CENTRAL EUROPE BUSINESS REPORT

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TM

HUNGARY

Economy Stabilizing; Foreign Investment Leader

Hungary started market reform decades ago by opening its markets to the West. The Socialist-led government elected in 1994 has shown that it is committed to continuing market reform and stabilizing the economy. In March of 1995, the government announced an austerity program that included a cut in government spending, increased revenues, devaluation of the Hungarian currency, the forint, by 9%, introduced a crawling peg exchange rate policy, added an 8% surcharge on all imports except energy and inputs for investment, and wage controls at state-owned companies. The economy is just starting to see some growth after a 5-year period of stagnation. The GDP grew by 2% in 1995 and is expected to show 3% growth in 1996. Unemployment in 1995 was 10%, down from a peak of 13.6% in 1993.

Hungary has the potential to become a regional transportation, infrastructure, information, and financial hub. Hungary's railway system links large and medium sized cities and supports the transport of 43 million tons of goods annually. A transfer station at the border with Ukraine ensures that goods can move eastward over different gauged rails. The Budapest-Vienna highway was completed in 1995 and will make it easier to move raw materials into Hungary and manufactured goods into the European markets. A 10-year road development program will improve and extend Hungary's motorway network. A new southern highway is expected to attract investors to the less developed regions in the east and south.

Hungary's main airport in Budapest, Ferihegy, is serviced by most major international airlines. The airport has two terminals and a third is under construction. Air freight links are served by international airlines or **TNT-Malex**. The opening of the Rhine-Danube canal in 1992 brought Hungary cost-effective waterborne shipping from Germany to the Black Sea. Hungary's telecommunications system is improving and cellular systems cover the main sectors of Hungary permitting continuous phone contact when traveling intracountry.

Hungary boasts a highly skilled, low cost labor force. Wages in manufacturing are 12-14% of German averages and 20-25% of British averages. The work force is especially talented in the areas of electronics, engineering, medicine, economics, and the sciences. Hungarian workers have good productivity, motivation, and adaptability, but absenteeism,

Continued on page 2

HUNGARY

PROFILE

Successful Manufacturer Now Helps Others Succeed

George Loranger is the owner and Chief Executive Officer of Loranger Manufacturing Corp., a company that specializes in the production of automotive component parts made from engineered plastics and metals. The company, based in Warren, Pennsylvania, operates a factory and industrial park in Szekesfehervar, Hungary. The Hungary facility has over 200 employees and sales in 1995 were in excess of $10 million.

George P. Loranger

CEBR: What brought you to Hungary?

Loranger: One of our main customers in the U.S. is **Ford**. A division of Ford saw that the next great arena for its new technological activity would be Europe. In 1989, this division considered building a factory in Portugal or Spain, but ended up building in

Continued on page 6

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Feature Country *Continued From page 1*

which averages 15% to 20%, and overstaffing are problems.

Prime Minister Horn has made privatization one of his top priorities. A new privatization law passed in June 1995 is designed to improve the transparency of the privatization process. Through a simplified privatization process the State Privatization and Holding Company (APV Rt) is selling small and medium-sized companies.

Hungary has an Association Agreement with the EU and expects full membership by the year 2000. Hungary is a member of the Central Europe Free Trade group that includes Poland, the Czech and Slovak Republics, and Slovenia, and has concluded a free trade agreement with the European Free Trade Association countries Switzerland, Norway, Iceland, and Liechtenstein. Exports from Hungary to these markets will benefit from lowered tariffs. Trade accounts for over one-half of Hungary's GDP.

Trade Opportunities. Over the next five years, the Central European region may see a doubling of import demand. Opportunity exists for U.S. exporters in telecommunications, energy, transport, environmental control, chemicals, food processing, construction, and services such as banking, tourism, franchising, financial services, and information management. U.S. software and computers are preferred in Hungary and the U.S. is also recognized as the source of the best medical technology. Hungarian companies are interested in CAT scan products and there is demand for used hi-tech medical equipment because few companies have the capital needed to purchase new equipment. The building products and construction industry is showing signs of life after a decade of stagnation and could receive a boost from the rebuilding in former Yugoslavia. Although regional companies are well established in this industry, high prices are causing buyers to look for alternate U.S. sources.

U.S. technology is needed in the area of environmental control and waste management including incineration, waste water treatment, and tire recycling. Solutions, however, must be cheap as the municipalities that are responsible for such management have limited capital. According to Andras Hirschler, Editor-in-Chief of **The Hungarian Economy**, "If you really want to do business in Hungary, you must befriend yourself to the reality that Hungarian companies don't have a lot of money."

Hungary was a main supplier to the former Soviet Union and Hungarian companies have many contacts in the region, especially in telecommunications and oil. Hungary can be used as an intermediary for reaching this huge but undeveloped market. Hungary currently exports machinery, transportation equipment and other capital goods, food, livestock, and farm products to Russia. Hungary is well positioned for trade with the former Yugoslavia, and the Chamber of Commerce and Industry is pursuing business for Hungarian companies in India and the Far East..

Marketing in Hungary must be more responsive to consumer demands in the areas of quality, price, and environmental safety. Direct marketing is still in its infancy. Brand awareness is not the same as in Western Europe, but it is growing due to more sophisticated advertising techniques.

To take advantage of the trade opportunities in Hungary, some U.S. states have or are planning to open trade offices in Hungary. The **State of Illinois** has a representative office in Budapest and the **State of Virginia** will open a trade office in February. **Minnesota** and **New Hampshire** have part-time representatives in Budapest, and **Pennsylvania** may open a Budapest office.

Investment Opportunities. Over $13 billion has been invested in Hungary during the past five years, an amount that is nearly double the amount invested in any other Central European country. Of the $7-8 billion U.S. companies have invested in Central Europe, $5.5 billion is invested in Hungary, making the U.S. the largest investor in Hungary. Hungary encourages foreign investment and participation in nearly all sectors of the Hungarian economy. Hungary is the first country in Central Europe to give up a majority stake in a state telephone company and 60% of the state-owned Budapest Bank is being sold to **G.E. Capital Corp**.

Thirty-seven percent of foreign capital in Hungary is invested in privatized firms, and the remainder is in the form of greenfield investments and joint ventures. The industries receiving the largest share of foreign investment are automobile production, telecommunications, electronics, pharmaceuticals, chemicals, tourism, and the food industry. It is expected that the next wave of investment in Hungary will be by medium-sized enterprises.

The Hungarian steel industry is in dire need of foreign investment. "We want investors for this industry," says Istvan Szenpetery of the Ministry of Industry and Trade.* Companies in Miskolc, a town in Northeastern Hungary and former heavy industrial center, used to supply the Russian markets with rolled steel, tool machines, power generation equipment, weaponry, and electronics. With the collapse of the Comecon markets the area now suffers from high unemployment and excess capacity. Unemployment is 20% and among the unemployed, 60% are engineers and technicians. The state is helping with grants and loans to encourage investment in the region by large and small investors. Road improvements are planned in the next 2 years.

