Automotive Parts Manufacturing in Romania

by Central Europe Trust Company

The development of a central european automotive cluster estimated to span on a 200 km radius centered at the triple Czech-Slovak-Polish border, as well as the global search of all automotive parts players and equally assemblers to squeeze – out costs have combined into a growingly – important opportunity for automotive parts manufacturing in Romania. In the above-mentioned context, automotive parts manufacturers (and the tier I parts providers especially) have naturally followed assemblers (their “customers”) as they have relocated/ expanded towards Central and Eastern Europe. On the other hand, it is already more than half a decade since parts manufacturers themselves have started to relocate, in the attempt to trim down their own costs. The process was (and still is) gradual, as the automotive sector at large has “a lot of many things except the margin for error”.

The entry of many parts manufacturers over the last decade did not come on a vacuum (namely it is by no means to guess that until those companies’ arrival, automotive parts manufacturing was totally absent in Romania). At least over the last years, demand for automotive parts was prevalently driven by the most important assembler (Dacia, taken over in 1999 by Renault), as most of the other vehicle assemblers (be they SUVs, trucks, tractors or other) faced either near-extinction or were the victims of various sorts of expertise in industrial euthanasia. Almost all of those assemblers, including the old (pre-Logan, should we say) Dacia, do not produce anymore (at least on industrial scale) so that demand for dedicated auto parts will still survive a number of years, until the park of those respective vehicles goes out of use. Currently only one assembler of international prominence belongs to “the industry of industries” (as Peter Drucker has portrayed the automotive sector back in 1946).

Table1: Automotive parts manufacturers in Romania - timeline of market entries
1993
Autoflex SRL [1]
Lisa Draxlmaier Autopart Romania SRL [2]
1994
Rolem SRL [3]
1996
Takata-Petri Romania SRL
Thyssenkrupp Bilstein Compa SA
1997
Autoliv Romania SA
Delphi Packard Romania SRL
EKR-Elektrokontakt Romania SRL
Honeywell Garrett SRL
Ronera Rubber SA
1998
Dow Automotive SA
Kuhnke Production Romania SRL
Parat Ro SRL [4]
Thyssenkrupp Compa Arcuri SA
1999
Continental Automotive Products SRL
Borla Romcat SA
Eybl Automotive Romania SRL
Kromberg & Schubert Romania SRL
Leoni Wiring Systems Arad SRL
DRM Draxlmaier Romania Sisteme Electrice SRL
2000
Automotive Complete Systems SA
Brandl Ro SRL
DSR Draxlmaier Serviceleistungen Romania SRL
Eybl-Automotive-Components SRL
Sews Romania SRL
Siemens VDO Automotive SRL
2001
Alcoa Fujikura SRL
DPR Draxlmaier Procese Producţie Romania SRL
Lear Corporation Romania SRL
Phoenix Romania SRL [5]
SC Victoria [Michelin] SA
Silvania [Michelin] SA
Star Transmission Cugir SRL [6]
Valeo Cablaje SRL
2002
Auto Chassis International Romania SRL
Automobile Componente Electrice SRL
Bos Automotive Products Romania
Euro Auto Plastic Systems SRL
Ina Schaeffler Braşov SRL
Johnson Controls Romania SRL
Leoni Wiring Systems Ro SRL
Magnetto Wheels - Romania SA
Nexans Romania SRL
2003
Ficamt SA [7]
Eckerle Romania SRL
Faurecia Seating Tălmaciu SRL
Freudenberg Flexibile de Frână SRL
SNR Rulmenţi SRL
Valvetek SRL
Yazaki Component Technology SRL
Yazaki Romania SRL
2004
Alcoa Romania SRL
Dura Automotive Romania SRL
Hella Lighting Romania SRL
Michelin Romsteel Cord SA
Ruwel Romania SRL
Takata-Petri Sibiu SRL
Trw Automotive Safety Systems SRL
See note 8 below
Continental Automotive Systems SRL
Cord Romania SRL [9]
Coindu Romania SRL
Pirelli Tyres Romania SRL

