# CENTRAL EUROPE AUTOMOTIVE REPORT

COVERING THE

CENTRAL EUROPEAN AUTOMOTIVE INDUSTRY

September 1996

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™

# SLOVENIA

## Steady Industry Growth; More Foreign Investment Needed

**Market Update:**

In April shareholders of **Revoz d.d.** confirmed a decision to increase the capital of Revoz by over SIT 871 million to SIT 13,199,632 (USD 1 = SIT 136). The new stock structure leaves Renault with a 54% stake, **Holding IMV d.o.o.** 30.28%, **Nova Ljubljanska Banka** 12.68%, and **Republic of Slovenia** 3%. Revoz is also preparing for the production of a new model to replace the Clio. The recent increase in capital will help the company get through this new investment cycle. Revoz's press shop is being robotized this year which will enable it to produce a variety of low cost parts. *[for more on Revoz, see this month's Profile and Opportunity Spotlight. ed.]*

**Donit Filter** is developing and testing a new line of cabin filters for cars, buses, and trucks and expects to have the new products ready by the end of 1996. The filters improve cabin air quality by eliminating dust and other airborne particles and odors. The filters are being designed to be changed every 20,000 to 30,000 kilometers. The company is targeting the Western Europe aftermarket and OEMs. According to Donit Director Boris Grobelnik, in two to three years every car in Europe should have these filters. *[for more on Donit, see Opportunity Spotlight on page 8.ed.]*

After the bankruptcy this year of troubled bus and truck manufacturer **TAM**, the **Development Fund of the Republic of Slovenia ("SKLAD")** has founded under the Maribor Restructuring Program several smaller companies that will continue the profitable programs of the old company. The beleaguered TAM accumulated over USD 160 million in debt, and truck and bus production has fallen precipitously. The newly created companies include **MPP Motor** (engines), **MPP Tehnoloska oprema** (technical equipment), **MPP Livarna** (foundry), **MPP Gonila** (transmission parts), **MPP Vozila** (buses, military program, special vehicles, chassis, spare parts), **MPP Karoserije** (metal forming), **MPP Inzeniring** (renovation and modernization of machines, machine building), **MPP Kovacnica** (forge), and **MPP Razvoj** (development). These companies are 100% owned by SKLAD and are run with the close cooperation of selected management. The companies will be sold on the market in the future.

Gasket maker **Tesnila** is currently involved in a cooperation agreement with Romanian gasket maker **Fermit**. Tesnila sends gasket material in sheets to a Slovenian import/export company who ships the material to Fermit. Fermit manufactures gaskets out of the material and sells the finished gaskets to Romanian tractor maker **Tractorul UTB S.A.** The tractors are then sold by Tractorul back to the Slovenian import/export company.

In the first half of 1996, **Summit Motors Ljubljana**, the authorized importer and distributor of **Ford** vehicles in Slovenia, sold 2016 units. Over 1300 of these units were the new Ford Fiesta model, which was launched by Summit in 1996. Summit currently holds a

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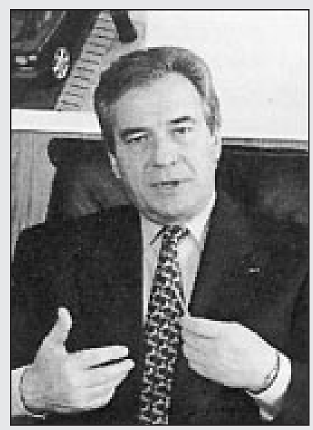
Slovenia

# PROFILE

## Revoz: Big Car Manufacturer Continues Successful Transformation

*Renault is the majority shareholder in Revoz d.d., an investment that was initiated on January 1, 1989. Renault's cooperation with the Novo Mesto factory dates back to 1972 when production of the Renault 4 was started. Today, the factory produces the Clio and Renault 5 models and employs 2,905 workers. Bernard Coursat is President of the Administration of Revoz. The 54-year-old Mr. Coursat has been with Renault since 1962 and is also Renault's Director for activities in Croatia, Bosnia and Herzegovina, Federal Republic of Yugoslavia, Macedonia, Albania, Bulgaria and Romania.*



*Bernard Coursat*

**CEAR: What are the advantages of manufacturing autos in Slovenia?**

**Coursat:** When Renault was preparing to take a majority position in Revoz, the decisive factor was the many years of experience the Novo Mesto plant had in manufacturing Renault cars. Another factor was the size and importance of the Yugoslavian market. In spite

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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.





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

5.86% share of the Slovenian car market. By the year 2000, it hopes to bring this figure up to 10%.

For the first six months of 1996, auto electronic parts maker **ELBA** had sales of DEM 500,000. Elba produces distributor caps and rotors, light switches, and voltage regulators for the after-market. ELBA currently has 10 employees and plans to increase its staff by five over the next four years. The company expects to be ISO 9001 certified by the beginning of 1997.

**The Slovenian Vehicle Market:** The automotive sector in Slovenia includes commercial vehicles manufacturers, car manufacturers, component manufacturers, sales companies, and repair and service companies. More than 40 international car manufacturers are represented in Slovenia.

In 1995 there were 698,211 registered cars in Slovenia, compared with 657,287 in 1994. There were 352 private cars per 1000 Slovenians in 1995, up from 254 per 1000 in 1985. Sales of passenger cars in 1995 reached approximately 60,000, compared to 45,000 a year earlier. Production figures for 1995 were 87,513 passenger cars, 233 trucks, 131 buses, and 585 agricultural tractors. Industry insiders see steady growth in the auto market over the next five years.

Some of the major exports from the Slovenian automotive sector are personal vehicles, goods vehicles, special vehicles, caravans and trailers, engines and engine parts, and compression-ignition systems. Exports in 1995 of vehicles with a cylinder capacity exceeding 1000 cm$^3$ but less than 1500 cm$^3$ amounted to 71,195 units, valued at USD 602.7 million. Imports in 1995 of such vehicles totaled 31,627 units, valued at USD 240.64 million.

Revoz/Renault: **Revoz d.d.** is Slovenia's only auto manufacturer. Revoz is a joint venture between majority shareholder **Renault S.A.**, state-owned **Holding IMV d.o.o.**, state-owned **Nova Ljubjanska Banka**, and the **Republic of Slovenia**. The company has an annual capacity of 100,000 cars. The factory was modernized in 1993 and production of the Renault Clio began in the same year. Revoz is the last factory to produce the Renault 5 model. Revoz's production program for 1996 is limited to the Clio and Renault 5. Eighty-percent of the factory's output is destined for export. In 1995, Revoz exported 75,757 cars, mostly to Central and Western Europe.

In 1995, 46,583 Clios and 40,930 Renault 5s were manufactured by Revoz. The two models account for approximately 28% of new car registrations in Slovenia, with over 5,000 units of each sold in 1995. Revoz commands a 25% market share for new light commercial vehicles in Slovenia, and is also the representative and importer of **Volvo** cars for Slovenia. Revoz's stated goal is to capture 1% of the Slovenian market with Volvo sales.

**The Slovenian Parts & Components Market:** The automotive components industry in Slovenia has enjoyed substantial growth, primarily due to an import regulation that reduces vehicle customs duties from 25% to 15% if the exporter uses automotive components from a Slovenian component manufacturer.