An industrial park is planned for Miskolc which will provide small and medium-sized companies with a modern infrastructure system, skilled and inexpensive labor, local sources for raw materials and semi-finished products, and a University to serve as a research and development center. The region's low competition level and proximity to eastern markets are additional attractions. A partly foreign-owned plastics and porcelain manufacturer in Miskolc exports product to Ukraine, Slovakia, Czech Republic, and Poland. **IBM** opened a subsidiary in Miskolc to serve its eastern Hungarian clients and to take advantage of the area's technological strengths.

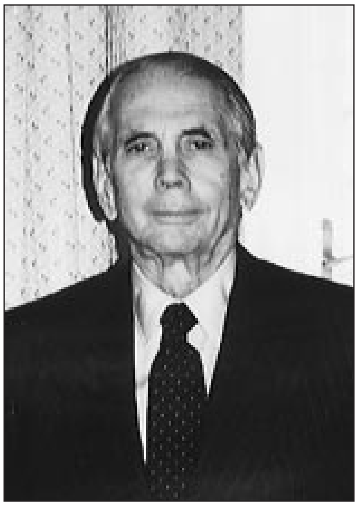
Szekesfehervar, a town outside of Budapest, is one of the three fastest developing areas in the world. **Ford** and its supplier **Loranger Manufacturing** formed the original nucleus of new manufacturing companies in the area. Because of the original manufacturing facilities and military bases in the area, there is a large supply of skilled labor, and excellent highway and good rail connections. Projects can be established quickly in the area due to facilities such as the **Loranger Industrial and Educational Park**. Philips set up a plant in Szekesfehervar in one and a half years. **IBM's** facility required 8 months of planning and 6 months of construction. **Ikarus**, the largest bus manufacturer in Europe is located in Szekesfehervar. **Alcoa** announced plans to invest $32.5 million in a new plant in Szekesfehervar that will manufacture forged aluminum wheels for trucks and buses. The Hungarian company **S.Z.I.M.-Koszorugepgyar** produces brakes for trains in Szekesfehervar and is courting investors.

The Hungarian domestic river transportation industry is undeveloped and in need of foreign investment. Proposals are being made to the Ministry of Finance to change tax and other regulations that would make domestic river transportation more efficient. A developer is needed to build port infrastructure and ships.* The state-owned **Shipping Company Magyar Shipping Rt.** is expected to be privatized this year. The company builds, repairs, and operates river boats and manages dock facilities, and has six sea-going vessels.

Continued on page 10

SPECIAL INTERVIEW:

U.S. AMBASSADOR DONALD M. BLINKEN



Ambassador Donald M. Blinken

The Central Europe Business Report was granted an exclusive interview with U.S. Ambassador to Hungary Donald M. Blinken. A native New Yorker, Mr. Blinken co-founded the investment banking/venture capital firm E.M. Warburg, Pincus & Co.

CEBR: What are the commercial goals of the Embassy in Hungary?

Ambassador Blinken: The Embassy is highly involved in two aspects of U.S./Hungarian business activity: direct investment and trade promotion. Because of Hungary's size and geographical location, direct investment is the most important. Hungary is a prime location for manufacturing, distribution, and R&D, not just for Eastern Europe but for Europe as a whole. U.S. companies involved in international business find it a natural place to come.

CEBR: Why has Hungary attracted so much U.S. investment?

Ambassador Blinken: Hungary was the first country in the region to create a favorable climate for foreign investment. Hungarian "goulash" communism in the 70's and 80's suggested that the ideas of private ownership and private initiative were welcome in Hungary. Hungary has also been the regional leader in modernizing communications, which is absolutely critical to foreign investors, and has good railroads and decent highways. While improvements must continue, Hungary is well ahead of the rest of the region in these vital areas. When it comes to developing an industry or product line that requires entrepreneurial or technical ingenuity, Hungarians are exceptional.

CEBR: What barriers do U.S. companies face when doing business in Hungary?

Ambassador Blinken: The principal barrier is that it is unclear whether Hungarians are more concerned about EU membership or more interested in attracting U.S. trade and investment. Entering the EU is very important to Hungary. On occasion, they have taken a European view on what import quotas should be for certain consumer products, which is not helpful to American interests. Over the next 3 to 5 years, tariffs will gradually come down and be eliminated. The differential between U.S. and EU standards and objectives will, I think, disappear.

CEBR: What advantage do U.S. companies have when they come to Hungary?

Ambassador Blinken: First of all, they're welcome. Hungarians generally like to see American companies and they like to see Americans. American companies also bring to the market a long-range business strategy and a sense of global, not regional, business outreach which is very important.

CEBR: Some companies consider Hungary too small of a market for significant trade or investment. Is this an accurate assessment of Hungary's potential?

Ambassador Blinken: Hungary is part of a very, very large region of over 150 million consumers. Hungary is a geographical, technological, and communication center. It should not escape the attention of U.S. business people that the IFOR deployment to Bosnia is based in Hungary. There are several reasons for this. First, it is the right place geographically. Second, the Hungarians have the best railway system in the region. Movement of American forces into the region could not be done without the Hungarian railway system.

CEBR: What advice can you give to our readers about getting involved in this market?

Ambassador Blinken: First, you must come over here yourself. Don't come with a specific plan. Come to look around. Talk to other companies who are here. Learn from them what the problems and the possibilities are. Every American company that we've talked to that has been in Hungary a while is happy they made the investment and in most cases they are adding to their initial investment. If a company has patience, I think they'll find that they can succeed very,very well .

CEBR: Over the next five years what are the greatest challenges faced by Hungary as it continues to develop its market economy?

Ambassador Blinken: The banking system has been an enormous drag on the economy and on the ability of companies to borrow and to do business. It must be modernized and made more efficient. Hungary must also ensure that the Hungarian people begin to benefit from the austere measures recently taken by the government to improve its macro-economic balance sheet. There's a sense that the Hungarian individual is less well off now than 10 years ago. The gray market must also be shrunk to increase the tax base for needed government services.

CEBR: Are there any opportunities in Hungary that are ripe for development by U.S. companies?

Ambassador Blinken: There are a great many. The whole service economy is behind the times. Retailing is underrepresented. Tourism is badly underdeveloped. Road transportation is inadequate and needs improvement. Hungary is also a natural place for further development of entertainment and communications. Channel 2 is being privatized and that will bring with it opportunities in that sector. I think the big international companies know where the opportunities are: automotive, pharmaceuticals, chemicals. There are many opportunities. ■

HUNGARY

LEGAL ADVISOR

Bankruptcy, Liquidation and Winding Up Procedure in 1991.

As a result of the political and economic changes since 1989, the Hungarian legal system has undergone significant changes. To establish the basis of an emerging market economy, the Hungarian Parliament enacted a number of new business law regulations. Since becoming an associate member of the EU, the objective of each new regulation and amendment of existing laws is to bring regulations into full compliance with the legislative directives of the European Union.

