CENTRAL EUROPE AUTOMOTIVE REPORT

AUSTRIA BULGARIA CZECH REPUBLIC HUNGARY
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MONTHLY COVERAGE OF THE
CENTRAL EUROPEAN AUTOMOTIVE INDUSTRY

April 1997

Volume II, Issue 4 On The Internet WWW.CEAR.COM ISSN 1088-1123

TM

FEATURE COUNTRY

HUNGARY

Market Highlights

Summary

- *GM inaugurates new cylinder head factory*
- *Audi will assemble new model in Gyor*
- *Alcoa builds new wheel plant*
- *Ford expanding in Szekesfehervar*
- *Raba to be privatized in two stages*
- *Thomas & Betts building new factory*
- *Ikarus appoints new President & Managing Director*
- *Daewoo to start sales of Lanos in late '97*

On September 27, 1996, General Motors inaugurated its new Opel Hungary cylinder head plant in Szentgotthard. The DM 235 million project was built in 18 months and will produce cylinder heads for Opel Hungary's engine factory in Szentgotthard, as well as for other worldwide Opel plants. The facility encompasses 15,000 square meters of space, will ultimately employ 140 people, and will have an annual capacity of 460,000 cylinder heads produced in three shifts.

The new factory incorporates the agile cell concept which involves flexible machining centers grouped into cells. Each cell is served by loading and unloading robots, and identical machines perform the same operations simultaneously.

The machines, tools, and robots are computer controlled, which allows for the simultaneous production of different cylinder heads. Product design changes can also be implemented quickly by retooling and reprogramming the computers.

*

Opel has also completed the DM 50 million expansion of its engine plant in Szentgotthard. When the plant reaches full capacity, three shifts will produce 460,000 engines a year. The 1.4 and 1.6 liter, 16-valve Ecotec engines are exported to seven other Opel factories in Europe and Brazil, and are built into Corsas, Tigras, Astras, and Vectras.

Opel's total investment in Hungary is more than DM 700 million, making it the largest investor in the Hungarian automotive sector. Opel buys over DM 200 million worth of parts in services in Hungary each year.

As of October 1, 1996, Opel Hungary had produced over 55,000 cars and over 700,000 engines in Hungary. The Szentgotthard-built Opel Astra is the best selling medium-sized passenger car in Hungary.

Audi plans to start assembling the new TT

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Hungary

PROFILE

Ford Hungaria: Bringing Marketing Innovation to Hungary

Ford's worldwide export organization has acted as its torchbearer into new and emerging markets. Ford Hungaria Kft, established in 1991, was a part of that organization until December 1995 when it became an independent company with manufacturing and sales operations.

Mark Simpson

At the company's factory in Szekesfehervar, fuel pumps, starter motors, and ignition coils are produced for Ford car factories in Belgium, Germany, Spain, United Kingdom, and Brazil.

Ford Hungaria's sales operation handles vehicle sales, dealer network relations, pricing, marketing, after sales, parts service, and customer satisfaction. To date, the company has 40 main dealers and 6 sub-dealers in Hungary.

Mark Simpson is the Managing Director of Sales Operations in Hungary. He started work with Ford in 1985 as a market analyst in the company's British parts operation. Mr. Simpson has held a number of posts with Ford, including Sales Analysis Manager in Cologne, Fleet Manager in

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CENTRAL EUROPE AUTOMOTIVE REPORT

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On the Web at
http://www.cear.com

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Central Europe Automotive Report™, 4800 Baseline Rd., Suite E104-340, Boulder, CO 80303 USA, is published monthly, except August, by Central European Trade & Marketing, L.L.C. in Boulder, Colorado.

Ad & Subscription Sales
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US Fax: (800) 684-3393
International Fax: [1](510) 927-2630
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***Feature Country** Continued From page 1*

model at its Gyor factory. Production will start in 1998 and capacity is expected to be 30,000 cars by the end of 1999. The model will be exported to the U.S. and Western Europe. Last summer, Audi participated in a supplier conference organized by **ITDH** in Hungary. Sixty Hungarian suppliers participated in the conference.

*

Ford Hungaria has just completed an expansion program at its factory in Szekesfehervar. Managing Director John Pern told the CEAR that they've added an extra 20,000 sq. feet of space at the factory and are increasing their production of fuel pumps, starter motors, and ignition coils. The plant now runs on a 3-shift schedule.

The factory's workforce has been increased to 1,250 and additional worker facilities have been built, including a new cafeteria, locker rooms, and exercise area.

According to Pern, the company is studying whether the factory will take on new product lines and whether additional facility expansion is needed. He also noted that the company is putting more emphasis on locating regional suppliers and has set a short-term goal of purchasing 50% of its supplies from the region. Today, the factory purchases less than 10% of supplies from local suppliers.

Staff Changes at Ford Hungaria: On November 1, 1996, Dan Linder took over as Plant Operation Manufacturing Manager, replacing Mike Black. Tibor Mayer replaced Brian Tate as Material Manager at the factory.

*

Alcoa is investing USD 40 million into a forged aluminum truck wheel factory in Szekesfehervar. The plant, scheduled to be operational in the second quarter of 1997, will be incorporated into the **Alcoa-Kofem** complex which was taken over by Alcoa in 1993 and which houses remelt/casting, rolling, extrusion, and end products facilities. In the same region in Hungary, Alcoa also produces closures and automotive components.

According to Alcoa, the plant will have "enough capacity to meet demand well into the next century" and will use the "latest technology and state-of-the art equipment to produce the innovative wheel generation that Alcoa has developed in Cleveland and launched on the European market recently."

Alcoa may export wheels manufactured at the new factory to South America. The plant is also expected to have capacity for forged 4x4 sport utility and recreational vehicle wheels to be sold worldwide.

According to Alcoa, demand for its strong, lightweight wheels is exceeding US production capacity. "Alcoa has chosen to add to their US plant a European wheel forging plant to insure adequate and timely supplies in Europe, where the wheels are being increasingly specified as a factory option, especially by weight sensitive large fleets."

Alcoa operates 45 plants in Europe and employs more than 14,000 people.

Hungary Facts & Figures

Form of Government: Republic
Prime Minister: Gyula Horn
Capital: Budapest
Population: 10.3 million
Labor Force: 5.4 million
Land Area: 93,030 sq. km.
Borders: Austria, Slovakia, Ukraine, Romania, Serbia & Montenegro, Croatia, Slovenia
Ports: Budapest, Dunaujvaros
Highways: 158,711 km.
Railways: 7,785 km.
Inland Waterways: 1,622 km.
Major Industrial Branches: automobiles, buses, mining, metallurgy, chemicals, textiles, construction materials, food processing, pharmaceuticals
Main Imports: fuels & energy, machinery & transport equipment, raw materials & semi-finished goods, consumer goods, food & agriculture
Main Exports: raw materials and semi-finished goods, machinery & transport equipment, consumer goods, food & agriculture, fuels & energy
Currency: Forint (USD 1 = HUF 174)
Avg. Monthly Wages: USD 328 (Aug. 1996)
Unemployment: 9.3% (Q3 1996)
Foreign Direct Investment Per Capita: USD 1456 (Sept. 1996)

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CEAR SPONSORS

Supporting the Development of the Automotive Industry in Central Europe

Feature Country *Continued From Page 2*

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On February 20, 1997, a decision on the privatization of Raba was announced by the Hungarian government. The company, a maker of medium and heavy axles, diesel engines, and bus chassis, will be privatized in two steps. In the first round, 26-30% of the company's shares will be offered to a restricted number of financial and strategic investors on the condition that no investor's share can exceed 5-10%.

In the second round, 44-50% of the company's shares will be floated on the stock exchange and another 10% will be offered to Raba employees at a discounted price. The **Hungarian Privatization and State Holding Co.** will manage the sale of Raba's shares.

