CENTRAL EUROPE AUTOMOTIVE REPORT

COVERING THE

CENTRAL EUROPEAN AUTOMOTIVE INDUSTRY

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TM

HUNGARY

Robust Competition; Supply Base Needs More Investment

Market Highlights:

In July of this year, **Daewoo Corporation** purchased 85% of the Hungarian ball bearing factory **MGM Radax Rt.** in Debrecen. The company's shares were purchased from the Hungarian privatization agency **APV Rt.** Last year, the factory had income of HUF 3.5 billion and profit of HUF 1.3 billion. Over the next five years, Daewoo plans to invest USD 30 million to modernize the factory. The factory will be used to supply Daewoo's Poland, Romanian, Chinese, Indian, and South Korean factories.

UBP-Csepel Iron Foundry Ltd. in Budapest is currently preparing for the installation of an automatic moulding line for various types of brake drums and disks casting. The company forecasts a 15,000 ton drums and disks capacity for the new line. Csepel was purchased in October 1995 by the U.S. company **Universal Brake Parts**. [*for more on UBP, see Opportunity Spotlight on page 8. ed.*]

ITT Automotive Hungary plans to increase the size of its Veszprem factory in 1997. The factory's 15,000 sq. meter production area will be increased by 5000 sq. meters. The expanded capacity will be used to manufacture electrical switches. By the end of this year, the factory will employ 1000 workers. ITT is also planning to move part of its Frankfurt research and development department to Hungary. The company is looking for possibilities to work with technical universities in Budapest and Miskolc. The plan is likely to be realized at the beginning of 1997. ITT is also working on development of an inexpensive ABS system for small cars. [*for more on ITT, see Opportunity Spotlight on page 8. ed.*]

UKM Rekard plans to invest DEM 5 million into its Gyor factory over the next four years. The company produces cardan shafts and gearboxes and is 100% owned by the German company **UKM Meissen**. [*for more on UKM, see Opportunity Spotlight on page 8. ed.*]

In May 1996, **Audi** announced that it will make an additional investment in international retooling and capacity expansion at its engine manufacturing plant in Gyor. Audi expects to have over DEM 1 billion invested in its Gyor facility by 1997.

Lamellen und Kupplungs GmbH (LUK), the world's largest clutch manufacturer, announced in June of this year that it will build a DEM 150 million greenfield clutch facility in Szombathely, in western Hungary.

Magyar Suzuki's Esztergom factory expects to record its first profit in 1996. The factory began production of the three-door Swift model in February 1996. [*for more on Suzuki, see this month's Profile on page 1. ed.*]

In June of this year, **RABA Rt.** sold two prototype compressed natural gas (CNG)

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Hungary

PROFILE

Suzuki: Profitable & Eyeing the Number One Slot

Car manufacturing began at Magyar Suzuki's Esztergom plant in October 1992. The production process includes press work, welding, painting, and final assembly. In 1995, 12,200 Hungarian built Suzuki cars were sold in the domestic market, giving Suzuki a 20% market share, second only to GM/Opel. Suzuki's experience in Hungary has been a struggle from the beginning. Early on, the young factory was exposed to unexpected open market competition, and a weak Hungarian economy has resulted in fewer domestic sales than planned for. Conditions, however, are improving. The company will record its first profit in 1996. The CEAR interviewed Dr. Frigyes Banki, a native Hungarian and Vice President at Magyar Suzuki.

Dr. Frigyes Banki

CEAR: What percentage of your parts and components are purchased from local manufacturers?

Banki: At the start of our production in Esztergom in 1992 the local contractors' contribution was only 9%. The 1996 contribution is 26%-30%. [Developing local suppliers] was the basic philosophy of this project. If you look at

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Feature Country *Continued From page 1*

engines. The low emission engines are being tested in buses in Hungary; as of late August they had already seen 4000 kilometers of use. Raba has also recently developed and is now producing drop center axles for buses and low noise axles. [*for more on RABA, see Opportunity Spotlight on page 8. ed.*]

Budapest-based **Perion Battery Factory Co. Ltd.** is currently involved in supply negotiations with "a few" car manufacturers that are planning to move operations to Eastern Europe, said Dr. Janos Agh, Perion's Sales Manager. [*for more on Perion, see Opportunity Spotlight on page 8. ed.*]

On September 27, 1996, **G.M.** plans to open a cylinder plant in Szentgotthard.

Hungary's **8% import surcharge** is scheduled for elimination on July 1, 1997.

Major Foreign Investors in the Hungarian Automotive Industry

Company	Investment	Local Company/Location
Alcoa	USD 146 million (aluminum casting, rolling)	Alcoa Kofem Kft Szekesfehervar
Audi AG	USD 600 million (engines)	Audi Hungaria Motor Kft Gyor
Daewoo	USD 30 million (ball bearings)	MGM Radax Rt Debrecen
Ford Motor	USD 170 million (components)	Ford Hungary Manuf. & Sales Ltd. Szekesfehervar
General Motors	USD 287 million (engine & car assembly)	Opel Hungary Manuf. Ltd. Szentgotthard
ITT Automotive	USD 40 million (components)	ITT Automotive Magyarorszagi Kft Veszprem
Suzuki Motor	USD 280 million (car manufacture)	Magyar Suzuki Corp. Esztergom
United Technologies (wire harnesses)	n.a. Automotive Hungary	United Technologies Godollo
VAW	DEM 80 million (engine components)	VAW Gyor

Source: ITDH

Opel Hungary's Numbers

	1992	1993	1994	1995
Car production (units)	9,300	13,344	12,282	12,844
Car exports (units)	2,735	3,204	1,101	3,936
Engines (units)	22,000	75,000	160,000	265,000
Revenues (mil. Ft)	9,074	20,345	43,093	n.a.
Exports (mil. Ft)	1,691	8,402	29,151	n.a.
Employment	514	482	569	670
Profits before taxation (mil. Ft)	-1343	736	6095	n.a.

Source: Opel Hungary, ITDH

A revised **Unfair Market Practices Act** will come into force on January 1, 1997. [*for an analysis of the revised Act, see this month's Legal Advisor on page 5. ed.*]

Hungarian Automotive Market Figures: Hungary's automotive industry (including parts and components) saw sales in 1994 of HUF 124,116 million, compared to HUF 62,638 million in 1992 (USD 1 = HUF 154). Approximately one-half of the 1994 sales were exports.

Hungarian sales of automotive parts and components in 1994 were HUF 43,695 million, up from HUF 26,443 million in 1992. Approximately 50% of these parts and components were destined for export. Electrical automotive components accounted for HUF 7,847 million of 1994 sales, up significantly from HUF 2,454 in 1992. Over 80% of those components were exported. [*for more market figures, see graphs on pages 3 and 10. ed.*]

Investment: Audi, **General Motors**, **Suzuki**, and **Ford** are four of the largest foreign investors in Hungary (see chart on page 2). By the end of 1995, Hungary had attracted over USD 12.5 billion in foreign direct investment. Per capita, this represents USD 1,233, compared with USD 177 for Poland, and the Czech Republic's USD 573. Approximately 20% of the FDI in Hungary is greenfield investments. "We are very satisfied that we invested here," said Eva Lendel of ITT Automotive Hungary, referring to the company's DEM 40 million investment in its Veszprem factory.

