CENTRAL EUROPE AUTOMOTIVE REPORT

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ROMANIA SLOVAK REPUBLIC SLOVENIA

COVERING THE

CENTRAL EUROPEAN AUTOMOTIVE INDUSTRY

December 1996

Volume I, Issue 7 ISSN 1088-1123

™

SLOVAK REPUBLIC

Big Year for New Car Sales; Supply Base Investments

Market Highlights:

Yazaki Debnar Slovakia, a joint venture between Japanese wire harness manufacturer **Yazaki Corporation** and the Slovak company **Slovak & Electronic Corp.**, plans to begin production at its new Slovak factory in January, 1997. The new factory will produce wire harnesses mainly for automotive customers in Western Europe, and represents a USD 20 million investment by Yazaki. By 1999, Yazaki Debnar expects yearly production of wire harnesses to reach 133,333, and to employ 2000 workers. [*for more on Yazaki Debnar, see Opportunity Spotlight on page 8*]

The temporary suspension of the **import surcharge** on new vehicles under 1500 cc is scheduled to officially end on December 31, 1996. At press time, the government has not indicated that the surcharge will remain suspended beyond the scheduled termination date.

Volkswagen Bratislava recently celebrated its 5th year anniversary of operating in Slovakia. At a ceremony on September 19, 1996 at its factory in Devinska Nova Ves, the 50,000th Golf Syncro and the 400,000th gearbox rolled off its assembly lines. For the year of 1996, the company expects to produce 30,000 vehicles, 259,000 gearboxes, and import 5.8 million gearbox components from Germany. [*for more on Volkswagen Bratislava, see Profile on page 1*]

Volkswagen AG's joint venture with **Siemens**, **VW Elekricke Systemy s.r.o.**, started production of wire harnesses in Nitra in June 1996. The project is currently in the testing phase, and full production is expected to begin in July 1997. According to a company spokesman, the factory's production level will be determined after the target employment level of 1,200 workers is reached. In 1996, investment in the project totalled DM 12,000,000 for technology, DM 120,000,000 for reconstruction, and DM 40,000,000 for real estate purchases.

At its annual press conference on October 31, 1996, tire maker **Matador, a.s. Puchov** announced first half results for 1996 of SK 5830 mil. turnover, of which sales of its own products reached SK 3920 mil. Investment into modernization of production amounted to SK 274 mil., and SK 88 mil. was spent on technical developments. After a positive evaluation by **Skoda-VW a.s. Mlada Boleslav**, in July 1996 Matador started supplying tires for the Felicia model. Successful tests were completed on a tire for Skoda's new Octavia model and supply is expected to begin in early 1997. On April 24, 1996, Matador started production of tires at its factory in Russia, **Matador-Omsksina**. By the end of 1996 the factory will produce 250,000 passenger car tires, and 1 million tires are planned for 1997. Within the next three years, the factory is

Continued on page 2

Slovakia

PROFILE

VW Bratislava: Stabilized Production, Planning for Expansion

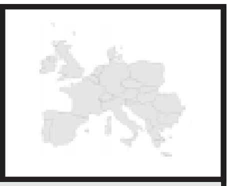
Volkswagen Bratislava's plant in Devinska Nova Ves distinguishes itself by being the only Volkswagen plant in the world that manufactures the all-wheel-drive Golf Syncro. The company, established in May of 1991, is 100% owned by Volkswagen AG. During the period from 1992 to 1994, Volkswagen invested DM 130 million in the plant, and an additional investment of DM 80 million is planned for 1995-1996. Cars started rolling off Volkswagen Bratislava's line in 1992, and gearboxes have been assembled at the plant since 1994. Volkswagen Bratislava's production system is based on manual processes, with practically no automation. The manual system enhances production flexibility which is essential for the manufacture of the custom-designed Syncro. The factory is rated number one in the VW Group for quality.

Karl P. Wilhelm

Karl P. Wilhelm is Technical Managing Director of Volkswagen Bratislava. The 55-year-old Mr. Wilhelm has worked for Volkswagen for 40 years, starting as an apprentice in Germany.

Continued on page 13

CENTRAL EUROPE AUTOMOTIVE REPORT



December 1996
Volume I, Issue 7
Formerly Published as the
Central Europe Business Report
From August 1995 to April 1996

Publisher Ronald F. Suponcic, Jr.
Editor-in-Chief Jeffrey A. Jones, Esq.
Research Assistant Michal Sastinsky

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

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*

expected to have capacity for 3 million passenger car tires and 300,000 truck tires. On May 10, 1996, Matador received ISO 14001 certification after Environmental Management System implementation.

Danube Mold & Die, a Bratislava-based designer and builder of injection molds, and manufacturer and assembler of automotive components, plans to begin production in December 1996 of a specially designed cigarette lighter knob for export to **G.M.** in the U.S. Danube expects to ship 250,000 pieces to the U.S. by the end of 1996, and to ultimately produce 2.5 million pieces per year, said Danube's Valdimir Smola. In November 1996, Danube purchased a Battenfeld vertical injection molding machine.

Akuma Slovakia is building a factory in Turna nad Bodvou in eastern Slovakia to produce hard rubber batteries. Production is scheduled to begin in late 1996 and capacity will be 60-70,000 batteries per year. By the end of 1996, some 15,000 batteries are expected to be produced at the new factory.

As of October 1, 1996, **Kia** importer **Slovensky Autoimport, a.s.** delegated all sales and distribution activities to daughter company **Kia Slovakia, a.s.** Pursuant to a contract signed by Slovensky Autoimport with Kia sister company **Asia Motors**, Kia Slovakia started selling the Rocsta commercial vehicle model in September 1996, and in January 1997 will also sell the Topic van model. In September 1996, Kia Motors started selling the Kia Clarus model, and has been selling the Sephia five-door model since February 1996. In 1997 the Kia Besta van will be renamed Pregio and introduced into the Slovak market.

Commercial Vehicle Production & Sales (1/1/96 - 6/30/96)

Maker	Units Produced	Local Sales	Export
Skoda Liaz	68	53	15
Slov-Avia	91	84	0
TAZ Sipox	695	332	433
VAB-Sipox	41	34	7
VSS	21	9	29
Total	**919**	**512**	**484**

Source: AIA

Slovak Economic Indicators

1996	
Real GDP Growth	6.4-7% (e)
Indus. Output Growth (July)	5.5% (y/y)
Inflation	5.6-6.1% (e)
Unemployment	12.8% (e)
Trade Balance (SK bn.)	-40 (e)
Avg. Wage Increase	
Nominal (July)	18.2% (y/y)
Exchange Rate (Oct.)	USD 1=SK 30.7
Foreign Direct Investment	
1/90-6/96	USD 808.4 million
M2 Growth	13.2% (e)
S&P Country Rating	BBB-

(e): estimate
y/y: year-on-year

Sources: Slovak Statistical Office, National Bank of Slovakia, Tatra Banka

Toyota Tsusho Slovakia, the sole importer of Toyota cars for the Slovak Republic, will start selling the new Toyota Camry model in Slovakia in the Fall of 1997. As of October 31, 1996, 66 Camrys have been sold by Toyota Tsusho in Slovakia. The company also plans to begin selling the luxury Lexus model next Fall.