## SLOVENIA
### FACTS & FIGURES

**Form of Government:** Parlimentary Democracy

**President:** Milan Kucan

**Capital:** Ljubjana

**Population:** 2.0 million

**Labor Force:** 752,709

**Land Area:** 20,256 sq. km.

**Coastline:** 46.6 sq. km.

**Boundaries:** Austria, Italy, Hungary, Croatia

**Ports:** Koper

**Language:** Slovene

**Currency:** Tolar (USD 1 = SIT 136)

**Road Traffic:**
Passenger km millions 2,595
Freight ton km (Millions) 1,935

**Trade Agreement:** EU Association

Slovenian component manufacturers have established contacts with most major European car and component manufacturers which has improved the technical sophistication of Slovene manufacturers. Slovenian auto parts such as windshield wipers, shafts, electrical components, electronics, gaskets, and filters are used by such European manufacturers as **Mercedes Benz**, **BMW**, **Audi, Volkswagen**, **and Renault**.

Some of these contacts have evolved into full joint ventures. In 1993, for example, the Slovenian company **TPV Sedezi d.o.o.** merged with French auto interior manufacturer **Treves**. The joint venture now supplies auto seats to **Revoz** and purchases almost 40% of its parts locally. Market insiders expect that over the next five years, the components market will become increasingly specialized and there will be an increase in cooperation between Slovenian and foreign companies.

**Leasing:** Over 70 Slovenian companies are engaged in leasing as a registered activity and most of these companies provide auto leasing. Many leasing companies are connected with Slovenian bank subsidiaries. Leasing costs are high in Slovenia, but growing competition between local and foreign leasing companies should reduce prices and increase the number and quality of services offered by leasing companies. According to Janko Koren, General Manger of **Avtomontaza-bus**, "the car and bus leasing business is booming, and this is a good development for us." Avtomontaza-bus does not have its own leasing company, but introduces its customers to banks or leasing companies who can assist the customer with financing.

**Economy:** Slovenia's real GDP growth for 1996 is expected to be around 4%, compared with a 4.8% growth rate in 1995. A slowdown in the business cycle in the international environment and slowing domestic activity may be responsible for the slower growth rate. The projected inflation rate of 6% to 7% is unlikely. Most recent figures place the 1996 rate at just above 9%.

The unemployment rate for the first four months of 1996 was 14.1%, and the average real growth rate in gross wages per employee for 1996 is forecast to be 2.5%, down from a growth rate of 4% in 1995. As of March 1996, the labor cost of a Slovenian worker, which includes gross wages and social security contributions from employers, was DEM 8.8 per hour. Lower labor costs are partly due to the February 1996 reduction from 22.6% to 19.4% of high employer contributions for

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**Slovenia**

## PRODUCTION OF RENAULT CARS IN REVOZ PLANT IN NOVA MESTO, SLOVENIA*

| Year | TOTAL | Clio | Renault 5 | Renault 4 |
|---|---|---|---|---|
| 1995 | 87,513 | 46,583 | 40,930 | |
| 1994 | 73,990 (65,740) | 22,280 (18,630) | 51,710 (47,110) | |
| 1993 | 58,367 (45,563) | 12,677 (6,864) | 45,690 (38,699) | |
| 1992 | 83,534 (74,267) | | 61,862 (55,147) | 21,672 (19,120) |
| 1991 | 75,190 (52,441) | | 48,871 (35,629) | 26,319 (16,812) |
| 1990 | 67,964 (48,765) | | 28,432 (19,877) | 39,532 (28,888) |

*figures in parenthesis represent the number of exported vehicles

# REGIONAL SPECIAL REPORT

## HUMAN RESOURCE SERVICES IN CENTRAL EUROPE

Human resource services are widely available throughout Central Europe. Human resource companies can help find skilled workers to staff a new factory, help fill managerial position, provide a range of employee training courses, and analyze compensation and benefits policies. As many human resource companies have offices in all the major cities in Central Europe, they can provide region-wide solutions to a client's human resource needs.

**Staffing.** "Attracting and keeping qualified employees is a huge problem," says Mari Knovak of **KNO Worldwide**, a company with offices in Prague and Bratislava. Although the region has an available supply of skilled an motivated workers, finding them and retaining them can be a challenge. Human resource companies can help ease the pain of the search process. There are many companies that specialize in filling middle and upper-level management positions and administrative staff positions. For instance, **EastEuroCo**, an executive search group in Budapest, is helping a U.S. manufacturer involved in the automotive industry find four top level executives for a new plant in the Budapest area.

Fewer companies specialize in locating skilled laborers, such as those needed when opening a new factory. When a factory is located in an area of high unemployment, finding qualified laborers is not a problem. According to one industry insider, in economically distressed areas a company is likely to have "more applications than they can deal with." However, when locating a factory in an area that does not have high unemployment, staffing up the factory is more problematic. Employees in Central Europe are not keen on relocating, especially when a move takes them out of a big city like budapest, Warsaw, or Prague. In such circumstances, a company may be forced to pay higher wages and offer more attractive benefits to attract qualified workers.

Once qualified workers are found, a company must overcome another obstacle: labor unions. Companies must negotiate with labor unions and will "probably have to recalculate their financial figures for labor costs." says the industry insider. **Fiat** encountered such difficulties at their Polish factory that manufacturers the Cinquecento.

The skill level of laborers in Central Europe is generally high. Liz Jakub, Managing Director of **PMC International**, was involved in a search in Slovakia for a Belgian company in need of operators for new computerized processing machines. An intelligence test was part of the interview process and Jakub says they were very impressed with the worker's skill levels, many of whom were self-taught.

Human resource firms will find potential hirees by direct searches based on industry contacts, by searching through their own databases, or by conducting advertising campaigns. Fees are often tied to the salary provided for the position sought, or based on the qualification sought and and the requirements of the search process. Some firms will charge a fee of 30% to 40% of the placed worker's first year salary. Typically, 1/3 of a fee is due at the start of the search, 1/3 after presentation of suitable candidates, and 1/3 when the candidate is hired.

Many human resource firms also offer management audits that can help a company determine what the qualifications of existing management are, what the potential is for further management development, and how the company's internal resources can be optimized. Such audits can be essential in the fast moving and constantly changing business environment in Central Europe, and are also helpful prior to a takeover or merger.

**Training.** Education is extremely important to employees in Central Europe and "a company that embraces that need through training and development is very popular," says Ellen Hayes of Personnel Select in Warsaw.Liz Jakub of PMC International agrees, adding that employees in Slovakia "appreciate being given an opportunity to broaden their knowledge." Training programs offered by human resource companies include sales, customer service, problem solving, negotiation, and communication training. Some companies, such as **Learning Systems Polska** in Warsaw, will soon offer ISO 9000 and quality training. Says John Guziak of Learning Systems, a company that has provided management and sales training for car manufacturers in Central Europe, "training is not a one time event…it must be continuous."

Under Communism, vocational training was widespread, but there was little management training. Many foreign companies who have bought factories in Central Europe have had trouble changing the old habits and ways of thinking of many employees. Managers must be taught to take on more responsibility and how to motivate employees. It is important that any training be company-wide, and not just for upper level employees. In the Czech Republic, for instance, many company managers say that they just train their top people, and not the other 80% of the ranks. According to Guziak, this is dangerous. "When you train your line managers, and no one else, this creates animosity below," he says. "Everyone must feel like they are being invested in."

Positioning the training program is also important. Employees must be told why they are being trained. A company, therefore must have a concrete strategy about why they are training and what they hope to achieve with the program. Learning Systems is moving into one training area that will focus on team management and management by objective. Such training, which is important for companies like the large automotive manufacturers, focuses on building teams within the company and improving intra-company communication.

Sales training is also essential for companies involved the in automotive industry. KNO Worldwide successfully helped **Opel/GM** set up a national sales company in the Czech and Slovak Republics. Training was provided in the area of sales skills, customer service, and dealership management techniques.

