

CENTRAL EUROPE AUTOMOTIVE REPORT™

BULGARIA CIS CZECH REPUBLIC HUNGARY
POLAND ROMANIA RUSSIA SLOVAK REPUBLIC SLOVENIA

Since 1996

The Source For Automotive Information On Central Europe™

March 1998

On The Web at <http://www.ear.com>™

Volume III, Issue 3

ISSN 1088-1123

Regional Market Highlights

Summary

- Japanese Group Buys Polish Bearing Manufacturer Iskra
- VW Bratislava Triples Output to 120,000 Golfs
- UT Automotive Expands Wiring Harness Capacity in Hungary
- GMAC Starts Operations in Czech Republic
- Daewoo Pouring More Money into Polish Operations
- Poland New Cars Sales Up 27% in 1997
- GM's Gliwice Plant on Schedule
- Lear Donnelly Overhead Systems Appoints New CEO

In This Issue

Feature Country: Czech Republic

- Developing Aftermarket Sales in Central Europe: p. 5
- Dana's Magliochetti Gives Keys to Supplier Success: p. 5
- New Duties Created Under Czech Republic's Certification Laws: p. 6
- Opel in Romania?: p. 11
- Romania's Dacia Beating All Odds: p. 9
- Slovak Car Sales Drop 17%: p. 10
- AO Moskvich Outlines Plans: p. 14
- Beware! New Transfer Pricing Guidelines in Czech Republic: p. 15
- New Product Review: Electric Cars and Super Efficient Vehicles: p. 24

Extra Data:

New Car & CV Sales Poland: p. 25

Poland

Japanese Consortium Takes Over Bearing Factory

In January, the Japanese companies **NSK Ltd.** and **Nichimen Corp.** paid nearly \$45 million for 80% of the shares of the **FLT Iskra** roller-bearing factory in Kielce. Over the next five years, the Japanese companies have pledged to invest another \$58 million into the factory.

Iskra is Poland's largest manufacturer of bearings — providing 60% of the national output — and the only local producer of spark plugs. In 1997, exports accounted for half of the factory's PZL 176.9 million (\$52 million) in sales.

According to local press reports, the new owners hope to increase Iskra's exports, especially to Western Europe, and plan to turn the Kielce factory into a sales and marketing base for Central and Eastern Europe.

Poland Ends 1997 With Strong New Cars Sales

New car sales in Poland in 1997 totaled 477,960 units, up 27.5% compared to sales in 1996, according to figures released by SAMAR, s.c. Sales of cars produced by local manufacturers numbered 337,467 units, up almost 30%.

Fiat was the best selling brand with a market share of 34.96%. **Daewoo** captured a market share of 26.29%, followed by

Continued on Page 2

Profile

Czech Republic

VDO Expanding in the Czech Republic New Factory, New Orders

VDO Instruments in the Czech Republic has run out of space. The company has outgrown its factory in Kbely, just outside of Prague. In late February, VDO will move its instrument panel and fuel management systems operations from Kbely to a new 11,000 square meter factory in Brandys.



Dr. Thomas Schlick

The company has successfully established itself in the Czech Republic, growing from 580 employees to 780, with this figure expected to rise to 1,000 by the year 1999. Revenues have shot up from DM 9 million in 1994 to DM 85 million (\$ million) in 1997.

VDO Instruments is a wholly owned subsidiary of the German company **VDO Adolf Schindling AG**, a part of the **Mannesmann Group**. VDO Instruments was established as a part of the privatization of **PAL Praha, a.s.** — VDO purchased PAL's instrument division in 1994. The company also manufactures windshield washer systems at a factory in

Continued on Page 12



March 1998
Volume III, Issue 3
ISSN 1088-1123



Ronald F. Suponcic, Jr.
Publisher



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

Editorial Assistant
Barbora Grossmannova

Research Assistant
Katarina Trginova

Design
Big Sky Creative
Caroline Bond
cetmdes@ibm.net

Web Site Design
Big Sky Creative
Ron St Clair
cetmdes@ibm.net



Reporters
Catalin Dimofte, Bucharest
Magda Sowinska, Warsaw
Valerie Dumas, Budapest
Bostjan Okorn, Ljubljana

March Columnists
Marek Kreisl, Baker & McKenzie
Jan Zurek, Partner, KPMG

The CENTRAL EUROPE AUTOMOTIVE REPORT™, 4800 Baseline Rd., Suite E104-340, Boulder, CO 80303, USA, is published monthly, except August, by Central European Trade & Marketing, L.L.C. in Boulder, Colorado.

The entire contents of this magazine in print and electronic formats are copyrighted 1998 by Central European Trade & Marketing, L.L.C. with all rights reserved. Reproduction or use in any form, without permission, is prohibited. Annual subscriptions are USD\$500 for the Standard Print and Email Edition, USD\$900 for the Analyst Edition, and USD\$1,850 for the AutoNewsFast™ Edition.

Offices in Central Europe and the United States
Business, Editorial, Subscription, Advertising,
and Market Research Inquiries to:

CENTRAL EUROPE AUTOMOTIVE REPORT™
4800 Baseline Rd., Suite E104-340
Boulder, CO 80303 USA
Tel: +1-440-843-9658 Fax: +1-206-374-5282
Email: cetmlc@ibm.net

Highlights Continued from Page 1

GM/Opel (9.21%), **Skoda** (5.31%), **Renault** (4.34%), **Ford** (3.74%), and **VW** (3.01%).

The top selling models were the **Fiat Cinquecento** (54,467 units), **FSO Polonez** (50,610), **Polska Fiat 126**, **Daewoo Tico** (42,236), and **Skoda Felicia** (24,683). Sales of the Daewoo Tico grew by 261.15% (30,541 units), the highest growth rate in 1997. Strong sales growth was also seen by the Skoda Felicia with a 60.20% increase.

GM/Opel's Herman Says All Systems Go in Gliwice

Adam Opel AG's president David Herman says Opel's factory under construction in Gliwice is on schedule. The stamping-press shop is expected to become operational in May. The new plant will produce the current version of the Astra model, with initial capacity set for 72,000 units.

At a Warsaw press conference in January, Herman didn't say what model other than the Astra would be manufactured in Gliwice, but he didn't rule out that it could be a compact car or the new Astra.

Opel currently has a 9.2% share of the Polish automobile market. "I realize that this share would have been greater if GM Europe had been able to supply the number of cars we could have sold in Poland," Herman told the daily **Rzeczpospolita**. "Unfortunately this turned out to be impossible, because the factories in Germany and Spain producing the Corsa couldn't keep up with the demand."

Daewoo Raises Stakes in Poland

In February, the **Daewoo Group** issued a statement reviewing its Polish investments and outlining its future plans. At the end of 1997, Daewoo's investments in Poland amounted to just over \$1 billion. In 1998, the company reports that its investment will rise to over \$1.5 billion.