In 1997, in addition to manufacturing its traditional products, Raba will continue to develop its production and sales of compressed natural gas bus engines.

Raba's turnover in 1996 was HUF 27.6 billion (approx. USD 157 million) and profit before taxation was HUF 1 billion. In 1997, exports will account for over two-thirds of Raba's turnover.

*

Thomas & Betts Hungary is building a new component manufacturing facility near Budapest. The company is investing some HUF 200,000,000 (approx. USD 1.15 million) into refurbishing an existing plant. Seventy-percent of the components made at the plant will have automotive applications. [*for more on Thomas & Betts, see Opportunity Spotlight on page 8*]

*

In September 1996, troubled bus manufacturer Ikarus appointed Selezc Gabor as its new President. Mr. Selezc, a well-known industrial strategist, is also President & CEO of Videoton and President of the Hungarian Federation of Industrialists. In December 1996, Ikarus appointed Janos Gantner as its new Managing Director. Mr. Gantner formerly held the post of General Manager at Videoton Kulker Kft.

*

At the end of 1997, Daewoo Motor Kft. will start sales of the Daewoo Lanos model. One to two months after the introduction of the Lanos, the yet unnamed successor to the Espero model will be sold in Hungary. The company says that in 1997 and 1998 it will also begin selling new commercial vehicle models. [*for more on Daewoo, see Opportunity Spotlight on page 8*]

*

In the Spring of 1997, Ford Hungaria will launch the Ka model in Hungary. The company expects to launch the Galaxy model in early summer 1997 and the Explorer late in 1997. According to Managing Director Mark Simpson, other models will be launched in 1998. [*for more on Ford Hungaria, see this month's Profile interview*] ■

LEGAL ADVISOR

CHANGES IN AUTO FINANCING & LEASING RULES IN HUNGARY

Tamas Kovacs

Car sales in Hungary in the last quarter of 1996 increased significantly, after a sluggish first nine months. According to figures from the Hungarian Vehicle Importers Association ("MGE") and the non-MGE member Magyar Suzuki, November and December sales made up more than 30 % of the total new car sales in 1996.

The surprising increase in sales was mainly due to consumer expectations about the possible negative effects of tax and accounting law changes to be introduced in 1997. Dealers were eager to strengthen this attitude by touting attractive financing deals in TV commercials and newspaper ads, thus promoting their message of "buy now."

Hungarian consumers reacted nervously to news that predicted the end of the so-called "interest-free" consumer loans and rushed to make their purchases earlier than planned. In fact, these payment schemes which emphasized the term "interest-free" were by no means "cost-free."

Purchases under "interest-free" financing schemes generally involved a down payment of 20-80% of the vehicle's gross price, plus a one-off charge of 1-20% of the gross value, depending on the length of the offered lease term (12 to 60 months). After paying the down payment and the one-off charge (usually called a "credit approval fee," "credit application fee," "credit-rating fee," or "contracting charges"), car buyers could pay the remainder of the price in interest-free installments.

This payment method was claimed to be more economical than financing the purchase of a new car through leasing agreements, or personal bank loans. In some cases, however, just the opposite was true.

Corporations with an interest in financing car sales (e.g. leasing companies, banks) created "interest-free" payment plans to attract customers. They could pay the value added tax ("VAT", which was and is currently 25% for cars) in installments as the customer paid his monthly payments. Practically, the financiers paid the full 25% VAT only by the end of the financing term, using the one-off charge and unpaid VAT during the term of the lease.

New regulations that became effective on January 1, 1997, deny financing companies this opportunity, thereby making it less attractive to offer "interest-free" payment schemes.

At the end of 1996, the Hungarian National Assembly comprehensively amended tax and accounting laws, affecting some of the most important elements of the rules regarding the financing sector. *Most importantly, Section (5), Article 16 of Act LXXIV of 1992 on the Value Added Tax, as amended, requires financing companies to pay the entire amount of the 25% VAT when possession of a vehicle is transferred to the customer.*

This rule applies to leasing agreements and to installment payment schemes. It makes car sales financing more expensive and forces financing companies to make interest-free deals exceptional, or offer them with much higher incidental costs to customers (e.g. increase down payments or higher one-off charges).

Changes in accounting rules are also creating problems for leasing companies. According to the amended Act XVIII of 1991 on Accounting, leased assets are to be recorded by the lessee and not the lessor, which deprives leasing companies of the possibility of utilizing the "accelerated amortization rate" of 30 %. Similarly, the lessee may not choose to use this favourable amortisation rate, which again makes leasing more costly.

New accounting laws also harm lessees. As of 1997, the procurement price of equipment will contain most all accessory costs, including statistical and asset acquisition fees, duties (excluding custom duties but including VAT, which is non-reclaimable for cars), fees of various authorities, credit costs, bank guarantee fees, and all other banking fees. From now on, these expenses may not be accounted for as costs but must be depreciated along with the equipment.

Nevertheless, changes in bookkeeping rules will help lessees since the total leasing fee will be recorded as outstanding by lessors and as a liability by lessees. Consequently, fees and interest will be clearly separated. Thus, interest cannot be further encumbered by VAT.

A change in the regulation of consumer loans will surely be welcomed by car-buying individuals and is important for consumer protection laws. The new rule calls for a "credit index number" which must contain all costs of the credit including interest, "credit approval fees," "credit application fees," "credit rating fees," and "contracting charges."

This index makes it easier for the customer to estimate the burdens associated with a consumer loan or with the selected financing method. According to the position of the State Money and Capital Market Supervisory Authority ("ÁPTF"), this index shall be published in commercials advertising consumer loans. According to media reports, financing companies are finding it difficult to adjust to the new regulation, including the use of the credit index number.

According to analysts, the new regulations have created an environment in which success will be achieved only by those car companies that can afford to offer models with extras at no charge. The financial institutions that back these companies must have sufficient resources to stay competitive and provide sales services in the form of either loans or installment payment schemes.

Car sales financing companies are currently evaluating these changes in the tax and accounting legislation and formulating their new leasing structures and installment payment plans. Despite the changes in the VAT regulations, some dealers continue to offer "interest-free" payment plans, though with a higher down payment rate (e.g. 70%).

According to news reports, predictions for a drastic drop in auto sales in 1997, especially in the first quarter of the year, were overly pessimistic. The sales figures generally show trends similar to those experienced last year.

Tamas Kovacs is an attorney the Budapest office of the law firm Hogan & Hartson. ■

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Passenger Car Sales in Hungary by Segment

PASSENGER CARS (SEGMENT)	1995	Market share in %	1996	Market share in %	Compared to the previous year
SMALL	12,419	22.3	15,775	26.2	127.0
LOVER MEDIUM	35,748	64.2	34,492	57.2	96.5
MEDIUM	5,674	10.2	7,704	12.8	135.8
LARGE	769	1.4	1,021	1.7	132.8
LUXURY	50	0.1	38	0.1	76.0
SPORT	186	0.3	264	0.4	141.9
OFF-ROAD	761	1.4	840	1.4	110.4
SPACE WAGON (EQUIVALENT MONO CAB)	11	0.2	179	0.3	161.3
TOTAL	55,718	100	60,313	100	108.2

Source: Hungarian Vehicle Importers Association

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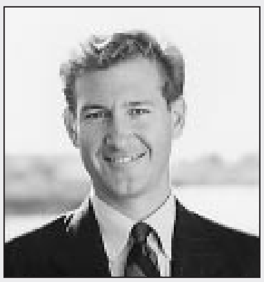
To Our Readers:

Ronald F. Suponcic, Jr.
Publisher



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

Hungary's automotive sector continues to power forward. GM opened opened its new cylinder head plant and completed the expansion of its engine plant in Szentgotthard. Audi will begin assembling its new TT model in Gyor in 1998. Ford is expanding production at its Szekesfehervar component factory. Thomas & Betts is opening a new component factory near Budapest. And Alcoa is investing over USD 40 million in a truck wheel factory in Szekesfehervar. The attitude seems to be full steam ahead.

