

# CENTRAL EUROPE AUTOMOTIVE REPORT™

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The Source For Automotive Information

On Central Europe™

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## Regional Market Highlights

### Summary

- ◆ *Poland Enacts New Car Assembly Regulations*
- ◆ *New Joint Venture between Daewoo Motor Poland & Hanyang Precision*
- ◆ *Lear's Czech Factory Involved in Lear & Donnelly Joint Venture*
- ◆ *Zimmerman Joins Ford*
- ◆ *Ford Supplier Conference in October*
- ◆ *VW Bratislava Undergoing Major Expansion of Vehicle & Gearbox Production*
- ◆ *New Model for Dacia*

### Poland

#### New Car Assembly Regulations in Poland

Poland's new car assembly regulations went into effect on September 1, 1997. The regulations result from negotiations with EU, after the EU complained that **Daewoo's** assembly operations in Poland were not in accordance with the Association Agreement between Poland and the EU.

Daewoo was exporting complete cars from Korea to Slovenia, dismantling them into eight pieces, bringing them into Poland, and declaring that the parts were to be used for assembly purposes, thus getting a 0% duty rate.

Under the new regulations, the minimal number of parts will not be changed, but the main body of the car must be cleared on a different day than the other parts. Poland's Main Customs Office announced that the body of a car can only include the following parts: electrical and lighting systems, doors and glass, bumpers, control panel, steering system, seats and upholstery, seat belts, airbags, and other precisely defined elements. Brake systems and cooling systems cannot be included as parts of the car body.

Daewoo has indicated that it will comply with the new regulations and that the change will not influence its production plans in Poland.

#### New Joint Venture Between Daewoo & Hanyang Precision Co. for Plastic Production

On September 5, 1997, **Daewoo Motor Poland** and **Hanyang Precision Co. Ltd.** signed a joint venture contract. Pursuant to the agreement, Hanyang will invest \$10 million to modernize Daewoo's plastic factory in Swidnik, Poland. The factory currently manufactures plastic goods for the vehicle industry and for household applications. Hanyang will own 58% of the venture, with Daewoo owning the remaining 42%.

\*\*\*

Daewoo Motor Poland's Lublin factory underwent renovations in August, primarily in the foundry shop. The method used to paint the Lublin commercial vehicle has been changed,

Continued on page 2

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Poland

## PROFILE

*GM/Opel's Kuhne on Localization Strategies, Quality, and the Future*

*At General Motor's Achim Kuhne has a tough job. He is responsible for securing the supply of all parts and components for GM's new Polish factory in Gliwice. Not only must he find suppliers who meet the strict quality standards of GM,*



Achim Kuhne

*but to achieve cost goals he must find many of those suppliers in Central Europe. By the year 2000, GM expects to localize 60% of its parts and components purchases for the new factory. The \$320 million plant is expected to start production*

*next year and planned initial capacity is 72,000 Opel Astras.*

*Mr. Kuhne is Purchasing Director of GM's Central European Purchasing Unit. The Warsaw-based purchasing unit was established in 1995 and Mr. Kuhne has held his current position since December 1995. He joined Adam Opel AG as a buyer in 1985, and in 1989 he became Purchasing Manager for injection molded plastic parts.*

*Mr. Kuhne studied Economical Science at the University of Hamburg and graduated in 1978 as "Diplom-Kaufman." During his military service from 1973 to 1985, Mr. Kuhne was a Fighter Control Officer in the German Air Force.*

Continued on page 12

## Inside

### Feature Country POLAND

- ✓ *Slovenia Dodges Car Taxes: p. 4*
- ✓ *Analysis: Car Distribution in Central & Eastern Europe: p. 9*
- ✓ *Romanian Sales & Production Statistics: p. 17*
- ✓ *Ford Targets Slovakia for Component Purchases: p. 10*
- ✓ *Quick Look: Human Resources: p. 10*
- ✓ *Regional Special Report: Logistics & Transportation: p. 11*
- ✓ *Scania's Urban Erdman on Heavy Trucks p. 14*
- ✓ *Social Security & Tax Changes in Poland: p. 15*



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*Highlights Continued From page 1*

which will improve the quality of the bodywork surface and its resistance to corrosion, and minimize paint usage.

In addition to assembling the Lublin model, the Lublin factory assembles Daewoo's Nexia passenger car. The Honker model is also assembled, but only per special order. Assembly of the Daewoo Lanos, successor to the Nexia, will begin in September. By the end of 1997, **Daewoo-FSO** in Zeran will have assembled 6,000 Lanos models, and 2,000 Nubiras and Leganzas. The Lanos will be CKD assembly, whereas the Nubira and Leganza will be SKD assembly. Sales of the new models will begin in October.

*Czech Republic*

**Lear & Donnelly Form Joint Venture; Lear's Czech Factory Involved**

On September 4, 1997, **Lear Corporation** and **Donnelly Corporation** announced that the two companies have agreed to form a joint venture for the design, development, marketing, and production of overhead systems for the global automotive market.

The joint venture will be called **Lear-Donnelly Overhead Systems, L.L.C.**, and will be a 50/50 partnership between the two parent companies. In addition to complete overhead systems, the joint venture will market headliners, overhead consoles and lighting components, vehicle electrification interfaces, electronic components, and assist handles.

Under the terms of the agreement, Lear and Donnelly will each contribute certain technologies and assets for the creation of the venture. Included will be Lear operations in Marlette, Michigan and Prestice, in the Czech Republic. Donnelly will include its interior lighting and trim facility in Holland, Michigan, and its Irish lighting and trim operations, based outside of Dublin.

The consummation of the joint venture is contingent upon regulatory approval, including the European Commission.

**Zimmerman Joins Ford**

Rolf Zimmerman will join **Ford Motor Company** to assume the newly created position of General Operations Manger — European

Manufacturing. Zimmerman has been with the **Volkswagen Group**, most recently as president of **VW Navarra S.A.** in Spain and Chief Production Officer for **Skoda**.

Zimmerman will be responsible for all Ford engine, transmission, body, and assembly plants, and all manufacturing support functions in Europe. He will report to John Huston, Vice President — Powertrain Operations, to Dale McKeehan, Vice President — Vehicle Operations, and as a member of the Business Management Committee to Keith Magee, Vice President — European Sales Operations.

**Ford to Hold Supplier Conference in October**

**Ford Motor Company's** Central European purchasing office in Prague plans to hold a conference for Czech and Slovak suppliers in mid-October. According to a company spokesman, Ford purchasing executives from Western Europe and about 150 local suppliers are expected to attend the event. An exact date has not yet been set for the conference.

*Hungary*

**Light Commercial Vehicle Sales Up Over 28%**

Sales of light commercial vehicles (under 3.5 tons) in Hungary increased by 28.5% during the first half of 1997. From January through June, 6,450 units were sold, compared with 5,021 during the same period in 1996. Mazda was the top selling brand, with 744 units sold for a market share of 11.5%. Close behind was Toyota, selling 702 units and capturing a market share of 10.9%. Volkswagen took the third position with sales of 657 units and a market share of 10.2%.

Within the light commercial vehicle sector, first half sales of vehicles under 2.5 tons grew by 8.6%, whereas sales of vehicles between 2.5-3.5 tons were up over 36%.

Sales of commercial vehicles weighing over 3.5 tons grew by 19.4% during the first half of 1997. The top selling brand was IVECO, controlling 31% of the market with sales of 231 vehicles. Daewoo Avia captured 13.2% of the market with sales of 98 vehicles, and Renault sold 95 vehicles for a market share of 12.8%.

*Slovak Republic*



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## *Highlights Continued From page 2*

### **VW Bratislava Geared Up for Major Expansion of Vehicle & Gearbox Production**

On September 8, VW Bratislava reopened its factory after a three week shutdown. The company installed new equipment to facilitate a major expansion of production.

VW is pumping DEM 124 (\$66.6 million) this year into new buildings and equipment for production of the new Golf model. The company's plan includes moving from two to three production shifts and increasing its workforce by 1,000. Production of the new Golf model will begin by the end of September.

"We'll phase out the old model and phase in the new one," Technical Managing Director Karl Wilhelm told the **CEAR**. Approximately 60,000 front-wheel drive Golfs are budgeted for production in 1998. The factory will start manufacturing the custom Syncro version of the new Golf in late 1998.

VW's gearbox assembly operation is also scheduled for expansion. Two additional assembly lines will be running by the end of this year, and a third line for Passat gearboxes will also be installed.

### **Skoda Increases Component Purchases in Slovakia**

**Skoda automobilova a.s.** purchased Slovak made components valued at 1,692.6 million SK (\$57 million) during the period of January through July 1997. The planned total of purchases from the Slovak Republic in 1997 is 3,107.5 million SK (\$103 million), Skoda's Head of Purchasing Gunter Becker told the **CEAR**. This represents an increase of 14% compared with purchases in 1996.

### **Romania**

#### **Dacia Prepares for the Third Millennium**

By the end of 1997, **Dacia** will start production of a newly designed model in its Nova range. By October, the company will start preparations to launch its newest car, code named D33. The project has been classified as top secret, and the management claims that the D33 is going to be "the Romanian car of the next millennium."

#### **Pirelli Expanding into Romania**

Tire manufacturer Pirelli is positioning itself to be a strong competitor on the Romanian tire market. The company formed an alliance with **Fiat-IVECO's** local dealer for spare parts, **European Truck Center**. The alliance plans to build 20 distribution centers throughout Romania by the end of this year, and to expand the network to 300 centers by the end of 1998.