Most of Daewoo's investment dollars have gone into the **Daewoo-FSO** car factory in Zeran. Investment into this factory totaled \$623.9 million in 1997,

and by the end of 1998, the company expects total investment to hit \$1.16 billion.

Daewoo plans to plough another \$47 million into its commercial vehicle unit **Daewoo Motor Poland**, bringing its total investment to \$148 million, and to pump an additional \$20.7 million into its engine unit, **Andoria**.

(see *CEAR November 1997 for a full report on Daewoo's Polish investment activity in 1997*)

Bearings From Poland Shipped to France

In February, the first shipment of bearings from the roller bearing factory in Krasnik will be delivered to **Citroen-Peugeot**. The factory has passed the EAQS quality audit and will supply both ball and cone bearings to the French company, said Polish press reports.

Kosciuszko Steel Mill Producing for Polonez and Cinquecento

According to Polish press reports, the Kosciuszko Steel Mill in Chorzow has set up a rolling-mill line to produce 200,000 tons of new products, including window profiles and hinge sections for cars. The factory currently supplies parts for Polonezes and Fiat Cinquecentos, and is reportedly in talks with Opel's factory in Gliwice.

Licenses Required for Duty-Free Car Assembly in Poland

As of Jan. 1, licenses are required for the duty-free import of car parts for assembly in Poland. Companies which assembled last year at least 1,000 units of one car make may apply for a license. **Daewoo, Fiat, Ford, Opel, and Volkswagen** have already received licenses from the Ministry of the Economy. Other Polish-assembled makes have yet to receive licenses.

Since last summer, the Korean **Kia**

More Market Highlights on Page 4



EDITORIAL CALENDAR

1998

The Source For Automotive Information On Central Europe™
On The Web at <http://www.cear.com>™

<u>Issue</u>	<u>Feature</u>	<u>Automotive Reviews</u>	<u>Special Reports</u>	<u>Close Date</u>
Jan 98	Poland	Body/Chassis	1997 Year in Review/ 1998 Forecast	Dec 10, 1997
Feb 98	Hungary	Central Europe's Executive of the Year	na	Jan 10, 1998
Mar 98	Czech Republic	Components & Systems	Auto Aftermarket	Feb 10, 1998
Apr 98	Slovak Republic	Marketing & Advertising	na	Mar 10, 1998
May 98	Romania/Bulgaria	Electronics	Auto Consultants	Apr 10, 1998
Jun 98	Poland/Slovenia	OEM Special: Who Supplies Who	na	May 10, 1998
Jul 98	Hungary	Powertrain	Exporting to Central Europe	Jun 10, 1998
Aug 98	Not Published			
Sep 98	Czech Republic	Plastics	Auto Engineering	Aug 10, 1998
Oct 98	Slovak Republic	Logistics	Human Resources	Sep 10, 1998
Nov 98	Romania/Bulgaria	Interiors	Real Estate	Oct 10, 1998
Dec 98	Poland/Slovenia	Financing	na	Nov 10, 1998

Regular Monthly Columns

Feature Country - featured country market overview and news, plus updates from around the region

Profile Interview - interviews with regional automotive executives

Product News - information on new products, components, and vehicles in the market

Opportunity Spotlight - regional companies offering investment, joint venture, or partnership opportunities

Legal Advisor - updates on legislation and legal matters pertaining to the automotive industry

Focus On Investment - investment analysis of regional automotive related companies

Accounting & Finance - updates on accounting, tax, and customs changes pertaining to the automotive industry

To Subscribe or Place an Advertisement
Tel: +1- 440-843-9658 Fax: +1- 206-374-5282
Email: cetmlc@ibm.net

Highlights Continued from Page 2

has been assembled at Kapena in Slupsk. And at the end of 1997, **Sobieslaw Zasada Centrum (SZC)** began assembling **Hyundai** cars in Glowno near Lodz. **Damis** also started assembling Yugoslavian Yugo Koral cars at its Lodz plant at the end of last year.

It is uncertain whether all of these companies will be allowed to continue assembling cars in Poland.

Magna Snaps Up Roltra Morse; Polish Factory Included in Purchase

Magna International Inc. announced in February that it entered into an agreement to buy 100% of the shares of **Roltra Morse S.p.A.** from **IMO Industries Inc.** Roltra Morse is a supplier of automotive latches, window regulators, cable systems, door modules, and gear shift mechanisms to OEMs in Europe, South America, and Turkey.

Roltra employs some 1,050 people in three wholly owned plants in Italy, one wholly owned facility in Poland, and two jointly controlled facilities in Brazil and Turkey. Its principal customer is **Fiat**, and other customers include **Saab**, **Porsche**, and **Rolls Royce**. Sales in 1997 were approximately CDN \$150 million (USD \$104.5 million).

Czech Republic

GMAC Arrives in the Czech Republic

General Motors Acceptance Corporation (GMAC), the automobile financing subsidiary of **General Motors**, has started operations in the Czech Republic through a Prague-based subsidiary. The unit, known as **Opel Leasing**, recently launched inventory funding for Opel dealers. Retail leasing for dealers' customers will be available in March. In the coming months, Opel Leasing plans to extend service to the Slovak Republic through a branch in Bratislava.

Draftex Expects 10% Growth in 1998

Draftex-Optimit s.r.o., a producer of rubber car body sealing systems, posted sales of CZK 634 million (\$19.2 million) in 1997 and expects this figure to grow

by 10% in 1998.

Established in 1994, the company provides systems for the **Skoda A02 Felicia**, **GM-Opel Vectra 2900**, and the new GM-Opel Astra T 3000. At its factory in Odry, Czech Republic, Draftex employs 350 people, and in October 1997 was certified according to VDA 6.1 and QS 9000. The company is a subsidiary of **Draftex Viersen GmbH**.

New President/CEO For Lear Donnelly JV

Lear Donnelly Overhead Systems L.L.C., a 50-50 joint venture between **Lear Corporation** and **Donnelly Corporation**, recently named Richard Perreault to the position of president and chief executive officer.

The company designs, develops, markets, and manufactures overhead systems, headliners, overhead consoles and lighting components, vehicle electrification interfaces, electronic components, and assist handles. Manufacturing facilities are currently established in the United States, Ireland, the United Kingdom, and the Czech Republic.

Hungary

UT Automotive Bolsters Wiring Harness Capacity in Hungary

On January 28, 1998, **UT Automotive**, a **United Technologies** company, announced the opening of a new wiring harness assembly plant in Hungary.

The new 12,000 sq. meter facility started preliminary production in December with 350 workers, and currently employs 650 people. The plant is located in Gyongyos, approximately 85 kilometers east of Budapest, and will operate under the direction of UTA's management in Godollo.

As a supplier to Western European car and truck manufacturers, exports from UTA Hungary exceeded \$100 million in 1997. With the new plant capacity, exports of \$160-\$170 million are expected by the year 2000.

