Central & Eastern Europe
Commercial Update

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September 2003

Automotive Parts and Services in Central and Eastern Europe

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Calendar of Events

September

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Washington, D.C.

9/16–9/19
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New York, N.Y.

9/29–10/03
EcoLinks Environmental Business Matchmaker to Bulgaria and Croatia

October

10/20–10/27
IT Trade Mission to Lithuania
Vilnius, Lithuania

10/27–10/29
Romanian International Infrastructure and Energy Forum
Bucharest, Romania

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Background

Automotive manufacturers and parts suppliers are establishing themselves in Central and Eastern Europe, as several countries across the region will enter the European Union in 2004. This accession gives U.S. companies a unique opportunity to access the EU market.

Currently, Poland, Hungary, Russia, and the Czech Republic account for approximately 85 percent of the passenger cars produced in Central and Eastern Europe. In 2001, automotive production (passenger cars and commercial vehicles) totaled 2.6 million units, and 2.8 million vehicles were sold in the region.

Czech Republic

The Czech automotive market continues to expand, despite slow economic growth in Europe and the United States. The automotive sector is one of the most prosperous areas of Czech industry, comprising 13.3 percent of all Czech industrial production. Production of passenger cars, along with related parts and accessories, is a major segment of the market. The Czech Republic produces the largest volume of cars in Central and Eastern Europe. The Czech Republic's strategic location, connection to trans-European networks, and quality of production make it an excellent marketplace and investment site.

New passenger car sales in the Czech market recorded 142,100 units in 2001, or 2-percent growth over the year 2000. Although small economy cars had the largest share of the market and continue to be the most highly rated sellers, minivans and off-road cars are also becoming increasingly popular. In 2002, registration of new cars increased 1.2 percent. Domestic production increased 2 percent.

The Czech automotive market offers excellent opportunities for U.S. automotive producers. There are now 270 car parts suppliers in the country. Forty-five percent of the top 100 European automotive component suppliers and 40 percent of the top 100 world automotive component suppliers manufacture in the Czech Republic.

Slovak Republic

The coming of Volkswagen to Bratislava in 1992 heralded a new era for the Slovak automotive market. The increased assembly of VW cars has brought greater participation of component subcontractors, making the auto sector one of the most dynamic industry sectors in Slovakia. Cars and their components totaled 26.8 percent of the country's total exports in 2002. With the 2003 entry of PSA Peugeot into the Slovak market, the country could become one of the largest per capita producers of automobiles in the world by the end of the decade.

Slovakia's car sector may potentially triple its output by the end of the decade, having already expanded by 22.8 percent in 2002. Slovakia has become one of Europe's most attractive locations for automotive sector investments in the past few years.

Poland

Poland's nearly 40 million people drive more than 10 million cars. Over the last 10 years, the number of cars sold in Poland has grown significantly, reaching a new sales record in 1999. However, since 1999, the automotive market has declined. In 2002, the registration of new vehicles fell 31 percent. This reflected a general downturn in the overall economy, caused in part by a less frequent turnover rate, expensive terms of credit, and lower purchasing power. Nevertheless, the market for automotive parts has not really suffered from the decline in new car sales. In fact, the growing number of used cars

(Continued on page 6—Auto)

The Housing Market in Southeast Europe, Part I

Background

Until the 1990s, the housing sector in Southeast Europe was largely controlled by the state. Government institutions, organizations, and building enterprises played key roles in planning and executing all housing projects. The market did not govern the distribution of apartments. As a result, blocks of apartments offering low standards of living became the norm; urban development and environmental considerations were neglected. Consequently, a chronic shortage of housing developed, with many people lacking housing or living in poor conditions, many of which still exist today.

Over the last decade, mass privatization has also had a significant effect on the housing sector in Southeast Europe and caused a critical deterioration of already low-standard housing, especially in multi-unit buildings. A lack of means to maintain housing, insufficient public housing, and limited access to finance are some of the constraints the Southeastern European countries face. These problems have only been compounded by internal conflicts in the 1990s, which left a huge number of refugees and displaced persons and inflicted serious damage on housing units and infrastructure.

Previously, housing issues were not a policy priority for governments in Southeast Europe. However, this has been changing as governments throughout the region have begun formulating comprehensive policies and creating programs to address the most urgent issues. Furthermore, economic growth has also created greater demand in the housing market through rising incomes.