Ellen Wright

The Act on Economic Associations sets forth regulations guiding the formation, structure, and operation of business entities including: general and limited partnerships (Bt), limited liability companies (Kft), and share companies (Rt). The Act on Foreign Investments stipulates special procedures and conditions for the formation of business associations with foreign interest(s) and for the participation of foreign investors in the same. It also provides for the unlimited repatriation of profits earned by the foreign participants of a domestic business association, and supports such repatriation through state guarantees.

Parliament enacted the Act on the Prohibition of Unfair Market Practices in 1990 to enhance fairness in market competition and to provide anti-monopoly regulations. Under such law, the Economic Competition Office is charged with the supervision and enforcement of anti-monopoly regulations and unfair market practices. Recognizing the need to regulate failed businesses and provide a framework for restructuring failing and insolvent companies, Parliament enacted the Act on Bankruptcy, Liquidation and Winding Up Procedure in 1991.

Since 1989, even a 100% foreign-owned business association may acquire real estate in Hungary provided that the real estate is necessary for carrying out the entity's business activities. Unless legal rules or international treaties provide otherwise, the prior consent of the Ministry of Finance is required before foreign legal entities or foreign private individuals acquire ownership of real estate either through sale and purchase, exchange, or donation. No consent is necessary if the real estate is agricultural land with a dwelling and a total size no greater than 6,000 square meters.

The 1989 Act on the Transformation of Hungarian State Owned Enterprises into Private Companies sets out the legal framework for the Hungarian privatization process. In 1992, Parliament passed a new act on privatization and simultaneously divided the bulk of the privatization work between two state-owned agencies, which recently merged into one entity, the APV Rt, pursuant to the Act on the Sale of State Owned Entrepreneurial Assets. This act regulates the procedure and framework of the sale of holdings and ownership rights in previously state-owned and transformed companies.

During the privatization process, foreigners have acquired ownership interests in the form of shares or assets submitting tenders and/or applications to the State Asset Holding and Privatization Agency. The Act on Privatization facilitates foreign investments by allowing for private placements and public offerings. Foreign investors may also acquire interests by purchasing shares and other security instruments offered by investment banks or traded on the stock exchange.

The Hungarian privatization process accelerated in 1995 with the sale of the national oil company (MOL Rt), gas utility suppliers, electric power companies, the largest Hungarian telecommunications company, the largest savings bank, and prominent pharmaceutical companies. The privatization process continues and many middle-sized and

Continued on page 15

To Our Readers:

Ronald F. Suponcic, Jr.
Publisher

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

The Central Europe Business Report was created to help medium-sized U.S. manufacturers enter the rapidly expanding markets of Hungary, the Czech Republic, Poland, Slovenia, Slovakia, Romania, and Bulgaria. With coverage of business climates, business people, companies, and opportunities in these countries and regular columns on investment, legal, and accounting issues, the report is designed to educate U.S. business people on how to do business and who to contact for help in these markets.

The Central Europe Business Report "Profile" is an interview of a local business person with a unique product, market niche, or project that could provide opportunities for U.S. business people. The report's "Industry Reviews" covers industries in which substantial opportunities exist for U.S. companies in the form of exporting, starting up foreign operations, or developing joint ventures or strategic partnerships with local foreign companies. The "Industry Reviews" also highlights those companies that have interesting products or a relationship with U.S. firms. In the United States the report also interviews and supplies information from those people who are actively involved in facilitating international trade.

Central Europe is composed of a number of small markets ranging from 2 million to 40 million people, but when viewed as a region it is a substantial market of over 100 million people. The true potential of the market is revealed, however, when Central Europe is viewed not just as a market of 100 million people but as a cost effective gateway to the markets of Western Europe and a stable environment by which to enter the markets of the former Soviet Union. When viewed from this perspective, Central Europe can open the door to over 400 million consumers.

We hope the Central Europe Business Report will help you increase the size of your markets and will lead you to profitable business opportunities. Please send us your comments, suggestions, or requests to cover specific topics. We want to provide you with the information that you find most useful. ■

Profile *continued from page 1*

Hungary. I went to Hungary and found the same thing they found. Hungary was a more cost efficient deal than Portugal or Spain, even though there were lower wage rates in Portugal. Hungarians are more productive and they can adapt to changing circumstances. The key element to any business is people and the Hungarians are very intelligent and well-educated people. We've done considerable cultural training here, such as how to compete at world class levels and why teamwork is important. It's something you have to do continuously. You must develop habits and habits develop the culture of the business.

CEBR: Hungary is a small market with only 10 million people. What's the true size of the market you supply?

Loranger: We support all of Europe, primarily Western Europe. Szekesfehervar is a natural place to set up an operation to supply Western and Eastern Europe and Western Asia. We support large markets and supply companies that understand the need for the quality engineering that we provide.

CEBR: How has the business environment changed since you've been here?

Loranger: Hungary is going through tremendous transition. Many laws have yet to be challenged which creates uncertainty. One stable aspect of the business environment is that the Hungarian government keeps the deals it makes, even when administrations change. International businessman require this. A government that changes laws and regulations each time the government changes will never attract and keep foreign investors.

CEBR: Are there still opportunities for U.S. businesses in Hungary?

Loranger: Yes. Definitely. There are tremendous opportunities. Look at Europe. The cost of living in Western Europe has gotten quite high. A worker in Germany will get paid $30 an hour whereas a worker in Hungary doing nearly the same job earns $3 an hour. Out of that there must be a megatrend. Eventually these Western European industries must move towards the east. You're going to see movement into Hungary and see a lot of opportunity to sell back into

Continued on page 14

HUNGARY

FOCUS ON INVESTMENT

Hungary has been the most favored nation in Central Europe for foreign investment, and continues to be perceived as an attractive investment location. Investment in Hungary has taken a variety of forms. Foreign companies may establish a representative office or an information or service office. Representative offices may engage in a variety of commercial activities in Hungary on behalf of their parent corporation, while an information or service office is precluded from commercial activities. Joint ventures with Hungarian partners have been very common vehicles for investment. Foreign companies have also established "greenfield" investments, constituting new production facilities without local participation. Foreigners may also obtain concessions from the government, or purchase all or part of existing Hungarian business organizations either from private parties or from the state pursuant to the privatization process.

Bradley G. Kulman

Legal Framework. Foreign investment is protected from expropriation and foreign investors have the right to repatriate their investment and profits in foreign currency. A business organization with foreign participation is treated the same as a business organization with only domestic owners. There is no general limitation on foreigners owning 100% of a Hungarian business. Some exceptions exist, such as the need for government approval when foreign ownership in a Hungarian financial institution exceeds 10%. Hungarian companies with foreign ownership are not entitled to special customs benefits. Hungarian custom laws generally protect Hungarian products with a relatively higher custom tariff system. In 1995 an 8% additional import custom fee was introduced in Hungary. The only available custom benefit to foreigners is temporary import. Under temporary import, usually for a period of 1-3 years, foreigners are entitled to import products for personal and business use without custom payments.