UT Automotive started producing wire harnesses in Hungary in 1991 and

currently has more than 2,000 employees in the country.

UTA's investment in Hungary was encouraged by **Pratt & Whitney**, a UT Corp. sister company to UT Automotive. Pratt is a member of the **Lockheed Martin F-16** industrial cooperation team that was formed to fulfill the offset agreement signed between Lockheed Martin and the Hungarian government.

"Apart from the \$11.3 million in offset credits that we previously submitted, an additional \$23.7 million in offsets has just been confirmed by the Ministry of Industry, Trade and Tourism, and there is a possibility of even further export and investment increases," said Ron McCullough, Regional Director for Industrial Cooperation Development of Pratt & Whitney.

Slovak Republic

VW Bratislava Triples Car Output to 120,000 units

VW Bratislava plans to triple its production and pump out 120,000 new Golf models in 1998. The goal for gearbox production is 322,000 units, including about 7 million gearbox components. Last year, the factory manufactured 40,885 cars (Golfs and Passats), 281,476 gearboxes, and 6,158,000 gearbox components.

VW plans to pump some DEM 180 million into its Slovak facility in 1998, with money going into new technology and infrastructure, including a new logistics building. By the end of the year, the company expects to have 1,000 new workers, bringing its total to 4,700.

Tiremaker Matador Puchov's 1997 Results

Passenger car and truck tire manufacturer **Matador Puchov's** preliminary 1997 performance results show a turnover of more than SK 12 billion (\$342 million), up slightly from SK 11.4 billion in 1996. Sales volume approached SK 7.6 billion and exports totaled SK 6.2 billion, or 82% of sales.

Continued on Page 18

UK Parts Manufacturer Tackles Central European Aftermarket

Aftermarket Special Report

To help it conquer the burgeoning Central European aftermarket, the UK-based **Quinton Hazell Group** is banking on locally managed distribution companies, a broad product range, and excellent product availability.

“Our philosophy is to reach wholesalers through our own distribution companies,” Stephen Oliver, Business Development Executive for Quinton Hazell, told the CEAR™. “Our distribution companies have their own sales teams and warehouse stock. We’re trying to develop a one-stop shopping concept.”

Part of the Echlin International Group since 1987, Quinton Hazell operates through distribution companies across Europe, and is increasingly expanding into developing markets such as Poland, Hungary, and Russia. The company has operated in Poland since October 1995 through **Quinton Hazell Polska**. And a sales office in Budapest was established in early 1997.

The company’s product divisions include steering and suspension, cooling, transmission, brakes, and electronic parts. With more than 40 product ranges and close to 20,000 part numbers, every major European and Japanese car, van, and light commercial vehicle currently on the road is covered.

Availability is Key in Central Europe

The company focuses on providing partner wholesalers with high quality service and excellent availability. “In the [Central European] market, availability is the name of the game,” said Oliver. “We have weekly supplies from the UK to provide a flow of product to all subsidiaries.”

Study Local Market Requirements

Close attention is paid to the special requirements of each market. Oliver said he was surprised how diversified the vehicle park is in Central Europe. “It’s

one of the most diversified you’ll find anywhere.”

The company is conscious of increasing its range coverage for Polish and other Eastern European makes. “At the end of the day, it’s a question of having practical objectives to meet market needs.”

Local Producers Put On the Price Squeeze

In a market such as Poland, where people have less disposable income, price is the first consideration. According to Oliver, one of the difficult aspects of breaking ground in a market like Poland is convincing customers to consider quality over price. “There’s tough competition from low priced local producers.”

Oliver is optimistic, however. “Maybe this will change as people buy better cars, travel longer distances, and have more disposable income.” He hopes to win customers with Quinton Hazell’s service, technical support, catalogues, and good product availability. “By providing that package, [a customer] will accept a reasonable price, not necessarily the lowest.” ■

world. We’ve got to do it in a more intelligent way to ensure that we’re making the optimum use of our collective capacities.”

According to Magliochetti, supplier success also requires collaboration and idea generation among employees. Dana’s ideas program has an objective of generating two ideas per person, per month, with 80% implementation and 80% participation among Dana employees. Some one million ideas are generated each year.

“In the end, our goal is to enable those who truly know and understand a particular component to optimize the manufacturing process and truly improve performance,” Magliochetti said. “Our people have been a tremendous resource in contributing ideas on how to improve performance.” ■

Dana Executive Outlines 3 Keys to Success

Auto Components and Systems Review

Growing modular system capabilities, increasing capital efficiency, and encouraging employee input will be critical to the success of tomorrow’s global vehicular suppliers, **Dana Corporation** President and Chief Operating Officer Joseph M. Magliochetti told an audience of automotive industry leaders in January.

Magliochetti spoke as part of a supplier panel addressing the topic “The Suppliers’ Role in the Plant of the Future,” at the 1998 **Automotive News World Congress** held in Detroit.

Magliochetti urged suppliers to take a more active role in modular assemblies. “As suppliers move toward becoming

systems integrators, I believe we will minimize unnecessary capital expenditures, create greater economies of scale, and ultimately provide greater value for our customers,” he said.

Magliochetti also said there will be a necessity for more efficient use of capital (both fixed and working capital) as the industry grows production capacity worldwide.

“Original equipment manufacturers and suppliers need to find a way to come closer together in order to ensure that we’re meeting the expectations of our customers and our shareholders,” he said. “We simply can’t continue to add capacity to serve every market niche around the

Czech Republic's New Certification Law:

New Duties for Producers, Importers, and Distributors

Czech Legal Advisor

Marek Kreisl, Baker & McKenzie, Prague

The following briefly summarizes the new Czech Act No. 22/1997 on Technical Requirements for Products ("Act") and its implementing decrees ("Decrees"). The Act and the Decrees became effective with respect to all producers, importers, and distributors on September, 1 1997.

From the effective date, all producers, importers, and distributors shall be fully liable for the results of their activities, must be aware of the risks related to the usage of their products introduced to the market, and are responsible for their customers' safety.

• General Duties of Producers, Importers, and Distributors of Products

Duties Relating to a "Specified Product"

A number of Decrees have been issued defining those categories of products which "represent a higher exposure of danger/risk" to consumers/users ("Specified Products"). Generally, Specified Products may only be introduced into the Czech market if:

- (a) an assessment has been made of their quality and such quality complies with the requirements for products safety as stipulated in the relevant Decrees ("Assessment of Conformity"); and
- (b) a Declaration of Conformity has been issued by the product's producer or importer, as the case may be.

Assessment of Conformity

Depending on the provisions of the relevant Decree, the Assessment of Conformity may be carried out either by:

- (a) producers or importers themselves without the need to contact an "authorized person" (although the Act provides that the producer or importer may voluntarily request an authorized person to carry out the Assessment of Conformity); or

- (b) a special legal entity as designated in the Act ("authorized person") which is required to carry out the Assessment of Conformity with respect to certain products with "higher levels of risk". Authorized persons are licensed by the Office for Technical Normalization, Meteorology, and State Testing ("Office") and are listed in the Official Bulletin of the Office.