On the sales front, companies aren't as optimistic. Many dealers are forecasting lower sales for 1997, after the big sales surge in November and December of last year. As Ford Hungaria's Mark Simpson told the CEAR in this month's Profile interview, competition is tough and companies must make themselves stand out. Ford is doing this by adopting marketing strategies that are new to the Hungarian market, such as using personal testimonies in their Transit TV ads and a political campaign theme in their Fiesta ads.

As noted by Mr. Simpson, Hungary is still a difficult market in which to operate. Overnight shifts in government policy change the rules of the game, forcing companies to quickly adopt new strategies. And the lack of detailed vehicle market statistics make it nearly impossible to uncover market trends. The key to success in this environment? Nimbleness. As Mr. Simpson notes, you've got to react quickly. Opportunities must be acted on in a matter of days before they disappear or are exploited by the competition.

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As always, if you have any comments, suggestions, or requests, please contact us. We value your input. The Central Europe Automotive Report is designed to give you the information you need to succeed in this exciting market

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The mission of the **Central Europe Automotive Report** is to provide market, investment, and business information that can lead to joint venture, greenfield investment, and product distribution opportunities in the automotive sectors of Slovenia, Hungary, Czech Republic, Slovak Republic, Poland, Bulgaria, and Romania. The **Central Europe Automotive Report** intends for its information to be used to increase foreign investment in the Central European auto sector; improve the availability, quality, and competitiveness of products and raw materials available to Central European auto manufacturers and suppliers; strengthen existing Central European companies by introducing foreign capital, technology, and expertise; and provide opportunities for auto manufacturers and suppliers to expand their markets.

HUNGARIAN AUTOMOTIVE PARTS & COMPONENT SUPPLIERS

The Hungarian suppliers of automotive parts and components listed below are potential trading partners, joint venture partners, or direct investment candidates.

Company	Product	Contact	Phone/Fax
1. Dunaferr	hot rolled steel coil, blocks	n/a	tel: (36 25) 311-522 fax: (36 25) 313-901
2. Hungarinox	non-rusting coils	n/a	tel: (36 32) 310-248 fax: (36 32) 310-072
3. Tauril	injection molded & pressed rubber products	Jeno Groff	tel: (36 1) 260-8137 fax: (36 1) 262-1994
4. Taurus Palma	injection molded & pressed rubber products	Gabor Davida	tel: (36 42) 342-511 fax: (36 42) 311-264
5. Csepeli Csogyar	precision tubes	n/a	tel: (36 1) 276-6172 fax: (36 1) 276-8534
6. Ikarus Prestecnika	cold pressed body parts	Bela Horvath	tel: (36 1) 163-7880 fax: (36 1) 164-2099
7. Bakany Gepipari	cardan joints, axle shafts, gear wheels	Sandor Takacs	tel: (36 34) 310-740 fax: (36 34) 316-740
8. Ferro-Fem	valves, exhaust inlet valves	Gyula Csiszar	tel: (36 89) 324-244 fax: (36 89) 313-015
9. Armafilt	air & oil filters	Marton Mendel	tel: (36 1) 270-3655 fax: (36 1) 149-8553
10. Pre Cast	aluminum castings	n/a	tel: (36 47) 322-55 fax: (36 47) 322-137
11. Danuvia Gepipari	hydraulic elements	Tibor Simai	tel: (36 1) 251-4222 fax: (36 1) 183-2763
12. Berva Finomsz.	pneumatic components, shock absorbers	Andras Beres	tel: (36 36) 411-556 fax: (36 36) 411-112
13. Jarmualkatresz es Szerelvenygyarto	air brake devices	Imre Bukta	tel: (36 49) 312-622 fax: (36 49) 312-256
14. Elcometal	special joining elements	Czako Horvath	tel: (36 62) 324-333 fax: (36 62) 474-333
15. Technocar	springs, spiral springs	Janos Balint	tel: (36 22) 372-302
16. Raba Sarvar	pedal systems	Vilmos Simon	tel: (36 94) 327-297 fax: (36 94) 327-296
17. ABF	clutch operation cables, wires	Istvan Bencze	tel: (36 27) 342-292 fax: (36 1) 129-0767
18. KVJ Muvek	exhaust systems, silencers	Jeno Kiss	tel: (36 25) 311-273 fax: (36 25) 311-273
19. Elzett	door locks & lock parts	Laszlo Szikora	tel: (36 1) 140-9380 fax: (36 1) 1290-692
20. Borsochem	PVC semi-products, finished goods	n/a	tel: (36 48) 310-211 fax: (36 48) 354-496
21. Akzo-Nobel Coasting	vehicle paints	n/a	tel: (36 49) 322-222 fax: (36 49) 222-770
22. Sasad	cables	n/a	tel: (36 23) 336-181 fax: (36 1) 186-8399

The information contained in the above list of Hungarian suppliers of automotive parts and components was obtained from the best available sources. Omissions, typographical errors, and number changes, however, may occur. Please send any corrections to CEAR at the address listed on page 2.

Hungary

FOCUS ON INVESTMENT

DEVELOPMENT OF CAR DISTRIBUTOR COMPANIES IN HUNGARY: LESSONS LEARNED FROM THE EARLY YEARS

In the late 1980's and early 1990's the only cars on the streets of Budapest were Ladas, Trabants, Wartburgs, Skodas, and other East European brands. And although the car factories operated at full capacity, the waiting lists were long and customers had to wait between 2-5 years to receive delivery of their cars. In such an environment, the concepts of distributorships, marketing, dealerships, and service never developed.

Starting in the 1990's the Hungarian car market underwent dramatic change. The importation of new and second-hand Western cars was permitted under a quota system and Western car manufacturers began to look to Hungary for sales. Despite its modest size, the Hungarian market promised excellent margins and represented the first real step towards Eastern Europe.

The first distributor companies established were joint ventures between a foreign car distributor or manufacturer and a Hungarian partner. The foreign partner normally took a minority interest in the venture since the law at that time required foreigners to get permission from the National Bank of Hungary before they took a majority interest in a Hungarian company (today, no such permission is required). The Hungarian partners were people who enjoyed some *de facto* privileged status in the Hungarian economy because of their good contacts with government agencies.

Dangerous Minority Interest The first mistake made by foreign partners was agreeing to take a minority stake in a distributor company. This meant that although the Hungarian partner committed itself in a shareholders agreement to comply with the policies and style of the car brand, it later became clear that the Hungarian partner was unable to do so for several cultural, cost, and strategic reasons. The majority position gave control to the Hungarian partner and the foreign partner's only weapons were controlling the flow of cars and payment terms.

Slow Reaction The second mistake was the foreign partner's slow reaction time when things deteriorated at the Hungarian distributor company. The Hungarian partner's only interest was to bring cars into Hungary, sell them to the dealers, and generate cash flow. Unfortunately, the Hungarian executives of the distributor companies failed to comply with payment terms by not paying on time and then requesting long deferred payments. In an environment of constant devaluation of the Hungarian forint, distribution companies suffered huge losses and the Hungarian partners started to complain about the lack of capital in their companies.

Unneeded Management Services It was also not uncommon to see the Hungarian partner establish a company outside of Hungary and offer "management services" to the distributor company. This was wholly unnecessary but being the minority partner in the business the foreign partner could not effectively disagree.

Biased Legal Counsel The foreign partner's third mistake was to agree to use the Hungarian partner's legal counsel. Those counsels were obviously biased towards their original client and thus the foreign partner did not receive proper legal advice.

