

Study on business co-operation potential and opportunities in the sector of car components

BULGARIA

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1. General information of the country. Bulgaria

Basic data

Location: Located on the Balkan Peninsula, Bulgaria extends from the western shore of the Black Sea to Serbia and Montenegro and the FYROM to the West. The Danube River forms the greater part of Bulgaria's common northern border with Romania. Greece and Turkey are at the South and South-East of the country.

Bulgaria can be seen as having three parallel East-West zones: the Danubian in the North, the Stara Planina (or Balkan) mountains in the center, and the Thracian Plain and the Rhodopes and Pirin mountains in the South and South-West.

Area: 110.993 sq.km (44.365 sq.mi)

Time: GMT + 1

Population: 7.928.900 (2001); 70% urban.

Population density: 70.3 persons per square kilometer (2003).

Major cities : Sofia (capital, pop. 1.115.000), Plovdiv (pop. 377 637), Varna (pop. 297 090), Bourgas (pop. 188 367), Rousse (pop. 185 425)

Languages: The official language is Bulgarian (cyrilic characters). English, French and German are widely used in business.

Religion: 85% are Christian Orthodox; 13% profess Islam.

Adult literacy : 98.4%

Political system:

Official name: Republic of Bulgaria

State organisation: constitutional parliamentary democracy.

The head of State is the President of the Republic.

Elections: President and Vicepresident elected by direct vote for five-year terms.

Executive branch: The Council of Ministers, elected by the National Assembly.

Legislative branch: Unicameral National Assembly. Members are elected by direct vote to serve four-year terms.

Judicial branch: Supreme Court. Chairman appointed for a seven-year term by the president. Constitutional Court, 12 judges appointed or elected for nine-year term.

Administrative division: 28 districts.

Constitution: adopted 12 July 1991.

Legal System:

Civil law and Criminal law based on Roman law; accepts compulsory ICJ jurisdiction.

2.- Market information of Bulgaria. Economy.

Bulgaria started its transition to a market economy later and under more unfavorable conditions than most central European countries. **Economic reforms were not launched until 1991**, by which time the country was undergoing a deep economic crisis.

In 1991, prices of most goods were liberalised, subsidies were sharply reduced, a unified floating exchange rate was introduced, the state monopoly on foreign trade was abolished and a two-tier banking system was created.

Privatization has been slow. In the enterprise and financial sector, market disciplines remained largely absent. Central planning was abolished, but basic institutions of a functioning market economy, such as well-defined, readily enforced property rights, were not put in place.

Realizing that some of the transition towards a competitive market economy still lies ahead, the authorities are implementing a comprehensive medium-term economic adjustment and reform program in the context of Bulgaria's EU access strategy.

Currency: Bulgarian Lev; 1 BGN = € 0.51

	2001	2002	2003
GDP			
-Current prices	13.557	14.207	14.832
-Actual growth rate (%)	4	4.8	4.4
-GDP per capita (\$)	1.700		1.470
-GDP per capita (% of EU average)			25
Inflation			
GDP deflator (%)	6.5	5.8	3.5
Unemployment rate (%)	17.8	18.1	15.7
Employment			
-Number employed (annual average):	2.940		
-Public sector (thousands)	785		
-Private sector (thousands)	2.157		
SMEs sector			
- Trade		58	44
- Industry		29	29
- Farming		13	27
External Debt (mln USD)		10.124	10.211
External sector			

-Current account (mln USD)	-890	-4.7	
-% of GDP	-6		
-Trade balance (mln USD)			
Export	5.100		5.850
... Import	-6.675		-6.410
% of GDP	-11.6		

3.- Overview of the car parts sector in Bulgaria.

The automotive industry.

There are approximately **2 300 000 registered motor vehicles in Bulgaria** at the moment. The **average age** of the car park in Bulgaria is around **19 years**. The **most popular** automobiles are **Lada, Skoda, Ford, Opel, Peugeot, Volkswagen and Audi**. The **heavy vehicles: Volvo, Mercedes Benz, MAN, Iveco, DAF and Scania**.