The liabilities of the authorized person for carrying out the Assessment of Conformity are regulated by a contract entered into between the importer or producer and the authorized person.

Declaration of Conformity

The Declaration of Conformity must be executed in the Czech language and must contain the following information:

- (a) details about the entity or person (the producer or the importer) who issues the Declaration of Conformity (name, address, registered office, and identification number);
- (b) details about the product (name, type, label, model, and production number);
- (c) a description and specification of the product (purpose of use) and other information relating to the product;
- (d) a description of the method employed in carrying out the Assessment of Conformity;
- (e) a list of technical regulations applied in carrying out the Assessment of Conformity;
- (f) the business name, registered office, and identification number of the authorized person who carried out the test and the number and date of the certificate issued by the authorized person (including the validity period); this same information should be stated by the producer or importer if they use the authorized person's finding (protocol, certificate, etc.) to carry out the Assessment of Conformity;

- (g) a confirmation of the producer or the importer stating that the quality of the product meets the basic requirements for products as stipulated in the Decree(s) applicable to such product;

- (h) the date and place of issuance of the Declaration of Conformity; the name and position of the person representing the producer or the importer, and her/his signature.

The Declaration of Conformity must be maintained on file by the product's producer or importer for a period of at least ten years after the termination of production of the product, its import, or its introduction into the Czech market.

Distributors may not sell Specified Products unless they have obtained a written confirmation from the producer or an importer that the Declaration of Conformity has been issued. Details concerning the Declaration of Conformity may, for example, be stated on a delivery bill or an invoice; they must contain data identifying the producer or importer and the product, a statement confirming that the Declaration of Conformity has been issued, and the date of its issuance.

Distributors must, upon request by the relevant authorities, provide a copy of the confirmation for inspection. Please note, however, that the Declaration of Conformity does not relieve producers or importer of liability for their products.

The following list includes categories of products regulated by the existing Decrees:

Toys; electronic equipment of a low voltage and all electronic equipment that causes electro-magnetic radiation; "machinery equipment" (defined very broadly), articles for personal protection; firearms and ammunition; simple pressure tanks; equipment and security systems determined for use in explosive surroundings; liquid gas equipment; and building products.

Czech Mark of Conformity

Certain Specified Products must be marked by a so-called "Czech Mark of Conformity" (e.g., equipment and security systems determined for use in explosive surroundings).

Continued on Page 20

Subscription Order Form

Fax To: +1-206-374-5282 Tel: +1-440-843-9658 Email: cetmlc@ibm.net
Mail To: 4800 Baseline Rd., Suite E104-340 Boulder, CO 80303 USA

SUBSCRIPTIONS AVAILABLE (select one)

STANDARD PRINT SUBSCRIPTION:

Print Edition mailed to you 1st Class Air Mail. 11 Issues.
PRICE ALL LOCATIONS USD\$500 PER YEAR

EMAIL SUBSCRIPTION:

Print copy not included. Emailed to your email address. Email version is a duplicate of print version plus extra data. In Adobe Acrobat Format. Requires an email address. 11 Issues.
PRICE ALL LOCATIONS USD\$500 PER YEAR

SPECIAL ANALYST EDITION SUBSCRIPTION:

Includes standard printed or email version of the report. Includes a pre-press email text version of the report delivered by email two to three weeks prior to the standard issue date. Includes additional market data which does not fit into the Standard Print Report, and includes a mid-month email update of important market news. This Edition requires an email address.
PRICE ALL LOCATIONS USD\$900 PER YEAR

AutoNewsFast™ EDITION SUBSCRIPTION:

The highest level of information on the Central Europe automotive sector which we offer. AutoNewsFast™ provides weekly email news reports and the **Special Analyst Edition** of the CENTRAL EUROPE AUTOMOTIVE REPORT™ listed above. Requires an email address. 49 weekly reports, 11 issues, and 11 mid-issue reports.
PRICE ALL LOCATIONS USD\$1,850 PER YEAR

Name.....
Title.....
Company.....
Business Activity.....
Street.....
City.....
State.....
Zip/Post Code.....
Country.....
Telephone.....
Fax.....
Email Address.....

Please Mail a Free Sample Issue to the Person Above.

GUARANTEE

We guarantee that you will find the CEAR™ to be useful and informative. If you are not completely satisfied, you may cancel at any time and receive a refund for the unused portion of your subscription.

Send Orders To: Fax: +1-206-374-5282 Tel: +1-440-843-9658
Email: cetmlc@ibm.net Or Mail:
CEAR, 4800 Baseline Rd., E104-340 Boulder, CO 80303 USA

Subscribers located in the United Kingdom Send Orders to:
VP International, Red Hill House, Hope Street
Chester, CH4 8BU, United Kingdom
Tel: +44-(0)-1244-681619 Fax: +44-(0)-1244-681617 **MAR98**

Best Selling Brands in Poland (1997)

Ranking By Retail Volume

Passenger Cars

Make	Volume	Market Share
FIAT	167,099	34.96%
DAEWOO	125,679	26.29%
GM - OPEL	44,003	9.21%
SKODA	25,372	5.31%
RENAULT	20,739	4.34%
FORD	17,884	3.74%
VW	14,404	3.01%
SEAT	11,984	2.51%
PEUGEOT	9,242	1.93%
TOYOTA	8,593	1.80%

Commercial Vehicles

Make	Volume	Market Share
DAEWOO MOTOR POL.	14,017	25.35%
DAEWOO	11,326	20.48%
CITROEN	6,178	11.17%
MERCEDES	3,905	7.06%
FIAT	3,756	6.79%
FORD	3,661	6.62%
SKODA	2,504	4.53%
VW	2,144	3.88%
PEUGEOT	1,868	3.38%
GM - OPEL	1,278	2.31%

Source: SAMAR, s.c.

Tips For Success In Central Europe

Communicating



Jeff Jones

I recently traveled to the US with a Slovak friend and visited Tucson, Arizona. After running a few errands around town, my friend commented how impressive it was that I knew everyone in Tucson, from the grocery clerk, to the man walking in front of the bank, to the lady getting out of her car in the mall parking lot.

When I explained that I didn't know any of these people, but that it was common in the Southwest to smile and say hi to complete strangers, my friend was amazed. "We'd never do that in Slovakia, people would think you were crazy."

Indeed, the norms of communication in Central Europe are different from Western practices. Effective communication with employees, potential partners, or business associates demands great sensitivity, attention, and effort. The communication process is complicated by multiple languages, different cultural and social standards, and thinking habits left over from years of Communist rule.

And the stakes are high. The pace of business and competition in the Central European auto sector is furious. Failure to get your message across clearly can have a devastating impact on your business. Here are a few tips to help native speakers improve their communication skills when speaking or listening to non-native speakers.

