CENTRAL EUROPE AUTOMOTIVE REPORT

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COVERING THE

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™

ROMANIA

Daewoo & Dacia Battle for Market Share; Suppliers Modernizing

Market Highlights

In early 1997, Romanian truck manufacturer **Roman S.A.** will put into service a new flexible crankshaft manufacturing line. The line will use machines imported from the companies **Boeringer**, **Hegenscheidt**, **Naxos-Union**, and **Adcole.** Roman also plans to begin production of 110-115 hp truck engines that meet Euro-2 standards. The engines are currently being tested at the **A.V.L. Institute** in Austria.

Early this year **Roman** also expects to establish a new joint venture, **Roman-International Navistar**, to produce 370 hp engines. Roman has an annual turnover of approximately USD 70 million and over 14,000 employees. Some 70% of the company's shares are owned by the State Ownership Fund.

On October 10, 1996, Romanian car manufacturer **Rodae Automobile S.A.** changed its name to **Daewoo Automobile Romania S.A.** The company is a joint venture between **Daewoo** (51%) and **Automobile Craiova S.A.** (49%). The company currently produces the following Daewoo models: Cielo 1.5 liter, Espero (semi-knock down), and Tico (semi-knock down). Cielo production capacity is 100,000 units per year, and for 1997 the company plans to produce 78,000 Cielos. Daewoo's first stage investment in the venture (1995-1997) amounts to USD 500,000,000. As of November 1996, the company had 4,800 employees.

Daewoo plans to invest an additional USD 550 million (USD 77 million in cash and USD 473 million in equipment) in its Romanian factory. Daewoo hopes to produce 300,000 cars annually by the year 2000. "We are not going to make any compromise on the quality of the cars produced in Craiova," stresses Mr. Dong-Kyu Park, the company's Chairman. *(See CEAR Vol. 1, Issue 3 for a Profile interview of Mr. Park)*. Daewoo also intends to start assembly (SKD) of 1-ton light trucks at **ARO's** facilities in Campulung Muscel.

Daewoo is constructing a new building to house its aluminum alloys casting line. The line will have a yearly capacity of 200,000 cylinder heads and 300,000 transaxle housings. The building will be completed in May 1997 and production is expected to begin in November 1997. Daewoo also is developing its engine and transaxle shop. Equipment for the shop will be supplied from Korea, Japan, and Germany in 1997 and production is expected to begin in February 1998.

The recently established (October 1996) **Daewoo Auto Trading**, Daewoo's sales arm, is focused on the fast-selling **AVIA** trucks, assembled in Prague.

Technology upgrading at **Victoria Floresti**—currently number one amongst Romanian small and medium-size tire manufacturers—has led to a substantial

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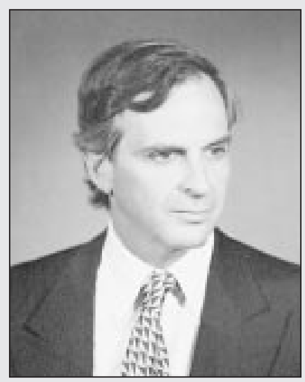
Romania

PROFILE

Commercial Auto Leasing Hits Romania

AutoLease is Romania's first dedicated auto leasing company. The company will provide 2-year cross-border finance leases to international and Romanian companies doing business in Romania.



Mike Morris

Mike Morris, Founder and CEO of AutoLease, is a Harvard MBA and financier with 20 years experience in managing new ventures, two of them in the financial services sector. He was a member of the first delegation of American businessmen invited to Romania after the 1989 revolution, is a frequent media commentator on business opportunities in Romania, is chairman of the Special Projects Committee of the Romanian-American Chamber of Commerce, and is senior advisor to the Romanian Development Agency and the Romanian Privatization Agency.

Morris came to Romania three years ago and created a company, the only one in Romania, that supplies some 3000 products for gas station convenience stores throughout the country.

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Feature Country *Continued From page 1*

improvement of product quality. The company complies with the European Union's standards ECE30 and FMWSS, offers a 1 year/60,000 km tire warranty, and reports that no complaints have been registered for a 250,000 batch exported in 1995 to the UK. The new M 800 (175/70 TR 13) model has been accepted by **Daewoo Automobile Romania** for its export-oriented production, and the D 350 (155/70 TR 13) and M 800 (165/70 TR 13) models are currently being tested.

An extensive marketing study of the Romanian car market forecasts domestic production of 312,000 cars by the year 2004. According to the study, 120,000 units will be manufactured by **Dacia**, 160,000 by **Daewoo Automobile Romania**, and 32,000 by the off-road vehicle manufacturer **ARO**.

Vehicle starter manufacturer **Acumulatorul Bucharest** is investing USD 15 million into refurbishing its starter production facilities. When the project is completed, the company will have the capacity to produce some 500,000 maintenance-free units per year. Acumulatorul is also implementing an ISO 9001 quality assurance system which it expects to have in place by the second half of 1997.

The South Korean car maker **Hyundai** competes on the Romanian market with its peer **Daewoo** through its newly established Romanian branch, **Hyundai AutoRomania**. The company has successfully established a leasing system in Romania, developed a network of dealers, and built a state-of-the-art service center.

Wheel maker **Roti Auto Dragasani** has invested over USD 1 million in a new system that will improve its wheels' resistance to corrosion. The system has a 400 wheel per hour capacity and it accounts for a minimum resistance to saline fog of 1,000 hours. "Coupled with new paint shops and with a polymerization furnace, [the new system] allows us access [to] the most demanding markets," said CEO Eugen Armasoiu. Armasoiu also noted that in 1997 Roti plans to buy a USD 400,000 computerized minimum point marking device. These investments should improve product quality and Armasoiu expects the company to obtain ISO 9000 certification in 1997.

Vesta Investments SRL is the only Romanian company authorized by the Romanian Automotive Register to produce reflecting and fluorescent license plates in compliance with European Union standards. The company produces the plates under a **3M** license.

Romanian Light Commercial Vehicle Imports

Company	1996 3rd Quarter	9 months
Citroen	**8**	**19**
C15	1	2
Berlingo	1	1
Jumper	6	16
Fiat	**44**	**97**
Fiorino	5	9
Scudo	1	1
Ducato	38	87
Ford	**18**	**32**
Fiesta	1	1
Transit	17	31
Hyundai	**5**	**11**
H 100	4	10
Porter	1	1
Kia	**9**	**38**
Besta	7	35
Ceres	2	3
Mercedes Benz	**27**	**65**
Vito	5	0
Sprinter	22	65
Mitsubishi	**n/a**	**20**
L 200	n/a	11
L 300	n/a	9
Nissan	**2**	**4**
Urvan	0	2
Vanette	1	1
Trade	1	1
Peugeot	**15**	**48**
Renault	**65**	**86**
Express	50	61
Trafic	11	14
Master	4	11
Skoda	**2**	**5**
Felicia P.U.	2	5
Toyota	**20**	**n/a**
Hi Ace	20	n/a
Volkswagen	**7**	**37**
T 4	6	34
LT	0	2
Caddy	1	1
Total	**222**	**462**

Source: APIA

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First called **Dacia 500** and then **Lastun**, the small capacity Romanian car produced late in the 1980s by **Mecatim Timisoara** might have a future after all. A new, modernized model—INA 900—is to be launched by a consortium of Romanian companies in 1997. Production of 20,000 cars per annum depends on a USD 15 million cash input. The “voiturette” has a 967cmc, 40 hp engine, a maximum speed of 142 km/h, and fuel consumption of 4.3 liters per 100 km at 60 km/h. The car will sell for about USD 3,000.