Car Parts Exports & Imports (million forints)

Year	Exports	Imports
====	====	====
1991	625.3	1885.7
1992	1754.1	2886.2
1993	1762.2	8506.4
1994	3211.9	11453.5
1995	6089.0	8267.5
Indices (previous year = 100)		
1992	280.5	153.1
1993	100.5	294.7
1994	182.3	134.6
1995	189.6	72.2

Source: Ministry of Industry & Trade

About 50% of the FDI is located around Budapest, and over a quarter is in northwestern Hungary. Well developed infrastructure, such as highways and telecommunications, and excellent access to Western Europe attracts many companies to the northwestern region. **Audi's** engine manufacturing plant is located in Gyor, a city approximately 100 km from Vienna. **G.M.'s** engine and car assembly plant is in Szengotthard on the Hungarian/Austrian border.

Although eastern Hungary's infrastructure is inadequate, the region should not be overlooked by potential investors. There is good supply of talented workers in the area, and many cities are anxious to attract new business. According to one component manufacturer, the region will become an important market in 2-3 years.

A recent report issued by the **World Bank** states that Hungary leads the Central/East European region in the development of a market economy. The report notes that private property is predominant in the economy. The Hungarian government has indicated that the privatization process will be completed in 1997. Privatization of the energy industry is currently underway.

Economy & Trade: Hungary's real GDP growth for 1996 is expected to be around 1-1.5%, compared with a 1.5% growth rate in 1995. GDP per capita in 1995 was USD 4,278. The most recent estimate for inflation in 1996 is 24%, down from 28% in 1995. In December 1995, the average business short-term lending rate was 32.2%, and the average long-term rate was 31.5%.

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REGIONAL SPECIAL REPORT

FREIGHT AND SHIPPING IN CENTRAL EUROPE

Goods are moved to and from Central Europe by truck over the slowly improving highway system, by train over busy routes, by ship to several of the main sea ports such as Gdynia in Poland and Koper in Slovenia, by barge on the Danube River, and by aircraft. In Poland in 1994, for example, 78% of the goods moved in that country were by truck, 16% by rail, 2.6% by pipeline, 1.7% by maritime navigation, and .6% by inland navigation.

The number and quality of services available to companies who need to move their goods in Central Europe is improving. Both local and international freight forwarders can be found in most all of the major cities. The freight forwarder can perform logistical duties, handle customs paperwork, arrange for warehousing, pack and unpack goods, and distribute goods for his client.

As the freight forwarding industry is a service industry, finding a good forwarder will involve some trial and error. Inquiries should be made into the forwarder's range of services, whether they specialize in certain goods, and how long they've been in the region. "A qualified freight forwarder must have a reputation in a specific market and he must be the right size for his client," said Willie Scholz, Vice President of Cargoline (US), a freight forwarding company headquartered in Vienna. "To find a qualified forwarder a company must test them and see how they react in specific situations."

A good forwarder will offer a range of services for its client. "Find a reliable partner with possibilities to guarantee undistributed flow of goods," said Slawomir Blotny, the Sales and Forwarding Manager for **Raben Logistics** in Warsaw. Such a partner should provide customs services, warehousing, a distribution network, and have experience, he said.

Many problems can be avoided, such as missing documents, by choosing a forwarder who specializes in your type of product and who has experience in the region. "Contact a freight forwarder who is known in the region or country," said Hans de Regt, Deputy General Manager of the Budapest office of **Transforwarding**. An experienced forwarder is needed to keep up with the constantly changing regulations and customs in the emerging market economies.

Good communication with the forwarder can also help avoid costly delays and mistakes. A company must tell its forwarder about its product, what the company wants the forwarder to do, and what day loading and unloading is expected to take place. "Good information flow from the customer is essential," said Peter Mrazek of **Cargo Transport** in Slovakia.

Some problems are, for now, impossible to avoid in Central Europe. Although improving, infrastructure weaknesses impede the smooth flow of goods. "Freight forwarding requires speed," said Cargo Transport's Mrazek. Unfortunately, Central European forwarders must rely on slow moving state agencies such as railways and customs agencies. Border delays are infamous in the region. Conditions, however, are getting better. "The infrastructure is different [from the West], but is constantly improving," said de Regt.

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The auto and component manufacturers in Central Europe use a variety of transportation modes to get supplies and to distribute their products. **Volkswagen Bratislava** uses trucks, trains, and barges as a part of its Slovak operations. "Since last year we have set up a daily train from the Volkswagen Wolfsburg [Germany] plant for the supply of parts," said Karl Wilhelm, Technical Managing Director. "And in addition to this we have 2-4 lorries coming to us daily from other suppliers." Volkswagen just recently started shipping cars from Bratislava to Germany by boat on the Danube River. Twenty-percent of the factory's production is now shipped by boat. "It's interesting, I thought there would be more problems but it works out well," said Wilhelm.

Daewoo has been one of the most active users of the Polish port of Gdynia. Located on the port's premises is the **Baltic Auto Center** which is a pre-delivery and inspection area for imported cars. The center has a car parking area that can handle 6,000 cars and facilities are available for dewaxing cars and installing car alarms and radios. In 1995, 5000 U.S. cars were imported into Poland through Gdynia. Cars from the EU are often shipped into Central Europe via rail instead of through ports such as Gdynia.

Daewoo's Romanian factory, **Rodae Automobile S.A.**, receives disassembled car kits from Korean via the Romanian port of Constanta. A typical shipment involves 30 containers which are then shipped via rail to the Rodae factory in Craiova. Two to three rail shipments per day run between Constanta and Craiova. Until recently, materials were transported from Europe to Romania via truck, but Rodae has started to use rail shipments as well, especially from Germany. Trucks are used for shipments between Turkey and Romania.

Rolem S.R.L., a manufacturer of high quality wood parts for **Mercedes** passenger cars, transports finished pieces to Germany from its Romanian factory via four truck shipments each week. Rolem has found that the truck transport is more reliable and flexible than rail. The 1800 kilometer journey to Germany takes three days and Rolem has had no difficulty meeting just-in-time deadlines.

Hungarian cardan shaft and gearbox maker **UKM Rekard Rt.** also favors the use of truck transportation. The company has had no problems transporting its goods to Western European markets, especially now that a major autobahn runs from Budapest to Vienna. [*for more on UKM, see this month's Opportunity Spotlight on page 8. ed.*]

Air transport is preferred by **Danube Mold & Die** located in Bratislava. The company ships plastic injection and insert molds from Slovakia to the United States.

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Hungary

LEGAL ADVISOR

HUNGARY'S REVISED UNFAIR MARKET PRACTICES ACT

More than five years have passed since Hungary's Prohibition of Unfair Market Practices Act came into force. During these transitional years the rapidly changing economic arena was by no means devoid of unfair business practices. In the interest of preserving the already existing basis of a fair market economy and to harmonize Hungarian competition and antitrust regulations with rules of the European Union, the Hungarian legislature approved the revision of the Act and the drafting of a new competition law.

Tamas Kovacs

Act LVII of 1996 on the Prohibition of Unfair Market Practices and the Prohibition of Restriction of Competition (the "New Act") will become effective on January 1, 1997. The New Act includes not only traditional competition rules, but contains provisions which further protect consumers and prevent the formation of cartels for the exclusion of competition.