When speaking:

- Try to organize your thoughts before speaking
- Speak slowly and clearly
- Limit the amount of information contained in each sentence
- Pause often to allow the listener to digest the information
- Repeat important points, phrasing them slightly different to ensure understanding
- Do not use slang or jargon
- Watch the tone of your voice, don't be patronizing or aggressive
- Frequently ask "Do you understand" and watch for qualified "yes" responses

When listening:

- Do not interrupt the speaker — give them time to fully express their thoughts
- On important points, repeat in your own words what the speaker said and ask "Did I understand you correctly?"
- Watch for telling body language and non verbal communication
- Never laugh at unusual phrasing or mistakes
- If necessary, ask the speaker to talk more slowly

cetmjaj@ibm.net

Fastest Sales Climbers in Poland (1997)

Passenger Cars

Make	Units	Change '97 v '96 Units
Daewoo Tico	42,236	3,0541
Skoda Felicia	24,683	9,275
Fiat Siena	8,151	8,151
Opel Astra	22,514	7,024
Opel Corsa	14,653	5,917
Daewoo Lanos	5,484	5,484
VW Polo	10,675	4,748
Fiat Brava	8,465	4,266
Fiat Marea	3,663	3,662
Citroen Saxo	3,617	3,617

Light Commercial Vehicles

Make	Units	Change '97 v '96 Units
Skoda Pick up	2,504	2,074
Citroen C15	4,336	1,161
Citroen Berlingo	1,086	1,086
Peugeot Partner	994	669
GM - Opel Combo	1,278	393
Ford Courier Van	484	255
Renault Express	372	131
VW Caddy	470	118
Toyota Hilux	168	79
Piaggio Porter	52	52

Medium Commercial Vehicles

Make	Units	Change '97 v '96 Units
FSC - Lublin	11,425	4,138
Mercedes Vito	2,925	2,680
Ford Transit	3,055	1,340
Peugeot Boxer	784	578
Fiat Ducato	1,305	445
Hynd. H100 P/V	434	293
Merc. Sprinter 3	861	271
Citroen Jumper	715	269
VW LT	265	230
Toyota Dyna	202	200

Source: SAMAR, s.c.

Romania's Dacia Beating All Odds

Signs Production Agreement With Hyundai

Given the shaky status of the Romanian economy and the severe decline of Romanians' purchasing power in 1997, **Dacia's** performance last year was remarkable. The company managed to stay in the black and overcame the sales problems it had during the first half of the year. By the end of 1997, Romania's flagship carmaker hit an all time high production figure of 100,000 units.

Some 25% of the cars manufactured last year — including cars in the company's new Nova range — were exported to Venezuela, Columbia, Egypt, and Algeria. China, traditionally Dacia's best export market, is likely to absorb a significant share of the company's output this year.

Agreement With Hyundai to Assemble Accents & Engines

Although Dacia's management has admitted that the company has little chance of survival in the long run unless a powerful foreign carmaker steps in, this has not happened. The most spectacular move by the company is an agreement signed with the South Korean

Hyundai, allowing Dacia to assemble 50,000 units of Hyundai's Accent model, as well as 100,000 Hyundai engines per annum. This agreement, however, is unlikely to be followed by deeper involvement of Hyundai in Dacia, especially given the turmoil in the South Korean financial markets.

"Dacia's management was wise enough to design a very flexible assembly line for their Novas, so they can now assemble about any car, with minimal technological changes, at their Pitesti facilities," said a dealer for Dacia's rival, **Daewoo Automobile Romania**. "I do believe this agreement with Hyundai should be viewed [as a demonstration] that Dacia is not an easy prey and has the muscle to go ahead on its own."

According to company sources, Dacia will start assembling the Hyundai Accent in 1999. The standard model should sell in Romania for \$8,000, jeopardizing Daewoo's domestic market share.

Cooperation with **Peugeot** may also be in Dacia's future. The CEO of Dacia, Constantin Stroe, said that discussions he had with Peugeot's management during

his recent visit to France were "very promising."

Plan for New Model Still Alive

Meanwhile, Dacia is sticking to its plan to develop its own brand new model for the year 2000. The body of the mysterious D-33 is to be designed by Italian stylists, while the engine and mechanics should be designed in-house.

Low Priced Cars Give Company Big Advantage — In The Short Term

Detractors of Dacia's stubborn independence policy point to its low productivity — Dacia's 28,000 employees manufactured only 100,000 cars in 1997 — that largely cancels the competitive advantage of the cheap labor force.

However, as long as the standard of living in Romania remains at the current level — which seems certain, at least for the next few years — Dacia's competitive position on the domestic market looks secure. The company's extremely low priced cars give it an unbeatable advantage.

Catalin Dimofte (Bucharest)

Top 10 Best Selling Cars & Commercial Vehicles in Poland (1997)

Passenger Cars

Make	Units	% Change '97 v '96
Fiat Cinq.	54,467	5.33
FSO Polonez	50,610	-15.04
PF 126	48,437	-19.56
Daewoo Tico	42,236	261.15
Skoda Felicia	24,683	60.20
Fiat Uno	23,328	10.50
Opel Astra	22,514	45.35
Fiat Punto	18,113	3.98
Daewoo Nexia	16,829	-14.58
Opel Corsa	14,653	67.73

Light Commercial Vehicles

Make	Units	% Change '97 v '96
FSO Polonez Truck	11,032	-23.18
Citroen C15	4,336	36.57
Skoda Pick up	2,504	482.33
Fiat Cinq. Van	1,556	-77.82
GM - Opel Combo	1,278	44.41
Citroen Berlingo	1,086	-
Peugeot Partner	994	205.85
Fiat Uno Van	864	-31.70
Ford Courier Van	484	111.35
VW Caddy	470	33.52

Medium Commercial Vehicles

Make	Units	% Change '97 v '96
FSC - Lublin	11,425	56.79
Ford Transit	3,055	78.13
Mercedes Vito	2,925	1093.88
FSC - Zuk	2,592	-48.08
VW Transporter	1,409	-4.60
Fiat Ducato	1,305	51.74
Kia Ceres	874	20.05
Merc. Sprinter 3	861	45.93
Iveco Daily	816	7.94
Peugeot Boxer	784	280.58

Source: SAMAR, s.c.

New Car Sales in Slovakia Drop in 1997

Skoda Leads Market, Luxury Makes Buck Trend

Last year, 62,079 new passenger cars hit the crowded Slovak streets and highways, adding to the congestion created by the 74,000 new cars sold in 1996.

Although down 17%, new car sales are still robust, considering that less than 25,000 units were sold in 1995. And 1996 was an exceptional year as new car sales were spurred by the government's temporary suspension of the import duty on cars under 1,500 cc. In late 1996, buyers rushed to car dealers to make purchases before the reinstatement of the duty on January 1, 1997.