Chrysler has opened an authorized dealer in Romania. **Brimex Chrysler Jeep SRL** has a showroom, service area, and a spare parts warehouse in Bucharest. Due mainly to the poor condition of Romanian roads, Chrysler’s Cherokee jeeps account for 95% of Brimex’s sales.

APIA, the Romanian Association of Car Importers and Manufacturers, will organize in October 1997 the first International Automotive Show. After four years of the Bucharest Automotive Show, the International Organization of Car Manufacturers has granted APIA the license for organizing—every two years, alternatively with Athens, Greece—the International Automotive Show.

The French company **Automobiles Grandin** has established a joint venture in Romania**—Constructii Automobile Bucharest**. Starting in 1997, the company plans to produce a small vehicle powered by a 1,360 cmc, 75 hp spark engine, or by a 1,769 cmc, 58 hp diesel engine. The company also plans to produce an off-road vehicle—the Dallas—that will sell for around USD 9,000.

The troubled off-road vehicle manufacturer **ARO** strives to stay alive by improving the performance of its vehicles. Newer models are powered by a **Ford** Cosworth V6, 2,953 cmc, 147 hp engine. They are also endowed with an electronic injection system and a synchronized 5-speed **Mazda** gearbox. Air conditioning, electric windows, and radio cassette players are available as options. France is the main export market for ARO.

This month’s Market Highlights were partly compiled and written by Catalin Dimofte in Bucharest. ■

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Romania

LEGAL ADVISOR

ROMANIA'S NEW COMPETITION LAW

Nicholas S. Hammond

As a further step towards the liberalization and development of a free market economy in Romania, the Romanian government has recently issued a new law on competition (Law 59/1996). The law provides a comprehensive set of competition rules which apply directly to Romania and, in doing so, abrogates articles 36 to 38 of Law 15/1990 ("monopolies and concerted action") and article 4 of Law 11/1991 (concerning the control of unfair competition).

The new law represents a move towards the harmonization of Romanian law with that of the European Union. It is largely based on the provisions of EU competition law, in particular, Articles 85 and 86 and the Merger Control Regulation. The law also supplements the provisions which already exist in Romania's Europe Agreement with the EU.

Scope of Application The Law applies to those acts that restrict, obstruct, or distort competition which cause appreciable effects on competition within Romania. The Law will apply to <u>all</u> companies or groups of companies or individuals who operate within Romania or who carry on business with Romanian entities.

Although the Law also applies to central and local public administrations, the Law does not apply to the labor market nor to the financial and securities markets which have their own legislation.

SUBSTANCE

Under the new Law institutions are created which will apply and enforce competition policy, and it also sets out basic rules and principles. The law introduces rules which will govern relationships between companies, the extent to which dominant companies can use their market power, and introduces requirements for the prior notification and approval of certain mergers.

Agreements Between Companies Controlled Certain agreements between entities are controlled under the Law. Article 5 prohibits any express or tacit agreements between companies which have the object or effect of obstructing or distorting competition within Romania. Seven illustrative types of restrictions which will infringe Article 5 are described and these include agreements to fix prices, share markets, or participate in collusive tendering arrangements.

Exemptions Available Where a prohibited agreement nevertheless has benefits which outweigh its anti-competitive effects an exemption may be granted by the Competition Council. An exemption can only be granted where the restrictions concerned are essential to the agreement and where consumers will benefit from the implementation of the agreement.

Article 6 introduces rules prohibiting dominant entities from abusing their position of market power. If measures adopted by the Competition Council to prevent the continuance of such abuses are not fully effective, the Council may apply for an order of the relevant Court of Appeal to remove the dominant position of the undertaking <u>including</u> by making orders to cancel contracts or divide the company.

Not all agreements or actions will be subject to these rules. The Law includes a provision establishing a threshold below which the prohibitions established by Articles 5 and 6 will not apply. As with the corresponding EU provisions, two criteria need to be met: a turnover criteria (which will be revised annually), and a market share test, set at 5% of the relevant market.

Notification Required For Big Economic Concentrations Chapter III (Article 11-16) introduces provisions corresponding closely to the provisions of the EU's Merger Control Regulation by requiring the prior notification and approval of "economic concentrations," where aggregate turnover of the participating entities exceeds 10 billion Lei (approx. USD 3.1 million). Any such merger which results in the creation or strengthening of a dominant position or which may cause a significant distortion of competition is prohibited.

The Competition Council will have 30 days from the date of receipt of a notification of a concentration to confirm either that the concentration does not fall within the scope of the Law or can be approved without further investigation, or that a full investigation is required. A full investigation must be concluded within 5 months of the date of the notification.

The Law also contains special provisions dealing with "regie autonome." While prices and tariffs charged by independent companies must be established by market forces, prices and tariffs set by state-owned entities will be set in accordance with the recommendations of the Competition Council. If the government determines that a monopolistic position has arisen, the Law enables it to institute by decree a form of price control for an initial period not exceeding three years. This initial period can be subsequently extended.

Institutions Created The law creates a Competition Council and a Competition Office. The Competition Council is to be made up of 10 members, each appointed by the President of Romania. The members will be appointed for a term of five years and cannot be reappointed more than twice. The Council members are public servants and cannot hold any other public office other than a teaching post. Council members are forbidden to be involved, either directly or indirectly, in trade activities or to participate in the management of commercial companies. The Council is to examine issues referred to it by setting up commissions of three of its members.

The Council has power to carry out an investigation either at its own initiative, following complaint from an interested party (whether that person is a company or an individual), or at the request of any parliamentary or local authority, professional and trade union body, consumer protection organization, or the courts.

The Competition Council is to be assisted by a Competition Office, whose purpose is to conduct an ongoing investigation of anti-competitive practices, abuses of dominant positions, and distortions of the market. In addition, it is this office which ensures that the decisions of the Competition Council are enforced.