Foreign entities seeking to enjoy certain benefits of Hungarian law related to the creation of a customs-free zone within Hungary may set up an offshore corporation. Several non-U.S. corporations have channeled their investment in the U.S. through such offshore corporations. Currently, under the U.S.-Hungary double tax treaty, royalty income paid from a U.S. corporation to a Hungarian offshore corporation is not subject to withholding tax. The Hungarian offshore corporation can pay a dividend of such royalty payments to a Netherlands Antilles corporation also free of withholding tax. The Hungarian offshore corporation would be subject to a de minimis income tax on such royalty payments.

Other Investment Considerations. There are many reasons to invest in Hungary, including: 1) the political stability of the country, 2) the quality of the labor force, including the number of mangers with experience in Western firms, 3) the demand for Western goods and services, 4) the infrastructure investments occurring in the country, and 5) the potential access to the historical markets of Hungary in Central Europe and the Commonwealth of Independent States.

There are, of course, difficulties with investments in Hungary. Perhaps most importantly, the Hungarian economy is in transition. Hungary has undergone structural changes in its economy and the disruption of its historic eastern markets at a time of worldwide economic instability. Foreign investors must also remember that Hungary has its own customs, laws, and business practices that must be considered if one is to have a successful investment.

Investment Opportunities. Consumer goods and services still seem to be an interesting area. Although the availability of foreign goods and services has dramatically improved, the situation has not reached the levels of Western Europe. Light manufacturing for either domestic consumption or export also appear to be worth exploring. Finally, there may be opportunities in agriculture and food processing. For example, there has been a significant increase in the quality of Hungarian wines over the last few years, with the most interesting wines coming from small independent vineyards, similar to the situation in California some years ago.

There have been numerous prominent investments by U.S. companies in Hungary. **The General Electric Company** was an early investor when it acquired **Tungsram**, a manufacturer of light bulbs. **The General Electric Capital Corporation** recently acquired, along with the European Bank for Reconstruction and Development, a controlling interest in **Budapest Bank Rt.**, one of the largest Hungarian banks. **U.S. West International Inc.**, in a joint venture with **MATAV**, the Hungarian telephone company, obtained two concessions to operate cellular telephone networks. **North American Bus Industries Kft.** is an interesting company which manufactures bus bodies in Hungary and ships them to the United States for final assembly to meet "Buy American" rules for sales to municipalities.

Bradley G. Kulman is the resident American partner in the Budapest office of Stroock & Stroock & Lavan, a full service, general practice law firm based in New York. The firm's Hungarian practice is focused on foreign investment and privatization transactions, infrastructure projects, and the representation of Hungarian entities in transactions with foreign parties. East-West Business Center, Rakoczi ut 1-3, H-1088 Budapest, Hungary; tel: (36)(1) 266-9520, fax: (36)(1) 266-9520. ■

HUNGARY

INDUSTRY REVIEWS: AUTO PARTS & TELECOM

Auto Parts

The automotive and components parts manufacturing industry is a fast growing sector in Hungary. Western and Far Eastern companies have set up operations in Hungary to manufacture products for Western, Central, and Eastern European consumers, as well as the Commonwealth of Independent States. This combined market is home to almost 400 million consumers. Market accessibility and highly skilled, low cost labor make Hungary an attractive locale for automotive manufacturing. Monthly wages in the auto industry average between $300 and $400. An hourly wage of $4, including benefits, buys a skilled worker who is likely to have a university degree. Several of the growth areas in auto parts supply are machined metal parts, aluminum or gray casting, and cold shaping.

The list of suppliers in Hungary is extensive. Canada's **Linamar Machine Ltd.** manufactures parts and components for export to North America and other Western countries, **United Technologies** produces wire harnesses, **Vidoeton Holding PLC** produces water pump shaftpins and steel cylinders, Vasep Tszavasvari produces OMEGA hose-clamps, **Bakony Automotive Works Co.** produces ignition switches, distributor caps, door locks, and windshield wiper assemblies. U.S. auto parts maker **Delco Remy** bought 72% of **Autovill**, a Hungarian manufacturer of parts for cars, trucks, and buses. Many suppliers are ISO 9000, 9001, and 9002 certified, but quality can be a problem with some of the non-foreign-owned companies. Some 50% of the Hungarian supply companies need additional investment to modernize their equipment.

General Motors, operating through the 100% owned **Opel Hungary**, has a car assembling plant and engine plant in Szentgotthard in Western Hungary. An additional $180 million investment by G.M. will be used to double the capacity of the engine plant to 460,000 units per year, and to build a cylinder head plant. The cylinder plant will begin operation in late 1996 and will produce 460,000 units. Engines are sent to Opel Hungary and Opel and G.M. plants in Germany, U.K., Brazil, Belgium, and Spain. The assembling plant was built to supply the Hungarian market, but Opel is looking for specialty export markets where their small size and flexibility can be an advantage. Such flexibility allowed the plant to build and sell 2,000 Opel Astras without catalytic converters to China.

Hungarian suppliers provide Opel with sun visors, batteries, rubber hoses, paint, and windshield wiper switches. A supplier to Opel's Hungary operations also gains access to the huge European Opel/G.M. system. A car visor maker in Hungary supplies 12,000 pairs of visors to Opel Hungary and 400,000 pairs to Opel's European operations. A Hungarian maker of wiring harnesses supplies Opel Hungary with 260,000 pieces and 700,000 pieces to Opel's European operations. Opel looks for companies that can supply product to the whole Opel system and is willing to switch suppliers if a new one can offer better quality at a lower price. No supplies are received directly from U.S. manufacturers, but Opel is negotiating with several U.S. companies. **Contact:** George Lombaos, Director of Materials Management, Fuzesi u. 15, Szentgotthard, Hungary 9770; tel: (36) 94-380-451, fax: (36) 94-380-499.

Ford Hungarian Manufacturing and Sales operates a components plant in Szekesfehervar. All product from the plant is exported to Germany, Belgium, U.K., Spain, and Brazil. The factory produces fuel pumps, starter motors for gas and diesel engines, and ignition coils. In 1998, the plant will produce windshield washer bottle assemblies. Ford has $126 million invested in the plant and a $6 million expansion is planned to provide additional space for increased production volume. Low labor costs and a skilled and motivated labor force give Ford a competitive advantage. "We have found the Hungarian work force to be outstanding," says Bruce Jacobson, Managing Director of Ford Hungaria.

Most of Ford's production material is purchased outside of Hungary. Some 150 companies in Europe, North America, and Japan supply Ford with products. Aluminum die castings are purchased from a company in Grand Rapids, Michigan. Wire is purchased from U.S. and Canadian suppliers. Ford encourages its suppliers to locate in Hungary. **Contact:** Bruce G. Jacobson, Managing Director, Aszalvolgyi us 3, 8000 Szekesfehervar, Hungary; tel: (36) 22-328-600, fax: (36) 22-310-941.

Audi's engine plant in the northwestern city of Gyor makes 300,000 engines per year and will eventually employ 1,000 people. Engine parts are shipped into Hungary where they are machined and assembled, and then reshipped out of the country. High wage demands in former East Germany led Audi to locate in Hungary.

