CENTRAL EUROPE AUTOMOTIVE REPORT™

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Regional Market Highlights

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Poland

Poland Gets Yet Another Car Assembler — Hyundai

Hyundai Motor Corporation formed a joint venture in late September with Polish car maker **Sobieslaw Zasada Centrum**, which will enable Hyundai to assemble cars in Poland without paying the 35% import tax. According to Hyundai, the assembled cars will all be sold in Poland. Assembly operations are scheduled to begin in December, with production this year expected to reach 1,000 units, and rise to 10,000 units in 1998.

GKN Automotive Polska Begins Building New Factory

In September, **GKN Automotive Polska** started constructing its new $32 million facility in Olesnica, Poland. The new manufacturing plant and offices will cover approximately 10,000 square meters and are expected to be completed by mid 1998. In the third quarter of 1998, the transfer of the manufacturing team and equipment from the existing Twardogora, Poland location will take place. GKN currently operates out of space leased from **Fiat Automotive Poland.**

The new plant will manufacture driveline and power transmission products, including constant velocity joints and half shafts, for supply to customers within Poland, including **Fiat**, and for export as required.

Initial production is planned at 300,000 vehicle sets, and increasing to 500,000 vehicle sets in the near future. GKN Automotive Polska currently employs 210 people.

Ford Bank Polska Awarded License

In September, **Ford Bank Polska S.A.** was awarded a banking license and operational approval by the **National Bank of Poland**. The Warsaw-based bank will be supervised by the National Bank of Poland.

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CEAR

Hungary

PROFILE

MMG's Managing Director On Hungary's Engineering Tradition, Strategic Partners, and Cost Cutting

*Suppliers in Central Europe need strategic partners to stay alive in today's global automotive industry. And this is true for even the big companies like Hungary's **MMG Automatika Muvek Rt.***

Tamas Borai

*Founded in 1900, **MMG** is the oldest and largest instrument manufacturer in Hungary. Automotive products represent about 30-35% of the company's total sales, and its two main customers are Russian carmaker **Lada** (AutoVaz) and **Suzuki's** plant in Hungary, **Magyar Suzuki**.*

MMG is 50.1% owned by its employees under an employee stock ownership plan. Minority shares in the company are owned by local communities in which MMG has plants, offices, or other real estate. Over 2,300 MMG employees work in 4 manufacturing plants in and outside of Budapest.

When the last phase of privatization was completed in 1994, MMG's sales were HUF 3.9 billion. Last year sales grew to HUF 7.5 billion, and this year expects sales to rise to HUF 9 billion ($46 million).

Tamas Borai is Managing Director of MMG, and has held this position since 1994. He joined the

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***Highlights** Continued From page 1*

The new bank, a subsidiary of **Ford Credit Europe plc**, will specialize in offering financing for new and used vehicles through Ford dealerships. Dealers will act as representatives of the bank and will be responsible for informing potential customers about the bank offers and conditions.

Dr. Olaf Neitzsch has been appointed President of Ford Bank Polska. For the past two years he has run **Ford Credit Poland S.A.**

Opel Sales in Poland Top 100,000 Units; Second Shift Added for Astra Production

In September, GM Poland sold the 100,000th Opel car on the Polish market since the establishment of the company in May 1991. Sales of Opel passenger cars and light commercial vehicles in Poland have grown from 2,100 units in 1991 to 36,000 units during the first nine months of 1997. Opel's market share in Poland is about 10%.

In September, GM Poland also assembled the 25,000th Astra in Warsaw since the start of production in November 1994. Because of high demand, a second shift will be added to the Warsaw plant in November, increasing capacity to 24,000 units annually.

Daewoo Tico-100 and Engine Production in Poland

Daewoo has announced that by the end of this year, Tico-100 production will begin in Zeran, and that in the future the plant will also produce 1200cc engines for the Tico's successor and a 1900 cc diesel engine for the Polonez truck. (*for more on Daewoo FSO, see article on page 9)*

Volvo Trucks Ply Polish Highways

According to Volvo Truck Poland, recent figures put the number of Volvo trucks on Poland's highways at 6,000. Since January 1995, Volvo has owned a truck factory in Wroclaw. Present production at the factory is 1,500 trucks a year. In June, the 3,000th Volvo truck was produced in Poland.

New Car & Commercial Vehicle Sales Robust During First Eight Months

For the first eight months of 1997, new car sales in Poland were up 28.65%, according to figures released by **SAMAR**. As of the end of August, 334,412 new cars were sold in Poland, compared to 259,937 units sold during the same period in 1996. Out of all Western European countries, Poland ranked third in new sales growth, behind Italy (34.95%) and Sweden (28.85%).

Fiat led the pack with sales of 116,076 units and a market share of 34.71%. Fiat's market share during this period last year was 42.10%. Fiat is being chased by Daewoo, who saw its sales volume rise during the first eight months to 85,636 units, up from 60,170 units during the same period in 1996. Daewoo's market share grew from 23.15% to 25.61%. GM/Opel took the third position with sales of 30,980 units and a market share of 9.26%.

Commercial vehicle sales in Poland were up 14.13% during the first eight months of 1997. During this period, 33,938 units were sold, with 26,574 of these vehicles produced by local manufacturers. Sales of imported commercial vehicles totaled 7,364 units, up 52.02%. (*for more detailed statistics on vehicle sales in Poland, see charts on page 7)*

Hungary

Linamar Projects Turnover for '97

Air pump manufacturer **Mezogep Linamar** expects turnover for 1997 to reach $13 million. During 1997, Linamar invested over $1.5 million into its Polish facility. The existing plant covers 3,200 sq. meters, and the company plans to expand this by 6,000 sq. meters to accommodate new business. Linamar's new customers include **Steyr-Daimler-Puch**, **Transgear**, and **ZF**.

Mezogep Linamar is 60% owned by **Linamar Corp**. of Canada

NABI's Bus Production Increasing

North American Bus Industries expects to sell 400 buses in 1997, up from 300 in 1996. The company, a spin-off from the ailing busmaker **Ikarus**, has found success selling its heavy duty buses to cities in the U.S. NABI plans to expand its markets by focusing on customers that use small, 20-30 foot buses. Turnover in 1996 was $77.8 million, and net income was $3.1 million.

Suzuki's Half Year Sales

In the first half of 1997, **Magyar Suzuki** sold 6,956 locally produced Swift models, and 18

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Highlights *Continued From page 2*

imported Suzuki models. For all of 1996, the company sold 13,821 locally produced Swifts and 192 imported models.

Czech Republic

Daewoo Avia Production & Sales Up

Commercial vehicle producer **Daewoo Avia, a.s.** produced 2,932 Avia vehicles during the first eight months of 1997, up 17% from the 2,492 units produced during the same period last year. The company's sales of Avia vehicles were up 24% to 2,987 units, compared to 2,402 units sold during the first eight months of 1996.

Sales Of Lower Middle Segment Cars Increasing In Czech Republic

According to figures released by CIA, during the first half of 1997, the percentage of new cars sold in the Czech Republic in the small and mini class was 59.87%, down from 67.79% in 1996. The share of lower middle segment cars increased from 19.92% in 1996 to 27.09% in the first half of this year.

Cars sold in the middle segment stayed about the same at 7.87%, compared to 8.3% last year. The high and luxury, off-road, and coupe segments also showed little change. An increase was registered in the Multi Purpose Vehicle segment, which accounted for 0.36% of total sales in 1996 and 0.93% in the first half of 1997.

Romania

Autoliv Increases its Share in Romanian Joint Venture

Autoliv Inc. has increased its holding in **Autoliv Romania S.A**. from 60% to 80%. The Romanian joint venture manufactures seat belts, mainly for the domestic market but also undertakes contract manufacturing for **Autoliv Germany**.

Autoliv Romania has 50 employees and sells to **Daewoo Automobile Romania**. In November, the company will begin supplying local car manufacturer **Dacia**.

Autoliv Inc.'s sales in 1996 totaled $3.2 billion and net income was $174 million

Renault Foresees Strong Future Sales

Despite a difficult domestic market, by the end of August **Renault's** sales on the Romanian market exceeded last year's level, with the R 19 Europe the best selling model, said company officials. Optimistic Renault officials foresee sales of another 500 units by the end of the year.

Company officials say they are pleased with Renault's spare parts distribution activities in Romania. Renault benefits from a significant supply of second-hand French cars in Romania, as well as spare parts supply opportunities for the Renault-based **Dacia** models.

Hyundai Looks Ahead

Although it has to cope with the heavily entrenched **Daewoo**, **Hyundai** continues to be optimistic about its presence on the Romanian market. It is rumored that this optimism is due to both the company's association with the successful Romanian businessman Ion Tiriac and to ongoing negotiations with **Dacia**.

By the end of 1996, Hyundai had invested some $4 million in Romania, primarily in its Bucharest headquarters building and in the development of a countrywide network of 11 dealers and specialized maintenance and repairs centers.

Hyundai recently launched an one-year leasing offer — with a 50% down payment — through its dealer network. Management hopes that the system will boost sales that stood in 1995 at 150 units and 266 in 1996. The company's 1996 turnover reached Lei 13 billion ($2 million).

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AUTO ADVERTISERS BEWARE: HUNGARY'S NEW COMMERCIAL ADVERTISING ACTIVITIES ACT

LEGAL ADVISOR

Tamas Kovacs, Attorney
Hogan & Hartson
Budapest

Numerous reasons are given for the unexpected rise in car sales in Hungary in the first half of 1997. Some automotive market analysts attribute this surprising sign of recovery in the ailing Hungarian car market to generally improving Hungarian economic conditions and the growing purchasing power of Hungarians. Other factors mentioned include the decreased number of imported used cars and an improved price-value ratio of models sold on the Hungarian market.