*Continued on page 15*

Slovenia

# LEGAL ADVISOR

## ACQUIRING A SLOVENIAN COMPANY

**Precontractual Obligations.**
During the company acquisition process, the parties have obligations which are independent from the conclusion of the contract. The nature of the precontractual obligations is also characteristic of Slovenian law. In essence, it is the obligation to conduct negotiations in good faith. The following principles are particularly important in practice:

*Janko Arah*

— It is considered dishonest to start and conduct negotiations if there is no serious intention of concluding a contract.

— During the negotiations both parties have to reveal certain facts if, as court rulings often put it, “their concealment would contravene good faith.”

— Neither party is allowed to give false information whether intentionally or by negligence. This prohibition applies to both written and oral information.

**Initial Agreements.** During negotiations, the parties often draw up written memoranda about agreements reached on specific issues. Under Slovenian law, *these memoranda do not bind the parties.* The letter of intent, an Anglo-Saxon legal institution, has made its way into the Slovenian legal and economic life. It can have many forms, but it has not been formally adopted into Slovenian law and is generally interpreted as not indicating a legal intent to be committed by the parties.

The contractual obligations of the parties arise when they enter into an option agreement for the sale or purchase of a company or when they conclude a binding preliminary contract. The preliminary contract creates reciprocal obligations to conclude the main contract. The parties may use such a contract if they wish to be bound but still have obstacles to overcome. it is important to note that both options and preliminary contracts must have the same form as the main contract. This is particularly important for the transfer of shares in private limited companies and the transfer of real property. In Slovenia both of these legal transactions require an official authentication, which is generally provided by a notary.

**Liabilities for Defects.** The general provisions of the legal warranty for defects apply to the purchase of a company. If the item sold has defects, the law generally gives the purchaser the right to choose between cancelling the sales contract or reducing the price. The purchaser, however, is only entitled to claim damages if the vendor certified that the object sold had certain qualities or if he maliciously concealed a defect.

**Representations and Warranties.** The type of representation and warranty clauses demanded by the purchaser should be adapted to the particular circumstances of the transaction. The vendor must often make a warranty, the warranty for equity, regarding the accuracy of the balance sheet data on which the contract is based. The vendor warrants that a specified amount of contributed capital exists either at the end of the last business year or, more frequently, on the day the company is transferred to the purchaser.

**Sanctions.** It is essential for a sales contract to provide what sanctions are available if a promised condition does not exist. it will be in both parties’ interests to let the vendor choose between reestablishing the promised condition or paying damages. If a claim for damages is allowed, it must be precisely and concretely dealt with in the contract.

If the warranted contributed capital does not exist, the purchaser has two forms of redress. He can either establish his right to have the capital paid up or require payments for damages. If the parties do not address this issue in the contract, the contract will have to be interpreted to determine what right exists.

**Liability of the Purchaser.** A company’s purchaser is often liable for the vendor’s debts. Accordingly, it is very important that the debts for which he might be liable be clearly stated in the contract. The scope of the purchaser’s liability varies depending on whether assets or shares are purchased.

When the business sold makes up all or at least the biggest part of the vendor’s property, the purchaser might be liable for all the vendor’s debts, though only to the extent of the value of the property transferred. His liability cannot be excluded even by mutual consent.

When shares are bought, a company’s legal status does not change. It’s rights and obligations are not affected by the change in shareholders. The purchaser, however, might incur specific obligations. For instance, a person who buys shares in a private limited company is liable if the vendor has not yet paid his contribution.

**The Notarial Deed.** The purchaser of shares in a private limited company must be authenticated by a notarial deed. On the other hand, the sale or transfer of shares in a public company are not subject to this obligation, nor is the sale and transfer of shares in general or limited partnerships required to be in a specified form.

The sale and transfer of real property requires official authentication. This also applies to the accessory transactions connected with a transfer of real property, such as the transfer of machinery and industrial property rights, or marketing or consultation arrangements.

A foreign authentication is considered valid if the foreign notary’s function can be said to be equivalent to that of a Slovenian notary.

*Janko Arah, an attorney, is a consultant specializing in matters related to investment in Slovenia, including mergers and acquisitions, new company formation, and licensing agreements. Arah Consulting, Slovenska cesta 11, 61000, Ljubljana, Slovenia; tel: (386 61) 125-2410, fax: (386 61) 125-2410.* ■

CENTRAL EUROPE AUTOMOTIVE REPORT

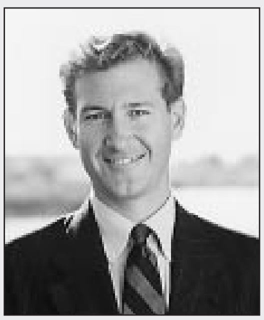
# To Our Readers:

*Ronald F. Suponcic, Jr.*
*Publisher*

Although a small country with a population of only 2 million, Slovenia has an active automotive industry. Renault is the majority shareholder in Revoz d.d., a factory that has an annual capacity of 100,000 vehicles, and there are over 70 Slovenian manufacturers of automotive parts and components. Much of Slovenia's production in this sector is, of course, bound for export.

Like many of the other industrial sectors in Slovenia, the automotive sector needs more foreign investment. As reviewed in this month's Opportunity Spotlight, excellent opportunities exist for cooperation between Slovenian and foreign companies. Many Slovenian companies are eager to expand their businesses and team up with foreign partners. One company featured this month, Resistec, scans the internet for potential venture partners. Other companies such as gasket maker Tesnila, which is mentioned the the Market Review on page one, use creative trade strategies to expand their markets and make deals happen. The opportunities are there. Market players who invest the necessary effort, patience, and capital can reap attractive rewards.

As noted in our overview of the Slovenian market, it is still too early to tell now Slovenia will benefit from the reconstruction of the republics in the former Yugoslavia. Trade with the region is expected to increase. but it is uncertain if foreign companies will use Slovenia as a stable base from which to do business in the markets to the south. Many companies have already indicated that they will opt for direct investment in former Yugoslavia. Slovenia's relatively high wage rates and nationalistic tension between Slovenia and the other republics are cited as two of the reasons why companies prefer not to use Slovenia as a base for their Balkan operations.



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

We hope you find this issue informative. The Central Europe Automotive Report is designed to help companies expand their businesses and take advantage of the myriad opportunities in the Central European automotive industry. If there is a specific issue, sector or company you would like to learn more about, please contact us. Our goal is to provide you with the information you need to succeed in this dynamic market. ■

Slovenia

# FOCUS ON INVESTMENT

**The Slovenian business environment, after the adoption of general laws from the commercial field, is not particularly distinguishable from that of other countries. Thus, the decision regarding the form of investment in Slovenia is determined by the needs, expectations, and economic and practical objectives of the foreign party. All varieties of investment are possible. The investment may be in the form of commercial contracts, equity investments (wholly owned by the foreign investor or as a joint venture with a domestic partner), or debt capital investments.**

**Few Legal Restrictions Exist:** There is no restriction in the field of commercial contracts. Domestic and foreign parties can freely negotiate all standard types of agreements, such as contracts of sale, agency agreements, and distribution agreements. In the automotive industry in Slovenia, foreign companies have thus far elected primarily to maintain agency relationships with domestic companies. Through agencies, most foreign motor vehicle manufacturers are represented, as are numerous automotive product manufacturers. Beyond the standard economic and legal considerations for entering into agency agreements, joint ventures, or creating subsidiaries, there is nothing special that a foreign manufacturer need consider before engaging in trade or investment in Slovenia. Restrictions on equity investments are applied solely to well defined, strategic activities such as military equipment, rail and air transport, and mass media.

