CENTRAL EUROPE AUTOMOTIVE REPORT

MONTHLY COVERAGE OF THE CENTRAL EUROPEAN AUTOMOTIVE INDUSTRY

May, 1996

Volume I, Issue 1

™

SLOVAK REPUBLIC

Bad Press, Solid Economy

In spite of rough treatment from the international press, Slovakia has produced some impressive economic figures. GDP grew 6.6% in 1995, and 65% of the GDP is produced by the private sector. By the end of 1996, the private sector is expected to account for 75-80% of GDP. Exports, up 18.5% in 1995, are one of the keys to Slovakia's strong economic performance and account for approximately 65% of GDP. In 1995 the inflation rate was 9.9%, down from 11.7% a year earlier, unemployment averaged 13.8%, and the Slovak currency remains solid after a 10% devaluation in 1993. Slovakia struggled with a huge government deficit in 1992, but by 1995 it produced a small surplus. "Slovakia has achieved the most spectacular fiscal turnaround I've seen," says Dr. Jaromir Cekota of the European Bank for Reconstruction and Development. **Contact:** Dr. Jaromir Cekota, Resident Representative, EBRD, Grosslingova 4, 814 18 Bratislava, Slovak Republic; tel: (42-7) 367-835, fax: (42-7) 321-459. The National Bank of Slovakia's **Standard & Poor's** rating increased in April 1995 from BB- to BB+, and Moody's increased Slovakia's and the National Bank's rating to Baa3. In June 1995 Slovakia signed an EU association agreement, and membership in the OECD is expected by next year.

Investment: Foreign direct investment in Slovakia is the lowest in Central and Eastern Europe. Only 2% of the $23.7 billion invested in the region has gone to Slovakia. Foreign investment is increasing each year and at the end of 1995, foreign investments in Slovak companies totaled $732.9 million, up 32% from the previous year. A significant increase in foreign direct investment is expected once privatization is complete. Foreign investment in Slovakia is led by Austria with 22%, followed by Germany (20.6%), the Czech Republic (15.2%), and the U.S (14.6%). The industrial sector received 44% of the total amount invested in Slovakia.

Certain cities will offer tax breaks for foreign companies that locate in underdeveloped districts with high unemployment. The **Sony Corporation** received property tax breaks from the city of Trnava where Sony plans to manufacture television parts. Trnava, with 12% unemployment, offers property tax breaks to any company that will bring more than 25 jobs to the city. **Foreign firms can import production equipment into Slovakia duty-free, and foreign investors may repatriate 100% of all post-tax profits earned in Slovakia.**

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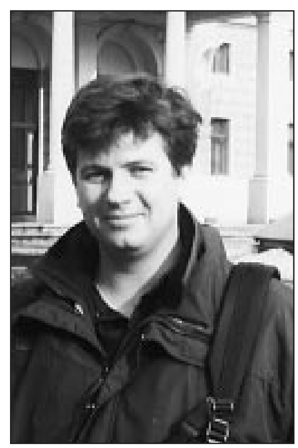
SLOVAK REPUBLIC

PROFILE

Sailing Into Europe Via Slovakia

John Vrba is General Manager of Thermal Laminates Corp. Europe (TLCE), a manufacturer of high-end sailboards in Slovakia sold under the brand name Seatrend. TLCE is a U.S./Slovak joint venture formed in 1993, has 70 employees, and will have revenues of over $2 million in 1996. TLCE is operating at full capacity and will produce 5000 sailboards this year; plans for expansion are underway. Almost 100 % of TLCE's sailboards are exported, and over 60% of the boards are exported to Western Europe. Although not involved in the automotive industry, TLCE is an excellent example of how a small U.S. company can take advantage of opportunities in Western Europe by locating in Central Europe. Skilled, inexpensive labor and access to the markets of Western and Eastern Europe make coun-



John Vrba

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***Feature Country** Continued From page 1*

According to Gene Young, Economic/Commercial Officer with the U.S. Embassy, "foreign investors already in Slovakia are not only staying here but some are expanding their presence." A new joint venture between **Volkswagen** and the German company **Siemens** has been created to produce wiring harnesses for Volkswagen cars. The factory will be located in **Nitra** and will employ 1,200 workers. Volkswagen's Bratislava plant is the only plant in the world producing the premium Golf Synchor family of cars. *(for more on **Volkswagen Bratislava**, see this month's Industry Reviews. ed)* The Slovak government is trying to convince Volkswagen to open an engine block plant in the town of **Ziar nad Hronom**.

One U.S. company increasing its investment in Slovakia is Tennessee-based **Dura-Line**, a manufacturer of fiber-optic and coaxial cable casings. Dura-Line is setting up marketing headquarters and building a technology support center in Bratislava to take advantage of the city's central location and highly skilled, low cost labor. The company's initial strategy for entering this region was to import product for one year from its U.K.-based subsidiary into the Czech Republic at prices approximating local costs. The strategy worked. "We won contracts from both the Czech and Slovak governments, increased our market share, and then started looking for a local joint venture partner," says Tibor Mikula, Dura-Line's Marketing Manager for Central Europe. The company teamed up with **Compuplast**, a plastic research organization, and opened a factory in the Czech city of Zlin. Dura-Line provided the technology, computers, and software for the venture. The company exports product into Austria, Germany, Poland, Hungary, Bulgaria, and Romania and has tripled its manufacturing output each year since 1993. Dura-Line is now using the same strategy it employed to enter the Czech and Slovak markets to enter the huge Russian market. **Contact:** Tibor Mikula, Dura-Line CT s.r.o., U pisaku 1, 763 62 Tlumacov, Czech Republic; tel: (42-67) 792-9037, fax: (42-67) 792-9076.

Pipeco Ltd. Podbrezova is a U.S./Slovak joint venture that manufactures pre-insulated pipe distribution systems. The U.S. partner purchased 55% of the shares of the Slovak steel producer **Zeleziarne Podbrezova (ZP)** and provided the venture with technology, know-how, and marketing expertise. ZP provided the production area, fixed assets, and work force. The company employs 55 workers and produces 100 to 150 kilometers of pipe annually. Pipeco plans to establish a stable position in the Slovak and Czech markets and then move into the Russian market. **Contact:** Ivan Balko, Deputy Director, 976 81 Podbrezova, P.O. Box 13, Slovak Republic; tel: (42-8) 6767-1210, fax: (42-8) 678-1867.

Slovakia's position as a raw material transit country creates investment opportunities for the transit, storage, and refining of oil, gas, and other raw materials. Raw materials flow through Slovakia from Russia and the Ukraine on their way to Western Europe. An oil pipeline from Siberia to Austria runs through Slovakia and Slovakia benefits from both the collection of transit fees and an inexpensive supply of oil. A Russian-Slovak joint venture plans to build and operate the Slovak branch of a gas pipeline leading from Siberia to Germany. Construction of the 233-kilometer pipeline from Poland to Slovakia is expected to begin in 1999 and to be completed in 2000.

Although the mining industry is losing its vigor in Slovakia, opportunity may exist in the sector of gold extraction. Many mines in central Slovakia were started as early as the 15th century and modern technology could be used to revive some of these ancient mines.