### **ARO Struggles for Survival**

The money-losing Romanian off-road vehicle manufacturer **ARO** hopes to export 60% of its 1997 production — some 4,000 units — compared with 43% exported in 1996. The main export markets will be France, Argentina, Venezuela, and Ecuador. Much of this hope is based on the company's new Spartana model, a 4x2 leisure car, optionally powered by a C3G Renault engine. The Spartana, equipped with a Romanian-produced 1.4 liter engine, sells for a scant \$5,500.

Besides developing new dealer network in Turkey and Germany, ARO has joined with an American corporation, **East European Imports**, to sell some 2,200 of its 4x4, 2,900 cc engine cars on the US market. The "Americanized" AROs are equipped with 5-speed transmission, air conditioning, emission controls, and other optional features, selling for some \$13,000.

### **Slovenia**

#### **Renault Clio Tops List in Sales**

During the first seven months of 1997, new car sales in Slovenia totaled 42,593 units, up 3.3% compared to the same period in 1996. **Renault's** Clio was the top selling car model,

*Continued on page 18*

# SLOVENIAN MARKET DODGES BOTH ECOLOGICAL & SPECIAL TAX ON CARS

## SPECIAL TAX GONE BUT NOT DEAD

**Ecological Tax Found to Actually Lower Government Revenues.** A new "ecological" tax was scheduled to take effect in Slovenia on April 1. The government proposed the tax to parliament, along with a suggestion that parliament give it top priority. In the meantime, car experts studied the proposal and found that the proposed tax would cause new car sales to fall significantly. Moreover, it was determined that the tax would bring the government less money than planned due to lower car sales.

Critics charged that the tax was less about the ecology and more about getting money from car buyers. The proposal also lacked clarity due to its classification of cars by their fuel consumption — it didn't define which standard should be followed, either the new EU or the old ECE standard. Had the law had been adopted as proposed, it would have been susceptible to multiple interpretations.

Pursuant to the tax, the price of a new luxury car (e.g. Audi A8) would jump by about \$6,000. On the other hand, the price of a car from the lower class segment (e.g. Renault Clio) would increase by \$600 to \$1000.

### Special Tax on Cars Enters the Fray.

Parliamentary discussions on a new Law on

Cars, later called the "special tax," started in the early spring. The law was expected to be passed by parliament and take effect in the beginning of July. The law, however, was nixed by the legislative court. The law was criticized for its harsh effect on the disabled (who normally can buy cars without paying any additional taxes) and families with more than three children (who also pay a lower car tax).

The "special" tax was then set aside, waiting to be picked up by parliament again. Finally, parliamentary discussions started in the beginning of July.

**Tax Talk Sparks Car Buying Binge.** With a tax proposal on the table, consumers reacted by going on a buying binge. Car sales peaked in April, when more than 8000 units were sold (average monthly sales in Slovenia amount to about 5500 cars). Car dealers sold everything in stock, with some of them tapping into stocks left over from last year. At the end of June, car sales totaled more than 37,000 units, up 6% compared to the record sales in the first half of 1996.

### Ecological Tax Returns, Car Owners Resist.

Before the parliament renewed its discussions of the special tax, the leader of the Slovenian

National Party (SNS), Zmago Jelincic, in cooperation with the Slovenian Association of Car Manufacturers and Resellers, came out with a new proposal for a real ecological tax. The key aspect of this tax was that it would hit the owners of old cars, especially cars not equipped with catalytic converters.

Although the reason for the law was easy to understand — protect the environment — it was extremely unpopular with the public. Many of the cars driven on Slovenian roads are ten or more years old, and the owners of such cars would end up paying more for the ecological tax each year than the value of the car.

Both the special and ecological tax proposals came up on the agenda of the July parliament session. The delegates first turned down the government special law, and after a stormy public response, the SNS shelved the ecological tax proposal.

**Resurrection of Special Tax?** So the tax situation in Slovenia is the same as it was at the beginning of the year. For the time being, the government is laying low, but it is rumored that the special tax will be endorsed again this Fall. Since customs duties on cars imported from the European Union will be lowered again January 1, the government will likely try to find some means for recouping the revenue lost from lower custom duties.

*Bostjan Okorn (Ljubljana) ■*

## 1997 Production of Clios at the Revoz/Renault Plant in Slovenia

Month	Units	Exports	Domestic Sales* (local production)	Domestic Sales* (imported cars and LCVs)
1/97	6,841	6,466	375	684
2/97	6,644	6,295	349	1,290
3/97	7,639	7,212	427	953
4/97	9,996	9,418	578	1,009
5/97	9,638	8,824	814	1,436
6/97	9,848	9,004	844	1,161
7/97	10,715	9,791	924	1,766
<b>Total</b>	<b>61,321</b>	<b>57,010</b>	<b>4,311</b>	<b>8,299</b>

\*Domestic Sales include sales in the states on the territory of the former Yugoslavia.

Source: *Revoz d.d.*



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# POLAND FACTS & FIGURES

**Vehicle Park (1995):** 9.04 million  
**Car Park (1995):** 7.52 million  
**Cars per 1000 Population:** 195  
**Light Vehicle Sales (1996):** 396,474  
**Share of C & EE Sales:** 21.7%  
**Franchise Points:** 1,474  
**Avg. Sales per Franchise Point:** 268  
**New Car Import Duties:**  
**General Rate:** 35% CIF (min. 1250 ECU\*)  
**Preferential (EU, CEFTA):** 25% CIF (min. 893 ECU)  
**Duty Free:** 0% CIF on quota of 38,750 cars imported from EU  
**Form of Government:** Democratic State  
**President:** Aleksander Kwasniewski  
**Capital:** Warsaw  
**Population:** 39 million  
**Labor Force:** 17 million  
**Avg. Monthly Wage:** \$365  
**Land Area:** 312,680 sq. km.  
**Borders:** Czech Republic, Slovakia, Ukraine, Belarus, Lithuania, Russia  
**Ports:** Gdansk, Gdynia, Gliwice, Kolobrzeg, Szczecin, Swinoujscie, Ustka, Warsaw, Wroclaw  
**Highways:** 367,000 km.  
**Railways:** 25,528 km.  
**Major Industrial Branches:** Chemicals, food processing, textiles, machine building, iron & steel, mining, shipbuilding, glass, beverages  
**Main Imports:** Machinery & transport equipment, intermediate goods, miscellaneous manufactured goods, chemicals, fuels  
**Main Exports:** Machinery & transport equipment, intermediate goods, fuels, miscellaneous manufactured goods, foodstuffs  
**Currency:** Zloty (\$1 = PZL 3.47)\*\$1 = 0.89 ECU  
*Sources: Government publications; Harbour Wade Brown (automotive statistics)*

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# TIPS FOR SUCCESS IN CENTRAL EUROPE

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Publisher  
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In spending the last two years starting our operations in Central Europe, attending seminars on Central Europe, and covering the stories of foreign companies who have successfully or not so successfully entered Central Europe, I have made a number of observations which may help automotive companies plan their entry into the region, as well as help Central European companies find partners. This is Part II of the "Tips" story I began in our July 1997 issue:

4. There are extreme operational cost differences between locating and operating your business in and around Central European capital cities, and operating in other areas within a country. Use two sets of numbers for facility costs, labor, housing, etc. when making decisions. One set should give you numbers for the capital city, another set should give you numbers for the rest of the country. Don't use country averages.

5. Hire two law firms. Hire a US or Western European based law firm with local operations in the country you are doing business in to tell you what can go wrong with your deal, what not to do, provide you with international depth and experience, and to review the work of your second law firm, a local law firm, who you hire to tell you who to talk to, and how to get things done in that particular city and country.

6. Your size doesn't matter. Even firms that are considered small or middle market by Western standards, can purchase or joint venture with local Central European companies. There are not that many big Central European companies, most are small and many have capitalizations ranging from USD 100,000 to USD 5 million. We have come across several successful efforts by small US companies who have either purchased or joint ventured with local firms.

7. Set up Central European operations for 100% export. Setting up operations in a small market like Slovenia or the Slovak Republic means that your in-country sales potential is not that big. By setting up your operations for 100% export from those markets, you may be able to get government tax relief on duty and VAT. This tactic is especially advantageous if the nature of your and your competitor's operations relies heavily on importing raw materials to Central Europe. The tax relief may be the advantage you need to get ahead of your competition.

*Continued in Future Issues*

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April 97

Hungary

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19.05 x 12.06

US \$750

May 97

Czech Republic

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4.95 x 4.75

12.59 x 12.06

US \$400

June 97

Slovak Republic

Directory: 1/4 Page

3.70 x 4.75

9.39 x 12.06

US \$320

July 97

Poland

Directory: Business Card

2.41 x 4.75

6.13 x 12.06

US \$100

September 97

Romania/Bulgaria

Frequency Discount:

October 97

Poland

2 - 5x = 5%

6 - 9x = 10%

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# DEALER NETWORK SET TO EXPAND BY OVER 20%

ANALYSIS OF VEHICLE DISTRIBUTION IN CENTRAL & EASTERN EUROPE

## A Region in Transition

With 1.83 million new vehicle sales in 1996, Central and Eastern Europe is still only a minor player on the world stage. New vehicle sales have risen rapidly, but the sales total for all 26 countries in the region still falls behind that of Italy.