The classic rules of competition are in the chapter dedicated to the prohibition of unfair market competition. The main provision comprises the general prohibition of engaging in unfair economic activities — specifically, in a way that fails to meet the requirements of fair business practices and interferes with or jeopardizes the legitimate interest of competitors and consumers. This chapter also contains rules that prohibit damaging and jeopardizing the reputation and credibility of another market participant by making or spreading false allegations, or by falsifying a genuine fact or by displaying any other conduct with the same effect.

Confidential and business relationships of any kind are protected, among other things, against disclosure to others or to the public without proper authorization. Accordingly, business secrets must not be obtained or used in an unfair manner. Another form of business relationship protection is the prohibition of launching an unfair appeal to other market participants expressly aimed at disrupting an existing economic relationship with a third party, or preventing the establishment of such a relationship.

The New Act's most important rule in the chapter on prohibition of unfair influence on consumers' free choice and of the deceit of consumers defines deceit of consumers as conduct where the essential features of a product (application, use, composition and effect) are presented in a way that is suitable for the deception of consumers. Consumers are also deceived if they are not properly informed that the goods fail to meet legal specifications and requirements that are generally established for the use of such products. Lastly, it is prohibited to use business practices which restrict consumers' freedom of choice in an unjustified manner.

The third chapter's objective is to prevent business partners from entering into agreements that restrict economic competition, also called antitrust regulations. The New Act forbids the display of coordinated conduct or the entering into a controlling agreement between market participants which may result in the restriction or the exclusion of economic competition. *An added feature of the New Act is that such conduct is prohibited irrespective of whether the agreement was concluded in the Republic of Hungary or outside the country, provided that the effect of the conduct results in the restriction of economic competition in Hungary.* The list of forbidden conduct includes the direct or indirect determination of prices or other business conditions, the control of manufacturing, distributing, and investing, dividing markets or sources, and the prevention of market action. According to Section 12 of the New Act, such an agreement is not violating the Act if it is of minor importance or the parties to the agreement are not independent enterprises.

The fourth set of rules addresses the abuse of economic superiority. According to the New Act, abuse is present in contractual relationships if the economically superior party 1) stipulates unjustified, one-sided advantages; 2) forces or influences the other party to accept disadvantageous, discriminatory or unaccustomed conditions; or 3) restricts, detrimentally to customers, production, distribution or technological development. The economically superior party is also prohibited from refusing to conclude a contract without justification, or hampering market access by offering extremely low prices without a higher level of efficiency. Other prohibitions include a ban on creating disadvantageous market conditions to the competitor without justified cause, and a prohibition of influencing its economic decisions in order to gain unjustified advantages.

A market participant is in an economically superior position if its goods 1) cannot be procured from elsewhere, or can be procured under considerably more unfavorable conditions; or 2) are procured by one who orders goods which cannot be sold elsewhere, or can be sold under considerably more unfavorable conditions than usual for the given trade and the goods in question. A market participant can also achieve the status of economic superiority if it can pursue its economic activities independently from other market participants and their market related actions.

The fifth chapter deals with the supervision of the organizational union of enterprises. An organizational union of enterprises is required to apply for and obtain permission for the union from the Economic Competition Office ("ECO") if (a) the joint net sales revenue of the participants in Hungary in the previous business year exceeded HUF 10 billion (approx. USD 65.35 million), and (b) at least two of the participants individually had net sales revenue of HUF 500 million (approx. USD 3.26 million). The ECO may not refuse to issue such permission if the organizational union does not create or enforce economic superiority, and does not hinder the formation, maintenance, or development of economic competition.

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CENTRAL EUROPE AUTOMOTIVE REPORT

To Our Readers:

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Publisher

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Editor-in-Chief

As is evident from the chart on page 2 of this month's issue, the automotive industry in Hungary is attracting high levels of foreign investment. Many of the world's biggest vehicle and parts manufacturers have set up operations in Hungary, taking advantage of Hungary's strategic location, low cost and skilled labor force, and friendliness to foreign investors.

Most of the automotive activity is centered around Budapest and in western Hungary. Eastern Hungary, however, is likely to be the next region to be targeted by foreign investors. The region currently suffers from high unemployment due to the demise of its heavy industrial base. Thus, a large supply of highly skilled workers, including many engineers, is available, especially in cities such as Miskolc.

Eastern Hungary also offers excellent access to the Ukraine and other states of the former Soviet Union. The region's infrastructure, however, must be improved before it realizes its potential. One insider expects that it will take 2-3 years for eastern Hungary to become an important center for new industrial activity. Several of the industrial parks reviewed in this month's issue are planned for eastern Hungary.

Although the flow of foreign investment into Hungary is improving the sophistication of the local supply base, more investment is needed. As noted by one supplier in Gyor, "the trend is that the Hungarian industry will get more suppliers from abroad, because the capacity [and quality] of the local suppliers is low." Before the big manufacturers in Hungary can realize their plans to purchase more supplies locally, the Hungarian companies clearly must see greater inflows of foreign technology and capital.

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FOCUS ON INVESTMENT

SETTING UP A CUSTOMS-FREE ZONE IN HUNGARY FOR EXPORT

Bradley G. Kulman

In recent years, Hungary has become an important destination for automotive greenfield investment. As a result of a variety of customs and other incentives, Hungary as managed to attract some of the more significant automotive manufacturing investments in Central and Eastern Europe.

Although a well-educated work force and comparatively low salaries have played an important role in attracting these manufacturers, one of the most important elements for some of them has been the potential of establishing a customs-free zone in Hungary. A customs-free zone permits the automobile manufacturer to import and export various items without having to make any customs payments, as long as such items are not sold into the Hungarian market. In addition, in appropriate circumstances certain tax benefits can be obtained from the Hungarian government. Such benefits can significantly increase the attractiveness of an investment in Hungary.

The basic requirements for establishing a customs-free zone are set out in Act C of 1995 on Customs Procedure and Administration, Decree No. 10 of 1996 of the Ministry of Finance on the Enforcement of the Customs Procedure, Act XXIV of 1988 on Foreign Investments and Act VI of 1988 on Business Organizations.

Pursuant to these requirements, the head of the National Customs Agency is entitled to issue a permit to declare territory within Hungary a customs-free zone upon the satisfaction of the following conditions:

(i) the recipient of the permit must be a Hungarian company that has its registered office in Hungary,

(ii) the territory to be declared a customs-free zone must be at least 2000 sq. m.,

(iii) the territory to be declared a customs free zone must be owned or used by the recipient of the permit, and

(iv) the recipient of the permit must be trustworthy.

It is understood that the last requirement relates to the recipient's business reputation (both financial and otherwise) and the recipient should not have any outstanding debt to any Hungarian governmental agency, such as the tax authority or the social security agency.

The issuance of the permit for a customs-free zone is a discretionary decision of the head of the National Customs Agency. Therefore, in the application for the permit it is important to make as convincing a case as possible for the issuance of the permit. Plans for the use of the facility should be appropriately summarized. In addition, projected benefits to the local economy, such as increased employment and purchase of building materials from local suppliers, should be highlighted. It is also important to have the support of, or agreements with, the local government for the area where the territory to be declared a customs-free zone is located.

Once a territory is declared a customs-free zone, it is considered to be outside of Hungary from a customs point of view. Therefore, equipment and machinery used in the manufacturing process may be imported without payment of customs duties. Similarly, raw materials for manufacturing may also be imported, and finished products may be exported, without any such payments.