**Automotive Industry Sees Bulk of FDI:** Recently the number of foreign direct investments has increased substantially. After previously successful cooperation with domestic partners and positive experiences, many foreign businessmen have decided to invest in Slovenia, primarily in the form of greenfield investments, acquisitions, or joint ventures. Fifty percent of the FDI went to the manufacturing sector, mainly to the automotive industry. **Renault's** successful USD 54 million investment in **Revoz** is the second largest investment in Slovenia. Renault's car models accounted for nearly one fourth of the 6,790 new cars sold last April.

**Full National Treatment & Real Estate Ownership:** One of the major benefits of FDI, which involves incorporation of the investment under Slovenian law, is the full national treatment accorded the entity. In addition to the benefits associated with taxation, custom duties, and labor regulations, full national treatment is especially attractive in the realm of real estate ownership. Foreigners, natural as well as legal entities, currently are not allowed under the Slovenian constitution to acquire real estate. Through incorporation under Slovenian law, however, a foreign entity acquires Slovenian personality and thus obtains the right to acquire real estate.

**Caveat Regarding Denationalization:** Before entering into acquisition or joint venture agreements in Slovenia, an investor should consider the implications of the ongoing denationalization process. As the denationalization process is not yet complete, in certain cases the former nationalized real estate owners might acquire restitution in kind. As all the ownership changes in the existing company have to be filed in the court register (in the notarized form), it is recommended that potential investors consult a local lawyer who will check the legal status of assets and conduct all other necessary inquiries.

**Investing in Unprivatized Companies:** In the field of acquisitions and joint ventures there are certain special provisions concerning unprivatized domestic companies. In general, foreign investors are allowed to participate in the mass privatization process. Any share or asset deal that involves more than 10% of the book value of an unprivatized domestic company requires the approval of the Agency for Restructuring and Privatization, one of the two governmental institutions in charge of privatization and restructuring. Compared with other investments, however, unprivatized deals seem to be less attractive. Higher levels of foreign investment are expected during the process of post-privatization ownership restructuring.

**Tariffs for Traders:** Foreign companies whose investment is in the form of trade must consider applicable tariffs. The average rate of tariffs in Slovenia is 10.74%. The rate for raw materials is 0-5%, equipment is 8-10%, and goods for general consumption is 15-27%. The tariffs apply for all countries, with the exception of possible lower tariffs agreed upon in bilateral agreements.

**Free Custom Zones:** At present there are free custom zones in the Port of Koper, Dravograd, and Boraceva. under the Customs Act companies operating in free customs zones are not liable for payment of customs duties, and are not subject to other trade policy measures until goods are released into free circulation. Domestic export goods are considered to be exported the moment the enter the free customs zone. The zones may be used by their founders, other domestic and foreign legal persons, and entrepreneurs.

**Performing Services:** Foreign companies may perform various services in Slovenia if they fulfill the conditions prescribed for the performance of that specific service. If they do not have a head office or other registered activities in Slovenia, foreigners must report the commencement of their provision of services to a competent tax authority. For foreign legal entities the competent tax authority is the Agency of the Republic of Slovenia for Payments, Supervision and Informing. The government of Slovenia may prescribe additional conditions and criteria that must be followed by the foreigners performing certain services. To date, no such regulations have been enacted.

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Slovenia

# OPPORTUNITY SPOTLIGHT

*This month's Opportunity Spotlight features 6 Slovenian companies engaged in the production of vehicles, parts, components, and automobile paint. Opportunities exist in the form of joint venture, supply, purchase, and production agreements.*

**Renault** holds a 54% stake in **Revoz d.d**. According to a company spokesman, "Renault is looking for partners who can supply an entire range of products and who can develop new products." The Revoz factory currently purchases supplies from manufacturers in Slovenia, Croatia, and Western Europe. The company takes an active role in encouraging potential or existing suppliers to make connections with Renault's major suppliers. "We act as ambassadors," says the spokesman. "We know who the current Renault suppliers are and who the locals are with potential." Revoz is always looking for new potential suppliers. "If there is a new company starting cooperation with a local supplier, we might be interested [in doing business with them]," the spokesman says. The most important consideration for Renault is whether the new supplier has the capacity to satisfy Renault's requirements for quantity, quality, and delivery time.

Revoz currently purchases engines from France and Spain, and a large number of metal parts for the Clio are pressed in France. Mouldings and dashboard parts are sourced in Croatia, and simple plastic parts are purchased locally. Tires are purchased from **Sava** in Slovenia and from **Michelin** in France. Bulky parts such as seats are currently purchased from suppliers in Slovenia and Croatia. **Contact:** Communications Department, Revoz d.d., Dunajska 22, 61000 Ljubljana, Slovenia: tel: (386 61) 172-3122, fax: (386 61) 132-1267.

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**Avtomontaza-bus d.o.o.** manufacturers bus bodies and bus seats. AM is a wholly-owned subsidiary of **Avtomontaza Ljubljana**, a company 42% privately owned, 43% government owned, and 15% owned by employees. Over the last 10 years, AM has sold more than 5,000 buses on the domestic and international markets.

The company uses it own technology and its bus bodies are designed for use on a variety of chassis manufactured by such companies as **TAM**, **MAN**, **Scania**, and **Mercedes Benz**. The troubled Slovenian bus manufacturer TAM has been AM's main chassis supplier; 70% of the buses made by AM use TAM chassis. Through a California joint venture with TAM, Avtomontaza distributed buses in the U.S. The joint venture is currently inactive but may be later resurrected. AM's joint venture with Mercedes Benz was started in late 1995.

Avtomontaza's chief markets are Eastern Europe and the Near East, including the CIS, Saudi Arabia, and Egypt. According to Janko Koren, General Manager of AM, the Eastern European markets "look like the best markets for expansion." Then the markets in the former Yugoslavia reopen, Am hopes to resume exporting to the region. AM currently does overhaul work whereby new bodies are manufactured and fitted onto old chassis and then the completed bus is sent back to the former Yugoslavia.

Approximately, 4,500 parts are used in each bus body. Suppliers are imported primarily from Western European countries such as Germany, Italy, and Austria. AM is also a regular customer of American-based **Thermo King**. The parts purchased in the greatest quantity are steel shapes, zinc-plated sheets, and aluminum sheets. In value, the most important parts purchased are air conditioning and heating devices, batteries, tires, plastic materials, paints, and rust protection materials. From domestic suppliers AM purchases seat components, steal coil parts, aluminum parts, and fasteners. "International suppliers are very important," says Koren. "Some products are not available here."

Avtomontaza is interested in entering into technology sharing agreements with foreign companies. AM can also use its excess capacity to manufacture components and spare parts for other companies. "We are willing to make whole sets of parts, not just individual components," says Koren. For example, AM can manufacture bus door systems that include the complete opening and closing mechanisms. **Contact:** Janko Koren, Avtomontaza-bus, Celovska c. 180, 1000 Ljubljana, Slovenia; tel: (386 61) 559-485, fax: (386 61) 552-569.

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**Resistec** produces custom designed cement coated and unprotected wire would resistors used in automotive air conditioning systems. The company was started in 1992 with 20 employees and DEM 70,000 in sales. Today, it has 100 employees and sales in 1995 were DEM 6 million. The company is 90% owned by the German company **KRAH-RWI**, and 10% owned by director Janez Trkman.