During the first nine months of 1996, 3,081 small utility cars were sold in Slovakia. **Skoda**, with sales of 700 such cars, had a market share of 22.72%. **Citroen** sold 473 units for a market share of 15.30%, and **Peugeot's** sales of 331 units captured it a market share of 10.74%. During this same period, 756 medium & large utility cars were sold in Slovakia, with 44% of these sales made by **Avia**. Over 85% of the 81 buses sold in Slovakia during the first nine months of 1996 were made by Czech bus maker **Karosa**.

Daewoo Motor Slovakia, an importer and distributor of Daewoo cars, is reportedly researching the possibility of establishing a company in Slovakia that would produce spare parts for Daewoo cars. The project is "still being negotiated," said Daewoo Motor's Marketing Manager Peter Halgas. Starting January 1, 1997, the company will extend the scope of its sales to include **Avia** trucks from the Czech Republic and light commercial vehicles from Daewoo's Polish factories. Daewoo's four new passenger car models will be unveiled in Korea on November 15, 1996, and available in Bratislava in March 1997.

A **free trade agreement** between Slovakia and Croatia is expected to take effect on January 1, 1997.

Vehicle Market New cars registered in Slovakia numbered 50,356 in 1995, compared with 41,092 new registrations in 1991. Total registered cars in use in 1995 was 1,015,784, up from 906,129 in 1991. As of October, 1996, approximately 1,050,000 cars were registered in Slovakia. About 40% of Slovakia's car fleet is 15 years or older. Modernizing Slovakia's aging car fleet was one of the rationales behind the government's temporary suspension of the import surcharge for cars under 1500 cc.

Components Market In 1996, Volkswagen made purchases worth more than DM 50 million of locally made components from 15 Slovak suppliers. **BAZ a.s.**, the troubled parts manufacturer, has a yearly production program that includes 550,000 rear axle pins, 550,000 brake drums, 250 rear axles for **Skoda** Felicia, and 60,000,000 cars pressings for Skoda and **Mercedes**. According to BAZ Director Pavol Bastek, "We would like to increase the volume of production and become a supplier for [other car manufacturers]." [*for more on BAZ, see The Analyst on page 10*]

Sources: ZAP, AIA, SNAZIR

Continued on page 15

Slovakia

NEW CAR SALES SURGE IN SLOVAKIA

BANKING & FINANCING UPDATE

Sales of new cars in Slovakia have surged this year and companies are battling for market share. Although Skoda is still the top selling car in Slovakia, with over 11,000 units sold in 1995, its market share has shrunk from 64% in 1994 to 30% as of September 1996. South Korea's **Daewoo** is responsible for much of this decline. Daewoo's market share has shot up from 2% in 1994 to 18% this year, making Daewoo the number two car seller in Slovakia. **Volkswagen**, holding an 8% market share, ranks third in sales. In total, some 27,000 cars were sold last year in Slovakia, and it is likely that 50,000 will be sold in 1996.

The sharp increase in sales is due in part to the Slovak government's temporary suspension of import surcharges on new cars with engine sizes less than 1500 cc. Enacted in September of 1995, the suspension is designed to modernize the fleet of cars traveling over Slovakia's highways. Although the environment will benefit from the increased imports of quality cars, Slovakia's trade balance has suffered. The surcharge is expected to be reinstated December 31, 1996.

When the surcharge is reinstated, Volkswagen will enjoy a competitive advantage as it is a domestic producer and thereby escapes payment of any import charges. Ninety-five percent of VW Passats and 65% of VW Golfs sold in Slovakia are manufactured by Volkswagen Bratislava. "It's tough to compete with VW as a domestic producer," said one importer.

The heightened level of competition on the Slovak market is forcing companies to focus not only on increasing their sales, but on improving the quality of service. "The first question of every person that comes in to buy a car is `How's your service?'," said Frantisek Okruhlica, Director of **Autotrend**, an Opel dealer in Bratislava. "The second question is `What's your price?'" Slovak car buyers demand excellent service and a strong dealership network is essential to provide such service.

Skoda's 64 dealers create the most extensive dealership network in Slovakia. **Renault**, who saw sales of its cars in Slovakia increase six-fold from 1994 to 1995, has 26 dealers and plans to expand to 35. "With 35 dealers, we can have one near every client in Slovakia," said Ekkehard Nitsch, Director of **Renault Slovensko**. **Mazda**'s Bratislava dealer **KSO** invested SK 150 million in a modern, full service dealership that includes a showroom, offices, body shop, paint shop, and work shop. Said Lubos Kolar, Director of **Auto Palace**, the Mazda importer, "excellent service is required for success."

Daewoo Motor Slovakia supports its dealers by giving them the possibility of exclusive territories, handling their advertising, providing sales and technical training, and offering economic support when needed. "We are in close cooperation with our dealers," said Peter Halgo, Daewoo's Marketing Manager.

A ready supply of spare parts is an important part of providing good service in Slovakia. To ensure that its dealers and customers have access to spare parts, **Daewoo Motor Slovakia** keeps a large volume of parts in a bonded warehouse in Slovakia and distributes the parts from there to dealers. Renault can quickly deliver spare parts to its Slovak dealer network from its Central European warehouse in Vienna. Supplies are sent from Renault's Vienna warehouse twice a week, with overnight delivery available. According to Milan Sipocz, Executive Director of **Kia Slovakia**, importer of **Kia** and **Asia Motors** vehicles, "we are using a lot of our efforts to create a spare parts stock [in Slovakia]."

To remain competitive in Slovakia, car sellers must also offer financing and credit programs for their customers. The number of consumers in Slovakia leasing cars is increasing. To meet this demand and boost its sales, Autotrend plans to create next year its own financing company that will provide loans and offer leasing to Opel buyers. All Renault dealers offer financing and credit possibilities for their customers.

The dramatic increase in auto sales has surprised many. "This year's market has out-shot our expectations," said Mr. Nitsch of Renault. He adds, however, that "in reality, this growth is too quick." Most companies recognize that such growth is not sustainable and expect sales to flatten over the next one or two years. At that time, maintaining hard won market share will require even greater focus on quality service and competitive pricing. ■

New Car Sales in the Slovak Republic (January - September 1996)

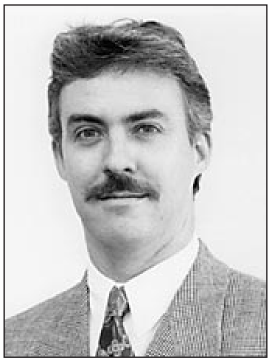
Make	Total	Market Share
Alfa Romeo	0	0.00
Audi	302	.64
BMW	157	.33
Chrysler	20	.04
Citroen	685	1.45
Daewoo	8630	18.3
Fiat	3312	7.02
Ford	787	1.67
Honda	904	1.92
Hyundai	1470	3.12
Jaguar	1	0.00
Jeep	11	0.02
KIA	734	1.56
Lada-VAZ	1594	3.38
Mazda	1109	2.35
Mercedes	134	.28
Mitsubishi	251	.53
Nissan	845	1.79
Opel	2222	4.71
Peugeot	619	1.31
Renault	2240	4.75
SAAB	9	0.02
SEAT	2272	4.82
Skoda	14183	30.07
Ssang Yo	15	0.03
Subaru	34	0.07
Suzuki	32	0.07
Tatra	1	0.00
Tavria	0	0.00
Toyota	695	1.47
Volvo	45	0.10
VW	3858	8.18
Total	**47,171**	**100.00**

Source: ZAP, AIA

Slovakia

LEGAL ADVISOR

ENTERING INTO A JOINT PRODUCTION AGREEMENT



Kevin T. Connor

One avenue for automotive parts and component makers desiring to enter the Slovak market is to enter into a joint production arrangement to use a Slovak manufacturer's excess capacity.