However, all market analysts are likely to agree that limited and special car model editions offered through professional advertising campaigns, as well as widely promoted discounts, can be greatly credited for the recent success of the Hungarian automotive sector. Given the role that commercial advertising plays in increasing car sales, recent changes made to Hungary's advertising legislation are important for automotive companies.

New Commercial Advertising Act

The conditions for business advertising were modified by the new, comprehensive Act LVIII of 1997 on Commercial Advertising Activities ("CAA"). The CAA, which took effect on September 1, 1997, replaced a several times amended ministerial decree of 1972 on advertising activities and modified other legal rules, including Act LVII of 1996 on the Prohibition of Unfair Market Practices and on the Prohibition of Restriction of Competition ("Competition Act") (*for an analysis of the Competition Act, see CEAR Volume I, Issue 5, October 1996, page 5*).

According to its preamble, the CAA, recognizing the need to provide consumers with fair information to foster the sale of goods and services and to regulate advertising activities, undertakes to protect consumers' interests and to maintain economic efficiency and market competition. In doing so, it promotes social welfare and protects the interests of enterprises which observe the requirements of fair market practices.

The scope of the CAA covers business advertising activities performed by natural persons, legal entities, and economic associations without legal entity in Hungary, as advertisers, advertising service providers (agencies), or advertising media.

"Under the CAA, an advertisement may be released only if the advertiser designates its enterprise in an identifiable manner, indicates its registered seat or the seat of its domestic business premises, and presents its tax number to the advertising agency or to the media upon ordering the release of the advertisement."

Pre-release Requirements

Under the CAA, an advertisement may be released only if the advertiser designates its enterprise in an identifiable manner, indicates its registered seat or the seat of its domestic business premises, and presents its tax number to the advertising agency or to the media upon ordering the release of the advertisement.

In the case of advertisements for goods under the obligation of preliminary attestation of quality control or aptitude defined in separate legal rules, the advertiser is required to make a declaration to the advertising agency or to the advertising media regarding whether the quality tests have been performed and goods may be marketed on that basis. Furthermore, according to the CAA, an advertisement may only be released if it is identified as an ad and isolated from its environment.

The CAA comprises a set of general and specific prohibitions concerning commercial advertising. The following is a summary of the most important prohibitive rules that might concern most advertisers.

Presumably, the most general prohibition of the CAA is that an advertisement may not be released if it (i) violates personal rights, rights of the deceased, and rights to data protection; (ii) incites violence or provokes conduct whereby personal or public safety, the environment, or nature are damaged; or (iii) generates a sense of fear. In addition, an advertisement targeting children or juveniles may not be released if it (i) may harm their physical, intellectual, or moral development; or (ii) contains a direct invitation to induce adults to purchase goods by exploiting their inexperience or credulity.

Subliminal Advertising Banned

The CAA rules out the publication of covert advertising where the advertisement released in the form of communication suggests seemingly neutral information. The CAA also bans consciously not perceptible advertisements (subliminal advertising) which are advertisements that affect consumers during their promulgation by a stimulus of vision, sound, or other effect of an intensity which is less than the physically required threshold for conscious perception due to its brevity or for any other reason.

Comparative Ads Restricted

Under the CAA, a comparative or other advertisement may not be released if it may conflict with the prohibition of unfair competition or the prohibition of unfair influence of consumer decisions in accordance with the Competition Act. 1/ A comparative advertisement, as defined by the CAA, is an advertisement which directly or indirectly allows the recognition of an enterprise performing identical or similar activities to those of the advertiser, or any goods which are identical or used for the same purposes as the goods presented in the advertisement but are traded or introduced by another enterprise.

CAA provisions also amended the Competition Act which, in its applicable sections, provides that without the express prior consent of the competitor, goods and services may not be produced, marketed, or advertised with such typical appearance, packaging or labeling (including the indication of origin) that are names, designations, or indications by which the competitor or its goods are usually recognized.

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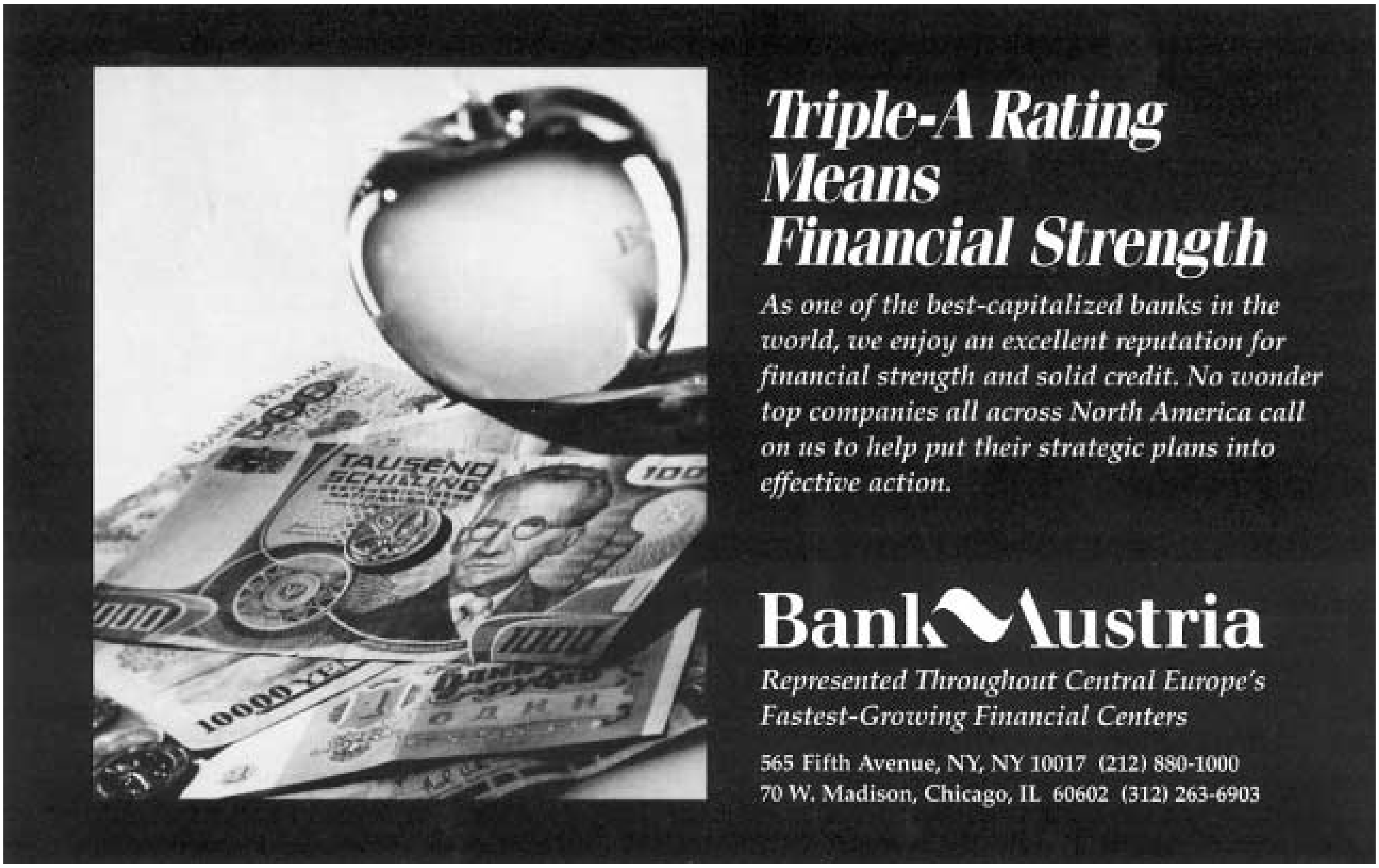

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Best Selling Passenger Cars & Commercial Vehicles in Poland (YTD August 1997)

Passenger Cars	Units Sold	Light Commercials	Units Sold	Medium Commercials	Units Sold
Fiat Cinquecento	40,229	FSO Polonez Truck	7,706	FSC - Lublin	6,445
FSO - Polonez	37,486	Citroen C15	2,680	FSC -Zuk	1,731
PF 126	35,255	Fiat Cinquecento Van	1,489	Ford Transit	1,664
Daewoo Tico	27,236	Skoda Pick up	1,215	Mercedes Vito	1,369
Fiat Uno	16,980	Peugeot Partner	832	Fiat Ducato	871
Opel Astra	15,130	GM - Opel Combo	731	VW Transporter	786
Skoda Felicia	14,359	Fiat Uno Van	580	Iveco Daily	536
Daewoo Nexia	14,016	Citroen Berlingo	572	Mercedes Sprinter	504
Fiat Punto	12,784	Ford Courier Van	316	Peugeot Boxer	448
Opel Corsa	10,313	Renault Express	297	Kia Ceres	408

Source: SAMAR

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TIPS FOR SUCCESS IN CENTRAL EUROPE

CREATING QUALITY

CENTRAL EUROPE AUTOMOTIVE REPORT™

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I recently chaired an automotive components conference in Warsaw. The event attracted major OEMs and suppliers, primarily from Western and Central Europe. The question and answer session after each presentation was refreshingly lively. Conference delegates had questions and they wanted answers. Many questions centered on quality — the quality of components produced by local suppliers.