Notes: 1. Greenfield investment by BOSAL AUTOMOTIVE; 2. Lisa Draxlmaier has also established DTR Draxlmaier Sisteme Tehnice Romania SRL which is a technical support entity and not a direct manufacturer of automotive parts; 3. Manufacturer of wooden parts especially for Mercedes, currently owned by Lisa Draxlmaier; 4. Textile parts manufacturer for the automotive sector (airbags) that has also diversified in other export-oriented lines of business; 5. As Phoenix Automotive has merged with Contitech AG, part of the Continental Group, its entity in Romania becomes part of the Continental group; 6. This is the joint venture that DaimlerChrysler and Romania’s Ministry of Industry have established in order to produce in Cugir transmission gearboxes; 7. This is a joint venture established by FICOSA with Romania’s UAMT in order to become, among other business goals, a domestic provider for the LOGAN; 8. These automotive parts manufacturers have started industrial scale activities in Romania by late 2004 and their respective first year of financial reporting is 2005; 9. This is the joint venture that Michelin and Continental AG have established to produce locally metallic inserts (reinforcement cord for tires)

The entry in Romania of many automotive parts manufacturers is thus (with the sole Logan-related exception) not in relationship with the development in the country of car assembly operations. All of the entrants have singled - out Romania as a low-cost manufacturing base that (at least on Romania's Western side) is close enough and connected decently – enough to Western and especially Central European assembling hubs. Entering a low-cost manufacturing country (as Romania was identified to be) is part of the strategies of most of the internationally – relevant automotive parts producers, that have decided with overwhelming majority to select as entry vehicle of choice the greenfield investment. The presentation in rough outline of how foreign-owned automotive parts manufacturers have entered in Romania and of the pace of their businees development in the recent past is the point of interest of this paper.

In Romania's particular case, the market entry by significant automotive parts manufacturers is not recent. After a short time of cooperation with Romanian counterparts in Pitești, the German-based Lisa Draxlmaier has decided to establish a strong manufacturing base back in 1992. Rather recent is the rate at which the group of automotive parts manufacturing develops: on one hand, the number of new entrants goes up, on the other hand already established players enlarge their business footprint (and Lisa Draxlmaier is, again, one of the strongest exemplifications). Table 1 gives a detailed timeline on the development of the automotive parts sector in Romania. It is however to note, that in almost complete opposition to the way to enter in Central Europe (acquisition of an already existent player or even joint venture) the pattern prevailing in Romania is the greenfield. The extent to which this suggests how obsolete the pre-existent manufacturing base was, or the extent to which how managerial and operating patterns of foreign players were different from domestic ones are matters of further research.

Table 1 limits itself at only those manufacturers that by end 2004 were already after at least one year of business activity. The entry of new players in the sector has continued starting in January 2005, and Table 2 gives new corporate names. There is no claim on our side that Tables 1 and 2 (as well as those following) are unquestionably comprehensive (about foreign investment specialized in automotive parts) but we are confident the details cover the vast majority of players. All tables include the names of the legal entities established in Romania by foreign manufacturers (and not the name of the parent company, which is anyway directly suggested in the local entity's name).

Both locational factors (adequate infrastructure close-enough to assembly factories) and operational/ fiscal facilities (mainly attractive acces to land, favorable approach by local authorities) have played a key role in site selection. The Chart in next page includes on Romania's map the locations of preference by most of the foreign-owned automotive parts manufacturers. It is relevant to keep in mind the numbers in parathesis attached to some of the companies' names. The numbers represent: the first the rank of that company among Romania's largest 200 importers and the second the rank of the same company among Romania's largest 200 exporters. All rankings refer to 2005 data. Analysing how automotive parts manufacturers rank in terms of imports and exports gives a broad suggestion that, to a large extent, Romania remains mainly a provider of labor force.

Not all automotive players export (rank among Romania's top 200 exporters) based on overwhelmingly importing raw materials/ components. Ebyl-Automotive-Components SRL, Faurecia Seating Tălmaciu SRL, Kuhnke Relee SRL, Phoenix Romania SRL, TRW Automotive Safety Systems or ThyssenKrupp Compa Arcuri SA belong to this category. There is, on the other hand, a group of companies, such as Auto Chassis International Romania SRL, Magnetto Wheels Romania SA, Michelin Romsteel Cord SA, Valeo Electronice și Sisteme de Conectare Romania SRL or Yazaki Component Technology that rank among the largest 200 importers and are not (yet) top exporters.