Trade: Exports have kept Slovakia's economy robust following its split with the Czech Republic in 1993. Slovakia's exports to CEFTA countries account for 44% of total exports, 37% go to the EU, and 7% find their way into the former USSR. The Czech Republic is Slovakia's largest trading partner. Slovakia's major exports: machinery and transport equipment, raw materials, manufactured goods, and chemicals. With an unsophisticated trade structure and labor costs that average $250 per month, **Slovakia is a competitive supplier of low value-added, semi-finished goods such as steel, chemicals, concrete, and wood.** According to Dr. Jaromir Cekota of the EBRD, Slovakia will benefit from being a supplier to companies moved by "powerful economic forces to find cheaper supplies of raw materials."

Slovakia's major imports: machinery and transport equipment, fuel, raw materials, manufactured goods, and chemicals. Principal imports from the U.S.: pumps, gas compressors, telecom equipment, computer equipment, machine tools, and plastics. **Trade opportunities exist for U.S. exporters of agriculture machinery, especially tractors, combines, and equipment related to low tillage farming.** Imports should receive a boost by the scheduled elimination of the 10% import surcharge at the end of 1996. Slovakia is a member of CEFTA, along with the Czech Republic, Hungary, Poland, and Slovenia, and is currently the chair country for the trade liberalizing organization. Slovakia's current goals are improving trade with the EU, CEFTA countries, the former Soviet Union, and the former Yugoslavia. **Because Slovakia's population is only 5.3 million and Slovak factories were built to serve the 50-60 million people of the former Comecon markets, opportunities exist for Western companies who can provide new market orientation that will utilize the excess capacity in these factories.**

Privatization: The Meciar government has introduced a heavy dose of politics into the Slovakian privatization program. Recent governmental changes in the process prohibit the sell-off of shares in strategic state-owned companies and limit the influence of investment funds in the decisions of already privatized firms. Regardless of the size of the state's stake in partially privatized companies, the state has granted itself a right of veto over key company decisions. The changes also prohibit the sale of companies in certain industries such as gas, electricity, telecommunications, and arms. The state will keep a strategic share in 40 major companies such as the oil refinery Slovnaft and energy company Nafta Gbely. Although privatization continues, it is only through direct sales and public offers. The new privatization process is criticized for being closed and rife with political abuse. The process is 60% complete and the government expects privatization decisions to be finalized by June 1996. After the process is complete and shares are in private hands, true company restructuring will begin which involves consolidation of ownership and inflows of capital and know-how from abroad.

Infrastructure: The government has plans to modernize Slovakia's rail network, expand the highway network, develop new water paths, and increase air traffic through the newly modernized airport in Bratislava. A rail line from Germany runs through the Czech Republic, Slovakia, and Hungary to the Balkans. Modernization plans for Slovakia's railways will focus on the north-south corridor between the Baltic and Adriatic Seas, and the east-west corridor which will improve access to Ukrainian markets. The government has plans to build 500 kilometers of highways by the year 2005; one priority is finishing the north-south motorway and its connection with the motorway networks of Austria and Hungary. Plans are also underway to construct roads to connect new border crossings. The Danube waterway gives Slovakia access to seven European countries. Plans are being made to upgrade and enlarge the river port in Bratislava which would attract new transit along the Rhine-Main-Danube channel that connects Slovakia with the North and Black Seas.

Slovakia's telephone system is being modernized and negotiations are underway to introduce the GSM digital

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BECOMING A MAJORITY SHAREHOLDER IN AN AUTOMOTIVE COMPONENTS COMPANY

Don Murray

One way to enter the Central European automotive components market is to purchase a controlling interest in a Slovak firm. There are 10 component manufacturers traded on the Bratislava Stock Exchange with market capitalizations ranging from $100,000 to $5 million. Several traded companies who dedicate only a small percentage of their production to the automotive industry have market capitalizations of $33 million to $300 million.

Because of the stock exchange's low trading volume, large transactions are quickly noticed and this often triggers rapid price increases. In fact, much of the stock market's 30% gain since the beginning of the year can be attributed to investment funds' and holding companies' activities in accumulating majority positions in a broad range of companies. The objective of many brokerage firms is to assemble a majority position in a company and then to find a foreign strategic investor willing to pay a premium to enter the Slovak market. It is, however, better for the foreign firm to investigate the opportunities, decide on a take-over target, and then commission a brokerage firm to acquire a controlling interest. This way, the foreign company pays only a small premium, and not a premium for assembling the position and a premium for buying a packaged majority share.

Too often the premium exists solely because of the controlling power the majority share brings to the owner and not because of the company's profit potential. Although profit and control should go together, investors need to closely examine majority position offerings to see if there is a genuine opportunity for profit. For example, a 51% stake in **Topolcianske Stojarne** (TS), a producer of drive shafts, universal joints, exhaust pipe flanges, hydraulic components, and small utility vehicles, is currently for sale. The asking price is approximately $6 per share for a total of $780,000, or 31% of TS's book value per share and 5.49% of its total asset value, which includes land ($743,000), buildings ($4.02 million), and equipment ($4.05 million). The buildings and equipment have been depreciated 30% and 60%, respectively.

The company has some profitable growth opportunities, such as producing complete exhaust pipe assemblies. Thirty-percent of TS's production is dedicated to making flanges, all of which are exported to Germany where they are welded into exhaust pipe assemblies and exported to Skoda in the Czech Republic. TS would like to produce the complete exhaust pipe assemblies in Slovakia and sell them directly to Skoda, bypassing Germany.

The price sought for TS's shares is wishful. TS shares traded during 1995 between $1.30 and $2.50, and the later price was the result of the assembly of the 51% stake. Although TS has profitable opportunities, it is currently losing money and facing insolvency. Its net loss for 1995 was $2.4 million on sales of $4 million, and 38% of its revenues are consumed by interest payments and penalties on debt. This equates to paying annual interest rates of 30% when current lending rates are at 13% to 15%. A more realistic price for the TS stake would be $1.00 per share for a total of $136,000.

There are no current offers to sell large positions in any of the other publicly traded automotive components manufacturing companies. This does not, however, mean that none are for sale. There are several investment worthy companies that have potential. Many are ISO 9000-9004 certified and have been supplying high quality parts to the 60% **Volkswagen**-owned Czech car manufacturer **Skoda**. In most cases these companies lack only investment capital and marketing expertise. The trick is to buy them at a reasonable price.

Don Murray is a securities analyst with J&T Securities in Bratislava. Hlavna 17, 831 01 Bratislava, Slovak Republic; tel: (42-7) 372-242, fax: (42-7) 376-312.■

INTERNATIONAL COLLECTIONS

SLOVAK REPUBLIC

LEGAL ADVISOR

ENVIRONMENTAL DUE DILIGENCE

The acquisition of a Slovak company may expose the investor to significant environmental liabilities. Under Slovak law all the liabilities of an acquired enterprise pass to the purchaser, including environmental liabilities. The unwary investor may therefore face potentially huge future bills for the clean-up of undisclosed contamination by the previous owner. An environmental due diligence exercise or audit is one way the investor can minimize such risk. Such an exercise was carried out last year at Slovnaft a.s., the largest Slovak petrochemicals company, by U.S. underwriters preparing the prospectus for an international GDR form share offering by Slovnaft. Some of the lessons learned from this exercise are applicable to any former state-owned Slovak enterprise.

