

The Dutch Market for Castings and Forgings

Description of the Dutch sector.

The metal sector in the Netherlands has repeatedly shown its interest in co-operating with companies in the Baltic States. Recent seminars organised by the Chamber of Commerce of The Hague and the Union of metal companies illustrate this interest.

Within the metal sector, the market for castings and forgings is most attractive for Latvian companies. This market is traditionally characterised by a high volume of imports and outsourced production. Within this market, the following segments show the most potential for co-operation between Dutch and Latvian companies:

- Automotive components, notably transmissions;
- Machinery components;
- Gas turbines.

Besides the growth in imports in these sub-sectors, they have been selected for their low degree of imports from China and India, thus indicating an emphasis on quality, rather than price when selecting suppliers.

Automotive components

In the Netherlands, approximately 230,000 cars are produced on a yearly basis and several large component manufacturers are Dutch, together generating a yearly turn-over of some € 6 billion. Total imports of components of transmissions, which is the largest sub-sector amounted to approximately € 1 billion in 2004.

Machinery components

The Dutch mechanical engineering sector generates a yearly turn-over of approximately € 12 billion. Lifting and handling equipment, agricultural machinery and cooling and ventilation devices together form half of this market.

Gas turbines

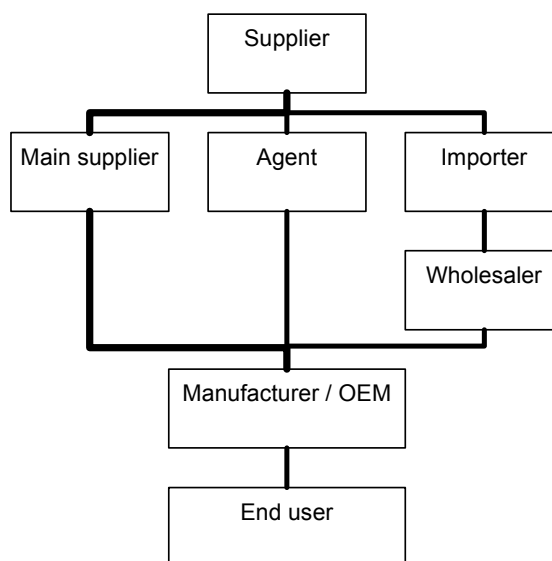
(Components of) gas turbines, such as shafts, compressors and spools accounted for nearly 20 percent, or € 400 million of total imports in the castings and forgings sector in 2004. The current largest suppliers to the Netherlands are the USA and France, indicating that this sub-sector is specialised and knowledge-intensive.

Trade channels / distribution

Within the three sub-sectors, the structure of distribution is rather similar. In general, small-scale suppliers do not do business with large, brand-name manufacturers (called Own Equipment Manufacturers, OEMs) directly. Instead, they most often function as subcontractors for a selected group of larger, system suppliers (which are called first-tier suppliers in the automotive sector).

Another possible distribution channel is formed by importers/agents. Products that are sold through importers have to be available from stock immediately. Most importers have built up strong relationships with manufacturers and are sometimes regarded as their preferred partner. An example of this is the Dutch importer of valves and fittings Econosto, which has its own office and warehouse at the premises of Shell in Rotterdam.

These distribution channels are described in the following (simplified) figure:



Sourcing and outsourcing

In the market for castings and forgings in general, and for automotive components in particular, increasingly large parts of production are outsourced by manufacturers.

The large manufacturers themselves focus on the research & development, design and marketing tasks, while the actual production and assembly is undertaken by a selected number of suppliers as described above

Increasingly, the main subcontractors of large manufacturers often outsource parts of their production to third parties. In fact, many of the first-tier suppliers of OEMs in the automotive sector hardly do any production themselves anymore. These large-scale suppliers either focus on development only and thus outsource assembly, production and engineering to their subcontractors, or are also involved in assembly themselves.

There are several factors that play an important role in the choice of subcontractors for outsourcing part of the production. In comparison to other markets, the cost-factor plays a less significant role in the market for castings and forgings. Instead, product and process quality and reliability of suppliers are seen as crucial by outsourcing firms. Other factors include:
Physical distance to the market;
Flexibility; and
Volume of series

Specific requirements

Suppliers are expected to strictly adhere to the quality standards set by the main suppliers and manufacturers and the appropriate EU product legislation.

Especially in the automotive industry, a very strong emphasis is put on product and process quality, while failure to adhere to the agreed quality standards is not tolerated.

It is advisable for Latvian exporters to obtain ISO 9000 certification in order to prove their understanding of quality management to potential customers. Automotive manufacturers often see this certification as a requirement for their suppliers.

The ISO 9000 group of standards represents a consensus on good management practices with the aim of ensuring that the organization can always deliver the product that:

Meets the customer's quality requirements;
Is in accordance with regulatory requirements.

While aiming to:

- Enhance consumer satisfaction; and
- Achieve continual improvement of its performance in pursuit of these objectives.

For castings and forgings used in machinery, the EU Machinery Directive is relevant. The Machinery Directive sets requirements for:

- Design;
- Material;
- Lighting;
- Control;
- Safeguarding against mechanical risks and other dangers;
- Shields and safety precautions;
- Maintenance; and
- Indications on machines.

All machinery as defined in this Directive must have a CE marking. This marking confirms that the product complies with the requirements of the relevant health, safety and environmental protection legislation.

For more information on market opportunities in the Dutch market for castings and forgings, please contact the Latvian Investment and Development Agency.

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