Case Study: How Not to Form a Partnership In one actual case the Hungarian distributor's losses skyrocketed, the foreign partner did not act quick enough, and a fight broke out between the Hungarian partner and the foreign partner. For the first time after years of partnership in the distribution company, the foreign partner hired an independent counsel. The foreign partner was in for a few surprises. Advice of the Hungarian partner and counsel about the legal system, possibilities, licenses, and quota applications proved to be misleading in many respects.

The foreign partner tried to cancel the relationship with the Hungarian partner. The Hungarian partner then resorted to an unfair legal weapon. The form of the company was a Kft and under one provision of the Hungarian Companies Act members of a Kft can expel each other from the company by resolving to do so at the members meeting. Whoever is the first to act wins.

The members meeting was convened and the Hungarian partner declared that due to several failures of the partner, such as failing to recapitalize the distribution company and failing to provide adequate financing by other means, the foreign partner should no longer be a shareholder of the company. (Note: this could have happened to the foreign partner even if he was a majority shareholder).

The members resolution was filed with the company court for registration and the foreign partner had no more say in the company. The foreign partner had to initiate litigation against the Hungarian partner and also filed a petition for bankruptcy against the distributor company who owed huge debts to the foreign partner.

After the foreign partner spent a half of a year trying to obtain a bankruptcy order from the court against the distributor company, it had to continue its business in Hungary so it established a wholly-owned subsidiary. The Hungarian partner filed a claim before the Competition Agency to stop the new company from doing business. The Competition Agency did not have legal grounds to stop the company so the claim was rejected.

Today, the litigation and bankruptcy petition is still unresolved.

Lessons Learned One lesson learned here is that the Hungarian legal environment is not mature enough for creditors to seek protection against fraudulent debtors. Slow moving bankruptcy courts leave creditors completely unprotected. This means that an investor in a Hungarian partnership must be very careful when starting and then running the business because if the relationship sours, he may not be able to seek redress against the other partner. Of course, not only Hungarians can take advantage of this unfortunate state of the Hungarian legal system.

Foreign investors already in partnership with a Hungarian party must think seriously about what the future holds for them. We have experienced several changes in distributorship law in Hungary. For instance, it has been established in several legal cases that foreign distributors or manufacturing companies are free to cancel distributorship and dealerships and grant new ones.

Partners in a distributor company that is established as a Kft should also take time and consider whether it is advisable to keep the company as a Kft or to transform it into an Rt.

This article was prepared by Bela Deri, Senior Partner with the law firm Deri & Co. in Budapest. ■

BULGARIAN SUPPLIERS OF PARTS & COMPONENTS

The Bulgarian vehicle and parts manufacturers and distributors listed below are potential trading partners or joint venture candidates.

Company	Product	Contact	Phone/Fax
1. Alucom	Aluminum wheel rims	n/a	tel: 359-64-27-997 fax: 359-64-36-222
2. Balkan-Lovetch	Motor vehicle assembly	Kiril Baev	tel: 359-68-22-091 fax: 359-68-235-871
3. Dinamo-SL	Generators, alternators, & other electrical parts	Petar Kirov	tel: 359-44-249-75 fax: 359-44-412-51
4. Helix	auto assemblies	Rosen Gurdev	tel: 359-2-718-521 fax: 359-2-320-025
5. Vassilevi Brothers	Peugeot distributor	Panayot Vassilev	tel: 359-2-885-783 fax: 359-2-871-074
6. Bulat	Russian motor vehicle distribution	Aleksey Sadnitski	tel: 359-2-791-237 fax: 359-2-703-544
7. Bulvaria	Opel distributor	Dimitur Simeonov	tel: 359-2-882-535 fax: 359-2-885-448
8. Varko	Mazda distributor	Stefan Hadjinikolov	tel: 359-2-878-672 fax: 359-2-873-028
9. Daru-Car	BMW	Atanas Tilev distributor	tel: 359-2-799-029 fax: 359-2-799-053
10. Euratec	Skoda distributor	Ivan Todorov	tel: 359-2-658-172 fax: 359-2-63-994-315
11. Madara	Truck manufacturing	Dimitur Dimitrov	tel: 359-54-56-994 fax: 359-54-55-432
12. Namko-Bulgaria	Auto manufacturing	Peter Spiridonov	tel: 359-2-570-02 fax: 359-2-576-762
13. Promobil	Renault & Volvo distributor	Yulian Genov	tel: 359-2-730-231 fax: 359-2-732-907
14. Sinit	Daewoo distributor	Toma Tomov	tel: 359-2-446-007 fax: 359-2-442-007
15. Sofia France Auto	Peugeot distributor	Stoyan Zhelev	tel: 359-2-737-632 fax: 359-2-722-298
16. Unitrade-X	VW & Audi distributor	Ivan Ivanov	tel: 359-2-871-140 fax: 359-2-871-245
17. Automotor	Citroen & spare parts distributor	Kiril Savov	tel: 359-2-561-135 fax: 359-2-548-106
18. Avtoexport	Russian auto supplier	Alexey Stadnitski	tel: 359-2-790-017 fax: 359-2-790-024
19. Beissbarth-Bulgaria	Service equipment	Rumen Baev	tel: 359-2-426-192 fax: 359-2-426-192
20. Maxcom Car	GM & Blue Bird bus distributor	Svetlozar Siarov	tel: 359-2-815-226 fax: 359-2-885-001
21. Nissan Bulgaria	Nissan & Dunlop distributor	Dimitur Dimitrov	tel: 359-2-658-409 fax: 359-2-659-156

The information contained in the above list of Bulgarian suppliers of automotive parts and components was obtained from the best available sources. Omissions, typographical errors, and number changes, however, may occur. Please send any corrections to CEAR at the address listed on page 2.

Hungary

OPPORTUNITY SPOTLIGHT

This month's Opportunity Spotlight features three Hungarian companies involved in component manufacturing and vehicle distribution. Opportunities exist for cooperation with these entities in the form of supply, purchase, and distribution agreements.

Company: Thomas & Betts Hungary Ltd.
Contact: Peter Tuza, Plant Manager
Business: Electrical Components

New Factory In October 1996, Thomas & Betts started constructing a new factory just outside of Budapest near the town of Vecses. The factory will produce electronics and automotive components, and will have a molding facility. Production on some product lines started in February 1997, and other products will come on line in March, April, and May. An opening ceremony is scheduled for May 1997.

"After deciding to establish [a facility] in Eastern or Central Europe, Thomas & Betts spent quite a long time trying to find the best place to start a new plant," new Plant Manager Peter Tuza told the CEAR. "It turned out that the Hungarian authorities gave the best support, for example they more or less on their own found the plant site for us."

A 10-year leasing contract was signed for the existing plant that includes 4200 sq. m. of working floor and another 2000 sq. m. of office space. Part of the company's lease agreement includes lease holding costs of HUF 200,000,000 to refurbish the plant. "The [refurbishing] has made this into an almost new facility," said Tuza. "If we expand we have an option to double the size of the plant."

Thomas & Betts has four other plants in Europe: Germany (European headquarters), France, Britain, and Belgium.

Staff For now, Thomas & Betts has 120 workers at its factory and 15-20 executives, all of whom are Hungarian. By the end of 1997, the company expects to employ another 200 to 400 people. "We're making a big effort to get the best people here, and since we're just in the start-up period, we don't know how many of the staff will pass the 3-month trial period," said Tuza. "Right now, we're looking for maintenance technicians and also some tool making personnel."

Products "When the plant is fully equipped later this Spring, about 70% of the components made at the plant will have an automotive connection," said Tuza. "If it turns out that the plant meets certain criteria, then there are other components that will be allocated to Central Europe and Hungary."