It should be noted, however, that the permit for the customs-free zone does not extend to materials used to build the manufacturing facility. Items such as bricks, roofing, flooring, lighting fixtures, windows, etc. must be bought from Hungarian sources or, if they are imported, customs duties must be paid. Depending on the size and type of facility to be built, this restriction can significantly affect the benefits of the customs-free zone.

The permit for the customs-free zone has no definite expiration and will remain in effect for as long as the company remains in existence and is in compliance with the various legal requirements. Local customs officials will inspect the manufacturing facility on a regular basis in order to monitor compliance. In addition, the local customs authority is entitled to supervise various technical aspects of the territory. These include the entrance, the fence around the facility, and the method of entry of goods and products in and out of the facility.

On an operational level, several companies have experienced difficulties quickly clearing necessary equipment and raw materials through the various reviews. This can cause significant problems for factories that work on a just-in-time basis or for emergency repairs of important equipment. Therefore, consideration needs to be given to maintaining adequate raw materials and replacement parts at the facility at all times.

Nevertheless, in spite of the problems relating to timely supply, the advantage of the customs-free zone have convinced several significant automobile manufacturers and parts manufacturers to build and expand their facilities in Hungary. It is likely that other manufacturers will also choose to locate in Hungary as the concentration of manufacturing facilities attracts other suppliers.

Bradley G. Kulman is the resident U.S. partner in the Budapest office of Stroock & Stroock & Lavan, a full service, general practice law firm based in New York. The firm's Hungarian practice is focused on foreign investment and privatization transactions, infrastructure projects, and the representation of Hungarian entities in transactions with foreign parties. East-West Business Center, Rakoczi ut 1-3, H-1088 Budapest, Hungary; tel: (36 1) 266-9520, fax: (36 1) 266-9279. ■

CENTRAL EUROPE AUTOMOTIVE REPORT

Hungary

OPPORTUNITY SPOTLIGHT

This month's Opportunity Spotlight features six Hungarian parts and components manufacturers. Excellent opportunities exist for cooperation with these companies in the form of supply, purchase, and production agreements, and direct investment.

ITT Automotive Hungary has invested over DEM 40 million in its Veszprem factory, which was opened in June 1994. "We looked for locations and found Hungary to be the best for reaching our customers," said Eva Lendel, General Manager of ITT Hungary. The factory produces switches, lights, windshield wiper systems, and sensors for ABS brake systems. The ABS sensors comprise the largest part of ITT's production.

Eighty percent of ITT Hungary's production is exported to Western Europe. Some is shipped directly to G.M/Opel in Hungary. ITT has also started developing its aftermarket sales in the region. "We see big potential in Central and Eastern Europe," said Lendel. Two shops in Moscow currently distribute ITT products.

ITT's future production plans involve expanding into Russia. "Russia is unsure for investments now," said Lendel, "we have to wait, but it will be the next step." The company is also looking to expand into Poland, Ukraine, Romania, and the Baltic states.

ITT is looking for suppliers in Central/Eastern Europe and in Germany. The Hungarian company **Bakony Muvek Rt.**, for example, supplies ITT with windshield wipers, wiper motors, and horns. According to Lendel, "finding suppliers in this area is not easy." Although she noted that there are local companies with good workers and engineers, the companies need more development capital.

Lendel said that small plastic, metal, and rubber parts can be easily found in the region, but most electrical parts are purchased from Western European companies. "It takes time to build up a supplier," she said. She noted that ITT is slowly building up local suppliers who manufacture sophisticated electronic components. ITT will help its Western European suppliers find local companies with which they can engage in joint production.

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Cardan shafts and gearboxes are the main automotive products made by **UKM Rekard** in Gyor. The company has been privatized since May 1993 and is 100% owned by Germany's **UKM Meissen**. Eighty percent of the company's production is devoted to parts for agriculture machines. Ninety-five percent of UKM's sales each year are to companies in Western Europe, the U.S., and Canada. Other markets include Hungary and Romania; cardan shafts are supplied to Romanian car-maker **Dacia**. Cardan shafts and gearboxes are produced by UKM based on customer designs or on UKM designs. UKM has available excess capacity for shaft and gearbox production.

Forging and casting parts are purchased in the Czech and Slovak Republics, and UKM is looking to increase the number of these suppliers. Steel and forged parts are also purchased in Hungary, Italy, and Germany. Some forged parts are supplied by Russian companies.

UKM wants to localize more of its supply purchases. "I think the trend is that the Hungarian industry will get more suppliers from abroad, because the capacity [and quality] of the local supplier is low," said Jochen Radke of UKM. "Castings and forgings companies need a lot of investment." Radke noted that many of these companies haven't invested in their factories for the last 20 years.

Regarding expansion into the ex-Soviet Union, Radke says "it's very difficult for us to make some business with these countries because the have too many problems with privatization, management, quality, and logistics." He sees a minimum of 10 years before these markets improve.

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Goodyear Hungary Ltd. is focused on developing a tire distribution network in Hungary. "It's good in every county to have a key distributor who will then distribute to small retail shops," said Dezso Jutasi, Goodyear's Sales Director in Budapest. "We believe that tires must be as close as possible to the customer." According to Jutasi, it's difficult to find dealers who will take responsibility for a county and invest in the county.

"Those who figure out the best type of network will win," said Jutasi. "With the market changing so fast, [it's] difficult to say what will work best." The Hungarian tire market is evolving from domination by 2-3 Hungarian wholesalers, to a network of dealers. "The wholesalers don't like the change," he said.

Jutasi said that many potential customers in Hungary are buying used tires. "We hope this year will be the bottom of the trend," he said. Another trend is that many of the two million cars in Hungary are using cheaper Eastern European tires. Jutasi said that the market share for Western tire makers has shrunk over the last two years by at least 3%-4%, and the market share of Eastern European producers has increased by the same amount. Jutasi thinks this trend will shift in 1997 as the economy improves and Hungarians' buying power increases. The demand exists, but Western tires are still too expensive. "I don't think we have any problem with image," said Jutasi. Goodyear is one of the biggest tire advertisers in Hungary.

Goodyear Hungary Tire Sales in 1995

Type	Units Sold
Passenger (summer)	50,245
Passenger (winter)	10,598
Light Truck	4,249
Heavy Truck	3,129
Other	4,374
Total	72,595

Source: Goodyear Hungary Ltd.

Another challenge faced by Goodyear is how to establish a Western company culture in Central Europe. "Changing the mentality will take generations," said Jutasi. Goodyear is organizing two training programs to develop selling skills and technical knowledge of their products.

Goodyear sold 75,000 units in Hungary last year and expects to sell the same in 1996. The company also hopes to expand its sales to Western companies operating fleets in the region. "It's a buyers market," said Jutasi. "We must find out what the customer will buy."

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RABA Rt. manufactures front and rear axles for trucks, buses, and agriculture and construction equipment. The company also produces diesel engines, bus chassis, and trucks. Of the USD 400 million worth of goods exported by Hungary to the U.S. last year, 25% were RABA products. RABA's main factory is located in Gyor.

RABA's turnover in 1995 was HUF 23.6 billion, and profit (before taxes) was HUF 826 million. The company had 6400 workers in 1995, down from 12,000 in 1991. Forty-nine percent of RABA is held by the Hungarian Investment and Development Bank, 32% is held by the Hungarian State Holding Company (APV), and the remainder is held by local authorities and small investors. The APV is handling RABA's privatization.

