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CENTRAL EUROPE- NEW GLOBAL HUB FOR INTERIOR SUPPLIERS

By Robert Eller, Alexis Pace, Brinsley Best

Central Europe has become a manufacturing hub for automotive interiors and the prospects are for movement further east and north towards the Baltic. Conventional wisdom suggests the primary driver is lower labor costs, but the motivating factors are more complex and vary considerably between Central and Eastern European regions.

Timing- The eastward movement of the interior supplier industry began after the collapse of the Iron Curtain, as German automotive OEM's established operations in what is now the Czech Republic. This was aided by an efficient industrial development organization (CzechInvest).

Slovakia was initially slow off the mark compared to the Czech Republic, but vehicle assembly has recently accelerated. VW currently produces 200,000 vehicles/year in their Bratislava plant, making it the fifth largest site in Central and Eastern Europe (after AvtoVaz/Lada[Russia], VW[Czech Republic], Fiat[Poland] and Daewoo[Poland]).

Government Assistance Programs- The results and methods of CzechInvest were noted by the Polish, Hungarian and (recently) Slovak governments, who were quick to institute similar measures. The Czech head start led to a concentration of more than 40% of Global Top 100 automotive component manufacturers in the Czech Republic. Initially these were acquisitions and brownfield investments, but recent trends have been toward high-tech greenfield plants. Government assistance programs in Central European countries include tax relief, special economic zones, property discounts, elimination of import duties, training grants and occasionally offering existing plants for a nominal fee (e.g. Ford in Belarus).

Two-Way JIT- The creation of vehicle assembly plants on the eastern edge of Western Europe (e.g. VW's Dresden plant [D-1], DCX's Ludwigsfelde plant [Vans], and the new Porsche/VW plant in Leipzig to make the Cayenne), new assembly plants

in Central European countries, combined with rapidly improving infrastructure have facilitated logistics and two-way JIT. For example, interior suppliers who have followed Audi and Suzuki into Hungary, are well positioned to ship both westward and eventually further eastward to Ukraine and Romania.

JIT delivery requires that the manufacture of seats and seat components be located in close proximity to auto assembly plants and supplier parks. The earliest installations, therefore, are usually by seat manufacturers, some of which have evolved toward supply of other interior components, e.g. headliner, door trim, acoustic flooring, etc.,(see table). In Slovakia, for example, JCI, Inalfa, Intier, Faurecia and Yazaki have located plants to support local interiors production.

Central Europe Investment Increasing- Central European manufacturing infrastructure developments are attracting investment that might have been directed toward Latin America and Southeast Asia (e.g. the new PSA/Toyota plant in the Czech Republic and the Daewoo plant in Poland). Although labor rates have been rising (in Poland, for example, wages are now double what they were in the early 1990's), they remain low relative to their Western European counterparts, as illustrated in the table. A well-educated, industrious labor force, government spending on information, communication technologies and infrastructure and geographic proximity, are contributing to the growth of Central European auto interiors manufacturing.

Exchange Rate Stability- Central European political stability and future European Union entry promise exchange rate stability compared to Latin America and Southeast Asia.

Productivity- Vehicle productivity rates and quality levels in the more advanced Central European plants are approaching and in some cases (e.g. VW) surpassing those in home country plants.

Corruption/political instability- make doing business difficult. They have become key parameters for judging investment potential, especially when weighing eastward movement.

Characterizing the Interior Supplier Presence- As shown in the table, interrogation of a database created by Robert Eller Associates, Inc. which includes 166 interior trim suppliers in East and Central Europe shows:

-Czech Republic has the highest concentration of interior suppliers, followed closely by Hungary, Poland and Slovakia

-US and German companies account for about 40% of the investment

-Seating companies represent 26% of the supplier base, closely followed by instrument panel, door trim, and floor acoustics manufacturers.

Next Growth Areas? -There are three possibilities for potential next steps.

1. Further eastern movement (e.g. Russia, Romania, Bulgaria, Ukraine, Belarus)
2. Baltic Area (e.g. Estonia, Latvia)
3. Central Asia (e.g. Uzbekistan, Kazakhstan)

An educated work force and low labor costs are likely to stimulate further movement eastward to those countries with reasonable political stability. Russia is likely to develop earlier than neighboring former Soviet Union countries based on political stability and an established auto manufacturing base.

Northern location, shipping ports and political stability suggest the Baltic countries are likely to be the next frontier for eastward (and northward) expansion of OEMs and their interior suppliers. The Baltic countries have the added advantage of proximity to the large potential Russian market.

Movement to Central Asia at this time appears to be the least likely option, due to political instability, poor infrastructure and long shipping distances, especially compared to the benefits of the well developed Turkish automotive manufacturing infrastructure and geographic position.

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WAGE RATE/GDP COMPARISONS

COUNTRY	POP, MM	GDP, \$BILL	GDP/ CAP, \$	AVE.WAGE, \$/HR
Poland	38.6	158	4,085	2.00
Czech Rep.	10.3	51	4,946	1.94
Hungary	10.0	46	4,560	1.72
Slovakia	5.4	20	3,700	1.38
Germany	82.2	1,847	22,774	23.38
Japan	126.5	4,200	33,149	22.22
USA	284.4	10,210	35,694	20.03
France	59.4	1,300	21,825	16.23
Romania	22.4	37	1,640	0.56
Russia	144.2	310	2,140	0.45
Ukraine	49.3	32	640	0.31
Bulgaria	7.9	14	1,710	0.62
Turkey	65.7	199	3,030	2.08
Brazil	174.5	503	2,880	1.13
Malaysia	23.8	334	3,724	2.00
Thailand	62.3	122	1,960	1.95
Vietnam	77.7	33	400	

Note: GDP is for 2001

Wages are at exchange rates for 2000

SOURCE: THE ECONOMIST, INVESTMENT AGENCIES

CHARACTERISTICS OF INTERIOR SUPPLIERS IN CENTRAL AND EASTERN EUROPE

CHARACTERISTIC	SHAR E % (a)	NOTE
Location:		
Central Europe	84	(b)
Czech Republic	31	
Hungary	23	
Poland	14	
Slovakia	15	
Baltic	4	(c)
Parent company countries:		
Germany	22	
USA/Canada	20	
Other Western Countries	9	(d)
Japan	7	
France	7	
Belgium	4	
Module type:		
Seat	26	
Cockpit	16	
Door	13	
Textiles	12	
Floor/acoustics	11	
Trim	7	
Airbag system	5	
Air conditioning	6	
Steering wheel	5	

Note:

(a) Of REA database of 166 interior supplier companies in Central, Eastern and Baltic Europe

(b) Czech Republic, Poland, Hungary, Slovakia

(c) Latvia, Estonia, Lithuania

(d) Switzerland, Monaco, Spain, Austria, UK, Sweden

SOURCE: ROBERT ELLER ASSOCIATES, INC., SOFT TRIM MULTICLIENT