Marek Svoboda

The Environmental Audit: As Slovak enterprises are not obliged to perform periodic environmental audits, most have not undertaken one. State-owned enterprises were obliged to submit a report on their environmental liabilities upon privatization, but the quality and depth of such reports varies. Some of the largest Slovak companies are now starting to undertake environmental audits. The initiative to prepare an audit often comes from a foreign lender. For example, **Chemsystems** prepared an environmental report on the state of Slovnaft's production facilities in June 1994 when it was seeking a loan from the EBRD. In most cases the U.S. investor will be well advised to commission an independent environmental audit.

Environmental Record: Little value should be placed on the company's record of compliance with the applicable environmental regulations. Typically, when asked to disclose its environmental record the company will produce a bare list of penalties and fines imposed for breaching environmental regulations. In the area of health and safety at work it will produce a list of employees injured and of dependents compensated. These lists can be deceptive. Even if it appears that the company violated only a few regulations or that the fines levied against it were low, there still may be serious environmental problems. The company may have developed a close relationship with the local environmental inspectorate who could have lowered or delayed payment of fines or prolonged implementation of deadlines. The investor should be more concerned with whether the company has a compliance plan in place for dealing with those environmental problems uncovered during an environmental audit. The investor should look for evidence that the plan's remedial measures can be realistically financed and completed in a reasonable time frame.

On Site Interviews: As a general rule a clearer picture of the company's environmental record can be obtained by speaking not only to management but also to employees at the operational level. Slovak joint stock companies have inherited strong hierarchical structures from their state owned predecessors and the management may not be aware of the environmental state of the company's sites and facilities. It is important, therefore, to interview personnel from the operational units who know from actual experience how efficiently a particular technology or chemical process works in practice as compared to its technical specifications on paper. In larger concerns, the R & D and environmental units should also be approached.

The potential investor should also interview third parties who are involved with local environmental management such as the municipal office and district environmental inspectorate. There will also be persons who are affected by environmental problems in the area where the company is operating. If a common interest association exists it can be a useful source of independent information against which to assess the company's claims.

Problem Areas: There are several industries in which environmental protection is weak, particularly in the Slovak utilities and chemical sectors. Hazardous substances and wastes are often stored on site and inadequately sealed from the environment. The regulations on handling, storage and transport of such substances tend to be poorly enforced, and companies do not use HAZOP and other environmental risk studies.

Slovak industry is generally capable of meeting existing Slovak regulations, particularly in the area of air pollutant emissions. It will, however, face stricter EU-inspired emission limits for air pollutants such as NOX, NO2, and SO2. A plant put into operation prior to October 1991 must meet these limits by 1999 under the current Slovak Air Pollution Act. Slovak companies will therefore face increased environmental costs resulting from tighter regulation. Many plants will not be able to meet these costs without significant investment. An investor may make provisions for such costs because they are known when he makes his investment.

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CENTRAL EUROPE AUTOMOTIVE REPORT

To Our Readers:

Ronald F. Suponcic, Jr.
Publisher

Jeffrey A. Jones, Esq.
Editor-in-Chief

The Central Europe Business Report was created to help U.S. companies uncover business opportunities in the form of export markets, joint ventures, and direct investments in Central Europe. In each Central Europe country we cover, the automotive industry is a consistent source of opportunities for foreign companies. Not only does Central Europe offer skilled, low cost labor in the auto sector, but it is also an excellent location from which to reach the markets of the EU, Russia, and the Ukraine. Because of the dynamic nature of the automotive industry in Central Europe and the opportunities it provides, the Central Europe Business Report will change its name to the Central Europe Automotive Report and will now provide exclusive coverage of the auto industry.

Our goal is to provide international companies with information that is essential to succeed in this region's automotive industry. Our expanded coverage of the auto industry, which includes autos, trucks, buses, and heavy equipment, will feature articles such as how to set up joint ventures, how to supply the EU, Russia, and the Ukraine, site selection strategies, factory construction costs, human resource issues, distribution strategies, and environmental issues. Occasionally, we will feature articles on companies not involved in the auto industry if their experiences or strategies could benefit automotive companies. So that we can provide you with the best information available, please send us your comments, suggestions, or requests to cover specific topics.

Opportunities exist not only for the large U.S., German, Japanese, and Korean multinationals who already enjoy a strong presence in Central Europe, but also for the numerous suppliers and support companies in the auto industry. Companies active in all automotive-related sectors can take advantage of the many opportunities available in this region. We believe that the Central Europe Automotive Report will help you expand your markets and uncover profitable ventures in Central Europe. ■

51st Cleveland World Trade Conference

INTERNATIONAL TRADE CONFERENCE & EXHIBITION IN CLEVELAND

"Building Global Competition--Tools for International Trade" is the theme of the 51st Annual Cleveland World Trade Conference and Exhibition to be held May 10, 1996 at the Renaissance Cleveland Hotel. The conference, sponsored by the Cleveland World Trade Association (CWTA), is Ohio's oldest and largest international event. This year's conference is held in conjunction with the District Exporting Council's Third National Conference on Exporting and will attract participants from across the entire country.

The full day program begins with a Town Meeting on Trade Policies. Moderated by Deborah Marchini of CNN Business News, the meeting will feature a legislative panel chaired by Senator John Glenn, and an industry panel chaired by Jerry Jasinowski of the National Association of Manufacturers.

The luncheon Speaker is Ron Brown, Secretary of Commerce. The afternoon program includes technical sessions on Using the Internet, Managing Foreign Exchange, Cracking Tough Markets, and Using International Trade Resources. The sessions will address the details of both importing and exporting and will be conducted by practicing experts. Michael Neubach, Editor-in-Chief of Internet World magazine, will be the featured speaker at the Internet session.

An exhibit area will give participants an opportunity to learn about products and services offered by companies supporting the global marketplace. For more information about attending or exhibiting, please contact CWTA at (216) 881-2982. ■

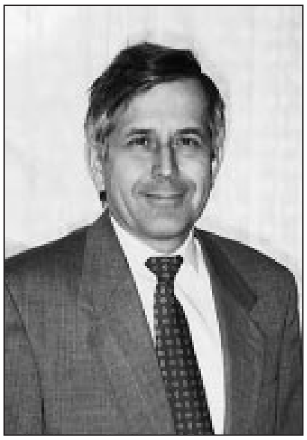
Contributed by Don Scipione,
Program Chairman

SLOVAK REPUBLIC

FOCUS ON INVESTMENT

BUSINESS VALUATIONS

Privatization of state-owned entities in Central and Eastern Europe has opened the door to individual and corporate ownership and has created the need for accurate valuations of businesses and assets. Difficulties in valuing former state companies are numerous. Many of the difficulties stem from the nature of the former communist system where production was the main concern. In centrally planned economies, the role of cash flow was underestimated, many prices were subsidized, company books showed unreasonably high or low values for assets, and intangible assets were virtually non-existent. To overcome the information gap such practices create, Western recording standards have been introduced, and balance sheets, profit and loss statements, and other financial documents have been restated. With revised records, it is possible to begin the task of understanding the value and potential value of such companies.