Telecommunications

Modernizing Hungary's telecommunications network is a high priority of the government. **MATAV**, the Hungarian telecommunications company, that is jointly owned by **Ameritech** and **Deutsche Telekom** plans to invest $250 million annually during 1995 and 1996 to upgrade services and reduce waiting time for new telephone service. This creates export opportunities for telecom equipment such as ISDN and SDH systems. Opportunity may also be created when **Westel 900** (a MATAV-**U.S. West** joint venture) and Pannon GSM (a Scandinavian consortium) purchase equipment to expand their cellular telephone service in Hungary. Total imports for this industry in 1996 are expected to be $278 million, with $97 million coming from the U.S.

Monor Telefone Tarsasag (MTT) is a Hungarian/American telephone and cable television company and is one of the fastest growing telecommunication companies in Hungary. Started in April 1994 with three employees, it now has 250 employees and has seen a 310% expansion of its business. MTT's U.S. holding company consists of **Denver and Ephrata Telephone Company** (Pennsylvania), **Huntel Systems** (Nebraska), **Consolidate Ltd.** (Nebraska), and **United International Holdings, Inc.** (Colorado). MTT's primary area consists of 43 communities southeast of Budapest with a population of 242,000 people, 82,000 homes, 5,000 businesses, 3 military bases, and part of the Hungarian International airport. The cable television network is being integrated with the construction of the phone network using optical fiber and coax cable. The networks are being built by more than 25 contractors and vendors with whom $50 million has been contracted.

MTT buys local and host switches, transmission technology, and cable repeaters from outside suppliers. **Ericsson Corp**. has supplied MTT with 2 host and 43 remote switches. MTT uses U.S.-based suppliers, mostly for cable T.V. equipment: **Cable Co**n in Arizona supplies cable, **Fiber Con** in Colorado supplies wiring and switches, and **3M** supplies computer digital equipment. Equipment is also purchased from Pennsylvania-based **Toner Cable Equipment Company** and **Texscan Instruments** in Texas. MTT is looking to expand within Hungary and into other Central European markets. It is also working with the Hungarian military to modernize the military's communication systems and elevate them to NATO standards. U.S. companies will provide equipment for this project. MTT is working with concession motorway developers to build a telecommunication network and emergency telephone service along newly constructed highways in Hungary. **Contact:** Roger Krull, Purchasing Agent, Mazsa ter. 2-6, H-1107 Budapest, Hungary; tel: (36)(1) 262-8040 (ext. 106), fax: (36)(1) 260-5230.

DSC Communications Hungary, a representative office of Texas-based **DSC Communications Corp.**, is a supplier and installer of SDH and optical cable T.V. network equipment. The products sold and installed by the company are manufactured in England and Poland. DSC is expanding into Slovakia and is considering expansion into Romania, Serbia, Croatia, and Slovenia. Seventy-percent of DSC's customers prefer German-made products, and 30% prefer U.S.-made products. According to DSC's Sandor Szabo, U.S. telecom products are recognized as the best, but U.S. companies have not been in the market long enough. Different technical standards can be an obstacle for U.S. suppliers of telecom equipment **Contact:** Sandor Szabo, Senior Manager, Dayka Gabor u. 3, 1118 Budapest XI, Hungary; tel: (36)(1) 269-8242, fax: (36)(1) 248-1369.

BankNet is a leading provider of Very Small Aperture Terminal (VSAT) services in Central and Eastern Europe. BankNet is 100% owned by **SatNet**, a U.K. registered holding company. VSAT technology makes it possible to transfer computer generated data to and from central and remote locations equipped with local area networks or other computer related devices. BankNet also installs and operates Single Channel Per Carrier (SCPC) networks, which allow large amounts of data to be transmitted via satellite. BankNet's VSAT operations cover Europe from Iceland to the Ural Mountains in Russia. Its SCPC network links allow it to offer direct Europe to Europe or Europe to United States satellite links. Global coverage will eventually be offered for clients and BankNet also offers direct Internet access.

BankNet targets multinationals and local business networks, especially insurance companies and banks. Its services are valuable since they reduce the need for a large computer center, staff, and maintenance. It uses distributors throughout the region and has a domestic and international sales staff. Three companies install BankNet's equipment and support companies are used for maintenance. U.S.-based **Hughes Network Systems** supplies BankNet with its hub and remote earth stations. Microwave technology is provided by **Philips** and **AT&T**. Video conferencing equipment is supplied by the U.S. companies **Fairchild** and **ComStream**.

Revenues in 1995 were $3.8 million and are expected to be $6.15 million in 1996. One of the challenges for BankNet is educating Hungarian companies on how to properly measure costs so that the cost advantages offered by BankNet are apparent. **Contact:** Gabor David, Country Director, Naphegy ter. 8, H-1016 Budapest, Hungary; tel: (36)(1) 202-7083, fax: (36)(1) 175-8364. ■

To report news of acquisitions, joint ventures, licensing lease deals, sales contracts, new offices, or job changes write to Industry Review, CEBR at 4800 Baseline Rd. Suite E104-340, Boulder, CO 80303 USA, or E-Mail to cetm-llc@ibm.net.

Feature Country *Continued From Page 3*

Csepel Auto is a 26,000 square meter vehicle production facility located in an industrial suburb of Budapest. The facility has a 40-year history of vehicle production and its workers are highly skilled. The facility can be developed by an outside investor in parts or as a whole.*

Ten kilometers outside of Budapest is **Pestvideki Gepgyar**, a former military facility that repaired and maintained aircraft. Outside investors are needed to modernize the facility which can be used as a production, assembly, and maintenance facility plant for military and commercial aircraft.*

The Hungarian power generation industry is in the process of being privatized. The main investors are German and French companies. Small and medium companies most in need of help are being sold first and many of the companies are bankrupt. Although the infrastructure is good additional investment will be needed. **Contact:** Peter Keszthelyi, General Director, Kossuth Lajos ter. 6-8, H-1055 Budapest, Hungary; tel: (36)(1) 153-3333, fax: (36)(1) 269-4628.

Investors are needed in the agriculture machinery and equipment manufacturing sector in Hungary. U.S. technology is especially needed for ultra low volume pesticide spraying systems used on aircraft.*

Hungarian television and radio legislation was passed in December 1995. The legislation broke the government's monopoly in national television broadcasting by allowing for the creation of a commercial station. Billionaire **Ronald Lauder** is seeking a concession to set up a station in Hungary.

A former Soviet military base on the outskirts of Budapest will be the site of a $100 million shopping mall which is expected to be completed in late 1996. U.S. and Canadian investors are involved in the project.

The APV Rt announced that it will sell to investors 38.6% of the plastics maker **Borsodchem** in a private placement that was to begin at the end of January, 1996. **Ajka Aluminum Industry Kft** will be privatized in the second half of 1996. The company plans to produce 300,000 tons of aluminum, one-third of which will be sent to Volgograd, Russia. Ajka produces 5,000 kilograms annually of gallium and exports gallium to Japan and U.S. for the electronics and space technology industries.