Doing Business in Slovakia Foreign companies may carry on business in Slovakia on the same terms and conditions as Slovak companies. If a foreign manufacturer wants to make use of the available production capacity of a particular Slovak company, this would be considered "doing business" and the foreign company must register with the Slovak Commercial Court.

Options The three main options would be to (i) register a branch office of the foreign company, (ii) establish a limited liability company, or (iii) form a joint stock company. The branch office, limited liability company, or joint stock company could conclude an agreement for joint production with the Slovak partner. Or, more likely, the foreign company and the Slovak company would found a joint venture company, typically as either a limited liability company or a joint stock company, and that joint venture company would implement the joint production arrangement.

Key Considerations Slovak law does not expressly regulate a joint production arrangement as a specific type of contractual relationship, and thus there are no specific mandatory provisions which must be followed. Parties to such an agreement therefore may broadly apply contractual concepts typical to the Anglo-American legal system and experience.

The following is a checklist of the main issues that the partners to a joint production agreement or joint venture agreement should consider, and that typically appear in such agreements:

- Specification of a joint business plan - the plan should set out in sufficient detail the business objectives and goals, including the time frame to implement those objectives;
- The parties' relative contributions - such as physical assets, technology and know-how, patents, trademarks, etc. Importantly, the parties should agree on the value of such contributions or establish an objective approach to calculate those values, such as by the selection of an independent expert;
- Management - how the business will be run and who will run it;
- Leasing of the assets required for the joint venture;
- Labor relationships;
- The place, method and supervision of accounting;
- Transfers of assets connected with the joint venture;
- Transfers of shares in the venture or restrictions on such transfers;
- Distribution of profits and losses. For example, should profits be paid out as dividends, or should they be reinvested into the company;
- Termination of the joint production arrangement; and
- Disposal of assets following termination.

Also, statements of assurances by the parties are typically included in joint production agreements such as the proper existence of the parties as legal entities; the absence of material, legal disputes against them; financial obligations; possession of relevant licenses, and the like. The agreement should also contain a choice of law provision and provide mechanisms for resolving any disputes between the parties arising from the agreement.

If the parties to a joint production arrangement do not discuss and agree to these important issues up-front, it is quite likely that disputes will arise down the road—not because of the bad faith of one of the parties, but simply because the expectations of one of the parties (or both) have not been met.

Choice of Law A foreign company new to the Slovak legal system may prefer that its investment, as evidenced by the contractual arrangement, be governed by the law of another jurisdiction. Slovak law provides that such agreements with foreign partners do not have to be regulated by Slovak law. Whether Slovak law or the law of another jurisdiction should govern a particular relationship depends on a variety of factors including the home country of the foreign partner, the duration of the arrangement, the dispute mechanism selected, and the business confidence of each party in the other.

For example, in some areas—such as the creation and enforcement of security interests—Slovak law is not as developed as that found in Western Europe or North America. If the transaction hinges on certainty of a security interest it may be in both parties' interest to select the law of the forum that adequately addresses such issues.

Dispute Resolution Any disputes arising out of the joint production agreement or joint venture may be adjudicated in Slovak courts, or the parties may agree to the jurisdiction of a foreign court. However, since a court resolution can be long and costly, businesses often choose arbitration.

Under Slovak law, parties to a contract can choose an arbitration court based in Slovakia or elsewhere. Slovakia is a signatory to the 1958 New York convention on recognition and enforcement of arbitration awards, so arbitration rulings issued in other New York Convention member states can be recognized and applied in Slovakia, and *vice versa.* In addition, Slovakia is bound by a number of bilateral treaties on legal assistance, many of which deal, among other things, with recognition and application of court rulings and arbitration findings.

Foreign Exchange Slovak companies may commit to make payments to their foreign partners in foreign currency. A Slovak business company is, however, obligated to offer funds obtained in foreign currency to a bank with a license to purchase foreign currency, and this must be within thirty days of the date such funds were obtained. As a practical matter, foreign exchange restrictions have been loosened and should not affect a joint venture company's operations.

Kevin Connor is Senior Resident Counsel with the law firm Squire, Sanders & Dempsey in Bratislava. ■

CENTRAL
EUROPE
AUTOMOTIVE
REPORT

To Our Readers:

Ronald F. Suponcic, Jr.
Publisher

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

Although Slovakia's automotive sector has not seen the kind of foreign investment enjoyed by its neighbors Hungary, Poland, and the Czech Republic, the money is trickling in. Volkswagen, the biggest foreign investor in Slovakia, is increasing its investment. VW and Siemens manufacture wire harnesses in Nitra and invested over DM 170 million in the project in 1996. Negotiations are currently underway between VW and a yet unnamed company for a similar joint venture that will produce auto components in Slovakia. And the huge Japanese wire harness manufacturer Yazaki Corp. is investing USD 20 million in Slovakia to build a 2000 worker factory in Prievidza. Foreign investors are not lining up at the border, but they are arriving.

Part of the reason foreign capital is slow to find its way into Slovakia is the country's failure to welcome investors as have its neighbors. Few investment incentives are offered and foreign companies are shunned in Slovakia's much maligned privatization program. Furthermore, the blood feud between Prime Minister Meciar and President Kovac does not instill confidence in potential investors.

And once here, investors face a burdensome tax system and find little support for their activities from local authorities. Basic services are also lacking. One foreign automotive components manufacturer complained of having to travel 60 kilometers to pick up supplies because the supplier didn't offer delivery services for its customers.

On the positive side, Slovakia has excellent macro-economic figures, is strategically located, and offers a good supply of skilled workers. A recent report issued by the OECD lauds Slovakia's impressive economic achievements. Great potential exists here, but a few hurdles remain that are likely to slow the arrival of additional investment in the supply base.

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As always, please contact us with your questions, suggestions, or requests. The Central Europe Automotive Report is designed to keep you on top of developments in the fast moving Central European automotive sector. ■