Vladimir Socha

An investor faced with a choice of whether to invest in Hong Kong, Hungary, or Slovakia needs to compare similar data to be able to make an informed decision. To meet this need, three globally accepted approaches to value have been introduced into this region, namely the income, market, and cost approaches. Although completely foreign to this part of the world several years ago, these approaches have quickly become the standard by which proper valuations are conducted.

An enterprise valuation consists of an estimation of the value of a business based primarily on its earnings capacity. This requires consideration of all available facts and an investigation of factors influencing future earnings. Consideration must be given to the international capital markets to reflect the opportunity cost of capital, as well as to the current national circumstances to accurately reflect risk. Risks peculiar to Central and Eastern Europe include liquidity risk, inflationary uncertainty, and wide swings in currency values. These factors can be combined into one or more country specific risks which are generally reflected in higher discount rates under the income approach, and adjustments to market multiples gathered from Western companies when using the market approach.

Due to low liquidity, recently opened stock exchanges in this region are not a source of reliable data. Market information from U.S. or other Western stock markets is often used to make valuations based on company comparisons. Similarly, when valuing machinery and equipment, Western manufactured machines are used to arrive at value indications for locally produced machinery. Gradually, regional data is becoming more complete and reliable. To obtain the most accurate valuations, it is important to use appraisers who have local knowledge and special expertise in valuing companies and assets in Central Europe.

Particular problems encountered in assessing business cash flows in these economies include the old tradition of late or nonpayment for goods and services and unrecorded or misrecorded payments. An estimated 30% of the economic activity in Hungary is attributed to the black market. With such a large and influential underground economy it may be difficult to get an accurate picture of any industry. For example, valuing residential buildings in economies where the most significant influences on the prices of real estate are unofficial brokers and relocation specialists presents unique problems. In such a situation, the appraiser can rely only on whatever verifiable information is available and recognize that conclusions based on official and legal information may not fully represent the true market.

In addition to analyzing the value of a company as a whole based on its earning capabilities, the value of the company's underlying assets (tangible and intangible assets, net working capital, and non-operating assets) is also considered. Assets are valued in conjunction with the earnings-based business enterprise valuation to reflect the effects of economic obsolescence. Economic obsolescence has a large impact on values in Central and Eastern Europe due to dramatic changes in the economies of the region. One reason for this is the loss of traditional product markets. Whereas Russia and other CIS countries formerly accounted for a large guaranteed market, new markets must be carefully rebuilt and are much less reliable once established.

Including the sum of assets approach in a business valuation is especially important in the former Eastern Bloc. Investors deem it essential to know and understand every aspect of the enterprises concerned. Old asset schedules are misleading as values are bound to be either higher or lower than what the market would dictate. The fixed asset valuation provides owners with indispensable input for new depreciation schedules, for opening asset balances for future investment plans, or for insurance purposes. If even the asset lists are unreliable, as is often the case in countries such as Russia, then a full property records audit must be undertaken.

Vladimir Socha is with American Appraisal, Ltd., an international valuation consulting firm specializing in the valuation of businesses and tangible and intangible assets. Podolska 50, 147 00 Praha 4, Czech Republic; tel: (42-2) 6121-4313, fax: (42-2) 6121-4156. ■

AUTOMOTIVE INDUSTRY REVIEW:

Autos & Auto Components

Market:

Slovak automotive components manufacturers have expertise in pressed parts, welded metal sub-assemblies, castings, forging and machining in iron, steel, and non-ferrous metals, brake components, shock absorbers, tires, hydraulic equipment, ball bearings, and gear cutting. Former military factories have expertise and capacity which can be converted for automotive component production, such as crankshaft and gearbox manufacture, and engine assemblies. Some factories have heavy pressing and forging equipment.

Research & Technology:

WUSAM Zvolen is a research institute that can provide essential technical support for potential foreign partners. The institute was previously attached to a former military enterprise and can help companies with new product development and the application of CAD/CAM technologies. **Contact:** Jan Slancik, General Director, Buzulucka 3, 961 50 Zvolen, Slovak Republic; tel: (42-8) 5521-503, fax: (42-8) 5523-429. **Vyskumny ustav spracovania a aplikacie plastickych latok (VUSAPL)** is a privatized plastics processing and application research institute. VUSAPL designs intricate injection molds for the auto industry and currently exports them to the Czech Republic, Denmark, Switzerland, Austria, and France. The institute purchases polymers and colored concentrates, mainly from the Czech Republic, Finland, Germany, and Italy. **Contact:** Marta Husekova, Novozamocka 179, 950 37 Nitra, Slovak Republic; tel: (42-87) 516-914, fax: (42-87) 513-495.

Opportunities:

Volkswagen Bratislava: The take-over of **Skoda** and **BAZ Bratislava** by **Volkswagen** has exposed Slovak suppliers to western quality standards and helped raise industry standards overall. In 1995 the Slovak plant produced 20,000 cars and production is expected to be increased by another 10,000 cars. Golf Synchors and Passats made at the factory are sold in Slovakia, Germany, Switzerland, Austria, and China. The plant also assembles gearboxes and produces gearbox components; over 250,000 gearboxes are expected to be produced in 1996. Gearbox parts are currently shipped into Slovakia from Germany. The company purchases production parts from 15 Slovak suppliers, with existing supply contracts running through 1997. Future opportunities may exist for suppliers willing to locate in proximity to the Volkswagen plant. According to Technical Managing Director Karl P. Wilhelm, Volkswagen would like to use more local suppliers in order to reduce in-bound costs. Foreign manufacturers can take advantage of this situation by establishing a joint venture with an existing Slovak components manufacturer who is in need of foreign capital, expertise, or technology, or by setting up a greenfield manufacturing facility in the open industrial space that is a part of the Volkswagen plant. **Contact:** Karl Wilhelm, Volkswagen Bratislava, Jana Jonasa Str., Devinska Nova Ves, 841 08 Bratislava, Slovak Republic; tel: (42-7) 474-2005, fax: (42-7) 474-2310.

Machinery

Market:

The machinery industry in Slovakia was originally dominated by armaments production, which accounted for 60% of the country's machine activity. As a result, this sector has seen heavy investment over the last 30 years. Due to the disappearance of the former Eastern Bloc markets, large amounts of excess capacity exist. Machinery production contributes 16% to total industrial output and is one of the most important sectors in Slovakia. Machine tool exports in 1994 were over $55 million and imports were $120 million. Companies in Slovakia produce machine tools and forming and tooling machines for the automotive, construction, mining, food processing, and shipping industries. The industry is centered around Slovakia's second largest city, Kosice, a major steel producing center. Russian wide gage railway terminates in Kosice which allows for easy transport of goods into the former Soviet Union. Hungary, Poland, and Romania are also easily accessible from Kosice. Over 80 steel foundries in Slovakia provide raw material for the machine industry. Steel plates, castings, forgings, and aluminum castings are available in Slovakia at reasonable prices. The huge Slovak steel maker **VSZ** produces four million tons of steel a year and exports to Europe, Asia, and the U.S.