After ten years of ups and downs the Bulgarian new cars market is starting its slow but stable revival. **The growth from 40% that started in 2003 is kept the same in 2004**. The market analyzers predict that this trend will stay until the new cars market recovers the sells volumes realized in 1989. In that year 100 000 new cars were sold in Bulgaria. The import of second hand vehicles is not forbidden still but the situation is changing very fast after 1989. **The sells of new automobiles is somewhere between the minimum from 1996 - 7570 cars and the complete record from the last year - 25 600 pieces. In the same time the market of used automobiles has exploded from 24 347 sells in 1992 to 200 000 for the last year.** The sold cars were **mainly import from the EU-members** countries. At that time Bulgaria was the only country without any restrictions on the import of old cars above certain age. In the same time the rest Central and East European countries started to replace the restrictions with ecological requirements. In our country because of the interests of the importers and the users of second hand cars every attempt to introduce some kind of restriction, failed. Since 1 of January 2005 there are new EURO 4 ecological requirements for the EU countries. Romania has introduced EURO 3. The European automobile policy is well planed until 2020. **On 1 of January 2007 the restrictions will become even stronger with the implementation of the new EURO 5 standard. The big car producers are prepared for this act already. Bulgaria is awaiting its accession in the EU after two years but still does not have clear position on the ecological euro standards.** If the new requirements EURO 5 come in force, this will cause a huge economic shock because the import of secondhand cars will be completely forbidden and the companies performing this type of activity will stay without work. The environmental protection legislation in Bulgaria is still seriously behind the European one. The European Commission in the last report has pointed this also.

The German Market Institute "DRI – WEFA", made the best prognosis on the development of the Bulgarian new cars market. For the last three years their predictions were confirmed completely. According to the survey our **market will reach 50 000 sells from 2010 to 2011**. Until than the main sells in Bulgaria will be the **sells of second hand cars imported from Austria, Germany, Italy, Belgium and Netherlands. This is determined by the low maintenance costs of the older automobiles. This includes the spare parts and the service.**

Overview of the car parts sector in Bulgaria

Bulgaria does not have its own automobile production, which predetermines the structure of the spare parts manufacturers. They produce mainly consumptives like oil, filters, batteries, belts and spare parts that are not designed for the initial build in.

This Bulgarian industrial sector is **strongly affected by the development of the same sector in Turkey**. Turkey manufactures big variety of spare parts for all kind of vehicles on **low prices and with low quality**. Transport costs are minimal and everyone in the same business in Bulgaria should respect that.

The percentage of the motor vehicles and spare parts production from the total volume of the industrial production in Bulgaria is 1,5%. According to the data from the 5 last years there is no tendency for this to change, but there is a growth of the total production volume in this sector, which becomes obvious from the table below:

Table: 1

Year	2000	2001	2002	2003
Spare parts production for motor vehicles	133	152	153	177

Million. EUR

As a result from the changes in this sector in the process of transition to the free market economy, the number of the employed people in 2003 decreases with 35%, in comparison to 1995. According to the official data published by the National Statistic Institute **the employed in the automobile sector at the end of 2003 are 5540 people, the average annual wage is 1960 euro.**

Structure of sector

Currently, there is no production of motor vehicles in Bulgaria. **Enterprises have reoriented themselves to produce parts, components and accessories for motor vehicles and their engines**, and employment and production is now concentrated in these areas. Flexibility is a basic characteristic of many of these enterprises - they are mainly small and medium-sized enterprises (SMEs) which work on clients' demands. After completing an order, they often switch to the production of other parts that are not necessarily related to the automotive sector. They tend to have the equipment and qualified staff that allow them rapidly to reorient themselves to new market niches. The characteristics of enterprises which manufacture electrical equipment for engines and vehicles are similar. **Over 90% of automotive enterprises are privately owned and produce mainly for the domestic market.** Table 1 below shows the number of firms and employees (including the number of female employees) in the automotive sector. Only about 0.3% of the national workforce are now employed in the automotive sector. The average wage in the sector is about 18% lower than the average wage in industry.