Resistec is operating at full capacity with two shifts and produces 100,000 pieces per month. The company is looking to expand into another factory in Ljubljana. A special process is used for coating the resistors with cement, giving Resistec a key competitive advantage. There are no other producers of this highly labor intensive product in Slovenia.

Eighty-percent of Resistec's sales are to Germany, with the rest going to England, Italy, France, and Austria. Supplies such as ceramic, wires, and small metal parts are purchased from Germany and Italy. Resistec is researching the feasibility of expanding into the United States and setting up a factory with a U.S. partner. Resistec is also interested in making contacts with U.S. companies that produce air conditioners, and is looking for U.S. distributors who sell passive electronic components for non-automotive application. **Contact:** Janez Trkman, Resistec, Cesta dveh cesarjev 403, 61000 Ljubljana, Slovenia; tel: (386 61) 123-2271, fax: (386 61) 123-2562.

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**Helios** manufactures pain and synthetic resins for the auto industry. Production includes cataphoretic primers, enamels, undercoats, lacquers, auto repair finishes, and PVC coatings. The company has 900 employees and 1995 annual income of approximately USD 100 million Helios is ISO 9001 certified and is an approved supplier to **Renault** in Slovenia. Helios's auto paint division is currently operating at 70%-80% of capacity.

In 1995, Helios exported from its Domzale plant 12,000 tons of resins and 12,000 tons of paint. Over 50% of the entire company's production was exported las year, up from 33% in 1994. Helios exports to 33 countries, including Russia, Croatia, Italy, Hungary, Arab Emirates, and Turkmania. Some 3,000 to 4,000 tons of auto paints are currently exported to Russia. The company is looking to expand into the automotive markets of the Czech Republic, Poland, Romania, Bulgaria, and Serbia. Before the war broke out in ex-Yugoslavia, Helios had a 30% market share in Serbia and exported 1,000 tons of auto paints to that market.

Helios imports 95% of their raw materials. Janez Malinger of Helios sees opportunities for suppliers outside of Western Europe in the area of low volume, high value items such as pigments, special resins, and additives.

Helios is interested in cooperating with foreign partners. In the area of auto repair finishes, Helios can act as an intermediary for Western companies who are interested in entering the markets of Croatia, Bulgaria, and Romania. The company is currently negotiating two such ventures. Helios has also been trying to break into the Chinese market and seeks cooperation with any company that can assist them in penetrating that market. Helios is also interested in raising new capital for its operations, and is considering selling some of its accounts receivables. **Contact:** Janez Malinger, Helios, Kolicevo 2, 61230 Domzale, Slovenia, P.O. Box 127; tel: (386 61) 713-007, fax: (386 61) 721-234.

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**Iskra Avtoelektrika Nova Gorica d.d.** manufactures auto electrical products such as starter, alternators, D.C. motors, pulse controllers, ignition coils, voltage regulators, ignition modules, and a recently developed electronic steering system. The company also produces die castings, tools for cold forming of steel, pressure die castings, and punching tools. Depending on capacity, market production of metal and plastic parts is offered. Cold forged parts, for example, are currently supplied to a Czech company. Turnover in 1995 was DEM 98 million and is expected to be DEM 110 million in 1996. The company is undergoing privatization and expects the process to be complete by the Fall of 1996.

Ninety-six percent of Iskra's turnover is exported. Germany is Iskra's largest export market, followed by France, Italy, Russia, U.K., and the U.S. Distribution networks have been established in France, Germany, Italy, Sweden, Iran, and the U.S. The company's products are sold primarily for the aftermarket, but according to the Director General Ales Nemec, "our target is to enter the OEM market." In the Fall of 1996, the company hopes to begin supplying **John Deere** with starter motors. Nemec says Iskra faces difficult competition in Central Europe from low-priced local suppliers.

Iskra purchases some DEM 50 million worth of supplies, one half of which are imported. Supplies such as steel, carbon brushes, copper wire, transistors, and diodes are purchased from companies in Italy, Germany, France, Slovakia, and Poland. Ball bearings are purchased from Korea, and commutators are purchased locally from a U.S./Slovene joint venture.

When Iskra is completely privatized, it will be ready to discuss with foreign companies possible forms of cooperation. According to Nemec, the company is interested in raising additional capital or entering into a joint venture agreement for part of their product range. Using Iskra's excess capacity for the production of automotive electrical products is also possible. **Contact:** Ales Nemec, Iskra Avtoelektrika Nova Gorica d.d., Vrtojbenska 62, Slovenia; tel: (386 65) 313-88, fax: (386 65) 323-71.

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**Donit Filter** manufacturers air, fuel, and oil filters for most all car makes, with special emphasis on German, French, and Italian cars. The company uses its own technology and is ISO 9001 certified. Filter production accounts for approximately DEM 23 million of the **Donit Holding Company's** DEM 80 million total turnover.

Ninety percent of Donit's filter production is exported to Western Europe, and it is a supplier to **BMW**, **Skoda**, **Audi**, and **Renault**. The company also sells product in the lucrative European after market, mainly in Germany, France, Czech Republic, Netherlands, Turkey, Croatia, and Macedonia. Donit plans to expand in Hungary, Ukraine, Slovakia, and Russia. According to Director Boris Grobelnik, these markets are difficult to sell in since buying power is low and many customers prefer cheaper, low quality products. Grobelnik says Donit has been growing at a rate of about 7% for the last five years and sees that rate continuing for the next five years. He says Donit's quality and prices give it an advantage over Western Europe producers in Germany and Italy.

Donit purchases a total of DEM 8 million in supplies per year. High quality filter paper and thin steel is purchased from Western European suppliers. Paper is purchased in Germany and Italy, and the best quality steel comes from Belgium. Other raw materials, such as packaging, are purchased in Slovenia and Croatia. Local suppliers either don't produce what Donit needs, or don't meet Donit's quality standards. Grobelnik thinks that investment in the filter paper sector in Slovenia is unlikely since local companies don't have the necessary technology, Donit is the only filter producer in Slovenia, and the market is already tight with three primary paper producers in Europe.

Donit is considering a possible joint venture with a European or U.S. partner. According to Grobelnik, the industry is becoming more globalized and companies must be big to compete. If a company doesn't expand, "in the next five to ten years there is no chance to survive," Grobelnik says. Grobelnik says Donit favors finding a U.S. partner since U.S. companies have attractive cost reduction policies, whereas European companies have high and rising social costs. **Contact:** Boris Grobelnik, Donit Filter, C. Kom. Staneta 38, 61215 Medvode, Slovenia; tel: (386 61) 611-437. ■

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

**Feature Country** *Continued From Page 3*

compulsory social insurance. Despite the reduction, Slovenia's labor costs are sill high relative to other Central European countries. Long-term nominal interest rates are forecast to be 18% in 1996, down from 255 in 1995. Although gradually decreasing, long-term rates are still too high for local enterprises and hinder further expansion of the economy.

**Foreign Direct Investment:** Foreign direct investment in Slovenia in 1995 was USD 1.4 billion. Foreign investment per capita has increased from USD 185 in 1993 to USD 250-300 in 1995. The manufacturing sector is one of the chief recipients of FDI, especially the automotive, electrical equipment, and appliances industries. The largest investments in the automobile industry are **Renault's** USD 54 million investment in **Revoz**, **Semperit's** USD 40.3 million investment in tire producer **Sava Kranj**, and **Citroen** and **Peugeot's** USD 27.5 million investment in component manufacturer **Cimos International**.

