Central & Eastern Europe
Commercial Update

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March/April 2004

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London, United Kingdom

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Central and Eastern European Transport, Logistics, and Supply Chain Exhibition
Budapest, Hungary

June

6/21–6/23
17th Bled E-commerce Conference
Bled, Slovenia

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Infrastructure Development in Hungary

In May, Hungary will join the European Union—a change that entails numerous rights and responsibilities for this Central-Eastern European country. EU membership requires Hungary to align its road, highway, rail, aviation, and maritime systems with EU standards. Harmonization with EU standards necessitates the improvement and expansion of expressway systems, as well as integration into the larger European transportation network. Although the Hungarian government has been modernizing the county's infrastructure to meet these new requirements, much work remains to be done, providing various opportunities for U.S. companies in the transportation and infrastructure sectors.

The government of Hungary has steadfastly supported transportation improvements. In May 2002, the Hungarian National Assembly established the Ministry of Economic Affairs and Transportation, with the goal of modernizing Hungary's infrastructure to allow the country to achieve its economic growth potential. Hungary is a transportation hub between Germany, Austria, and Italy in the west and Russia, Southeast Europe, and Asia in the east.

The European Commission has commended Hungary for infrastructure development. In fact, the October 2002 report from the commission on Hungary's progress in adopting the common body of EU law praises the country for continued advancement in road and rail transportation, as well as for strengthening administrative capacity in the road and aviation sectors. However, Hungary has been criticized for not or only partially privatizing shipping, public transportation, and air traffic. Nonetheless, the European Union remains committed to assisting Hungary during the transition and has pledged up to 104 million euros for transportation and environmental projects.

Road

In 2001, the public road network in Hungary was 30,322 kilometers long, 448 kilometers of which were superhighways. The Ministry of Economic Affairs and Transportation has outlined development plans for Hungarian expressways until 2015. Major infrastructure improvement projects include further development of the radial network of expressways that covers the country with Budapest at its center, making it possible to reach the following cities by expressway: Szeged, Debrecen, Nyiregyhaza, Miskolc, and Pecs. In addition, the construction of the beltway that surrounds Budapest will be completed to decrease traffic congestion in the capital.

Although the EU axle weight is limited to 11.5 metric tons, Hungary has a lower limit due to lower-quality road conditions. Therefore, the European Commission has granted Hungary a transitional arrangement on the maximum authorized weights and dimensions until Dec. 31, 2008. In contrast, the European Union has requested and received a transition of a maximum of five years on opening up the domestic transportation markets of individual member states to road freight belonging to foreign companies.

Rail

As of 2001, Hungary boasted 7,897 kilometers of rail network. Modernization and electrification of several main railway lines throughout the country are key infrastructure-development goals. The construction of a Hungary-Slovenia rail connection, which was completed in 2001, serves as an example of the overall development of the rail network. Regarding European-wide integration, legislation has been adopted in Hungary

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Eye on Southeast Europe

The Housing Market in Southeast Europe, Part II

This article continues to explore opportunities for U.S. businesses in the housing sector in Southeast Europe (see Part I in the September 2003 issue).

Albania

The construction sector grew 9.1 percent in 2002, and in the first quarter of 2003, the number of completed buildings rose by 81.1 percent year-on-year, spurred by demand in both residential and non-residential construction. Data from the 2001 census show that Albania still has one of the lowest levels of housing per capita among Eastern European countries. The construction industry consists of an estimated 70 joint ventures and 50 wholly owned foreign companies. The majority of firms in the housing-construction sector are small-scale builders, with relatively few high-capacity builders.

Since 2001, progress has been made toward meeting excess demand for housing. Large cities in Albania, including Tirana and Durres, are currently benefiting from the construction boom. The latest figures show an annual increase of five units per 1,000 inhabitants, an indication of considerable growth.

According to figures published on building permits, housing as a share of all new buildings has increased from 37.6 percent in 1995 to 60.5 percent in 2000. During the 1990s, the number of households increased by 8 percent. The average household size was and is rather high relative to other countries in Southeast Europe.

Bulgaria

Housing in Bulgaria was on the rise in 2002; the construction and building-materials industry is slated for high growth. According to the Bulgarian Chamber of Building and Construction, the growth in construction services in Bulgaria is expected to reach 15 percent over the next two years. Bulgarian builders are interested in adopting U.S. construction technology and building materials. New building construction is primarily steel-reinforced concrete and brick, but some home builders are beginning to use American-style platform-frame wood construction and prefabricated housing for their different styles, superior energy performance in Bulgaria's climate, soundproofing, earthquake resistance, and price-competitiveness with European products. U.S. value-added residential building products for single-family homes that may have very good market prospects in Bulgaria include wooden and vinyl windows, doors, flooring, and kitchen cabinets. Other potential U.S. exports include framing lumber, plywood, molding, and fiberboard.