A new law on concessions enables the private sector and foreign investors to participate in large infrastructure projects such as those for roads, railways, airports, telephones, power generation and transmission, mining, games of chance, and postal service. Investors are allowed to operate the infrastructure for a mutually agreed upon time to recoup investment and profits. Government procurements require competitive bids and a new procurement law should introduce more transparency into the process and reduce inequities.

"In the long term, Hungary will maintain its strong investment target position," says Peter Fath of the AmCham in Budapest. One manufacturing representative from an Illinois company said that in 5-7 years companies will be moving production facilities to Central Europe from the Far East to take advantage of the stability of this region.

***Contact:** Istvan Szenpetery, Ministry of Industry and Trade, Vigado u. 6, Budapest V. ker., Hungary; tel: (36)(1) 118-3335, fax: (36)(1) 118-5355

Problems. Hungary has the highest debt per capita in Central Europe, government debt in 1995 was over $30 billion. Interest payments on the debt consume over 40% of export earnings and are straining the economy. Although declining, inflation is still high at 28%. Hungary also imposes a $750 million global quota on imports of consumer goods. Some American companies claim they have been unable to obtain sufficient quotas to properly supply the market. A portion of the quota is reserved for EU products.

Hungary in 1996

Jan. 2	**Holiday**
Mar. 15	**Holiday**
Mar. 21-24	**Budapest (BD) Int'l Tourism Exhibition**
	BD Int'l Sport & Leisure Time Fair
Ap. 30-	**BD Int'l Trade Fair for Heating, Ventilation & A/C Techn.,**
Ap. 16 -20	**BD Int'l Fair for Elec. Data Proc., Communication Tech. & Office Organization**
May 1	**Holiday**
May 4	**Sanitary Equip. & Envt'l Protection**
	BD Int'l Building Trade Exhib.
	BD Int'l Trade Exhib. for Marble, Stone, and Granite Indus.
May 14-18	**BD Int'l Trade Fair for Investment Goods**
May 27	**Holiday**
Aug. 20	**Holiday**
Sept 20-29	**BD Int'l Fair of Consumer Goods**
Oct. 9-13	**BD Int'l Fair for Vehicles**
Oct. 10-14	**BD Int'l Marketing Commun. Trade Fair**
Oct. 21-25	**BD Int'l Packaging & Material Handling Trade Exhib.**
	BD Int'l Trade Exhib. for Printing Indus. & Related Tech.
Oct. 23	**Holiday**
Oct. 29-	**BD Int'l Fair for Hospitals, Doctors, & Labs, Pharm. Rehab.,**
Nov. 1	**Dentists & Dental Labs**
Nov. 14-17	**BD Central European Defense Equip. & Aviation Exhib.**
Nov. 20-23	**BD Int'l Food, Drink & Food Processing Exhibition**
Dec. 25	**Holiday**
Dec. 26	**Holiday**

There are also frequent and unexpected changes in business laws, especially those pertaining to taxes and employee benefits. Such changes make it difficult for companies to plan for the future and to project profits accurately.

The Hungarian banking system is inefficient and needs restructuring. Banks are unable to assess risk, have inadequate reserves, are over-staffed, and have suffered enormous losses. Bad loan portfolios are causing bank privatization to proceed slowly. Local entrepreneurs have difficulty obtaining business loans due to a nominal interest rate of 40% and stiff collateral requirements.

Research and development spending is down in Hungarian companies and research institutes; joint ventures and licensing agreements are needed to counterbalance this decline.

Assistance for U.S. Companies

U.S. Commercial Service. Supports U.S. exporters and investors by acting as advocate and lobbyist. Through **Gold Key** program will arrange appointments with potential trading partners; can also help locate agents and distributors for U.S. products. Prepares detailed market reports and studies. **Contact:** John J. Fogarasi, Senior Commercial Officer, U.S. Embassy, Bajza utca 31, H-1062 Budapest, Hungary; tel: (36)(1) 322-9015, fax: (36)(1) 342-2529.

American Chamber of Commerce in Hungary. Encourages trade, investment, and economic development between U.S. and Hungary. Promotes interests of members and acts as lobbyist.

AmCham 1996 Yearbook lists activities of U.S. companies by SIC code; five top people at each company; activity index. **Contact:** Peter Fath, Executive Director, Deak Ferenc u. 10, 1052 Budapest, Hungary; tel/fax: (36)(1) 269-6016.

Hungarian Chamber of Commerce and Industry. Will help foreign companies who are interested in investing in Hungary or in finding Hungarian partners. October, 1996 road show through New England, New York, Michigan, Colorado, and California will promote the computer technology, telecommunications, food processing, and energy sectors; will meet with U.S. business people seeking partnerships. Operates permanent Court of Arbitration. **Contact:** Peter Keszthelyi, General Director, Kossuth Lajos ter. 6-8, H-1055 Budapest, Hungary; tel: (36)(1) 153-3333, fax: (36)(1) 269-4628

TheHungarian Investment and Trade Development Agency. Promotes foreign direct investment and exports. Targets investment in tourism, automotive parts, food processing, and pharmaceutical and herbal medicine. Publications and advisors help investors assess the economic, legal, regulatory, and business environment Services include business matchmaking, investment evaluation, negotiating with state authorities, and determining availability of grants and subsidies. **Contact:** Csaba Kilian, Director for Investment, Dorottya Utca 4, P.O.B. 222, H-1051 Budapest, Hungary; tel: (36)(1) 118-6396, fax: (36)(1) 118-3732.

U.S. Export-Import Bank. Assists exporters by providing working capital guarantees, export credit insurance, loans, and guarantees. Recently expanded its programs in Central and Eastern Europe. **Contact:** International Business Development Division, 811 Vermont Ave., NW, Washington, DC 20571; tel: (202) 565-3900, fax: (202) 565-3930.

State of Illinois Hungary Office. Helps Illinois companies find partners and investment opportunities in Hungary. Companies can access the office through the State of Illinois International Business Division. **Contact:** Magda Sass, Managing Director, 1443 Budapest 70, PF.: 300/31, Hungary; tel: (36)(1) 266-5140, fax: (36)(1) 266-9661.

Suggestions:

- Think long-term
- Learn local working habits; don't force western ways on locals
- Look at opportunities in the Northeastern and Western parts of Hungary
- Find a Hungarian partner
- Better investment deals are made at the end of the year
- Come prepared; anticipate problems. Difficult to quickly solve problems once here
- Management's expectations must be clearly communicated to employees
- Assume conditions will constantly change
- Need business plan but must have flexibility ■

HUNGARY

FINANCE & ACCOUNTING

Although Hungarian Accounting Standards ("HAR") are based on European Union directives, they differ from International Accounting Standards ("IAS") in several respects.

Daniel Stewart-Roberts

HAR does not differentiate between operating leases and finance leases. All leases are accounted for as operating leases, with payments for a particular period booked as a period expense. An adjustment may be made to spread the profit and loss effect over the life of the lease on a straight-line basis by establishing a year-end prepayment balance.

IAS requires finance leases to be capitalized among the fixed assets of the company and depreciated over the underlying asset's useful life. The principal element of future payments is booked as a liability and payments are split between repayments of principle which are booked against the liability, and finance costs which are booked as a period expense.