Approximately 70% of RABA's production is exported. In addition to the U.S. and traditional ex-Comecon markets, RABA sells its products in Italy, Germany, England, South Africa, South Korea, Japan, China, Thailand, Indonesia, and Malaysia. The company hopes to re-establish ties with companies in ex-Yugoslavia. "We would like to play an active role in this area, partly by supplying spare parts for the 10,000 RABA trucks already sold in ex-Yugoslavia, partly by selling new products," said Karoly Nagy, RABA's Marketing Coordination Manager.

The company also has traditional ties with Russia. Approximately 100,000 **Ikarus** buses with RABA engines and axles travel the roads of Russia. Nagy said that huge demand exists for RABA's spare parts, but financial problems hinder the increase in sales. RABA currently provides technical support to several Russian companies.

RABA is involved in joint ventures with Western companies and is interested in cooperating with other companies. "We are looking for partners and partners are looking for us," said Nagy. The company is involved in joint ventures with axle maker **BPW** and engine manufacturer **Detroit Diesel Corp.** RABA is cooperating with **Bosch** for the development of an engine that will meet EURO-3 emission standards.

Approximately 70% of RABA's supplies are purchased on the domestic market. Of the remaining 30% supplied by foreign companies, 50% are raw materials and 50% are finished products such as turbo chargers, transmissions, cabs, and fuel pumps. To reduce its transportation costs, RABA tries to purchase its foreign supplies from the Czech and Slovak Republics, Slovenia, ex-Yugoslavia, and Russia. "Our policy is to work with several suppliers," said Nagy. "We are always looking."

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Perion Battery Factory Co. Ltd. produces lead acid, Ni-Cd, and dry cell batteries. The company's shares are 50.1% owned by employees, 47.7% by management, and 4.2% by the local council. Perion's main customers in Hungary are **Suzuki** and **G.M./Opel**. The company also constructs and sells battery manufacturing machines and equipment, and sells its technical know-how to customers. "Selling know-how is something that has come into the Perion company profile recently," says Dr. Janos Agh, Sales Manager of Perion.

Together with the International Battery Division of **Johnson Controls**, Perion has developed an environmentally friendly battery recycling system called the Scrap Reclamation System (MRH). In conjunction with its battery sales, Perion expects sales of its MRH system to enhance its competitiveness.

In 1992 Perion signed a technical assistance agreement with Japan's **Furukawa Battery Co. Ltd.** in order to obtain a new battery design and a quality assurance system. The cooperation enabled **Perion** to become a supplier to **Magyar Suzuki**. Perion is also involved in a joint venture with the German company **Accumulatorenwerke Hoppecke** that produces and markets stand-by batteries. Strategic cooperation agreements have been a key to Perion remaining competitive. The company is interested in entering into agreements with other companies. "If someone has something to offer, [we're interested]," said Agh. "We have had good experiences when it comes to technology exchange."

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UBP-Csepel Iron Foundry Ltd. manufactures metal products for the truck, bus, and tractor industries. UBP is 100% owned by the U.S. company Universal Brake Parts. The foundry has an 8-10 ton capacity; castings are made out of gray and ductile iron. UBP's traditional product is engine blocks. With the drop in bus production by UBP's main customer, **Ikarus**, engine block production has dropped from a high of 50,000 per year to less than 3,000.

Other products include gearboxes manufactured under licenses from **MAN** and **ZF**, steering wheel supports made from ductile iron and composites, and truck tire hubs and rear axles. Steering wheel supports are made for Ikarus and other bus companies. Hubs are sold mainly to **RABA Rt.**, and rear axles are exported to U.S. companies.

UBP is undergoing internal reorganization and will soon have two independent divisions. Finished goods will be produced by an automotive parts division, and castings and casting parts will be produced by a separate division.

UBP imports raw materials such as sand, pig iron, and additive materials. Steel and scrap casting pieces are purchased from suppliers in Hungary. The company plans to be ISO 9002 certified by the end of this year. ■

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*

The unemployment rate for 1996 is expected to be 10.4%, slightly lower than the 1995 rate of 10.9%. When broken down by region, the unemployment rate in Budapest was 5.9%, compared with 20% in parts of eastern Hungary.

The average monthly wage of a Hungarian worker in 1995 was approximately USD 315. With employer and employee contributions, the rate rises to over USD 490. Net real earnings of Hungarian workers dropped by 12.2% in 1995. In 1995, there were 7 strikes and lockouts in Hungary, involving 172,048 workers, and resulting in approximately 1,707,979 lost work hours. In 1994, there were only 4 strikes and lockouts.

Hungary's exports (including services) grew in real terms in 1995 by approximately 15%, and are expected to grow 8% in 1996. Imports in 1995 grew by -1% and may shrink by approximately 2% in 1996. Over 60% of Hungary's 1995 imports and exports were with EU trading partners. Former Comecon partners accounted for less than a quarter of Hungary's exports and imports.

Industrial Parks: In addition to the two operating industrial parks in Hungary—the **Loranger Industrial and Education Park** in Szekesfehervar and the **Gyor Industrial Park**—many other parks are planned or being developed in Hungary. Below are short descriptions of the proposed parks and the cities in which they will be located.

Esztergom: An industrial zone is planned for 56 hectares of land located near the **Suzuki** car factory. The city, north of Budapest near the Slovakia border, is an important industrial and export base. Good roads and infrastructure exist. The minimum size of plots is expected to be .3 hectares.

Szentgotthard: The city, located near the Slovenian and Austrian borders, is an economical, educational, and medical center of the region. The first phase of the park has been developed on 43 hectares of land near the Budapest/Graz railway line. Another 11 hectares are available for small and medium-sized companies. Full infrastructure is provided. The park will offer excellent access to **G.M.'s** engine and car assembly factory in Szentgotthard.

Zahony: Located in the northeast corner of Hungary on the Ukraine border. A highway and railway run through Zahony into the Ukraine, providing excellent connections with the states of the former Soviet Union. In order to exploit the existing capacity of the transshipment facilities, and to ease high unemployment, several feasibility studies have been undertaken regarding reconstruction possibilities. Special allowances and preferences may be granted to investors. Three greenfield sites have been marked out for possible development.

Miskolc: The city is located in northeastern Hungary in the second largest industrial center of the country. Good access is provided to Slovakia, Ukraine, and Romania. Miskolc University is a center for research and development programs. High unemployment has resulted in a large supply of skilled workers. The area marked for the industrial park is 70 hectares of land linked to Miskolc by a 4-lane highway. Possibilities exist for linking the park to the main rail line, and an airport is 8 kilometers away. The plans are for an export oriented park focused on hi-tech branches such as precision engineering.

Ajka: Located in western Hungary, approximately 30 kilometers from **ITT Automotive's** factory in Veszprem. Good highway access. Area of 120 hectares is planned for the park, which will focus on electronics, telecommunications, engineering, and vehicle building industries.

Debrecen: Second most populated town in Hungary and important industrial center. Good railway and highway links to Romania and Ukraine. Park is planned in a 210 hectare area near the airport. Many local universities can supply intellectual capital. **Daewoo** recently purchased ball bearing maker **MGM** based in Debrecen.