As you can see from the following table there is no well-balanced industrial structure by sectors

Table 2. Structure of automotive sector, firms and employment levels

NACE code	Description	Number of firms	Employment	Of which, female employment
34.10	Manufacture of motor vehicles (agricultural tractors excluded)	4	148	28
34.20.	Manufacture of bodies (coachwork) for motor vehicles; manufacture of trailers and semi-trailers	18	586	141
34.30	Manufacture of parts and accessories for motor vehicles and their engines	98	2,346	528
31.61	Manufacture of electrical equipment for engines and vehicles nec	21	2,480	1,616
Total		141	5,540	2,313

Source: National Statistics Institute.

Nearly half of all workers in the sector are employed in seven major companies - see table 2 below - and of these almost half works in one enterprise, EPIQ Electronic Assembly Bulgaria JSC, a subsidiary of the Belgian-based multinational, EPIQ. One other automotive components multinational has a subsidiary in Bulgaria, the German-based Grammer.

Table 3. Major automotive sector companies in Bulgaria, ownership and employment levels

NACE code (see table 1)	Company	Ownership	Employment	
			Total	Of which, female employment
34.10	Kenta JSC	100% private	113	15
34.20	Semi-Trailers and Containers JSC	100% private	42	8
34.20	Remel JSC	Mixed	113	15
34.30	Druzhba JSC	100% private	400	102
34.30	Madara JSC	85% private	500	91
34.30	Grammer JSC	100% private	285	197
31.61	EPIQ Electronic Assembly Bulgaria JSC	100% private	1,280	na

The automotive enterprises (except those mainly manufacturing electrical equipment for engines and vehicles) form part of the wider machine-building sector. Due to the limited domestic market, export-oriented automotive enterprises have better prospects for increasing production.

Table 4. Major automotive sector companies in Bulgaria, production and markets

NACE code	Company	Manufactured production 2002 (BGN 000s)	Markets	
			Internal	External
34.10	Kenta JSC	1,238	0	100%
34.20	Semi-Trailers and Containers JSC	1,227	0	100%
34.20	Remel JSC	1,600	0	100%
34.30	Druzhba JSC	5,681	41%	49%
34.30	Madara JSC	3,892	53%	47%
34.30	Grammer JSC	10,000	90%+	-
31.61	EPIQ electronic assembly - Bulgaria	48,750	90%+	-

The spare parts manufacturers put Bulgaria on 15th place in the countdown for the best place for manufacture. This was the result of a survey from June and July 2004 performed by the Consultant Company "Earnst&Young" among the managers of 200 German companies dealing with automobile components. Every fourth of them think that Bulgaria is an attractive place for the creation of a new spare parts production. Bulgaria was placed even in before Japan, Thailand and Russia.

In the last 4-5 years as a result of import of know how and service equipment mainly from the EU countries, a lot of contemporary service stations were created. There are also thousands of small service stations with staff from 2-3 people, who because of the low income level in the country successfully work with the poor clients owners of old cars. The new tendency is to make investments in the development of powerful service and trade network.

This is the reason why in the last year there are so many new show rooms or messages for their construction. Until present the 32 companies members of the UAIB (Union of Automobile Importers in Bulgaria) have made investments over 350 Millions of Euro. In the next three years the expectations are that the same companies will generate new investments from 550 millions of euro.

There is also another explanation for the strong investment process of the UAIB member companies. They are preparing themselves for **2007 when the new European anti trust regulations Block Exemptions from 1 of January are expected to come in force in Bulgaria.** According to them every company could become a dealer of a certain trademark if he could cover its requirements. This actually means **that the Bulgarian automobile market will be wide open to all big West European distribution companies.** It is expected that they will look mainly for free market niches.

