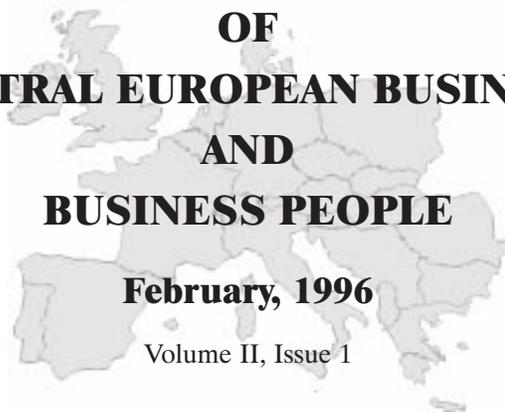


CENTRAL EUROPE BUSINESS REPORT

MONTHLY COVERAGE OF CENTRAL EUROPEAN BUSINESS AND BUSINESS PEOPLE

February, 1996

Volume II, Issue 1



TM

SLOVENIA Solid Growth, Gateway to Central Europe

Center. Since the 10-day war fought in 1991 when Slovenia declared its independence from Yugoslavia, the only fighting this multiparty democracy has seen has been on the economic battlefield.

SLOVENIA

PROFILE

Alternative Financing in Slovenia

The newly independent Republic of Slovenia is one of the success stories in Central Europe. Slovenia's 1995 GDP per capita will be approximately \$9,000 (the highest of all Central European countries and higher than some EU members), inflation is under control at 10%, unemployment is down to 13.4%, and Slovenia's 25% profit tax is one of the lowest rates in Europe.

Slovenia has a highly skilled work force, 75% of its exports are mid to high tech, the service sector is growing, its foreign debt is one of the lowest in Europe, its currency (the Tolar) is externally convertible, and it is a member of the World Trade Organization and GATT.

Despite its luster, Slovenia is unknown or wrongly thought by many to be a part of the Bosnian conflict. Slovenia is often confused with Slovakia, part of the former Czechoslovakia, or Slavonia, a disputed part of Croatia that has recently seen bloodshed. "Perception is the biggest obstacle for Slovenia to overcome," says Stojan Jakopic of the Ljubljana World Trade

Trade and Investment Opportunities.

Although Slovenia's population is only two million, it is a country with strong purchasing power. Slovenia imports approximately \$7 billion worth of goods each year, and exports approximately \$7 billion in goods. Following the break-up of the former Yugoslavia, Slovenia lost markets that accounted for 30%-40% of its foreign trade. Despite this setback, the country quickly mobilized and now conducts approximately 70% of its foreign trade with European Union (EU) countries. An association agreement between Slovenia and the EU is imminent, thereby positioning Slovenia for full EU membership by the year 2000.

Slovene companies have extensive ties with the European markets. They are not, however, experienced in working with the U.S. market. Only 3% of Slovenian exports are to the U.S. and U.S. goods comprise only 3% of Slovenian imports. The main U.S. exports to Slovenia are computers and electrical devices, telecommunications equipment, pharmaceuticals, and agricultural products. The small population of Slovenia, strong competition from

Continued on page 2

Group Alpe Adria is a dynamic, young financial services firm in Ljubljana. It was established in 1990 and has 37 employees. The Central Europe Business Report recently spoke with Group Alpe Adria's Goran Bacetic.



Goran Bacetic

CEBR: What does Group Alpe Adria do in Slovenia?

Bacetic:

Group Alpe Adria helps Slovenian companies find alternative sources of financing. We join together companies, institutions, and

investors that have money to lend with companies that need money for their operations. Liquidity is a problem for many Slovenian companies. In the Slovenian market, when a product is sold, the selling company typically has difficulty collecting payment. Furthermore, obtaining loans from Slovenian

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Feature Country Continued From page 1
European companies (especially German and Austrian), and misconceptions about Slovenia are partly responsible for the absence of U.S. companies in this market.

Slovenia as a Gateway. Slovenia is an ideal staging ground for operations in Central and Eastern Europe and Russia. Slovenia offers access to a market of some 100 million consumers within a radius of 315 miles. The country is a perfect location for transport companies, distribution centers, and assembly operations. "One of the biggest advantages Slovenia has is its connections with Eastern Europe . . . Slovenian companies know the habits of Eastern Europeans and how to trade with them," says Dr. Vlado Dimovski, State Secretary for Industry.

Slovenia is especially well positioned to reach the markets of the former Yugoslavia when tensions subside and the rebuilding begins. According to Gregor Simoniti, General Secretary of the Ljubljana World Trade Center, "Slovenia is the right environment for covering all the countries of the former Yugoslavia . . . If a company wants to locate in a quiet and safe environment and have contacts with the former Yugoslav states, it is a wise decision to come to Slovenia." Many opportunities will exist for foreign companies in the redevelopment and reconstruction of former Yugoslavia, a market of approximately 20 million people.

Foreign companies can also take advantage of several free trade agreements Slovenia has signed with the Central European Free Trade Agreement (CEFTA) members (Czech Republic, Hungary, Slovakia, and Poland) and with the European Free Trade Agreement (EFTA) members (Switzerland, Norway, Iceland, and Liechtenstein). A company from a non-member country can ship goods to Slovenia, transform them into Slovenian origin, and ship finished goods to the member countries tariff-free.

A convenient entry and exit point for goods moving between Slovenia and Central and East European markets is

the Port of Koper, a young, multi-purpose port on the North Adriatic that handles 5-6 million tons of dry cargo per year. The port has modern, specialized terminals for dry and liquid cargo and has warehousing space. The entire 400 hectares of the port is a Duty Free Zone, and 1000 hectares of space is available for future expansion. Koper has capacity for 150,000 containers per year and presently handles 60,000. Austria is the biggest user of the port, primarily for iron ore and lumber, and Japan moves 60,000 cars through the port each year. China and Russia are important future markets for Koper. An Alabama company is taking advantage of local skills and material by having an ore crane built at the port. The finished product will be loaded onto a vessel and shipped to the U.S.