Continued on page 15

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ROMANIAN SUPPLIERS OF PARTS & COMPONENTS

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

Company	Product	Contact	Phone/Fax
1. Rotras Turnu-Severin	Tires	Ica Ioan Dan Buzin	tel: (40-52) 217-367 fax: (40-52) 215-960
2. Roti Auto Dragasani	Rims & wheels	Eugen Armasoiu	tel: (40-50) 811-944 fax: (40-50) 810-337
3. Rolast Pitesti	Rubber items	Constantin Divan	tel: (40-48) 633-293 fax: (40-48) 634-162
4. Arteca Jilava	Technical rubber items	George Colcea	tel: (40 1) 685-7035 fax: (40 1) 386-7030
5. Asam Iasi	Clutches, brake & steering components	Viorel Stanescu	tel: (40 32) 172-140 fax: (40 32) 145-476
6. Autonova Satu Mare	Brake equipment, trailers	Toma Feldmesser	tel: (40 61) 743-212 fax: (40 61) 746-278
7. Master Bucuresti	Institute for thermal engines	Ion Nitu	tel: (40-1) 221-0845 fax: (40-1) 312-3832
8. Elba Timisoara	lighting	Gheorghe Cocian	tel: (40 56) 190-016 fax: (40 56) 190-058
9. Geamuri Buzau	Window panes	Gernut Ion	tel: (40 38) 435-269 fax: (40 38) 432-098
10. Hidrojet Breaza	Diesel injectors	Ion Matei	tel: (40 44) 340-264 fax: (40 44) 340-719
11. Iame Sfantul Gheorghe	Electrical equipment	Beniamin Santha	tel: (40 67) 325-762 fax: (40 67) 323-251
12. Isama Sfantul Gheorghe	Transmission equipment, gear-boxes	Francisc Pazstor	tel: (40 67) 323-082 fax: (40 67) 324-161
13. Mefin Sinaia	Diesel fuel injection equipment	Petre Dumitru	tel: (40 44) 312-936 fax: (40 44) 314-221
14. Metaloplast Brasov	Rims, wheels	Ionel Fierbinteanu	tel: (40 68) 166-630 fax: (40 68) 151-058
15. Policolor Bucuresti	Paints	Silviu Cristel Istratescu	tel: (40 1) 630-6739 fax: (40 1) 321-2272
16. Segmot Pitesti	Piston rings	Lucian Banu	tel: (40 48) 634-800 fax: (40 48) 652-736
17. Sinterom Cluj	Engine parts	Gheorghe Muresan	tel: (40 64) 415-080 fax: (40 64) 415-076
18. Geromed Medias	Window panes	Fickl Eduard	tel: (40-69) 813-131 fax: (40-69) 217-091
19. Spumotin Timisoara	Thermo-plastic foams	Nicolae Petre	tel: (40 56) 182-744 fax: (40 56) 191-107
20. Subansamble Auto Pitesti	Injected plastic parts	Gheorghe Badea	tel: (40 48) 211-799 fax: (40 48) 211-749
21. Victoria Floresti	Tires	Gheorghe Eltimie	tel: (40 44) 146-241 fax: (40 44) 142-061
22. Rombat Bistrita	Accumulators Dragomir	Stefan Vasile	tel: (40 63) 250-710 fax: (40 63) 250-710
23. Raal Bistrita	Aluminum heat exchangers	Paul Ilies	tel: (40 63) 250-505 fax: (40 63) 250-507
24. Romcarbon Buzau	Air filters, plastic items	Viorel Vasut	tel: (40 38) 413-425 fax: (40 38) 413-425

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

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CENTRAL EUROPE AUTOMOTIVE REPORT

To Our Readers:

Ronald F. Suponcic, Jr.
Publisher

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

Romania, Central Europe's second largest market with 23 million people, is poised for change. A new government is in power that has promised to pull Romania out of the economic doldrums in which it has languished for so long. Another healthy change, the new Competition Law (reviewed in this issue), should push the country closer to developing a truly free market economy.

Romania's auto industry is also seeing positive change. As noted in this month's Profile interview, AutoLease, the country's first dedicated, cross-border auto leasing company, will provide much needed competitively priced leases to businesses operating in Romania, and will be a boon to the auto dealerships who supply vehicles to the new venture.

Romanian automotive manufacturers and suppliers are also making changes. For example, Dacia is expanding its supplier base and gearing up for full production of its new Nova model. And suppliers Roti Auto and Acumulatorul Bucharest are making significant investments to improve the quality of their products. For more on these companies, see this issue's information packed Opportunity Spotlight.

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Poland

IMPROVING AUTOMOTIVE SUPPLIER QUALITY STANDARDS

POLISH COMPANIES STRIVE FOR ISO 9000 CERTIFICATION

Before 1990 the Polish car market was fully a producer's market, where any car was desired by customers. Quality was not a top priority under those conditions, especially considering factors such as shortages of quality raw materials and components, low salaries offered for educated personnel, and directive management styles. However, quality awareness was maintained by Polish companies through the purchase of licenses for new technologies in the 1970's and limited exports to worldwide markets. Local concepts of quality systems were developed in the 1970's, but implementation was usually focused on improvement of failure detection within production areas.

The introduction of a market-oriented economy in 1990 created a new business environment and initiated great changes in the approach to quality. The way quality issues were managed became critical factors when seeking approval as a supplier, when competing with imported products, and when attracting foreign investors. The first step for most Polish automotive suppliers in developing organized quality management was working towards meeting the requirements of major European car manufacturers. At the same time, ISO 9000 standards became more popular and certification against them was considered the natural next step in the development of customer oriented organizations.

Today, about 200 companies in Poland have achieved ISO 9000 certification and 15% of them fully or partly operate in the automotive sector, including final producers: two subsidiaries of FSO-Daewoo Motor Poland (ZEM E³k - a division producing electric equipment, and Sales & Service Center "TOWAROWA" in Warsaw), Fiat Auto Poland, and Volkswagen Poland. The number of certificates issued tends to double every year, and a majority of automotive suppliers plan to certify their quality management systems within the next few years.

In companies which started certification projects in the early 1990's, the implementation process took 3 to 4 years. Today, it is reduced to 1 to 2 years, depending on the size of the company. This reduction in time is due to better education, widely available training and consultancy services, and exchange of experience.

Quality assurance standards, however, were something quite new for most Polish managers and executives before the 1990's. Western consultants confirm that in many companies they found some elements of quality systems to be strong and well organized, especially in areas such as:

- calibration of measurement equipment;
- training & education of personnel;
- inspection systems; and
- standards of technical documentation.

The most common weak points were:

- imprecisely defined scopes of management responsibilities and authorities;
- poor information and feedback data transfer between departments; and
- non existent management loops (internal audits, corrective/preventive actions, management reviews)

As in many other companies around the world, the initial forces that pushed companies to implement quality systems were largely external, such as fulfilling customer demands, meeting European standards, gaining new competitive advantages, and avoiding multiple customer audits. Soon, companies became aware of various internal advantages coming from ISO 9000.

As an example, two large Polish automotive manufacturers, TC Dêbica (tires and tubes) and Fabryka Amortyzatorów (shock absorbers), claim that the implementation of quality management systems resulted in the following improvements to their internal operations:

- improvement of and better coordination between core processes (e.g. sales, planning, design, production, and servicing);
- shift from traditional "quality is the business of quality inspection department" attitudes to company-wide quality assurance, focusing on prevention and lower product failure rates, both within production and usage stages;
- better definition of feedback data flow, enabling quick access to information and decision making; and
- clear definitions and divisions of responsibilities and authorities in the organization.

Companies also appreciate that ISO 9000 projects allow them to make broad reviews of different areas, localize the weak points that require investment, and remove the weak points by introducing IT systems and measuring and manufacturing equipment.

Of course, the path to quality is not always straight and clear. Problems and obstacles cited by companies include:

- difficulties in changing traditional habits and mentality;
- worker resistance to take responsibility for quality of own work; and
- problems with achieving discipline among employees to make proper records of results of their work (which is essential, for example, for monitoring quality levels and applying statistical process control).

In any case, identifying and removing the barriers isn't possible without strong commitment and support for the project from the top management. This is a precondition for success but not the only one. Some companies cite company-wide training programs and introduction of teamwork as main factors that enabled them to achieve breakthroughs in building a quality culture.