Poor quality still plagues many local parts and component manufacturers in Central Europe. Quality has, however, improved dramatically at some of the more aggressive local manufacturers who are working closely with Western companies. VW's presence in the Czech Republic through Skoda has dramatically improved the quality of the local component industry. Skoda has raised its percentage of "A" class suppliers from 1% in 1993 to 60% in 1997.

And in Poland, the number of companies achieving ISO 9000 certification is growing steadily. In the early 1990's, the certification process took 3 to 4 years. Today, depending on the size of the company, it takes only 1 to 2 years due to better education, more available training courses, and exchange of experience.

So, quality deficiencies can be overcome, but it takes time. A good example is Sachs, who makes clutches at a factory in Slovakia. Sachs worked with one of its local castings suppliers for 1 1/2 years, helping the company to improve its technology. Today, that local supplier's quality is excellent and not only does it supply Sachs, but other Western manufacturers are now banging on its door, wanting to buy its products.

Enrico Pavoni, Fiat Polska's Chairman of the Board, was asked at the conference how his company copes with Polish supply quality issues. He replied, "We have inspectors in contact with suppliers every day."

If companies are willing to work closely with their suppliers, quality will improve. But it won't improve on its own, appearing overnight just because some Western company needs it. Improving local supplier quality requires a big commitment of time and effort. A willingness to spend precious time training, explaining, and hand holding. It won't come easy, but, as Sachs and Fiat know, it will come.

Continued in Future Issues

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Display: 1/2 Page	7.5 x 4.75	19.05 x 12.06	US $750	May 97	Czech Republic
Display: 1/4 Page	4.95 x 4.75	12.59 x 12.06	US $400	June 97	Slovak Republic
Directory: 1/4 Page	3.70 x 4.75	9.39 x 12.06	US $320	July 97	Poland
Directory: Business Card	2.41 x 4.75	6.13 x 12.06	US $100	September 97	Romania/Bulgaria
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C E A R

Poland

DAEWOO PUMPING $550 MILLION INTO LANOS, NUBIRA, & LEGANZA

KOREAN/POLISH JOINT VENTURES STRENGTHEN SUPPLY BASE

By the end of this year, Daewoo will put $660 million of its planned $1.5 billion investment into its Zeran factory in Warsaw. About $556 million of that amount has been set aside for production of a new model for the Polish market — the Lanos (CKD assembly) — and assembly of the Nubira and Leganza. Production of the 3-door version of the Lanos will begin in December of this year, while production of other Lanos versions and the Nubira and Leganza models is already underway.

Jin Chul Suk, president of **Daewoo-FSO**, said 500,000 cars would be produced in Nowy Zeran — the part of the factory now being expanded — in the year 2000. The name "Nowy Zeran" (New Zeran) is highly appropriate. Investments in 1997 and at the beginning of 1998 will have funded a new press line, a new line for die stamping, welding shop modernization, construction of the second part of the new paint shop, and a new hall where the Lanos will be assembled.

Poland Only Country in Europe to Produce Lanos

Kim Woo-Choong, president of the Daewoo Group, said Poland would be the only country in Europe to make the Lanos. "Starting in 1999, Lanoses will be exported to other countries in Central and Eastern Europe and states of the former Soviet Union, and in about 2000 they will be exported to the whole of Europe," he said at a press conference held in Warsaw on Oct. 7.

By the end of the year, there should be 10,000 Lanoses for sale in Poland, as well as 1,800 Nubiras and 500 Leganzas. The Lanos is Daewoo's answer to **Fiat**, which began selling its inexpensive Siena model in September. Both companies are fighting a furious battle for market share, especially in the compact cars section. The cheapest Lanos — a three-door version equipped with a 1500cc, 86Kw engine — will cost PZL 31,900 ($9,327).

Korean/Polish Joint Ventures Strengthen Supply Base

When the **Daewoo Group** signed a joint-venture agreement with **FSO**, the Koreans took over not only the factory in Warsaw but also its branches throughout Poland that produce sub-assemblies. Out of some of those factories, 13 joint-venture companies were formed in the middle of the year with the participation of Korean partners providing capital and know-how. On September 3, 1997, these activities culminated with the inauguration of the **Daewoo Automotive Components Group**.

By 2001, Korean firms will have invested $364 million in these joint ventures, sales of the companies should reach $735 million, and total employment will rise to over 8,500 workers. Polish parts and sub-assemblies from Daewoo-FSO will also be produced for the Daewoo factories in Romania, the Czech Republic, Uzbekistan, India, Vietnam, and the Philippines.

In Kozuchow, two companies were established out of the former plant there with its labor force of 1,000 — each company 50% owned by Daewoo-FSO.

Dongwon ZS is already in operation, producing exhaust systems (the Koreans only added their technology for making silencers), as well as frames and profiles. An additional element introduced by Dongwon will be beams used in strengthening doors.

The other company, **Seojin ZS**, was registered on September 9 and a business plan is only just being drawn up. Its production profile will be similar to the present one: clutches and instrumentation for making stamping dies. "We are getting ready for a big leap," said director Henryk Garus. "We shall supply our production to all new models made by Daewoo-FSO." At present, for Daewoo they are only producing for the Polonez. But clutches from Kozuchow are also used for small Fiats and Cinquecentos, and the company also produces for the German market.

"For a long time, before the agreement with Daewoo was signed, we had offers from Western partners and could have made ourselves independent of FSO, producing for the French, German, and American markets," said Garus. "Now those firms which we didn't join up with are independently opening their plants in Poland and will be competing with us, while our fate will depend on Daewoo's success."

Local Content Rising

Krystyna Danilczyk, head of Daewoo-FSO Motor's Information Department, said the first stage of creating a base of suppliers had been concluded and the creation of additional companies with the participation of other partners from Korea was not anticipated. The "Polonization" of cars, as she puts it, will be a gradual process.

By the end of this year, 25% of the parts used in the Lanos will be of Polish origin. "In 1998, about 50% of the parts used in making the Lanos will be Polish," said Danilczyk. "[In 1999], or perhaps even earlier because we are ahead of [schedule], that will increase to 80%."

A local content percentage of more than 50% is essential if the Lanos is to be exported to Western Europe. In keeping with Poland's associate membership agreement with the European Union, cars with a Polish contribution above 50% are exempt from a 10% duty.

R&D Center Planned for Warsaw

In addition to its production plans, Daewoo is preparing to open its own research and development center in the buildings of the former **State Motoring Institute** in Warsaw, part of which it took over together with FSO. So far, 200 of the 1,000 engineers planned for the center have already been hired. Over a dozen of them are in Korea for a year's training.

Danilczyk said the **Polish Technical Center** would be Daewoo's third in Europe (following Great Britain and Germany), and would specialize in projects for the Central and East European markets. ■

Magda Sowinska (Warsaw)

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C E A R

MORE LAND NEEDED IN POLAND; HUNGARY ACCOMMODATES INDUSTRIAL EXPANSION

REGIONAL SPECIAL REPORT: COMMERCIAL REAL ESTATE

Every month, another automotive company announces that they are building a new factory in Central Europe, buying an old one, or expanding an existing facility.

Recent announcements include:

Denso Corporation's plan to invest $100 million into a new diesel injection pump factory in Szekesfehervar, Hungary;
UT Automotive's new wiring systems plant in Mielec, Poland;
Ford's $50 million expansion of its **Autopal** factory in the Czech Republic; and
Eaton's plan to build an engine valve factory in Bielsko Biala, Poland.

And if a new factory isn't being built, then corporate headquarters are being expanded, as **Hyundai** has done in Bucharest.

All of this activity pleases commercial real estate companies. "Real estate is doing well in Poland," said Dana Gibson from **Menard, Doswell & Co.**, a US-based commercial real estate firm with an office in Warsaw. "There's a lack of supply."

Companies Moving South in Poland

According to Gibson, the biggest barrier to entry for companies coming to Poland is a lack of real estate, and the biggest barrier for developers is a shortage of available land. Nonetheless, there is some development activity in Warsaw. "There are a few projects under way in Warsaw [for new industrial facilities]," said Gibson.

There is a gradual flow of industrial property going south of Warsaw as companies look for cheaper land, according to Gibson. Locations in the south also offer companies a more centralized location, giving them better access to all of Poland.

Plenty of Available Locations in Hungary

Compared to Poland, the real estate market in Hungary is more open. "There's no shortage of land or employees in Hungary," said Michael Carroll, a partner in charge of industrial and office sites at **Healey & Baker's** Budapest office. "There's still available good industrial locations."

Available space is needed as auto sector companies move their operations to Hungary. "I'm seeing a lot of component manufacturers following **Audi**, **Opel**, and **Daewoo** [into Hungary]," he said. "That's going to build up another batch of people who must move them around, [such as] distributors and third party contractors."

According to Carroll, there are plans to develop one or two distribution parks around Budapest. One such facility is **Harbor Park**, a 50 hectare facility that will be linked to all modes of transport.

Hungary Funding Industrial Parks

To ensure that adequate industrial facilities are available, the Hungarian government has made available a financial support package totaling HUF 800 million ($4.08 million) for the development of industrial parks. Money will be available in the form of grants and interest free loans. There are some 30 industrial parks in Hungary, all in different phases of completion.

Szekesfehervar & Gyor Attract Auto Companies

Szekesfehervar, 63 kilometers outside of Budapest, has become a popular location for automotive companies, including **Ford** and **Alcoa**, and **Denso** will build its factory there. Also located in Szekesfehervar is the **Loranger Industrial & Educational Park**. The park is currently home to 14 companies, including **Loranger Manufacturing** (a supplier to **Ford**), **Shell**, **Philips**, and **Nokia**.