"After the boom in vehicle sale in 1996, we had been expecting a more considerable drop in sales," said Robert Stano of the Automotive Industry Association of the Slovak Republic (ZAP). According to Stano, the reinstatement of the import duty was offset by the increase in sales of Skoda vehicles imported duty-free pursuant to a tariff union between Slovakia and the Czech Republic.

Skoda On Top

Skoda tightened its stranglehold on the Slovak market by increasing its market share from 30% in 1996 to 44% in 1997. Skoda sold 27,442 new cars in 1997, up 24% compared to its 1996 sales results. After the Czech Republic and Germany, the Slovak Republic is Skoda's third most important market.

Daewoo watched its sales drop 23% in 1997, but the Korean manufacturer still produces the second best selling brand in Slovakia. Despite the sales drop, Daewoo's market share slid by only about one percentage point to 14%. "We

expected that 1997 would not be so rich as 1996," said Peter Halgas, sales and marketing director of **Daewoo Motor Slovakia**. "Everybody tried to purchase cars at the end of 1996."

Daewoo hopes that the introduction of four new models — the Leganza, Nubira, Lanos, and a yet unnamed replacement for the Tico — will bolster its sales in 1998. And with Daewoo's purchase of ailing Korean carmaker **Ssangyong Motors**, Daewoo will enhance its product mix with Ssangyong's off-road vehicles. Together with the sales of Daewoo light commercial vehicles, Halgas said they plan to sell around 10,500 vehicles on the Slovak market in 1998.

Volkswagen's sales in Slovakia also dipped — the German carmaker sold only 4,906 cars in 1997, down from 7,000 units a year earlier. VW holds the number three spot with a market share of about 8%.

And although it is the fourth best selling brand in Slovakia, **Fiat's** sales dove over 50% in 1997. The weak sales caused the company's market share to drop from about 9% in 1996 to 5%.

Hard, Hard Times For Some

Fiat, however, fared much better than **Lada-VAZ** and **Kia**. Lada's sales plummeted over 80%, from 1,850 cars in 1996 to a trickle of 343 units in 1997. The company's outdated models can't compete with the superior quality Western — or Western financed in the case of Skoda — vehicles that have flooded the Central European market.

The Korean carmaker Kia went bankrupt last year and Slovak consumers stayed

out of the company's showroom, fearful that Kia might not be around to see the new year. "We received a lot of calls," said Kia managing director Alexander Bachorec. "We tried to convince them that we are still alive."

Kia's sales in Slovakia dropped 70% from 1,037 cars in 1996 to a paltry 303 units in 1997. Not only did the crisis at home hurt Kia, but stiff local competition also took its toll on Kia. "I think the aggressive strategies of Skoda and Daewoo [hurt us]," said Bachorec. "Daewoo had heavy TV [coverage] for its new Nubira model, and they liquidated their overstock of about 4,000 cars, selling them very cheap, some under 230,000 SK (\$7,000)."

Although it is unclear what will happen with Kia, it looks like the government will opt to make Kia a state-owned entity, instead of selling it off to a foreign company.

Luxury Sales Up

Luxury carmakers bucked the general downward sales trend and turned in strong results in 1997. **Mercedes's** sales shot up 83% with 343 units sold. **Volvo** saw its sales jump 88%, and **Audi** posted a respectable 17% growth in sales. "It's quite good, but not as much as we expected — we would like to sell about 15%-20% more in 1998," said Marta Kucerova of **Porsche Slovakia**, the Audi importer in Slovakia.

Outlook

Robert Stano of ZAP expects vehicle sales in 1998 to be at about the same level as in 1997. "The biggest factor affecting the decision to buy a new car will most probably be, again, price." ■

On-Line Starting March 9

Place Your Listing in our new Central Europe Expert Directories on **CEAR.COM**™ .
A listing will give Customers and Prospects a direct link to your email address or web site.
Generating new business is as easy as a mouse click. cetmads@ibm.net

Czech & Slovak Macroeconomic Highlights

	<u>1996</u>	<u>1997</u>
Czech Republic		
GDP Growth	4.1%	3.9% (I-III Q)
Inflation Rate ¹	8.8%	8.3% (11/97)
Industrial Producer Prices ²	4.8%	5.5% (11/97)
Unemployment Rate ³	3.5%	4.9% (11/97)
Industrial Output ⁴	6.4%	9.1% (10/97)
State Budget Balance (bn CZK) ⁵	-1.6	-7.6 (12/97)
Foreign Trade Balance (mn USD) ^{5(a)}	-5,809	-3,547 (11/97)
Average Wage Growth ²		
Nominal	18.0%	13.1% (I-III Q)
Real	8.5%	4.8% (I-III Q)
Current Account Balance (mn USD) ^{5(a)}	-4,291.60	-2,555.1*
Gross External Debt (bn USD) ⁵	20.80	21.0(I-III Q)*
Exchange Rate (CZK per USD) ⁶	27.14	35.19 (2/2/98)
New Credit Avg. Interest Rate ⁷	13.42%	15.51% (10/97)
Avg. Interbank Deposit Interest Rate		
7 Day	12.05%	16.64%
3 Month	12.02%	17.50%
6 Month	11.96%	17.40%

¹Moving Average

²Increase in % compared to the same period of the previous year

³Percentage of labor force

⁴Increase in %, constant prices, from 1997 index of industrial production

⁵End of period balance

⁶Exchange rate midpoint

⁷Average rate of new crown credits drawn in given period

^(a) Trade balance adjusted according to the methodology of customs statistics effective from January 1, 1996

*Preliminary data

Source: Czech National Bank

	<u>1996</u>	<u>1997</u>
Slovak Republic		
GDP Growth (real)	6.9%	6% (I-III Q)
Inflation Rate	5.8%	6.4% (12/97)
Unemployment Rate	12.8%	12.5% (12/97)
Industrial Output (% of growth)	2.5%	0.6% (11/97)
Labor Productivity (% real growth)		6.4% (I-III Q)
State Budget Balance (bn SK)	-25.6	-37.0
Trade Balance (mn USD)	-2,293	-1,485
Average Real Wage Growth		7.6% (I-III Q)
Current Account Balance (bn USD)	-1.90	-1.19 (10/97)
Gross Foreign Debt (bn USD)	7.80	10.3 (10/97)
Exchange Rate (SK per USD)	31.90	35 (1/98)
Discount Rate	8.8%	8.8% (1/98)
Avg. Interest Rates on New Loans:		
Short-term		20.76% (10/97)
Medium-term		15.78% (10/97)
Long-term		16.46% (10/97)
Avg. Interest Rate on Operating Loans:		21.08% (10/97)
Avg. Interest Rate on Consumer Loans:		8.94% (10/97)
Avg. Interest Rate on Develop. Loans:		17.12% (10/97)
Avg. Interest Rate on Bills of Exchg:		18.48% (10/97)

Source: ING Baring Slovakia, National Bank of Slovakia, Slovak Statistical Office

Opel - Made in Romania?