Movement of goods out of the port by rail is limited by a short section of single rail line. A disruption of this track could delay movement of goods. Some companies using this port move emergency stockpiles of essential goods on alternative routes. A main highway link exists between the port and Ljubljana but secondary roads must be taken to avoid a portion of unfinished highway. The Slovenian infrastructure should improve in the future. The government plans to build 5 times more roads in the next five years than were built in the last 10 years, and approximately \$1.7 billion will be invested in rail infrastructure up to the year 2005. The infrastructure spending is an opportunity in itself.

The two principal international airports in Slovenia are in Ljubljana and Maribor. The Ljubljana Airport (Brnik) has flights to 17 overseas cities. Passenger and cargo terminals have been modernized and expanded in the past several years.

Direct Foreign Investment. U.S. companies and investors can also enter the Slovenian market through direct foreign investment. U.S. investments currently account for only 1% of foreign investment in Slovenia, whereas Germany accounts for 40%.

Continued on the next page

Slovene producers are in need of capital for retooling and expansion. According to Marjan Smonig, Senior Advisor to the Government for International Economic Relations, "Slovenia wants investors. We are aware that a country cannot survive being open to the world only through imports and exports. Companies are looking for strategic partners who can not only bring capital but also technical expertise." One such strategic partner was found in the form of Ohio-based Kirkwood Industries. Kirkwood and the Slovenian company Kolektor are involved in a joint venture facility that manufactures commutators for automotive, appliance, vacuum cleaner, and power tool applications.

A large increase in foreign investment in Slovenia is unlikely until the privatization process is complete. Pursuant to the Law on Ownership Transformation of Companies, 1,390 Slovenian companies are being privatized, representing some \$10 billion in social equity. The purpose of the law is to transform all companies with social capital into companies with known owners. As of November 1995, 390 companies had been given final approval for their privatization programs by the Agency for Restructuring and Privatization. Privatization should be completed by the end of 1996.

Foreign investors do not currently play a large role in the privatization process, even though such involvement is allowed. According to Josip Skoberne of Dolenjska Banka in Ljubljana, "the wish to engage foreign capital is less than one would expect." This is probably a short-term situation. After privatization, managers may quickly realize that they cannot continue operations without outside help. At that time, the trading of shares in the privatized companies will be unrestricted. Although shares will be distributed widely, the government expects a natural concentration of shares into the hands of active owners. Foreign investors will then know who owns a company and can negotiate directly with them. **Contact:** Josip Skoberne, Dolenjska Banka, Tavcarjeva 7, 61000 Ljubljana, Slovenia;

Tel: +386 (61) 133 6147, Fax: +386 (61) 133 3295.

The Development Fund of Slovenia assumes ownership over companies in financial and operational distress and implements organizational, financial, and operational turnaround. The Fund's objective is to divest its controlling interests and to bring in private capital to finance future operations. Some of the companies held by the Fund are candidates for foreign direct investment. **Contact:** Jana Bogdanovski, The Development Fund of Slovenia, Kotnikova 28, 61101 Ljubljana, P.O.B. 92, Slovenia; Tel: +386 (61) 1316 140, Fax: +386 (61) 1326 246.

Foreigners cannot purchase shares of companies listed on the Slovenian stock exchange. Two new pieces of legislation are needed before foreigners can

become active in the market. In mid 1996, a new takeover law should be passed that will end discrimination against foreign companies by making takeover bids transparent and by decentralizing information. New legislation regulating public offerings is also expected to be passed by the end of 1996.

Problems. Slovenia is not without its problems. The privatization process is lagging and is inhibiting foreign investment. Without additional direct investment in Slovenia, future growth may be limited by insufficient capacity expansion. Furthermore, banks and insurance companies have yet to undergo the process of privatization.

The Slovenian banking system is weak and is in dire need of restructuring and government support. Banks are

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SPECIAL INTERVIEW: OHIO GOVERNOR GEORGE V. VOINOVICH



Governor George V. Voinovich

The Central Europe Business Report recently interviewed State of Ohio Governor George Voinovich. Governor Voinovich is an active promoter of international trade growth. Under his administration, some 60,000 new manufacturing jobs have been created in Ohio, and for the third straight year, Ohio has led the entire nation in the creation of new manufacturing facilities and expansions. In October, 1995, he led a trade mission to Central Europe that included a visit to Slovenia. The business people who joined the Governor on this mission reported developing potential trading partners in Slovenia both for import and export. Many also noted that Slovenia is an ideal market through which other Central and Eastern European markets can be reached.

CEBR: How is the state of Ohio facilitating trade with Slovenia?

Gov. Voinovich: Ohio has had two trade missions to Slovenia, one in April of 1993 and one recently completed in October of this year. We are also participating in Trade Days Events through our Trade Office in Brussels in the near future, and Slovenia is one of the countries.

CEBR: Why should U.S. businesses consider doing business with Slovenia?

Gov. Voinovich: Slovenia is a stable country, both politically and economically. Substantial progress was made in the area of privatization in 1994, particularly with small and medium-sized companies. Slovenia is in need of foreign direct investment to develop its economy, particularly in the product sectors of construction, transportation, food and chemical industries, electronics, and engineering. This will be the basis for increased productivity resulting in a 5%

growth in 1995 and 1996. Slovenia also can be considered a "Gateway" to doing business in Southern and Eastern European markets.

CEBR: Do U.S. businesses based in Ohio have an advantage when doing business with Slovenia and Central Europe?

Gov. Voinovich: Yes, Ohio has a diverse economic base which can provide the goods and services needed in Slovenia. Ohio also has strong ethnic and cultural ties to Slovenia, having the largest Slovenian community in the U.S. Ohio has an honorary Consul to Slovenia located in Cleveland, Ohio. Because of the aforementioned, Ohio companies do have an advantage when doing business in this part of the world.

CEBR: What is the key to doing business with Slovenia?

Gov. Voinovich: The key is making the right contacts with potential business partners and then building a good personal and business relationship. Give the relationship time to develop. Be sensitive to the business culture in Slovenia and be flexible when necessary.

CEBR: What other comments would you like to make about doing business in Slovenia?