Brief presentation of some of the biggest Bulgarian manufacturers in this sector

METAL TECHNOLOGY GROUP

Alucom AD was established in 1973 for production of aluminum alloy parts through machine casting. In 1979 the company built a new work facility with full equipment, communications and infrastructure from 59 685 sq. m. Alucom AD is situated in the East industrial zone of Pleven. There is a comfortable access by road and by railroad. Plevan is situated 150 km far from Sofia in the southeast direction and 40 km from the Danube port – Samovit. The factory has the following parameters:

- Total area – 59 685 sq. m
- Buildings area – 30 783 sq. m
- Annual capacity – 7 000 t
- Staff – 190 people

Since 2004 Alucom AD has an ISO/TS 16949:2002 certificate for production in the automobile sector.

<http://alucom.mtg.netbg.com/>

VAMO

History and Tradition: Success in Progress

VAMO SC has over 60-year history as the successor of a cooperative named Cherno more, established in 1935 and later renamed Vasil Kolarov Factory. VAMO is an abbreviation of Varna Motors. It is the trade mark of the diesel engines manufactured since 1956, and was adopted as company name in 1991. VAMO diesel engines manufacturing was launched in 1956 starting with 7 h.p. one-cylinder engine to come up to 125 h.p. turbocharged engines. In 1967 a license was purchased from the internationally acclaimed British company Perkins Engines Ltd. for the production of five engine types. Adhering to license papers, adapted to the Bulgarian conditions, all engine types were put in production within the period 1967-1970. In the following years, these engine types were made in varying quantities of applications.

Local and foreign market surveys indicated there had been greatest demand for fork-lift manufacture that made VAMO SC shift engine production to D2500 (D3.152) and D3900 (4.236) series. In the period 1982-1985 a new 3-cylinder engine, unified in the main parts dimensions with D3900, was designed by VAMO's engineering staff. This new engine modification was designated as D2900. Corresponding gas options of above engines, namely G2500, G2900 and G3900, were developed over the period 1991-1992.

In collaboration with the licenser two up-to-date engine modifications, D3000 and D4000 - ALFA series were developed taking special care of their improved combustion and reduced emissions. New nature-friendly engines DTO4000A.E1 and DTO4000A.E2 were developed over the period 1997-1999. In response to the call for environment protection. These were designed to be built in light trucks of loading capacity up to 3.5 tons and in minibuses up to 22 seats. These engines meet the European exhaust smoke and emissions standards EURO 1 and EURO 2 correspondingly.

Geography of Sales

VAMO SC products are marketed both in Bulgaria, where fork-lift diesel and gas applications are mostly demanded, and abroad. VAMO SC successfully exports tractor engines to Syria. Vehicle application is marketed in Romania, fork-lift engines in Algeria and the countries of the former Commonwealth of Independent States, and gas engines are exported to Germany, generator engines to Greece, Turkey, Cyprus, Russian and Ukrainian markets are being explored for sales of engines for tractors, vehicles and fork-lifts, Spanish and Cuban markets - for marine and tractor engines as well as various applications for Romania, Turkey, Macedonia, etc.

<http://bhc.orbitel.bg/vamo/aboutfr.htm>

ELHIM ISKRA

"Elhim-Iskra" AD is the biggest company for manufacturing of start and traction batteries in Bulgaria, and the brand "ISKRA" has more than 40 years history on the Bulgarian market.

Decade after decade the high professionalism of the engineers and the technicians provides reliability and efficiency, easy battery maintenance and reasonable prices.