SLOVAK AUTOMOTIVE PARTS & COMPONENTS

The Slovak 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. Tribometal	Bearings, forgings parts	Pavol Zat'ko	tel: 42-845-864-880 fax: 42-845-864-840
2. PAL-INALFA	Metal sheet parts, sunroofs, plastic	Ivan Gajdos	tel: 42-87-832-360 fax: 42-87-833-294
3. VSZ	Cold & hot rolled metal sheets	Ivan Lacko	tel: 42-95-734-109 fax: 42-95-426-590
4. ZVL Zilina	Ball & rolling bearings	Milan Novotny	tel: 42-89-426-08 fax: 42-89-454-44
5. ZSNP	Aluminum castings & parts	Jan Pitner	tel: 42-857-722-551 fax: 42-857-723-247
6. VAP	Brake systems & parts	Vladimir Karabinos	tel: 42-91-724-697 fax: 42-91-722-117
7. AVC	Gearboxes	Jiri Hedenec	tel: 42-824-210-05 fax: 42-824-215-74
8. Topolcianske Strojarne	Exhaust systems, drive shafts	Ivan Kroslak	tel: 42-815-243-06 fax: 42-815-323-363
9. SACHS Trnava	Clutches	Peter Dool	tel: 42-805-241-71 fax: 42-805-233-52
10. PFS	Springs	Stanislav Cesnek	tel: 42-802-947-220 fax: 42-802-942-868
11. Elektro Ludib VDI	Small metal sheets	Jan Szekely	tel: 42-704-932-92 fax: 42-704-933-36
12. Magna Slovteca	Reflecting mirrors & wiring	Jan Bahula	tel: 42-834-718-475 fax: 42-834-718-477
13. Elektrokarbon	Carbon products for electric motors	Peter Ondro	tel: 42-815-354-1118 fax: 42-815-326-270
14. MAKYTA	Airbag sewing	Frantisek Brehovsky	tel: 42-825-33-19 fax: 42-825-416-46
15. OSRAM Slovakia	Lamps	Lars Johnson	tel: 42-817-277-21 fax: 42-817-241-88
16. SKOPLAST	Glass fibers, glass	Emanuel Polesensky	tel: 42-805-25841 fax: 42-805-244-98
17. DIOP	HV diodes	Josef Fedora	tel: 42-838-522-303 fax: 42-838-522-306
18. OP Krasplast	Small plastic parts	Ivan Visnovsky	tel: 42-89-692-409 fax: 42-89-623-314
19. Contitech-VEGUM	Rubber parts, rubber window sealings	Pavol Janega	tel: 42-862-981-46 fax: 42-862-991-93
20. SANDRIK	Oil & air filters	Jan Garaj	tel: 42-858-494-430 fax: 42-858-494-637
21. L'KZ	Floor covers	Igor Kolenik	tel: 42-801-232-25 fax: 42-801-2204
22. HEILEND	Seats	Herlbert Ohla	tel: 42-7-778-022 fax: 42-7-778-022
23. Plastika Nitra	Injection molding plastic processing	L'ubomir Jahnatek	tel: 42-87-518-251 fax: 42-87-513—818
24. Technicka Guma	Rubber products, tire valves	Erika Hruskova	tel: 42-865-25-93 fax: 42-865-35-06
25. ZVL	Bearings, jacks	Jan Jancik	tel: 42-801-943-710 fax: 42-801-945-919
26.Zlievaren Trnava	Iron castings	Dusan Satur	tel: 42-805-212-38 fax: 42-805-258-52

OPPORTUNITY SPOTLIGHT

This month's Opportunity Spotlight features three Slovak companies and one University interviewed by the Central Europe Automotive Report. Opportunities exist for cooperation with these entities in the form of supply and purchase agreements, technical development assistance, and direct investment.

Yazaki Debnar Slovakia Spol. sr.o.

Yazaki Debnar Slovakia is a joint venture between Japan's **Yazaki Corp.** and Slovakia's **Slovak & Electronic Corp.** (SEC) Roughly 85% of Yazaki Debnar is owned by Yazaki Corp. and 15% is held by SEC. **Yazaki Corp.** is Japan's leading producer of automobile wire harnesses, and one of the major producers of harnesses in Europe.

New Factory A test wire harness factory was established in Slovakia in February 1995 with 450 employees. YDS is now expanding this operation and building a new 13,000 sq. meter factory in Prievidza on a 35,000 sq. meter plot. Production in the new factory is planned to begin in January, 1997. By 1999, YDS expects yearly production of wire harnesses at the new plant to reach 133,333 units. Current yearly production in Slovakia is 22,700 units.

Exclusive Supplier to Ford Yazaki Debnar is the exclusive supplier of wire harnesses for the **Ford** Mondeo in Europe, and received Ford's Q1 Preferred Quality Award in 1996. One-hundred percent of the factory's current output is shipped to Ford. When the new factory comes on line, YDS will continue to focus on Western Europe. The company has no "concrete" plans to supply manufacturers in the ex-Soviet states, said company Chairman Matsuzo Daigo. "As a matter of fact, we have more demand than capacity."

Yazaki Corp. recently succeeded in getting a supply contract with **Opel** for the Vectra model. According to Daigo, supply will begin in the "near future" but he is not yet sure if the Slovakia factory will supply wire harnesses under this contract.

Suppliers All materials for the Slovak factory are currently supplied by Yazaki factories in Portugal. "Our affiliated factories in Portugal supply pre-finished materials which we are here processing post assembly," said Daigo. Supply purchases include electric wire, connectors, terminals, and plastic protectors. Sophisticated technical components such as junction blocks are purchased from a Yazaki factory in the United States. "For the time being, we cannot get them here," said Daigo. In Japan, the Yazaki Corporation manufactures many of its needed parts and components in house, but transportation costs prohibit supplying those items to Yazaki's European factories.

New Factory Suppliers When the new factory begins production, component parts will come mainly from Western Europe, but YDS would also like to purchase supplies from local components and parts suppliers. "First we must establish our foothold here, and [then we'll work on local suppliers]," said Daigo. One of YDS's foreign suppliers has expressed interest in relocating to Slovakia, and YDS is negotiating a supply contract with an Austrian electric wire supplier. Electric wire is currently supplied by a Yazaki plant in Portugal.

Difficulties with Local Suppliers According to Mr. Daigo, establishing contacts with suppliers in Slovakia is difficult. And once relationships are established, more problems are encountered in the form of late deliveries, poor quality, difficulty increasing quantities, and a lack of customer support. "It might take some time until we establish sub-supplier connections with [local suppliers] because all the car manufacturers in the West are very strict about quality," said Daigo. "We are very careful about selecting good quality component parts."

Labor By the end of 1998, the company plans to employ 2000 workers, and expects to find all of these workers in the local market. Yazaki's early plans for Slovakia involved a 5-6,000 worker factory. This plan was scaled back because of local labor market conditions. "I feared some difficulty for recruiting people here," said Daigo. He noted that if more workers can be found in the local market, then the company may expand further. YDS has experienced no labor union problems in Slovakia.

Management Challenges Yazaki Debnar's biggest management challenge is combating "rather high absenteeism," said Daigo. YDS's attendance rate averages about 85%, compared with 95% in their Thailand and Philippine factories. Finding high quality managers is also a problem. Daigo noted that the quality of workers in Slovakia is good, but that well trained managers are needed to lead them. "If management is poor, workers' effectiveness will be poor."

Surprises According to Mr. Daigo, although Yazaki Debnar did not expect to receive any subsidies or tax breaks in Slovakia, he is "astonished" with Slovakia's onerous double taxation system and the general lack of support received from the State and municipalities. There is "less than normal support from the public authorities," he said. The lack of support is especially surprising considering Yazaki's large investment and the high unemployment (10%) in the Prievidza area. Despite these problems Daigo is optimistic, "we shall do our best for our enterprise."

Yazaki Debnar's Numbers

Wire Harness Production:

Year	Units
1995	11,000
1996	22,700
1999 (est.)	133,333

Manhour capacity goal: 200,000 per month

Employees:

1996	450
1998	2000

Factory Expansion Investment: approx. USD 20 million

Source: Yazaki Debnar Slovakia

TAZ Sipox

TAZ Sipox produces six versions of light commercial vehicles, including mini-buses, box-van trucks, and ambulances. The company is privatized, and all parts of the production process are conducted at the company's Trnava plant, including part pressing, painting, axle production, engine production, tool making, and assembly.

TAZ Sipox's 1995 Production & Sales

Model	Production	Local Sales	Exports
Platform	302	89	209
Delivery Van	359	121	237
Microbus	358	88	232
Service	1,008	431	548
Ambulance	159	68	94
Funeral	25	2	21
Total	**2,211**	**799**	**1,341**

Source: SAP, TAZ-Sipox

Production Plans Approximately 2,000 vehicles are manufactured a year, bound mostly for the Czech and Slovak markets. "Our development plans are aimed at continuing this production until the year 2000," said Commercial Director Stefan Puskar. In the 1980's, TAZ produced 5000-6000 vehicles per year, and another 5,000 were produced for spare parts. "The technology we have corresponds to 10,000 vehicles," said Puskar.