At least until the end of 2004, operations performed by automotive parts manufacturers were of low-to-average value added. Manufacturing units of mechanical parts and wiring/ cabling seem to prevail. The detailed structure of the products for which automotive assemblers have selected Romania, as well as a review of the operating locations comes out, in a breakdown by product categories in the Tables 3, 4, 5, 6 and 7. It is important to note that currently many of the already-established parts assemblers have started to both diversify their products portfolio in Romania and to grow the volume of locally-added value. The inception and development of cooperation programs between local industrial players and Romanian universities tailored to the needs of automotive parts manufacturers prepares the way for a new level of implication of the local workforce in parts manufacturing.

In spite of growing numbers of players, the group of automotive parts manufacturers remains very concentrated. The concentration is high both in geographic terms and in terms of profit generation capacity. Table 8 gives the dimension of geographic concentration in three of Romania's counties that account for more than half the sector's turnover, net profit and generates important consequences in terms of employment. On the other hand, a few companies account for a good portion of turnover and the profits generated in the sector. Table 9 gives a dimension of this type of concentration.

Table 2: Automotive parts manufacturers established after December 2004

2005 [1]		
Valeo Electrical Connective Systems SRL	January [1]	Connectors and cabling systems
Key Safety Systems RO SRL	March	Seatbelts and accessories
Stabilus Romania SA	October	Gas springs and hydraulic dampers for car seats
2006 [1]		
Schlemmer Romania SRL	January	Protection/ insulation for automotive cables
Hella Electronics Romania SRL	March	Gas pedals, xenon switches, heating control
Kromberg & Schubert SRL	March	Special cables, network cables, auto engine – related cables
Trelleborg Romania SA	March	Automotive anti-vibration products
Mahle Componente de Motor SRL	April	Filters manufacturing

Note: 1. Refers to the year (month) when a legal entity already established in Romania started (will start) industrial – scale activities

