Romania: Automotive Market Overview

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Summary

The automotive industry has been one of the most profitable sectors of the Romanian economy in recent years. According to the Romanian Association of Car Manufacturers, the automotive industry contributed EUR 9 billion to Romania's GDP in 2010.

The potential for development of the automotive manufacturing industry is higher in Romania than the other countries of Central and Eastern Europe. The production of cars per 1,000 people is 10 times lower in Romania than in Slovakia and three times lower than in Hungary.

The future shape of Romania’s automotive industry will depend on how much of the chain of value added it can capture. It is unclear whether Romania ever will have the kinds of industry tiers of suppliers and sub-suppliers that characterize the auto industry in other countries, or simply host final assembly and a few large suppliers.

To become more competitive, the Romanian automotive sector will have to continue to rely on foreign direct investment. For this, Romanian government authorities must strike an adequate balance between the social needs of the employees in this sector (salary levels) and the conditions required by foreign investors (cost competitiveness, infrastructure).

Romania has a small but growing automotive cluster with a network of suppliers and components manufacturers. Most of the Romanian suppliers work in joint ventures with foreign partners, the Romanian party providing production facilities, utilities and engineering services, while the international car manufacturers bring in their brand, global know-how and services. These JVs produce for both the domestic market (e.g. for Renault-Dacia) and the overseas markets. The two main car manufacturers in Romania are currently Dacia-Renault and Ford.

Market Demand

The domestic Romanian auto market had experienced steady growth, but took a sharp dip in sales in 2009 and 2010. The sector relied heavily on exports in 2010. The domestic market dropped sharply despite the introduction of a “cash for clunkers” program, offering a rebate to entice consumers to trade-in older cars and purchase new models.

Local automotive production hit a record high of 350,000 units in 2010, up 15% over 2009. Among domestic producers, Romanian car maker Dacia reported turnover of around EUR 2.7 billion in 2010 up 26.6 percent compared to the previous year. The company accounted for a large share of Romania’s exports.
Dacia’s introduction of the model Duster SUV was followed by the export of 81,000 units in the first seven months of 2010. Owned by the French group Renault, Dacia has managed to increase its turnover under a declining Romanian economy and a domestic auto market that lost another 25 percent of its volume.

Dacia’s reported net profit for 2010 was EUR 71.2 million, compared to EUR 56.1 million in 2009. The company’s net profitability was 2.6 percent, about the average of global car manufacturers.

The level of car ownership in Romania is two times lower than in Western Europe, and a third lower than in neighboring Central European countries. In Romania, the number of cars per 1,000 inhabitants is 198.6 (the total number of registered vehicles per Romania’s population). In April 2011, the total number of registered vehicles amounted to 5,438,491 vehicles of which 5,182,395 were cars.

Despite plenty of room for growth, Romania’s automotive sales will recover to their 2008 level only over the next three to four years. Car ownership is heavily concentrated in and around the capital, Bucharest, where ownership rates are double the national average.

**Market Data**

New car registrations are a common way to measure growth in a country’s rate of car ownership. In 2008 Romania ranked 10th in the EU with a total of 285,489 new cars registered, but with the arrival of the regional recession the yearly increase did not keep pace with markets such as the Czech Republic, Portugal, and Greece. By 2010, Romania was ranked 17th in EU, indicating the slow rate of new car sales and registrations.

**Best Prospects**

<table>
<thead>
<tr>
<th>Car (motor vehicles market)</th>
<th>2009 (USD Millions)</th>
<th>2010 (estimation) (USD Millions)</th>
<th>2011 (estimation) (USD Millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>A) Total Market Size</td>
<td>1,980</td>
<td>2,040</td>
<td>2,252</td>
</tr>
<tr>
<td>B) Total Local Production</td>
<td>3,328</td>
<td>3,788</td>
<td>3,968</td>
</tr>
<tr>
<td>C) Total Exports</td>
<td>2,570</td>
<td>2,760</td>
<td>3,200</td>
</tr>
<tr>
<td>D) Total Imports</td>
<td>1,634</td>
<td>1,733</td>
<td>1,920</td>
</tr>
<tr>
<td>E) of which: Imports from the US</td>
<td>7,04</td>
<td>2,7</td>
<td>2,8</td>
</tr>
</tbody>
</table>

**Local production**

Romania’s local production grew 18.4% across-the-board reaching a total volume of 350,912 units. Within this category, the production of cars (versus other vehicles) increased above expectations (15.8%) reaching a volume of 323,587 units. The production of commercial vehicles maintained a high level (27,325 units). Around 91% of Romania’s domestic car production was exported which indicates the importance of external demand.
Exports

In 2010, the Renault-owned Dacia brand continued to be one of the best performers on the European market. Its exports increased to 314,661 units, which allowed Romania to maintain its identity as a major car-producing country of Eastern Europe, along with Poland, Hungary, the Czech Republic, and Slovakia.