Because of relatively stable economic conditions in Bulgaria over the past year, the building-materials market has expanded by 22 percent, and it will continue to expand by a steady 12.5 percent in the near term. The market can be expected to grow even more over the long term when the economy strengthens, along with the real estate market. Bulgaria's housing market is improving and offers excellent opportunities for U.S. suppliers of building materials, and great potential for manufacturers of value-added products.

FYR Macedonia

Over the last decade, the construction industry has comprised 5.1–7.9 percent of GDP and has had annual revenue of $400 million. Data compiled in the first quarter of 2001 indicated a trend of increasing production. In 2000, production of building materials increased 38.1 percent, while the export of building materials increased 14.7 percent from 1999. The largest export markets for building materials were Kosovo and Albania. Also in 2001, the Macedonian Development Bank launched a program for export insurance covering commercial risks for exporters of building materials.

Buildings in Macedonia are energy inefficient, heavy, and take a relatively long time to build. Builders in Macedonia are starting to explore American-style platform-frame wood construction and prefabricated housing. This situation offers many opportunities to promote high-tech U.S. building materials based on advanced U.S. technology. U.S. value-added building products that may have very good market prospects include wood and vinyl windows, doors, flooring, kitchen cabinets, suspended ceilings, insulation, adhesives, cements, roofing shingles, heating and ventilation equipment; air-conditioning, refrigeration, and cooling systems; and steel buildings and fabrications. The domestic market in Macedonia consists of goods such as cement, cement products, and gypsum products.

EU Accession Extras

Business Update on Accession Countries

Erkki Liikanen, EU commissioner for enterprise and the information society, recently gave an assessment of the European Union's enlarging business community. According to Liikanen, accession countries are working hard to prepare for integration; pronounced progressive growth can be seen in such areas as income, investment, and productivity. In some cases, growth in accession countries has been higher than that of member countries. Once accession is complete, growth should continue, while countries may also look forward to easier access to EU markets, enhanced transparency in business practices, larger inflows of investment, and better access to new technologies.

As integration draws near, final steps are being made to ensure a smooth transition. Major financial transfers are now complete and will be reinforced by cohesion and structural funding. The industrial configuration of the accession countries now is comparable to that of the European Union in production, employment structure, and labor productivity. Industrial productivity has increased by as much as 50 percent in some countries. However, countries specializing in technological sectors are catching up most quickly to member countries, while countries with more low-skill, labor-intensive activities are having a more difficult time in shifting production. For example, the Hungarian technology industry's share of total exports is already comparable to that of the United Kingdom. Industries with highly skilled, white-collar labor are increasingly prevalent in the Czech Republic, Hungary, Slovakia, and Slovenia.

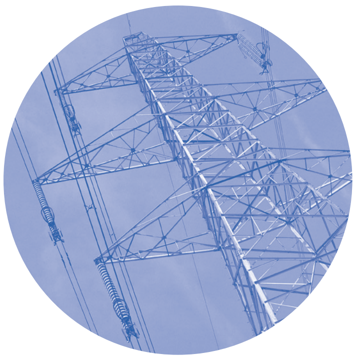
During the final stages of integration, foreign direct investment has played a very important role in restructuring and modernizing accession countries' business markets. Foreign-owned companies are now dominant in such export-oriented branches as automobiles, electrical equipment, and optical equipment. For example, 70 percent of manufacturing sales in Hungary comes from foreign-owned companies.

Microeconomic factors are also under careful consideration in accession countries. For example, Malta, Cyprus, Latvia, and Lithuania have made great efforts to cut administrative costs and to reduce the time required to set up new enterprises. Source: *Enlargement Weekly.*

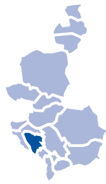
Post-accession Budget Proposed for Romania and Bulgaria

The European Commission recently proposed a three-year budget plan for Romania and Bulgaria for as much as 9 billion euros. The monetary allocations would follow the countries' planned accession in 2007. It is estimated that by 2009, Bulgaria will have received 431 million euros in direct financial assistance, 617 million euros for economic development of rural areas, and 350 million euros for the closure of the Kozloduy nuclear power plant. By 2009, Romania could receive an estimated 881 million euros in direct financial assistance and 2.42 billion for economic development in rural areas. An additional estimated 82 million euros would be allocated to improve the countries' public administration. Source: RFE/RL.