Croatia

The Croatian government is trying to address housing demand by implementing reconstruction programs and housing incentives. For 2003, the Croatian government, under the auspices of its reconstruction program, plans to rebuild 8,000 housing units and provide housing for 24,000 people. Together this will cost approximately $170 million, with the state providing 93 percent of the funding and international organizations the remaining 7 percent. However, there are approximately 30,000 requests for reconstruction that the Croatian government has yet to address. Meanwhile, the rate of refugee return is increasing, indicating that demand for housing in Croatia will remain high.

A second way in which the Croatian government is addressing the high housing demand is through the Publicly Funded Housing Construction Act. The act is a housing incentive aimed at promoting housing and urban development, expanding affordable housing, and improving housing construction. Since the passage of this legislation in December 2001, 4,717 apartments have been built or are currently under construction. Local and national governments, buyers, and capital markets provide funding. All costs are covered, and the buyers are obligated to repay the banks and Croatian government through installments over a 31-year period, making housing very affordable for the average citizen.

Romania

In Romania, the government has made the housing sector a top policy priority. The government has designated the Ministry of Public Works, Transportation, and Housing as the main entity in charge of developing the sector and has formulated specific objectives for it to fulfill. One objective is to improve existing housing. First, multi-story houses that have been classified as "first-class earthquake risk" will be stabilized and improved. This includes a total of 115 apartment buildings and important public buildings such as schools and hospitals. A second program aims at increasing efficiency in Romania's energy sector through rehabilitating buildings. The government has targeted 85,000 buildings, or approximately 980,000 apartments, for work under this program between 2002 and 2015. Funds for both of these programs come from various sources, including the national government, individual homeowners, and multilateral and bilateral donors.

Another objective of the Romanian government's program is the construction of residential areas, thereby facilitating the growth of owner-occupied, Western European-standard housing. The National Housing Agency oversees this program by helping with financial arrangements and managing the financial resources for the construction, purchase, rehabilitation, consolidation, and extension of residential units. Financing for the new residential units comes from long-term, low minimum down payment mortgage credits and other benefits (like exemption from land and property taxes during the terms of the mortgage). There have been 80,000 requests for participation in this program.

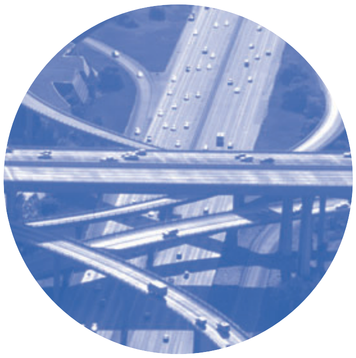
Sources:

Regional: *www.croatia21.hr/download/200105310000008.pdf*, and *www.unece.org/env/hs/workshop/sochoupapers/2ceb.pdf*.

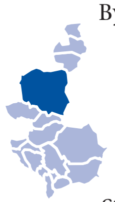
Croatia: *Housing in Croatia: Efforts and Results* (Ministry of Public Works, Reconstruction, and Construction).

Romania: *www.unece.org/env/hs/cph/romania/romania_roundtable_report_final.pdf*.

Around the Region



Poland: Freeway Construction Accelerated



By the end of 2005, 440 kilometers of freeways will be completed in Poland. The pace of construction has accelerated due to the creation of the National Road Fund and a new fuel fee. Polish officials feel more freeways will help make Poland a leading European country. By 2007, the western Polish border may be connected with Warsaw. The government's infrastructure program aims to build 1,700 kilometers of expressways and freeways by 2010. Source: *Warsaw Voice*.

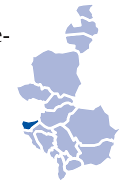
Slovakia: *Forbes* Foresees Opportunities

Steve Forbes, in a recent edition of *Forbes* magazine, called the Slovak Republic a "paradise for investors." After visiting Slovakia, Mr. Forbes felt the country could turn into a Hong Kong-like economic power due to tax reforms and a flexible labor code. The recent tax reforms include a flat tax of 19 percent and the elimination of a tax on dividends. So far, Slovakia has attracted major investment from companies such as IBM, Volkswagen, and PSA Peugeot Citroen. Source: *Slovak Spectator*.