Gov. Voinovich: The Chamber of Economy in Slovenia, as well as the U.S. Embassy, were very important in scheduling business appointments in Slovenia for our October Trade Mission. Mission members were very pleased with their appointments. In addition, there is a new U.S. Ambassador in Slovenia who is committed to developing U.S.-Slovenia trade which can only lead to stronger ties between our two nations. ■

LEGAL ADVISOR

To better understand the Slovenian legal system, it must be realized that Slovenia has always belonged to the Central European region and its legal system has been built on the continental tradition. Existing company law is largely derived from German and Austrian company law. In practice, where Slovenian law is silent, reference will be



Bojan Pecenko

made to the laws of those countries.

Slovenia adopts its laws based on the European Union (EU) legislation. All Slovenian legislation must be harmonized with the EU directives and

regulations before the parliamentary adoption procedure. A company interested in doing business in Slovenia, therefore, will not be faced with a completely unknown body of legislation, but instead will be confronted with regulations and legal institutions similar to those found in the EU. New Slovenian regulations are announced in the Official Gazette of the Republic of Slovenia, which is issued once a week. The laws are not officially translated into English, but English versions of the most important laws are usually available.

The most important laws affecting business in Slovenia are: the Law on Commercial Companies (which governs the status of economic entities in Slovenia, including foreign companies), the Law on the Securities Market (which regulates private and public security offerings by companies), the Corporate Income Tax Act, the Custom Law (which established a new tariff system and is harmonized with EU regulations), the Copyright Law, and the Law on Industrial Property (which provides protection for inventions, industrial designs, trademarks, and the source of

goods). Slovenia's Law on Foreign Investments primarily defines the forms of direct investments available to foreign investors.

Company Forms. A foreign company desiring a continuous presence in Slovenia can set up a wholly owned company, form a contractual joint venture, or set up a branch or representative office. A lawyer's advice is recommended for setting up a company or branch office in Slovenia. A company can be formed as a limited liability company (d.o.o.), or as a joint stock company (d.d.). A company incorporated in Slovenia must either have a managing director or procurator of Slovene nationality. If the management has several members, a majority of them must be Slovene citizens.

Joint ventures are a common form of foreign investment. The procedure for setting up the joint venture vehicle depends on the form and type of investment. There are no special requirements when a foreign party is involved. In fact, foreign investment is encour-

aged under the law by a custom duty exemption for contributions in kind.

An office of a foreign company can be established as a branch office or representative office. A branch office can be established if the foreign company has been registered in their country for at least two years. Such an office can generate profit and can be organized, for example, as a producing factory with a large investment contribution. A representative office, on the other hand, cannot generate a profit and serves more as an information trading center. When setting up a branch or representative office, "incorporation" must be done by a notary public, the office must be registered with the court, the appointment of proxies with permanent residence in Slovenia is compulsory, the parent company is liable for all the obligations of the office, and the office is subjected to the same provisions regarding business books and annual business statements as other incorporated companies.

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SLOVENIA

Special Interview: Honorary Slovenian Consul Dr. Karl B. Bonutti

CEBR: Dr. Bonutti, what is the role of the Honorary Consulate in Cleveland?

Dr. Bonutti: To protect the interests of the Republic of Slovenia and its nationals; to support and assist Slovene emigrants, their organizations, and the Slovenian-American community in general; to foster cultural, business, educational, and scientific ties between the two countries; and to attend events and programs connected with the promotion of Slovene culture.

CEBR: What is unique about doing business in Slovenia?

Dr. Bonutti: Its central location within the European continent, and its highly educated and skilled work force familiar with doing business with East, West, and Central Europe.

CEBR: Why should western businesses consider doing business in Slovenia?

Dr. Bonutti: Because of its import-export oriented economy, high quality production, and favorable legislation. Furthermore, in Eastern Europe there is high interest in products made in Slovenia. The Slovenian government is favoring diversified investments from non-European countries because, as of now, the bulk of foreign investments are from three Western European countries.

CEBR: What advice can you give to western business people who wish to do business in Slovenia?

Dr. Bonutti: Slovenia is not an underdeveloped country. Its standards of living are the highest of any of the countries in

Eastern or Central Europe that were under the communist system. Visit the country first and meet representatives of the Chamber of Commerce. Contact representative offices of Slovenia in the U.S. and have specific requests for information on the Slovenian economy.

CEBR: What are the most common mistakes foreigners make when doing business in Slovenia?

Dr. Bonutti: The belief that Slovenia is an underdeveloped country with concomitant needs. They believe that prices and costs of production are low which they are not. The average income in Slovenia is about \$7,500, or twice the average income in the Czech Republic, which is widely believed to have the most advanced economy.

Dr. Karl B. Bonutti, The Republic of Slovenia Honorary Consulate, 1111 Chester Avenue, Suite 520, Cleveland, OH 44114; Tel: (216) 589 9220, Fax: (216) 589 9210 ■

FOCUS ON INVESTMENT

Prior to the passage in December 1988 of the liberal Foreign Investments Act, only 28 joint ventures representing some \$114 million of invested foreign capital had been created in Slovenia. After passage of the Act, foreign investment in Slovenia increased dramatically. Today, the number of foreign investments totals over 1000, involving \$1 billion of actually invested foreign capital. Accelerated investment activity in the last two years has been fueled by fast growth in the private service sectors and a substantial increase in public sector



Janko Arah

investments, especially in the field of infrastructure. Over 70% of the invested foreign capital originates from the European Union.

Foreigners chose to invest in Slovenia for many reasons: small domestic market with high purchasing power, receptive to new products and technologies, and high growth potential; strong export orientation and established market shares of Slovenian companies in European markets; motivated, educated, and skilled labor at reasonable costs; high quality Slovenian partners or target companies; and previous positive experiences with Slovenian companies.

Foreign investments in Slovenia enjoy full national treatment. Thus, in terms of labor regulations, accounting, taxation, imports, exports, and custom duties, a foreign company is treated as would a domestic company. The Foreign Investments Act guarantees the foreign investor the right to free repatriation of invested capital, even in situations involving liquidation, compulsory

settlement, and bankruptcy. The Act also guarantees the foreign investor free transfer of profit.