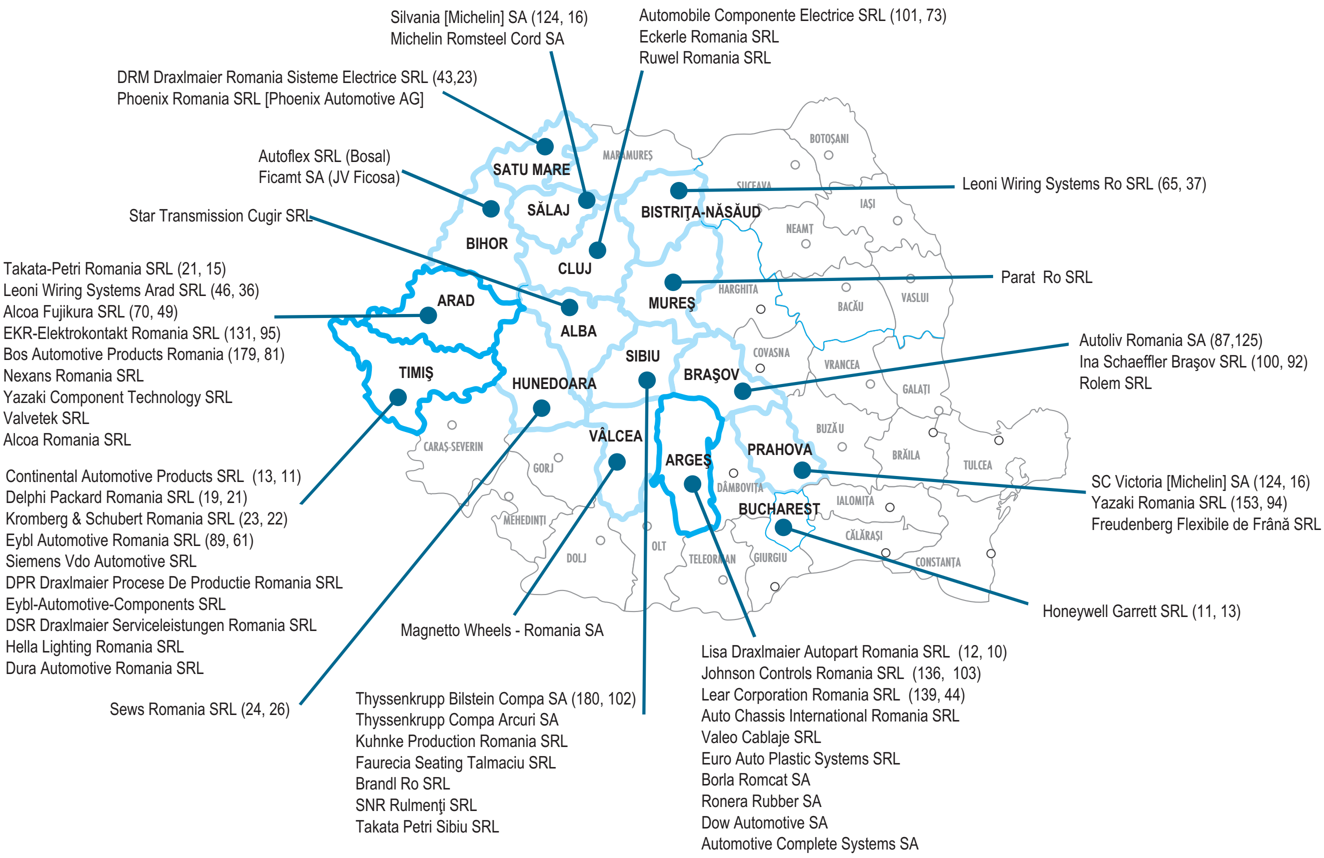

Table 3: Product portfolio of automotive companies - *Mechanical parts, mechanisms & related (MP)*		
Bihor		
Autoflex SRL (1993)	towing systems and accessories	Greenfield
Ficamt SA (2002)	rearview mirrors, shifters, parking brakes, pedal box, cables for clutches & accelerators	Joint venture
Braşov		
Rolem SRL (1994)	wooden parts for auto interiors	Joint venture
Ina Schaeffler Braşov SRL (2002)	automotive linear technique and selected ball bearings	Greenfield
Sibiu		
Thyssenkrupp Bilstein Compa SA (1996)	high performance automotive dampers	Joint venture
Thyssenkrupp Compa Arcuri SA (1998)	linear & parabolic springs sheets and springs	Joint venture
Brandl Ro SRL (2000)	various automotive mechanical components	Greenfield
SNR Rulmenţi SRL (2003)	automotive ball bearings	Greenfield
Takata-Petri Sibiu SRL (2004)	airbag components	Greenfield
Arad		
Takata-Petri Romania SRL (1996)	steering wheels and belts	Greenfield
Bos Automotive Products Romania (2002)	sun protection, interior management systems	Greenfield
Valvetek SRL (2003)	automotive valves	Greenfield
Alcoa Romania SRL (2004)	aluminum - based metallurgic products	Greenfield
Bucharest		
Honeywell Garrett SRL (1997)	components for diesel engines	Brownfield
Argeş		
Borla Romcat SA (1999)	automotive exhaust systems	Joint venture
Automotive Complete Systems SA (2000)	license - based production of cables and cable harnesses	Greenfield
Auto Chassis International Romania SRL (2002)	suspension and chassis systems	Greenfield
Alba		
Star Transmission Cugir SRL (2001)	transmission gearboxes and related parts	Joint venture
Satu Mare		
Phoenix Romania SRL (2001)	hoses for automotive applications	Greenfield
Timiş		
DPR Draxlmaier Proc. Prod. Romania SRL (2001)	ornamental devices for automotive interiors	Greenfield
Vâlcea		
Magnetto Wheels - Romania SA (2002)	automotive wheels and wheel parts	Acquisition
Prahova		
Freudenberg Flexibile de Frână SRL (2003)	braking system components	Greenfield
Sălaj		
Michelin Romsteel Cord SA (2004)	metallic cord for automotive wheels	Greenfield

Table 4: Product portfolio of automotive companies - *Electric and electronic parts & sub-assemblies (EL)*		
Argeș		
Lisa Draxlmaier Autopart Romania SRL (1993)	electric components for engines and vehicles	Greenfield
Sibiu		
Kuhnke Production Romania SRL (1998)	automotive electromagnets and electronic devices	Greenfield
Timiș		
Siemens Vdo Automotive SRL (2000)	automotive electronic components, integrated software	Greenfield
Dura Automotive Romania SRL (2004)	automotive driver control & body and glass systems	Greenfield
Hella Lighting Romania SRL (2004)	automotive headlamps and lamps	Greenfield
Hunedoara		
Sews Romania SRL (2000)	electric components	Greenfield
Cluj		
Automobile Componente Electrice SRL (2002)	electronic subassemblies, cabling for electronic products, plastics technology	Greenfield
Eckerle Romania SRL (2003)	assembly operations, automatics	Greenfield
Ruwel Romania SRL (2004)	circuits boards, electronic components	Greenfield
Arad		
Yazaki Component Technology SRL (2003)	electric system parts, connectors, dashboard indicators	Greenfield
Prahova		
Yazaki Romania SRL (2003)	electric components (for Toyota assembly in Europe)	Greenfield