**"Pemberton Associates have calculated that in the year 2015, the trend for sales of new passenger cars in Central and Eastern Europe will be 5.7 million, an increase of nearly 250%. However, this volume will only represent 12-13 cars per 1,000 people in the year 2015, still less than 40% of current Western European levels."**

As many of these countries shift towards western-style market economies, the outlook for growth is bright, especially for the 10 countries with EU associate membership. Here tariffs, for both imports and exports, will fall from the current 18-24% to zero by the year 2002.

A key feature of the future development of Central and Eastern Europe will be the struggle between new entrant global players from the West and Asia and the old indigenous companies, many of whom now have global links through acquisition or joint venture development. Major restructuring of local product designs and local manufacturing is already under way. Meanwhile, importers are seeking to build up their dealer networks.

## Vehicle Park and Motorization

It is estimated that the total car park for Central and Eastern Europe is 40.6 million, compared with 167 million in Western Europe. The overall level of motorization is low: 98 cars per 1,000 population, far below Western Europe's figure of 436 per 1,000. The substantial difference (a ratio of 5 to 1) gives some indication of the enormous potential in these countries.

There are extremes of variations: from 349 cars per 1,000 population in Slovenia to only 5 per 1,000 in Albania - but then Albania still does not have traffic regulations and less than half its roads are usable by automobiles. In the Baltics, the vehicle park has been growing by approximately 100,000 cars per annum, mainly through legitimate used car imports but also from substantial flows of stolen vehicles, many in transit to Russia. The Baltic states are vul-

nerable to this movement, mainly because import duties are not applied on cars imported from the EU.

## Growth Potential in Central and Eastern Europe

Pemberton Associates have calculated that in the year 2015, the trend for sales of new passenger cars in

Central and Eastern Europe will be 5.7 million, an increase of nearly 250%. However, this volume will only represent 12-13 cars per 1,000 people in the year 2015, still less than 40% of *current* Western European levels.

Much of the demand will be met by local production, which reached 1.81 million in 1996 and should exceed 4 million by 2001. Some new car demand will also be met by used car imports, though the countries having associate membership with the EU are already introducing vehicle age restrictions. At current new vehicle sales rates, it would take the region 22 years to fully replace its vehicle park, compared to 13 years in Western Europe.

## Dealer Development

From the data received from surveyed manufacturers, it is estimated that there will be a 20-25% increase in overall dealer network size in Central and Eastern Europe in the near future, but

how will they be developed? There are enormous difficulties that distributors have to face in terms of logistics, i.e. an underde-

veloped local infrastructure (finance, transport, communications, and management).

Dealers also face competition from a very active black market of imported used vehicles and spare parts. Nevertheless, perhaps manufacturers ought to set up "new generation" dealer networks and more effective systems of distribution in Central and Eastern Europe which can benefit from new technologies and ideas being experimented with in the West.

## Dealer Networks

The bulk of dealers is concentrated in Central Europe where there are a total of 4,327 outlets (3,772 main dealers and 555 sub dealers). The region with the least number of dealers (140) is the Asian CIS, which also suffer from poor quality infrastructures and underdeveloped systems. (See chart below)

Central Europe has the highest level of dealer network density with an average of 7 franchise points per 100,000 population and 8 franchise points per 1,000 sq. kilometers. Slovenia, with 27 dealers per 100,000 population and 27 per 1000 sq. kilometers is comparable with the European average and well ahead of markets such as Greece and Portugal.

Dealer density diminishes to 2 per 100,000 people and 2 per 1000 sq. kilometers in the Balkans, followed by the Baltics with 2 dealers per 100,000 people and 1 per 1,000 sq. kilometers.

**"Dealers face competition from a very active black market of imported used vehicles and spare parts. Nevertheless, perhaps manufacturers ought to set up "new generation" dealer networks and more effective systems of distribution in Central and Eastern Europe which can benefit from new technologies and ideas being experimented with in the West."**

	Main Dealers	Sub Dealers	Total Dealers
Central Europe	3,772	555	4,327
Balkans	713	186	899
Baltics	137	28	165
Russia/European CIS	568	422	990
Asian CIS	137	3	140
<b>Total C&amp;E Europe</b>	<b>5,327</b>	<b>1,194</b>	<b>6,521</b>
<b>Western Europe 1995</b>	<b>62,316</b>	<b>59,505</b>	<b>121,821</b>

Continued on page 16

# FORD TARGETS SLOVAKIA FOR COMPONENTS PURCHASING

QUALITY AND CUSTOMS CHALLENGES LIE AHEAD

**Ford Motor Company** is scouring the Slovak auto components market for new suppliers. "We believe that the potential of the local industry is outstanding and represents the initiation of a long lasting partnership with the Ford Motor Company which will improve Slovak exports," said Ford Purchasing Manager Stefan Tyrpak.

In July, Ford opened a Central European purchasing office in Prague to coordinate the company's sourcing activities in the region. The office is charged with identifying potential suppliers and working with them to meet the quality standards demanded by Ford. The opening of the office is part of Ford's strategy to purchase components where it is selling cars.

Components purchased in Slovakia will be exported to Ford's factories around the world. "The destinations will be primarily Ford vehicle assembly plants in Western Europe, mainly in the UK and Germany," said Tyrpak.

Ford isn't the only company scoping out the Slovak components sector. This year, **Skoda,**

**automobilova a.s.** plans to purchase components from Slovak suppliers worth over 3.1 billion Sk, an increase of 14% compared to purchases in 1996. "At **Skoda Auto Slovensko**, an office was set up which supports suppliers in the preparation of their offers," said Skoda's Gunter Becker.

Products currently manufactured by Slovak suppliers include brake components, shock absorbers, sheet metal, tires, hydraulic system elements, clutches, ball bearings, transmission shafts, axles, and gearboxes.

One shortcoming of many Slovak suppliers is outdated technology and quality deficiencies. "ISO is established in quite a few locations, but there is still a lot to do to reach the QS 9000 status," said Ford's Tyrpak. Investment into modern equipment and training is necessary to attain this level of quality.

Those Slovak suppliers that do have the requisite quality often don't know their cost structure well enough to submit competitive price bids. "Most Slovak companies are not prepared to make good offers," said one major

vehicle manufacturer. "We get quotes that are not good enough compared to Western European supplier prices. One would expect cheaper quotes."

Companies like Ford who plan to purchase components in Slovakia and export them back to the West will also face a customs mess. "I can't supply just-in-time from Slovakia," said an exasperated General Manager; of a German-owned components factory that exports product from Slovakia, through Austria, and into Germany. "Crossing two borders is impossible."

According to this manufacturer, moving parts out of Slovakia is difficult, but getting them through Austria is even worse. "Austria is the outer border of the EU," he said. "It's stricter."

As of mid August, Ford has made contact with 30 Slovak suppliers, including **Kinex, Sachs Trnava, VAP Presov, Vegum Contitech, and Metalsint**. In October, Ford plans to organize a supplier conference involving over 150 Czech and Slovak suppliers. Purchasing executives from Ford's European operations will attend this event. "Ford will actively support the suppliers in developing their quality system," said Tyrpak. ■

## Quick Look: Human Resources

### Please, More Unemployment

When asked what change was most needed in the Czech Republic to help his company's business, the Deputy General Director of a stamping company in Prague replied: "We need unemployment. We can't find people with unemployment at the current rate of 0.3%."

### VW Searches For Workers

The most challenging aspect of VW Bratislava's plans to expand its vehicle and gearbox production is finding enough qualified workers to staff the added third shift. The company is planning to hire 1,000 new workers by December 1997. "This is a problem," said a company official. To find workers, VW has placed advertisements in area publications. "We've gotten quite a good response, but still have a long way to go," said the official.

### GM's Factory Teams In Gliwice

At GM's new plant in Gliwice, its line workers in each of 5 departments will be organized into 4-5 teams of 5 workers, with one team member acting as Team Leader. For each unit of 4-5 teams there will be one Group Leader who reports to an Area Manager. The Area Manager will report to the Department Manager. The 5 departments include Press, Body Shop, Paint, General Assembling, and Central Engineering.

### Shortage of Engineers With Foreign Language Skills

There is an increasing shortage in Central and Eastern Europe of engineers with foreign language abilities, particularly at the managerial level — production managers, quality control managers, manufacturing engineers, and appli-

cation engineers, said Ellen Hayes from the recruitment firm **Personnel Select**.

According to Ms. Hayes, sales engineers are in demand and finding a top level sales person with the proper technical background, foreign language skills, sales skills, and who is willing to travel 50% of their time is difficult, especially for parts suppliers who have to sell not only to the local market but to export markets as well, thus requiring sales people with multiple language expertise.

"Most of these senior technical managers we have to find via our US office - Poles, Czechs, Russians - who want to repatriate back," said Hayes. "They are very talented individuals, but the cost is 2 - 3 times the local salary and if we are talking about an "expat" package the relocation, housing, and tax equalization make it extremely expensive." ■

# LOGISTICS & TRANSPORTATION: CREATING CERTAINTY IN AN UNCERTAIN ENVIRONMENT

REGIONAL SPECIAL REPORT

A critical issue facing logistics providers and their customers in today's lean automotive industry is certainty. Manufacturers demand certainty of supply quality, quantity, and availability. Suppliers demand the same certainty within their own supply chain, as well as certainty within the manufacturers production schedule to minimize demand fluctuations.

Central Europe is a market that presents multiple logistical challenges for automotive companies. Parts and finished vehicles can be held up for days at borders, the physical infrastructure is inadequate, and as you move eastward, security is a greater problem.