Achieving and maintaining conformance to various quality standards is treated very seriously by many Polish automotive suppliers. Both TC Dêbica and Fabryka Amortyzatorów stress that their main goal is customer satisfaction. They work on their management systems to make them flexible enough to simultaneously forecast and fulfill various needs and expectations of different clients. Quality must be maintained not only in normal conditions but in any situation, such as when facing a crisis or when express supply is required by the customer.

More and more companies recognize the importance of having a total customer focus in their management systems. The Polish Quality Award was established for recognition of national leaders who successfully implement systems of Total Quality Management in their organizations. During the second issue of the award in 1996 two of the five finalists represented the automotive industry - ZEM E³k and Sales & Service Center "TOWAROWA" Warsaw. Ideas such as TQM are recognized as one of the main pillars of business excellence.

This article was prepared Zbigniew Banaœkiewicz, a consultant with the Renaissance Technology Group in Warsaw. ■

Romania

OPPORTUNITY SPOTLIGHT

This month's Opportunity Spotlight features three Romanian companies involved in vehicle and component manufacturing. Opportunities exist for cooperation with these entities in the form of supply and purchase agreements, as well as foreign direct investment. The Opportunity Spotlight interviews were conducted for the Central Europe Automotive Report by Catalin Dimofte.

Acumulatorul Bucharest

Acumulatorul Bucharest is the largest of the two major Romanian manufacturers of vehicle batteries and the only producer of industrial and stationary cells. Both products are based on a lead-sulfuric acid technology.

Turnover Ninety-two percent of the company's turnover is generated from battery production, with the remaining 8% split between industrial and stationary cell production. "Our turnover has constantly increased in the last few years, from $6.4 million in 1993 to $11.9 million in 1994, and to $14.3 million in 1995," said Bela Vasloban, the company's technical manager. "I expect a 30-35% increase in 1996."

Ownership Acumulatorul was a part of Romania's Mass Privatization Program.

Consequently, 49% of its shares are owned by some 10,000 small shareholders. The company is currently negotiating with the State Ownership Fund for the acquisition of the other 51 percent. "By the end of 1997 Acumulatorul is going to be a fully privately-owned company," said Vasloban.

Market Share "The starters market is shared basically between our company, which holds some 50% of the market, and our competitors from ROBAT Bistrita-Nasaud—who are focused more on cars, while we are producing quite a lot for tractors, trucks, wagons and locomotives—with some 40%. Importers hold 7% of this market—while the other 3% belongs to smaller Romanian producers," said Vasloban. "[The size of the starters market] is estimated [to be about] 1,200,000 units in 1996 and we intend to seize as much as we can."

Production Acumulatorul produces over 350,000 starters each year, with some 150 models in the 44Ah-180Ah range, including 6V starters. This is far below the company's production capacity of almost 1,000,000 conventional units. "Much of the situation is due to the severe recession that hit the Romanian automotive industry in the early '90s, joined by low demand and high imports," explained Vasloban.

"Right now only 20% of our sales go to OEM companies, the other 80 percent [is sold in] the spare parts and vehicle maintenance market. Actually that has been one of the two major challenges we had to face in the last few years, as we were mainly oriented towards the OEM market."

According to Vasloban, Acumulatorul expected the recession to be temporary and continued to bet on the OEM market. "It seems we were right. **Dacia**, the largest Romanian car producer, has already completely recovered from the recession, [and] **Daewoo Automobile Romania** has very ambitious development plans and we are going to homologate a starter for them in 1997." Vasloban noted, however, that since other Romanian manufacturers are still "bleeding red ink," Acumulatorul is thinking about increasing their presence in the vehicle maintenance market, by pursuing a price-quality strategy.

"We have always been considered the lowest price, best quality Romanian starter manufacturer and we want to stay that way — which is not simple at all, due to the second major challenge: the raw materials supply." To keep prices low, Acumulatorul depends heavily on Romanian suppliers of pure lead, antimony and lead alloys. "This probably is our greatest weakness," noted Vasloban. "We are currently importing only separators from Italy."

Exports Acumulatorul directly exports industrial and stationary cells for rail carriers, telecommunication companies, and electrical power plants. Their major export markets are China and Turkey.

Looking for Investors "With respect to foreign investment, we have had some preliminary discussions with a British company," said Vasloban. "However, more promising at this stage seem the negotiations with the South Korean Daewoo and Lucky Goldstar International. Yet nothing is concluded and we would welcome any other potential investor."

Environmental Acumulatorul has installed equipment in its factory that reduces lead oxide dust. "We are also neutralizing and treating our acid waste, but the pollution levels in some sectors of the factory are still high," said Vasloban. "Actually this is one of the targets of [our] upgrading project."

In Short "I am confident that in the long run we will be able to hold and consolidate our leading position in the marketplace by focusing our strategy on low costs, high quality, and on regaining our status of preferred suppliers of the Romanian OEM car makers," said Vasloban.

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Roti Auto Dragasani

Roti Auto is the only Romanian manufacturer of vehicle wheels in the 12"-16" range. Seventy-percent of the company is state-owned, 27.6% of its capital is held by small shareholders, and 2.4% is held by a Romanian investment fund. The company has 700 employees.

Roti's gross profit was increased from Lei 520 million in 1994 to Lei 929 million in 1995, and to more than Lei 1 billion in 1996. "Even considering inflation, our gross profit is increasing in real terms," said Roti CEO Eugen Armasoiu.

Foreign Investors According to Armasoiu, the company's high book value—some USD 6 million—has kept away large investors. "However, I am quite confident such investors will appear as soon as the company [is] quoted [on] the Bucharest Stock Exchange." Armasoiu noted that depending on the availability of investment funding, the company's long-term development plans include the production of aluminum wheels.

Cost Cutting Back in the early 1990's Roti was fully dependent on Romania's largest car maker, **Dacia**. "They have the toughest negotiating team I have ever met and we had to cut down costs as much as possible," said Armasoiu. "Consequently, we limit ourselves to a rather low profit margin of 6-7 percent." As another example of the company's cost cutting, Armasoiu noted that Roti is currently selling wheels for **Daewoo's** Racer model for some USD 7, while on the market imported items are being sold for over USD 35.

Strategy for Building Sales "Since we have to support low profit margins, we tried to build sales volume," said Armasoiu. "We have literally re-engineered the company in the last few years. We had to build departments, [including a] mar-

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keting department, from green field." Roti determined that the correct strategy was to diversify its product range and customer base. Today, some 50% of the wheels sold to OEM car makers are bought by **Dacia**, 20% by **Daewoo Automobile Romania**, 10 percent by the off-road vehicle manufacturer **ARO**, 10% by the Yugoslavian car maker **Zastava**, and the other 10% is sold to smaller Romanian customers, such as producers of trucks, lorries, and trailers.

Roti also plans to "aggressively target in the near future the European markets — both Central and East Europe and the European Union," said Armasoiu.