"We can provide good service for companies who want to go into this part of Hungary," said Geza Dely, Technical Manager at the park. "From the first step to the last, including planning, contracts, construction, worker hiring and training, management, and providing temporary offices." Depending on the site, prices at the Loranger park run from about 26 DM to 44 DM per square meter.

The Loranger park must compete for customers with the **Gyor Industrial Park**, located further west near the Austrian border in the industrial town of Gyor. Gyor is also home to some major automotive companies — **Audi** has its engine plant there, diesel engine, axle, and truck chassis maker **Raba** is based there, and cylinder maker **VAW** has invested some $44 million in its Gyor factory.

In general, prices for industrial space are about 10%-20% higher in Gyor, compared to prices in Szekesfehervar.

Healey & Baker's Carroll is bullish on Hungary. "When you need a building constructed in a short amount of time, you can do it here." ■

Quick Look: Hungary's Interior Parts Suppliers

Autoliv Kft: Seat belt assembler for other companies in Autoliv group. Company is 67% owned by Swedish car safety equipment maker Autoliv.
Soproni Szonyeggyar: Manufactures carpets.
Graboplast Textil: Manufactures artificial leather and textile covering products.
Ikarus Mori: In 1994, at Mor plant in Western Hungary started manufacture of seats and interior trim for Suzuki and Audi.
Keiper-Recaro GmbH: Plant opened in 1994 with approximately $6 million investment to produce car seat covers. Factory employs 145 workers.
Momo: Italian components manufacturer established plant in Hungary to manufacture steering wheels and airbags, primarily for export.
PEMU-Happic: Makes plastic car components and supplies door handles to BMW and arm rests to Mercedes. Company is 50% owned by German car component supplier Happic.
Rati Autofelszereles: Manufactures arm rests.

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CEAR

EC POLICY TOWARDS CENTRAL & EASTERN EUROPE—AUTO SECTOR STRATEGY

By Maik Schmahl,
Representative, DGIII, Automotive Unit, European Commission

The General Approach

After the radical changes at the end of the last decade, the EU took up the challenge of redefining its relations with Central and Eastern Europe. Following the aspirations of many Central and Eastern European countries (CEECs), the European Council in Copenhagen of June 1993 agreed that the countries with whom the EC had concluded association agreements can become members of the EU as soon as they are able to assume the obligations of membership.

The perspective of accession implies a qualitative change in the relations between the EU and the Central and Eastern European region. The major challenge is to prepare accession candidates for the integration into the internal market of the Union. To this aim, EU policy tries to facilitate the restructuring and modernization.

Responsibility for achieving restructuring, modernization, and democratization, however, rests with the Central and Eastern European countries themselves. The Europe Agreements and the pre-accession strategy adopted by the European Council in Essen (December 1994) are the instruments designed by the EU in order to assist our partners with doing so.

To complement this strategy, and to offer a perspective to all Eastern countries, the EU has negotiated Partnership and Cooperation agreements (PCAs) with the states that will not join the EU in the near and medium term future. The PCAs cover a wide range of issues concerning trade, commercial, and economic relations (tariff provisions, elimination of quantitative restrictions, etc.).

Flanking measures have also been taken in order to assist the new Eastern democracies in their restructuring process (support is already given in the framework of the TACIS program). The PCAs will lay the foundation for a permanent political dialogue and a system of regular consultations at different levels on the whole spectrum of political, economic, and other issues of mutual interest.

Implications for EU Automotive Industry

From the EU automotive industry's point of view, the fall of business barriers and the enlargement of the Internal Market to the East represents both an opportunity and a challenge:

An opportunity, as the Central and Eastern European countries, with their growth potential for vehicle sales and a good level of technical qualification and relatively low labor costs, offer favorable prospects for exports and attractive conditions for local assembly/production. Many EU manufacturers have already seized the opportunity and established joint ventures with Central/Eastern European partners or invested in greenfield production.

"Following the building-up of production capacity in Central/Eastern Europe by competitors from Korea and Japan, EU manufacturers will face increasing competition on their home market at a time when growth prospects in this market are limited and the industry is undergoing major restructuring."

A challenge, because, following the building-up of production capacity in Central/Eastern Europe by competitors from Korea and Japan (notably Daewoo in Poland, Romania, the Czech Republic, and Ukraine, and Suzuki in Hungary), EU manufacturers will face increasing competition on their home market at a time when growth prospects in this market are limited and the industry is undergoing major restructuring.

The Europe Agreements

The Association Agreements (Europe Agreements) between the EU and the CEECs foresee, among other things, the establishment of free trade areas. Since 1995, such agreements were signed with Estonia, Latvia, and Lithuania and an interim agreement has come into force with Slovenia, in addition to the already existing ones with Poland, Hungary, the Czech Republic, Slovakia, Bulgaria, and Romania. The EU's policy of rapidly granting market access to imports from the CEECs is a very substantial contribution to industrial restructuring. For automotive imports from the ten CEECs, the EU has eliminated its tariffs since 1 January 1995. These countries will for their part complete the total dismantling of tariffs vis-a-vis the EU by the year 2001/2002.

"The EU's policy of rapidly granting market access to imports from the CEECs is a very substantial contribution to industrial restructuring. For automotive imports from the ten CEECs, the EU has eliminated its tariffs since 1 January 1995. These countries will for their part complete the total dismantling of tariffs vis-a-vis the EU by the year 2001/2002."

Trade policy aspects

The Commission remains committed to ensuring that also our trading partners respect their legal obligations under the bilateral and WTO Agreements.

Therefore, the Commission will continue its efforts to **open up all third markets** in a coordinated approach, taking account of the complaints about specific trade barriers that we receive from EU industry. The scope of the effort covers all trade and investment barriers, including regulatory barriers. As part of this approach, a database on market access barriers has been established and can now be accessed on the Internet.

In this context, we have noted with concern that a growing number of countries resort to **trade-related investment measures (TRIMs)** such as local content requirements and import/export balancing obligations. Such provisions restrict the commercial freedom of manufacturers that wish to trade and invest in these countries.

The Agreement on Trade Related Aspects of Investment Measures (1994) recognizes that certain investment measures such as local content requirements or trade balancing requirements restrict and distort trade.

It provides that no WTO contracting party shall apply any TRIM inconsistent with Articles III (national treatment) and XI (prohibition of quantitative restrictions) of the GATT. The Commission will remain committed to the agreement and will see that its provisions are enforced.

Continued on page 17

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***Profile** Continued From Page 1*

company in 1972 as a Sales Engineer and later became Sales Director. Mr. Borai was educated at the Budapest Technical University where he received a degree in electrical engineering.

*Mr. Borai spoke with the **CEAR** in Budapest, sharing his frank opinions on many issues, including Hungary's endangered engineering tradition, the need for strategic partners, and the push to cut costs in the supplier industry.*

CEAR: How did MMG become a supplier to Magyar Suzuki?
Borai: When Suzuki decided to build its plant in Hungary, they looked to Hungary for possible suppliers. They found MMG and suggested that [the Japanese company] **Denso Corporation**, who has technical know-how for instrument clusters**,** heater units, and blowers, [contact MMG].

We signed a technical assistance agreement with Denso. Today, we're the only supplier to Magyar Suzuki for these clusters, heater units, blower units, and a few small components.

CEAR: How integrated are MMG's component manufacturing operations?
Borai: We have a very large plastic molding shop. We have our own foundry. We have our own forging equipment and surface treatment. [Essentially], we buy the plastic granules and deliver the complete instrument clusters. Except for some bulbs and screws, we make all components ourselves in house, which has some benefits since you're not dependent on suppliers and subcontractors.

On the other hand, we are working with too many assets. These are very expensive machines and you need a good load, at least two shifts per day. It's very difficult to make a complete unit competitive even if you take into account the wage advantage which this country still has over Western European countries. But in mass production, the labor content is very low and to be competitive you need large quantities.

"The number of engineers who are developing something new is dropping day by day. This is a problem that we see at MMG. When we want to hire engineers for R&D it's very, very difficult to find someone. Maybe software engineers, yes. But not engineers who can develop something."

CEAR: MMG has had success adopting foreign technology into its business, starting back with the Italian design for the Lada instrument cluster and more recently with Denso. What's the secret behind this ability?
Borai: This ability to adopt modern technology is something which has sometimes [been] a little bit neglected by foreign investors. What they see in Hungary is that labor is very cheap. Yes, the ladies in the country who make wiring harnesses or put screws into something, are, unfortunately, very cheap. But this ability to adopt automotive hi-tech, and I'll go a little bit further [and include] the capability to be a creative partner in new development, this is something neglected and not really considered by many foreign investors in the car industry.

Definitely, there was and there is a certain engineering tradition in this country. There has been a very good engineering educational system. And as long as industry was owned by the state here, it was more or less a government decision how many engineers would be educated and what kind of funds should be available for technical development and research.

CEAR: How has privatization affected Hungary's engineering tradition?
Borai: Now that major industries are controlled by foreign companies, if they don't show any interest in Hungary's engineering capability, then being an engineer will [not be respected] by the young people. Technical education will be reduced and the best young people will not choose technical university for higher education, but [will choose] finance, services, and informatics. Yes, of course, this is something that is in today. But you need mechanical engineers, electrical engineers, and chemical engineers.