For Dacia, 2010 was the sixth consecutive year in which the company enjoyed double-digit sales growth. This progress allowed Dacia to increase its sales from less than 100,000 cars in 2004 to over 300,000 units in 2010.

Another notable event was the opening of Ford's new automotive assembly plant in Craiova in September 2009, adding a second major producer/exporter to the Romanian automotive sector.

Imports of all motor vehicles dropped 22.5% in 2010, reaching only 76,078 units, and occurred in the context of a 21.5% decrease in passenger car imports (66,634 units).

The sales of imported diesel passenger cars experienced another substantial drop of 26%, in line with the average decline in the imported car sales.

Automotive Brand Market Share in Romania in 2010

Romanian maker Dacia was the leading brand in 2010, with a total of 34,400 units sold (32.35% market share, up 2.55% from 2009), followed by Volkswagen with 8,771 units, Renault with 8,401 units, Skoda with 8,079 units, and Ford with 7,600 units.

For commercial vehicles, a total of 12,275 units were sold in 2010, down 26.4% from 2009. Within this category, sales of Light Commercial Vehicles were down 33.8%, while Heavy Commercial Vehicles (trucks exceeding 18 tons gross vehicle weight) were up 46.4%. Many LCVs are used as delivery trucks, and hence the drop indicates the downturn in the retail sector. Conversely, increased HCV sales could indicate a recovery of the industrial sector.
**OEMs and Key Suppliers**

**Dacia:** Twelve years ago the French Renault Group invested EUR 1.5 billion in Dacia which has a capacity of 350,000 cars per year. The company currently employs 13,823 workers, 1,125 more than in 2009.

Approximately 91% of cars built at the Dacia are exported to 60 markets on four continents. In addition, sub-assemblies produced at Dacia provide the necessary components for plants in Morocco, Russia, Iran, India, Brazil, Colombia, and South Africa.

**Ford:** In October 2007, Ford Motor Company purchased the S.C. Daewoo Automobile Romania factory in Craiova, Romania. As of 2011, Ford Europe’s plans are to manufacture three vehicle models in Craiova: the light utility vehicle Transit Connect, a small class automobile, the B-Max, and a medium class utility vehicle, most likely the next generation Ford Transit, which will target the European market.

Ford representatives announced this year that they would continue to invest in the Craiova subsidiary despite having to adjust its business plan and production targets in light of market conditions. By 2013 the Craiova factory will have installed production capacities able to produce 350,000 cars per year.

**Automotive Supplier Base**

The current situation provides new opportunities for suppliers of all tiers to these two manufacturers. Dacia and Ford have attracted and continue to attract significant investments in the auto components industry, as suppliers seek to locate nearer these assembly facilities. For the auto components manufacturers, the presence of the two carmakers is extremely beneficial: Renault’s production has been steadily growing for the last six years, and Ford announced ambitious plans for the future: a production capacity of 300,000 cars and engines in 2013 and an actual production of at least 200,000 units.

The production of Ford B-Max increased to 20 the number of automotive suppliers selling to its Craiova plant. Several suppliers are expected to together invest 200 million euro in the construction of production facilities by 2012. Romanian car parts and vehicles account for just over 11% of all the nation’s exports in 2010, according to the Ministry of Economy. A few examples would be Romanian companies UAMT, Altur, and Compa.

**Recent Investments by Suppliers**

The most recent investment was announced by Japanese wiring harness company **Yazaki** in Caracal, in Romania’s Olt County. The company announced it will invest more than 10 million euro in a new plant located within the Romanita textile factory where it has leased 6,000 square meters. Olt County was also the site of a larger investment by a Ford supplier: plastics and automotive interior manufacturer **IAC** Romania. Located in the town of Balș, the value of the investment is estimated at 58 million euro.
CML plans to expand its production capacity by 30-35% in 2011 and to make new investments in production equipment and in upgrading the building infrastructure. Over 95% of the CML plant in Romania goes to export. Renault, Nissan, Peugeot-Citroen, Volkswagen, Audi, General Motors, Opel, Toyota, Honda, Mercedes, and Dacia are among the company's clients.