More information can be obtained about these and other industrial parks in Hungary from the Association of Hungarian Industrial Parks, Konkoly Thege u. 29-33, 1121 Budapest, Hungary; tel: (36 1) 1699-499, fax: (36 1) 160-0396.

Continued on page 14

Central Europe In 1996-97

1996	
Oct. 7-11	**Ljubljana, Slovenia** Int'l Exhib. of Modern Electronics
Oct. 9-13	**Katowice, Poland** Int'l Car Fair
Oct. 17-19	**Bucharest, Romania** Int'l Technical Fair
Oct. 17-22	**Bratislava, Slovakia** Int'l Car & Car Accessories Salon
Oct. 17-22	**Bratislava, Slovakia** Int'l Car & Car Accessories & Workshop Equip. Exhib.
Oct. 28-30	**Bucharest, Romania** Int'l Exhib. of Inventions, Scientific Research, & New Technologies
Nov. 6-10	**Nitra, Slovakia** Int'l Plastics Exhib. (incl. injection equip.)
Nov. 7-10	**Wroclaw, Poland** Fair of Electronics, Telecom, & Electrical Eng'g
Nov. 13-16	**Warsaw, Poland** Int'l Fair of Tools & Machinery
Nov. 19-22	**Poznan, Poland** Investment Opportunities in Polish Cities
Nov. 19-21	**Bratislava, Slovakia** Metal Surfaces Treatment Technology & Materials
Nov. 21-23	**Bydgoszcz, Poland** Int'l Fair of Polyurethanes
Nov. 23-25	**Szczecin, Poland** Int'l Specialist Fair of Transport & Forwarding
Nov. 28-30	**Olsztyn, Poland** Electronics Fair
1997	
April	**Celje, Slovenia** Car & Maintenance Fair
April	**Ljubljana, Slovenia** Fair of Farm Vehicles & Supplementary Equip.

***Profile** Continued From Page 1*

the other large scale projects like **Audi's** engine manufacturing project and **GM/Opel's** project, the localization level of these companies is rather limited when compared to the Suzuki project.

There are many incentives given by the Hungarian government to generate and develop the local subcontractor industry. Investment promotion funds contribute to the infrastructure or development of certain regions. Job creation funds [and] regional development funds are available for companies who are going to establish manufacturing plants in connection with the automotive industry. This industry is considered a generator for overall industrial development. It is a rapidly developing branch in Hungary. Of course, the Suzuki project had a very important effect on accelerating the subcontractor industry in the country.

CEAR: How does Suzuki help local parts and components manufacturers find foreign partners?

Banki: The basic approach is to, first, invite Suzuki's Japanese subcontractors and vendors to enter into cooperation agreements with Hungarian subcontractors. Cooperation based on technology transfer, like license or know-how agreements. Many Japanese companies have found partners. That's one reason why we've succeeded in increasing to such a substantial [level] the amount of Hungarian contribution to Suzuki's products.

There are also many Western European companies that could supply Suzuki. EU member countries' contribution is 15%-16% of the total value of the car. **Michelin**, for instance, supplies us with complete tires, aluminum rims included. A German steel manufacturer is an important partner who supplies us with special steel coated plates. Of course, we are going to invite more European vendors to supply us. It depends on their wishes or need to find Hungarian partners.

The [Hungarian Investment and Trade Development Agency] organizes many seminars in Western Europe to bring together Hungarian subcontractors with Western European partners. Our subcontractors will be a part of these seminars because Magyar Suzuki itself is not able to provide [enough business] for local subcontractors—50,000 to 60,000 vehicles is not enough for a subcontractor.

CEAR: What are the advantages of manufacturing in Hungary?

Banki: Number one is the proximity of the European market. That is a very important advantage. And the second is the available human resources. The productive capabilities of the Hungarian technicians, engineers, and workers. And, of course, very important is the development of the infrastructure and the service industry. In comparison to other Central European countries, these are better developed.

CEAR: Why have Japanese companies been slow to invest in Hungary?

Banki: The investment needs in the Far East region and the investment possibilities for Japanese companies in [that region], that's the main reason. And, of course, [there are] certain cultural tradition gaps between our nations. But through Japanese trade houses, Japan plays a very important role in the global and international market. It's very interesting if you look at the present policies of the Japanese production companies overseas and in Europe. They are always together with the relevant trade house. They are hand in hand. The trade houses and behind them the production companies. There's no example of a production company from Japan operating without a trade house. The largest trade house in Japan established offices here in 1971-1972. They already have 25 years experience in the Hungarian market.

Magyar Suzuki's Numbers

	1992	1993	1994	1995	1996(est.)
Production	992	13,021	19,412	35,000	52,000
Domestic sales (units)	929	12,537	16,065	12,178	15,000
Exports (units)	—-	—-	3,309	23,873	37,000
Sales (Ft billion)	0.6	9.6	15.5	35	53
Domestic	0.6	9.6	13.3	14	14
Export	—-	—-	2.2	21	39
Employment	345	489	857	1,200	1,400

Source: Magyar Suzuki, ITDH

CEAR: What are Suzuki's biggest challenges in this market?

Banki: The biggest challenge is how to be the number one company on the Hungarian car market. That's our target. Today we are the second, enjoying 18%-19% of new car sales in Hungary. Opel is number one. Our target is to reach 25%. That's the number one challenge. Another challenge is to keep abreast of the overall development of the automotive industry in the coming years. To preserve and develop our position. On the Hungarian market, competition is very tough, with 70-76 different car manufacturers and hundreds of models competing. Therefore, that's the real challenge.

CEAR: How will Suzuki become number one in new car sales?

Banki: First, by producing a competitive product. Of course, Hungarian [customers] learned for 40 years that the [locally produced] product is not competitive and poor in quality and after-sales service. We must convince the Hungarian customers that a Magyar Suzuki car is a competitive product and quality-wise it is in line with the best European and overseas car manufacturers. Second, is to utilize the advantage of being a local manufacturer. We should have some competitive advantages as far as the after-sales service is concerned. We have a very strong nationwide network of dealers and availability of spare parts is quite excellent.

CEAR: What specific strategies will Suzuki use?

Banki: [One strategy is to] produce so-called limited versions of models. Limited version means to produce 500-600 units with extra colors, parts, options. For instance, we produced last year on the Hungarian market a Swift model with three doors. We experienced that the customers we tried to approach at the beginning, the middle class, [didn't have the necessary] purchasing power due to the economic problems and restrictive economic policies. But there is a new social strata—the rich—who buy second or third cars for the family and [it's not necessary for these cars to have five doors]. We've been very successful with the three door model. And, of course, [we'll use] the modern up-to-date medias, electronic and written, to maintain the interest of the customers. We never will stop this process. Never.

CEAR: What other methods will Suzuki use to boost its sales?

Banki: Of course, financing options. These interest-free financing and leasing arrangements are very well known. Every competitor uses the same promotion activities. But we use very efficient actions. And, of course, so-called fleet sales are very important to sell cars to public

Continued on page 14

Hungary

ACCOUNTING & FINANCE

TAXES AND CUSTOMS UPDATE

Balazs Bekes

Tax holidays and tax exemptions are no longer available for new foreign investors in Hungary, but a number of tax incentives are available and can apply to the automotive sector. Investors are entitled to a tax credit equal to 50% of the 18% calculated tax if they make an investment worth at least HUF one billion for the manufacture of products. This tax benefit can be used within 5 years from the date the investment is put into service and applies if income from export in one of those years has increased by 25% (but at least HUF 600 million) as compared to the previous year.