There were a number of very good research institutes, all run by the state. Now the state has no money and little interest and many people go abroad or go into business selling computers or imported machines. The number of engineers who are developing something new is dropping day by day. And this is a problem that we see at MMG. When we want to hire engineers for R&D it's very, very difficult to find someone. Maybe software engineers, yes. But not engineers who can develop new products and technologies.

CEAR: So, what's the solution? How can this R&D expertise be rekindled?
Borai: There should be some intellectual cooperation from investors in this country. For instance, **GE**, when they purchased the famous bulb developer **Tungsram**, stopped R&D in Hungary. After two or three years, however, [GE] realized that the R&D department here was better than what they had in America. For energy saving lightbulbs, the whole development was transferred to Budapest.

Ericson transferred a lot of software development for their telephone exchanges here. So there are companies that recognize [this engineering potential]. If there is one company in the automotive business [that respects the local engineering expertise], it is **Knorr Bremse**. The Managing Director of Knorr Bremse was previously the Managing Director for Magyar Suzuki and he understood the importance of local technical development.

Of course, nobody in Hungary will design a new car, but in the automotive business there are so many exciting development opportunities that Hungary could contribute to.

Japanese and Korean manufacturers must have manufacturing sites in Europe due to EU customs regulations. We would like to participate [with them] and be a, let's say, natural partner so that they don't always think of greenfield investment but also synergy-type investment.

Of course, they have the high tech and the money and they can create the market. But Hungary can be also an intellectual greenfield site — the soil is very good, with no intellectual pollution.

CEAR: What could the government do to help promote R&D in Hungary?
Borai: The Ministry of Education should have funds for various projects, and the Academy of Sciences should have funds for applied projects. The government National Technical Development Committee (OMFB) has some ideas.

They should all be focused on [R&D]. The multinationals that visit government ministers and OMFB should talk about it every time they come here. The government should be prepared to give funds and concessions to

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Profile *Continued From Page 12*

those who are willing to invest in R&D.

This country needs to show the global carmakers that the political situation is clear, the legal situation is clear. Now we can go one step further, not only to assemble cable harnesses or engines. We still have to learn [more about] cost consciousness and quality, but I think the time is now to take the next step and involve Hungary in the R&D process.

"This country needs to show the global carmakers that the political situation is clear, the legal situation is clear. Now we can go one step further, not only to assemble cable harnesses or engines. We still have to learn [more about] cost consciousness and quality, but now is the time to take the next step and involve Hungary in the R&D process."

CEAR: Why is it so important that Hungary be a part of the R&D side of the automotive industry?
Borai: If you don't create purchasing power in these countries, who buys your products? The middle classes — including the engineers, doctors, university teachers — they disappeared [in the Eastern bloc]. We have to build them up to create purchasing power for cars, hi-fi equipment, etc. So this is not an emotional way of thinking but a very rational way of thinking. Some people say it is a political issue, but I don't think so. I need customers.

CEAR: How is MMG reacting to the globalization trend in the automotive industry?
Borai: We have to realize that due to the globalization of the car industry, MMG as an independent supplier has no future. So we need a strategic partner and we hope to find one. We have been working with **Denso** now for five years, and we want to strengthen our cooperation with Denso.

CEAR: What are MMG's expansion plans?
Borai: Of course, we're talking to other carmakers in Europe, and we have now quite a number of quotations. One carmaker has forbidden MMG to mention its name as a possible buyer. We are now talking to **Dacia**, the Romanian carmaker. And of course, we are working together with **Suzuki** on new models.

What new markets is MMG looking to enter?
Borai: Romania would be a new market. We never succeeded in supplying Romania in the old times. Of course, we are watching what happens with **Zastava** in Serbia. And of course, **Lada** is working on new models. And, Turkey. Turkey could be an interesting place. So we are looking at Turkey at the moment.

You must be realistic. Even with a strategic partner, you cannot enter certain empires. There is no realistic chance that we can be a supplier to any plants in the **VW** group because that market is dominated by **VDO**. So no chance. The number of customers who are realistic chances is very limited. This is one of the reasons that we need a strategic partner because VDO has traditional customers. Unless we are the partner of one of these companies, we have no chance at all to be the supplier.

"Suppliers need a certain profit, not because of the shareholders, but because of the development of the company and development of new technologies. And they need a certain level of labor. If you reduce the quality of the labor because its cheaper, then you might face quality problems with the product."

In the instrument cluster business, the number [of potential customers] is less than five. They cannot be very far from Hungary, because car manufacturers prefer to have their suppliers within a few hundred kilometers. So we have no chance to be a supplier of a company in India, even if we were cheaper. India will buy from India or some neighboring company. So we can only think of Central and Eastern Europe.

As there are plans to build 15 or so new plants within the next 20 years in this area, some of these plants could be our major customers. For instance, if **Lada** builds a new plant next to the Finnish border, it's possible that we could be the supplier.

It's not easy. But we're optimistic.

CEAR: How is MMG coping with the intense pressure in the industry to cut costs and keep prices low?
Borai: This is a very difficult issue. For instance, in certain requests for quotations, there is a condition that you have to give them a fixed price, let's say, for 1999. If you get the order, you have to accept that for at least 5 years you have to reduce the price each year by 1%-3%.

And this is high risk.

Car manufacturers would like to have lower and lower prices, higher and higher quality and better services because there is a big overcapacity.

But, there is a certain point in time, when the suppliers will say, OK, if you are not happy with the price, we prefer not to supply you. Suppliers need a certain profit, not because of the shareholders, but because of the development of the company and development of new technologies. And they need a certain level of labor. If you reduce the quality of the labor because its cheaper, then you might face quality problems with the product.

Frankly speaking, some carmakers are unrealistic when they push prices down. I know certain examples of even large suppliers who decided to discontinue certain supplies because they were unable to reduce the costs.

CEAR: What's the biggest problem faced by Hungarian automotive components companies?
Borai: [Today], money is the biggest problem for these companies. If you want to increase production using bank credits, you can't be competitive. Some people are mentioning venture capital in Hungary. This is much more popular in England and the US.

Interest rates are too high and the securities the banks need are too high. Inflation and interest rates are decreasing, but still bank credits are very expensive. We pay 25-26% per annum. But, there is now a very good money supply and banks are starting to compete with each other. There are now about 45 commercial banks in Hungary. It's good for us now because the banks are competing for customers. ■

CENTRAL EUROPE AUTOMOTIVE REPORT™

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C E A R

Hungary

HELLA TAKES ON HUNGARIAN SPARE PARTS MARKET

COMPANY SPOTLIGHT

Company:	**Hella Hungaria Kft**
Location:	**Budapest, Hungary**
Contact:	**Mariann Partos, Managing Director**
Business:	**Car Lighting Equipment Distribution**

Take a snapshot of **Hella Hungaria Kft** in 1997, and what you see is an organization focused on marketing — still a relatively new idea in Hungary. Evolving from an information and representation office started in 1991, the Budapest operation was established in 1993 as a wholly owned subsidiary of the German car lighting specialist, **Hella KG Hueck & Co.**

Hella's First Subsidiary in Eastern Europe

The Hungarian facility was Hella KG's first subsidiary in Eastern Europe and its main mission is to build a customer base in the original spare parts market. The warehouse has no on-site production capability. Instead, it provides logistics and support for the distribution of over 3,200 products such as headlights, signal lamps, switches, relays, electronic equipment, and other accessories.

Solid Reputation Helps Marketing Mission

As a market leader, parent company Hella KG enjoys a solid brand reputation and position, especially with German carmakers such as **Mercedes**, **BMW**, **VW**, **Opel,** and **Fiat**. Brand recognition is important to Hella Hungaria's (HHK) marketing focus, but it is not the only advantage. Hella KG's reputation for continuous improvement and product upgrading are also important to the subsidiary's mission.

For example, Hella Germany recently developed a new system for interior car lighting, the Central Lighting System (CELIS), which uses a fiber network and light guide technology to radically improve internal lighting systems.

This reputation for state-of-the-art technology allows the company to keep pace with new car models and serve the needs of its customers more effectively.

Broadening Wholesaler Network

A good product, however, is never enough. The company wants to broaden its network among wholesalers by developing and maintaining relationships with customers such as **Lang**, **Iharos**, **Garancia**, **Albert Birner**, and **Ikarus**.

Through regular visits by company representatives, Hella hopes to give wholesalers timely product information and personalized service. Most of the wholesalers are concentrated in Budapest so the company can offer same day delivery and prompt service.

Company Captures Over 15% of Market

So far, the HHK strategy seems to be working. In 1996, HHK garnered 15-17% of the Hungarian market, with lighting accessories such as headlamps and beams accounting for approximately 70% of turnover. The subsidiary sells other parts such as small electronic components, but they constitute a relatively small share. The product range caters to many car marques, including **Mercedes, Opel**, **BMW**, **Volvo**, and **Skoda**, although German car models have the broadest selection.

While Hella Hungaria's progress since 1993 conforms to expectations, the subsidiary's achievements were not easy to come by. Establishing the logistical support, the channels for distribution, and even developing the marketing mindset were unique and difficult tasks.

Developing Marketing Mindset In Hungary

With shortages being a way of life in the Soviet era, selling what was made took little effort. Distribution, sales, and marketing were not required. If they were required, the activities were usually carried out by state organizations without any direct involvement from a producer.

Selling Hella's products proved easy as long as customers were shown the reliability and quality. More challenging for the local Hella office, however, is understanding what customers need and training salespeople to listen and recognize those needs. This information must be fed back to the home office so that the company can produce what is sellable in Hungary.

In the past three to four years, the office has become more attuned to customer's information and product needs through regular visits and contact. This approach is particularly relevant today because the customer base for Hungarian suppliers has shifted from the Eastern bloc to Western multinationals who have higher expectations.