Distribution "Because of the labor cost and the qualified workforce, Hungary was chosen but the distribution will not be from Hungary," said Tuza. "The components will be shipped to La Louviere in Belgium, which is the European distribution center, and then further distributed from there."

Company: Magyar Honda Kft
Contact: Zoltan Pesti, Sales Executive
Business: Vehicle Distribution & Sales

Magyar Honda has operated in Hungary since 1994. The company has set a short-term goal of reaching the same sales volume as Honda Poland, the biggest Honda distributor in Eastern Europe with around 2000 cars sold in 1996. A long-term goal is to reach the 1996 sales level of the Honda distributor in Austria: 5000.

Magyar Honda's Sales Figures

Year	Units Sold
1994	640
1995	612
1996	1098
1997	1,300

New Dealer Network Magyar Honda changed most of their local dealers in 1995, something that has paid off well, Sales Executive Zoltan Pesti told the CEAR. "It has been one of the main priorities for the last two years to find the best suited dealers," said Pesti. "Now we have 23 dealers we are satisfied with."

Spare Parts & Vehicles The company imports spare parts from Austria and Belgium. The Accord model and 5-door Civic is imported from Great Britain, and other models are imported from Japan and the US

Company: Daewoo Motor Kft.
Contact: Beleznay Zsolt, Marketing & PR Director
Business: Vehicle Distribution & Sales

Daewoo Motor started operations in Hungary in January 1995 with 5 dealers. Today, its dealer network includes 47 dealers. Ninety-five percent of the dealers are private persons and 5% are international companies; some of Daewoo's dealers are mixed. Dealers are trained at monthly training sessions.

"We hope to expand our dealer network to 60-70 dealers," Marketing & PR Director Beleznay Zsolt told the CEAR.

Vehicle Supply Daewoo cars arrive in Central Europe through the Slovenian port of Koper. The cars are then shipped to Hungary by rail. The company maintains a stable stock in Hungary of 2000-3000 cars. A stock is also maintained at the port. All models are currently shipped from

Korea. The Lanos and Espero will only be produced in Korea, said Zsolt, but other models may come for Daewoo factories in Central Europe in 1998 or 1999. "We will see," he said.

Spare Parts Supply A spare parts stock valued at more than USD 2 million is stored at a central warehouse near Budapest. Delivery time ranges from 24-36 hours. Dealers also must maintain their own stock of basic spare parts. If a part cannot be located in Hungary, shipment is made from Europe or South Korea in 3-4 days. "We want to have a bigger spare parts warehouse," said Zsolt. "Currently, it is enough, [but we'll have] a new warehouse at a different location in 1998."

After Sales According to Zsolt, Daewoo's main target is "good after sales." The key to good after sales at Daewoo: good dealer network, reliable spare parts supply, extended warranties on vehicles, and courtesy cars.

Biggest Challenge Finding good dealers is Daewoo's biggest challenge. "In Budapest, it's difficult to find competent dealers," said Zsolt. "The basic capital needed is high." Because of Daewoo's high profile, Zsolt noted, they have many dealer applicants.

Biggest Surprise "I think from the South Korean side [the biggest surprise] is the instability of the market," said Zsolt. "Within two years, regulations changed 3-4 times, and leasing procedures changed." Long-term planning is difficult, he added.

Sales Goal "We hope within three years to become the number two car sales company," said Zsolt. Some 75%-80% of the cars sold in Hungary are leased or sold on credit.

Trends Hungary's vehicle import regulations have become more strict, said Zsolt. He also noted that the Hungary market is shrinking because of restrictive fiscal and monetary policies. "For the long-term we are still planning to see the market decrease," he said. "We don't see the market-size increasing until the year 2000." ■

CENTRAL EUROPE AUTOMOTIVE REPORT

Passenger Cars & Jeep Sales in Hungary*

Brand	1995	Share	1996	Share
Alfa Romeo	n/a	n/a	297	0.5%
Aleka	183	0.3%	51	0.1%
Audi	681	1.2%	700	1.2%
BMW	147	0.3%	195	0.3%
Chrysler	160	0.3%	301	0.5%
Citroen	343	0.6%	713	1.2%
Dacia	66	0.1%	101	0.2%
Daewoo	4,670	8.4%	6,569	10.9%
Daihatsu	n/a	n/a	1	0.0%
Fiat	3,711	6.7%	4,910	8.1%
Ford	4,478	8.0%	5,151	8.5%
Honda	612	1.1%	1,098	1.8%
Hyundai	707	1.3%	715	1.2%
Lada	8,010	14.4%	2,646	4.4%
Lancia	n/a	n/a	12	0.0%
Land Rover	15	0.0%	17	0.0%
Maserati	n/a	n/a	3	0.0%
Mazda	537	1.0%	628	1.0%
Mercedes	159	0.3%	170	0.3%
Mitsubishi	704	1.3%	964	1.6%
Nissan	149	0.3%	712	1.2%
Opel	13,663	24.5%	15,581	25.8%
Peugeot	778	1.4%	1,871	3.1%
Renault	5,502	9.9%	5,135	8.5%
Rover	43	0.1%	205	0.3%
Saab	115	0.2%	102	0.2%
Seat	2,147	3.9%	1,710	2.8%
Skoda	1,216	2.2l%	2,131	3.5%
Ssangyong	n/a	n/a	173	0.3%
Tavaria	538	1.0%	63	0.1%
Toyota	1,118	2.0%	1,671	2.8%
Volkswagen	5,089	9.1%	5,399	9.0%
Volvo	177	0.3%	318	0.5%
TOTAL	**55,718**	**100.0%**	**60,313**	**100.0%**

***Figures do not include sales by Suzuki who is not a member of the importers association**

Source: Hungarian Vehicle Importers Association

Daewoo Motor Kft Hungary Monthly Sales by Model in 1996

Model	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	Total
Tico SX							422	369	386	330	267	386	2160
Tico Total						**422**	**369**	**386**	**330**	**267**	**386**	**2160**	
Racer Base 4D	17	14	8	19	27	8	28	2	0	1	11	2	137
Racer Base 5D	36	41	50	49	42	13	27	3	4	4	6	8	283
Racer GSI 4D	8	11	28	35	7	8	6	13	2	3	3	1	125
Racer GSI 5D	17	23	45	53	23	28	10	2	2	3	2	5	213
Racer Total	**78**	**89**	**131**	**156**	**99**	**57**	**71**	**20**	**8**	**11**	**22**	**16**	**758**
Nexia GL 3D	0	0	4	32	15	8	5	5	32	60	128	129	418
Nexia GL 4D	46	44	62	104	83	63	53	22	15	17	46	120	675
Nexia GL 5D	40	46	23	53	46	37	28	10	8	12	21	32	356
Nexia GLE 4D	44	68	69	123	122	101	66	39	27	37	36	119	851
Nexia GLX 4D	44	43	36	82	52	22	19	14	12	20	30	48	422
Nexia GTX 3D	0	1	0	32	1	2	2	2	2	3	7	0	52
Nexia GTX 5D	21	17	11	40	24	10	13	4	3	5	8	19	175
Nexia Total	**195**	**219**	**205**	**466**	**343**	**243**	**186**	**96**	**99**	**154**	**276**	**467**	**2949**
Espero GL 0	0	1	1	0	1	0	0	0	0	0	0	3	
Espero GLX	39	36	19	24	37	139	71	43	47	54	36	64	609
Espero 2.0 CD	5	4	11	10	9	36	1	3	5	1	2	3	90
Espero Total	**44**	**40**	**31**	**35**	**46**	**176**	**72**	**46**	**52**	**55**	**38**	**67**	**702**
Grand Total	**317**	**348**	**367**	**657**	**488**	**476**	**751**	**531**	**545**	**550**	**603**	**936**	**6569**

Source: Daewoo Motor Kft Hungary

Profile Continued From Page 1

Britain, and Dealer Representation Manager in Britain. He assumed the position of Managing Director on June 10, 1996.