New Market Segments Sixty-five percent of Roti's turnover is derived from sales to OEM car makers, while the spare parts market provides 28%. "Since [the spare parts market] tends to be rather seasonal, and we felt we have to further diversify the product range, we pushed hard in the last two years towards what I call the parallel production, which accounts now for 7% of the turnover and hopefully will exceed 10-15% in 1997," said Armasoiu. Roti has entered small but profitable market niches such as fast food trailers, industrial ventilation systems, central heating radiators, small boilers for home use, small pumps and mills, and garages. "Most of [these products are] built with steel sheet waste from our main wheels production," he noted. "However, our core competence is the wheels production and we do not intend to abandon it."

Suppliers Roti purchases some 800 tons of sheet steel per month from the Romanian steelmaker **Sidex Galati,** the single local supplier of steel sheet with characteristics appropriate for Roti. In early 1996, Romania experienced a severe energy crisis which led to a sheet steel supply shortage and loss of Lei 246 million for Roti.

Roti is now looking for other suppliers of steel sheet. "We had been trying before to import steel sheet from the Slovak Republic—but we learned it was of lower quality than Romanian steel—and from German manufacturers, but their prices are 2-3 times higher," said Armasoiu. Other key components in Roti's production process such as dialysis cells and ultra-filters are imported from the U.S., France, Denmark and Italy.

New Product Development Roti has a 10-person research and development department in which it has heavily invested, said Armasoiu. "They are able to perform state-of-the-art CAD work, based on Hewlett-Packard workstations. We have reduced the timing for a new product development from 7 months in 1992 to 3 months and I dare to say we have no competition in Romania in this field."

Future Outlook "I hope that, five years down the road, we will lock in not only the Romanian car makers—we have already advanced in the negotiations with **Daewoo** to become their main wheel supplier for all [Romanian produced] models—but also some other producers in the region," said Armasoiu. "The automotive market is growing very fast. In Romania we have now three times more cars than in 1989. Business opportunities are there and we are ready to become a major player in our sector."

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Automobile Dacia Pitesti

Dacia started manufacturing cars in August 1968, based on a Renault 8 license. Production of cars based on a Renault 12 license began in 1969. For 20 years the company enjoyed a monopoly, producing almost 90,000 cars per year. The fall of communism, however, pushed Dacia to the edge of bankruptcy. The company lost not only much of the domestic market due to free imports of used Western cars, but also suffered the loss of the traditional Comecon markets.

Today, Dacia controls some 75% of the domestic market and employs almost 28,000 workers. The company is 51% state-owned, with the other 49% owned by some 350,000 small shareholders. Dacia has an unusually high level of integration: about 55 percent of its components are manufactured in-house.

Cutting Costs Dacia has reduced its dependence on some key Romanian suppliers who, according to company sources, were taking advantage of their monopolistic positions. The company has increased the number of its suppliers from 250 to 440, thereby creating competition among them and pushing them hard to cut costs. "We are trying to accommodate as many Romanian suppliers as possible," said one company source. The company has also reduced the number of standardized components included in their cars. The company's goal is to preserve one of its biggest competitive advantages: the low price of Dacia cars.

New Products Another part of Dacia's survival strategy is the diversification of its product range. To satisfy the demands of the new class of small Romanian entrepreneurs, Dacia has developed in the last three years a line of 4WD utilitarian models: Pick-Up, King-Cab, Drop-Side, and Double Cabin. The share of these vehicles in their production has increased from some 5% in 1989 to 25% today.

Exports Exports are also helping Dacia survive. Fifty-eight percent (41,500 cars) of their 1993 production was exported, which compensated for weak domestic demand and provided hard currency for imports and for their investment program. Exports were 29,734 units in 1994, 13,600 units in 1995, and some 14,500 units in 1996.

The main export markets are China, Argentina, Columbia, Brazil, South Africa, Uruguay, Syria, Portugal, Iran and some African countries. In 1996 Dacia produced 90,000 cars but, claim company sources, this is not enough to meet domestic demand. A waiting list for cars exists and delivery takes 3-4 months.

New Nova Model The Dacia Nova series is a completely new car designed in-house and boasts a new engine, body, transmission, brakes, and suspension. When Dacia completes its Lei 220 billion (USD 55 million) investment in this project in early 1998, capacity will exist for manufacturing 45,000 Novas per year. Several thousand Nova models, code named R523, have already been produced and tested. The company plans to produce the Nova with ABS, air conditioning, and a catalytic converter and sell it in the USD 5,000 range.

Competition Despite the competition from imports and from the other domestic producer **Daewoo,** company sources claim that Dacia is best positioned to match the expectations of the bulk of Romanian customers in terms of quality, price, and performance with its new Nova model.

Foreign Investment According to company sources, Dacia is open to any serious potential partners. The company has negotiated with many Western car manufacturers such as **Peugeot, Renault, Audi, Hyundai,** and **Daewoo**, but did not reach any agreements that would allow them to stay in business as a Romanian car maker, a stated requirement. Dacia is currently involved in negotiations with **Ford** and **Renault** which may result in limited cooperation for components and systems. ■

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Passenger Car Import Sales in Romania

Company	1996 3rd Quarter	9 months
Alfa Romeo	**0**	**1**
GTV	0	1
Audi	**7**	**20**
A4	5	13
A6	1	3
A8	1	4
BMW	**16**	**55**
Series 3	9	18
Series 5	4	19
Series 7	1	5
Series 8	1	1
Z3	1	12
Citroen **9**	**15**	
Saxo	1	1
ZX	3	5
Xantia	4	7
XM	1	2
Chrysler-Jeep	**16**	**32**
G. Cherokee	4	15
Cherokee	5	7
Wrangler	0	2
Stratus	1	1
Neon	4	4
Viper	1	1
Voyager	1	1
Ram Van	0	1
Daewoo	**400**	**3006**
Tico	400	1700
Espero	0	1306
Fiat	**10**	**49**
Uno	0	1
Punto	3	11
Tempra	1	5
Bravo	0	1
Brava	6	31
Ford	**147**	**301**
Fiesta	21	31
Escort	39	117
Mondeo	60	110
Scorpio	15	15
Maverick	8	23
Explorer	5	5
Hyundai	**54**	**101**
Accent	15	16
Lantra	20	46
Sonata	17	35
Coupe	1	2
Galloper	1	2
Honda	**18**	**18**
Civic	17	17
Legend	1	1
Kia	**36**	**94**
Sephia	18	43
Sportage	14	40
Clarus	4	11
Lada	**0**	**120**
Vera	0	38
Samara	0	62
Niva	0	20
Lancia	**0**	**2**
Kappa	0	2
Land Rover	**11**	**22**
Defender	3	
Discovery	7	15
Range Rover	1	2
Mazda	**3**	**6**
323	2	2
636	0	1
Xedos 6	1	3

Company	1996 3rd Quarter	9 months
Mercedes Benz	**36**	**108**
Seria C	17	62
Seria E	12	33
Seria S	5	9
SL	0	1
SKL	2	2
Seria G	0	1
Mitsubishi	**n/a**	**11**
Pajero	n/a	10
Space Gear	n/a	1
Nissan	**17**	**66**
Micra	2	7
Sunny	0	6
Almera	1	3
Primera	4	11
Maxima	0	1
Terrano	7	30
Patrol	3	6
Serena	0	2
Opel	**42**	**140**
Corsa	2	13
Astra	9	44
Vectra	17	36
Omega	0	4
Frontera	14	43
Peugeot	**15**	**39**
106	2	3
205	6	17
306	1	4
405	2	5
406	4	8
605	0	2
Renault	**23**	**64**
Twingo	0	1
Clio	9	11
19	7	18
Megane	3	12
Laguna	4	20
Safrane	0	1
Espace	0	1
Skoda	**166**	**347**
Felicia	166	347
Suzuki	**13**	**41**
Alto	0	9
Baleno	0	2
Samurai	1	1
Vitara	12	29
Toyota	**23**	**59**
Corolla	2	15
Carina	2	8
Land Cruiser	9	15
RAV 4	10	21
Volvo	**14**	**44**
Seria 400	5	15
Seria 800	1	14
Seria 900	6	15
S40/V40	2	0
Volkswagen	**63**	**143**
Polo	12	21
Polo Classic	28	40
Golf	9	25
Vento	3	14
Passat	9	41
Sharan	2	2
Total	**1139**	**4904**

Source: APIA

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Profile *Continued From Page 1*

CEAR: What motivated you to create AutoLease?