Virtually all sectors of the Slovenian economy are open to foreign investors. The chief recipient of foreign investment is the manufacturing sector, especially transport equipment, industrial chemicals, electrical machinery and appliances, and paper products. The business services and trade sector is also a major recipient of foreign investment.

Some of the well known companies that have invested their capital into Slovenia are Bayer, Black & Decker, Citroen, Fiat, IBM, Pepsi Cola, Renault, and Siemens. Although these are large, multi-national companies, the typical foreign investor in Slovenia is a small to medium-sized company primarily from the European Union.

Types of Investments. Direct foreign investment in Slovenia can take several forms. In an equity joint venture, the foreign party can establish its own company or a mixed company with domestic and foreign partners, or the foreign party can take over an existing company wholly or in part. Direct investment can also be in the form of concessions (e.g. for the exploitation of renewable or non-renewable natural resources or public goods), or build-operate-transfer contracts (regarding a specific facility, installation, or plant for a fixed time period). Foreign investors can also operate through branch offices in Slovenia, conduct service activities here, or invest indirectly through contractual joint ventures.

The Law on Commercial Companies governs the status of economic entities in Slovenia as a general regulatory act and provides for the principle of the free founding, operation, and activity of foreign companies within Slovenian territory. The Act regulates the position of a foreign company in a special chapter (Articles 559 to 568) in which it defines the concept of a foreign company, and

sets forth detailed provisions regarding the right to operate by establishing branch offices and the status and functioning of branch offices.

Restrictions on Foreign Investment.

Pursuant to the Foreign Investments Act, a foreign party may not establish its own company in the areas of 1) production of and trade in arms and military equipment; 2) rail and air transport; 3) communications and telecommunications; 4) insurance; 5) publishing; and 6) the media.

Additional restrictions on foreign investors exist. The Insurance Companies Act restricts foreigners with regard to shareholding in an insurance company. The Investment Funds and Management Companies Act states that foreign natural and legal persons may only acquire, directly or indirectly, a total of more than 20% of the shares or stakes in a management company with the consent of the Agency for the Securities Market.

The Securities Market Act states that securities of a foreign investor which have not yet been offered in Slovenia may only be offered through a brokerage company or bank with a license to redeem securities and prepare new issues. Before the securities are offered the brokerage company or bank must obtain permission from the Agency for the Securities Market, which also oversees the conduct of the public offering.

A foreign company not registered in Slovenia or individuals of foreign nationality are currently prohibited from owning land in Slovenia.

Janko Arah, an attorney, is an investment consultant specializing in matters related to investment in Slovenia, including mergers and acquisitions, establishment of new companies, and licensing agreements. Arah Consulting, Slovenska cesta 11, 61000 Ljubljana, Slovenia; Tel: +386 (61) 125 2410 Fax: +386 (61) 125 2410 ■

INDUSTRY REVIEWS: AUTOMOTIVE & TELECOM

Automotive and Automotive Components Industry

The automotive industry in Slovenia is responsible for 10% of the country's exports, making it the largest export industry. France, Italy, and Great Britain are the biggest markets for these products. Slovenian companies manufacture commercial vehicles, cars, and vehicle components. Manufacturers of commercial vehicles have seen their market shrink drastically in the last eight years due to lost markets and planning errors. There is great need for strategic partners in this sector of the industry.

Slovenians purchase 60,000 cars per year. Renault, Fiat, and Volkswagen supply 50% of this demand. The joint venture between the Slovenian company Revoz and Renault produces cars in Slovenia. According to Andrej Lazar, President of the Slovenian Automotive Component Manufacturers Association, a U.S. automaker could sell 5000 cars a year to this market. There is opportunity here for full-sized U.S. cars to be used as company cars since they are big, comfortable, safe, and inexpensive. Lazar sees no reason why U.S. cars can't be part of this niche market.

A Slovenian import regulation provides that the customs duty levied on vehicles exported to Slovenia is reduced to 15% instead of 25% if the exporter uses automotive components from a Slovenian component manufacturer. Volkswagen, Renault, and Citroen all currently take advantage of this regulation and pay a 15% customs duty. Car manufacturers from the Far East do not enjoy this advantage as they do not use Slovenian components in the cars they export to Slovenia.

The automotive components sector is well developed and has been targeted by the government for investment. Many Slovenian automotive component mak-

ers have traditional links with European companies, such as Renault, Mercedes Benz, Citroen, Fiat, BMW, Audi, and Volkswagen. The Slovenian component manufacturer Cimos produces and exports parts to the French car maker Citroen, and then imports the finished vehicles into Slovenia. BMW brake systems are produced in Slovenia, and Slovenia is the only place Bosch produces a component for the ABS brake system. There are also several high quality manufacturers of forged parts in Slovenia.

All Slovenian component manufacturers must export due to the small size of the Slovenian market. Few of these components are exported to the U.S. primarily because of different standards and a lack of contact between U.S. and Slovenian companies. Trade with North American companies does exist. Saturnus, a Slovenian headlight manufacturer, has been trading with Canada for the past three years. Both the quality and price of Saturnus's headlights make them competitive in the Canadian market, even with the additional transportation costs. Saturnus also sells small quantities of fog lights and long beam lights to U.S. companies.

The automotive industry is now at a crossroads. Outsourcing and single sourcing are becoming commonplace, and suppliers of parts are being asked to take part in the design of automobiles. In this environment, only strong suppliers will survive. It is likely that market realignment will occur. Small suppliers that cannot survive will become subsuppliers or will be forced into partnerships with foreign firms.

This industry dislocation creates opportunities for U.S. companies interested in entering this market. According to Andrej Lazar, "Everyone is looking for foreign investors, for money, technology, and for markets. All component manufacturers are willing to talk. It is absolutely vital for

them to find partners." Ohio-based Johnson Controls' purchase of a Slovenian automobile seat maker is one example of a successful investment by a U.S. company in the Slovenian components industry. Contact: Andrej Lazar, Slovenian Automotive Component Manufacturers Assoc., Letaliska c. 17, 61103 Ljubljana, P.O. Box 8, Slovenia; Tel: +386 (61) 1402 277, Fax: +386 (61) 444 866.