Although the amount of FDI in Slovenia has increased over the last few years, more FDI is needed to fully develop the SLovenian economy. "Slovenian companies need market and technological know-how," says one government insider. "It's easy for a foreign investor to start an investment immediately since Slovenia has the people, buildings, equipment, and a long industrial tradition."

Most FDI is by German, Austrian, French, Italian, and Croatian companies. Many potential foreign investors are put off by Slovenia's high labor costs and the legal requirement that only Slovenian citizens can be company managers. Furthermore, many potential investors don't even know that Slovenia exists, or fear that it is a high risk country.

**Gateway to former Yugoslavia?** It is still to early to tell whether Slovenia will be used by foreign investors as a launch pad for investments in the republics of the former Yugoslavia. Indeed, Slovenia offers a stable business environment and Slovenian companies still have contacts with companies to the South. Many foreign investors, however, may prefer to locate their operations on the spot instead of on the periphery. As the business conditions in the former Yugoslavia stabilize and the safety factor increases, many companies are likely to bypass Slovenia and establish a direct presence in the war-torn region.

**Ford** has indicated that it will not use Slovenia as a base for reaching the former Yugoslav republics, but will eventually open branch offices in the republics. Ford currently operates in Slovenia through **Summit Motors**, the exclusive importer and distributor of Ford vehicles in Slovenia. One reason companies won't use Slovenia as a base of operations for former Yugoslavia is nationalistic tension between Slovenia and the other republics.

**Revoz** experienced this first-hand when Serbians irrationally demanded that any **Renault** cars supplied to the Federal Republic of Yugoslavia come from France, not from the Revoz factory in Slovenia. Serbian companies fear that Revoz is going to charge exorbitant commissions for vehicles and spare parts. The claims are denied by Revoz. Until it establishes a branch office in the Federal Republic of Yugoslavia, vehicle and part stocks will be maintained at the Slovenian factory to support sales and after sales service in the region.

**Trade:** Strong trade continues to fuel much of Slovenia's growth, with most trade occurring with EU and CEFTA countries. Car manufacturer **Revoz** was Slovenia's largest exporter in 1995, with exports valued at SIT 84.4 million. Exports are expected to grow by 7% in real terms in 1996. Exports may receive a boost from the rehabilitation of the economies of the former Yugoslav republics. According to a study prepared by the Economic Institute of the Faculty of Law, Ljubljana, Slovenian exports for former Yugoslavia in 1996 should increase by USD 600 million. Merchandise trade with these republics accounted for 10% of Slovenia's total trade in 1995, and is expected to rise to 18% by the year 2000.

According to the **Institute of Macroeconomic Analysis and Development** in Ljubljana, Slovenia's trading relationship with the countries with which it shares a common border is likely to increase in the future due to: 1) An Association Agreement with the EU for trade with Italy and Austria, and CEFTA membership for trade with Hungary; 2) prospects of faster imports growth in Italy and Austria than in other EU countries; 3) the end of the war in Croatia and the onset of reconstruction; and 4) the focus by small and medium-sized Slovenian enterprises on the nearby and well-known markets.

**Free and Customs Zones:** Free zones exist in Nova Gorica, Koper, and Sezana. In such zones, the following activities are permitted:

## Slovenia in 1996-97

**1996**

| | |
|---|---|
| Sept. 10-13 | **Kranj** Professional Specialized Exhib. of Slovenian Products & Technology with a potential for export |
| Oct. 7-11 | **Ljubljana** Int'l Exhib. of Modern Electronics |
| Oct. 31 | Holiday |
| Nov. 1 | Holiday |
| Nov. 26-30 | **Ljubljana** Information & Science & Technology in Slovenia |

**1997**

| | |
|---|---|
| Jan. 1-2 | Holiday |
| Feb. 8 | Holiday |
| April | **Celje** Car & Maintenance Fair |
| April | **Ljubljana** Fair of Farm Vehicles & Supplementary Equipment |
| April 27 | Holiday |
| May 1-2 | Holiday |
| June 25 | Holiday |
| August 15 | Holiday |

*For additional information contact Marko Jare, Chamber of Economy of Slovenia, Slovenska cesta 41, SI-1504 Ljubljana, Slovenia; tel: (386 61) 1250-122, fax: (386 61) 281-242.*

production of goods or provision of services for export, foreign commercial transactions, banking and other financial services, an insurance and reinsurance of persons and property. If 70% of the goods or services produced within the zone are exported, the following benefits are granted to the producer or provider:
—free import and export of goods and services:
—exemption from payment of customs duties on imports into the zone of equipment, spare parts, raw materials and intermediate goods, engine fuel, and consumer material used for export production and other purposes;
—exemption from payment of the 1% special tax for the equalization of the tax burden and the 1% customs administration tax on the above goods;
—exemption from payment of sales tax on equipment and intermediate goods imported into the free zone, provided they are for use in the production of goods for export;
—non-application of Slovenian standards to goods imported into the zone.

Customs zones are located in Ljubljana, Celje, and Maribor. Permitted activities in customs zones are the unloading, reloading, and warehousing of 1) imported goods which are not subject to import duties, 2) domestic goods intended for export (whether or not subject to duty), and 3) goods in transit. Customs zones may also be used for product sorting, measuring, marking, packaging, standardization, assembly, display, and for the production of samples.

**Helpful contacts:**
**Slovenian Automotive Component Manufacturers Association:** Professional association of over 30 Slovenian parts and component manufacturers. **Contact**: Andrej Lazar, President, Letaliska c 17, 61103 Ljubljana, P.O. Box 8, Slovenia; tel: (386 61) 1402-277; fax: (386 61) 444-866.

**Foreign Investors and Traders Association in Slovenia:** Group of companies with a majority of foreign citizens on their management board, and with 20% or more of foreign investment. Helps Slovene companies become more competitive, promotes trade, and influences government policy. **Contact:** Giulio Bonazzi, President, Dunajska 5, 61000 Ljubljana, Slovenia; tel: (386 61) 319-380, fax: (386 61) 1322-115.

**Slovenian Leasing Association:** Dalibar Salobir, President, Trg Republike 3, 61000 Ljubljana, Slovenia; tel: (386 61) 1763-301, fax: (386 61) 1253-003.

**Chamber of Economy of Slovenia:**
Organization of all Slovenian firms that can provide information on economy, foreign trade, legislation, trade fairs, and conferences. Dedicated to helping small and medium-sized Slovenian companies find foreign partners. **Contact:** Marko Jare, Senior Area Manager, Slovenska cesta 41, SI-1504 Ljubljana, Slovenia; tel: (386 61) 1250-122, fax: (386 61) 218-242.

**Slovenian Consulate in the United States:**
Fosters business, scientific, educational, and cultural ties between the U.S. and Slovenia. Supports and assists Slovene emigrants. **Contact:** Dr. Karl Bonutti, Honorary Consul, 1111 Chester Avenue, Suite 520, Cleveland, OH 44114; tel. (1) 216-589-9220, fax: (1) 216-589-9210.

**Tips from the Insiders:**

✓ Suppliers should start with OEMs. They are the ticket to the lucrative after-market

✓ Although beset by problems, don't overlook the opportunities presented by TAM. Many options for cooperation exist.

✓ To be successful in former Yugoslavia, must compete with low quality, low price producers like Turkey.

✓ Most effective way to break into new markets in region is low prices and large quantities to quickly establish market share.

✓ "Honesty is the key to success in this market. A dishonest presentation will be quickly uncovered."

✓ Extensive product support is essential for success. A manufacturer must give many options to a potential buyer.

