million and Romania at €30 million, with a strong average compound growth of 16% annually since 2010. Slovakia and Hungary are also emerging as attractive import markets with €24 and €12 million in imports respectively. Romania and Bulgaria have the highest share of rubber and metal parts originating from developing countries (roughly 18% and 17%), indicating a willingness to source components from this part of the world. All other Eastern European countries, with the exception of Slovenia, have a share of DC imports for rubber and metal parts of between 5%-11%, which means that there is an overall growth in the demand for more competitively-priced parts from the developing countries.

Price

Apart from the distribution of new parts, the aftermarket for automotive parts also encompasses the vigorous distribution of used or overhauled parts and components. Pricing depends on supply chain positioning. The aftermarket sector, in particular, is very discount-driven and has varied mark-ups at each distribution step for different parts and components. Due to the large variation in parts types and models, it is difficult to provide a general overview of rubber and metal parts prices, but it is possible to provide some insight into the margins imposed by different players in the supply chain. Based on the margin ranges, DC suppliers selling to a tier 3 supplier in the OEM supply chain could price their products at between 64% and 81% of the OEM delivery price. In order to better ascertain the prices of specific products and models, check the internet to determine the appropriate range, or talk directly to wholesalers and/or retailers. The price of branded spare parts will not differ greatly among the various countries. Those players who are active in several European nations have largely harmonised their prices, and any differences in pricing may be because of different logistical and local costs. In the Original Equipment sector, the price is set by contracts of four years or more, which usually include a 3-5% price reduction each year after the first year. In the aftermarket sector, the prices are negotiated every year.

OEM supply chain	Margin
Tier 1 supplier delivering to an OEM	6-8%
Tier 2 supplier delivering to tier 1	6-15%
Tier 3 supplier delivering to tier 2	10-25%
Aftermarket OES supply chain	**Margin**
Tier 1 delivering to OEM for OES sales through approved service chain	10-30%
Tier 1 delivering to OEM for OES sales through independent outlets	10-25%
OEM delivering OES parts through its approved service chain	25-65%
OEM delivering OES parts through independent outlets	30-50%

Main sources

- European Commission's macroeconomic publications
- IMF – a good source for macroeconomic information
- OECD – a good source for macroeconomic and industry-specific information

- European Commission's Directives and Regulations pertaining to motor vehicles, their trailers, systems and components
- CLEPA - the European Association of Automotive Suppliers
- ACEA - the European Automobile Manufacturers Association
- Ernst & Young's Automotive information - Automotive information – a good source of automotive information
- Ernst & Young's European Automotive Survey 2013 – interviews mostly with automotive suppliers
- Inovev - Worldwide automotive knowledge platform that offers free-of-charge and fee-based content
- Trade fairs are a good place to network, meet buyers and to promote your company. The most prominent automotive trade fairs in Eastern Europe are: the Sofia Motor Show (site in Bulgarian) – Bulgarian automotive trade fair; Motor Show Poznań – Polish automotive trade fair; Bucharest Auto Show and Accessories – Romanian automotive trade fair; AUTOSALON Brno – Czech automotive trade fair; Autosalon Bratislava (annual) – Slovak automotive trade fair

More information
CBI market information:
- CBI Buyer Requirements: Automotive Parts and Components
- CBI Buyers' Black Box: Automotive Parts and Components
- CBI Market Channels and Segments Automotive Parts and Components
- CBI Market Competitiveness Automotive Parts and Components

This survey was compiled for CBI by Global Intelligence Alliance