Research & Technology

Special expertise can be found in Slovakia for the manufacture of machines for material cutting, forming, and welding. Presses, press brakes, shears, plastic injection presses, and bending machines are examples of forming machine capabilities. According to the Slovak National Agency for Foreign Investment and Development (SNAZIR), the machine grinding sector shows strong potential for the manufacture of special and single-purpose machines or high technology equipment such as lasers. **Contact:** Viktor Tegelhoff, Investment Operations Director, SNAZIR, Sladkovicova 7, 811 06 Bratislava, Slovak Republic; tel: (42-7) 5335-175, fax: (42-7) 5335-022.

Opportunities:

Western companies can take advantage of the excess capacity in this sector, as well as provide much needed expertise in marketing, new product development, production methods, quality control, pricing, and selling. For example, the Dutch company **Burgman Heybroek** utilizes the excess capacity of machinery producer **Pal Inalfa** to produce agricultural tools. **Contact:** Ivan Gajdos, Marketing and Sales Manager, Pal Inalfa a.s. Vrable, Stanicna 1045, 952 12 Vrable, Slovak Republic; tel: (42-87) 832-361. Cooperation between foreign and Slovak companies can be in the form of original equipment manufacture, marketing agreements, technology transfer, direct equity injection, joint subsidiaries for new products, or by outright acquisition. As the machine tool industry develops more modern machining systems such as production cells, machining centers, and integrated manufacturing systems, need is created for more sophisticated electronic equipment. Hydraulic and electronic controls are currently imported from the West and account for a disproportionate amount of production costs. This creates opportunity for foreign direct investment either in cooperation with existing Slovak electronic enterprises or through greenfield ventures.

Pal Inalfa a.s. Vrable is a machinery company 54% owned by the Dutch company **Inalfa**. The company has assets of $10.9 million and produces spare parts for cars and trucks and agriculture and construction vehicles, as well as tools, forms, machinery, and plastic goods. For the auto industry, it produces vacuum brake boosters, wheel cylinders, clutch boosters, truck air distributors, and gear shift mechanisms. The company produces 12 types of pressed plastic parts used by **SKODA-Volkswagen** in a passive safety system. Pal Inalfa purchases metal sheets and coils, plastic parts, and machining parts. Supplies are purchased from the Czech Republic, Germany, and Holland. The company currently cooperates with Daewoo in Korea for the manufacture and supply of sunroofs and will eventually manufacture the sunroofs in Romania, Poland, and Hungary. According to Marketing and Sales Manager Ivan Gajdos, "Pal Inalfa has close contacts with the Eastern European market and foresees a future in that market." **Contact:** Ivan Gajdos, Marketing and Sales Manager, Stanicna 1045, 952 12 Vrable, Slovak Republic; tel: (42-87) 832-361.

Chemicals

<u>Market:</u>

The Slovak chemical industry has traditionally focused on semi-finished products and products used in the final production stage. The primary chemical products are inorganic and organic chemicals, synthetic fibers, paint, rubber, industrial fertilizers, explosives, and petrochemicals. Slovakia's product range, low costs, and skilled work force make semi-finished chemical products attractive for Western companies. Average monthly wages for an industrial worker were $260 in 1994. Approximately 55% of 1994 sales in this industry were exports, with the majority going to the Czech Republic and Western markets. Chemicals make up 14% of Slovakia's total exports.

Slovak chemical companies need capital for investment in new technologies and equipment.

Matador, a.s., Puchov is a privatized rubber processor that produces auto and truck tires, inner tubes, and conveyor belts. Over 4 million auto and truck tires are produced each year. The company exports to the Czech Republic, Great Britain, the U.S., Russia, Hungary, Germany, and the Netherlands. Branches have been set up in the U.S., Germany, the Commonwealth of Independent States, and plans are underway to establish branches in South America, Great Britain, and the Ukraine. Matador has a contract with the Russian producer of **Lada** motor vehicles for the production and supply of 1.2 million tires, and a contract with the Czech automobile company **Skoda** for the supply of 700,000 tires. To fulfill its contract with **Lada**, Matador has entered into a joint venture with **Omsk Tyre**, a Siberian-based tire producer. The joint venture will enable Matador to take advantage of inexpensive Russian labor and free up capacity in its Slovak plant. The main raw materials purchased by Matador are carbon black, natural and synthetic rubber, textiles, bead wire, and chemicals. Most materials are purchased locally and from the Czech Republic. The company is interested in technical and commercial cooperation with foreign partners. Matador is also involved in a joint venture with the Slovak engineering firm **ZTS Dubnica** to manufacture forging presses and machinery for the chemical and rubber industries. **Contact:** Josef Vozar, Strategy Manager, Terezie Vansovej 1045/45, 020 32 Puchov, Slovak Republic; tel: (42-8) 254-1520, fax: (42-8) 254-2298.

Matadorfix is a small producer of solvent and water-based additives used in road marker paints, building sealants, rubberized textiles, and auto interiors. For the auto industry, it produces special additives for synthetic and natural rubber. The company exports 50% of its product, mainly to the Czech Republic, Poland, and the former Soviet Republics. Matadorfix is interested in exporting to the U.S., but does not have any U.S. contacts. They have received several inquiries from U.S. companies regarding cooperation possibilities. Supply opportunities may exist for suppliers of solvents, pigments, rubber, and resins. The company currently purchases these materials from suppliers in Slovakia, the U.K., Germany, France, and the Czech Republic. Free capacity exists for the production of solvent and water-based additives. Investment capital is needed for the purchase of new turbo mixers, filling machines, and dissolvers. **Contact:** Maria Pridavkova, Technical Manager, P.O. Box 58, Kopcianska 22, 852 58 Bratislava, Slovak Republic; tel: (42-7) 838-277, fax: (42-7) 838-035.

Some information provided by the Slovak National Agency for Foreign Investment and Development. ■

To report news of acquisitions, joint ventures, sales contracts, new offices, or job changes write to Industry Review, CEAR at 4800 Baseline Rd. Suite E104-340, Boulder, CO 80303 USA, or E-Mail to cetmllc@ibm.net.

Feature Country *Continued From Page 3*

mobile phone network. Telecom modernization plans include full digitalization of the country, introduction of technologies such as asynchronous transfer mode (ATM), building up a radio communications infrastructure, and designing and implementing the company's information system. Investment in the modernization program may total over $16 billion. **Contact:** Stanislav Vanek, Telecommunications Department Director, Ministry of Transport, Post & Telecommunications, Mileticova 19, 820 06 Bratislava, Slovak Republic; tel: (42-7) 254-2768, fax: (42-7) 526-1982. With the exception of voice services, it is expected that by 1997 the entire Slovak telecom system will be similar to that in the European Union. At press time, **Eurotel's** exclusivity period for providing mobile radiophone and data communication services in Slovakia is scheduled to expire in April 1996. U.S. technology is favored in the telecom market and U.S. telecom companies enjoy a great competitive advantage in the Slovak market.