*Some information provided by: Arah Consulting, Chamber of Economy of Slovenia, Statistical Office of the Republic of Slovenia: Development Fund of The Republic of Slovenia: Slovenian Automotive Component Manufacturers Association: Institute of Macroeconomic Analysis & Development, Bank of Slovenia*

Slovenia

# ACCOUNTING & FINANCE

## TAXES AND CUSTOMS REVIEW; NEW VAT, EXCISE TAX, & INCENTIVES PLANNED

*Andrej Sircelj*

**In the next two years Slovenia plans to introduce a value added tax and an excise tax on petroleum products, tobacco products, and alcoholic beverages.** A VAT of 20% is planned to be introduced in January of 1998. Under the new VAT scheme, motor cars over 1.8 liter (or 1.9 liter diesel) will be taxed at a rate of 20%, instead of the current 32% transaction tax on such cars.

**In May 1996, the Slovenian government proposed to the National Assembly a plan for additional tax incentives**. If the plan is adopted, 40% of the amount invested in tangible fixed assets and intangible long-term assets can be deducted from the tax base. This tax incentive is currently 20%. The Corporate Income Tax Law also allows the following deductions aimed at encouraging employment:

-30% of the yearly gross wages of a trainee or a previously unemployed person;

-50% of the gross wages paid to disabled employees for the duration of their employment in the entity; and

-70% of the gross wages for 100% disabled employees during their employment in the entity.

**Slovenia's rate of corporate income tax is 25%.** A withholding tax of 25% is levies on dividends paid to residents and 15% is withheld on dividends paid to non-residents. Depreciation is charged at rates ranging from 5% for structures, 14.3% for roads and utility projects, 20% for good will, 33.3% for equipment, vehicles, machinery, and transport equipment, and 50% for computers, computer equipment, and foundations stocks. Depreciation allowances on tangible fixed assets and intangible long-term assets are recognized as allowable deductions for corporate profits tax purposes and may not exceed the level arrived at using straight-line depreciation and set annual depreciation rates.

**Up to 10% of profit can be allocated to an investment reserve and deducted for tax purposes.** The investment reserve creates a fund for future investments in the same entity or in other entities in Slovenia. The allowance for the investment reserve is given for a period of four years, after which unused funds must be taken into account as taxable income.

**Losses are computed in the same way as profits, and any loses realized must be declared in the tax return.** Business losses may be carried forward for five years. A carry-back of losses is generally not permitted under Slovenian law.

**Individuals are taxed under the Law on Personal Income Tax at progressive rates on their income earned in Slovenia in one calendar year.** Taxable income includes income from employment, income from agriculture, profits form business or professional activity, capital gains, and income from property and royalties. In principle, all fringe benefits mentioned in the law are taxable, including cars provided by an employer for the personal use of employees. The value of this benefit is 0.5% of the book value of the car after depreciation(i.e. 15% annually).

**Goods imported into Slovenia are subject to customs duty and retail sales tax.** There is no special excise tax on cars. The basis of calculation of customs duty is the customs value of th goods. Customs duties on vehicles are as follows:

❒ passenger cars 27%
❒ jeeps 22%
❒ trucks 20%-25%
❒ buses 22%-25%

Car parts are mostly subject to 0% customs duty. Vehicles may be imported on a temporary basis by a company registered to rent vehicles.

**Slovenia's sales tax is a single-stage tax which is applied at the point of retail sale.** The sales tax is paid on domestic goods and services and on imports, including temporary imports as long as the imports are intended for final consumption. Generally, the taxable base is the price of goods, including any excise tax, customs duties, and other tax or fee payable on the goods. *There is an exemption for new imported cars.* The basis of calculation of retail sales tax for the new imported cars is the customs value of goods without customs duty.

The general sales tax rate on goods is 20%. Cars with capacities less than 1.8 liters (1. 9 liter diesel) are taxed at a rate of 20% . The rate is 32% for cars with capacities greater than 1.8 liters of 1.9 liters for diesel. A 5% rate applies to equipment, including trucks and buses, second hand cars, and new care for disabled persons. Used cars imported into Slovenia are taxed at the rated of 20% or 32% depending on engine capacity.

**Currently, six free trade and customs zones exist in Slovenia: Koper, Sezana, Ljubljana, Maribor, Celje, and Nova Gorica.** Automotive investors can use free trade zones for the manufacture of goods and performance of services earmarked for export. Customs zones are suitable for storage and transshipment activities. The users of free trade zones are exempt from taxes on services performed in the zones. The import of equipment and raw materials into a free trade zone for the purpose of producing good for export is not subject to sales tax.

*Andrej Sircelj is Director of the Tax Department of Deloitte & Touche's Slovenia office, which provides audit services, management consulting, tax advisory services, and accounting services. Deloitte & Touche, Dunajska 22, 1000 Ljubljana, Slovenia; tel: (386 61) 131-8111, fax: (386 61) 131-6323.* ■



 

# SLOVENIAN SUPPLIERS OF PARTS & COMPONENTS

*The Slovenian suppliers of automotive parts and components listed below are potential suppliers, material buyers, or joint venture candidates.*

| Company | Product | Contact | Phone/Fax |
|---|---|---|---|
| 1. Agis Zavore | brake parts, wheel cylinders | Emerik Weigl | tel: (386 62) 771-365<br>fax: (386 62) 778-221 |
| 2. Amortizer | shock absorbers | Drago Turnesk | tel: (386 61) 647-782<br>fax: (386 61) 647-782 |
| 3. Eled | car fuses | Viktor Drame | tel: (386 62) 825-059<br>fax: (386 62) 825-807 |
| 4. Elba Avto Trzin | distributor caps, rotors, switches | Alojzij Zupancic | tel: (386 61) 712-087<br>fax: (386 61) 712-093 |
| 5. Emteks d.o.o. | plastic components | Ivan Podpecan | tel: (386 63) 715-163<br>fax: (386 63) 714-113 |
| 6. Iskra AET | fly wheel magnetos, parts for cold starting units for Diesel engines | Albin Oblescak | tel: (386 65) 816-11<br>fax: (386 65) 816-13 |
| 7. Klemos | electrical connection parts | Milan Oberlajt | tel: (386 62)723-044<br>fax: (386 62) 723-043 |
| 8. Konus Koterm | plastic components | Avgust Gorinsek | tel: (386 63) 754-212<br>fax: (386 63) 754-331 |
| 9. Saturnus-Avtooprema | electrical lighting and signaling equipment | Danijel Gamberger | tel: (386 61) 140-2277<br>fax: (386 61) 444-866 |
| 10. Saturnus Orodjarna | plate-forming tools, injection moulds | Bozider Zajc | tel: (386 61) 140-2055<br>fax: (386 61) 442-081 |
| 11. Sava | tires, rubber products | Mrs. Laurechic | tel: (386 64) 222-241<br>fax: (386 64) 311-168 |
| 12. Sinter | brake parts | Joze Krapez | tel: (386 61) 268-268<br>fax: (386 61) 268-262 |
| 13. Tab | lead acid starters, traction & stationary batteries | Mirko Auprih | tel: (386 602) 371-01<br>fax: (386 602) 371-03 |
| 14. TUS-Prevent | seat covers | Joze Kozmus | tel: (386 602) 414-21<br>fax: (386 602) 410-51 |
| 15. Unior-Atras | homocinetic joints drive shafts | Franc Oresnik | tel: (386 63) 762-122<br>fax: (386 63) 760-042 |
| 16. Oz Unitehna z.o.o. | fuel & diesel pumps, exhaust pipes & mufflers | Karel Rebernik | tel: (386 68) 442-18<br>fax: (386 68) 449-47 |
| 17. Unitech Lth-Ol | aluminum die castings & tools | Mirjam Jan-Blazic | tel: (386 64) 624-197<br>fax: (386 64) 624-17 |
| 18. Vesna | batteries | Milan Naterer | tel: (386 62) 221-316<br>fax: (386 62) 222-826 |
| 19. Webasto | heaters & air conditioners | Zdravko Steger | tel: (386 61) 553-161<br>fax: (386 61) 554-072 |
| 20. Tom Plastika | vehicle plastic parts | Anton Gustin | tel: (386 68) 471-42<br>fax: (386 68) 470-16 |
| 21. Avtogalant | exhaust pipes | Joze Novak | tel: (386 68) 322-278<br>fax: (386 68) 323-585 |
| 22. Cerjak | cardan shafts | Cerjak Matjaz | tel: (386 608) 616-62<br>fax: (386 608) 616-64 |
| 23. IMP Livar | iron casts | Derganc Izidor | tel: (386 61) 778-122<br>fax: (386 61) 777-381 |
| 24. KTM Ljubljana | rubber technical parts | Kersic Belizar | tel: (386 61) 1404-040<br>fax: (386 61) 443-995 |
| 25. Metalflexs | microswitches & switches | Fon Igor | tel: (386 65) 809-021<br>fax: n/a |