Investors with a head office or premises in a region of high priority (a region where the unemployment rate exceeds 15%) or in an entrepreneurial zone are entitled to a tax credit equal to 100% of the 18% calculated tax when the investment serves the manufacturing of products. This benefit can be used within 5 years from the date the investment is put into service and applies if income from export in one of those years has increased compared to the previous year (i) by at least 1% for taxpayers established in an entrepreneurial zone; or (ii) by an amount equal to at least 5% of the production cost of the project for taxpayers established in a high priority region. Only one entrepreneurial zone has been created in Zahonyi in northeast Hungary. Taxpayers having head offices or premises in a region of high priority or in an entrepreneurial zone can benefit from a tax credit equal to 6% of the value of equipment put into service and operated in those premises and for the year the equipment is put into service.

A tax credit equal to 85% of the 18% calculated tax is available for off-shore companies that meet certain conditions.

Tax depreciation is made at fixed rates set by the law ranging from 2% to 33%. Sample rates are 2% for buildings, and 14.5% to 33% for most machinery and equipment. Investors having head offices or premises in an entrepreneurial zone may write off 100% of the cost of machinery and equipment put into operation for the first time in the zone following qualification of the zone as an entrepreneurial zone, and may write off 10% for buildings and structures.

Tax losses can be carried forward for 5 years and used as deemed appropriate by the taxpayer. In the case of an exploitation created with no legal predecessor, losses of the first year of operations and the subsequent two years can be carried forward indefinitely.

Effective from January 1, 1995, the Hungarian corporate tax consists of the 18% calculated tax levied on taxable profits and the 23% supplementary tax levied on dividend distributions. However, the 23% supplementary tax rate can be limited to the withholding tax rate set forth for dividends in international double taxation treaties signed by Hungary. This rate is set at 5% (under certain conditions) in the tax treaty with the United States, Germany, and France, and at 10% with Japan. Therefore, the effective corporate tax rate for profits distributed to shareholders residing in these countries and owning 100% of the Hungarian distributing company is respectively 21.9% and 25.45%. Domestic Hungarian tax law does not require a withholding tax on dividends paid to corporate shareholders.

Goods imported into Hungary are subject to customs duty, 2% customs clearance fees, 3% statistical fee, VAT, and in some cases excise duties. There is also a customs duty surcharge equal to 7% of the customs duties. This surcharge has been imposed since March 1995 and will decrease regularly until it is abolished in July 1997. The customs duty and the other customs fees are assessed on the customs value of the goods which is generally the transaction value increased by any costs incurred up to the Hungarian border (such as packaging, transportation, insurance, and under certain conditions royalties). Import VAT is assessed on the customs value increased by the customs duties and costs incurred before the products reach their first destination in Hungary. Excise duties are assessed on the customs value increased by the customs duties and the import VAT.

Customs duty on new passengers cars ranges from 9% to 43% depending on engine size, whether the car has a catalytic converter, and the country imported from. It ranges from 9% to 13% for trucks and from 3% to 10% for spare parts. Preferential rates apply for products imported from the European Union and the Visegrad countries. Excise duty on cars ranges from 10% to 32%, depending on engine size and whether they have a catalytic converter.

The general rate of VAT in Hungary is 25%. This rate applies to all automotive products. Usually VAT subjects can set off VAT incurred on their purchases against the VAT collected on their sales. However, input or import VAT incurred on the purchase or importation of passenger cars is not deductible unless car sales are a part of the purchaser's business.

Companies with foreign ownership can freely acquire real estate in Hungary for the purpose of their business activities.

Hungarian companies may borrow money abroad without the prior approval of the foreign exchange authorities provided the loan has a duration of more than one year and does not exceed USD 50 million. A thin capitalization rule applies for loans granted by a shareholder that holds more than 25% of the Hungarian borrowing company when the loans exceed 4 times the borrower's equity (registered share capital + retained earnings + profits for the year) stated in the balance sheet at the end of the previous fiscal year.

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HUNGARIAN SUPPLIERS OF PARTS & COMPONENTS

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

Company	Product	Contact	Phone/Fax
1. Precast Ontodei	aluminum castings	Laszlone Fazekas	tel: (36 47) 322-553 fax: (36 47) 322-137
2. Kaloplasztik	injection moulded plastic products	Tamas Elekes	tel: (36 78) 461-200 fax: (36 78) 461-752
3. Tauril	injection moulded & pressed rubber products	Jeno Groff	tel: (36 1) 260-8137 fax: (36 1) 262-1994
4. Taurus Palma	injection moulded & pressed rubber products	Gabor Davida	tel: (36 42) 342-511 fax: (36 42) 311-264
5. Glasunion	windshields	Zoltan Feher	tel: (36 32) 311-655 fax: (36 32) 310-474
6. Ikarus Prestecnika	cold pressed body parts	Bela Horvath	tel: (36 1) 163-7880 fax: (36 1) 164-2099
7. Bakany Gepipari	cardan joints, axle shafts, gear wheels	Sandor Takacs	tel: (36 34) 310-740 fax: (36 34) 316-740
8. Ferro-Fem	valves, exhaust inlet valves	Gyula Csiszar	tel: (36 89) 324-244 fax: (36 89) 313-015
9. Armafilt	air & oil filters	Marton Mendel	tel: (36 1) 270-3655 fax: (36 1) 149-8553
10. Mom Gepipari	hydraulic operation cylinders, brake cylinders	Istvan Feher	tel: (36 72) 402-557 fax: (36 72) 486-259
11. Danuvia Gepipari	hydraulic elements	Tibor Simai	tel: (36 1) 251-4222 fax: (36 1) 183-2763
12. Berva Finomsz.	pneumatic components, shock	Andras Beres	tel: (36 36) 411-556 fax: (36 36) 411-112 absorbers
13. Jarmualkatresz es Szerelvenygyarto	air brake devices	Imre Bukta	tel: (36 49) 312-622 fax: (36 49) 312-256
14. Elcometal	special joining elements	Czako Horvath	tel: (36 62) 324-333 fax: (36 62) 474-333
15. Technocar	springs, spiral springs	Janos Balint	tel: (36 22) 372-302
16. Raba Sarvar	pedal systems	Vilmos Simon	tel: (36 94) 327-297 fax: (36 94) 327-296
17. ABF	clutch operation cables, wires	Istvan Bencze	tel: (36 27) 342-292 fax: (36 1) 129-0767
18. KVJ Muvek	exhaust systems, silencers	Jeno Kiss	tel: (36 25) 311-273 fax: (36 25) 311-273
19. Elzett	Door locks & lock parts	Laszlo Szikora	tel: (36 1) 140-9380 fax: (36 1) 1290-692
20. Bakony Muvek	distributors, ignition switches, spark plugs, wiper motors	Andras Juttner	tel: (36 88) 423-648 fax: (36 88) 427-916
21. Ganz	electrical switches for heating, brake light lamps	Istvan Monar	tel: (36 1) 210-1190 fax: (36 1) 210-1189
22. Autovill	starters	Otto Szalavan	tel: (36 1) 140-1540 fax: (36 1) 140-1542

Profile *Continued From Page 11*

agencies, state-owned companies, and large-scale companies. This requires a special sales promotion action to convince them.