Table 5: Product portfolio of automotive companies - *Electric & optical cables and wiring (CW)*		
Timiș		
Delphi Packard Romania SRL (1997)	electric cables , resistors, cables for engine parts	Greenfield
Kromberg & Schubert Romania SRL (1999)		Greenfield
Arad		
EKR-Elektrokontakt Romania SRL (1997)		Greenfield
Leoni Wiring Systems Arad SRL (1999)	cables and wiring systems (Rover, Ford, Bentley)	Greenfield
Alcoa Fujikura SRL (2001)	optical cables and wiring	Greenfield
Nexans Romania SRL (2002)	wiring solutions with copper and optical cables	Greenfield
Satu Mare		
DRM Draxlmaier Romania Sist. Electrice SRL (1999)	electrical and optical fibers cables	Greenfield
Argeș		
Lear Corporation Romania SRL (2001)		Greenfield
Valeo Cablaje SRL (2002)		Greenfield
Johnson Controls Romania SRL (2002)		Greenfield
Bistrița Năsăud		
Leoni Wiring Systems Ro SRL (2002)	wiring sub-assemblies (DaimlerChrysler & BMW)	Greenfield

Table 6: Product portfolio of automotive companies - *Textile items for the automotive sector (TX)*		
Brașov		
Autoliv Romania SA (1997)	safety belts	Acquisition
Mureș		
Parat Ro SRL (1998)	textiles parts for air bags	Greenfield
Timiș		
Eybl Automotive Romania SRL (1999)	automotive interior parts (textiles)	Greenfield
Eybl-Automotive-Components SRL (2000)	interior clothing, leather and cloth/leather parts	Greenfield
Sibiu		
Faurecia Seating Tălmaciu SRL (2003)	seat textile parts and seating system parts	Greenfield

Table 7: Product portfolio of automotive companies - *Other automotive applications*		
Brașov		
Rubber parts, tires & related (RU)		
Ronera Rubber SA (Argeș, 1997)	rubber items	Greenfield
Continental Automotive Products SRL (Timiș, 1999)	tyres and tyre tubes	Greenfield
SC Victoria [Michelin] SA (Prahova, 2001)	tyres	Acquisition
Silvania [Michelin] SA (Sălaj, 2001)	tyres	Acquisition
Plastics and other chemicals (CH)		
Dow Automotive SA (Argeș, 1998)	PVC - based sealant, bitumen - based sound absorbers	Greenfield
Euro Auto Plastic Systems SRL (Argeș, 2002)	frames, door panels, metallic rods	Greenfield
IT modules (IT)		
DSR Draxlmaier Serviceleistungen Romania SRL (Timiș, 2000)	software and hardware systems integration, consulting	Greenfield

Table 8: Financial/employment profile of foreign – owned automotive components manufacturers

Year		Turnover EUR mn	Turnover Share to total (%)	Net profit EUR mn	Net profit Share to total (%)	Balance sheet size Total assets (EUR mn)	Employment profile No. of employees	Employment profile Share to total (%)
2002	Argeș, Arad and Timiș Counties [1]	313.0	54.6%	26.52	54.3%		17,739	58.4%
2002	Other 13 counties [2]	260.4	45.4%	22.28	45.7%		12,661	41.6%
2002	**TOTAL AUTOMOTIVE PARTS**	573.4	100%	48.80	100%	506.48	30,400	100%
2003	Argeș, Arad and Timiș Counties	465.67	56.1%	36.23	59.5%		21,667	58.7%
2003	Other 13 counties	364.84	43.9%	24.64	40.5%		15,234	41.3%
2003	**TOTAL AUTOMOTIVE PARTS**	830.51	100%	60.87	100%	669.37	36,901	100%
2004	Argeș, Arad and Timiș Counties	654.13	60.4%	39.37	69.3%		30,560	58.3%
2004	Other 13 counties	429.55	39.6%	17.42	30.7%		21,899	41.7%
2004	**TOTAL AUTOMOTIVE PARTS**	1,083.68	100%	56.79	100%	1,124.23	52,459	100%