External Forces in Hungary Provide Big Challenges

Even with a good product and savvy marketing, the external context can pose major challenges, as was the case in 1995. At that time, the Hungarian government introduced an economic adjustment package aimed at putting the economy on a sustainable path of low inflation growth. First, wage policy in the public sector was tightened. Second, the forint was devalued by 8% at one time, followed by a switch to the crawling peg. Finally, budgetary controls designed to reverse the balance of trade were introduced.

For HHK, the most significant portion of the package was the imposition of an 8% import tax. Since the Budapest operation has no manufacturing capability, the entire product line is imported from Germany, and this led to subsequent price increases in a market that was highly price sensitive.

With the Hungarian economy showing signs of recovery, the extra import duties were eliminated as of July 1997, which was good news for Hella. HHK has kept prices stable for 1997, whereas previously three or four price increases were standard.

Nevertheless, the experiences of Hella reveal the importance of inner and outer context and some of the obstacles facing businesses in emerging economies. In the future, the Hungarian office would like to see a broader product range for the Hungarian market. While the subsidiary has the option to expand the retail segment, its current focus will remain on wholesalers. ■

Valerie Dumas (Budapest)

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New Car Registrations in Europe

	Country	1997	1996	% Change
1	Italy**	1,664,100	1,233,100	34.95
2	Sweden	144,700	112,300	28.85
3	**Poland***	**334,412**	**259,937**	**28.65**
4	Greece**	113,700	100,500	13.13
5	Spain**	690,100	617,000	11.85
6	Ireland**	108,800	100,800	7.94
7	Denmark**	109,100	101,100	7.91
8	Finland	75,500	71,000	6.34
9	U.K.	1,615,400	1,519,200	6.33
10	Luxembourg	23,500	22,900	2.62
11	Norway	86,900	86,700	0.23
12	Netherlands**	360,100	359,600	0.14
13	Germany**	2,426,100	2,442,700	-0.68
14	Belgium	288,600	297,400	-2.96
15	Switzerland**	192,200	199,000	-3.42
16	Portugal**	147,500	153,100	-3.66
17	Austria**	204,700	236,100	-13.30
18	France	1,117,600	1,434,000	-22.06

* Grey import not included
**The figures for these countries are provisional

Source: SAMAR

FUTURE ISSUES

Update on Skoda's Octavia Factory

Amended Czech & Slovak Customs Rules

Poland Sales and Production Statistics

Czech Republic's New VAT & Income Tax Changes

Regional Special Report: Leasing

Czech Republic Sales Statistics

Review of the Bucharest International Auto Show

Place Your Ad Here!

Top Selling Companies in Poland (YTD August 1997)

Passenger Cars

	Make	Volume 1997	Market Share %	Volume 1996	Market Share %
1	FIAT	116,076	34.71	109,437	42.10
2	DAEWOO	85,636	25.61	60,170	23.15
3	GM - OPEL	30,980	9.26	19,109	7.35
4	RENAULT	16,817	5.03	17,422	6.70
5	SKODA	14,359	4.29	8,944	3.44
6	FORD	12,555	3.75	7,437	2.86
7	VW	10,385	3.11	6,918	2.66
8	SEAT	10,031	3.00	5,897	2.27
9	PEUGEOT	7,448	2.23	4,964	1.91
10	CITROEN	6,432	1.92	3,322	1.28

Commercial Vehicles

	Make	Volume 1997	Market Share %	Volume 1996	Market Share %
1	DAEWOO MOTOR POLSKA	8,176	24.09	7,153	24.06
2	DAEWOO	7,879	23.22	10,288	34.60
3	CITROEN	3,587	10.57	1,734	5.83
4	FIAT	2,970	8.75	4,384	14.74
5	FORD	2,072	6.11	1,277	4.29
6	MERCEDES	1,873	5.52	742	2.50
7	PEUGEOT	1,307	3.85	106	0.36
8	SKODA	1,215	3.58	106	0.36
9	VW	1,212	3.57	866	2.91
10	RENAULT	915	2.70	593	1.99

Source: SAMAR

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Hungarian Suppliers of Parts and Components

COMPANY	PRODUCT	CONTACT	PHONE/FAX
4-ASZ Trade-Plaszt	Plastic vehicle parts	Szabo Otto	tel: 36-29-352-675 fax: 36-29-352-675
ABF Alkatreszgyarto	Mechanic cables	Bencze Zsolt	tel: 36-27-342-292 fax: 36-27-342-292
ACELGYAR Rt.	Balancing arms, gears, joint-forks, wires	Gyory Peter	tel: 36-32-416-466 fax: 36-32-311-894
Ajkai Elektronokai Kft.	Vehicle parts (pressed), fittings (door-handles, blockings)	Lautner Jozsef	tel: 36-88-312-577 fax: 36-88-311-815
ALBERT WEBER Hungaria Kft.	Suction tubes, gear-box covers	Berecki Monika	tel: 36-33-416-388 fax: 36-33-412-140
ALUFIX Szendroi Femipari Kft.	Pressed and welded components to bumpers, aluminum/steel/stainless/ welded structures, pressed parts	Molnar Zoltan	tel: 36-48-460-015 fax: 36-48-460-021
ARGE Nemet-Magyar Ipari es Kereskedelmi Kft.	High-precision technical parts from plastics for the vehicle and the handtool industry	Gerath Janosne	tel: 36-29-344-403, 402, 401 fax: 36-29-344-404
ARMAFILT Ipari es Kereskedelmi Rt.	Manufacturing and distributing oil filters, air filters, gasoline filters, sealings and gaskets	Varga Istvan	tel: 336-129-5602, 270-3655 fax: 36-149-8553
AUGUSZT Gzory	Manufacturing and distributing coupler heads	Auguszt Gyorgy	tel: 36-60-363-895 fax: 36-74-466-650
AUTOELEKTRO Gapjarmuipari es Elektronikai Gyarto Kft.	U-16 12V relays, U-26 12V relays, U 07 relays and other relays for use in the car industry	Jakab Gyula	tel: 36-57-400-339 fax: 36-57-401-211
Autoipari Kutato es Fejleszto Rt.	Individual products for the vehicle industry	Nemenyi Jozsef	tel: 36-203-7633 fax:36-203-7635
AUTOTRIB Tribologiai Kutato es Fejleszto Kft.	By-pass engine oil filters, air-filter elements, gas filters	Meszaros Gabor	tel: 36-206-6105 fax: 36-206-6137
Autovillamossagi Felszereleseket Gyarto Rt.	Advanced high-performance electric starters and generators for vehicles	Dr. Seregi Laszlo	tel: 36-140-1540 fax: 36-140-1542
AUTRON Kft.	Car accessories, central lockings, collision detectors, cabling systems	Vaczi Bela	tel: 36-149-1129 fax: 36-270-0363
BAKANY Gepipari Rt.	Drive shafts, axle shafts, gear pumps, clutch parts (cut and welded)	Dr. Takacs Sandor	tel: 36-34-310-740 fax: 36-34-310-740
Bakony Gyujtogyertya-es Keramiagyarto Kft.	Spark plugs, heavy - clay products	Goz Zsigmond	tel: 36-88-427-260 fax: 36-88-421-715
BAKONY Muvek Autoalkatreszgyarto Rt.	Vehicle electrical products, spark plugs, light-clay products, windscreen wipers	Juttner Andras	tel: 36-88-423-648 fax: 36-88-427-916
BAUSCH Kft.	Manufacturing and distributing electroplates, manufacturing injection molding and tumbling tools	Laky Klara	tel: 36-206-6266 fax: 36-206-1259
Belcord Kft.	Manufacturing piston rings and cylinder barrels	Belkovics Laszlo	tel: 36-36-413-547 fax: 36-36-413-547
BERVA Finomszerelvenygyarto Kft.	Vehicle pneumatics, (pneumatic door controls, absorber springs, shock absorbers), pneumatic and hydraulic parts	Boldi Dezso	tel: 36-36-411-556 fax: 36-36-411-112
BERVINA Hajtastechnikai Bt.	Polyurethane belts, special fan belts	Bernath Laszlo	tel: 36- 252-4829 fax: 36-252-4829
BHG Hiradastechnikai Rt.	Switching technique systems, cablestrands, manufacturing and inserting integrated circuit boards	Hegyi Agnes	tel: 36-204-5718 fax: 36-204-5648
BPW RABA Futomugyar Kft.	Undercarriages for trailers, road vehicles, and farm vehiacles	Ersing Karoly	tel: 36-94-328-003 fax: 36-94-328-002
BSX Gyarto	Passenger car clutches	Bernhardt Laszlo	tel: 36-72-482-363 fax: 36-72-482-363
CAROFLEX Fekbetetgyar Kft.	Friction linings for passenger cars and other vehicles	Szilagyine Gajdos Eva	tel: 36-45-415-219 fax: 36-45-415-217

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

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EC Policy… *Continued From Page 11*

Harmonization of Automotive Technical Standards

The European Community unambiguously supports efforts to achieve further international harmonization in the field of automotive standards. This question is of special relevance for an industry that is more and more acting globally, and that is being troubled by a multitude of different national standards.

The Commission therefore attaches particular attention to the global harmonization of vehicle regulation in the context of the **UN-ECE 1958 Agreement** on mutual recognition and we are seeking to encourage other countries to join in this process.

We believe that the multilateral approach is the most cost effective way to reduce global regulatory costs in situations where regulators in different countries are aiming to achieve similar objectives in terms of performance standards and methods of testing.