Problems: One of Slovakia's biggest problems is its tarnished international image. The foreign press focuses on the unpredictable Meciar government's rhetoric and intra-coalition squabbling. As Slovakia's macro-economic figures show, however, the government is doing an excellent job of economic reform. Nonetheless, western investment capital is, for now, wary of Slovakia and its seemingly unstable political scene. Slovakia's heavy reliance on exports to fuel its recovery is also dangerous: a big confrontation with the European Union would be disaster for Slovakia as the EU is a vital trading partner. Furthermore, if trouble erupts in the Ukraine, Slovakia will lose a vital source of raw materials.

As is common in the other Central European countries, the banking system is weak and non-performing loans are a problem. A large bureaucracy makes the conduct of business in Slovakia difficult and costs investors time and money. A murky legal environment also impedes business. New laws are untried in the courts and are not consistently applied. Enforcement of legal rights is also a problem and it is suggested that companies operating here carefully document transactions. When problems do

SLOVAK REPUBLIC in 1996

May 14-17	**Trencin (TR)** Int'l Exhib. of Rubber & Plastic Products, Cars and Car Accessories
May 15-17	**Kosice (KO)** Nat'l Exhib. of Electricity & Installation Materials, Elec. Motors, Elec. Measuring & Diagnostic Instr.
May 22-25	**Puchov** Int'l Exhib. of Rubber & Plastic Prod., Cars & Car Accessories
May 22-25	**Nitra (NI)** Int'l Exhib. of Machine Tools, Forming Machines, Welding Technology
May 28-June 1	**Zelina** Exhib. of Utility & Passenger Cars, Car Accessories & Maint. Technologies
June 4-6	**Bratislava (BR)** Int'l Exhib. of Measuring, Monitoring, & Regulating Technology
June 20-22	**TR** Int'l Exhib. of Machinery & Techn. for Producing, Distributing, Storing, & Consuming Gas
June 24-28	**BR** Int'l Exhib. of Apparatus, Machinery, & Technologies for Envt'l Protection
June 24-28	**BR** Int'l Chemical Fair
July 5	Holiday
July 10-14	**Spisska Nova Ves** Nat'l Exhib. of Cars & Spare Parts
Aug. 29	Holiday
Sept. 1, 15	Holidays
Oct. 1-4	**KO** Int'l Exhib. of Metallurgy, Ceramics, Non-ferrous Metals, Surface Treatment of Metal
Oct. 8-11	**BR** Int'l Exhib. of Measuring, Controlling, & Checking Technologies
Oct. 17-22	**BR** Int'l Car & Car Accessories Salon
Nov. 1	Holiday
Nov. 6-10	**NI** Int'l Exhib. of Thermoplasts, Reactoplasts, Injection & Ejection Equip., Thermal Forming, Mixing Granulation, Surface Treatment of Products, Plastic Semi-Products, Recycling
Nov. 13-15	**TR** Int'l Exhib. of Electronic Systems, Electromotors, Transformers, Cables & Conductors
Nov. 19-21	**BR** Int'l Exhib. for Pretreatment Technology & Materials, Equip., Processes, & Means for Surface Treatment by Galvanic & Inorganic Coatings
Dec. 24-26	Holiday

For additional information, contact the Slovak Chamber of Commerce and Industry , Ludovit Mlynarcik, Director, Department of Foreign Relations, Gorkeho 9, 816 03 Bratislava, Slovak Republic; tel: (42-7) 5333-272, fax: (42-7) 5330-754.

arise, it is best to avoid the courts and try to resolve matters through arbitration. Slovakia also suffers from a shortage of top level executives and upper to middle managers. Financial managers who speak English and have Western finance skills are in high demand. *[Full coverage of the Human Resource market in Central Europe will be featured in the June issue of the Central Europe Automotive Report. ed.]*

Assistance for U.S. Companies

U.S. Embassy/Dept. of Commerce's American Business Center. Helps U.S. companies initiate business and trade links with companies in the Slovak Republic. Office space, conference room, computers, telephones, and secretarial support are available for a fee. Consulting services and extensive business information library also available. Other Dept. of Commerce services can be used by contacting the ABC such as the agency/distributor service (ADS) and Gold Key service. **Contact:** Eugene S. Young, Economic/Commerical Officer, U.S. Embassy, Hviezdoslavovo Nam. 4, Bratislava, Slovak Republic; tel: (42-7) 5330-861, fax: (42-7) 5330-096, **or** L. Matthew Erickson, Manager, American Business Center, Grosslingova 35, 811 09 Bratislava, Slovak Republic; tel: (42-7) 361-079, fax: (42-7) 361-085.

Slovak National Agency for Foreign Investment & Development (SNAZIR). Provides potential foreign investors with information on investment opportunities, incentives, taxation, regulations, industrial sectors, and labor availability. Helps identify partners, assists with negotiations, and can arrange meetings. **Contact:** Victor Tegelhoff, Investment Operations Director, Sladkovicova 7, 811 06 Bratislava, Slovak Republic; tel: (42-7) 5335-175, fax: (42-7) 5335-022.

Slovak Chamber of Commerce and Industry. Offers assistance to foreign companies in the form of company and industry information. Cooperates with foreign chambers of commerce and coordinates trade missions from abroad. Will visit Washington D.C. and Los Angeles in late 1996. Over 22,000 members. **Contact:** Ludovit Mlynarcik, Director, Department of Foreign Relations, Gorkeho 9, 816 03 Bratislava, Slovak Republic; tel: (42-7) 5333-272, fax: (42-7) 5330-754.

Embassy of the Slovak Republic. Can help U.S. companies find direct company contacts in Slovakia. **Contact:** Jaroslav Smiesny, Commercial Officer, 2201 Wisconsin Avenue, NW, Washington, DC 20007; tel: (202) 965-5161, fax: (202) 965-5166.

Consulate of the Slovak Republic, Denver CO. Can assist U.S. companies seeking trade and investment information on Slovakia. **Contact:** Gregory Fasing, 1325 South Colorado Blvd. Suite 302, Denver, CO 80222-3393; tel: (303) 692-8833, fax: (303) 692-8557; e-mail: consulden@aol.com.

Tips from the Insiders

- When developing relationship with a potential joint venture partner, talk to people at all levels of company
- Have a strong Slovak counterpart
- Develop good government contacts
- Enlist assistance of local "fixers" when obtaining residency permit
- Do homework in U.S. before coming over
- Must be here, on the spot. It’s not easy to do deals by parachuting into a country
- Take the time to understand the locals
- Always back up meeting plans with a fax

Some information provided by: J&T Securities; Slovak National Agency for Foreign Investment and Development Publications; U.S. Department of Commerce. ■

SLOVAK REPUBLIC

ACCOUNTING & FINANCE

INVESTMENT CONSIDERATIONS

Current Investment Climate: Since gaining independence, Slovakia's public image has been that of a country in political turmoil where privatization is more of a political affair than a sincere attempt to restructure the economy. In spite of impressive macroeconomic figures, the inflow of foreign capital into Slovakia has been slow as investors turn to other Visegrad countries. In terms of per capita investment, Slovakia has received less than half the level of direct investment than that of the Czech Republic and over six times less than Hungary. In 1995, some 371 direct sales were made by the Slovak government as part of the second wave of privatizations, only five of which were made to foreign investors. Although the Slovak government has favored the takeover of local companies by Slovak entrepreneurs, opportunities for foreign investors are beginning to appear. The need for foreign capital in key sectors of the economy has become crucial to sustain the country's economic development.