Slovenia is extremely competitive in automotive development work. Engineers who work in computer assisted design cost one third less than their German counterparts. Slovenian companies sell engineering service to manufacturers in Germany, Austria, and Italy.

Telecommunications

The Slovenian telecommunications industry is currently operating under complicated former Yugoslav law. Under this system it is not clear what activities are regulated and all international laboratory testing institutions are not recognized. Voice communication will be exclusively regulated by the 100% state-owned Telecom Slovenia until the year 2000, but it is not clear how digital media will be regulated when it is introduced into the market. The government is trying to improve the regulatory situation but it is uncertain when new laws may be passed. Until these regulatory issues are settled, it is difficult for companies to set-up value added services in this market. High pricing also hurts this market both internally and internationally.

Although the Slovenian telecommunications market is limited by its size, investment opportunities do exist. Slovenia can be used as a gateway to other Central and Eastern European markets. Slovenian businesses have been in these markets for a long time and they possess extensive knowledge and skills. Products can be manufactured or combined in Slovenia and then exported to Central Europe and Russia. Slovenia's stability and highly skilled work force make such an arrangement feasible. One industry insider suggests that high end products related to wire-

INDUSTRY REVIEW *continued*

less communication, voice recognition, and artificial intelligence offer the greatest opportunities for foreign investors. Opportunity will also exist when the state sells 49% of Telecom Slovenia to strategic investors; the state has not set a date for this sale.

AT&T, although a late entrant, is active in the Slovenian telecommunications market. Through Slovenijales Tel, AT&T distributes products to this market. Slovenijales Tel is a master distributor and handles the marketing, promotion, sales, and installation of AT&T products. Donna DiLuigi-Osterc, an American who has been living in Slovenia for seven years, is Director of Slovenijales Tel. She says that in a small market such as Slovenia AT&T is better able to penetrate the market in a short time period by distributing through a local firm that employs local nationals who best understand the market. Contact: Donna DiLuigi-Osterc, Slovenijales Tel, Dunajska c. 22, 61001 Ljubljana, Slovenia; Tel: +386 (61) 1315 210, Fax: +386 (61) 1315 210.

The optical communications division of the Slovenian company Fotona supplies 90% of the Slovenian telecommunications market with optical cable. It markets optical fibers and cable to Western and Eastern Europe, especially Russia. Russia and other developing countries are excellent markets for PBX equipment. Fotona has connections with all the large European telecommunications companies; this allows it to be both a producer and system integrator. As an integrator, Fotona can handle the servicing, testing, and maintenance of the telecommunication systems. Fotona is interested in developing relationships with large western telecommunication companies who can use Fotona's servicing and installation expertise. Fotona does not currently export to the U.S., but it is interested in exploring opportunities there. Transportation costs and different equipment protocols are barriers. Fotona is currently in discussions with one U.S. company regarding the supply of optical connectors. Contact: Bogomir Cufer, Head of Communication Systems Division, Fotona, Stegne 7,

61210 Ljubljana, Slovenia; Tel: +386 (61) 1591 215, Fax: +386 (61) 1599 205.

Fotona also has a long tradition of innovation and success in laser technology. Fotona lasers are used for cutting metals, military rangefinder applications, acupuncture, dental work, and ophthalmology. Fotona is also renowned for their laser-based measuring instruments and systems, thermal imagers, and optical communication systems. The laser division's strategy is to sell globally as they consider the Slovenian market too small and use it as a product development market. Germany is the chief export market, but Fotona also sells to other EU countries and the Far East. Regarding the U.S. market, FDA regulations are a barrier for some of its medical laser products. The company is, however, watching the U.S. market and looking for strategic financial, marketing, and technical partners. **Contact:** Boris Vedlin, Deputy Director Laser Division, Fotona, Stegne 7, 61210 Ljubljana, Slovenia; Tel: +386 (61) 574 896, Fax: +386 (61) 159 1610. ■



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FEATURE COUNTRY *continued*

conservative and have not yet developed adequate risk assessment expertise. As a result, little money is available from banks for capital starved companies. High long-term interest rates (15% in 1995) further complicate the situation. "The banking sector and industrial sector must develop at the same time to keep the needed synchronicity between the two," says Marjan Smonig, Senior Advisor to the Government for International Economic Relations. Without improvement in the banking sector, continued industrial growth is jeopardized. The U.S. can be an important source of technical assistance in the rehabilitation of Slovenia's banking system, and opportunities exist in providing alternative financing.

Slovenian wage rates are high relative to other Central European countries. This is because of the high skill level and productivity of Slovenia's workers. Pension costs are also extremely high.

Since Slovenia is export dependent (exports and imports each account for over 60% of GDP), high wage rates and social costs present serious threats to Slovenia's competitiveness and long-term economic prospects.

Foreign investment in Slovenia is hampered by an uncertain and unpredictable legal system. Contract law is weak (for example, oral contracts are not binding), it is questionable whether assets can be attached, and getting a case heard before a court is time consuming. There is, however, a tough copyright and patent law which has resulted in a tremendous decrease in piracy. Enforcement can be problematic, but one U.S. company has successfully enforced its rights under this law.

Slovenian companies are in need of financial and management assistance. The U.S. Agency for International Development is involved in the Slovene

Enterprise Restructuring Project. They assist with financial restructuring of small and medium sized companies, provide technical assistance to the Bank of Slovenia, and participate with the EBRD in venture capital funds that provide equity capital to established Slovene companies. The European Union's Phare program provides assistance to the industrial and banking sectors, and helps with strengthening trade and investment relations. Western management training programs are available at several schools and universities in Slovenia.