What are companies in Central Europe doing to create more logistical certainty in such an uncertain environment?

## Do It Yourself

Some auto manufacturers have taken matters into their own hands. **Volkswagen Bratislava**, for instance, has organized a daily supply train that brings parts and components directly to its factory in Bratislava.

The train is the company's main supply chain and it operates on a strict schedule. Customs are cleared before the train departs so there are no wasteful delays at the border. Transfer time is a reliable 20 hours. Parts are delivered directly to VW's production line on time and with the requisite quality. "Sometimes you have to think simply," said Karl Wilhelm, Technical Managing Director at VW Bratislava.

## Logistic Providers Improve Certainty

Other companies look to logistics providers to give them needed certainty. The **Baltic Auto Center** in the Polish port of Gdynia provides Japanese and Korean car manufacturers with enhanced certainty by handling customs clearance, pre-delivery inspections, quality control, warehouse organization, protection during the transport and storage period, and trucking services.

The company, a joint venture between the **Mosolf Group** from Germany and **Mitsui O.S.K. Lines** from Japan, has also introduced

railway transport (WINCAR) for inner Polish distribution and exports.

The Austrian-based **HN-K Autotransport** provides similar services to manufacturers through its branches in Poland, the Czech Republic, the Slovak Republic, Hungary, and Slovenia. Although computerized tracking and tracing systems are yet commonplace in Central Europe, HN-K can give its customers immediate information about the status of their shipments.

"The customer can know 24 hours a day where his car is," said HN-K's Annatoli Kolbasov. The company's tracking system allows it to tell its customers whether a car is in the repair shop or if it's being modified and when it will be ready.

"Even our trucks are equipped with satellite connections so we can tell the driver when he has to pick up a shipment or where to drop a shipment," said Kolbasov. "Communication is the key — the better the communication flow, the better the delivery to the customer."

To manage problems that may arise within a supply chain, logistics providers build 'trips & traps' into the management systems to highlight incidences of non-conformance.

"If a component supplier has parts quantity or quality problems, we try and flag this from the supplier collection point at the time of collection," said the Managing Director of an automotive logistics company based in England.

"It is not acceptable for these problems to be taken along the supply chain and discovered at the point of receiving checks — this would almost certainly mean production interruption or emergency shipment costs."

## Certainty Challenged at Borders

Central European borders are renowned for their customs delays, and this problem continues to be a major logistical challenge for companies doing business in the region. At border crossings, truck lines are long and delays can run from hours to days. Customs offices have irregular hours and when they are open, it's a war of forms. With just-in-time delivery an integral part of the auto-

motive industry, border delays can wreck havoc on a manufacturer's tightly scheduled operations.

Some of these delays, however, are unnecessary and are the result of shipper error. "Sometimes it seems to me that consignees take care only up to the moment they give a shipment to forwarders," said the sales and forwarding manager at a logistics provider in Poland. "Problems usually start at the border since consignees do not pay attention to some formalities, such as invoices in original, stamped, and signed, and missing or unstamped certificates of origin."

Complicated local customs regulations also contribute to the border bottlenecks. The good news is that some countries are working to improve their customs schemes. For instance, in January 1998 Poland's new customs code is expected to take effect, harmonizing Polish legislation and practices with EU legislation. The new code will not only lower duties on some transactions, but is expected to simplify and speed up the movement of goods through the customs process.

One possible solution for overcoming the uncertainty of customs delays is the course taken by Volkswagen Bratislava with its own daily supply train. Smaller companies who can't afford to organize their own train might try working together with other manufacturers in the region and jointly setting up a supply chain.

One observation made by a vehicle manufacturer in Central Europe is that everyone in the region tries to do everything solo. "Investors must work together to solve problems," he said.

## New Technology Eases Burden of Complicated Logistical Systems

Logistics software companies offer manufacturers, shippers, and logistic providers with sophisticated tools to manage complicated transport systems. Software is available that can assist companies with shipment planning, shipment execution, in-transit tracking, billing and payment, and carrier performance analysis. Software can also help companies design a logistics infrastructure, locate facilities, allocate resources, and optimize routing and scheduling decisions.

"In every supply chain one needs a smart transportation/logistics strategy, a good transportation plan for how to run the supply chain, excellent execution, and accurate measurement and analysis of how well the supply chain is operating," said Dr. Donald Ratliff, President and CEO of CAPS Logistics Inc., a US-based maker of logistics software. ■

The Central Europe Automotive Report spoke with Mr. Kuhne in Warsaw.

**CEAR: What's the most challenging aspect of your job as Director of Central European Purchasing?**

**Kuhne:** To realize those decisions which we made about localization of components for our new Gliwice plant. During the last 12-15 months, we made a lot of decisions, but now we are in the implementation phase. This requires great effort concerning concrete questions about components, suppliers, and processes. It's our target to realize all of our decisions by the start of production in 1998, in order to get the benefits of these decisions.

**CEAR: What's the key to achieving your localization goals before the start of production?**

**Kuhne:** The key is working closely together with our suppliers, constantly sharing our expectations and having an open ear for potential problems the supplier may encounter during the realization phase, and then overcoming the potential roadblocks. Sometimes it involves financial questions or technical questions.

For every component, regardless of how complicated it is, we have a particular release requirement. Each part must get a release for the new application. For example, a battery has a long list of technical requirements to be fulfilled and before we use that battery, it must be proven that our specifications can be reached. This requires durability tests, and a two-year time frame is realistic.

The manual steering gear which we localized with **Polmo Szczecin**, I think we can validate in 6-7 months, together with the support of our engineers. This is a realistic time frame. For some plastic parts, it's not very difficult, you just have some dimensional checks to perform, which can be done in a short time. But you need to have the sample released. That is a prerequisite. We are very optimistic that we will get everything homologated when we need it.

**CEAR: What advice do you have for suppliers who want to become a part of the GM/Opel supplier network?**

**Kuhne:** There's no general advice because we have to consider the differences in the components and systems. And for some suppliers, based on their product portfolio, they will very likely be a second-tier supplier to some first-tier supplier. Therefore, it is vital for these guys to establish contact with these potential first-tier suppliers. That's number one. For the potential first-tier suppliers, there are a set of requirements that are not negotiable. We are prepared to inform potential suppliers of our basic requirements. We play

with open books. We tell our suppliers what our demands are, and we help them to fulfil these requirements.

Talk to us about the potential, if we don't already know it. We've been investigating this market in depth since our organization started in 1995, so I think we have a very clear picture of what is possible.

But if we missed some suppliers, we are prepared to talk openly about what our ideas and requirements are, and then maybe make a market test with them.

**CEAR: Can you give an example of a local Polish supplier that you've worked with to help them become a GM/Opel supplier?**

**Kuhne:** For example, we have had a constant exchange of information with Polmo Szczecin, a steering gear supplier. When we awarded the contract to them, we made it very clear [what we expect] before they get their release. We

watch the progress of their process implementation, the progress of equipment installation, and the first sample production.

We made an agreement with them that they'd perform a "run-at-rate," which is a production simulation [in which] the supplier produces a certain number of components in a certain period, just like they would under normal circumstances after our production starts. It's a method we use to ensure that we get exactly those products that we need. This [is part] of the constant flow of information back and forth between GM and the supplier. This is a good way to avoid surprises. Communication is a prerequisite for being successful.

**CEAR: Has GM's relationship with its suppliers always been like this or is this a new philosophy?**

**Kuhne:** You can call it a past practice that we developed with our suppliers in Western Europe. We must implement common processes in Central Europe. Why should we reinvent the wheel? So we inform our suppliers clearly how we want the processes to develop and if everybody is clear about the expectations of the other party, then we can start. So to communicate and to commit, that's the key.

**CEAR: What would you say is the biggest common problem shared by Central European suppliers?**

**Kuhne:** Let's say that we see some room for improvement in the development of support for our engineering community. For our first project, it is not that vital because the product — the Opel Astra — is ready-made. It's developed and each component is technically developed.

With production process development, it's different because each supplier has to implement a new process. They might not have ever produced a particular part. [In this situation], process development is always a requirement. If we talk about new car lines, where components, systems, and subassemblies have to be

developed from scratch, we can only use suppliers who can offer this development capability to our engineers, just like we expect from anybody else. There is no special treatment.

We want our local suppliers in Central Europe to be competitive in

**"We want our local suppliers in Central Europe to be competitive in three areas — cost, quality, and service. Service means not only for the current production, including timely supplies, but also service for our engineering community. And here we see, in general, a high necessity for improvement."**

three areas — cost, quality, and service. Service means not only for the current production, including timely supplies, but also service for our engineering community. And here we see, in general, a high necessity for improvement.

Sure, [this development capacity] has already moved into Central Europe from Western Europe through subsidiaries, but we have to talk and think about those suppliers who are local suppliers. This is my real concern. If a western company sets up a subsidiary, the development support is normally not a question because it is supplied by the mother company. I'm concerned about how to

improve the real local suppliers' development capabilities. And there, I think, a lot has to be done.

**CEAR: Where will this development expertise come from?**

**Kuhne:** The two main possibilities are from partners and from independent engineering communities.

**CEAR: What's GM doing to improve the local supplier base?**

**Kuhne:** We have an organization that's part of our purchasing department that we call "Supplier Quality Improvement and Development." In Central Europe, this is an especially strong workforce. We have approximately 20 engineers working in Central Europe exclusively helping suppliers with quality assurance and improvement, and process improvement.