The 33-year-old Mr. Simpson is married, has two children, and in his free time enjoys playing rugby, cricket, and swimming. The CEAR spoke with him in Ford Hungaria's Budapest office.

CEAR: What's Ford's sales strategy in the Hungarian market?

Simpson: We're moving through a process. Right now, we're targeting very heavily the retail market. The fleet market will always be tremendously important because companies have more disposable cash with which to buy vehicles than the average person on the street. But the future is with the retail customer who's a stronger long-term customer. So, we're offering at good prices a superior product.

> "Vehicle marketing has not been particularly advanced in Hungary. Companies are very cautious. The market is growing and learning about things. We're taking a very different approach."

We're offering something a little more different and exciting than some of our competitors higher in the range. We're a mass manufacturer, that's part of our heritage. But we have, we believe, a superior quality vehicle. We're trying to adopt an approach that represents value for our customers.

In my experience so far, vehicle marketing has not been particularly advanced [in Hungary]. In many ways, companies are very cautious. The market is growing and learning about things.

Advertising, for example, does not [include] some of the more unusual messages that tend to permeate the airwaves in Western Europe. But I think now we need to set ourselves up as different. We're taking a very different marketing approach.

CEAR: What are some of the hallmarks of your unique marketing approach?

Simpson: We never advertise price. Don't believe in it. We sell vehicles, we don't sell prices. We happen to have some good prices, but that's the negotiation between the dealer and customer in the showroom. We want to interest and excite people in the ads. So you will always find the product, all the values that we ascribe to that product, being advertised. We're different. We like to do things a bit unusual.

CEAR: For example?

Simpson: The Fiesta [advertising] campaign is run as a "political" campaign because [of a double meaning] in the Hungarian language. So, we've built a whole advertising campaign, a mock political campaign, for the Fiesta. We're running a TV ad with mock presses spinning newspapers.

So, it's something a little bit different and new. We're trying to [create] a theme and flavor to help give [our customers] a sense of Ford. And, of course, to stand out. There's a great deal of noise in the press and on billboards and TV. You've got to stand out. This is true in any market. You have to be different.

CEAR: Did your market research tell you this type of an ad campaign would appeal to Hungarian consumers?

Simpson: We have done very extensive market research. There's still the general populace that appreciates more traditional advertising. This is a country with very rational minds, quite German in many respects. They want to see facts. Rational rather than emotional.

But there are opportunities to come in between and to start to add some more interest and excitement. Because we believe that with the products we have that Ford should represent some excitement.

To a certain extent, we're leading in our field. We're going ahead of where the population is. The only way to start to move the general population forward is to take that lead. Rather than to wait and then play it safe. We don't believe that with the market the way it is, playing it safe is a sensible option.

CEAR: What are some other examples of Ford's unique marketing strategy?

Simpson: We're the first manufacturer to advertise commercial vehicles on the television. We spent a great deal of time and money developing a Transit advertising campaign where we use [personal testimony]. I believe that people talking about products is far stronger than a salesman or the manufacturer talking about the product.

We launched [the campaign] in the Autumn and there were three different Transit testimony advertisements. That's never been done before in this market or anywhere else in Europe. It generated a lot of interest in the Transit.

The Transit has a lot of good feeling amongst the population and we wanted to capitalize on that brand strength. Because if you have that feeling and that brand strength, then sales will tend to follow. It takes time, and we're happy to invest in that time. We don't expect to advertise and then tomorrow sell 500 vehicles. It builds over time. You have to take a longer-term view. I don't think instant success is a realistic goal.

CEAR: What's your strategy for fleet sales?

Simpson: People. Fleet sales are all about people. We've got people on the ground meeting and trying to address the customers' needs day in, day out. Fleet business is all about contacts. Any fleet customer must feel comfortable with whichever supplier he chooses. He understands that there's a relationship there and [there must be] trust. And you do that through investment in personal contact.

Obviously, the prices, products, after sales service, dealer network, and all those sorts of things are very important because without them you don't go anywhere. But it comes down to people. And because the market is so small currently, this is where the competition is the fiercest.

CEAR: What are some of the industry trends that affect how you operate in Hungary?

Simpson: In this market it's difficult to pick up real trends and forecast future trends because a lot of these trends are dictated by government action, changes that happen overnight. [For instance,] we had a major surge in the industry in November and December last year because of [planned tax] changes for the first of January. So a lot of the trends are artificial, driven by outside factors that we really have no control over. That makes it difficult to forecast.

But there are some trends that are real [such as] that vehicles are tending to get larger. The "C" segment, Escort-sized, is still the largest market segment, followed by the "B" segment Fiesta-sized cars. But the "CD" Mondeo-sized segment is growing. We're marketing the Mondeo heavily because it's a good product but also because it's a growing segment. That's very, very important.

"In Hungary it's difficult to pick up real trends and forecast future trends. A lot of the trends are artificial, driven by outside factors that we really have no control over. That makes it difficult to forecast."

There's a trend to larger cars, but [there's also movement] out of "C" and into "B" cars, and below that into sub-"B" cars like the Daewoo Tico. We'll have a competitor in the sub-"B" segment with the Ka very soon.

CEAR: Why are larger cars becoming more popular in Hungary?

Simpson: Certainly [increasing] buying power. And there's a preference change there as well, I believe. Particularly in fleets [where] they've been running "C" segment cars for a while. [Fleet owners] have recognized that as the market matures and companies mature here, more people are employed, there's more management, and a pecking order in perk job vehicles starts to build up. As that builds up then more management people are demanding "CD" cars instead of "C" cars, which is good for us.

CEAR: Any other trends or issues affecting your strategy?

Simpson: Obviously, the overriding issue is the size of the market and that does [affect] significantly how we approach the market. Because clearly with a small market we need to establish, not a domineering share, I don't think that's realistic or sensible, but we need to establish a sensible slice of the market. And the industry is growing very fast.

CEAR: Many car companies say that the Hungarian market has not lived up to their expectations. Is that the case with Ford?

Simpson: I came into this position after the Bokrus package when the industry was on its knees. So, I guess the industry last year exceeded my expectations because of the bulge at the end of the year. The jury is out, I think, as to how the industry is going to shape up. We've got a fairly low forecast this year, but we'll have to see.

It's difficult. January came in pretty well, I think. Because information is so scarce here, we don't know [whether] the January market was a hangover from December, vehicles that simply didn't get out the door in December.

CEAR: How's the supply of automotive market statistics in Hungary?

Simpson: One of the biggest challenges here is that there are no government [supplied auto statistics]. Vehicles are registered in each of the 19 counties and whilst the government may compile the information, it's not passed out. The car importers association publishes numbers from all the members who submit their sales every month. But Magyar Suzuki is not a part of the association so we don't see their numbers.

CEAR: What kind of information do you need that the market isn't providing?

Simpson: More detailed information. Sales by county and by the small regions within counties. And then sales by vehicle series, model, engine, transmission. That will then help us understand the trends in the marketplace.

We can analyze our numbers, of course, and we understand what our trends are. But it's very difficult to identify trends out there perhaps [related to] a product we don't offer or a product that we don't market strongly in this market. And it could be a large opportunity that somebody else is taking advantage of.

CEAR: What's your biggest daily challenge?

Simpson: Keeping on top of developments. This market is very dynamic. In addition, things are very new. Our dealers are new to this business. They're not experienced in capitalism, for one. They're not experienced in motor vehicle trading the way you see it in the west. They're not experienced in sales techniques. Customer loyalty, customer satisfaction is something new to them. So just keeping control, keeping things moving forward, helping our people and dealers to improve is, I think, our biggest challenge.