Region: Broadband Expanding Rapidly

DSL is leading the way in the Central and Eastern European market for Internet connections, pushing broadband growth to more than double the broadband expansion in 2002. Businesses account for the greatest share of broadband connections, although consumers should take a larger share of the market in 2003 in countries with more advanced broadband networks. Cable access continues to hold strong in countries with less broadband penetration, and fixed-wireless access is a popular choice for businesses that do not have access to fixed-line broadband networks. Poland, Estonia, and Hungary lead the region in broadband connections. DSL was rolled out in the Czech Republic in the first quarter of 2003. Source: *http://europemedia.net*.

Slovenia: Tax Reforms Planned for 2005

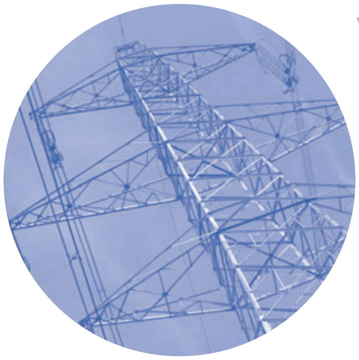


In January 2005, changes to tax legislation will be introduced in Slovenia that will lead to an estimated 10-percent decline in annual tax revenue collected by the Slovenian government. To compensate, the real estate and corporate income tax rates will increase. The Finance Ministry's aim is to increase tax collection from the current 1.7 percent to 2 percent of GDP, as well as to draft a reform measure that would completely harmonize Slovenia's tax system with EU directives, ensure a fair distribution of the tax burden, and introduce modern mechanisms of tax control. The bill on corporate income tax is also to introduce some changes and replace the existing corporate profits tax. Tax assessment would treat all companies equally. Source: *Slovenia Business Week*.

Romania: Privatization Strategy for Petrom

Romania will sell a majority stake in Petrom, the state-owned natural gas company, through a combination of share sales and capital increase. The Romanian government will ask investors to buy a stake of 33–34 percent directly from the state, and to obtain a 51-percent stake through additional capital increase. Petrom's privatization is a critical step toward completion of Romania's agreements with the IMF and World Bank. The government controls 93 percent of Petrom's stock; the remaining shares are traded on the Bucharest Stock Exchange. Petrom has upstream exploration units, with annual production of 6 million metric tons of crude oil and 6.1 billion cubic meters of natural gas. Petrom's retail network includes 700 filling stations nationwide. Source: Dow Jones.

Central and Eastern European Commercial Opportunities



Slovakia: Renewable Energy

Slovak inventor Jozef Szabo has created a new technology (being patented) for producing electricity or mechanical energy. It is a new alternative source of energy based on physical principles such as gravitation, volume, and weight. The technology works as a renewable source of energy with no harmful side effects. It can be used for engines, electric motors, automobiles, electric appliances, lighting, and more. Mr. Szabo is looking for a U.S. partner (company or university) to construct the necessary equipment and to run tests.

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Serbia and Montenegro: District Heating System

The municipality of Belgrade intends to use some of the proceeds of an EBRD loan on rehabilitation of the Belgrade district heating system. JKP Beogradske Elektrane will implement the proposed project, which has an allocation of 20 million euro. It will require procurement of goods and services related to the replacement, installation, and renovation of boilers, piping, substations, valves, and other equipment.

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Slovenia: Geothermal Project

Small- and medium-sized Slovenian enterprises are searching for investment partners to implement a geothermal project in the town of Tolmin, in western Slovenia. The project is split into three segments: a district heating network, a high-quality spa resort, and a thermal recreation center for day guests. It is also possible to take over just one segment of the project.