This being said, harmonization must be achieved without sacrificing the need to ensure that regulations are set at the high levels of safety and environmental protection we are used to in the EU.

Since many CEECs have been members of the Agreement for a considerable period of time, they have a good base to build on when deciding to take over what we call the "acquis communautaire."

Integrating Accession Candidates into the Internal Market

The Europe Agreements with the CEECs envisage the alignment of the Central and Eastern European countries' legislation with the internal market. As part of the pre-accession strategy, the White Paper on the "*Preparation of the Associated Countries of Central and Eastern Europe for Integration into the Internal Market of the European Union*" (COM(95) 163 final) identifies the key measures in each sector and suggests a sequence in which the associated countries would best tackle the approximation of their legislation with the requirements of the Internal Market.

In the automotive sector, this requires not only the transposition of the technical requirements for European vehicle type-approval, but also the establishment of adequate administrative structures for implementation and enforcement.

For this purpose, a plurinational program of 18.5 million ECUs was approved in September 1995 in the context of PHARE, the general assistance program for the economic restructuring of the countries of Central and Eastern Europe, coordinated by the European Commission.

This has been used for the launching of a new technical assistance information exchange office inside the Commission which has become operational in 1996.

It is anticipated that by the time of accession, Central and Eastern European countries will have put in place the necessary legislation and institutional framework so that the EC Type Approval system can be applied in the same beneficial way as it is with the current 15 EU Member States. ■

Exhibitions, Conferences, and Shows in 1997 & 1998

1997

Nov. 1	**Valencia, Spain** Salon del Automovil
Nov. 4-6	**Detroit, MI** Autofact '97
Nov. 4-6	**Birmingham, England** Autotech '97, tel: (44) 121-767-3817
Nov. 4-7	**Las Vegas, Nevada** Automotive Aftermarket Industry Week Show, tel: (847) 228-1310
Nov. 6-9	**Istanbul, Turkey** Commercial Vehicles Show, tel: (90) 212-663-0881
Nov. 11-12	**Moscow, Russia** EuroForum Automotive Conference (44) 171-878-6888
Nov. 11-15	**Sao Paulo, Brazil** Int'l Auto Parts, Equipment & Services Trade Fair
Nov. 17-19	**Cleveland, OH** Int'l Truck & Bus Meeting & Exposition
Nov. 18-22	**Sofia, Bulgaria** Auto Expo, tel: (359) 2-981-4343
Nov. 22-30	**Athens, Greece** Athens Int'l Motor Show, tel: (30) 1-68-00-600
Nov. 26-30	**Madrid, Spain** Industrial Vehicle Trade Fair
Nov. 28-Dec. 1	**Essen, Germany** Essen Motor Show, tel: (49) 201-724-4840
Dec. 2-5	**Shanghai, China** Autotek China
Dec. 4-5	**Brussels, Belgium** Conference on Globalization & Competitiveness, tel: (32) 2543-2332
Dec. 6-14	**Bologna, Italy** Bologna Motor Show, tel: (39) 51-645-1011
Dec. 9-11	**Detroit, MI** SAE Global Vehicle Development Conference, tel: (412) 772-7131

1998

Jan.	**Brussels, Belgium** Int'l Commercial Vehicles Show
Jan. 10-19	**Detroit, MI** North American Int'l Auto Show
Feb. 23-26	**Detroit, MI** SAE Int'l Congress & Exhibition
Mar.	**Katowice, Poland** Automotive Equipment Exhib.
Mar. 5-15	**Geneva, Switzerland** International Motor Show
April 11-19	**New York, NY** Int'l Auto Show
April 24-May 3	**Turin, Italy** International Auto Show
April 25-30	**Poznan, Poland** Int'l Fair of Auto Industry
June 7-12	**Brno, Czech Republic** AutoTec
Sept. 15-20	**Frankfurt, Germany** Automechanika
Sept. 27-Oct. 1	**Paris, France** FISITA Congress
Oct. 1-11	**Paris, France** Int'l Paris Motor Show
Nov. 27-Dec. 6	**Essen, Germany** Essen Motor Show

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

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***Highlights** Continued From page 3*

Rubber Maker Upgrades Facilities and Expanding Production

The Brasov-based **Fartec** is the Romanian market leader in the production of precision seals and molded rubber parts, transmission belts, hoses, and flexible tubes. The company has upgraded its production facilities by importing **General Electric** and **3M** technologies and know how.

Fartec plans to further diversify its product range by importing Italian state-of-the-art equipment for one-use syringes, perfusion and transfusion kits, as well as by expanding its production to include **Seal Jet** air-tight seals for oil and mining applications.

Slovenia

Renault Leads Pack

For the first nine months of 1997, Renault was the top selling brand in Slovenia with 10,557 cars sold, capturing it a market share of 21.33%, compared to last year's share of 26.90%. Volkswagen held the number two position with 6,019 units sold, for a market share of 12.16%. In third place was Fiat with 4,568 cars sold and a market share of 9.23%.

International

On Sept. 10, **Tenneco** named Jack Lascar, a corporate vice president, to lead the corporation's business development activities in Central and Eastern Europe. In his new role, Lascar will work closely with **Tenneco Automotive** and **Tenneco Packaging** executives to develop strategic business opportunities in Central and Eastern Europe.

Lascar, 43, has been vice president, investor relations since 1994. Prior to that he was executive director and manager of investor relations. He also served as business planning manager for Tenneco Automotive, manager of corporate planning and senior planning analyst.

Tenneco Automotive is one of the world's largest producers and marketers of ride control products and exhaust system, which are marketed under the Monroe and Walker brand names.■

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

In connection with the prohibition regarding comparative advertising, the CAA also states that the findings prepared by a third person may be released or referred to in advertising only with the express prior consent/authorization of such third person. According to the CAA, the advertiser is liable for ensuring that the publication of findings of a comparative test/study or reference to any data obtained from such test/study will not conflict with the referenced statutory prohibitions.

Limitations on Use of Environmental Protection Qualifications

The CAA conditions the use of any environmental protection qualification or reference to Act LIII of 1995 on the General Rules of Environmental Protection ("GREP"). GREP provides that the distinctive symbols of "environmentally sound product or technology" may be used for environmentally friendly or sound products that utilize or encumber the environment to a lesser extent than traditional products and technologies with identical or similar functions. The unauthorized use of these symbols will be punished by imposing an environmental penalty.

Violations of the CAA

Responsibility for violation of CAA rules lies, in most cases, with all participants in the advertising activity which include the advertiser, the advertising agency, and the advertising media. Violations are adjudicated by the Authority for Consumer Protection and the lower level consumer protection inspectorates.

When an advertisement violates regulations of the Competition Act, regular courts or the Economic Competition Office must proceed in accordance with the Competition Act. Notwithstanding the above referenced supervisory proceedings, any party claiming injury of his/her personal rights may enforce his/her claim directly before the court in accordance with general rules of civil law.

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

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The Source For Automotive Information On Central Europe™

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Sample Directory Entry Shown Below: Your Photo or Company Logo Included!

(This is a Sample Entry)

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Title: Publisher
Company: CENTRAL EUROPE AUTOMOTIVE REPORT™
Address: 4800 Baseline Rd. Suite E104-340
Address: Boulder, CO 80303 USA
Tel: +1 (440) 843-9658
Fax: +1 (206) 374-5282
Email Address and Direct Link: cetmpr@ibm.net
Web Site Address and Direct Link: http://www.cear.com
Product/Service: Automotive Trade Magazine
Seeks: Auto related companies interested in expanding through Central Europe

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☐ **Expert on:**

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☐ Accounting	☐ Legal	☐ Investment	☐ Logistics
☐ Real Estate	☐ Consulting	☐ Auto Finance	☐ Travel
☐ Human Resources	☐ Technology	☐ Government	☐ Advertising/Marketing

2. Fill In Your Listing Information:

Your Directory Listing Information (print in BLOCK CAPITAL LETTERS)	
Name:	
Title:	
Company:	
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Offices in Central Europe and the United States

NAVIGATING HUNGARY'S LEASING LAWS

TAX, CUSTOMS, & FINANCE UPDATE

Iain B. McGuire, Tax and Legal Services Partner, Coopers and Lybrand, Budapest

From the 1st of January 1997, there has been a significant change in the way leasing transactions are treated in Hungary. Essentially, the concept which prevailed prior to the change — all transactions are treated as operating leases — has been replaced by new legislation which more closely follows established international treatment.

Confusion Likely From Less Rigid Leasing Criteria

However, the new rules in Hungary contain less rigid criteria than are normally seen in more established regimes and this will inevitably lead to confusion, particularly in the areas of taxation and accounting. Surprisingly, whilst leases are defined for the purposes of banking, the civil code, public acquisitions, and VAT, they are not defined in the legislation related to tax and accounting.

"Only licensed companies can enter into finance lease transactions and even if licensed can only engage in finance leases. This means that companies contemplating offering both finance and operating leases in Hungary will not be able to do so under the auspices of one corporate body. Such activities will have to be split between separate companies."

"It is not clear, however, whether the interest element of lease payments will attract withholding tax under Hungarian law. If withholding tax is levied, then for cross border leasing transactions the large number of double tax treaties which Hungary has entered into should mean, in most cases, exemption from the tax."

"Finally, care should be taken when assets which are the subject of lease contracts are imported into Hungary. The general rule in force for customs purposes are followed which means that any duties, clearances, etc. must be accounted for by the importer. This could mean irrecoverable import VAT arising in the case where an importer is not registered in Hungary for VAT purposes."

