

"Report on business co-operation potential and opportunities in the sector of car components in the enlarged European Union"

**SPAIN**

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**Market base:**

Population:  
(revision of local census 1.1.2003)

Total population: 42,717,064\*  
\*6,2% foreign residents

Population growth rate: 2,1%

Population distribution by sex  
MEN 49,2%  
WOMEN 50,8%

Population distribution by age groups  
0-14: 14,2%  
15-64: 68,8%  
65+: 17%

Population density per square km: 84,4%

Urban population: 77,3%

Population of main cities:  
(thousands)

Madrid: 3,093

Barcelona: 1,583

Valencia: 781

Sevilla: 710

Zaragoza: 626

Málaga: 547

Murcia: 391

Las Palmas de Gran Canaria: 378

Palma de Mallorca: 367

Bilbao: 354

## Income:

### **Gross Domestic Product**

#### Components of GDP

Current prices, million euros, 2003

Private consumption	430,398	57,9
Public consumption	133,280	17,9
Gross fixed capital formation	189,858	25,6
Change in stocks	2,866	0,4
Exports of goods and services	207,632	27,9
Imports of goods and services	-220,988	-29,7
GDP at price markets	743,046	100,0

**Real increase of GDP: 2,4%**

**GDP per capita m.p.: 17,745**

(current prices euros 2003)

## Economic Framework

### **Sectors of Employment**

(2003)

Agriculture and fishing: 5,6%

Industry (including construction): 30,6%

Services: 63,8%

**Unemployment rate: 11,3%**

### **Prices:**

(variation Dec. 2003/ dec 2002)

Industrial prices: 1,1%

Consumer prices: 2,6%

Public deficit: 0,3% of GDP

## Characteristics of the industry.

The food, car, chemical and metal industry are among the most important in Spain. Industrial production and exports are increasingly turning towards a greater technological content, as exemplified by the fact that industry exports reflect a medium-high technological intensity. In 2003 industrial product exports accounted for 82% of the total exports figures. Cars, semi-finished products and equipment goods were the main export sectors.

The Spanish business fabric is extremely fragmented, and is stabled arranged around SMES. Up to 1.1.2003 there were 2809385 SMEs and 3735 large companies (excluding farming, livestock farming and fishing).

The participation of the public sector in the Spanish economy has fallen significantly since 1996, upon the passing of the Public Sector Modernization Programme. As a result of the numerous privatisations that have been carried out, the State has progressively pulled out of sectors such as the petroleum, natural gas, iron and steel, telecommunications, air and sea transport, electricity generation and banking. The weight of the public industry in the GPD has dropped from 1,8% in 1996 to 0,1% in 2002.

## Opening of the market.

Degree of opening of the market:

Foreign Trade (Exports + Imports)/GDP: 43,3%

Imports / GDP: 24,8%

Total Imports/World Imports: 2,6%

Total Exports/ World exports: 2%

### Foreign Trade by customs Tariff Chapter:

	Value	%Variation 03/02
<b>Exports (FOB)</b>	137.815	3,4
87. Vehicles other than railway rolling stocks	32459	7,3
84. Nuclear reactors, boilers, machinery	11462	4
85. Electrical machinery and equipment	9503	3,7
39. Plastics and articles hereof	4649	2,5
08. Edible fruit and nuts	4520	5,5
27. Mineral fuels, mineral oils	4219	21,2
30. Pharmaceutical products	3432	1,5
07. Edible vegetables, roots, tubers,	3382	3,8
72. Iron and steel	3176	5,8
29. Organic chemicals	2875	8,3
Other exports	58138	-0,2

	Value	%Variation 03/02
<b>Imports (CIF)</b>	184095	5,2
87. Vehicles other than railway rolling stocks	30469	9,5
84. Nuclear reactors, boilers, machinery	22366	5,2
27. Mineral fuels, mineral oils	19136	0,9
85. Electrical machinery and equipment	15744	4,5
72. Iron and steel	6295	22,5
39. Plastics and articles hereof	6075	3,9
30. Pharmaceutical products	5995	7,1
29. Organic chemicals	5480	5,2
90. Optical instruments and aparatus	4409	1
03. Fish and crustaceans, molluscs.	4070	1,8
Other imports	64056	3,6

## 2- Overview of the car parts sector in Spain.

Market profile.