The design and manufacture facilities established in 1960 are situated in Pazardjik. The old traditions are successfully combined with the last technical achievements. The basic equipment of the company is delivered and built in with the help of leading companies like:

- "Hloride" – England
- "TBS" – England
- "Virtz" – USA
- "Mac" – USA
- "Lenklater"- USA
- "Temak" – USA
- "Daga" – Italy
- "Hadi" - Germany
- "Airich" – Germany

A guaranty for the high quality of the production of "ISKRA" is the quality control system ISO 9001, which maintains constant quality control over the used materials and the whole technological process.

http://www.elhim-iskra.com/bg/index_bg.html

UNITECH LTD

UNITECH LTD is a private company specialized in the sells and the service of the turbo compressors for internal combustion engines for oxygen and nitrogen air separation stations.

The company was established in 1993 and has a service facility from 200 m² in Varna with special equipment for service and rehabilitation of turbo compressors. The production factory has high precision machinery with digital control (CNC) for manufacturing of spare parts for turbo compressors and turbo de tenders.

Our turbo service-station repairs and sells turbo compressors with the following brands KKK, Garrett, Holset, Schwitzer, IHI, Mitsubishi, Toyota, Hitachi, CZ Straconice and TKP.

Unitech Ltd has a warehouse with big variety of spare parts for turbo compressors from the leading world manufacturers. The company also produces parts for turbo compressors with service parameters that are not provided by the original manufacturers.

http://www.unitechturbo.com/index_bg.html

RUBENA BALKAN LTD

Rubena Balkan Ltd was established in 1998 in Plovdiv, Bulgaria. The company is the official representative of Rubena AD, Czech Republic – manufacturer with long experience and strong traditions in the production of rubber and silicon elements.

Step by step Rubena Balkan became the leader on the Bulgarian market. As a distributor and representative of Rubena the company won strong market positions also in the Balkans and in the Middle East. Rubena Balkan created a large distribution network (in more than 20 cities in Bulgaria) and it established good business relationships with many partners from the region. One of the

company's aims is to achieve strong market positions in the Middle East. The company plans to lower the production and distribution costs in order to offer more competitive prices.

The quality of Rubena is guaranteed by certificates like DIN ISO 9001, 14001, QS 9000, VDA 6.1

<http://rubena.hit.bg/aboutbg.htm>

DROUZHBA AD

“DROUZHBA AD” – Razgrad was established in 1964 as a state company for manufacturing of pistons for internal combustion engines. Later on they developed the production of piston rings and piston pins. Today “DROUZHBA AD” is a private joint stock company and it manufactures pistons, piston rings and piston pins for automobiles and heavy vehicles, tractors, compressors, motor truck and road construction machines. The company also offers aluminum casts on clients' order.

Drouzhba AD offers possibilities for manufacturing of set of pistons, in accordance to client's documentation or sample. It offers manufacture and sells of:

- pistons
- piston rings
- set of pistons
- set of pistons with cylinder plugs
- aluminum casts

The production is meant for spare part and also for assembling in new engines like Perkins 3.152 and 4.236 of the company BAMO - Varna, engine MEMZ-245.

The company manufactures set of pistons for the following engines: FIAT, PEUGEOT, RENAULT, MERCEDES, FORD, PERKINS, VAZ, MOSKVICH, TAVRIA, ZIL, GAZ, IFA, LIAZ-MADARA, SKODA, YAMZ, IKARUS, MAN, KamAz, DACHIA, URSUS, SMD, WARTBURG, TRABANT, IZH, BALKAN, SIMSON, etc.

Since 1986 the company has a license for production of piston rings of the German company Geotze with know-how, original equipment and control tools.

<http://bulgaria.domino.bg/razgrad/firmi/drouzhba/>

MONBAT AD

MONBAT AD is the leading manufacturer of starter and traction batteries. The production facilities are situated in the Northwest part of Bulgaria – the city of Montana.

The Montana Batteries are popular in Greece, Macedonia, Moldova, Belarus, Romania, Russia, Ukraine, and Yugoslavia.

MONBAT AD is manufacturing large variety of 12V traction batteries for automobiles, heavy vehicles and agricultural machinery with capacity from 36 to 210 Ah and 6 V 196 Ah batteries for tractors.