According to Puskar, plans are also underway to produce a small commercial vehicle "microcar." Know-how for this vehicle was purchased from **VAB SIPOX Banovce nad Bebravou** in 1995.

Looking for Partners TAZ is searching for a "partner for production of personal cars or light commercial vehicles, up to 2-ton capacity," said Puskar. "What we can offer to a foreign partner is a large production capacity, with all kinds of energy, manipulation techniques, and about 1500 qualified people, including a development department, engineers, and factory workers." The company is interested in talking with companies from all countries. Meetings and negotiations are underway with some potential partners, but they are only in the "first stage," said Puskar.

Suppliers Sixty-percent of TAZ's suppliers of semi-products and spare parts are from the Czech Republic. The other 40% are mostly from the Slovak Republic, with a small percentage coming from Western Europe. The main products purchased from outside suppliers are electrical devices, semi-products like castings and forgings, steel plates, plastic products, glass, and glues.

Akuma Slovakia s.r.o.

Akuma Slovakia is the 100%-owned daughter company of lead acid battery producer **Akuma Czech Republic**. The company was established in 1994, operating primarily as a battery distributer. When the parent company encountered problems finding workers in the Czech Republic for production of PVC separators, production was moved to Novoveska Huta in Slovakia. In the beginning of 1995, Akuma Slovakia started producing PVC separators in Slovakia. The factory has a capacity of 80 million separators per year. Separators produced in Slovakia are exported to Russia, Ukraine, and Romania.

New Battery Production Facility In the beginning of 1996, Akuma Slovakia initiated a project to produce hard rubber batteries. A new production plant is being built in Turna nad Bodvou in eastern Slovakia. Production is scheduled to begin in fourth quarter 1996 and capacity will be 60-70,000 batteries per year. About 15,000 batteries are expected to be produced by the end of 1996. Production of the hard rubber batteries was moved from the Czech Akuma factory to Slovakia, primarily to free-up capacity for production of white case polypropylene batteries in the Czech Republic. According to Akuma Slovakia's Sales Director Igor Tar, overall "polypropylene sales are increasing, [while] hard rubber sales are slowly decreasing." Nonetheless, sales of hard rubber batteries are important in eastern European markets such as Russia and Ukraine.

Ukraine Targeted At the end of 1995 Akuma Slovakia established a representative office in the Ukraine. Akuma Slovakia has two large Ukrainian distributors who buy directly from Akuma Slovakia. According to Tar, the two distributors have 15 selling points in the Ukraine, and the number increases each month. "We've covered the middle and west part," said Tar. "The east part, from Kiev eastward, that is our target." The Ukraine market is "very important for us," said Tar. "We're very happy our activity in Ukraine is growing."

Government & Market Complicates Matters In late August 1996, the Ukraine Ministry of Finance enacted a 25% tax that applies to Akuma's batteries. "We don't know what will be the effect of this," said Tar. Furthermore, the price of lead on the market is rising, which is adversely affecting product prices.

Slovak Technical University

The university's Department of Materials Science and Technology currently cooperates with **Danube Mold & Die**, a subsidiary of U.S.-based **Plastic Molding Technology, Inc.** Danube designs and builds injection molds, insert and injection mold thermoplastics, and manufactures and assembles components for the automotive industry. The company operates out of three rooms at the Technical University, and is helping the university develop a plastics curriculum. Eleven students are currently enrolled in the plastics program. Students use Danube's machines, and Danube also provides some technical support for the project.

University Seeks Cooperation with Industry "At the first moment we were ready to cooperate [with Danube] because of the long-term idea about the possibility of expanding [the plastics program]," said Peter Kostka, head of the Department of Materials Science and Technology. "The cooperation is very fruitful." Kostka noted that changing industrial circumstances have resulted in "greater demand for plastic technology expertise."

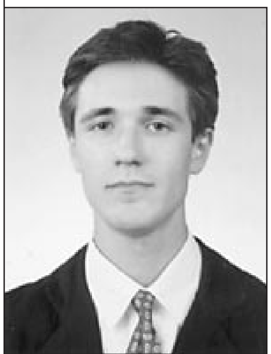
With limited government support available for the expansion of university programs such as plastics, the university looks for help from companies. "We try to find links with existing industries," said Kostka. "At the right moment we found the possibility to cooperate with Danube Mold & Die." Through cooperation with **Rand Technologies**, the university has available sophisticated CAD/CAM software that is used for mold and tool design.

Combustion Engine Department The university's Combustion Engine Department also has cooperated with companies involved in the automotive industry. According to Associate Professor Jan Lisinsky, the department provided expert advice and analysis to **ZTS TEES** regarding tractor engine development trends. The department has also cooperated with tire-maker **Matador**, **TAZ Sipox**, and **Volkswagen Bratislava**. ■

CENTRAL EUROPE AUTOMOTIVE REPORT

THE ANALYST

Hard Times for Parts Manufacturer BAZ



Jan Prasens

Bratislava-based BAZ is one of the few producers of automotive parts in Slovakia whose shares are available for trading on the Bratislava Stock Exchange. BAZ was set up 25 years ago as a "green field" project with a strategic plan of building up a major car production facility in Slovakia. However, the plans for manufacturing cars and commercial vehicles turned out to be too ambitious and the company has, instead, become a producer of a wide range of automotive parts for other regional car makers. BAZ also provides services for its partners, including welding, assembling, and varnishing. In the 1980's BAZ commenced cooperation with Czech companies, principally *Škoda*, which has been its most important partner (two of *Škoda*'s car lines, namely GARDE and RAPID, were assembled and varnished in *BAZ*). BAZ has also produced engine parts for the Russian car maker *Moskvi*.

Ownership Structure The privatization process launched in the early 1990's has not been very successful for BAZ, as the sell-off of the most lucrative assets to the *Volkswagen* group and the subsequent privatization of its 5 production units have left the company with massive debt and a lot of dubious property. BAZ itself has been included in the first wave of vouchers-for-shares privatization. At the moment, the state is still a controlling shareholder in the company through the National Property Fund, holding 35.8% of its equity. Approximately the same share is controlled by several investment funds and about 30% is distributed among individual shareholders.

Production Program: Saved, For Now, by Skoda Currently, BAZ operates three production facilities in the Bratislava region, focusing largely on production of axles, brake drums, and pins for rear axles. Other lines include various tools production, manufacturing of light trailers and electrical wheelchairs, as well as tin pressings. BAZ has suffered from the increased competition on the Czech market and the splitting of Czecho-Slovakia.

Although the company was expected to go bankrupt in the past two years as a result of a sharp drop in orders from Czech car makers and surging financial costs, BAZ managed to survive and launched a revitalization program. After a several-month shut-down of most of its capacities, the company obtained orders from *Škoda* in May 1996 to deliver rear axles, brake drums, and pins for the *Felicia* line and pressing tools for the new *Octavia* model. This will allow the company to produce about 60,000 axles annually, some 550,000 brake drums, and about the same number of pins for rear axles.

Over 80% of the company's production is exported, the majority being absorbed by the Czech market and the rest going to Germany (e.g. metal seat frames for *Mercedes* utility cars). On the domestic market, BAZ is a sole producer of axles and is a leader also in other lines. The company is currently devoting much of its attention to quality management systems for its facilities and is preparing for a certification audit by *RWTUV* in accordance with the ISO 9001 standard, which is scheduled for the end of this year.

