

Business is back!

CHINESE ORDERS HELP INCREASE ATTENDANCE AT THE TURBOMACHINERY SYMPOSIUM



It is not always possible to develop a clear consensus on the “issues du jour” at these trade shows. But this year’s Texas A&M Turbo Symposium certainly had one.

Business is back, and this is clearly reflected in the show statistics. Paid show attendance was up 34% and international attendance returned to pre 9/11 levels with an increase of 40%. The general consensus is that customer inquiries began improving in the fall of 2003 and the actual order commitments followed in the second quarter of 2004.

Most of the increase was attributed to the continued capital investment in China, described by one participant as “phenomenal.” The comment was also made that investment has moderated a little and that now, it was only just “terrific!” There are also indications of renewed investment in the U.S., but these are largely devoted to productivity gains within the walls of existing operations rather than major investments in green field facilities.

No new news here. This is but another chapter in the “outsourcing” phenomenon that is of so much concern today. While this is not a really a new phenomenon, the breadth and the speed at which it is occurring is. And of course, it compounds.

China is moving from a supplier of low-cost components to becoming the primary market for the resulting finished products. The degree to which finished products are produced in China is directly related to the size of the domestic demand, which itself is a function of size and complexity of the product. Small reciprocating and packaged screw compressors have already made the transition to a fully localized product, supported by an established network of qualified suppliers and produced entirely in China.

At the other end of the spectrum, large process-gas turbo and power generation products are still at the component sourcing level, and feature license or co-production arrangements. The driver here of course is the Chinese demand for energy as they

struggle to fuel their continued growth. The geared turbo compressor products lie somewhere between these two ends of the spectrum and are now in a period of transition that surely will end with their full localization in China.

FS Elliott was exhibiting as a “newly minted,” geared-centrifugal manufacturer headquartered in Taiwan, but clearly intent on manufacturing on the mainland. Their Taiwanese parent company, Fu Sheng, claims to be “the largest manufacturer and distributor of air compressors in the Greater China Region.” It seems clear that Fu Sheng has its sights set on consolidating the geared compressor opportunity in China around its new acquisition.

Samsung is also likely to become more of a factor as it extends its presence to other parts of Asia. There were Samsung personnel in attendance, but not exhibiting. Samsung has just introduced a new direct-drive, 175kW high-speed turbo compressor and is apparently in the process of realigning its coverage in the U.S.

The “Big 3” — Cooper, Atlas Copco and Ingersoll-Rand — are, for the most part, still shipping complete products into China, supported with some local assembly capability. As FS Elliott and potentially Samsung build their local capability, they will continue to apply pressure on the “Big-3” to localize as well, in an effort to retain share and margin.

It is interesting to note that while the international attendance at the conference has rebounded, the Chinese were not in much evidence. Given the migration of both the OEMs and end-users to China, it would be wise to find ways to insure representative participation by the Chinese or risk losing the conference to them as well. ■

Peter Baldwin is an industry consultant (www.base-e.net) and former executive of Ingersoll-Rand Company's Northern Research and Engineering Corp. (NREC) subsidiary. Reach him at pete_baldwin@base-e.net.