"We analyze our performance and each situation constantly because we're growing and learning and changing."

CEAR: What's are some of the more effective tools you use to manage your employees?

Simpson: You have to be a leader of people. The staff has to trust you and you must show commitment to them and mutual respect. Once you have that then you can start to talk to them on a personal basis about the issues that they face. Every staff member and dealer has their own opportunities and challenges. We have to sit down and talk about those with everybody. There are no short cuts.

We have a number of zone managers and they are the keepers of the organization because they are the line to the dealers. We train them very hard and educate them one-to-one, directly. You have to help them to understand the business and then [they can] help the dealers understand their business better.

CEAR: How do you support your dealers?

Simpson: We have a number of dealer support programs running this year. We're supporting with cash. Not totally, but we partner with dealers and we're sharing a number of costs to encourage them to try something new. All types of costs. It's different for every dealer.

I'm very concerned that we don't limit our horizons and say, O.K., those things we'll pay for and those we won't. It depends on each individual's circumstance. The one thing that's for sure is that we want to have a very effective network. We want them to be professional and deal with customers. We want them to look right and to deliver service consistently. That's a key for us. We will achieve that, in the main, by the end of this year.

CEAR: How have you set up your parts supply network in Hungary?

Simpson: We use an enormous central warehouse in Cologne. We have a stock and rush order system. Customs are cleared here in Budapest and then [parts] are delivered by truck on a break bulk basis directly to our dealers.

Continued on page 18

Hungary

ACCOUNTING & FINANCE

IMPORTANT CHANGES TO HUNGARY'S CORPORATE TAX LAW

Balaza Bekes

Effective January 1, 1997, several major changes were made to Hungary's corporate tax law.

The main change is that the previous system of an 18% calculated tax and 23% supplementary tax on distributed dividends both payable by the corporation was canceled and replaced by an 18% tax on profits payable by the corporation and a 20% or 27% tax on dividends.

According to the domestic rule the 20% or 27% tax on dividends has to be paid when the dividend is distributed to Hungarian natural persons. The dividend is not taxable if distributed to corporations registered in Hungary. With respect to non-resident entities, both the domestic law rules and the rules of the treaties on the avoidance of double taxation will apply.

Payment of the tax liabilities of non-resident entities. In accordance with the provisions of the law, paying entities are required to withhold the corporate tax from the taxable income of non-resident entities at the rate specified in the law: 18%. The paying entity must determine whether the income is paid to a resident or a non-resident entity.

If the income of the foreign person is not taxable in Hungary the tax should not be withheld. Income is not taxable locally if such income may not be taxed under international agreements. With regard to the rules of the international agreements three cases can be distinguished.

1. *An international agreement exempts income from taxation on the grounds of non-resident status*.

In this case:

• the non-resident person must obtain a certificate of his place of residence from the tax authorities of his country; and

• the paying entity is to report such payments to the tax authorities by January 31 following the tax year.

2. *The income paid to the non-resident is otherwise taxable in Hungary and the treaty provides for the application of a lower rate.*

Under this scenario, as a general rule the paying entity is to withhold the corporate tax. The difference between the domestic rate and the treaty rate may be reclaimed by the non-resident person.

3. *Special treatment*.

As a special treatment with regard to international treaties, the paying entity may withhold the tax at the rate that will ultimately be applicable under the treaty if, pursuant to the law and subject to the guarantee of the non-resident person, the paying entity assumes the difference in the tax liability that results from applying the rate specified in the treaty and the rate specified in domestic law.

The paying entity will then have to pay over the tax actually withheld provided that upon request the tax authorities approved the payment of such difference to be deferred without default interest. Such approval of deferred payment without default interest is effective until withdrawn or the end of the tax year, whichever is earlier, provided that the paying entity:

• submitted the request to the tax authority, before payment;

• declares that the tax will be withheld at the rate specified in the treaty from the non-resident person in the country referred to in the request, and attaches the agreement between the paying entity and the non-resident person; and

• agrees to attach to the annual tax return the authentic Hungarian version of the certificate of residence issued by the foreign tax authorities in the absence of which the paying entity is to pay the tax difference not withheld by the deadline for filing the annual tax return.

When the paying entity attaches the certificate required for the eligible refund to be made to the non-resident person, the condition for deferred payment of tax is deemed satisfied.

The tax authorities will approve deferred payment of tax provided the paying entity registered by the Court of Registration is deemed a reliable taxpayer, i.e. the taxpayer has no outstanding tax liabilities and the latest tax audit revealed no major deficiency.

The paying entity is responsible for the consequences of having withheld the tax at the wrong rate as it may be revealed by a tax audit.

Payment of dividend tax by a non-resident recipient of dividend income. According to the general rule the paying entity is to withhold 20% dividend tax from the dividend paid to non-residents. In case the treaty in force provides for a lower rate for Hungary, the non-resident may reclaim the difference.

Payment of tax liabilities of non-resident individuals. The tax liabilities of non-resident individuals are payable in accordance with rules as set out in the law on personal income tax. The provisions of the respective treaty are applicable to all matters governed in the treaty, such as the existence of tax liability, the type of income, and the tax rate. The domestic legislation prevails in matters not regulated in the treaty. As a consequence, when the income of the non-resident individual is not taxable in Hungary, the paying entity or employer is not required to calculate the tax liability or the amount of withholding.

When pursuant to the treaty the income is not taxable because of the individual's non-resident status, the individual is to notify the paying entity or employer with a certification of non-resident status. The employer must then report the information as described above.

The paying entity or employer is responsible for the consequences of having withheld the tax at the wrong rate as it may be revealed by a tax audit.

Balazs Bekes is Senior Tax Manager of the Tax & Legal Department of Deloitte & Touche's Budapest office. ■

CENTRAL EUROPE AUTOMOTIVE REPORT

Light Commercial Vehicle Sales in Hungary by Brand (under 3.5 ton)					
BRAND	1995	Market Share in %	1996	Market Share in %	Compared to Previous Year
ALEKO	251	2.0	57 0.5	22.7	
CITROEN	559	4.6	440	3.6	78.7
DACIA	74	0.6	67	0.6	90.5
DAIHATSU			1	new distribution	
FIAT	940	7.7	1,101	9.1	117.1
FORD	927	7.6	803	6.6	86.6
HYUNDAI	1,097	8.9	720	5.9	65.5
LAND-ROVER	60	0.5	74	0.6	123.3
MAZDA	1,013	8.3	1,122	9.3	110.8
MERCEDES	338	2.8	540	4.5	159.8
MITSUBISHI	665	5.4	684	5.6	102.9
NISSAN	96	0.8	772	6.4	804.2
OPEL	1,125	9.2	1,265	10.4	112.4
PLAGGIO	94	0.8	55	0.5	58.5
PEUGEOT	399	3.3	706	5.8	176.9
RENAULT	824	6.7	477	3.9	57.9
SEAT	67	0.5	341	2.8	509.0
SKODA	769	6.3	410	3.4	53.3
TATA	98	0.8	36	0.3	36.7
TAVRIA	25	0.2	6	0.0	24.0
TOYOTA	1,592	13.0	1,371	11.3	86.1
VOLKSWAGEN	1,244	10.1	1,076	8.9	86.5
TOTAL	12,257	100	12,124	100	98.9