**Profile** *Continued From Page 1*

of the disintegration of Yugoslavia in 1991, Renault stuck with its plan for Revoz. Today I am convinced that this decision was the right one. The level of education of Revoz employees is very good when compared to any other Central and East European country. And although salaries in Slovenia are relatively high, a large part of Slovenia's infrastructure is better than other countries in the region. If the ambitious plans to build motorways and modernize the rail and telecommunications systems are fulfilled, Slovenia is going to keep this advantage. With accelerated integration into European associations, Slovenia absolutely holds a top place among the countries in transition.

**CEAR: What plans for expansion do you have in Slovenia?**

**Coursat:** Our plans are not so much for expansion as for perpetual improvements and modernization of our production and commercial facilities. By September our production line will look even more like lines in other Renault factories, and we are increasing the output of our stamping shop. We also have some big projects for our commercial network with which we intend to maintain our position as the best and most innovative manufacturer in sales and after sales services. As our competition is not going to be another domestic manufacturer but importers who will have all their goals tied to their commercial network, we need to keep investing into the total quality of our facilities and services. This is the area where battles for car buyers in Slovenia will be won or lost.

**CEAR: What sales and supply opportunities do you see in the Balkan markets?**

**Coursat:** According to our initial experiences, selling cars will be rather difficult. One of the problems is that some of the markets are hard to access, and another problem is lack of money to purchase new cars. Therefore, we must approach these markets with a lot of patience, as in the beginning investment must be made into commercial facilities, into employee and partner education, and into the development of the whole commercial structure. At the same time, I know, we may have to search for new suppliers in these markets or reestablish relationships with our past suppliers. We are absolutely open for any cooperation, but the problem will be finding suppliers who have the necessary technological expertise and who offer competitive enough prices to be integrated into the Renault system.

**CEAR: What kind of growth do you foresee in the Slovenian automotive market over the next five years?**

**Coursat:** Judging by sales figures of the past few years, particularly last year and the first half of 1996, I would say that the Slovenian car market is considerably developed. However, I think that this picture is slightly distorted and that the new car sales will soon slow down a bit. The main reason for strong sales was an outdated stock of cars which has recently been rejuvenated and modernized. In the past few years Slovenians have, I think, taken advantage of the open market and the broad range of cars offered for sale, many of which are now increasingly supported by attractive credits. At the same time, they had few other options for investments or they knew to little about them. I think that in the future it will be harder to sell a new car as there will be more options competing for the same part of the family budget, such as savings, real estate, other capital investments, and holidays. We may also see a change in the ratio between small and medium-sized cars in favor of the latter. A typical Slovenia family car in the year 2000 will be a medium-sized Renault Megane rather than a Renault Clio.

**CEAR: What are the two biggest challenges or changes facing the automotive industry in Slovenia, such as heavy Korean investment in the Central European automotive industry?**

**Coursat:** The greatest challenge for the whole Slovenian economy is, without a doubt, restructuring. One of the key criteria for successful restructuring is speedy privatization of Slovenian companies. This, of course, applies to the Slovenian automotive industry. When companies are privatized and have known owners, they will obtain the flexibility that is necessary to engage in business and capital ventures which are essential for success in the coming years. Many of the successful old business links in Slovenia have already evolved into different capital ventures and foreign investments and Renault has, with its partners and its plant in Novo Mesto, played a major role in this process. In short, the biggest challenge is the necessary "Europeization" and then globalization of Slovenian automotive companies.

Regarding the heavy Korean investment in Central Europe, I believe we are witnessing a quieting of the initial euphoria. Taking over or buying an outdated plant and its production capacity may be interesting, but the purchaser must contend with several problems. Beyond the necessary modernization of the plant itself and, this is very important, its suppliers, good infrastructure is needed, an efficient logistics system must be built, investment must be made into the education of the employees, and so on. For all of this, you need time and money. The question is whether car sales in this transitional period can at least justify, if not pay for all of these efforts.

My personal belief is that Koreans are going to invest mostly into their commercial networks, into the quality and variety of their services, and into the competitive pricing which will be their tools in the fight for market share. I believe that the European companies will still have some advantage because of their reputation for traditionally good quality, state-of-the-art technology, and also because of some logistical and cultural advantages. But it is definitely going to be very interesting to see the outcome of the battle for these markets.

**CEAR: How will Revoz overcome the challenges it faces?**

**Coursat:** Revoz has been, as an integral part of the Renault Group, a leader among the Slovenian companies which are being successfully transformed into modern and internationally successful companies. We have taken up this challenge and in general we have also mastered it. Today, we have ambitious plans being carried out which show the efficient integration of Revoz into the industrial and commercial system of Renault Group. Of course, we are also trying to maximize our integration into me Slovenian economy, and I think we have done this quite successfully. Revoz is the country's biggest gross exporter and one of the most important net exporters, which means we contribute significantly to the Slovenian trade balance. Since our purchasing department works with many local suppliers and is on a constant search for new suppliers, I would say Revoz plays a major role in the development of the Slovenian economy. ■

*Special Report* Continued From Page 4

**Compensation and Benefits.**
Determining the proper salary to pay locals in Central Europe is a difficult task. Under-paying and over-paying both have their dangerous consequences. Professionally conducted wage surveys are useful in this area and are available at many human resource companies. Such surveys can help a company make informed decisions about its wage rates. Human resource companies can also analyze a company's total compensations and benefits package to determine if it is suitable for the local market conditions.

**Suggestions from the Human Resource Experts.**

1. Trust and respect the knowledge of local nationals.
2. Be prepared to train and inculcate employees into your style of business and manufacturing process. Make them a part of it and get them involved. Lots of talent is available.
3. To motivate Slovak employees, make them feel important and give them an opportunity to increase their knowledge and skills.
4. Be open to an employee's suggestion for doing things differently.
5. Reasons Central European employees leave: bad management and low salaries combined with a lack of challenge.
6. Expect Polish workers to be very independent and aggressive. Employer must create a career path for them.
7. Feedback is essential.
8. Expect high salaries in Poland, especially in Warsaw.
9. Slovenian employees are motivated by recognition and good wages.
10. Important considerations for Hungarian employees are a company's reputation, company culture, company facilities, career prospects, benefits, and level of challenge.

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