The expected cooperation between **Daewoo** and **General Motors** may send shock waves through the Romanian automotive industry. Although the final outcome of the negotiations is still uncertain, it looks like the deal may allow for an exchange of stock between the two companies.

The new venture will market products of both companies in the global marketplace using GM and Daewoo distribution channels. GM would thus gain better access to some markets — Southeast Asia and Central and Eastern Europe included — where its presence is rather weak, while Daewoo would get the financial benefits necessary to pursue its goal of becoming a top ten carmaker worldwide, despite the financial turmoil in Asia.

However, marketing may not be the only area of cooperation.

Apparently, an agreement was already reached regarding joint production in Ukraine's **AvtoVaz** factory, taken over by Daewoo in September 1997.

As for Romania, sources within **Daewoo Automobile Romania** said that one of the issues GM is considering is moving some of the production done by its troubled Opel factories from Germany to Daewoo's state-of-the-art facilities in Craiova.

Chances are, 1998 will bring substantial changes to the Romanian automotive industry.

Catalin Dimofte (Bucharest)

Horny Adrspach, in northern Bohemia near the Polish border.

Dr. Thomas Schlick is director of VDO Instruments. The CEAR spoke with him in November 1997 and February 1998.

CEAR: What are your production expansion plans in the Czech Republic?

Schlick: In 1996, we produced 270,000 instrument panels and we're planning to raise that to 550,000 panels by the year 2001. This is booked business. We also plan to raise our production of fuel units from 240,000 units to 450,000 by the year 2001. This is especially for local customers.

CEAR: Can you update us on your new factory?

Schlick: We're building a new facility in Brandys, which is about 10 kilometers north of Prague. We'll move all operations from our current facility to this new facility at the end of February, beginning of March. The construction is running very well. I'm astonished. We're very satisfied, especially with the construction [quality].

"The low labor costs in the Czech Republic have made this a very successful operation. After the start of production in Adrspach, we were competitive with companies in countries such as Spain."

The factory will have 11,000 square meters of space. Our target for employees is 450, up from 250. The total number of employees in country will be about 1,000.

CEAR: Who are VDO's main customers?

Schlick: Our main customer in the Czech Republic is **Skoda**. We are [the only] supplier to Skoda for instrument clusters for the Felicia and Octavia models. That's why we came to the Czech Republic. We are also [the only] supplier of fuel management systems for the Felicia and Octavia.

CEAR: Some suppliers to Skoda have

set up operations in the new Octavia plant. Will VDO to the same?

Schlick: Unfortunately, we didn't get the job. That job went to **Siemens** — Siemens is in the Octavia plant. But we have a small facility in the Felicia plant where [10 VDO employees] assemble instrument panels together with plastic

pumps, we started producing two million units in 1995 and we're planning to increase this to 4.8 million units in 1998. We started with 8 million nozzle units and we'll produce 11 million in 1998.

The low labor costs in the Czech Republic have made this a very success-

VDO Key Numbers

	1994	1995	1996	1997
REVENUE (DM mil.)	9	46	53	85
EMPLOYEES	580	665	730	780

shields and switches, [for delivery] just in time. Plastic parts from VDO and switches from **TRW** are shipped [to the facility] and final assembly takes about one hour.

CEAR: Do you supply any companies other than Skoda?

Schlick: At the moment, we only supply Skoda. But we have an order from **Daewoo Avia**, that's our new customer for light truck instrument panels. We'll start supplying them in 1999.

In the future, we'll also supply **GM** in Poland, beginning with the current Opel Astra instrument panel and fuel level sensor. For this

project, a sampling line is being moved from Germany to the Czech Republic.

We also have an order to supply the instrument panel for the sub-Corsa, mini-car that **GM** and **Suzuki** will produce together. This will start in the year 2000.

We're in the final development stage for all of these new orders.

CEAR: What are your expansion plans for the Adrspach plant?

Schlick: In Adrspach we're assembling windscreen washer systems — nozzles and pumps — for the European auto industry. Everything is for export.

This is a really successful operation. For

ful operation. After the start of production in Adrspach, we were competitive with companies in countries such as Spain.

CEAR: For how long will this labor advantage continue?

Schlick: I don't know exactly. It's very problematic to find a right answer. From my point view, more than ten years, maybe 20.

CEAR: Other than the labor rates, what are the advantages of having your factories set up in the Czech Republic?

Schlick: We're close to our main customer, Skoda, which is very convenient for us. And we're also close to Poland, especially our Adrspach facility.

CEAR: What problems must you contend with at your factories in the Czech Republic?

Schlick: Motivating people. Getting them to think about quality and productivity. Getting them to feel like they are a part of VDO.

You must remember that people here were working for **PAL** for 10 to 15 years and they were really a part of **PAL**. [When we arrived] in 1994, production of the new Felicia model was starting. It was a very complicated time for the people here because we introduced some new tasks — productivity and quality. This was one of our biggest challenges.

One of our main advantages was that we started working with **PAL** at the end of 1991, so VDO wasn't completely new for the people here. We began building new assembly lines here at the end of

1993. And we had a lot of people training in Germany before the privatization of PAL in July 1994. That was one of our main advantages — we worked together here with the people before privatization. But it was still a fight.

CEAR: How do you motivate your employees?

Schlick: One of the keys is getting the people to work together like team. They have to have responsibility for their work. In the past, they didn't always have such responsibility. That's my way to solve the problem — teamwork. And I think it's very successful.

CEAR: What has been your biggest surprise since starting operations in the Czech Republic?

Schlick: My biggest surprise was the structure of the Czech Republic — I was surprised that it was better in terms of infrastructure, streets, and telephones than in eastern Germany.

The history of the Czech Republic and Germany are very close together. So the way of thinking is not so different as it is, say, in Asia, where I know we have more problems than we do here.

CEAR: How have you tackled the quality problem?

Schlick: The first thing that we had to do was install a real quality system so that everyone knew what were the targets for quality. At the beginning of the year, we define our targets for quality and these are visible to every employee. The employee knows what the targets are and what the current situation is. That's our way — open availability of quality targets and quality status.

We define the targets together with the employees. At first, they were disappointed when we asked them for their input. They said, "You are the chief, you must tell us what to do." And I told them, "No, we can discuss it, you must tell me what are the ways so together we can find the right way." It's still in process. They're learning.

CEAR: Are you happy with the amount of help you get from the Czech government? They are renowned for not providing assistance to foreign investors, although they seem to be

changing this philosophy.

Schlick: You can't be happy with the situation because you don't get any help from the government. Nothing. I think in day-to-day business it's not really a problem. But there's really no help for small foreign companies and that's a problem. They are not able to create activities in the Czech Republic. For big companies like VDO or Mannesmann, it's no problem. I think the problem with this country is that they don't realize that smaller companies need help.