CEAR: What will Suzuki do to make its cars the most competitive possible?

Banki: If we are not competitive, if we don't have excellent quality, if we don't perform excellent after-sales service, we lose everything. It's very important through the media, daily papers, weeklies, and magazines to convince the public that we are here and we are competitive. We produce a quality product and we are Hungarian. We produce a Hungarian product.

CEAR: What markets are most important to Suzuki?

Banki: We produce cars for Hungary and Western Europe. Our neighboring CEFTA countries are important markets. We export to Slovenia, Macedonia, China, and Singapore. We have a dealer in Ukraine, and even in Russia. We believe that we will have a better market chance in the Russian Federation. It's very important to conquer these markets because there is a great shortage of passenger cars in those markets. But our Suzuki philosophy is not just to sell a car but to provide good after-sales service. That's why we are at this moment cautious with markets like the Ukraine, Russia, and other CIS countries.

CEAR: Will Suzuki use its Hungarian factory to supply the Russian market?

Banki: Yes, or find some long-term cooperation partner in Russia. We are looking for this partner. Russia today produces not more than 250,000 to 300,000 units per year for 250 million people. There's huge market potential. Huge.

CEAR: Do you have plans for expanding your Hungary factory?

Banki: Multinational companies with established facilities are sentenced to develop. With no development, there's no chance for survival. In the medium-term, not to mention the long-term.

CEAR: What is the biggest surprise Suzuki has faced since starting operations in Hungary?

Banki: The number one surprise was the dramatic change [in the local market circumstances]. When **Suzuki Motor Corp.** decided to establish here the assembly line in 1991, it was a closed market with very, very strict import restrictions. There was a big shortage of cars. The people had to wait 1-2 years to have a car. After the system transformation there was a dramatic change. The speed of this change, that was the big surprise. Just after starting production, the company was exposed to real competition without any special protection. According to the agreement between the EU and Hungary, the import duty is continuously decreasing and in 1996 it is below 10% for cars from the EU. And the Hungarian government decided to suspend the import surcharge system from the first of July next year. Of course [the surcharge system] is a temporary measure, but temporarily it protected and provided some advantage for the local manufacturers. It was 8% but it will be totally eliminated next year. Therefore, Magyar Suzuki cars should face very tough competition without any local production protection. That was a surprise. And not a good surprise.

> **"In 1996 we can say that we are over the worst and most difficult stage of our company development."**

Another surprise was the worsening living standards in Hungary. This missing purchasing power. We calculated a moderate but continuous development of sales, since when we started here there was a shortage [of vehicles]. And if you look at it this moment, the average age of the passenger car in Hungary is around 12 years. You can imagine the potential need. But there is no money. That's one reason why we should find export markets. According to the original plan, 50% domestic and 50% for export, that was the sales target at the beginning. This today is a dream.

CEAR: What kind of sales growth do you see over the next five years?

Banki: If you look at new car sales in Hungary, 1994 was the last successful year with around 85,000 new car sales. Last year it was around 68,000. And this year we expect a slight decrease. In 1996 we can say that we are over the worst and most difficult stage of our company development. This will be the first year we calculate a profit. In the coming years, we calculate more stable macro and micro economic conditions here in Hungary. We believe that the overall Hungarian economy is over the worst period. ■

Feature Country *Continued From Page 10*

Tips from Insiders:

1. From a big components manufacturer: "Szekesfehervar is full and has become expensive."
2. Keys to success in Hungarian market: aggressive marketing and reliable products.
3. The suppliers that will survive are those that can supply systems. Competition is reducing the number of single part suppliers
4. Need good government contacts to get appropriate permits and approvals when doing business in Hungary.
5. Training: "A must and need in Hungary," says a major tire distributor.
6. Hungarian market is becoming "over sensitive" to price.
7. There's room for more automotive-related companies to invest in the Gyor area.

Some information provided by: Hungarian Investment and Trade Development Agency, National Bank of Hungary, Ministry of Industry & Trade, Central Statistical Office ■

CENTRAL EUROPE AUTOMOTIVE REPORT

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Special Report *Continued From Page 4*

Speed is essential for Danube. "We generally can't wait 30 days for delivery of a mold," said Todd Sholtis of Danube. "We have to get it in 2-3 days." Although sending heavy molds by air would seem cost prohibitive, Danube claims that its molds still cost 35% less than a mold made in the U.S. Sholtis said Danube gets good rates by negotiating with export/import companies and airlines. ■

HUNGARY

FACTS & FIGURES

Form of Government: Republic

Prime Minister: Gyula Horn

Capital: Budapest

Population: 10.3 million

Labor Force: 5.4 million

Land Area: 93,030 sq. km.

Boundaries: Austria, Slovakia, Ukraine, Romania, Serbia & Montenegro, Croatia, Slovenia

Ports: Budapest, Dunaujvaros

Highways: 158,711 km

Railways: 7,785 km

Inland Waterways: 1,622 km

Major Industrial Branches: automobiles, buses, mining, metallurgy, chemicals, textiles, construction materials, food processing, pharmaceuticals

Main Imports: fuels & energy, machinery & transportation equipment, raw materials & semi-finished goods, consumer goods, food & agriculture

Main Exports: raw materials and semi-finished goods, machinery & transportation equipment, consumer goods, food & agriculture, fuels & energy

Currency: Forint (USD 1 = HUF 154)

INVESTMENT OPPORTUNITIES

To submit opportunities for publication write to Trade Leads, CEAR at:
4800 Baseline Road, Suite E104-340
Boulder, Colorado 80303 USA
or **E-Mail** to cetmllc@ibm.net

Opportunity	Investment	Contact	Phone/Fax
Supplier of seats for Suzuki cars & spare parts for Ikarus seeks joint venture partner technology transfer, joint manufacturing	USD 1.5 million	Csaba Kilian (re: 02/Aut/96)	(36 1) 118-0051
Battery manufacturer seeks joint venture partner for processing used vehicle starter batteries	USD 2.7 million	Csaba Kilian (re: 01/Aut/96)	(36 1) 118-0051
Manufacturer seeks manufacturing cooperation on a supplier base or subcontracting in the form of technology transfer or joint venture in field of electronics (circuit boards) and mechanics (die casting, machining, sheet metal processing, plastic injection moulding)	————	Csaba Kilian (re: 07/El-En/96)	(36 1) 118-0051
Manufacturer of precision fittings, iron castings, and metal ware, seeks joint venture partner for joint manufacturing, subcontracting, technical cooperation	————	Csaba Kilian (re: 11/Eng/96)	(36 1) 118-0051
Company engaged in the forging of deep forged of deep forged parts, spiral springs, and tube rims seeks joint venture partner	————	Csaba Kilian	(36 1) 118-0051
Company engaged in metal casting seeks partner for joint manufacturing or subcontracting	————	Csaba Kilian (re: 16/Met/96)	(36 1) 118-0051
Developer of continuously variable transmission seeks investor for production	————	Istvan Szenpetery	(36 1) 118-3335

FUTURE ISSUES

Protecting Patents in the Czech Republic

Banking in Central Europe

Investment Do's & Don'ts in the Czech Republic

Czech Republic Tax & Customs Update

Interview with Volkswagen Bratislava's Technical Managing Director

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