Spanish companies profile.

Subsectors

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### Market profile.

The car equipments and components sector is, together with the automobile cosntructor, one of the main sectors into the Spanish economy, both by its turnover (25.178 millions €) and by the employment it generates (252.000 direct employment).

- ✓ Spain is the third European country in equipments and components manufacturing, and has the fifth place at a world level
- ✓ More than the middle of the turnover corresponds to exports.
- ✓ It's estimated the parts sector contributes around 60% of the added value of the automotive industry.
- ✓ This sector has bet strongly for the R+D+I. These are the numbers of the year 2002: the investment of this industry (constructors and suppliers) in technological innovation: 1783 millions €, more than 16% of the national total.

It's an **industry formed by** around 1000 companies, with a high presence of multinationals suppliers of first level equipments (60 groups) over all of German, North American and French capital. There is a group of national companies that have also been consolidated as first level companies with international presence, three of which are among the 20 most important companies in their specific category in the world (Ficosa International, Grupo Antolin and Mondragón Corporación Industrial).

The **location** is mainly in Catalonia, Madrid, Aragon, Bask Country, Valencia, Castilla-León, Galicia and Valencia, due to the presence of automobiles production centres. The economy of these regions has in general a strong dependence of the Automotive industry.

MAPA 2. LOCALIZACIÓN DE LA ACTIVIDAD ENSAMBLADORA EN ESPAÑA



In the last years the sector of car components has experienced a **constant growth in turnover, sales and investment terms**. The turnover during 2001 has been 24000 millions € what supposes an increase of 2,3% with regards to the previous year. Sales are on the increase, a total of 3,6 billions dollars in 2000 (12% increase on the year before). In 2001, the investments achieved a quantity of 1700 millions €, a 7% of the total turnover, directed mainly to technology and productive improvements of the sector.

This growth confirms the degree of **competitiveness and international projection**. **The key factors have been:**

- **The** transfer towards the parts manufacturers of productive activities that were done before by automobiles manufacturers, concerning manufacturing of equipments, modules, and complete functions,
- The transfer of many responsibilities in the area of Research and Development of new products.

**Exports** represents the middle of the total turnover, the 50,4%. The most exported products are bodywork equipments and chassis (since a turnover point of view), since they represent a 70% of the total exports. The products exported were destined in a 84% to European Union countries, being the first recipients Germany (27%), France (25%), United Kingdom (11%) and Portugal (8,5%).

**Imports** suppose a total of 16294 millions €, from which around the middle corresponds to supplies for the constructor industry, the 40% are for the parts industry, and the rest, a 10% goes to the spare market. The main importers are from France (38,2%), Germany (25,7%), Italy (8,7%) and United Kingdom (5,6%), that supposes a total of 78,2%.

The Spanish auxiliary automotive industries have traditionally been in the hands of a few families, which have led to a highly fragmented. Spain has gained recognition in the field of mechanical components (radiators, suspension system, brakes, etc). This situation has remained unchanged in spite of small companies being absorbed by the multinationals, thanks to their long standing

reputation and highly skilled workforce. The increased profit within the components sector is mainly the result of:

- Improved production cost control.
- More rational factory management

### **Spanish companies profile:**

The **process of concentration** this sector is suffering from at a world level is causing an accelerated change in the organizational and business models of the companies. As an indicator, in Spain in 1996 a 60% of the companies were of 100% Spanish capital, **in the year 2000, less than 30% are of Spanish capital.**

We can distinguish **two big groups of parts manufacturers:**

- Manufacturers of parts whose main activity is **link to the constructor industry**. The most are large sized and own resources that give them access to the latest technological innovations, both for manufacturing and for the products design.

They supply to the spare market the same products that are assembled in the vehicle through the official networks, the called "trademark spare market". They usually sell pieces in the independent spare market that can be manufactured in the same plants or in other specially devoted to this market.

In this group multinationals prevail. The presence of 100% Spanish companies is more and more scarce although those that maintain are large and have an important international presence. Example: Antolin Group, Ficoso Internacional, Corporación Mondragón, Corporación Gestamp, Grupo Egaña, Dalphi Metal etc.