Rocky Financials A review of BAZ's financials reveals that its most serious problem is a heavy debt burden coupled with high long-term receivables, mainly from several Czech producers of trucks, such as *Tatra Kopivnice*. New management, which took over the troubled company about two years ago, adopted a streamlining program which reduced significantly the workforce to the existing level of 650 people. At the moment, however, managers plan on hiring more workers due to the mentioned *Škoda* orders. The rescheduling of the existing debt is a crucial issue for BAZ, as it is approaching a level of approximately SK 1 billion. The company is said to be in negotiations with its debtors and hopes to reach an agreement soon. BAZ has not drawn any loans for more than 2 years and has been financing its activities via internally generated funds.

The Future: Strategic Partner Needed BAZ's management hopes to break even in 2-3 year's time, when the majority of the dubious property and receivables should be written off. The high financial costs from the massive amount of old loans will continue to be a heavy burden for the company in the next couple of years, although BAZ hopes to negotiate better terms on these facilities. Besides a thorough cost-cutting program, the company is in dire need of a long-term strategic partnership with a European car maker, as uncertainty over future orders makes it very difficult to elaborate any projections or plans.

Surprising Stock Performance Somewhat better prospects for BAZ have been seen in the performance of its underlying shares on the Bratislava Stock Exchange. The stock surged from the late July level of SK 80 to break the crucial barrier of SK 100 in August. The stock has recently reached quotations as high as SK 163, however, on very low volume. At present, it is not clear what the reasons are behind this surge in stock price.

The Bottom Line We would not recommend buying BAZ shares at the moment. The company's future is unclear unless its signs several important supply contracts. For now, we recommend: **HOLD**.

This Month's Analyst is Jan Prasens, Head of Market Research at Slavia Capital, a.s. in Bratislava.

Company's Name: **Bratislavské Automobilové Závody, a.s. (BAZ)**

Industry :	automotive parts
Outstanding Shares:	938,418 (ordinary shares)
Free Float:	64.15 %
Par Value:	SK 1,000
Market Cap.:	SK 152.9 mil. (USD 5 mil.)
Current Price:	SK 163 (as of October 22, 1996)
12 month High:	SK 200
12 month Low:	SK 50

Income Statement & Balance Sheet

INCOME STATEMENT IN SK '000	12/31/94	12/31/95	6/30/96
Net Sales		204,927	13,999
Cost of Goods Sold		(125,983)	(9,049)
Operating Income	**(117,965)**	**(58,178)**	**(29,650)**
Financial Income (Expense)	22	(1,632)	801
Interest Income (Expense)		(87,545)	(40,967)
Total Financial Income	**(58,542)**	**(89,177)**	**(40,166)**
Extraordinary Income (Expense)		(57,956)	(4,458)
NET INCOME	**(184,194)**	**(205,311)**	**(74,274)**

BALANCE SHEET IN SK '000	12/31/94	12/31/95	6/30/96
Cash/Equivalents	61,494	5,709	1,884
Accounts Receivable	523,046	854,294	258,448
Tangible Assets	1,098,673	673,834	633,471
Intangible Assets	159	90	107
Financial Investment		600	600
Long-term Accounts Receivable			598,205
Other Assets		11,527	297
TOTAL ASSETS		**1,579,084**	**1,530,724**
Shareholders Capital/Equity	938,418	938,418	938,418
Capital Funds		579	579
Retained Earnings		(49,949)	(49,949)
Profit & Loss Account		(205,311)	(279,585)
Total Shareholders Funds	**890,168**	**683,737**	**609,463**
Accounts Payable	323,643	180,478	177,216
Reserves		10,695	10,695
Bank Loans	579,058	690,400	716,395
Other Liabilities		13,774	16,955
Total Liabilities	**912,417**	**895,347**	**921,261**
TOTAL LIABILITIES & NET WORTH	**1,802,585**	**1,579,084**	**1,530,724**

Slovak Sheet Metal Supplied to Daewoo

It is expected that one-third of the 150,000 tons of rolled sheet metal to be used by 5 Daewoo auto plants in Central and Eastern Europe in 1997 will be purchased from Slovak steel giant VSZ in Kosice. Next year, **Daewoo-FSO** and **Daewoo Motor Polska** in Poland, **Rodae** in Romania, **UZ Daewoo** in Uzbekistan, and **Daewoo Avia** in the Czech Republic plan to purchase 50,000-60,000 tons of VSZ metal sheets combined.

Daewoo Motor Polska is a regular customer of VSZ and has recently shown an interest in purchasing car body sheets as well. Daewoo-FSO is testing VSZ products, and UZ Daewoo is holding discussions regarding trial supplies of sheets from VSZ.

-Symsite

New Car Registrations in Slovakia

January 1995	**919**
January 1996	**3008**
March 1995	**1432**
March 1996	**4030**

Source: AIA

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.

Central & Western Europe In 1997

1997

Jan. 16-19	**Salzburg, Austria** Auto Show
Jan. 18-26	**Brussels, Belgium** Commercial Vehicle Auto Show
Feb. 6-16	**Amsterdam, Netherlands** Auto Show
March 4-7	**Budapest, Hungary** Int'l Metalworking & Machine Tool Exhib.
March 6-16	**Geneva, Switzerland** Auto Show
March 25	**Belgrade, Yugoslavia** Auto Show
April 3	
April 5-13	**Stockholm, Sweden** Auto Show
April 18-23	**Brussels, Belgium** Autotechnica
April 25-30	**Poznan, Poland** Int'l Fair of the Automotive Industry
April	**Celje, Slovenia** Car & Maintenance Fair
April	**Ljubljana, Slovenia** Fair of Farm Vehicles & Supplementary Equipment
May 20-23	**Nitra, Slovakia** Int'l Fair of Machines, Tools, Devices, & Technologies
May 27-31	**Budapest, Hungary** Industrial Hungary
June 7-12	**Brno, Poland** Auto Show
Sept. 3-7	**Nitra, Slovakia** Int'l Exhib. of Passenger Cars, Trucks, Utility Cars, & Accessories
Sept. 11-21	**Frankfurt, Germany** Autotechnica
Nov. 15-23	**Athens, Greece** Auto Show

Slovakia

ACCOUNTING & FINANCE

TAXES AND CUSTOMS UPDATE

Felix Mayrhofer

Taxation

Since its separation from Czechoslovakia on January 1, 1993, Slovakia has made some important changes to the tax laws that were retained from the joint federal state. Tax laws and their application are generally not favorable to investors. The use of tax losses is very limited, bad debt provisions, losses on disposal of fixed assets and certain advertising expenses are not deductible, and there are essentially no investment incentives. Lack of clarity of the laws combined with high penalties for transgression of them are a further problem for businesses in Slovakia.

Corporate Income Tax The starting point here is book profit. Non-deductible expenses such as those mentioned above must be added back. Branches and permanent establishments are generally taxed by a percentage of their actual or mediated sales; other criteria such as book profit and costs may also serve as the tax base.

The corporate tax rate is 40%. The tax must be self-assessed and remitted by March 31 the following year. From April onwards pre-payments must be made. Extensions are difficult to obtain.

Depreciation is calculated according to categories, and accelerated depreciation is available. Thin capitalization rules make interest for loans from related companies only deductible up to certain limits. Only losses from one year are deductible, over the following five years at 20% annually.