Morris: I needed to lease cars for my Romanian business and found that there was no good auto leasing available. I looked at the dilapidated delivery vans being used by our 90 importers and suppliers—all successful companies—and realized they weren't spending their money for capital equipment because they needed the money for more and more imports. Yet they had positive cash flow and could easily afford lease payments if long-term financing was available. Clearly there was a market here.

CEAR: What kinds of leases will AutoLease offer and how will the company be structured?

Morris: AutoLease will provide 2-year cross-border leases at 20% down payment, 18% lease rate, and a purchase option. These leases will be finance leases. Romania does not recognize the OECD distinction between finance leases and operating leases.

Our company will be based offshore. We'll establish a marketing services contract with a Romanian company, which will market our leases to Romanian juridical persons, i.e. international companies and Romanian companies doing business in Romania. We won't lease to individuals.

We'll buy the cars from Romanian dealerships of the major international auto companies in order to deliver cars with a manufacturer's service warranty. We'll pay for the cars in Europe and import them into Romania under a temporary import basis.

CEAR: What kind of competition do you expect to encounter?

Morris: There's no dedicated auto leasing company in Romania, nor is there any cross-border leasing company here.

Several local leasing companies offer auto leases, but their terms are short, 1 or 1 1/2 years, and their finance charges are onerous. Every auto company we've met with says our terms and conditions are much better.

CEAR: High customs and TVA taxes are keeping the price of autos high in Romania and making leasing an attractive option. What happens if the government lowers customs and taxes?

Morris: Let's not confuse high taxes with cash flow. Leasing is a cash flow mechanism, albeit with certain tax benefits, [like a] 100% write-off as an operating expense, instead of slowly depreciating the vehicle over 5 years. The issue is not the additional burden imposed by high taxes, but the <u>total</u> burden. Leasing is appropriate for $20,000 tax-free cars as well as $30,000 tax-inclusive cars.

> "That's the beauty of leasing. It's structurally efficient. Everyone in Romania benefits."

What high taxes do is wet the appetite of consumers for a way to spread out the cost over time. Obviously, high taxes make leasing very appealing, but still leasing would be appealing if there were no customs taxes, just as it is in the U.S., for example.

In the meantime, taxes have gone up, not down. On January 1, Romania threw a thunderbolt out of the blue and imposed an additional 10% purchase tax on cars as part of its special fund for national road upkeep and repair. The Romanian government is flat broke.

CEAR: If the Romanian government is so desperate for money and your leasing program saves on tax costs for the consumer, wouldn't the Romanian government be tempted to pass a law banning cross border leasing?

Morris: Political [or] country risk is always a problem in any emerging market. Yes, there's always the possibility the Romanian government could pass an unfriendly law. But we don't think that will happen. The new government was elected on a program of reform and knows it must live up to its promises. It also knows it must attract foreign investment and that leasing is a standard form of capital investment in the West. We've spent considerable time discussing [this] with the new government, and I'm pleased to say we've been getting a positive hearing.

The major argument we try to make is that leasing actually generates <u>more</u> tax revenues than a straight purchase does. By the time you add up the TVA and offshore withholding taxes on the monthly payments, to the TVA and customs taxes paid on the tax official valuation of 45% for a 2-year-old car, the consumer has paid more taxes than if he bought the car and paid the customs and TVA up-front! "Then how can leasing save him money?," everyone asks. Because by deferring the tax hit at the time of purchase, our capital borrowing costs are lower and we can pass along our savings to the consumer. That's the beauty of leasing. It's structurally efficient. Everyone in Romania benefits. The government, the consumer, and the auto dealers.

CEAR: How do you plan to educate Romanian consumers about the benefits of leasing?

Morris: Our Romanian marketing services company will act like a wholesaler and market through auto dealers. The dealers, who already know a lot about Western-style leasing because of their training from the car manufacturers, will be responsible for educating their customers.

Furthermore, because we offer leases only to businesses, our customers will be pretty sophisticated about leasing to begin with.

CEAR: What's been your biggest surprise since starting this venture?

Morris: The regulatory obstacles. Romania lacks a comprehensive leasing law, and it took us months and months to devise a way to do cross-border leasing.

People said to us, "Don't start your leasing company until the government passes comprehensive leasing legislation." Well, if we wait for the Romanian government to do something, we might as well wait till the cows come home. Typical of what happens, I met with two senior officials of the Finance Ministry and they said to me, "You can't do leasing in Romania. There's no law that permits it."

"With all due respect, sir," I told them, "that's just the difference between communist-style thinking and Western capitalist-style thinking. In America I can do anything I want assuming there's no law that forbids me to do it. So as long as we observe Romania's laws, which of course we will do, we can do cross-border leasing."

CEAR: What's been your greatest challenge and how are you overcoming it?

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Bulgaria

ACCOUNTING & FINANCE

TAX & CUSTOMS ISSUES FACING AUTOMOTIVE INVESTORS IN BULGARIA

Dinko Yordanov

Value Added Tax All sales of products, including sales of vehicles and automotive products, are subject to VAT taxation at a standard rate of 22%. For imported products, the tax is levied on their value and on the amount of customs duties, excise tax, and fees required.

Where the product is imported the VAT is collected by the customs authorities prior to the release of the product from customs control. Under Bulgarian law certain sales are exempt from VAT, but sales of vehicles are not among those.

Obligatory registration for VAT is required once a company's turnover in the preceding 12 months reaches 7.5 million Bulgarian leva. Voluntary registration is possible if turnover does not reach the compulsory threshold. It is also possible for entities which intend to make taxable supplies in Bulgaria to register before starting to trade. Tax incurred prior to registration, however, is not recoverable.

Only a company or branch registered under Bulgarian law may register for VAT. Bulgarian legislation does not contain any provision for the registration for VAT of a foreign business not established in Bulgaria.

Companies can usually deduct the input VAT suffered on purchases against the output VAT payable for their sales. There is an important exception for:

- passenger cars;
- trucks with load capacities up to 1.5 tons;
- vehicles with nine or fewer passenger seats;
- spare parts and repair and maintenance services for these specified vehicles

Input VAT paid on the purchase of these vehicles, parts, and services is not deductible, unless sales, repair services, or leasing of cars or transport vehicles is the main activity of the purchaser's operation.