Slovenia's ability to obtain outside sources of funds has been impeded by the unresolved question regarding the amount of former Yugoslav debt that Slovenia will be held responsible for by bank creditors. Without such agreements, Slovenia is unable to get long-term credit ratings. Agreements between Slovenia and bank creditors are

Slovenia in 1996

Feb. 8	Holiday	Jun. 4-8	LJ-Int'l Wine Fair
Feb. 14-17	Ljubljana (LJ) Fair of Ladies' & Mens' Wear	Jun. 18-22	LJ-Int'l Fair of Mach. for Wood Treatment
Feb. 14-17	LJ-Int'l Fair of Clothing Mach. & Equip.	Jun. 25	Holiday
Mar. 18-23	LJ-Fair of Fishing and Hunting Equip.	Aug. 15	Holiday
Apr. 1-6	LJ-Int'l Fair of Nutrition (U.S. Food Pavilion organized by U.S. Embassy)	Aug. 24-	GR-Int'l Fair of Agric. and Food Indus.
Apr. 8	Holiday	Sept. 1	
Apr. 16-20	LJ-Int'l Exhb. of Farm Vehicles & Equip.	Oct. 7-11	LJ-Int'l Exhb. of Modern Electronics
Apr. 16-20	Gornja Radgona (GR)-Int'l Fair of Bld'g Mat., Agric. Mechan., & Consumer Goods	Oct. 22-25	LJ-Int'l Fair of Med. and Lab. Tech., Pharmacy, Rehab. Prods. and Serv. LJ-Furniture Fair
May 1 & 2	Holiday	Oct. 31	Holiday
May 5-7	Kranj-21st Int'l Fair of Small Trade-Scale Indus., Co-ops, and Entrepr.	Nov. 1	Holiday
May 7-10	LJ-Int'l Fair of Toys and Educ.	Nov. 28-	LJ-Fair of Wint. & Sum. Sprrtswr, Rec. & Tourism
May 11-19	Koper-Int'l Fair of Manuf. and Entrepr.	Dec. 4	
May 11-19	Koper-Int'l Nautics Fair	Dec. 25-26	Holiday
June 4-7	GR-Int'l Fair of Pckg'ing, Pckg'ing Tech., Warehses, & Transp.		

FEATURE COUNTRY *continued*

imminent. After Slovenia receives its long-term credit rating, it plans to launch its maiden eurobond issue. U.S. institutional investors will be able to buy the \$150mm to \$200mm five year issue.

The Slovenian government has several other difficult issues it must eventually face. Presently, it does not want to close terminally insolvent factories, close the unofficial "gray" market, or start enforcing the tax laws on the many new small companies that currently escape payment of taxes. The futures of Slovenia's social security and healthcare systems also remain unresolved. When these problems are finally addressed, the political and financial repercussions may be severe.

Assistance for U.S. Companies

Chamber of Economy: An independent, professional, and non-political organization of all Slovenian firms. It is a business information clearing house dedicated to helping smaller and medium-sized companies find U.S. partners. Information is available regarding economic trends, Slovenian foreign trade, Slovenian legislation, trade fairs, and conferences. A CD-ROM is available that contains detailed information on 3000 Slovene companies. According to Marko Jare, Senior Area Manager for the International Division, "Interest is

strong amongst small and medium-sized companies in trading with North America." **Contact:** Marko Jare, Chamber of Economy of Slovenia, Slovenska cesta 41, SI-61000 Ljubljana, Slovenia; Tel: +386 (61) 1250 122, Fax: +386 (61) 218 242.

Ljubljana World Trade Center is a new addition to the World Trade Center system. The WTC supports small and medium-sized companies, and can help U.S. companies find local Slovenian partners. It offers its members access to 150 world data banks (financial information, regulations, laws, newspapers and magazines) and 50,000 sources of information. Members may use office space, telephones, fax machines, conference rooms, and computers at the WTC. **Contact:** Stojan Jakopic, World Trade Center Ljubljana, Dunajska 156, 61121 Ljubljana, Slovenia; Tel: +386 (61) 344 666, Fax: +386 (61) 1683 480.

Ministry of Economic Relations and Development: Trade and Investment Promotion Office opens doors for Slovenian companies to new markets and acts as an information clearing house. It promotes Slovenian trade and investment through trade fairs, exhibitions, and direct marketing. A Slovenia booth will be managed by the Ministry at the 1996 Summer Olympics in Atlanta. U.S. investors looking for

information on investment opportunities in Slovenia can contact Matej Kovac, Director, Trade and Investment Promotion Office, Kotnikova 5, 61000 Ljubljana, Slovenia; Tel: +386 (61) 171 3557, Fax: +386 (61) 171 3599.

The Embassy of the United States in Ljubljana can provide U.S. companies with important local contacts and trade leads, as well as information on the business, economic, and legislative environment in Slovenia. **Contact:** Matjaz Kavcic, Economic & Commercial Assistant, Embassy of the United States, Prazakova 4, Ljubljana, Slovenia; Tel: +386 (61) 301 485, Fax: +386 (61) 301 401.

Suggestions for Working with Slovenians. 1) Don't be aggressive or talk down to Slovenians; 2) Expect decisions to take time; 3) Be aware to the "small country" sensitivity of some Slovenes; and 4) Trust is important. Slovenes are looking for good, long-term deals. ■

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FINANCE & ACCOUNTING

Accounting Standards. Slovene Accounting Standards ("SAS") are based on the Code of Accounting Principles adopted by the domestic accounting profession on June 19, 1989. The existing standards were adopted in April, 1993. The general conceptual framework of the standards is intended to be consistent with that offered under International Accounting Standards ("IAS"), though minor as well as potentially significant differences exist. In those instances where SAS offers no specific guidance, authoritative guidance passes to IAS. Additional required guidance beyond that offered by SAS or IAS generally defers to U.S. or U.K. GAAP.

SAS addresses aspects of accounting beyond those addressed by either IAS, FASB, or western European standards. In addition to specifying the accounting for generic balance sheet and income statement accounts, SAS also includes standards which address the accounting for cost centers and units, budgeting, bookkeeping documents, formats of the balance sheet and profit and loss statements, accounting supervision and other matters which are covered by a company's internal policy or generally accepted industry practice. Though adherence to SAS is mandatory for all Slovene companies, in practice compliance with these more pervasive standards is often difficult and inconsistent.