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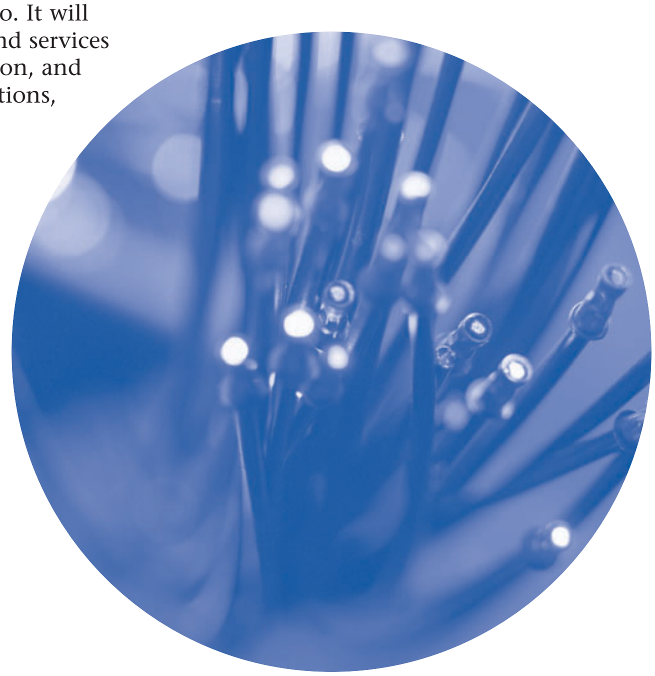

Upcoming Events

September

9/19
CEEBIC Open House

Washington, D.C.

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E-mail: *katherine_huybrecht@ita.doc.gov*
Web site: *www.mac.doc.gov/ceebic/openhouse2003.htm*

9/16–9/19
Estonian Trade Mission

New York, N.Y.

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9/29–10/03
EcoLinks Environmental Business Matchmaker to Bulgaria and Croatia

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October

10/20–10/27
IT Trade Mission to Lithuania

Vilnius, Lithuania

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10/27–10/29
Romanian International Infrastructure and Energy Forum

Bucharest, Romania

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November

11/01–11/02
Tenth Annual CIS and Eastern Europe Business Forum

Tucson, Ariz.

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For a more complete list of events, go to CEEBICnet: *www.export.gov/ceebic*.
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Auto—*from page 1*

imported into Poland has led to an increased need for car parts and maintenance products, which have witnessed a doubling of demand in the last two years. Recent years have also demonstrated substantial growth in the need for alarm-monitoring systems for vehicles. Investments by some of the world's major car manufacturers (Fiat, General Motors–Opel, Volkswagen, Peugeot, Daewoo) have significantly expanded the market for car parts.

The total annual market for automotive security equipment is estimated at $35 million. Local production and imports, mainly from EU countries, supply the Polish market. The U.S. share of this market is just 6.6 percent, mainly due to higher duties applied to U.S. products. However, this will change upon EU accession, when Poland will adopt the common external tariff of the union. The best-known American car alarm is Prestige, made by Audiovox. American products are generally held in high regard in Poland.

Hungary

In 2002, Hungary experienced strong growth in the registration of new vehicles as well as a slight increase in vehicle production. Passenger car sales rose 14 percent, while commercial vehicle sales grew 5 percent. Commercial vehicle production rose 32 percent. The country has experienced continuous growth over the last few years.

The Hungarian automotive market is rapidly expanding. Sales of personal cars are expected to grow over the coming year, with most of the sales focused on small and midsize vehicles. Increasingly, families own two cars. U.S. brands have yet to garner much market share, although imported U.S. brands are considered desirable for their uniqueness. Suzuki is the leading selling brand followed by Opel, Renault, Peugeot, and Volkswagen. Suzuki cars are manufactured locally, but the dominant German brands are imported.

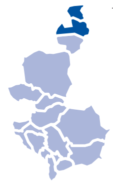
Despite major production of auto parts and supplies in Hungary, there are also significant imports from Western Europe and Asia. Hungarians are becoming more car conscious, and demand is growing for automotive products such as chemicals, lubricants, filters, and other accessories. Service garages are also becoming more prevalent. Manufacturing of auto parts represents a major investment opportunity in Hungary. There are 250 to 300 automotive-related manufacturing companies employing about 65,000 people. Most production involves auto parts, particularly electrical components.

EU Accession Extras

Baltic Infrastructure Improvement

The foreign ministers of Poland and the Baltic nations sent a joint letter to EU President Franco Frattini asking for EU support of Baltic transit projects. Specifically, the letter focused on the Via Baltica highway and Rail Baltica projects that would connect the Baltic states to Western and Southern Europe via Poland. These projects would greatly improve Europe's infrastructure by providing the Baltic area with a more modern highway and railway system. Source: RFE/RL.

Final EU Referenda



Estonia and Latvia, the last two countries set to join the European Union next year, will hold their referenda on EU membership this month. Estonia will hold its vote on Sept. 14, while Latvia will follow on Sept. 20.

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