Excise Duties Excise duties are generally applied to luxury items, including automobiles. The rates on automobiles vary between 0% and 40%, depending on engine size:

• up to 1800 cubic cm.	0%
• 1800-2500 cubic cm.	10%
• over 2500 cubic cm.	40%

Customs Duties The basis of calculation of the customs duties is the customs value of the goods increased by the customs duty due. Customs duties for cars vary around 10-15%. In most cases, vehicle spare parts are subject to a 5% customs duty. The basis for VAT is the customs duty value increased by customs duties, charges, and excise duties.

A temporary import charge for goods imported under a basic customs regime ("Import of goods for consumption in Bulgaria") was introduced in June 1996, with a decreasing rate from 5% in 1996 to 1% in 2000.

Income Tax The recently adopted Corporate Income Tax Act (CITA) imposes corporate income tax (CIT) liability on Bulgarian legal entities, branches of foreign companies, and on foreign companies which are not Bulgarian legal entities but have a permanent establishment in Bulgaria.

The standard CIT rate is 36%. A 26% rate is levied on entities whose annual income is 2 million leva or less. A municipality tax of 6.5% is also due. The municipality tax due is deducted from the tax base for CIT. Non-resident entities are liable for 15% withholding tax on their Bulgarian source income, such as dividends, interest, royalties, fees for technical services, and rents. The withholding tax is also applied for payments from a branch to the parent foreign company.

The withholding tax is final, meaning that 15% of the gross amount of the dividends (interest, royalties, fees for technical services and rents) is withheld by the payer of the dividends and afterwards contributed to the state budget. No other income tax is levied on the net amount (the gross amount less the withholding tax) of the dividends which the person actually receives.

CITA provides an exemption from corporate income tax for certain legal entities among which are companies with foreign participation. The companies will be exempt from corporate income tax for a 5-year period as follows:

- **100% for the first 3 years after the establishment of the company or the court registration of changes in the capital;**
- **50% for the next 2 years.**

In order to use the exemption the companies must meet certain **requirements**:

- The registered capital of the company may not be less than the Bulgarian leva equivalent of USD 5 million;
- The foreign participation must be at least 50%;
- At least 50% of the sums of the exempted corporate income tax must be invested in the fixed assets of the company. It is expected that passenger cars may not be recognized as relevant fixed assets for the purposes of the above tax concession.

Tax Losses Losses realized may be carried forward for a five-year period following the year of the loss. The losses may not be carried back. The right to carry forward the loss may not be transferred in case of transformation of the company when the ownership is changed more than 50%.

Tax authorities must recover tax credits within 3 months after submission of the tax return. Credits may be recovered only after a tax audit is performed. Taxable persons involved mainly in export activities may recover the credit within 15 days after submission of the tax return.

Foreign Investment Protection Amendments to the Foreign Investments Protection Act were recently adopted by the Bulgarian parliament. The amendments enter into force in early in 1997. Under the FIPA, foreign persons, directly, through a branch, or as a sole trader, may not acquire title of ownership over land. A Bulgarian company with foreign participation may not acquire title of

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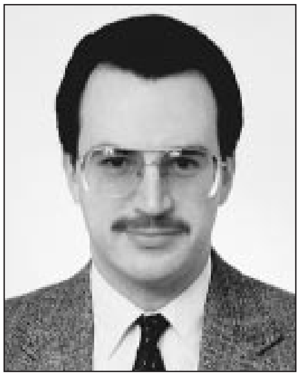
MORE FROM POLAND

WATCH OUT FOR NEW LABOR CODE AMENDMENTS



Matthew S. Piwowar

This year saw the introduction of a number of amendments to the Polish Labor Code, the majority of which took effect on June 2, 1996. Some amendments, such as those affecting vacations, hours, and overtime took effect on January 1, 1997, and some will take effect on June 3, 1997.

Be Careful With Non-Compete Agreements For a foreign company with both Polish and non-Polish senior management the amendments regarding non-compete agreements should be reviewed carefully. For foreign companies, a major obstacle to developing a business in Poland is attracting and retaining experienced bilingual employees, especially senior and mid-level management.

Although the majority of employment terms with senior management will typically be covered by some form of letter agreement (governed by non-Polish law), any form of non-compete agreements should, in most cases, be drafted as a separate Polish contract.

If a non-compete provision is included in an agreement governed by non-Polish law, it should be drafted to comply with the new Polish Labor Code requirements to ensure that it is enforceable in Poland. Although Polish courts will normally enforce agreements governed by foreign law, provisions in such agreements that contradict important Polish law principles will not be upheld. In most cases it is safe to assume that provisions of the Polish Labor Code will be considered important enough to override any contradicting requirements in a foreign contract.

Amendments Provide for Two Types of Non-Compete Agreements Prior to the amendments, non-compete agreements with employees were based on basic civil law principles of freedom of contract, the Commercial Code, and the Law on Economic Activity. With the new amendments, the Labor Code specifically provides for two forms of non-compete agreements: those governing the period of employment and those governing the period after employment is terminated. Such agreements must state specifically what activities are restricted or which entities are in competition with the employer.

Interestingly, if a non-competition agreement covers a period after employment the agreement must provide that the employer pay the former employee an amount equal to not less than 25% of such employee's standard salary prior to the termination of employment for the entire restricted period.

Damages Payable by Employees During the term of employment an employee may be liable to the employer for damages equal to three months pay for unintentional breaches and for full compensation for intentional breaches. After termination of employment the Labor Code no longer applies and the restriction on damages is not applicable. Damages are then based on the general principles of civil law.

The non-compete agreement will cease to be binding prior to its agreed termination if the reasons for entering such an agreement cease to exist or if the employer does not pay the agreed compensation.

For the foreign company with a large domestic work force (e.g. manufacturing) the amendments pertaining to the basic elements of an employment contract, vacations, work hours, and overtime will also be very important. Pursuant to the amended Labor Code an employment contract must be in writing and must be entered into by the parties within 7 days of the date the employee starts work or the employer may be subject to a fine.

Elements of Employment Contract A contract may be determined to be an employment contract regardless of what the parties intended if the relationship contains the basic elements of an employment contract established by the Labor Code (i.e. work carried out for renumeration under the direction of the employer). Upon the request of the employee, a labor law inspector, or any person with a justifiable legal interest, a judicial ruling may determine that an employment contract exists.

Vacation Time Provisions The amendments will greatly reduce the requirement for obtaining vacation time. After January 1, 1997, employees will obtain the right to their first vacation after only 6 months of employment. However, the first vacation is only equal to half the employee's yearly vacation time, with full vacation time after twelve months.

The minimum vacation time has been increased from 14 to 18 working days per year. Minimum vacation periods range from 18 working days per year after one year of work to 20 working days after six years and 26 working days after 10 years.

Years of service are calculated much differently than in the United States or many other western counties. Credit is given to an employee not only for time served with other employers, but also for years obtaining certain higher education. As a result, it is not uncommon for an employee thirty years old to be entitled to 26 or more days of paid holiday leave. Working days, however, include all days except Sundays, holidays, and statutory "free days."