The most pervasive difference between SAS and U.S. GAAP is the required annual revaluation of most account balances in Slovene financial statements. Originally the practice was designed to adjust for the hyperinflationary environment which ensued after Slovene independence in 1991. The practice continues despite current annual inflation of less than 15%.

Though the specific means of revaluation for each account is specified in SAS, most accounts are revalued based on the change in the consumer price index, as published monthly by the bureau of statistics, or the most recent purchase price (for inventories) as of the end of the year. Readers of financial statements prepared under SAS should be aware of the impact of revaluation on the comparability of a company's results from one period to the other. During 1994, the CPI was 18.3%, and the balances of most long-term assets and capital accounts will have been adjusted by this amount from the previous year. Investors should also be aware that the net effect of revaluation is included as a component of a company's financial and taxable income.

In addition to numerous explicit differences between SAS and U.S. GAAP, the impact of which will vary significantly due to the nature of a business and its operations, general accounting practices continue to evolve and many differences arise in practice which have no basis in SAS. The accounting practice is evolving from that which was established under the old Yugoslav system, which was based on statutory and tax requirements. Education of accounting personnel to conform with SAS will take time, as SAS only became effective for financial statements issued in 1994. A clear distinction between financial accounting and reporting as specified by SAS, and tax accounting and reporting has yet to be realized.

Tax Issues. Two tax issues are of interest to the foreign investor: 1) domestic sales and income tax; and 2) taxes related to the repatriation of profits. All sales within Slovenia, both import and domestic, are subject to Slovene sales tax. Though the applicable tax may vary widely, the rate is 20% on most goods and 5% on services. All Slovene companies pay a flat tax on net profit of 25%, regardless of ownership or legal structure. Taxable income is generally consistent with financial income determined under SAS as there

are few book to tax differences in practice. Currently, sales by foreign entities to the Slovene market are not subject to domestic income taxes unless they are "permanently" in the Slovene market. The permanency of an operation is determined on a case by case basis, and does not necessarily require the establishment of a subsidiary in Slovenia. Distributions of profit to foreign entities are taxed at a rate of 15%, regardless of legal structure, barring appropriate international tax offset treaties. Currently, there are no such treaties with the U.S.

International Payments. Facilitating international payment for sales and services to certain areas of Central and Eastern Europe can often be complex due to both the limited banking services offered, as well as foreign payment limitations and regulations in the various countries. Such obstacles are minimal in Slovenia. Companies will find that substantially all foreign payment options normally offered in Western European banks are also available in Slovenia, both from Slovene banks as well as through the limited number of foreign banks operating in the country.



Alenka Podbevsek

Alenka Podbevsek is the Managing Partner of Deloitte & Touche's Ljubljana office, a full service office providing management consulting, tax and legal advisory services, and accounting and auditing services. Deloitte & Touche, Dunajska 22, 61000 Ljubljana, Slovenia; Tel: +386 (61) 131 8111; Fax: +386 (61) 131 6323 ■

FREIGHT FORWARDING

with Cargoline's Willie R. Scholz

Cargoline is a freight forwarding company headquartered in Vienna, Austria, with operations offices throughout Central and Eastern Europe and in the U.S.

CEBR: Why is a freight forwarder needed?

Scholz: In today's fast changing world the need for a freight forwarder is stronger than ever. A freight forwarder can be seen as an intermediate between the shipper and the supplier. A good freight forwarder has extensive contacts in the carrier industry (i.e. steamship lines, airlines, and trucking companies). He performs logistical duties, arranges storage of the goods he carries, and packs and unpacks and distributes the goods on behalf of his clients. Any industry in today's global economy cannot exist without the help and structure of a good freight forwarder.

CEBR: How does someone involved in international trade find a qualified freight forwarder?

Scholz: To find a qualified forwarder a company must test them and see how they react in specific situations. The freight forwarding industry is service oriented and it is difficult to judge a company before using them. A qualified freight forwarder must have a reputation in a specific market and he must be the right size for his client.

CEBR: What qualities do the most reliable freight forwarders possess?

Scholz: Reliability. Reliable means being punctual, being communicative, and taking care of the goods a supplier or shipper entrusts to the forwarder.

CEBR: How can someone involved in international trade ensure that the freight forwarder they are using is providing the best possible service?

Scholz: Again, we are a service oriented industry. Everybody engaged in international business and everybody who has ever used a freight forwarder has heard "Oh, I can do everything." This is not true. There are specific markets where one freight forwarder is better than another. Our company started its operations in Eastern and Central Europe back in the sixties, long before anybody thought that the Iron Curtain would fall. We know the area and we know the market, but we don't know the market around Rome. We cannot offer the same solutions or services out of Rome as we offer out of Warsaw, Prague, Budapest, or Vienna. Specialization is the key.

CEBR: What opportunities do you see for U.S. companies in the newly opened Central European markets?

Scholz: Since the opening of Central Europe many significant changes have been seen in the industries and economies of that region. During my two years in Prague, I have seen strong potential for U.S. companies moving into that area and establishing head offices and production plants for either distributing their merchandise into Western Europe or to reach the CIS market from a safer place than some Russian cities. I personally believe that there is much more potential for the United States to move goods eastward. Unfortunately, U.S. industry is not as developed in a strategic export sense as European industry. Nonetheless, total U.S. investment in the Czech Republic outranks the traditional investors in that region like Austria, Germany, and Italy. There is still great potential in the region for someone who targets the area.

CEBR: What Central European countries are active in trade with the U.S.?

Scholz: The most active countries are the Czech Republic, Hungary, Poland, and recently Slovenia. These four countries offer good infrastructures, well balanced economies, and good future opportunities. In Slovenia, Cargoline will be the first foreign freight forwarder when we open our office in 1996.

CEBR: How is technology changing the job of freight forwarder?

Scholz: Modern technology is the most important tool. Today, where modern aircraft fleets and ocean carriers are offering faster and faster service it is important for the freight forwarder to keep up to these standards. At Cargoline, we make use of the latest technology in communications; we monitor shipments and pass information between our offices.

CEBR: Can you tell us more about Cargoline's operations in Central Europe?