Dividends from within Slovakia are subject to withholding taxes of 15%. For the recipient they are tax-free; there is, however, no credit available. Any income from state bonds is tax-free.

Individual Taxation Residents' world income is taxable, the marginal rate reaching 42% on income of approximately USD 35,000. Foreign experts, under certain conditions, are taxed on their Slovakia-related income only, having a 30% lump sum and social security contributions as deductions. Self-assessment, payment, and pre-payment rules are similar to those for corporations.

Withholding Taxes Taxes must be withheld on certain payments to foreigners. Examples of withholding taxes on payments to Slovaks or foreigners are:

25%	profits of silent partners
20%	compensation of statutory bodies
15%	interest from banks in most cases, dividends, etc.
10%	authors' fees

Double Tax Treaties Slovakia has double tax treaties with some 30 countries, reducing withholding tax rates in many cases. Most of the treaties were concluded by Czechoslovakia. Contrary to these treaties, Slovakia treats the secondment of personal as permanent establishments. The latter are taxed based on a percentage of total fees for these activities.

Value Added Tax When sales exceed SK 750,000 over three months or SK 3,000,000 over twelve months, an entrepreneur must register as a VAT payer. The normal rate is 23%. Sales of goods and services are taxable; sales include construction works within two years of official approval of completion. A reduced rate of 6% applies to, for example, food and tax advice. Financial services are not taxable, and exports of goods and services are tax-free. Certain services for foreign customers are also exempt. VAT is due on imports.

VAT on incoming invoices is generally deductible from VAT payable. The requirement is that the goods were actually delivered or the services rendered; the "input" VAT is recorded and paid to the supplier. Payment through clearing or to third parties as in the case of bills of exchange or cessions does not entitle the payer to VAT claims.

Excise Duties Excise duties are levied on goods such as hydrocarbon fuels and lubricants, spirits, beer, wine, and tobacco products. The tax liability arises when the producer or importer releases the goods from his warehouse. The duties are fixed amounts for quantities, and are additional to import duties and VAT.

Real Estate Tax The base, in general, is the purchase price of land and buildings. The rate depends on the relationship between the seller and buyer and may reach 20%.

Road Tax Most vehicles used for business purposes are subject to a road tax. The tax is also levied on foreign cars used for business trips in Slovakia. The tax depends on the type of vehicle.

Social Security Contributions These contributions amount to 38% of salary for the employer and to 12% for the employee. The employee's share must be withheld by the employer and paid monthly together with his own share.

Inheritance & Gift Taxes The net value of the beneficiary's share is subject to a tax which varies in accordance to the degree of relationship and the amounts involved. The tax may reach 40%.

Customs Duties Classification is in line with OECD norms. The surcharge of 7.5% only applies to certain goods. Customs charges are paid in accordance with the classification drawn up by the customs office. Special regimes can be obtained for goods to be processed in Slovakia. On temporary imports, 3% customs charges must be paid per month.

Customs rates for cars go up to 38% and are reduced to 19% for GATT members. Multilateral agreements (EU, EFTA, CEFTA) reduce these rates further. For small cars, the customs duty and surcharge are 0% until December 31, 1996.

Felix Mayrhofer is the Tax Manager at Deloitte & Touche in Bratislava. ■

Profile *Continued From Page 1*

Before joining Volkswagen Bratislava, he was Production Manager at Volkswagen's main office in Wolfsburg, Germany, and he also completed a two year assignment as Planning Director of Volkswagen of America.

CEAR: Has Volkswagen recently made any changes in its production program?

Wilhelm: In 1996 we are stable in our production of 130 cars a day. In July we changed over from building Passats and Golfs to strictly producing Golfs. This [had been planned for] a while. It will be the program for 1996 and ongoing through 1997. So, we will focus on Golf and Golf Syncro production, and improve equipment for more productivity. We also have some changes—to our organizational structure and development of the work force—to prepare ourselves for the next step. Of course, I cannot talk about the next step more precisely.

CEAR: Do you have any other factory expansion plans?

Wilhelm: Of course we have ideas and we have goals, but one always has to see what the market needs. We feel that we are good as a niche producer and not a mass producer. Therefore, the focus right now is on the Golf Syncro. We're also looking for another niche product that would fit into our plant. In our 5-year forecast we have plans but this is something for the future. But let me say, our internal goal is to at least double production within the next few years. This is, I think, a fair intermediate step. Our saying is: We don't like to make revolutions. We like to make evolution, going step-by-step up and develop our work force for this next step.

CEAR: How's your supplier localization program going?

Wilhelm: In 1996 our main focus outside our own plant is to start developing our supplier base [within the] region. We will try to develop automotive supply companies for the standards of Volkswagen and try to get them into the Volkswagen network as suppliers. This is our main effort right now. Currently, there are 15 Volkswagen suppliers in Slovakia.

Besides this, Volkswagen together with **Siemens** has started production of wire harness systems in Nitra. And there are ongoing [discussions] with an aluminum parts producer in Ziar nad Hronom. It's not yet finalized, but we're investigating how we can bring this plant into our supplier base. Another bigger project is under investigation. It will be similar to the Nitra project but in a different field.

CEAR: What specific actions do you take to improve the local supplier base?

Wilhelm: We use the full range. In Nitra, Volkswagen is doing it on a joint venture basis. Other companies, we try to help get connections with our central purchasing and we assist them with improving quality to reach the level needed for Volkswagen's supplier base. Our Braunschweig axle plant is in discussions with **BAZ-NASKOM**, a Slovak producer of rear axles and axle and wheel parts. In the same way there are activities with **Presskam**, part of the former **BAZ** company, and they'll be mainly looking to supply stamped parts. So it's the full range. Normally it's not direct financial involvement by Volkswagen.

CEAR: Have any suppliers set up operations on the spare land that Volkswagen has surrounding its Bratislava plant?

Wilhelm: There's one French company, **Sommer Allibert Systemtechnik AG**, that is presently on our grounds. They've been here for one year, and they are a supplier of door interiors. We look forward to possibly increasing this business by giving them assembly work of one instrument panel. They handle all of the logistics and bring the parts directly to the line, to the point of assembly. This runs pretty well in its early stage. We look forward to a second company [involved] in seats assembly [to locate] on our grounds, which will develop maybe by the end of the year.

CEAR: Have you seen big gains in productivity at your plant?

Wilhelm: Yes. This year is the year of settlement and improvement. That means to make our organization more slim and also to improve productivity in all areas. I see in our budget forecast [that] we are on a very good track, in our cost base and in our productivity increase. We have budgeted for this year [production of] 25,000 cars, 259,000 gearboxes, and 5.8 million transmission components, and the conservative forecast right now is for about 29,000 cars and scheduled numbers of gearboxes and transmission components. With the very same work force scheduled early in the year we are making even more cars.

CEAR: What has been your biggest surprise since you started production here?

Wilhelm: One surprise for me personally [is that] we have relatively high turnover of people. This means ongoing training [is] necessary. When you look into the total situation in the Bratislava region, it's understandable. When a company comes into Slovakia it mostly [sets up] in Bratislava, and so it's asking for people and of course it wants to get people with some experience in a company like Volkswagen, and so they pay them an even higher price sometimes. So, therefore, we have higher [turnover] than [we'd] like to have.

CEAR: How much do your workers get paid in Bratislava, compared with what similar workers earn in Germany?