The German company Kautex Textron automotive sector will invest EUR 10 million to build an automotive plastics parts production facility close to Ford Romania in Craiova. The German company will produce tanks, valves, plastic pipes and pumps to be used on two models of vehicles produced at Ford Romania.

Pirelli has already begun work on the construction of the second production facility in Slatina, worth approximately 250 million EUR, and fellow tire maker Continental will expand its facility in Timisoara by investing 50 million EUR in the development of a new division.

In addition to the two major vehicle manufacturers currently producing in Romania, there are as several hundred companies that could be considered potential suppliers to the vehicle market (car or truck) as manufacturers of auto parts, sub-assemblies and components. Most of these Romanian firms are small enterprises and in the area of metalworking, and plastic and rubber components. A map of suppliers and short summary by category follows:

**Electric and electronic systems**: Lisa Draxlmaier (Germany), Delphi Packard (U.S.), Kromberg & Schubert (Germany), Alcatel (France), Lear Corporation (U.S.), Alcoa Fujikura Inc. (U.S.-Japan), Leoni Wiring Systems (Germany), Sumimoto Electric Wiring Systems, Yazaki Corporation (Japan), Valeo (France), Siemens Automotive (Germany), Ruwel AG (Germany); Schneider&Oechsler International (Germany); Marquard Schaltsysteme (Germany)

**HVAC systems**: Continental (Germany), Valeo (France), Calsonic Kansei (Japan)

**Exhaust systems**: Borla (U.S.), Cortubi, Honeywell Garett (U.S.)

**Plastic/rubber components**: Baumeister & Ouslet (Germany), Solvay-Inergy (Belgium), Phoenix AG (Germany), Dow Automotives, AD Plastik (Croatia), Simoldes Plasticos (Portugal), BOS Automotive; Hutchinson (France)

**Gear boxes**: Daimler Chrysler (Germany), DCI Wallbridge (U.S.), Star Transmission (Germany)

**Seating**: Johnson Controls (U.S.), Faurecia (France)

**Tires, Steel Cables**: Continental (Germany), Michelin (France), Pirelli (Italy)

**Steering Wheels**: Takata Corporation (Japan), Eybl International AG (Germany), Momo (Italy)

- **Wheels**: Magneto Wheels (Italy)
- **Bearings**: Koyo Seiko (Japan), SNR Roulments (France), Ina Schaffer (Germany)
Prospective Buyers

An overview of Romanian foreign trade in the automotive area shows increased exports of auto parts. Exports include tires, cabling, steering wheels, safety systems, car seats and upholstery, connectors, tire cords, and generally any part that involves a significant amount of labor, or anything that is unprofitable to manufacture in other countries.

Market Trends

2010 was the third consecutive year of downturn for the Romanian car market, after a peak recorded in 2007, when almost 367 thousand units were sold. Romanian auto industry representatives anticipate that 2011 will end with sales of 120 thousand motor vehicles, 20% less than the year before.

The Romanian car market dropped by almost 67% as a result of the economic crisis and austerity measures put in place by the Romanian government, which has reduced Romanians’ purchasing power. An increase in Value Added Tax (VAT) from 19% to 24% took effect in July 2010 and led to an immediate drop of 12% in new motor vehicle sales for the last 6 months of 2010, compared to the same period of 2009.
Romanian Government efforts to support demand by offering incentives for scrapping old cars had mixed results, but likely saved the domestic car industry. Romania launched its “cash for clunkers” program on February 18, 2010 in which car owners were able to receive a voucher for 3,800 RON (approximately EUR 930 and USD 1160) in exchange for each scrapped car. The vouchers could be combined with up to three others when buying a new car. By December 2010, the program had helped the sale of 60 thousand new cars out of a total of 106,000 cars sold in 2010, or an amazing 57% of new car sales. The voucher program enabled the industry to report the first quarter of growth in Q4 2010.