Engineers [in this group] inject know-how into the newcomers. We are committed to bring our know-how regarding process and product improvement, and, in general, these continuous improvement programs, into the minds of our new suppliers. That is the main task.

Let's say we've left the stage of holding conferences. We did it in the past to give general information to our suppliers. We are now in a much more concrete phase, really working together to bring on-line these companies we've already selected.

And here, it's important that we don't consider the existing political borders. They don't play a role for us. So if an engineer from the Czech Republic has special knowledge and is the only one who can help a Polish supplier, for sure, the Czech engineer will take over the task.

**CEAR: What's an essential part of your supply base development strategy?**

**Kuhne:** You can prepare basic requirements in your office, but the real work and the effective problem solving can only be done on the shop floor of the supplier. This is a prerequisite. It's the only way to make sure, right from the beginning, that the required quality exists. We know it and have to invest in it. It's not

negotiable. If you want to be successful, you have to invest in it.

**CEAR: What are you requiring from your suppliers today that you didn't require from them five years ago?**

**Kuhne:** We've always required our suppliers to be dedicated to continuous improvement. What we streamlined during the last few years is that they really have to be committed to it. They have to do it. Let's say that is just another quality of the same request.

What is new, really new, is our demand for global competition. This was not talked about five years ago to the same extent. I have to admit that sometimes this might hamper a local company who's been doing business for the last 20 years in just one region. And now, it might be very hard for them to compete on a global basis and to satisfy worldwide demands for worldwide car lines.

You can ship some components from one location to 10-12 worldwide receiving points. But these are often low value added components. If you talk about high value added parts, what might be required at the end of the day is that the good suppliers from Central Europe must establish either wholly-owned subsidiaries in other regions of the world, or enter into strategic alliances. But this, by the way, is not special to Central Europe. You will find it with some smaller companies in Western Europe as well.

**"You can prepare basic requirements in your office, but the real work and the effective problem solving can only be done on the shop floor of the supplier. This is a prerequisite. It's the only way to make sure, right from the beginning, that the required quality exists."**

We've integrated ourselves and we want our suppliers to be part of this integration process. It's not a unique requirement of Opel or GM. Other manufacturers have similar requirements, and the more the OEMs expand on a worldwide basis, the more suppliers have to think about how they will manage these worldwide require-

ments. That's a challenge.

**CEAR: How does the Central European Purchasing Unit fit into the larger GM purchasing organization?**

**Kuhne:** What we did was integrate three local organizations into one Central European organization. And now we have to make sure that

the Central European purchasing team is one part, a very important part, of the whole GM worldwide purchasing team. Our people are working together in a dedicated team with their colleagues from Germany, Belgium, UK, North America, Brazil, and Asia Pacific. So this is how we've integrated ourselves.

I'm 100% committed to make sure that our people are a part of these teams. That is the challenge. We started that integration and it will be finalized soon. So this is really another motivator — that the voice of the region and a particular individual from a region is heard in multinational commodity teams. There is an information exchange so that a colleague in Brazil working together in a team with a col-

league from Hungary has a better understanding, or at least the possibility to understand, what's going on in Central Europe, and our Hungarian colleague has a much better understanding of what's going on in South America.

**"If you talk about high value added parts, what might be required at the end of the day is that the good suppliers from Central Europe must establish either wholly-owned subsidiaries in other regions of the world, or enter into strategic alliances."**

Our people in Central Europe get a lot of support and information from the other regions. With this method, we avoid having them do what others did years ago. So our guys really get support and get an advantage. That's brand new. We started implementing this recently. It's a new way of doing business on a global basis.

**CEAR: How has the job of the purchasing department changed over the last few years?**

**Kuhne:** In Central Europe, since we concentrate with one dedicated organization on an available supplier community, our access to the market has improved dramatically. The key is to have dedicated people working on particular, very well defined regions, who concentrate their efforts on the development of this supply base. This has brought us some very good successes in utilizing the local resources. That is the key to success, particularly in this region.

Some years ago, colleagues of mine investigated these local suppliers. They did a good job but they had to split their efforts into several regions. For me, the key is being dedicated to a particular region. I personally believe that if we are to be successful in regions where we don't yet have manufactur-

*Continued on page 18*

# HEAVY TRUCK MAKER SCANIA TARGETS CENTRAL EUROPE

5 QUESTIONS WITH SCANIA AB'S URBAN ERDTMAN,  
SENIOR VICE PRESIDENT, SALES & MARKETING EUROPE

## What's the State of Freight Transport in Central and Eastern Europe?

Since 1990, total freight transports have fallen considerably as a result of the economic upheavals. To begin with the decline was sharp in most countries. But by 1994, the transport need started to move upwards again and has continued to do so. However, we have still some way to go before transports are back to the level of 1990.

Transport development is naturally a mirror image of the general economic development. If we look at how the GNP has changed in Central and Eastern Europe, we see almost exactly the same pattern. When the economy stagnates, so does transport. When it grows, transport increases.

Like in the West, road transport operators and infrastructure have been more flexible in adjusting to changing needs than other forms of transport. The haulage industry was privatized early in the transformation process, and borders were opened up for international competition.

We have seen the emergence of a great number of domestic haulers in the area. They are either new companies started as a result of deregulation or privatized, previously state-run operations. And international operators are making inroads into these markets. As a result of this quick development, road transporters have well defended their share of total transports.

## What's the Density of Heavy Trucks in Central and Eastern Europe?

Russia and Slovenia are at the top with close to 200 trucks per million inhabitants. I should add that the figure for Russia is a bit uncertain. The Czech Republic and Estonia are in the middle bracket with around 100 heavy trucks per million inhabitants. And the other countries are at 50, or slightly above. [In comparison], Netherlands and Belgium [have] 800 and close to 700 trucks [per million inhabitants], respectively. France, Great Britain, and Germany are in the middle range together with Sweden, at around 500 trucks. The European Union average is 460.

This illustrates a considerable difference in the usage of heavy trucks between Eastern and Western Europe. The good news to be seen in this picture is the great potential. Economies are on the rise in most of these countries. As GNP rises and the economies develop, heavy trucks will be used to a much greater extent because heavy trucks are more efficient than other means of transport, once the needed infrastructure is in place.

## What is Scania's Growth Forecast for the Heavy Truck Market in Central and Eastern Europe?

We expect a doubling of the total market in Central and Eastern Europe from today's range of 25,000 to 30,000 to between 50,000 and 60,000. We base our forecast both on expected macro-economic developments and key factors in each market. We will see a pattern which is typical for emerging markets which will also lead to a gradual merger between Eastern and Western Europe.

Today, the new truck market is dominated by domestic brands. Western brands are mainly sold second hand. But I am certain that imports will gradually take a larger part of the new truck market.

The Central and Eastern European market is the most important emerging market in the world in the next ten years. This will bring great change and tougher competition. But it will also bring great opportunities for manufacturers who service these markets well and who know how to adapt to local customer needs.

I believe there is good reason to be optimistic about the long-term market growth in Central and Eastern Europe. First and foremost are, of course, the prospects for GNP growth.

Another important factor is the quality of the road networks. This is particularly important for producers of heavy vehicles like Scania. Compare the roads in Central and Eastern Europe with the roads in Asia. It will take a number of years until the Asian growing economies will have the same standard that Central and Eastern Europe has today. This dif-

ference will have a great impact on how fast the market for heavy trucks develops in these respective regions.

When the communist regimes fell in these countries around 1990, Scania and the other manufacturers in Western Europe realized the market potential. Scania established importers, dealers, and workshops, usually local entrepreneurs on contract with Scania. This was a good way to quickly establish a market presence.

In some cases we found very good operators who were able to integrate into Scania's systems quickly and efficiently. We found, however, that it is not possible to work through a network that mainly consists of independent importers and dealers. Like previously in Scania's history, it has been necessary to grow organically to reach the right level of Scania quality.

The Scania network is constantly expanding. Key markets are the Central European countries where the Scania network is well developed. In particular, Poland is an important market both because of its size and sophistication. The importers in these countries are Scania owned, and most dealers and service points are local branches of the importer.

The Baltic region is also interesting even though it's small in size. We are rapidly expanding our organization there as well. Russia and the other CIS countries offer great potential. At present our network is limited, but expanding.

## What's Your Assessment of Local Heavy Truck Brands in Central and Eastern Europe?

It is quite clear that, in general, they have problems. A normal life cycle of their products is less than half the life-cycle of a Western truck. An important opportunity for them is that Central and Eastern European countries have a potential cost advantage through cheaper labor. Their main dilemma, on the other hand, is that it takes a lot of time and money to develop products which are at the same level as the Western European brands.

Alternatively, [local manufacturers] can buy components from American or Western European producers in order to meet emission standards and other requirements. But they will have to pay market prices, which means they lose their cost advantage.

*Continued on page 20*

# EMPLOYERS TAKE NOTE: IMPORTANT TAX & SOCIAL SECURITY CHANGES IN POLAND

## TAX, CUSTOMS, & FINANCE REVIEW

Effective July 1, 1997, certain regulations concerning Polish Social Security (ZUS) have been changed. And on January 1, 1997, a number of amendments to Poland's Personal Income Tax Act came into effect.

The most important of these changes affecting Polish employers, including both Polish companies and subsidiaries of non-Polish companies employing Polish and foreign staff, are discussed below.