Scholz: The greatest potential a company has is its human resources. We have people working with us from all over Eastern and Central Europe. In our Vienna office, we employ people from Hungary, Romania, and Bulgaria, all speaking the languages of our customers. We have put large efforts into training and establishing our network of offices throughout the Eastern and Central Europe region. We bring some of our employees to the U.S. to learn work techniques that one must adopt after working for many years in a state controlled economy. Cargoline will continue to develop new markets, bring in new expertise, and serve the needs of our clients.

Willie R. Scholz, Vice President Airfreight, Cargoline (US) Inc., Suite 213, 149-10 183rd Street, Jamaica, NY 11413 ■

PROFILE Continued From Page 1

banks is very difficult or even impossible. Getting a loan from a bank can take anywhere from 10 days to 30 days. It is a complicated procedure, and many companies can't wait that long to fund their operations. We can arrange loans for our clients in one to two days.

CEBR: Where does Group Alpe Adria find these sources of funds for Slovenian companies?

Bacetic: We have extensive connections with banks, insurance companies, and other private investors who wish to invest their money in quality companies. We are currently doing business with all Slovenian Banks. We also have as clients Croatian, Italian, German, and Austrian banks. Close to 4000 companies, both investors and loan recipients, use our services.

CEBR: Why does an investor need Group Alpe Adria as an intermediary?

Bacetic: We provide a full range of services for our clients. We conduct extensive research on the financial stability of the recipient company, analyze whether it would make a sound investment for our investor clients, and then advise our clients whether they should invest in the company. Because of our research capabilities, extensive contacts, and exceptional employees, we can efficiently assess the risk of these loans, better than the banks presently can.

We also have attorneys that can assist with the legal aspects of the transaction, such as drafting contracts. For our loan recipient clients, we consult with them, advise them how they can be more productive, and how they can improve their balance sheets. If a bank decides to stop loaning money to a company, that company can come to us and we are able to find a replacement loan with another bank, insurance company or investor. We can do this in a very short amount of time.

CEBR: What kind of a rate of return can you get for one of your investor clients?

Bacetic: It depends on how our client wishes to use our services. If we act in an advisory role, and the investor makes a direct loan to the recipient company that we suggest, a one year interest rate of 30% is possible. If, however, the client wants Group Alpe Adria to take their money and allocate it in suitable investments, the rate of return is lower.

CEBR: Do any of your investor clients obtain equity in the companies they invest in?

Bacetic: It is possible, but there is not as much opportunity to get equity. Most of the investments our clients make are short-term loans up to one year.

CEBR: Can foreign companies or individuals loan money to Slovenian companies through you?

Bacetic: Yes, but it depends on how the loan contract is arranged. Under Slovenian law, a non-Slovenian company must loan its money to a Slovenian company for 5 years or more. If the loan is for less than 5 years, the receiving company must deposit 40% of the loaned funds in the Bank of Slovenia. Although this makes the transaction less attractive for the loan recipient, some Slovenian companies are willing to do this to get needed capital.

CEBR: To what uses do the recipient companies put the money that you help them find?

Bacetic: The funds are used to expand business, improve exports, lease equipment. Due to the lack of long term funds, Slovenian companies are

using short term loans for long term investments, such as investment in equipment and factories. Through our foreign connections, we are sometimes able to find long term funds for our clients. Slovenian companies are in great need of long term funds. There are excellent opportunities for equipment leasing in Slovenia.

CEBR: How was business last year?

Bacetic: Last year, we helped place hundreds of millions of Deutschmarks to Slovenian companies. We are the largest company in Slovenia that provides this service.

CEBR: Group Alpe Adria has a unique work environment. Can you tell us more about it?

Bacetic: We have arranged our office into groups or teams. One group handles loans, another is responsible for research, another does telemarketing, and another handles barter trade. We have an open air office, like a trading floor, so that information flows freely and quickly between the different groups. We've created a system of performance goals for each day, week, month, and year. The groups engage in friendly competition with each other to meet these goals. We've found that this improves productivity and morale. This type of a work environment is unique in Slovenia.

Goran Bacetic is Financial Consulting Manager in Group Alpe Adria's Ljubljana office. Group Alpe Adria, Celovska 291, 61000 Ljubljana, Slovenia; Tel: +386 (61) 1598 838, Fax: +386 (61) 573 752. ■

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Common Contract Terms. Foreign and Slovenian parties are free to negotiate international commercial agreements as they wish. Such contracting parties often refer to Swiss or German law or to Incoterms. If such a choice of law is not made, the 1980 UN

Convention on the International Sale of Goods is usually applied.

As payment in advance is not a common feature of transactions between foreign and Slovenian companies, often the parties will agree on the provision of a letter of credit, bank guarantee, or some other international payment instrument.

Arbitration clauses are usually included in agreements between Slovene and foreign parties. Slovenian partners prefer arbitration with the International Chamber of Commerce, Swiss arbitration in Zurich, or with the Arbitral Center of the Federal Economic Chamber in Vienna. Slovenia has adopted the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards. A foreign arbitral decision, therefore, can be executed in Slovenia.

Over 800 attorneys of law (i.e. advocates) practice in Slovenia, nearly all of them sole practitioners. Advocates must be licensed by the Chamber of Advocates and knowledge of Slovenian language is required. Therefore, no international foreign law firms have offices in Slovenia.

Bojan Pecenko is attorney at law with the Law Office of Bojan Pecenko in Ljubljana, Slovenia. He specializes in commercial, financial, and company law. He is also a lecturer, arbitrator, and former judge. Law Office Bojan Pecenko, Cankarjevo nabrezje 1, 61000 Ljubljana, Slovenia; Tel: +386 (61) 126 4081, Fax: +386 (61) 125 8485 ■

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3. Constr. of drinking water bottl'g plant; mod. of recycling process; dev'lp of plastic products from recycled mat.	\$650,000	Franc Kaplja	+386 (61) 727 232
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For more information contact Marko Jare, Chamber of Economy, Tel: +386 (61) 1250 122; Fax: +386 (61) 219 536

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