Around the Region

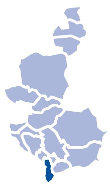


Bosnia and Herzegovina: Telecommunications Restructuring



The Federation of Bosnia and Herzegovina agreed on a plan for reorganizing landline telephone operator BH Telecom into a joint-stock company. The reorganization is designed to assist in the future privatization of BH Telecom. Source: *Southeast European Times.*

Albania: IBRD to Fund Energy Project



The Albanian Ministry of Energy expects to sign a $100-million loan agreement with the International Bank for Reconstruction and Development. The agreement would fund construction of a thermoelectric plant near the southern city of Vlora. Source: *Southeast European Times.*

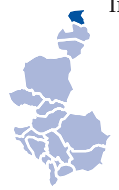
Slovenia: Electricity Market Growing

Slovenia's electricity consumption has grown to 12.12 billion kWh, a 4.7-percent increase over last year. Distribution companies are the industry's largest customers, consuming 9.36 billion kWh. Immediate consumers make up the rest of the market, with 2.76 billion kWh consumed last year. As consumption continues to rise, so does Slovenia's dependence on energy imports. Slovenian electricity producers operate at nearly full capacity. They imported 3.25 billion kWh of electricity last year. Source: *Slovenia Business Weekly.*

FYR Macedonia: Construction of Corridors 8 and 10

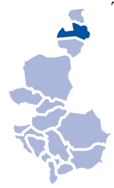
Macedonia's 2004 budget sets aside more funding for rail connections between Macedonia and Bulgaria, in coordination with the larger Corridor 8 project, as compared with previous years. According to an estimate by the Ministry of Transportation and Communications, approximately 800 million euros would be required to complete the entire construction of Corridor 8, with 580 million euros of the total going to the railroad connection. Construction on Corridor 10 has progressed even further: the rail link is already electrified, and a modern communications system is in place. Source: *Macedonian Business Monthly.*

Estonia: Renewable Energy Program



In line with EU requirements for renewable energy resources, Estonia's energy company, Eesti Energia, plans to build 75 two-megawatt wind generators, for an estimated cost of 140.58 million euros. This should help Estonia fulfill its pledge to produce 5.1 percent of its energy from renewable sources by 2010. Source: *www.vm.ee.*

Latvia: New VAT Takes Effect in May

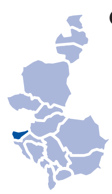


The Latvian parliament approved a new VAT to come into effect upon Latvia's accession into the European Union on May 1. The general VAT rate will be 18 percent, with a second rate of 5 percent effective on selected products and services, such as medicine, medical supplies, veterinary medicine, baby food, books, mass media, accommodation services, sewage services, and waste disposal. Source: RFE/RL.

Slovakia: Fitch Upgrades Ratings

Fitch Ratings, an international rating agency, upgraded Slovakia's long-term credit and local currency ratings to "BBB+" and "A," respectively. The short-term credit rating was also upgraded to "F2." These ratings reflect a good balance between economic prospects and political risks in Slovakia. The assessment also reflects Fitch Ratings' view that Slovakia is making progress toward joining the European Union.

Slovenia: EU Treaty Ratified



On Jan. 28, Slovenia's parliament ratified the EU Accession Treaty, completing the last step before Slovenia becomes a full-fledged member of the European Union on May 1. The treaty states the entry terms for all new members and is the result of negotiations, which acceding countries completed with the European Union in December 2002. Slovenia is the last of the 10 acceding countries to ratify the treaty. Source: *Slovenia Business Weekly.*

Upcoming Events

April

4/18–4/19

EBRD Business Forum

London, United Kingdom

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May

5/4–5/6

Central and Eastern European Transport, Logistics, and Supply Chain Exhibition

Budapest, Hungary

Further information:
Angelo Koutsoudes
Web site: *www.go-events.com/details.asp?eid=20030605025448*

June

6/21–6/23

17th Bled E-commerce Conference

Bled, Slovenia

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For a more complete list of events, go to CEEBICnet: *www.export.gov/ceebic*.