- Companies whose main **activity is the spare market**. They can also sell to the first equipment market in smaller rates.

In many cases, they diversify their activity towards the manufacturing of spares with its own trademark or with other, semi manufacturing components and other complementary products destined to other industries (building, industrial equipments, railways etc)

In this second group we find mainly smaller sized companies and turnover, where the presence of Spanish capitals is much higher and the range of products usually is less than in the first group.

Into the **national supply**, that amounts to 12.038 millions € the **first equipment industry** represents **73,6%** of the total production of the sector destined to the internal consume (8865 millions pta) and the spare market supposes the rest 26,4% of the production with a level of annual turnover of 3173 millions € and with an increasing trend in its participation.

Many of the Spanish suppliers are carrying out important **processes of growth and internationalisation with investments in Eastern European countries (Poland and Czech Republic) , Turquie, Brazil, Mexico, Argentina and even India and China**, due to they go behind the vehicles manufacturers in their implantations to manufacture models for which they have already been suppliers, or the opening of new markets taking advantage of the lower labour costs.

### **Subsectors:**

Among the products manufactured by parts companies in Spain, highlight the **bodywork equipment, chassis equipment, engine equipment, and pneumatics and tires**. This is a detail of production per sort of component:

Electric Equipment	14,2 %
Engine Equipment	26,4%
Chassis Equipment	63,8%
Bodywork equipment	47,1 %
Tires and pneumatiques	23,0%
Smelting	06,1 %
Forge	3,6 %
Print	8 %
Rollings	1,3 %
Rubber	8%
Plastic and Chemical	14,5%
Other	26,6%

### **Level of technology.**

Work the Research and Development is almost a duty for this industry, these activities will be more and more important.

Among the main parts manufacturers with capacity of doing Research and Development we can quote the following: Ficosa, Irausa, G. Mondragón, Gestamp, Metalbages, Egaña, Dalphi Metal, Bosch, Valeo, Maier, Lear, Infun S.A., ZF ANSA LEMFORDER S.L., Zanini Group, Caucho Metal, Faurecia etc.

Nowadays, the automobiles constructors ask for their TIER 1 (suppliers of first level) to tender to be in the first phases of development of the vehicle model through the presentation of concepts. For the supplier the participation in the R&D projects of the constructor supposes a very important effort in terms of financial and human resources, This investment by the TIER 1 is made without a guaranteed return of the investment, due to the participation in the development and mass production is not guaranteed, So at last the TIER 1 has become an important financial agent of the sector. The supply chain doesn't obey to the same dynamic so for the TIER 1 it's not possible to transfer the technological pressure to other levels of supply.

Actually, the efforts of this industry goes to the supply of lighter materials, to get the vehicle mass is less, and at the same time, complying with the security requirements. This double research has lead to a new redefinition of the suppliers featuring them in those that are ready to assume and supply technological advances and those who opt for the copying of the technology.

For the year 2015 an European regulation has established that the level of vehicles recycling and reuse must be of 95% of their weigh and certain heavy materials must be eliminated. This will imply the substitution of equipments and modifications of processes, so the reviewing of designs and substitution of raw materials.

The entire sector will have to increase their R&D budgets with the aim of changing the products design to make easier their recycling and substitute the use of pollutant materials by other alternative.

Sometimes, the R&D departments of the automotive industry subcontract part of this work to technological centers with enough capacity to do it. There are more than 30 Technological Centers with capacity to do R&D for the Automotive sector in Spain. The geographical distribution is focus mainly in the regions where main parts companies are sited.

According to an Study of Technological prospective in the automotive sector for the period 2006-2010 done by OPTI, the technological areas in Spain that we can considered are opportunity areas due to they are in an advantageous situation regarding to scientific-technological, innovative, productive and commercialization capacities are the following:

- Recycling of parts and materials.
- Development of most efficient methods of design and production
- Application of ICT and advanced systems of design and manufacturing for the reduction of terms and costs in the development phases.
- Development of new systems for generating energy, with the objective of 5 Kw to 42 V
- Development of telematic systems of payment, and access control to public vials
- Development of protection systems of the passengers for 80 Km/h collisions.
- Integration of the generator and start engine
- Application of the electric and electronic management of the vehicles controls (Drive-by-Wire)

The extension to the public transport of the private vehicles developments is another opportunity area.