The number of free days to which an employee is entitled is based on the length of the employee's work day: 39 Saturdays for a 42-hour work week, and 52 Saturdays for employees with work days longer than 8 hours. Such free days are not counted as work days and are therefore not counted against an employee's vacation days.

Overtime Although the amendments have increased the maximum number of overtime hours per year from 120 to 150, a limit of four overtime hours per day has been set by the amendments. The amended Labor Code also now provides for a required 15 minute break during any work day which lasts at least 6 hours.

Matthew Piwowar is an attorney with the firm Clifford Chance in Warsaw. Rafal Stroinski also contributed to this article. ■

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Profile *Continued From Page 11*

Morris: Cross-border leasing is difficult to do in Romania because of the lack of transparency of Romania's laws, i.e. the difference between what the law says and what actually happens in practice.

CEAR: What trends in the automotive sector affect how AutoLease will do business?

Morris: Right now there are no major trends to speak of because the market is so new and relatively small.

CEAR: Have you made any arrangements with Daewoo/Rodae for leasing their cars?

Morris: No, because our focus is solely on expensive, imported automobiles, not cheap, locally made ones. There are several reasons for this. [First], this is where we see the greatest demand for leasing. [Second], the advantages of cross-border financing apply only to cross-border cars. And [third], expensive, well-made cars hold up better on Romania's decrepit roads, meaning that we'll have less of a maintenance problem and risk to the residual value of our collateral.

> "In any capital intensive business, the key to financial success is not getting more customers, [which] involves a big boost in your capital expenses, but making sure the customers pay on time and don't abuse your capital asset. Margin, not volume, is the key to operating efficiently and total profitability."

CEAR: What is the key to AutoLease's success?

Morris: Providing good local service. And attracting clients who will treat our cars and vans like they're their own.

This means we start small and slow, and watch everything carefully. We could probably do $20 million of leases a year with no problem. But we won't do it. We'll do $4-5 million and use our experience to grow from there.

In any capital intensive business, the key to financial success is not getting more customers, [which] involves a big boost in your capital expenses, but making sure the customers pay on time and don't abuse your capital asset. Margin, not volume, is the key to operating efficiency and total profitability.

CEAR: How will AutoLease differ from auto leasing companies in other parts of Central Europe? What makes AutoLease unique?

Morris: Probably no difference. What we offer is local expertise and contacts. Central Europe, unlike the European Community, is hardly a homogenous market. Each country has its own rules and regulations and market conditions. To succeed in Romania, you've got to know your way around.

CEAR: What's your long-term plan for AutoLease?

Morris: To build a $50 million a year business as an independent leasing company, negotiate advantageous debt financing from the major auto companies, and build a strong equity base.

We will do the latter by either of two ways. [By] securitizing our lease portfolio by going public on the Bucharest Stock Exchange, or [by] selling part of our business to an international leasing giant. ■

Passenger Car Export Sales in Romania

	1996	
Company	**3rd Quarter**	**9 months**
Dacia	610	2540
Berlina	439	1563
Break	156	962
Nova	15	15
ARO	n/a	n/a
Total	610	2540

Source: APIA

Daewoo's Sales Plan for 1997

Model	Units
Cielo	78,000 (local production)
Espero	8,200 (SKD production)
Tico	8,300 (SKD production)
Damas	1,500 (imported)
Trucks/Vans	3,000 (imported or SKD production)
Total	**100,500 units**

Source: Daewoo

Accounting & Finance *Continued From Page 12*

ownership over agricultural land. A company with foreign participation registered in Bulgaria or a foreign person may acquire an ownership over buildings.

Any contributions in kind made to the registered capital of a company with foreign participation are exempted from VAT and customs duties, provided they are not disposed of within five years of registration in court of the in kind contribution. The contribution should amount to USD 100,000 and be at least 30% of the registered capital.

Free Trade Zones Free trade zones have been established in several Bulgarian towns. Commercial activity in free trade zones is subject to normal Bulgarian company laws but the goods in the zones are deemed to be outside Bulgarian territory. The import of goods and transactions within the zone's territory are not subject to customs duties, VAT, and excise duties.

Depreciation Depreciation may be charged on tangible and intangible assets. Enterprises can choose between four methods of depreciation: straight-line, declining-balance, progressive- balance, and year ordinal (digit) total. The rate of depreciation depends on an asset's useful life.

Depreciation rates for tax purposes, using the straight-line method, are fixed by law for certain assets as follows:

- commercial administrative building—3%
- production premises—15%
- motor vehicles (excluding cars)—8%
- cars—20%
- business inventory (including office equipment)—25%
- intangible fixed assets—20%

Tax Considerations for Groups Bulgaria has no group tax provisions. Arm's-length principles must be observed in transactions with related persons. If they are not observed, the tax authorities may adjust the taxpayer's taxable income.

Dinko Yordanov is the Manager of Deloitte & Touche's Tax & Legal Department in Sofia, Bulgaria. ■

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***Legal Advisor** Continued From Page 4*

ENFORCEMENT

Premise Searches Allowed In order to implement and enforce the rules set out in the Law, the Competition Council and Office are given powers to search company premises <u>and</u> those of the chief executives, managers, and directors of the investigated companies, <u>as well as</u> the residences of natural persons responsible for the financial, fiscal accounting, and marketing departments, <u>but only</u> if the investigation is requested by the chairman of the Council and is authorized by the local courts.

Incidentally, no search may be commenced before 8 a.m. or after 6 p.m. It appears that under this provision of the Law, papers in the offices of professional advisers will not be subject to search and seizure which will therefore give immunity to professional advice.

Penalties Penalties for breach of the Law may be either civil or criminal. In some cases breaches are punishable by imprisonment of six months to four years, plus a fine. The maximum authorized fine varies in proportion to the gravity of the infringement. The most serious infringements can be punished by fines of up to 10% of the annual turnover of the infringer.

Under article 74 of the Law the Competition Council must be set up after the Law comes into force, which is estimated to be in January 1997. At present, the government is still considering the identity of the first members of the Competition Council.

If the provisions of the new Law are implemented within the time frame provided for and are enforced reasonably, the Law should enable Romania to formulate a competition policy which further integrates it with the norms and expectations of the European Community.

It is hoped that the Law will help companies to determine what they can and cannot do in the realm of Romanian competition law. Only the attitude of the new government and the actions of the Council will show in what direction the authorities intend to use this Law and its real benefits to producers and consumers alike.

Nicholas Hammond is a senior associate with the law firm Taylor Joynson Garrett and runs their Bucharest office. ■

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Central & Western Europe In 1997

1997	
Feb. 6-16	**Amsterdam, Netherlands** Auto Show
March 4-7	**Budapest, Hungary** Int'l Metalworking & Machine Tool Exhib.
March 6-8	**Helsinki, Finland** Auto & Korjaamo '97
March 6-16	**Geneva, Switzerland** Auto Show
March 25-April 3	**Belgrade, Yugoslavia** Auto Show
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 7-11	**Torino, Italy** Automotor
May 21-25	**Bologna, Italy** Autopromotec
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
Sept. 17-23	**Bucharest, Romania** Int'l Exhib. for Motor Vehicles, Spare Parts, & Accessories
Oct. 14-19	**Bucharest, Romania** Int'l Technical Fair (incl. automotive companies)
Nov. 15-23	**Athens, Greece** Auto Show

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