The battery dimensions are designed in accordance with the DIN standard, and their electrochemical parameters follow the IEC, DIN и EN requirements. The box and the lid, which in 6 CT 160 PK are with double walls are made from polypropylene. This synthetic material guarantees the mechanical resistance in wide temperature limits – from 50°C to 70°C. The materials and the semi-manufactured materials are delivered by well known European manufacturers: Daramic, I.C.S., Entek International, Sinpro S.A., Borregaard, Solatrim, Lewis Industrial Products. Right now the company is developing free of maintenance traction batteries.

<http://www.monbat.com/profbg.html>

PRK – 2002 EOOD – Dobrich

The company was established in 2002 when the assets of “PRK” AD – Dobrich were redistributed. This company was a semi trailers manufacturer with many years of experience and long history. The main activity is the manufacture of trailers, semi trailers and carriages for heavy vehicles. The turnover of the company for 2004 was 1 000 000 euro. The employees involved in the production process are 46 people.

START OOD

The company was established in 1965 in Dobrich with main activity the manufacturing of start batteries.

In 1985 the company was chosen for the main supplier of start batteries for initial implementation of the plants VAZ– Russia. In 1996 the company signed a contract for the development of a battery according to the ROVER standards on ROVER Group’s demand.

The production activity includes manufacturing of start batteries for automobiles, heavy vehicles and vehicles for special purposes from 12V / 36Ah to 12V / 210Ah.

The main markets of the company are Bulgaria, Switzerland, Turkey, Russia, Ukraine, and Rumania. The annual capacity is 400 000 batteries and the company has 145 employees. There is a quality control system ISO 9001:2000.

www.startbatteriesbg.com

4.- Co-operation potential with other European companies . Business opportunities.

In the automobile construction industry a lot of labour is involved. In Bulgaria the work force has a very low price and should soon attract the investors. The combination between the high-tech created in the West European countries and the cheap labour in Bulgaria will be very successful.

Till now there are joint ventures just in the production of some separate parts, spare parts and aggregates.

We will bring to your attention two examples of successful cooperation between Bulgarian and West and East European countries.

“MADARA”

“MADARA” was established as a factory for manufacturing of spare parts in 1958. In the time of its existence it gained experience in the production of trucks, rear and front axles for trucks, buses, trolleys and road construction machines, gear wheels, steel casts, tools and equipment.

The cooperation between “MADARA” and the Czech auto construction company “LIAZ” last more than 25 years. The trucks “LIAZ” and “LIAZ-MADARA” are mainly with axles made by “MADARA”. As a joint stock company it started to work in 1999 with major stockholder “SFK – V. Simeonov”.

“SFK – V. Simeonov” EOOD realizes big sells volumes from spare parts, manufactured by the “MADARA” AD - Shoumen – the only Bulgarian factory that constructs automobiles LIAZ and spare parts for them (cardans, casts, all axle types, springs and spring lists, etc.)

In the company structure of “MADARA” AD there are seven separate legal entities– “Madara LZ” Ltd, “Madara KOV” Ltd, “Madara ZKV” Ltd, “Madara Instrument” Ltd, “Madara Springs” Ltd, factory for the manufacturing of different type of axles “Madara AVTOMOST” Ltd, assembling factory for LIAZ “Madara MOTOREM” Ltd. This separation gives the possibility to produce different parts on client’s order.

<http://www.madaragroup.com/>



“Metal Agro” Ltd

“Metal Agro” Ltd was established in 1967 as a manufacturer of tractor driven equipment. Since 1989 “Metal Agro” jointed the affiliates of the company “EURO – HICH” in Germany and UK, producers of jacks for semi trailers, trailers and buses. This cooperation continues till present and the volumes in figures is 1 200 000 euro, and the production is entirely destined to West European companies. The employees involved in this production are 110 people.

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