Steven Fast

Financing Slovak Companies: The search for new sources of financing at a reasonable cost has become a vital part of the Slovak business landscape. Besides the acute cash needs associated with an economy in transition, the sale of many companies to cash-poor management groups has left newly privatized entities starved for capital. The tendency of Slovak companies is to raise capital through debt financing rather than equity financing. This is generally due to the reluctance of the present owners to reduce and possibly lose their control of company operations. Medium and large-sized domestic companies are issuing massive amounts of attractively-priced bonds. Unfortunately, this method of financing fails to supply Slovak companies with needed foreign technology and know-how. Furthermore, issuing bonds may become more difficult as the domestic market becomes saturated with such bonds and investors grow more discriminating about Slovak corporate debt.

Structuring Deals: Investors in Slovakia are generally able to structure deals as they would in Western countries. While modern legislation regarding bankruptcy and holding structures is still being developed, commercial and social laws are adequate for investor purposes. The Bankruptcy and Composition Act that is currently under revision should resolve such problems as the exclusion of foreign creditors from the creditors' meeting process, as well as facilitate the creation of a mechanism for the control and monitoring of the credit worthiness of Slovak companies.

As in most business environments, investors structuring the optimal deal in Slovakia must contend with such issues as obtaining the right mix of equity and debt to finance operations and capital expenditures, thin capitalization rules governing the deductibility of interest on foreign loans, developing investment liquidation strategies, and optimizing their tax situation. For example, the Slovak rules governing the use of deficits to offset future profits are notably unfavorable to companies that are either restructuring or in start-up mode. Losses are not cumulative, meaning a loss from year 1 cannot be added to the loss in year 2 to offset the tax due on the profit realized in year 3. Only the last loss incurred prior to the profit can be used. Furthermore, the benefit of the deficit is spread over five years, limiting the effective deduction in any one year to 20% of the total deficit.

Another factor that has concerned investors is the delay involved when setting up a company in Slovakia. On average it takes from three to seven months to establish a new company in Slovakia with foreign ownership. Part of this delay is attributable to the difficulty of obtaining residency permits for foreign citizens.

Due Diligence: The principal due diligence concerns in Slovakia are the existence of related party transactions, issues relating to corporate governance and the protection of shareholder rights, and the reliability of the financial information received. As Slovak financial statements are prepared on a code basis rather than on a commercial basis, the reporting format is focused more on production than on financial issues. Frequent adjustments to the statutory accounts relate to items such as provisions for uncollectible receivables and slow moving inventories and accounting for off-balance sheet items.

Investment Trends: Among the growing trends in Slovakia is the increase in greenfield investment. Western companies are moving production lines east in order to take advantage of the technical skills, geographical location, lower labor costs, and more flexible labor laws found in Slovakia. By establishing greenfield sites, investors also avoid potential environmental liabilities. *[See this issue's Legal Advisor for more on environmental liabilities. ed.]*

Many foreign investors have encountered difficulties in Slovakia. A large share of these investors have been too optimistic about the market's development prospects. Nonetheless, the obstacles to foreign investment in Slovakia can be overcome. Local advisors and local partners are often an essential component of a successful investment in such an unfamiliar market and culture.

Steven Fast is a Senior Manager in the Corporate Finance Department of Deloitte & Touche in Bratislava. He is currently serving under a USAID financed contract as part of the Corporate Finance Team at the Slovak Business Advisory Center. Deloitte & Touche, Kupeckého 3, 821 08 Bratislava, Slovakia; tel: (42-7) 5660-661, fax: (42-7) 5660-662. ■

SLOVAK REPUBLIC

Interview with the Slovak American Enterprise Fund

The Slovak American Enterprise Fund (SAEF) encourages private sector development in Slovakia by providing debt and equity financing to small and medium-sized private enterprises. The Fund was formed in 1991 and has invested some $25 million in approximately 60 debt and equity projects. The average investment amount is $1 million and the Fund is heavily invested in manufacturing companies. Leighton Q.J. Klevana is the President of the SAEF.

CEAR: What types of companies succeed in Slovakia?

Klevana: Undoubtedly, our best investments are U.S./Slovak joint ventures. American companies have certain extraordinary assets such as know how, quality, and markets. Slovaks bring to the relationship a high level of education and excellent manufacturing skills in areas such as machine tools, metal bending, and metal working. One of the easiest things to find is a Slovak company that wants an American partner. They love Americans here and they're very receptive to new ideas. The toughest thing to find is an American that wants to come to Slovakia. Many don't even know where Slovakia is or what kinds of opportunities there are here. If a serious American company comes here, has a product, and is interested in finding a Slovak partner, I'll go an extra mile to help put a deal together to help that American expand his markets.

Leighton Q.J. Klevana

CEAR: What are the advantages to setting up manufacturing operations in Slovakia?

Klevana: One advantage is location. Slovakia sits in the heart of Europe. Foreign companies can also benefit from a low cost of manufacturing. Although that advantage will eventually disappear, companies that come here now and establish their place in the market will be far ahead of their competition. Another advantage is Slovakia's good relationships with countries to the east like Russia and the Ukraine. I'm convinced that a good part of the future trade in this region will take place in those countries and Slovakia is an excellent base from which to reach those markets. Locating in Slovakia is also a back door way to get into the European Union. There's no question that Slovakia will join the EU and when they do the companies that are established here will have immediate access to that market.

CEAR: What are some of your successful investments involving U.S. joint ventures?

Klevana: Leader Gasket is a U.S./Slovak joint venture that produces high pressure, high temperature gaskets for the petroleum and chemical industries. The company was set up in a former weapons factory in a high unemployment area in northern Slovakia. The capitalization of Leader was $2.8 million, and of that we put up $1.4 million and a local bank loaned the rest. The U.S. partner provided the design of the machines and guaranteed that he would purchase most of the first year's production. About 30-40% of Leader's production goes to the U.S., 30% goes to Germany, and about 20% stays in Slovakia. After obtaining ISO 9000 certification, they targeted the German market and have been so successful that demand for their gaskets exceeds their capacity. They manufacture the gaskets here less expensively than they could in Germany where the labor rates are much higher. The gasket is a very labor intensive product and it requires a lot of handwork. One of the keys to their success was that **Greg Pickering,** the consultant to the U.S. company, came here and lived on site and oversaw the early development of the company. Greg also did a fabulous job of introducing his management techniques and passing them on to local Slovaks who now run the plant. Another reason for their success is that Slovaks have great skill working with metal. While putting together this deal, Greg, the U.S. partner, and I toured machine tool companies, searching for a suitable partner. During our tours, I must have heard the U.S. partner say a dozen times, "I can't believe what I'm seeing. I never would have imagined this in Slovakia. These people don't even know what they have."