### Changes to Social Security Regulations: New Charges & New Exclusions

Recent changes to Polish Social Security (ZUS) regulations, effective from July 1, 1997, are important for Polish companies employing Polish staff and/or having expatriates on local employment contracts.

From July 1, 1997, ZUS charges are imposed on certain new elements of income, such as remuneration for overtime work on Saturdays, Sundays, and holidays, bonuses paid in cash and related to "special days," car allowances over tax free limits, and travel and daily allowances over officially set limits. The whole value of employer provided housing is also subject to ZUS.

The following categories of income are now excluded from ZUS:

- value of employee insurance policy purchased by the employer (only if more than 50% of employees are insured);
- all types of indemnification and leave allowances paid to employees leaving the company; and
- all in kind benefits received by employees in connection with "special days" up to tax free limits (currently PZL 370 per year)

**"From July 1, 1997, Polish Social Security (ZUS) charges are imposed on certain new elements of income, such as remuneration for overtime work on Saturdays, Sundays, and holidays, bonuses paid in cash and related to "special days," car allowances over tax free limits, and travel and daily allowances over officially set limits. The whole value of employer provided housing is also subject to ZUS."**

**"A car allowance for use of the employee's car for business purposes is taxable for the employee. However, a deduction of 0.3340 PZL (for cars with engine capacity up to 900 cc) and 0.5354 PZL (for cars with engine capacity over 900 cc) per kilometer of business travel is available."**

### Tax Rates Reduced

As of January 1, 1997, tax rates for each tax bracket were reduced by 1% point to 44%, 32%, and 20%. These rates will be further reduced to 40%, 30%, and 19% from January 1, 1998. In new zlotys (PZL) the 1997 tax brackets are as follows:

Taxable Base	Tax
up to 20,868 PZL	20% less 278.20 PZL
between 20,868 and 41,736 PZL	3,895 PZL plus 32% of excess over 20,868 PZL
over 41,736 PZL	10,573.16 PZL plus 44% of excess over 41,736 PZL

### Fringe Benefits Taxation

#### Company Cars

A company car does not constitute taxable income of the employee if used for business

purposes only. Private use is taxable, but there are currently no specific regulations for calculating the value of this benefit.

A car allowance for use of the employee's car for business purposes is taxable for the employee.

However, a deduction of 0.3340 PZL (for cars with engine capacity up to 900 cc) and 0.5354 PZL (for cars with engine

capacity over 900 cc) per kilometer of business travel is available.

Alternatively, an allowance for 500 kilometers (167 PZL and 267.70 PZL, depending on engine size) can be claimed each month for local travel. A claim for local travel (except for a claim for the 500 kilometer allowance) and non-local travel would require distance records, such as a log of business trips and distances prepared by the employee and approved by the employer every month.

Should the employee fail to present a log of business trips and distances to his employer, the reimbursement of the employee's costs of

using a private car for business purposes will not constitute a tax deductible expense for the employer. Therefore, it is in the interest of both the employer and the employee to maintain proper records of business travels.

### Non-Taxable Housing Benefits Reduced

The most significant change was the limitation of non-taxable housing benefits provided by employers to their employees to a value not exceeding 300% of the amount of the lowest salary in the economy (in December of the year preceding the relevant fiscal year). Since the lowest remuneration for December 1996 was 370 PZL, the tax free benefit for housing purposes in 1997 amounts to 1,110 PZL monthly. Any amount over this limit is a taxable benefit of the employee.

The tax free portion is only available when the house or apartment rent agreement is concluded in the name of the employer and not in the name of the employee. Furthermore, if the housing allowance is paid directly to the employee in cash, it is fully taxable for the employee.

Before January 1, 1997, the total value of employer provided housing was exempted from tax, provided that the employee was working outside his permanent place of residence and the lease agreement was between the employer and the landlord.

### Meals & Drinks

The value of meals and drinks provided by the employer to employees during work hours (provided that the employee does not have a right to any money equivalents paid in lieu of these meals and drinks) is a non taxable benefit for the employee. The value of lunch coupons provided by the employer is also tax free for the employee.

From the employer's perspective, the value of meals and drinks and the value of lunch coupons provided to employees is tax deductible for corporate income tax purposes.

*This month's Tax, Customs, & Finance Review columnist is Marcin Rogalski who is with Deloitte & Touche's Warsaw office. ■*



**Sales per Dealer**

New vehicle sales per dealer in Central and Eastern Europe averaged 233 units in 1996, compared with 123 per dealer in Western Europe. This latter figure, however, is deflated due to the large number of sub dealers in Western Europe (49%), whereas in Central and Eastern Europe, on average, the number of sub dealers represent only 18% of the total number (half of these are part of the Avto VAZ network).

The Central and Eastern European average of sales per dealer is boosted by the high levels recorded by Avto VAZ (698) and Fiat (827). Fiat also has the highest efficiency levels amongst "Western" makes, though this is mainly due to its presence in Poland where sales per dealer average 1,699. Opel is in second place with 313 sales per dealer, followed by Skoda (270) and Daewoo (266).

Of the franchise types, the American-owned (Ford, General Motors, Chrysler) were the most efficient with average sales per dealer of 206.

**Franchise Types Avg. Sales per Dealer**

European	174
American	206
Japanese	86
Korean	182

**National Sales Distribution**

Across 34 makes and 26 markets, there are 496 national distributors. Of these, 74% are independent companies and only 13% are owned by the vehicle manufacturers. Of the remainder, 32 (mainly Avto VAZ) are joint ventures and 36 are direct dealers arrangements. Manufacturer owned importers are common in leading markets, such as Hungary and the Czech Republic, where all 34 makes are represented. In contrast, only a handful of imported makes are present in the Asian C.I.S. markets.

**Competitive Sales Performance**

Five Eastern European controlled makes — AvtoVAZ-Lada, GAZ-Volga, Dacia, ZAZ-

Tavria and Moskvitch — feature in the Top Twenty listing of car sales in Central and Eastern Europe, with a combined market share of 49% or 846,396 total unit sales. These makes have virtually disappeared from Western Europe, where the largest — Avto VAZ-Lada — sold under 25,000 cars in 1996, generating a market share of less than 0.2%.

Fiat, in second place, had the highest "Western" manufacturer vehicle sales of 194,000 in 1996, taking a share of 11.2%. Of these vehicles, 164,778 were sold in Poland (equal to 42% of the market) where Fiat has established its own manufacturing plant. Skoda, as part of the VW Group, sold 145,560 light vehicles and took 8% of the market share in the whole region, while in the Czech Republic and Slovakia its share was 43.3%.

The Koreans are aggressively penetrating the Central and Eastern European car markets. Led by Daewoo's extensive acquisitions and investments, they gained nearly 11% of the market last year, compared with 2% in Western Europe, and they outsold the Japanese makes by over 2.5 to 1. Suzuki is the only Japanese make to have established vehicle production facilities in Central and Eastern Europe. It sold more cars in the region than any other Japanese make.

**"Across 34 makes and 26 markets, there are 496 national distributors. Of these, 74% are independent companies and only 13% are owned by the vehicle manufacturers. Of the remainder, 32 (mainly Avto VAZ) are joint ventures and 36 are direct dealers arrangements."**

Of the specialist makes in Central and Eastern Europe, Audi achieved the highest car sales of 5,026 units in 1996.

Sales of many of the leading makes in Central and Eastern Europe are heavily concentrated in their "domestic" bases:

Auto VAZ-Lada	94% (Russia)
Fiat	85% (Poland)
Daewoo	61% (Poland); 14% (Romania)
Skoda	60% (Czech Republic) 76% (Czech Republic & Slovakia combined)

On a group basis, Volkswagen was market leader in Central and Eastern Europe with 12% of car sales, followed by the Fiat Group with 11%. Performance of both the Peugeot and BMW groups in Central and Eastern Europe lags well behind that achieved in Western Europe. As Renault performance is also much

lower, the French share was under 5% in Central and Eastern Europe compared with 22% in Western Europe.

**Daewoo**

The scale with which Daewoo has entered the automotive scene in Central and Eastern Europe in the last two years is evident in sales totaling 165,000 units, a market share exceeding 9%, and a 621 strong dealer network, second in the region only behind Avto VAZ-Lada. The sheer force of their entry into the market is impressive, but it is not known yet whether this will be sustainable.

Daewoo's strategy aims to locate production facilities in countries with major growth potential and adjacent to key regional markets for export opportunities, for example from Poland to the EU and other Central European markets; from Romania to Central and Southern

Europe; and from Uzbekistan to Russia and neighboring C.I.S. countries.

**Manufacturing Presence**

In 1996, over 1.8 million light vehicles were produced in Central and Eastern Europe.

"Western" manufacturers produced approximately 1 million units, including 263,000 by Skoda in the Czech Republic, 308,293 by Fiat in Poland, followed by Daewoo with an output of 166,410 vehicles from their various plants.

In total, 10 western makes have vehicle assembly operations in the region. Added to this are large component and secondary operations, most of which are located within the countries which have tariff arrangements with the EU. The removal of these tariffs within the next 5 years and the progress of the whole of this region towards free market economies will lead to its rapid integration with Western Europe.