Wilhelm: [Workers here earn] between one fifth and one tenth [what their counterparts earn in Germany]. When you only see the total expense by the hour, it's maybe one tenth, but when you see the total cost and everything together [including] taxation, then it's less, maybe one-fifth. So we still have an advantage here, of course, [and] we use this advantage for lower investment and more flexible production set-ups. With this flexible production we have the ability to react to changes much faster than other companies. Of course, our productivity is not on the same level, for instance, as a highly technically equipped plant. So we need more hours to produce one car than, for instance, in Wolfsburg. But we still have a good cost advantage.

VW Bratislava's Numbers

Daily Car Production: (Golf Syncro, Golf Variant Syncro)	130
Annual Car Production:	29,000 (1996) 30,000 (1997 est.)
Exports:	95% of production
Annual Gearbox Production:	259,000
Gearbox Types:	QM02A, QM02C, QM02J
Value of Supplies Purchased from Slovak Companies:	SK 1,250,000,000
Investment Through 1996:	DM 215,000,000
Employees:	2,020

Source: SAP, VW

Continued on page 14

Profile *Continued From Page 13*

CEAR: What is your biggest transport challenge?

Wilhelm: Since last year we have set up a daily train from the Volkswagen Wolfsburg plant for the supply of parts. This train, about 25 wagons, runs on a daily schedule. This is our main supply chain. And in addition to this we have 2-4 lorries coming to us daily from other suppliers. We have a very stable logistic chain. We have set this up in a very short time and it runs well. Right now we have a transfer time of about 24 hours and we'll be scheduling this down to 20 hours. This also helps us to build our cars with the wide range of specification requests.

We also ship cars by boat from Bratislava to Germany. We started this four months ago. It's interesting. I thought there would be more problems but it works out well. About 20% of our production is [sent by boat] on the Danube river from Bratislava to Regensburg in Germany.

> "When we get new business it's because we can do it better, faster, or cheaper than other Volkswagen plants."

CEAR: How is your gearbox assembly operation going?

Wilhelm: Last year we assembled 800 gearboxes per day. Since the beginning of this year we have increased to 1100 per day, so we see ongoing improvement and an increase in productivity. Since last year we have transferred drive shafts parts from our Kassel plant in Germany to Bratislava, and this year we will produce about 5.8 million drive shaft parts in our plant. And we will increase this production next year by transferring more different types of these drive shafts to Bratislava. It is also [planned] that a new gearbox assembly will start by the end of next year in our plant. It's a specific type of gearbox for several types of Volkswagens, for the whole Volkswagen group. We will assemble this gearbox 100% in our plant.

CEAR: What's the most effective way you've streamlined your organization?

Wilhelm: To start you have to make the right budget figures, [including] the amount of cars you can build and when. That means the production program has to be made very exact, and then do everything in the plant to stick to [the program]. You have to organize your incoming parts chain, we have done [this]. And the rest is almost all internal discipline. Getting a car scheduled through the body shop right on time. And not having reasons not to do it. Internally, when you have your outside chain really set up like we do, it is a question of forcing the discipline to stick to the schedule. Not to build 130 units, but to build the right ones in the same day is the real task. I think we are in a stage where we can say our efforts are paying off. You can't relax because requests go higher and higher and you have to always be on top of the situation. You always have to be awake. Because tomorrow, for sure, new requests come in and if you still are working on the old ones you have no time to cover the new ones. The whole group that works here is in this alert [state]. It seems easy, but every day is really a fight. When you wake up in the morning you have to fight yourself, and you have to fight the organization and get rid of any small slips during the whole day.

CEAR: How is Volkswagen Bratislava integrated into the Volkswagen worldwide group?

Wilhelm: Generally, Volkswagen is in a good position here. Volkswagen Bratislava is an accepted part of the Volkswagen family. It's not any [longer] the new plant, but it is still growing. When we get new business it's because we can do it better, faster, or cheaper than other [Volkswagen plants]. ■

Did You Know?

- *During one year at Volkswagen Bratislava's plant, the very same equipped Golf Syncro is produced, on average, only 1.3 times?*
- *In 1996 only one Jaguar was sold in Slovakia?*
- *Two-thirds of the BMW's purchased through Bavaria Auto in Bratislava are paid for in cash, and the remaining 1/3 are leased?*

SLOVAK REPUBLIC

FACTS & FIGURES

Form of Government: Parliamentary Democracy
Prime Minister: Vladimir Meciar
Capital: Bratislava
Population: 5.4 million
Labor Force: 2.4 million
Land Area: 49,030 sq. km.
Borders: Austria, Czech Republic, Poland, Ukraine, Hungary
Ports: Bratislava, Komarno
Highways: 17,650 km.
Railways: 3,660 km.
Major Industrial Branches: Chemicals, food processing, metallurgy, engineering, energy, paper/wood processing, textiles, mining
Main Imports: Machinery & transport equipment, fuels & lubricants, manufactured goods, raw materials, chemicals, agricultural products
Main Exports: Machinery & transport equipment, fuels & lubricants, manufactured goods, raw materials, chemicals, agricultural products
Currency: Koruna (USD 1 = SK 30.7)

Feature Country *Continued From Page 3*

Inside Line

Importers in Bratislava report an increase in sales to customers from Austria, Hungary, Ukraine, and Belorus.

With such a quick increase in new car sales this year, may see a market stall as was experienced in Hungary, said one importer. Improved financing and leasing packages, however, might keep sales buoyant in 1997.

"Companies with good service will survive and sell cars," said one car importer in Bratislava.

The typical Slovak buyer of a new car is not buying the vehicle for 2-3 years, but is buying for the long-term, said one car importer.

Slovak new car market is a "price market," said one importer. "Most inhabitants don't have the income to buy more expensive cars."

Effective due diligence in Slovakia depends on exploiting personal contacts, confirming data from several sources, and fitting local data into better documented international contexts.

Investment deals must be structured to provide a wide range of exit possibilities since investor can't count on exiting through Slovakia's local public markets.

Slovakia's double taxation of some corporate activities is "blocking us from positive development here," said one components manufacturer.

"It's difficult to say what the market will be in five years," said one battery manufacturer. "The government always changes the rules."

By the year 2000, sales of 60,000 new cars in Slovakia per year is likely, said one importer. ■

INVESTMENT OPPORTUNITIES

To submit opportunities for publication write to Trade Leads, CEAR at:
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Opportunity	Investment	Contact	Phone/Fax
Manufacturer of hydraulic cylinders, up to 32 bars pressure, 25-160 piston diameter, up to 4,000 mm length, seeks commercial cooperation, offers production to order	n/a	Viktor Tegelhof re: STR 1258	t: 42-7-5335-175 f: 42-7-5335-022
Manufacturer of exhaust flanges, light welded steel constructions, agricultural machines, and hydraulic components under Sauer Co. license seeks joint venture partner	n/a	Viktor Tegelhof re: STR 0224	t: 42-7-5335-175 f: 42-7-5335-022
Manufacturer of car & truck air and oil filters seeks joint venture partner for production, financial, and distribution cooperation. Monthly air filter capacity for cars of 60,000, and 6,000 for trucks	n/a	Viktor Tegelhof re: Sandrik a.s.	t: 42-7-5335-175 f: 42-7-5335-022
Manufacturer of pressed parts for cars, press units, electric carriages, and machine tools seeks commercial or production cooperation	n/a	Viktor Tegelhof re: STR 1263	t: 42-7-5335-175 f: 42-7-5335-022

FUTURE ISSUES

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