We're also invested in a company called **Thermal Laminates Corp. Europe**, a U.S./Slovak joint venture that manufactures custom sailboards and exports them to Europe. Last year their board was ranked number one in European tests. The company works three shifts a day and can hardly keep up with orders. *[see Profile Interview on p. 1 for more on TLCE. ed.]* The big advantage Leader Gasket and TLCE have is that their products are labor intensive. Last week an Austrian called me and said he is thinking of shifting <u>90%</u> of his production to Slovakia from Germany because of the high labor and business costs in Germany.

Slovak American Enterprise Fund, Radlinskeho 27, P.O. Box 66, 810 05 Bratislava 15, Slovak Republic; tel: (42-7) 326-544, fax: (42-7) 362-530. ■

***Profile** Continued From Page 1*

tries such as Slovakia prime locations for manufacturing operations. CEAR's interview with Vrba also uncovered potential opportunities for manufacturers of industrial materials.

CEAR: Why did TLCE decide to manufacture sailboards in Slovakia?

Vrba: We do custom board building which involves a lot of handwork. Nowhere in the developed world are boards made with a custom/production manufacturing processes like ours because labor costs are just too high. Here in Slovakia our labor costs are about $3.50 an hour, whereas in the U.S it would be $15 or higher, and in Germany and Austria about $20-$25. Anything that has a high labor content can really do well in Slovakia. The quality of the labor force is very good and people are well educated. Our goals in Slovakia were to create a world-class manufacturing plant, which we have, and to develop the Seatrend brand in Europe. About half of our factory is dedicated to producing the Seatrend brand, and the rest is for original equipment manufacture, which is good business for us in Europe. Germany is the largest sailboard market in the world and its a big advantage for us to have manufacturing operations so close to that market.

CEAR: Where do you purchase your raw materials?

Vrba: Sixty to seventy-percent of our raw materials are imported, mainly from Germany, Austria, Italy, and Hungary. There are a 100 different items that we put into each board. For example, we need high quality, light, and consistent expanded-poly styrene (EPS). We originally sourced EPS in Austria but after a difficult search, we found a high quality Hungarian supplier whose foam is 60% cheaper than Austrian foam. Slovakia and the Czech Republic produce EPS but its quality is low and unsuitable for our needs. We import fiberglass from the Czech Republic, Germany, and France. We used to import PVC foam from Sweden and Germany but now we've switched to an Italian supplier. With a 10% duty and 25% VAT in Slovakia, importing so many raw materials is expensive. Fortunately, we were successful in getting governmental tax relief. As long as we export the final product, we can import almost all our raw materials without paying duty or VAT. We had to work hard to get this relief. The key is persistence. Of course, keeping track of the paperwork necessary to maintain our exempt status is an administrative nightmare. Our administrative staff in Slovakia is probably twice as large as in our U.S. office. We've hired a full-time employee to handle customs work.

CEAR: Are there opportunities in Slovakia for U.S. companies to manufacture raw materials that are unavailable locally?

Vrba: Yes, I think there are. As I just mentioned, there's a wide range of top quality industrial materials that aren't available in Slovakia, and there's no reason why they couldn't be made here. The internal Slovak market isn't large enough to support a lot of industries supplying domestic consumption, but when you consider companies like us who export 100% of our products, and consider the size of the surrounding markets, it's a different story. Fiberglass, fiberglass weaves, carbon weaves, PVC foam, paints, and resins are raw materials used in a variety of applications and all must be imported. There are many products that could be made here in Slovakia. A U.S. manufacturer who came over here could take advantage of the low cost, high quality labor force and would benefit from being close to the European market.

CEAR: How do you distribute your product?

Vrba: We separate distribution by country and use one distributor per country. We use a local company in each country to take advantage of their market knowledge. In Germany our distributor purchases boards directly from us and sells to German dealers. As the manufacturer and marketer of Seatrend boards, we work closely with distributors to develop sales in Europe. We go to trade shows every year and split some of the marketing costs with our distributors. We're going to have a Seatrend brand manager, a Slovak, who will be in charge of our worldwide distributors.

CEAR: Is there an advantage to selling an American brand in the European market?

Vrba: Yes. Definitely. Even though the boards are made in Slovakia, they're based on designs made in the U.S. and the brand image is American. For sailboards, it would be a detriment if the product was marketed as being made in Slovakia. European trade regulations don't require us to state the country of origin on the board, so we don't. We're the only major U.S. brand in the European market. We're also making some very subtle modifications to our boards' shape and graphics to make them more appealing to the European market. In 1997, we'll come out with two models specifically for Europe. By next year our U.S. and European sales could be equal.

CEAR: Any suggestions for U.S. companies interested in entering the Slovak market?

Vrba: A company thinking of coming over here must make sure that they are committed to the region for the long-term. They must also find a good local partner. If they don't trust their local partner, they must get a new one because that's were problems start. I would suggest searching for the partner rather than waiting for partner to come to them. The good ones are there, but they must be discovered. The key is finding a partner that you trust.

Thermal Laminates Corp. Europe, Trenciancka 17, 915 34 Nove Mesto Nad Vahom, Slovak Republic; tel: (42-8) 34-71-6462, fax: (42-8) 34-71-5124. ■

Legal Advisor _Continued From Page 5_

However, he can protect himself against potential environmental liabilities only by conducting a thorough environmental audit or a due diligence exercise.

Marek J. Svoboda is an attorney with Baker & McKenzie. The office's main practice areas are foreign investments, cross border mergers & acquisitions, privatizations, environmental law, and local litigation and arbitration. Baker & McKenzie, Praha City Center, Klimentska 46, 110 02 Prague 1, Czech Republic; tel: (42-2) 2185-5001, fax: (42-2) 2185-5055. ■

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4800 Baseline Road, Suite E104-340
Boulder, Colorado 80303 USA
or **E-Mail** to cetmllc@ibm.net

Opportunity	Invst. Sought	Contact	Phone
1. Manf. of exhaust flanges, light welded steel construction, hydraulic components seeks foreign partner	-------------	Viktor Tegelhoff re: (STR0225)	(42)(7) 533-5175
2. Cooperation in manuf. of lathe, drilling & bending tools; injection mould manuf. excess capacity	-------------	Viktor Tegelhoff re: (STR0220)	(42)(7) 533-5175
3. Cooperation in manuf. of bodywork parts, stamping, agric. machinery, clutch lamellas, pressure vessels	-------------	Viktor Tegelhoff re: (STR0233)	(42)(7) 533-5175
4. Cooperation in manuf. of mechanical gearboxes, axles, surface treatment, torque converters	-------------	Viktor Tegelhoff re: (STR0235)	(42)(7) 533-5175

For more information contact Viktor Tegelhoff, Investment Operations Director, SNAZIR, Sladkovicova 7, 811 06 Bratislava, Slovak Republic; tel: (42-7) 5335-175, fax: (42-7) 5335-022.

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