*This analysis was prepared by Elaine Hardy, Project Director with Harbour Wade Brown, an automotive consultancy based in the UK. ■*

**"On a group basis, Volkswagen was market leader in Central and Eastern Europe with 12% of car sales, followed by the Fiat Group with 11%. Performance of both the Peugeot and BMW groups in Central and Eastern Europe lags well behind that achieved in Western Europe."**



## Vehicle Production & Sales in Romania

Production & Assembly	1997	1st Half	1996	1st Half
	2nd Q		2nd Q	
Passenger Cars	25,080	54,564	22,689	40,757
Light Commercial Vehicles	4,065	8,942	4,402	9,461
Commercial Vehicles 3.5-7t	296	642	364	689
Commercial Vehicles > 7t	210	746	1,329	1,780
Buses	42	91	82	269
<b>TOTAL</b>	<b>29,702</b>	<b>64,985</b>	<b>28,866</b>	<b>52,956</b>

Source: APIA

Export	1997	1st Half	1996	1st Half
	2nd Q		2nd Q	
Passenger Cars	6,860	7,856	1,415	2,928
Light Commercial Vehicles	587	803	752	2,405
Commercial Vehicles 3.5-7t	0	0	0	0
Commercial Vehicles > 7t	10	10	29	29
Buses	0	0	0	0
<b>TOTAL</b>	<b>7,457</b>	<b>8,669</b>	<b>2,196</b>	<b>5,362</b>

Source: APIA

Import	1997	1st Half	1996	1st Half
	2nd Q		2nd Q	
Passenger Cars	1,279	3,108	1,963	3,805
Daewoo	-	700	1,300	2,626
Cielo	-	-	-	20
Espero	-	-	-	1,306
Tico	-	700	1,300	1,300
Other Makes	1,279	2,408	663	1,179
Light Commercial Vehicles	183	414	128	232
Commercial Vehicles 3.5-7t	25	93	83	188
Commercial Vehicles > 7t	43	86	53	116
Buses	27	67	3	9
<b>TOTAL</b>	<b>1,556</b>	<b>3,768</b>	<b>2,230</b>	<b>4,350</b>

Source: APIA

Sales	1997	1st Half	1996	1st Half
	2nd Q		2nd Q	
Passenger Cars	20,009	44,001	22,797	43,590
Light Commercial Vehicles	3,967	8,010	4,958	7,158
Commercial Vehicles 3.5-7t	325	733	443	878
Commercial Vehicles > 7t	305	518	1,353	1,816
Buses	67	157	83	274
<b>TOTAL</b>	<b>24,671</b>	<b>53,419</b>	<b>29,634</b>	<b>53,716</b>

Source: APIA

*Highlights Continued From page 3*

with 4,109 units sold, capturing the model a market share of 9.65%. Renault's overall market share in Slovenia during this period was 21.13%, down from 27.77% a year earlier.

The **Volkswagen Polo** was the second best selling car during the first seven months with 2,823 units sold and a market share of 6.63%. Volkswagen's overall market share during this period was 12.38%, up from 11.30% a year earlier.

The third best selling model was the Renault Megane with 2,718 units sold and a market share of 6.38%.

*International*

**Ford Launches New Parts & Components Unit**

On Sept. 9, 1997, **Ford Motor Co.** presented its newly renamed **Visteon** car parts unit at the Frankfurt auto show. The unit was formerly called the Automotive Products Operations.

Visteon plans to grow in North America, Europe, the Far East, and South America, according to Visteon President Charles Szuluk. The company hopes to increase its sales to non-Ford customers from 5% to 20% of total sales.

Visteon will operate through seven divisions: chassis, climate control, electronics, exterior, glass, interior, and powertrain control. ■

*Profile Continued From Page 13*

ing facilities, we have to have a dedicated organization for these regions as well, to develop the existing supply base and to [take advantage] of the opportunities that these companies may offer.

**CEAR: Is part of your job to encourage existing suppliers in Western Europe to set up operations in Central Europe?**

**Kuhne:** Yes. One component which nearly always is one of the first components localized is the complete seat. You will find that in almost all our SKD plants you have local suppliers for seats. Here we have **Delphi** as a

supplier for complete seats and they will localize themselves in Gliwice. So that is a done deal. A Czech supplier will come to Tychy, a town about 30 kilometers from Gliwice. So it's not only Western European suppliers that are coming.

**CEAR: What percentage of your total supply base for the Gliwice factory will be local?**

**Kuhne:** Today, I have a very clear picture of those suppliers that we need for our first car line. Close to 45% will be local content. That is a done deal. Contracts are already signed. Local means suppliers in my region, not just Poland. And we are working very hard on reaching the remaining target. We are convinced we will reach this target of 60%. We can make it and we will make it.

**CEAR: What is the deadline for reaching the 60% target?**

**Kuhne:** By the year 2000. Because we know that some components still have to be localized after the start of production due to long lead times. It also depends on available technology. To give you an example, there is no paint shop available for huge plastic parts like grills or bumpers that meet our requirements for mass production. It's not there. If this changes, we can localize and the percentage will increase.

**CEAR: What qualities have you seen in Central European suppliers that make you optimistic about the future?**

**Kuhne:** Motivation. Both in the workforce and management. You need both.

**CEAR: What's your outlook for the Central European auto industry over the next five years?**

**Kuhne:** The automotive industry will continue to boom. Therefore, the business opportunities for our suppliers will be very positive. The outlook is very positive, definitely.

**CEAR: What's fueling that boom?**

**Kuhne:** Customer demands. We recognize that demand is drastically accelerating and if you see the sales development of all auto manufacturers, especially in Poland, it is fantastic. It is definitely customer driven.

**CEAR: What's the most exciting part of your job?**

**Kuhne:** The most exciting part is that nearly all the time you are faced with new situations. You recognize new opportunities to get in contact with suppliers which maybe you missed in

your past investigation. It's the challenge of changing markets. It's a challenge to make our plant a successful one. That is really a big motivator. That's the essence of my job.

All the people, regardless of whether they are in the Czech Republic or Poland or Hungary, they understand that providing purchasing support to our new plant in Gliwice is one of the most important [tasks]. So the people are really motivated and they are working hard to ensure that all parts are there when we need them and that they are there with the exact required quality. ■

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Offices in Central Europe and the United States

**Heavy Truck Maker** Continued From page 14

I think we will see major structural changes in the industry in the next few years. Many will merge. Some will become niche players. And some may be taken over by international manufacturers.

What I have said is relevant for producers of heavy vehicles. I am not totally familiar with the conditions for light commercial vehicles. But I think there is a brighter future for producers of commodity products, where low purchase prices play a more important role in marketing.

**What is the Key to Succeeding in the Central and Eastern European Markets?**

You cannot generalize in your marketing. Our experience is that there are three phases of market development. First there is an initial phase, characterized by two completely different markets.

One is the transnational market, serving the export/import industry where operators start

buying second-hand Western trucks. The other market is purely domestic, operated by local haulers using only local truck brands.

Then we have the transitional phase when the cross-border operators mainly use second-hand Western vehicles and, to an increasing extent, buy new Western trucks. Local operators start buying Western trucks from their domestic colleagues.

The third phase is the integration phase when the two domestic markets tend to merge with each other and to integrate with the Western European markets. Both transnational and domestic operators buy both new and second-hand Western trucks.

All countries in the region move along this scale. Russia and most CIS countries are definitely in the first phase, and the Central European countries mainly in the second phase. But it is my opinion that Poland is now on the way to enter the third phase of integration. ■

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## Exhibitions, Conferences, and Shows in 1997 & 1998

1997		1998	
		Nov. 17-19	<b>Cleveland, OH</b> Int'l Truck & Bus Meeting & Exposition
Oct. 1	<b>Katowice, Poland</b> Autosalon	Nov. 18-22	<b>Sofia, Bulgaria</b> Auto Expo
Oct. 1-5	<b>Budapest, Hungary</b> Budapest Motor Show	Nov. 22-30	<b>Athens, Greece</b> Athens Int'l Motor Show
Oct. 2	<b>Bucharest, Romania</b> OICA General Assembly	Nov. 26-30	<b>Madrid, Spain</b> Industrial Vehicle Trade Fair
Oct. 2-3	<b>Warsaw, Poland</b> IBC Automotive Components Industry in Eastern Europe & Russia	Nov. 28-Dec. 1	<b>Essen, Germany</b> Essen Motor Show
Oct. 3	<b>Bucharest, Romania</b> Romanian Automotive Development Forum	Dec. 4-5	<b>Brussels, Belgium</b> Conference on Globalization & Competitiveness
Oct. 2-12	<b>Bucharest, Romania</b> 5th Int'l Bucharest Motor Show	Dec. 6-14	<b>Bologna, Italy</b> Bologna Motor Show
Oct. 4-12	<b>Budapest, Hungary</b> Int'l Trade Show for Auto Industry		
Oct. 14-19	<b>Bucharest, Romania</b> Int'l Technical Fair (incl. automotive companies)	<b>1998</b>	
Oct. 15-17	<b>Munich, Germany</b> Conference on Advances in Structural PM Component Production	Jan.	<b>Brussels, Belgium</b> Int'l Commercial Vehicles
Oct. 15-20	<b>Paris, France</b> Equip Auto '97	Jan. 10-19	<b>Detroit, MI</b> North American Int'l Auto Show
Oct. 15-26	<b>London, England</b> London Motor Show	Feb. 23-26	<b>Detroit, MI</b> SAE Int'l Congress & Exhibition
Oct. 17-22	<b>Kortrijk, Belgium</b> Car & Bus Show	Mar.	<b>Katowice, Poland</b> Automotive Equipment Exhib.
Oct. 21-24	<b>Berlin, Germany</b> SAE ITS World Congress	Mar. 5-15	<b>Geneva, Switzerland</b> International Motor Show
Oct. 24-	<b>Tokyo, Japan</b> Tokyo Motor Show	April 11-19	<b>New York, NY</b> Int'l Auto Show
Nov. 5		April 24-	<b>Turin, Italy</b> International Auto Show
Oct. 29-30	<b>Bucharest, Romania</b> Herald Tribune Romanian Investment Summit	May 3	
Nov. 1	<b>Valencia, Spain</b> Salon del Automovil	April 25-30	<b>Poznan, Poland</b> Int'l Fair of Auto Industry
Nov. 4-6	<b>Detroit, MI</b> Autofact '97	June 7-12	<b>Brno, Czech Republic</b> AutoTec
Nov. 6-9	<b>Istanbul, Turkey</b> Commercial Vehicles Show	Sept. 15-20	<b>Frankfurt, Germany</b> Automechanika
Nov. 11-12	<b>Moscow, Russia</b> EuroForum Automotive Conference	Sept. 27-Oct. 1	<b>Paris, France</b> FISITA Congress
		Oct. 1-11	<b>Paris, France</b> Int'l Paris Motor Show
		Nov. 27-Dec. 6	<b>Essen, Germany</b> Essen Motor Show