Since the useful lives of leased assets generally exceed the length of the related lease, capitalization tends to increase the net asset value of a company, compared with HAR treatment of leases. Where leases are denominated in foreign currency, however, the requirement that any potential unrealized exchange loss on the principal balance be accounted for may cancel out or reverse this positive effect.

HAR requires certain transactions, principally charitable and welfare payments and contributions to utilities for infrastructure development, to be charged directly against capital or revenue reserves. Under IAS such payments are treated as an expense in the income statement, but they are subject to deferral if the benefit can be deemed to accrue over an extended period.

HAR limits the establishment of provisions to those intended to cover doubtful receivables, guarantee obligations imposed by law, and certain planned severance payments. Such provisions are not mandatory. Under IAS, provision is made for any likely quantifiable commitments or losses. The most common additional provisions required are those related to environmental liabilities, legal claims against the company, and other contingent liability provisions.

IAS requires the establishment of a deferred tax balance in respect to temporary differences in the timing of the recognition of revenues and expenses for financial reporting and income tax purposes. HAR does not recognize the concept of deferred taxation.

Although separate laws exist which address accounting principles for banks and local government authorities, Hungarian accounting law makes no distinction between types of businesses. Consequently, accounting principles which may be appropriate for specific industries are not provided for by HAR. For example, oil industry accounting practices such as depreciation of production assets, accrual of restoration costs, and accrual of significant maintenance costs are not recognized under HAR. Similarly, there is no special treatment under HAR for depreciation of aircraft, aircraft spare parts, and accrual for major aircraft overhauls.

Tax Issues. Hungary has an extensive double tax treaty network. Now that investment in Hungary by non-Hungarian persons has become as common as in Western Europe, business and tax consultants are learning that Hungarian double tax treaties offer some unique structure planning opportunities. When one considers that domestic Hungarian law permits Hungarian corporations to receive dividends tax free and to pay dividends without any withholding, the planning opportunities using Hungarian companies are numerous.

Several limited tax concessions are available to foreign investors in Hungarian corporations. Hungarian offshore companies enjoy a tax rate of 5% and may be the appropriate intermediary company, taking into account the extensive treaty network mentioned earlier. Tax breaks are also available for companies which conduct operations in certain economically disadvantaged areas of Hungary. Companies which manufacture and export substantial amounts of products and meet certain tests may also qualify for a tax reduction.

Hungary's corporate tax is made up of two kinds of tax levies: a calculated tax and an additional tax. The calculated tax is 18% and is levied on the taxable income of Hungarian companies. The 23% additional tax falls due when a dividend is declared out of post-1994 profits after the 18% tax. The corporate tax law also provides that this additional tax may not exceed the rate which is permitted for withholding on dividends under a double tax treaty between Hungary and the home country of the shareholder. The computation methods for the additional tax can be complicated where the Hungarian corporation is held by both Hungarian and foreign owners.

International Payments. International payments for sales and services are usually possible without advance approval. Both wholly-owned Hungarian banks and foreign-owned Hungarian banks can be used when making international payments. Recent liberalization of Hungary's currency control rules will make the process of borrowing from abroad simpler and quicker.

With a staff of over 300, Deloitte & Touche Budapest provides a full range of audit, tax, and legal services as well as IT and general management consultancy to major local enterprises and multinational companies. As a member of Deloitte Touche Tohmatsu International it is part of a team of more that 59,000 people in 126 countries. Contact Peter Lorincze or Daniel Stewart-Roberts. P.O. Box 906/69, H-1386 Budapest; tel: (36)(1) 267-2062, fax: (36)(1) 267-4182. ■

HUNGARY

Educating Mangers in Hungary

by Robert D. Hisrich, Ph.D. and Andras Marosi

Hungary's growing private sector needs better trained managers for three important reasons. First, an increasing number of indigenous private enterprises have reached a critical point in their development when they need a major infusion of managerial knowledge to ensure stable growth. Second, the privatization and reorganization of state-owned companies requires highly competent people to manage these firms and ensure their survival in a market economy. Third, foreign investors have established the same high-level standards for their local management in Hungary as they have elsewhere in the world.

Hungary's short history of free enterprise has produced a number of notable successes but also some spectacular failures. Many of the failed firms might have survived or even flourished with better management. Well-trained managers could have avoided such fatal strategic mistakes as diversification into unrelated businesses, lack of internal controls, neglect of customers' needs, ignoring competition, and pursuing unsustainably high growth rates. Unless management education is improved, a needlessly high proportion of today's new and successful businesses will suffer a similar fate. The number of business start-ups might also increase if management skills were more widespread among the general Hungarian population.

The lack of managerial expertise imposes costs on the Hungarian economy. Foreign-owned firms find it difficult to hire and retain capable managers. Replacing expatriates with local management reduces costs, but it is often impossible to find qualified personnel. Hungarians' lack of proficiency in English remains an issue as well. The absence of locals from foreign firms' management may also create cultural problems and conflicts. This has undoubtedly slowed the flow of foreign direct investment into Hungary.

In response to increased demand, institutions and firms providing managerial training have greatly increased, offering courses in accounting, finance, human resources, marketing, and taxation. Curricula have been redesigned to respond to the needs of the nascent market economy.

Even though the number of management degree program graduates has increased in Hungary, the quality of education is a serious problem. There are no established management education standards and the quality of teaching varies greatly from institution to institution. The training provided is often strictly academic and does little to improve vital real world management skills. As a result, multinationals prefer Hungarian graduates of established American and Western European business schools, but such graduates are in extremely short supply.

Although narrower than in 1989, a gap remains between the demand and supply of managers Successful local and multinational firms continue to expand, creating new managerial positions. The acute shortage of Western-style managers following the fall of communism often forced firms to fill managerial positions with unqualified people. Current demand is now fueled by these firms efforts to hire better-trained managers.

Despite Hungarian business education's serious problems, there are opportunities. With decreasing government financing, universities and colleges will be hard-pressed for tuition revenues. Institutions with widely recognized degree programs will be more successful in increasing revenues from the market and will be able to expand more rapidly. This "natural selection" will be the fastest in business education, which provides the best opportunity to charge higher tuition. Tuition revenues will also help institutions to attract and retain competent faculty.

Hungarian universities must concentrate on graduate education, with additional emphasis on language proficiency. Business schools must target three distinct markets. First, there is demand for small business and entrepreneurship education. Strong latent demand exists among well qualified professionals who would be eager to run their own businesses if only they had proper training. Second, multinationals require managers with uniform, Western-standard business education and excellent language proficiency. Their needs would probably be best served by MBA programs of cooperating Hungarian and foreign universities. Companies whose owners recognize that the company has grown beyond the size that they can manage on their own constitute a third market segment.