Finance leases are defined for banking law purposes as transactions where lessees request a lessor to purchase tangible or intangible assets. These assets are given to lessees for their use and are recorded in the records of lessees as assets. Under such lease agreements, the risk of damage, loss, or theft is borne by lessees and the burden of all operating cost falls on them.

During the lease period, lessees are entitled to enjoy the use of the asset and when the lease period ends they have the right to purchase the asset at a residual value or have an independent third party appointed to act as a purchaser. In the absence of any intention to buy, the asset must be transferred back to the lessor. A mutually agreed payment schedule containing the contract value of the asset, the interest element, and a detailed repayment schedule showing both the capital and interest element must be incorporated into a contract.

Classification As Finance Lease

All the conditions laid out in the banking law must be met if transactions are to be classified as finance leases. If not, then companies cannot obtain the necessary license to enable them to write finance leases as registered financial institutions. Only licensed companies can enter into finance lease transactions and even if licensed can only engage in finance leases. This means that companies contemplating offering both finance and operating leases in Hungary will not be able to do so under the auspices of one corporate body. Such activities will have to be split between separate companies.

For accounting purposes, all leases are treated as operating leases unless they are acknowledged as finance leases. Where a lease is recognized as a finance lease, assets will be capitalized in the accounting records of lessees, whilst assets which are the subject of operating leases will be capitalized in the accounting records of the lessor.

Factors recognized in Hungary as giving a lease the characteristics of a finance lease include a purchase option at below market value, the present value of the rental stream exceeding the market value of the asset at any point in time, a life-time lease, and a purchase at the end of the contract.

No Specific Provisions For Lease Tax Treatment

For Hungarian tax purposes, the current legislation does not contain any specific provisions relating to the tax treatment of leases, although the pre-1997 rules which restricted a company's ability to deduct rental fees have been removed for transactions which take place after January 1, 1997.

It is not clear, however, whether the interest element of lease payments will attract withholding tax under Hungarian law. If withholding tax is levied, then for cross border leasing transactions the large number of double tax treaties which Hungary has entered into should mean, in most cases, exemption from the tax.

Unfortunately, some general changes to the rules for depreciating assets for tax purposes from January 1, 1997 mean that for most lessors involved in operating lease transactions tax depreciation will be at a rate less than that permitted under the law. This is because assets can only be depreciated for tax purposes at the lower of the rate used for accounting or allowed under the tax legislation.

Since the 1997 rates allowed for tax purposes (30%) are normally higher than those used for accounting purposes, unless there is a change in accounting policy that brings accounting depreciation rates exactly in line with tax rates, there is likely to be a loss of the immediate benefits of the higher tax rates.

VAT Liability

For Hungarian VAT purposes, a finance lease is treated as the supply of a product with the result that VAT liability arises at the time when the asset is first made available for the lessee's use. This liability arises on the principal value of the lease contract only since the interest element is exempt from VAT. It also means that the lessor will be treated for VAT purposes as making partially exempt supplies which will result in a partial disallowance of input tax which cannot be directly attributed to taxable supplies.

Non-finance leases — those treated as rental services — continue to have VAT liability computed on the basis of each installment of rent. This means that lessors can make a VAT reclaim immediately when an asset is purchased whilst discharging any liability for output tax as and when installments are made.

Finally, care should be taken when assets which are the subject of lease contracts are imported into Hungary. The general rule in force for customs purposes are followed which means that any duties, clearances, etc. must be accounted for by the importer. This could mean irrecoverable import VAT arising in the case where an importer is not registered in Hungary for VAT purposes.

It could also possibly mean further VAT liability when the asset is subsequently transferred to a Hungarian VAT registered lessee. Such possibilities can be circumvented if assets are taken into possession by lessees outside Hungary. ■

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INVESTMENT OPPORTUNITIES

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

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

Sales of New Cars and Commercial Vehicles in Poland

	1992	1993	1994	1995	1996	YTD August 1997	% Change
Passenger Cars							
Local Production	144,748	170,549	199,724	206,284	165,934	226,487	36.49
Import	54,531	71,059	50,558	58,754	94,003	107,925	14.81
Total	199,279	241,608	250,282	265,038	259,937	334,412	28.65
Commercial Vehicles							
Local Production	19,665	18,475	21,413	27,984	24,891	26,574	6.76
Import	3,250	5,497	2,542	3,962	4,844	7,364	52.02
Total	22,915	23,972	23,955	31,946	29,735	33,938	14.13

Source: SAMAR

CEAR

SUPPLIER CONFERENCE IN WARSAW BRINGS TOGETHER INDUSTRY LEADERS

On October 2 and 3, representatives from the big OEMs, suppliers, financial institutions, government agencies, and consultants assembled in Warsaw to discuss the automotive components industry in Eastern Europe and Russia.

*The conference, organized by IBC UK Conferences, featured presentations from, among others, **GM Poland**, **Ford**, **Daewoo-FSO**, **Fiat Polska**, **Delphi** and **Lucas**. Day one of the conference was chaired by **CEAR** Editor-in-Chief Jeffrey Jones.*

Excerpts from some of the conference presentations follow:

"So is Poland, or Central Europe as a whole, bound to be the next Venezuela? Will we have "boom and bust"? Well, we believe that the boom in the Central European car markets is a reflection of structural changes — not simply cyclical swings — in the markets and their economies. While some ups and downs can be expected in any market, the longer-term direction in Central Europe appears definitely to be upwards…

"In the area of components, Opel has already signed contracts worth DM 400 million annually in Poland and DM 550 million in the Czech Republic, Slovakia, and Hungary, for both our operations in Poland as well as for operations abroad. Our internal goal is to source DM 1.5 billion annually in Central Europe by the year 2000."

In the area of components, Opel has already signed contracts worth DM 400 million annually in Poland and DM 550 million in the Czech Republic, Slovakia, and Hungary, for both our operations in Poland as well as for operations abroad. Our internal goal is to source DM 1.5 billion annually in Central Europe by the year 2000. Among our suppliers are such companies as **Polmo Praszka, FA Krosno, Valeo, TC Debica, Pilkington Sandoglass, Polmo Szczecin, Szot International, Teksid,** and last but not least**,** GM's own Delphi operations . . . .

In our search for new suppliers, we look for durable and long-term partnerships. Cooperation with our suppliers throughout the product lifecycle is our objective, as is the sharing and coordination of our strategic business plans. As part of our globalization policy, we also look for our suppliers to follow us as we expand into new markets — not just serve us from a remote facility. In return, we hope to offer the supplier unprecedented access to global growth potential and high unit volume, as well as new technology and innovation developed by GM and its affiliates. By using our research and development facilities we are able to support local manufacturing and to meet our global needs — a product developed once which can be produced on a global scale."

Scott R. Mackie, Managing Director, General Motors Poland and Opel Polska.

***

"If you are not willing to do business a new way, you will lose 65% or more of your business overnight. You need to learn fast. We estimate that you have 24 months from today, at most, to get it right."

"A lot of people in this industry are driving at full speed right for a brick wall. Why do I say that? All you have to do is look at today's agenda. All day, we have heard about the hard issues relative to manufacturing. Let me make myself clear: anybody can manufacture. Pumping goods out of a production line is not difficult. Manufacturing capability is not going to create competitive advantage in the years to come. What will make a difference are things most automotive manufactures and suppliers have never had to deal with before. Flexibility. Responsiveness. Partnership. Teamwork, inside and out . . . .

Letting financial incentives determine site selection is a recipe for long-term disaster. Take Ukraine. Plants there have no inherent talent base, and few social necessities to attract creative multinational executives. So you can get land for free — and pay for it for the brief life of the factory in lost business and opportunities. Poland has the talent base and established schools, medicine, housing, so it does not need to offer incentives. Talent, even expensive talent, is infinitely more important than free land . . . .

There is no longer any room for mistakes. Today's production systems demand manufacturers cut back on the number of suppliers they use. That means you are a target. It's all or nothing. All or nothing. If you are not willing to do business a new way, you will lose 65% or more of your business overnight, and you cannot afford to stay operational for three years until you land another major customer. Look at the headlines. You need to learn fast. We estimate that you have 24 months from today, at most, to get it right."

Doug Smith, Managing Director, Worldwide Automotive Practice, Ward Howell International

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"In 1997, the majority of automobile construction enterprises [in Russia and the former Soviet states] shall pass through the lowest critical point and shall begin to increase the volume of production, restructuring themselves while taking account of consumer requirements, their solvency, and the overall economic situation. Thus, in the first six months of 1997, there was a substantial increase in the volume of production in comparison with the corresponding period in 1996: 8.0% for trucks, 11.3% for passenger cars, and 17.9% for busses . . . .

The data on the relationship between volume of sales and volumes of production in the first 6 months of 1997 provide evidence of the achievement of a process of reconstruction of production in response to consumer demand. Thus, **Zil** sold 93.6% of trucks manufactured, **GAZ** sold 100% of trucks, 99.8% of passenger cars, and 98.7% of buses manufactured, and **KamAZ** sold 100% of trucks and 100% of passenger cars . . . .

On the whole, enterprises have learned to operate in the market and, in our opinion, it can be expected that the tendency for growth in volumes of production of automobiles shall continue for the near future. However, the stability of this tendency shall doubtless depend on how quickly plants can improve the quality of automobile equipment produced and maintain their competitiveness. Without a doubt, this problem shall largely depend on the quality of components and key transport systems."

Victor I. Pashkov, ASM Holding ■

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