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

# INVESTMENT OPPORTUNITIES

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Opportunity	Investment Sought	Contact	Phone/Fax
Manufacturer of driving shafts, steering shafts, steering gears, and spare parts seeks foreign investor	n/a	Wieslaw Kosieradzki	tel: 48-22-827-8700 fax: 48-22-826-7341 Poland
Manufacturer of centrifugal oil separators, heaters, water and oil coolers for cars & trucks, water pumps for vans, trucks, and ships seeks foreign investor	n/a	Wieslaw Kosieradzki	tel: 48-22-827-8700 fax: 48-22-826-7341 Poland
Manufacturer of fuel supply systems for car & van engines, compressors for pneumatic braking systems for cars, buses, & farm tractors, compressor units & pneumatic fittings, & spare parts for compressors seeks foreign investor	n/a	Wieslaw Kosieradzki	tel: 48-22-827-8700 fax: 48-22-826-7341 Poland
Manufacturer of hydraulic cylinders, up to 32 bars pressure, 25-160 piston diameter, up to 4,000 mm length, seeks Slovak Republic commercial cooperation, offers production to order	n/a	Viktor Tegelhof re: STR 1258	tel: 421-7-5335-175 fax: 421-7-5335-022 Slovak Republic
Manufacturer of exhaust flanges, light welded steel constructions, agricultural machines, and hydraulic components under Sauer Co. license seeks joint venture partner	n/a	Viktor Tegelhof re: STR 0224	tel: 421-7-5335-175 fax: 421-7-5335-022 Slovak Republic
Manufacturer of car & truck air and oil filters seeks joint venture partner for production, financial, and distribution cooperation. Monthly air filter capacity for cars of 60,000, and 6,000 for trucks	n/a	Viktor Tegelhof re: Sandrik a.s.	tel: 421-7-5335-175 fax: 421-7-5335-022 Slovak Republic
Manufacturer of pressed parts for cars, press units, electric carriages, and machine tools seeks commercial or production cooperation	n/a	Viktor Tegelhof re: STR1263	tel: 421-7-5335-175 fax: 421-7-5335-022 Slovak Republic
U.S. partner sought for Czech producer of crankshafts (various sizes up to 2500 mm lengths) for purpose of contract manufacturing. Company is supplier to producers of engines for trucks, tractors, ships, & stationary aggregates. 1996 turnover expected to be \$20 million.	n/a	Jan Vesely IESC	tel: 420-2-2499-3170 fax: 420-2-2499-3176 Czech Republic
Partner sought for producer of diesel injection equipment for development, production, & sale of single and multi-cylinder in-line injection pumps for all types of diesel engines, as well as for injection systems, testing, measuring, & adjustment equipment. 1995 turnover was \$40 million.	n/a	Jan Vesely IESC  Czech Republic	tel: 420-2-2499-3170 fax: 420-2-2499-3176
Manufacturer of plastic parts for Opel, Mercedes, VW, & Suzuki seeks equity partner who is engaged in plastic processing business	\$5 million	Csaba Kilian re: Pemu	tel: 36-1-118-0051 fax: 36-1-118-3732 Hungary
Supplier of seats for Suzuki cars & spare parts for Ikarus seeks purchaser. <b>Company undergoing privatization process: purchase offers must be made before 10/29/97.</b>	n/a	Csaba Kilian re: 02/Aut/96	tel: 36-1-118-0051 fax: 36-1-118-3732 Hungary
Battery manufacturer seeks joint venture partner for processing used vehicle starter batteries	\$2.1 million	Csaba Kilian re: Perion	tel: 36-1-118-0051 fax: 36-1-118-3732 Hungary

## New Car Sales in Poland: YTD June 1997 Compared to YTD June 1996

Producer	Sales (units)		Change (%)		Market Share (%)	
	1997	1996	1997	1996	1997	1996
<b>LOCAL PRODUCTION &amp; ASSEMBLY</b>						
Audi	29	0	100.00%	0.01	0.00	
Daewoo	61,395	40,201	52.72%	23.41	20.00	
Fiat	87,179	69,155	26.06%	33.25	34.40	
Ford	4,788	3,208	49.25%	1.83	1.60	
GM-Opel	5,836	2,328	150.69%	2.23	1.16	
Peugeot	13	153	-91.50%	0.00	0.08	
Seat	2,462	0	100.00%	0.94	0.00	
Skoda	11,453	7,180	59.51%	4.37	3.57	
Tavrija	0	875	-100.00%	0.00	0.44	
VW	1,006	0	100.00%	0.38	0.00	
<b>Total L.P.</b>	<b>174,161</b>	<b>123,100</b>	<b>41.48%</b>	<b>66.42</b>	<b>61.24</b>	
<b>IMPORT</b>						
Alfa Romeo	693	132	425.00%	0.26	0.07	
Audi	159	153	3.52%	0.06	0.08	
BMW	217	183	18.58%	0.08	0.09	
Chrysler	353	338	4.44%	0.13	0.17	
Citroen	5,960	3,123	90.84%	2.27	1.55	
Daewoo	4,284	2,124	101.69%	1.63	1.06	
Fiat	3,343	15,120	-77.89%	1.27	7.52	
Ford	5,338	2,732	95.39%	2.04	1.36	
GM-Opel	17,012	12,235	39.04%	6.49	6.09	
Honda	4,911	2,901	69.29%	1.87	1.44	
Hyundai	692	784	-11.73%	0.26	0.39	
Jaguar	20	14	42.86%	0.01	0.01	
Kia	71	177	59.89%	0.03	0.09	
Lada	299	669	-55.31%	0.11	0.33	
Lancia	123	83	48.19%	0.05	0.04	
Mazda	235	0	100.00%	0.09	0.00	
Mercedes	153	75	104.00%	0.06	0.04	
Mitsubishi	299	88	239.77%	0.11	0.04	
Nissan	4,697	2,040	130.25%	1.79	1.01	
Porsche	3	1	200.00%	0.00	0.00	
Peugeot	6,185	4,214	46.30%	2.35	2.10	
Renault	13,872	14,418	-3.79%	5.29	7.17	
Rover	901	857	5.13%	0.34	0.43	
Saab	28	49	-42.86%	0.01	0.02	
Seat	5,644	5,410	4.33%	2.15	2.69	
Skoda	0	0	0.00%	0.00	0.00	
Ssangyong	43	58	-25.86%	0.02	0.03	
Subaru	0	0	0.00%	0.00	0.00	
Suzuki	909	756	20.24%	0.35	0.38	
Tavrija	0	0	0.00%	0.00	0.00	
Toyota	4,455	3,044	46.35%	1.70	1.51	
Volvo	415	337	23.15%	0.16	0.17	
VW	6,764	5,803	16.56%	2.58	2.89	
<b>Total Import</b>	<b>88,058</b>	<b>77,918</b>	<b>13.01%</b>	<b>33.58</b>	<b>38.76</b>	
<b>TOTAL</b>	<b>262,219</b>	<b>201,018</b>	<b>30.45%</b>	<b>100.00</b>	<b>100.00</b>	

Source: SAMAR s.c.

# FUTURE ISSUES

*Interview with Tamas Borai, MMG Automatika*

*Poland Sales and Production Statistics*

*Amended Czech & Slovak Customs Rules*

*Auto Interiors Review*

*Company Profile: Hella Hungary*

*Regional Special Report: Real Estate*

*Daewoo FSO Update*

*EU Policy on Central & Eastern Europe*

*Interview with Auto Engineering Dept. Head Dr.*

*Vince Nagy*

*Czech Republic Sales Statistics*

## Quoted

"In part because of overcapacity in Western Europe and the optimism of business development people, we see overcapacity in [Central and Eastern Europe] as well, which will put pressure on Western Europe."

"Sales [in Central Europe] are concentrated primarily in the low end. Eighty-percent of cars sold in Poland and the Czech Republic tend to be under \$10,000."

*Dr. Keith Crane, Director of Research, PlanEcon, Inc.*

\*\*\*

"Our early commitment to future growth markets [is responsible for VW's increasing market share in Central & Eastern Europe]. We shall continue this policy of entering new markets."

"The future competitive situation will become more cutthroat."

*Michael Ulbricht, Group Representative for Eastern Europe, Volkswagen Group*

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