In spite of the problems, there are a few notable instances of quality managerial education with a strong Western orientation. One is the International Management Center in Budapest, which started offering executive education courses and the first year of an MBA degree in January 1989. Although the courses are well taught by Western faculty or Western-trained Hungarian faculty, the tuition costs are high and a high level of English language proficiency is required for entrance. The joint MBA program offered by Veszprem University and Case Western Reserve University (Cleveland, Ohio) is another quality program. Each course is team-taught by a Western-trained Hungarian faculty member and a professor form the Weatherhead School of Management at Case Western Reserve University. The first classes started in September 1995, with reasonable tuition in terms of Hungarian standards. Course material is in both Hungarian and English.

Robert D. Hisrich is Professor and A. Malachi Mixon III Chair in Entrepreneurial Studies at the Weatherhead School of Management. Andras Marosi is a Fulbright scholar at the same institution. Case Western Reserve University,10900 Euclid Avenue, Cleveland, Ohio 44106-7235; tel: 216-368-5354, fax: 216-368-4785. ■

Profile *Continued From Page 6*

Western Europe. I think American industry should take notice. U.S. companies are able to supply large markets, whereas companies here and all over Europe are accustomed to supplying their internal country markets. Thus, they have economies of scale and thinking that have kept them within their countries. U.S. products and mentality are such that we can look at supplying whole markets, like the whole European market. Hungary is a great base of operations from which to reach these markets.

CEBR: How did you get involved in industrial parks?

Loranger: When I first came here there weren't any new buildings in Hungary and we needed a large building to supply **Ford**. This building we are in is set on a former soviet military base. We negotiated with the government for 8 months and eventually formed a joint venture to develop the entire military base. We removed 109 buildings, corrected environmental damage, and put in an industrial infrastructure. We then had to look at advertising and selling what was left and ended up in the real estate business. We've sold sites to companies such as **Philips** and **Shell Oil**. Philips wanted their main supplier to come to Hungary and support them with just in time supply. We helped that company get up and run.

CEBR: How much land did you start with?

Loranger: We started with 650 acres of land and we've sold half. I don't think you'll find any other park in Hungary that has done that.

CEBR: Why is your park so successful?

Loranger: Trust. This is a missing element in Hungary. What we provide is trust. People can trust dealing with us and that's a key to our success. We also give turn-key service to companies in our park. We gave **Nokia**, a $7 billion company, a presentation about how we could minimize their risk and maximize their potential if they came the Hungary. We signed an agreement with them and within one month they were making product in Hungary. We hired their initial work force, trained them, and taught their people the rules and subtleties of doing business here. At the same time, we were building their building to their specifications which we leased to them under a long-term lease. No money was needed up front, and their risk exposure was minimal. We reduce their risk by handling the project management aspect of the construction. We also could have financed equipment for them if they wanted. The day the building opens they have a trained work force, a new factory, and they are ready to go. That takes a lot of risk out of the picture. This type of service is available for U.S. companies. A U.S. CEO might wonder how he can set up something 5000 miles away and how big a crew he'll need. Do you know how many people came from Nokia to set up their plant? One person, we did the rest!

CEBR: Are you planning any multi-tenant facilities for Hungary?

Loranger: We are working on creating a logistics center here in the park. The border of the EU has become the border between Hungary and Austria and it is clogged and backed up with trucks. We're looking to use more rail transport. Outside of Budapest, Szekesfehervar has the most train terminals in the country and the Soviets put spurs of this train line into our park. We're looking at having multiple users in some buildings here, probably users involved in the distribution of goods.

CEBR: Are there opportunities for U.S. investors to get involved in your projects?

Loranger: Yes, but it depends on what the projects are. Other locations want our services and that might create opportunities for outside investors.*

CEBR: What are the biggest barriers faced by U.S. business people in Hungary?

Loranger: You must be street smart in this country. There are different ethics here than in the U.S. You've got to negotiate everything. If you're not a positional negotiator, you're history here. Bureaucracy is another barrier. If you don't know how to handle bureaucracy, you can get tied up for ever. You must learn patience here. Deals aren't done immediately. Once the Hungarians trust you and realize that you are a long term player, they will do business with you. The banking system is another barrier. Financing is difficult and you can count on 4-6 months for financing. It doesn't go easy. You have to build a trusting relationship.

Contact: George P. Loranger, Loranger Ipari Kft., Szirtes utca 2, 1016 Budapest, Hungary; tel: (36) 22-328-220, fax: (36) 22-328-977

***Contact:** Mike Burgess, Loranger General Contractor and Services Ltd., Moricz Zsigmond 18, 8000 Szekesfehervar, Hungary; tel: (36) 22-382-022, mobile tel: (36) 30-462-115. ■

INTERNATIONAL COLLECTIONS

Legal Advisor *Continued From Page 5*

small companies will be privatized in the upcoming years.

Foreign investors in Hungary should be aware of certain regulatory changes that became effective in early 1996. New foreign exchange regulations will make the Hungarian currency semi-convertible, and new regulations on customs and customs procedures have liberalized the national customs system. A law on radio and television was recently passed which concludes a fierce five-year battle over the ownership and structure of non-printed media. A complete revision of the copyright law is underway, even though copyright protection in Hungary currently satisfies U.S. requirements pursuant to a 1993 treaty between the U.S. and Hungary. Each of these regulatory changes endeavor to follow reforms that have been underway since the beginning of the 1990's and should further enhance the interests of medium and small investors in Hungary.

Laws adopted by the Hungarian Parliament are published weekly in the official government gazette, *Magyar Kozlony*. English language translations of the most important laws are available in a tri-lingual publication in Hungarian, English, and German. Foreign companies and individuals considering doing business in Hungary are advised to contact one of the several international law firms with representative offices in Budapest.

Ellen Wright is an attorney at McDowell, Rice & Smith's Budapest office. McDowell, Rice & Smith represents clients in general commercial matters including establishing and organizing companies and joint ventures, mergers and acquisitions, liquidations and reorganizations, technology and intellectual property matters, administrative proceedings, arbitrations, and litigation. Kapas utca 11-15, H-1027 Budapest, Hungary; tel: (36)(1) 202-6044, fax: (36)(1) 202-6790. Offices are also located in Kansas and Missouri.■

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Opportunity	Invst. Sought	Contact	Phone
1. Constr. of chem. plnt. for glycine & glycine-ester-hydrochlorides, monochlorine acetic acid, fungicides	$1,800,000	Csaba Kilian	(36)(1) 188-6396
2. Expansion of manuf. capacity for steel radial truck tires	$5,270,000	Csaba Kilian	(36)(1) 188-6396
3. Modernization of row spacing agricultural tire facility	$2,600,000	Csaba Kilian	(36)(1) 188-6396
4. Used vehicle starter battery processing plant	$2,100,000	Csaba Kilian	(36)(1) 188-6396
5. Shopping center construction project (10,000 sq. meters)	--------------	Csaba Kilian	(36)(1) 188-6396
6. Hungarian southern highway project-all aspects of project	--------------	Csaba Kilian	(36)(1) 188-6396

For more information contact Csaba Kilian, Director for Investment, The Hungarian Investment and Trade Development Agency, Dorottya utca 4, H-1051 Budapest, Hungary; tel: (36)(1) 118-6396, fax: (36)(1) 118-3732.

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