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Hungary—*from page 1*

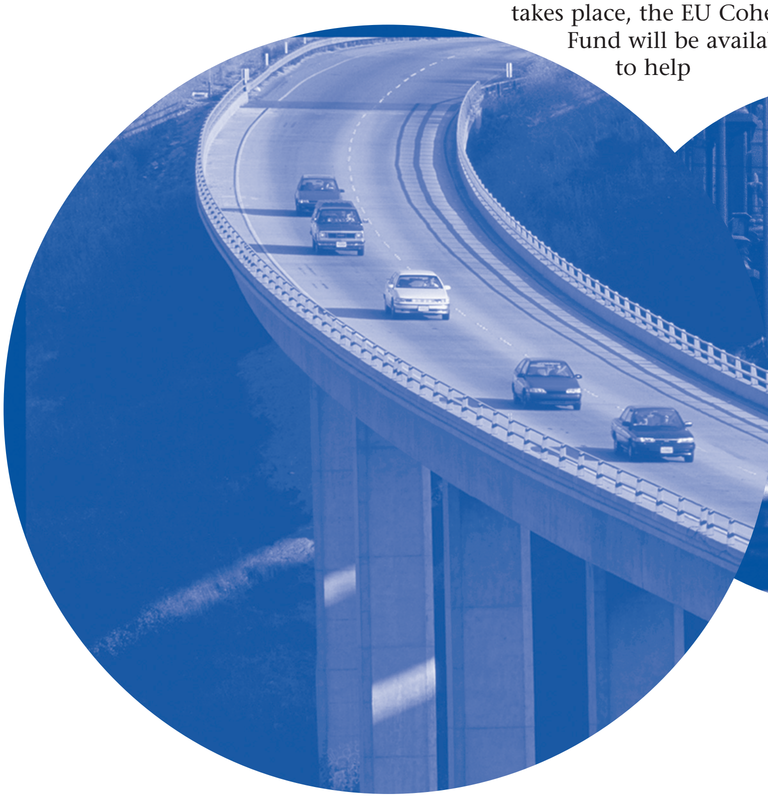
on the interoperability of high-speed rail systems and on the functions and powers of the railroad authority. However, Hungary has obtained a transition period regarding full access to the trans-European rail freight network until Dec. 31, 2006.

In November 2003, EU Commission President Romano Prodi drew up a list of trans-European transportation projects to be given top priority in the European Union's growth plan. One of the transportation projects on the list is the Dlvaca (Slovenia)–Budapest (Hungary) combined transportation and high-speed train rail line via Laibach. By establishing an eastern connection to Budapest, the European Commission hopes that improved rail links between the European Union and the candidate countries will decrease overall international freight traffic on the roads.

Air

According to 2001 statistics, Budapest Ferihegy International Airport was ranked fifth among EU candidate countries in passenger traffic. More than 4.5 million passengers utilized this airport in 2001, and nearly 2.8 million of them (61 percent) traveled between Hungary and the European Union. Strengthening the regional hub role of Budapest Ferihegy International Airport, as well as integrating the regional traffic of the airports at Debrecen and Sarmellek, are primary goals of transportation reform. Once accession takes place, the EU Cohesion Fund will be available to help finance the upgrading of large, international airports with sufficient passenger flow. However, as a general rule, the European Union is reluctant to finance the modernization of regional airports. For example, the European Commission recently refused to fund the upgrading of two regional airports in Hungary because of insufficient passenger traffic.

In April 2000, the government adopted a national strategy on aviation, which provided the basis for the restructuring and privatization of the national airline (Malév), the reorganization of air traffic management and the Budapest airport, the establishment of an independent civil aviation authority, and the creation of regional airports. In 2002, Malév continued to undergo restructuring and is now an independent company with autonomous management, and its staff has been reduced. Later that same year, the European Investment Bank signed a loan of 100 million euros to Malév for airline operations, including the purchase of 10 jet aircraft.



Water

Another important objective of the Hungarian government involves achieving efficient

Infrastructure in Hungary

Top Prospects for U.S. Companies

Architectural, construction, and engineering services

Automotive parts and services

Consulting services

Franchising

Travel and tourism

utilization of the Danube-Main-Rhine waterway, which connects the Black Sea to the North Sea. To this end, Hungary intends to improve the development of its ports and harmonize its river-shipping legal standards to meet European standards. In 2002, the European Commission commended Hungary for the continued modernization of its ports, while promoting the strengthening of the port authorities and the inspectorate for general transportation.

Conclusion

As the Hungarian government continues to restructure and modernize its transportation system, while aligning its transportation policy with that of the European Union, countless commercial opportunities will arise for U.S. companies. Furthermore, as Hungary's infrastructure improves, new prospects in related service sectors will continue to emerge. Finally, whereas U.S. firms with subsidiaries in any of the EU member states or in a beneficiary country are currently eligible to participate in pre-accession grant programs, all U.S.-based companies will be able to compete for grants from the EU structural and cohesion funds as soon as accession takes place in May 2004.

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