Source: Hungarian Vehicle Importers Association

Central & Western Europe In 1997

1997

April 5-13 **Stockholm, Sweden** Int'l Motor Show
April 8-13 **Zagreb, Croatia** Auto Show
April 18-20 **Valencia, Spain** Motorepoca
April 18-23 **Brussels, Belgium** Autotechnica
April 19-27 **Ljubljana, Slovenia** Auto Show
April 25-30 **Poznan, Poland** Int'l Fair of the Automotive Industry
May 1 **Birmingham, England** Automotive Business Show
May 1 **Barcelona, Spain** Automovil
May 1 **Lublin, Poland** Manufacturing Technology Show
May 7-11 **Torino, Italy** Automotor
May 13-17 **Skopje, Macedonia** Commercial Vehicle Show
May 14-18 **Istanbul, Turkey** AEF Automotive Show
May 20-23 **Nitra, Slovakia** Int'l Fair of Machines, Tools, Devices, & Technologies
May 21-25 **Bologna, Italy** Autopromotec
May 27-31 **Budapest, Hungary** Industrial Hungary
June 5-8 **Madrid, Spain** Motortec
June 7-12 **Brno, Poland** Autotec Autosalon
August 1 **Hellerudsletta, Norway** Autofair
Sept. 1 **Milan, Italy** Autopromotec
Sept. 1 **Lyon, France** Salon Int'l de l'Auto
Sept. 3-7 **Nitra, Slovakia** Int'l Exhib. of Passenger Cars, Trucks, Utility Cars, & Accessories
Sept. 11-21 **Frankfurt, Germany** Autotechnica
Sept. 23-27 **Sarajevo, Bosnia** Auto Show
Oct. 1 **Katowice, Poland** Autosalon
Oct. 1-5 **Budapest, Hungary** Budapest Motor Show
Oct. 3-12 **Bucharest, Romania** Int'l Exhib. for Motor Vehicles, Spare Parts, & Accessories
Oct. 14-19 **Bucharest, Romania** Int'l Technical Fair (incl. automotive companies)
Oct. 17-22 **Kortrijk, Belgium** Car & Bus Show
Nov. 1 **Valencia, Spain** Salon del Automovil
Nov. 15-23 **Athens, Greece** Auto Show
Nov. 26-30 **Madrid, Spain** Industrial Vehicle Trade Fair
Dec. 6-14 **Bologna, Italy** Motorshow

For more information, please contact the Central Europe Automotive Report.

Executive Changes at ITT Automotive Europe

On February 3, 1997, Dr. Jurgen M. Geisinger was appointed Chairman of the Management Board by the Supervisory Board of ITT Automotive Europe, effective from February 1, 1997. Geisinger will also have worldwide responsibility for ITT's Brake & Chassis Division.

ITT Automotive Europe has factories throughout Central Europe and is the largest subsidiary of ITT Automotive in Auburn Hills, Michigan. The company had an annual turnover of approximately DM 5 billion in 1995.

INVESTMENT OPPORTUNITIES

To submit opportunities for publication write to Trade Leads, CEAR at:
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or **E-Mail** to cetmllc@ibm.net

Opportunity	Investment Sought	Contact	Phone/Fax
Producer of shock absorbers under Showa license seeks foreign partner to co-finance expansion program involving increase of annual capacity from 180,000 units to 400,000 units by 1999.	USD .5 million	Csaba Kilian (re: Berva)	(36 1) 118-0051
Manufacturer of plastic parts for Opel, Mercedes, VW, & Suzuki seeks equity partner who is engaged in plastic processing business	USD 5 million	Csaba Kilian (re: Pemu)	(36 1) 118-0051
Supplier of seats for Suzuki cars & spare parts for Ikarus seeks joint venture partner, technology transfer, joint manufacturing	USD 1.5 million	Csaba Kilian (re: 02/Aut/96)	(36 1) 118-0051
Battery manufacturer seeks joint venture partner for processing used vehicle starter batteries	USD 2.1 million	Csaba Kilian (re: Perion)	(36 1) 118-0051
Developer of continuously variable transmission seeks investor for production	———————	Istvan Szenpetery	(36 1) 118-3335
Company engaged in the forging of deep forged parts, spiral springs, and tube rims seeks joint venture partner	———————	Csaba Kilian (re: 14/Met/96)	(36 1) 118-0051
Manufacturer seeks cooperation in field of electronics (circuit boards) and mechanics (die casting, machining, sheet metal processing, plastic injection molding)	———————	Csaba Kilian (re: 07/El-En/96)	(36 1) 118-0051
Manufacturer of precision fittings, iron castings, and metal ware, seeks venture partner for joint manufacturing, subcontracting, technical cooperation	———————	Csaba Kilian (re: 11/Eng/96)	(36 1) 118-0051
Company engaged in metal casting seeks partner for joint manufacturing or subcontracting	———————	Csaba Kilian (re: 16/Met/96)	(36 1) 118-0051

Profile *Continued From Page 13*

CEAR: You don't have any intermediate warehouses in Hungary?

Simpson: Obviously, we're reviewing that policy constantly, whether it's appropriate and whether it's worthwhile to invest in a warehouse here. And if it is, then we'll do it. If it isn't, we won't. We don't take anything for granted. We analyze our performance and our situation constantly because we're growing and learning and changing.

CEAR: How are cars delivered to you in Hungary?

Simpson: Cars arrive by two methods. By barge down the Danube and direct by train. The majority of our vehicles come from Germany. We source Transits and Mondeos from Genk [Belgium]. Fiestas and Scorpios from Cologne. Fiesta-based light commercial vehicles from the U.K. Kas and Escorts from the U.K.

I'm pleased to say all of those factories obtain parts that are manufactured in Szekesfehervar. The quality is very high. The price is very good. So it makes sense for our vehicle manufacturing plants to source their components from Szekesfehervar. [The factory] is growing very quickly. Five-hundred employees a year ago and 1500 by the end of this year. It's growing all the time.

CEAR: Do you have any specific expansion plans for the Hungary sales network?

Simpson: We've been through our expansion phase. The company more than doubled in size in terms of staff members. In February last year we took on another 12 people. We're now settled. We've gone through the growth phase in the sales operation within the company but certainly we need some more representation points.

But we want to be effective in the way we put representation points together. We operate, and we always will, through a network of independent franchise dealers. We believe in exclusivity. Better for the dealers. Better for us. I don't believe pairing is a good idea.

We have no plans to invest directly in our distribution network. Consequently, we have to offer a worthwhile business opportunity for our dealers. Appointing too many dealers would dilute returns for those investors and we wouldn't get the right investors. We're keen to get the right investors.

CENTRAL EUROPE AUTOMOTIVE REPORT

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CEAR: What was your biggest surprise in Hungary?

Simpson: I think the dynamism. The inability to really forecast what's going to happen in the next six months. We're having import quotas established twice a year and from where I sit now I can't tell you how many vehicles we're going to be able to sell this year. No idea. And that is a surprise. Not a welcome surprise. I'm amazed we're put in that position. We welcome the opportunity to be able to forecast and plan beyond a period of six months.

> "You have to be able to react and deliver very quickly. If there's an opportunity you have to capitalize on it within a couple of days. You have to be able to react.

CEAR: What's the key to survival in this market?

Simpson: Nimbleness. You have to be able to react and you have to be able to deliver very quickly. If there's an opportunity you have to capitalize on it within a couple of days. You have to be able to react.

And teamwork. You can't come into a market as a foreigner, as I am, and expect to apply everything you've learned in the market. I'm very fortunate here in that we have an exclusively Hungarian staff. We work together as a team. I bring some expertise and knowledge from the outside and they bring some understanding of the local market place and local populace. Combine that with nimbleness and the ability to work together as a team and that's the key to survival.

It's a rollercoaster ride. One day it's the best day you ever had. [For example], we had a record sales month in December and it was tremendous. And then we had an import license crisis [and didn't know if] we could import enough vehicles to see us through the first six months of the year. Those are the highs and lows. ■

FUTURE ISSUES

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Review of Czech Petrochemical Co. Kaveuk Kralupy

Interview with Slovak Steelmaker VSZ

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