Other interest areas are the selfcarrier bodywork with use of new high capabilities materials, the incorporation of low emissions engines (electric, hydrogen, mix), the development of technologies for reducing sound emissions and the improvement of the accessibility and security of passengers (car belts, airbags)

Hereby we highlight some technological advances achieved by Spanish companies:

- Grupo Antolín: As parts suppliers, they have developed new alloys formed by magnesia, aluminum and high efficiency plastic materials to reduce the seats weigh and reduce the level of fuel consume and carbon dioxin emissions.
- Repsol-YPF: As fuel suppliers, they have developed new petrol (New Super 97) for replacing the Super used by the vehicles without catalyst that substitutes the lead by a new less pollutant additive.
- A group of researchers of the Polytechnic University of Catalonia with the collaboration of SEAT have developed a new system of combustion that works with diesel and introduces another fuel that can be petrol, gas or other alternative, reducing the level of pollutant nitrogen.

### **Main Spanish companies of the sector Automotive Equipments and Components.**

The most significant companies are the following:

(millions pta)

Companies	1999	2000
Robert Bosch Spain Group	200.000	216.000
Valeo Spain Group	145.000	158.000
Delphi Automotive System Spain	125.000	145.000
Antolin- Irausa Group	83.000	122.000
Gestamp Automoción Group		122.000
VDO Automotive España		101.000
Ficosa Internacional Group	69.000	100.000
Jonson Control Spain	20.000	85.000
Lear Automotive Group Spain	70.000	72.000
TRW Automotive Spain	35.000	69.000
Visteón Automotive Systems	60.000	65.000
Exide-Tudor	47.000	50.000
Faurecia	35.000	45.000
GKN Transmisiones España	50.000	41.000

Some parts manufacturers with net Spanish capital have succeeded in being multinational companies with plants and commercial agreements in the main vehicles producer countries in the world (Ficosa, Irausa, Mondragón, Gestamp, Maier, CIE Egaña, Dalphi Metal..) several of

them, have own R&D centres to be able to support the developments the vehicles constructors derive towards the parts manufacturers industry.

Recently multinational groups have boosted their R&D centers in Spain, among them we highlight Bosch, Frape Berh, Valeo Térmico and Lear.

### **Main challenges for the Spanish components industry.**

Due to the increasing **process of externalisation** of the vehicles constructors it's considered the parts manufacturers have an important run of possible growth, whenever their technological level improves and get to join biggest sized groups to be able to face the supply at a global level. This sector will develop industrial fabric in a medium term, whenever they are able to support financially the foreseeable increase of scale.

Faced to the future, the sector of automotive equipments and components has two big challenges:

**Innovation in products and processes.** In products because the vehicles manufacturers demand cheapest, more reliable and more comfortable components, and that help a smaller consume in the vehicles; also for the pressure of the new European regulations and directives, that demand more ecological and secure products. In processes, because with the competence in price of the emergent markets with lower salaries it must be faced with improvements in the manufacturing, logistic and maintenance processes. Etc.

**Globalisation of our companies,** due to the vehicles constructors, main clients are establishing plants in other markets to construct the same or similar vehicles to those they are already making in Spain and Europe, it's natural suppliers go behind their clients, with what by one hand, it will get to open new markets, avoid the competence and over all, to generate resources that will be necessary to bet for innovation, to have an adequate size and capacity for the development of all these activities.

### **Opportunities in the Spanish market:**

Key factors that lead to strong demand for automobiles and automobile parts and accessories in Spain include:

- The ratio of automobiles to drivers in Spain, which is lower than the EU average. The average number of automobiles for every 1,000 people in the European Union is 400. Spain only has 308 automobiles for every 1,000 people. This ratio is expected to increase until it nears the European Union average.
- The large quantity of old automobiles in circulation, which require replacement parts. At present, 60 percent of Spanish automobiles in circulation are over five years old.
- The "Prever Plan", a government-sponsored program launched in April 1997 which gives automobile buyers who turn in their old automobile a \$533 sales tax rebate on the purchase of a new automobile. It is expected that this plan will lead to a medium and long-term increase in the number of automobiles in circulation and in the demand for automobile parts and accessories.
- Spain has fast become increasingly receptive to new distribution channels as opposed to traditional distribution channels. In the medium term these factors will stimulate the demand and sales of automobiles, parts and accessories. The continued growth of the Spanish market indicates that the local production may again need to increase and/or that demand will need to be met by greater imports.