Notes: 1. Refers to the total of all foreign – owned automotive parts manufacturers headquartered in the three counties
2. Refers to data for Bucharest, Prahova, Brașov, Sibiu, Cluj, Satu - Mare, Sălaj, Hunedoara, Vâlcea, Alba, Mureș, Bihor, Bistrița - Năsăud combined

Table 9: Companies' ranking by net profit

Company name[1]	**2002**	**2003**	**2004**	**2002**	**2003**	**2004**
	Turnover (EUR, mn)			Net profit (EUR, mn)		
Continental Automotive Products SRL	83.98	145.67	162.77	11.47	15.68	20.56
Delphi Packard Romania SRL	115.11	126.16	114.71	5.17	9.19	5.54
Honeywell Garrett SRL	78.66	100.77	22.05	17.61	20.28	5.05
Top 3 companies	277.75	372.60	299.54	34.25	45.16	31.15
Top 5 companies	306.25	406.88	349.09	39.32	50.11	37.65
Top 10 companies	337.18	464.75	449.31	45.40	57.13	45.94
	Share[2] (%) to total			Share[2] (%) to total		
Continental Automotive Products SRL	14.6%	17.5%	15%	23.5%	25.8%	36.2%
Delphi Packard Romania SRL	20.1%	15.2%	10.6%	10.6%	15.1%	9.8%
Honeywell Garrett SRL	13.7%	12.1%	2%	36.1%	33.3%	8.9%
Top 3 companies	48.4%	44.9%	27.6%	70.2%	74.2%	54.9%
Top 5 companies	53.4%	49%	32.2%	80.6%	82.3%	66.3%
Top 10 companies	57.9%	56%	41.5%	93%	94%	81%

	2002	2003	2004
Total number of companies	43	51	57
Companies with profit over EUR 1 mn	8	7	12
Companies with profit over EUR 500 thou.	12	12	19

NOTES: 1. Companies are listed in the declining order of net profit in 2004
2. Refers to share to total turnover (net profit) of the foreign – owned automotive parts companies in each year.

The issue of low-cost sourcing remains the key driving factor for foreign automotive parts manufacturers to establish activity (and hopefully to further develop it) in Romania. The extent to which low (mainly labor) cost alone can be a long-term competitive weapon has been revealed, at least recently, in the most explicit and formal way. "Romania cannot continue to compete only by being a cheap country; it will always be a cheaper location", an EU Commissioner has stated by end 2005.

On the other hand, competitiveness – wise, the experience in other markets (and companies) is self – explanatory. High costs was the reason for both assembly and parts manufacturing operations relocation from Spain and Portugal toward Central Europe, of even from Sweden toward Germany, as it is now the process of relocation from Central toward Eastern Europe. It is well known the process in which Renault had to consider even the option to discontinue operations at one of its factories in Slovenia purely for cost reasons. It is the reality of the day that even from Central Europe, selected operations currently relocate once more further East (and Romania has thus become prime target in the picture). The relocation entails moving operations even from Hungary to Western and central Romania.

The issue of further cost decline is bound to continue to add high pressure on automotive parts manufacturers. The development by major assemblers of the mass – market car (currently typified by Renault's Logan, to be followed by Volkswagen's code – named 3K) is one of reasons.

It is thus relevant to research what the new competitive strenghts could become, as the advantage of cheap labor vanishes. A few recent examples give some inspiration: Spain attempts to build advantage as a well-seated automotive research and development base. The Czech Republic, still in the process to attract new foreign investment in the automotive sector, attempts to build advantage with the combination of a strong engineering base and an attractive ratio of labor cost to productivity. Low cost alone is out of the picture (as relevant competitive tool) in all other Central European countries, where good infrastructure and availability of a labor force that is decent in costs and adequately skilled is claimed to prevail. The current inflow of foreign investment, even at acelerating pace in the short - term, based exclusively on low labor costs is no real source of relief. It just emphasizes what J.P. Morgan, the investment banker, has stated almost a century ago: life is 10% what happens and 90% how we react.

Central Europe Trust Company, Ltd.
Strada Aviator Petre Crețu Nr. 38, Sector 1, București
Tel.: +40 21 260 2908
Fax: +40 21 260 1628

Contact:
Adrian Rusu, Director
E-mail: adrian.rusu@cet.com.ro
Marcel Nicula, Project Manager
E-mail: marcel.nicula@cet.com.ro