The Romanian Car Manufacturers Association considers world motor vehicle production to have recovered in 2010, and provide an estimate of 68 million units produced, a 20% increase over 2007. Nearly 30% of this growth came from the so-called BRIC countries (Brazil, Russia, India and China).

The decision to enter this market depends on the sub-sector in which the company is interested.

- With respect to motor vehicle sales and distribution, market entry is quite difficult if attempted without a local partner having already a well established distribution network. The majority of the authorized dealers have built modern facilities.
- The parts and accessories market still offers room for new entries, in both manufacturing and distribution sub-sectors. There are opportunities to invest in (buy and develop) an existing company for manufacturing businesses or to buy or lease land to establish new facilities through either greenfield or brownfield projects.

**SWOT Analysis of Romania’s Automotive Market**

**Strengths**
- Romania has an open market economy; member of the EU
- Low expenses (land and labor)
- Access to EU markets and EMEA region
- Potentially strong supplier base for manufacturers
- Relatively well-educated workforce

**Weaknesses**
- Romania has a poor infrastructure, particularly the road infrastructure
- Large geographic area presents higher costs of establishing distribution coverage for items such as aftermarket parts.

**Opportunities**
- Products manufactured in Romania can be sold in other EU states without import tariffs
or other obstacles.

- There are reduced duty rates for industrial products (vehicles code 8703: 10%; parts and accessories (code 8708: 3% for industrial assembly and 4.5% other purposes).
- The number of companies with ISO 9001, ISO 14000, ISO 16949 Certification (or, at least they have implemented these standards) is continuously increasing.
- A strong impetus in the export market.
- The existing vehicle is old – 12 years compared with less than 8 years in the EU.

**Threats**

- There is a lack of available highly qualified personnel, such as specialized technicians for service workshops, engineers, etc.
- Longer than expected decline of the purchasing power of potential buyers of vehicles

**EU and Romanian Market Issues**

**DISTRIBUTION OF MOTOR VEHICLES (EU Block Exemption Regulation) - Starting October 2005, the Commission Regulation (EC) No 1400/2002 of July 31, 2002 (on the application of Article 81(3), currently 101(3) of the Treaty to categories of vertical agreements and concerted practices in the motor vehicle sector) was implemented in the Romanian legislation. Through this legislation, importers established new dealer contracts, meant to open up competition in the motor vehicle sector by giving dealers more freedom and greater choice to customers.**

**ELV - End of Life Vehicle (Directive 2000/53/EC) - The ELV Directive in which producers and importers had to establish a specialized collecting network throughout the country. It set out the following targets for reuse, recycling and recovery of end-of-life vehicles: 95% of reuse and recovery and 85% of reuse and recycling by January 1, 2015 ("2015 targets")**

**Romanian Auto Industry 2011 Perspective on Electric Cars**

- Romania could subsidize the purchase of electric cars through its cash-for-clunkers program in the future. Romania's Government will encourage the purchase of electric and hybrid cars with price discounts of 20% and 10%, respectively (up to EUR 3,700 or EUR1, 800, respectively). Individuals or companies participating in the cash-for-clunkers program will receive four vouchers for an electric car, or two vouchers for a hybrid car. The Government will also subsidize the infrastructure needed by electric/hybrid cars.
- According to a recent announcement, carmaker Renault will develop the needed infrastructure for electric cars in Romania, together with the country’s electricity company, Electrica, with Schneider Electric and Siemens. A team of experts from the four companies will develop a plan to implement and maintain a recharging
network for electric cars. These are the first steps towards the use of cars with zero carbon emissions in Romania.

- Freight companies will continue to buy trucks to cope with demand from exporters. According to APIA’s statistics, sales of over 18 tones trucks especially of those used to transport freight over long distances increased by almost 25% in the first six months of 2010. The increase shows that the large transport companies consolidated their positions on the local market to target the distribution and logistics segment while small companies closed their business.
Conclusions

The Romanian automotive industry is poised to continue to grow in significance due to planned and current investments by global manufacturers and suppliers. It is unclear whether Romania will become a major player in the industry, with multiple tiers of interconnected tiers of suppliers selling to OEMs, and will in part be related to the country’s ability to present an attractive cost structure (labor, land) that counters the negatives (poor transport infrastructure, weak government administration, unstable government policy).

Trade Events

See the following website for more details: www.ccir.ro

Resources & Contacts

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