By new distribution channels we mean fast auto repair service franchises, hypermarkets, etc. Although the introduction of these new types of outlets is causing the market to go through many changes, it is creating new opportunities for automobile parts and accessories

manufacturers as well as for new products to enter the market. For example, the automotive sector in Spain has - in a short period of time - become one of the leading users of B2B within Internet.

This will provide new and better opportunities for second-tier suppliers interested in the Spanish market.

#### 4- Co-operation potential and business opportunities for Spanish and EU companies in the Eastern and Central Europe.

##### **Some reflections about the entry of new competitors from Eastern European countries:**

- The high export ratio of this sector in Spain implies more risk of loss of clients in the future due to they can change to nearer and cheaper local suppliers
- Spanish companies believe it's important to be present in the Central and Eastern Europe at a strategic level, to be able to offer their clients an integral and global service.
- The Eastern and Central European companies have low labour costs but they don't have a powerful R&D yet.

##### **Business opportunities with Polish companies:**

There were 10,503,000 passenger cars registered in **Poland** in 2001. This number is likely to grow to 15 million by 2010. GM, FIAT and DAEWO are present at Poland and Lower Silesia is the most representative region for the sector. All in all the 25% of the imports are autoparts.

The growing number of used cars imported into Poland has led to an increase of the demand in car parts/maintenance products that have doubled in the last two years.

EU SMEs are expected to achieve long term distribution agreements with service stations, supermarket chains and regional distributors who distribute the imported products to individual retail shops.

There is a significant potential market in Poland –made car parts, especially for passenger cars with European specifications, for accessories and, in the future, for tuning products and equipment.

Representation agreements, production agreements and joint ventures and distribution agreements may be key businesses for local and EU companies.

**Business opportunities with Czech companies.** More than 130 joint ventures and Greenfield sites have been set up by foreign component manufacturers in the Czech Republic, and more are in the pipeline. Many major companies are expanding single Czech plants into multiple operations. A significant number of EU and U.S. companies have established **joint ventures** or bought majority stakes in Czech auto parts producers. These companies have been extremely successful and are followed by others. Large opportunities also exist in aftermarket.

Best opportunities to access this market, both as sales prospects or as subject of other agreements, joint ventures, representation agreements, technology transfer agreements... include: service and garage equipment; lighting equipment; car bulbs; filters; bumpers; shock absorbers; car phones; in-car entertainment; security equipment and car care products.

Czech-based automotive sector suppliers are geographically close to important car manufacturers in Germany, Poland, Slovakia and Hungary but also are supplying further-flung markets like France and Spain.

**Business opportunities with Bulgarian companies:** Long term commercial agreements or representation agreements with Bulgarian SMEs could be reached by EU SMEs to cover the acute need for replacement parts for Russian Ladas and Moskvitches, due to parts are in short supply as a result of Russia's cutback in the production of Ladas. Thus EU parts that fit popular models of European cars have a natural market in Bulgaria including the Fiat and Opel-licensed Russian-made cars.

Technology transfer agreements and license agreements fit the sector needs. With the accession to the EU additional mandatory environmental and safety requirements will have to be met. This is expected to boost the demand for automotive servicing and after market supplies. By other hand the auto theft in Bulgaria is still high. There is accordingly high demand among car owners for security systems and other products that can deter criminals from targeting their cars.

**Business opportunities with Romanian companies.** The Romanian car parts industry has experienced rapid expansion over the last two years as several large foreign parts producers established production plants in the country. Fifty-eight percent of the spare parts used by Daewoo are domestically produced and Daewoo co-operates with 226 Romanian producers who supply more than 1,000 parts. Spanish and EU companies can establish agreements for technology transfer or license agreements with local companies to win new contracts from the vehicles makers.

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ICEX- Country sheet.