CEAR: And that hurts VDO because you need a developed supply base in the local market.

Schlick: We need Czech suppliers. We have some main suppliers here, especially for plastic parts, and we give them a lot of help from here and from VDO in Germany. They are not able to produce quality automotive parts and components on their own. They need a lot of help. We've really helped some special suppliers improve quality and quantity, for free.

CEAR: How else is it difficult doing business with local suppliers?

Schlick: One problem with laws here is that you really don't know if a company has capital or not, and what is the future of the company. It's very, very foggy. So, sometimes I'm afraid to move some parts to a new supplier because I really don't know about the shareholders or the company's credits. Nobody knows. We have to concentrate on those suppliers we really know.

There are just a few good local suppliers, and when they're good they have contracts. They have a lot of business from other companies

CEAR: Why has VDO been so successful in the Czech Republic?

Schlick: One of the reasons is low labor costs. Administrative costs have increased a lot, but production costs are

still very low compared to Germany and even when compared to Spain, France, and England.

CEAR: What must a supplier focus on to stay alive in today's fast-moving automotive market?

Schlick: Quality and productivity. Especially quality. You must deliver worldwide standard quality. You can't give to Skoda any Eastern-type quality. That's one of the main problems for Czech suppliers. For the Felicia model I think 70-

"We were having problems finding new employees but that has changed in the last six months. It's not a problem to find employees - people are coming to us."

80% of the suppliers are from the Czech Republic, whereas for the Octavia only 20% are Czech suppliers. That will really be a big problem when the Felicia [successor model] starts production in 1999. A lot of Czech suppliers are not able to meet high quality standards.

Much is done to help local suppliers, but it's very difficult. One of the main problems is research and development. It's very hard for local suppliers to compete with companies such as Valeo or TRW. The unemployment rate will increase when these local suppliers go under.

CEAR: Are you having any difficulty finding workers for your factories?

Schlick: We were having problems finding new employees but that has changed in the last six months. It's not a problem to find employees — people are coming to us. That's something new.

CEAR: Are these all well qualified, skilled employees?

Schlick: It's a problem finding highly skilled employees — they are mostly [already] working for foreign companies. The people coming to us are from Czech companies and Czech companies don't have the same high-quality workers.

Continued on Page 22

The Russian car manufacturer AO Moskvich specializes in the production of small and medium class vehicles. The company's Deputy CEO for Development, S. Kruglov, spoke at EuroForum's "Automotive Industry of the Former Soviet Union" last November in Moscow. In his speech he described the company's operations and their plans for future development. Edited excerpts of his speech appear below.

AO Moskvich's hatchback (2141) and sedan (2142) models represent a family of inexpensive yet valuable four-door, five seaters used by both individual and fleet [customers] for multiple purposes, such as city taxi cabs or specialty vehicles for government agencies. Based on the hatchback model, a pickup version (2335) was developed and produced.

All of the above models feature front wheel drive with the power plant positioned lengthwise, making it possible to mount four-cylinder engines with a variety of units and design solutions provided by various vendors, including gasoline motors made by **VAZ** (1.6 liter), **UZAM** (1.7 - 1.8 liter), and **Renault F3R** (2.0 liter), and **Ford** diesel engines.

The annual output capacity of the [main plant] in Moscow is 160,000 cars. In order to achieve targets under the new economic conditions, and in order for the production of the above models and related parts to be profitable and competitive, certain requirements are placed on the manufacturer in terms of meeting customers' expectations.

With this in mind, the top priority on AO Moskvich's agenda is to ensure maximum uniformity in the design of the key units and components. Even with the aforesaid variety of engines being used in the Moskvich bodies, all the models feature the same transmission system (including gearbox, main transmission, front wheel drive), steering mechanism,

front and rear suspensions (except for the pickup version), wheel hubs assembly (including bearings), and body fixtures.

Consistent with the above considerations, as well as in conformity with the concept of a Socialist enterprise, the manufacturing of the aforesaid components and parts was concentrated in one giant enterprise -- **Moskvich PO**. However, in the new economic environment, such an excessive concentration [of operations] has hurt production efficiency and profitability.

Therefore, having studied international approaches to specialization in the large-scale production of high quality automobile parts and units, AO Moskvich is now actively engaged in restructuring its production process, relying more heavily on specialized vendors of individual parts and units.

Depending on the situation in each individual case, this restructuring is taking place in a variety of ways. Thus, the production of mufflers has been moved to a specialized plant located in the town of Baksan. AO Moskvich has set up a joint venture with the plant by contributing assets such as specialized equipment.

Another joint venture has been set up with the car components plant in Grodno to produce forward suspension shock-absorbing struts, with AO Moskvich contributing special equipment.

Such units as angular speed equalizing joints, clutches, and vacuum-amplified master brake cylinders are also supplied by specialized vendors -- **GKN, Luk,** and **Lukas**, respectively. The latter is currently considering launching a joint production of master cylinders with **Kineshma Motor Car Components Plant**.

Procurement of components for traveling gears and chassis from specialized suppliers should be viewed as the first step towards the complete restructuring

of AO Moskvich.

Our plans include creating joint ventures for manufacturing seats, panels, instruments, bumpers, and fuel tanks. In doing so, AO Moskvich is ready to provide any necessary special equipment.

For the Moskvich line of cars featuring longitudinal engine positioning, a new technical solution has been found: a simpler four-wheel drive version has been developed that features a modified transmission, independent rear suspension, modified fuel tank, additional gimbal gear, a reduction gear, and rear wheel drive. It would be reasonable to have all of the above units produced by individual, specialized enterprises.

AO Moskvich is currently engaged in a joint development [project] with **AvtoVAZ AO** for a new model for the Moskvich brand. The pilot project involves the design and subsequent large-scale production by AO Moskvich of a number of components, including an amplified rack and pinion steering mechanism which would fit the product of both manufacturers.

The idea behind this project is to improve the design [of the mentioned components] and ultimately set up an independent and highly efficient supplier of the components. Spinning off such specialized suppliers in the near future would set the ground for joint development of the new model.

Our vision of the key role that should be played by **Avtoselkhoz mash Holding, AO** involves setting up spin-offs specializing in mass production of the line of standard-sized components to meet the needs of several automobile manufacturers ■

Beware of New Transfer Pricing Guidelines & Tax Regulations

Czech Republic Tax, Customs, & Finance Update

Jan Zurek, Partner, KPMG, Prague

New transfer pricing guidelines in the Czech Republic revise and compile previous reports by the OECD Committee on Fiscal Affairs that address transfer pricing and other related tax issues with respect to multinational enterprises.

The Czech translation of the Transfer Pricing Guidelines for Multinational Enterprises and Tax (the "Guidelines") prepared by the Tax Commission of the Organization for Economic Co-operation and Development, was officially published on October 10, 1997 in the Financial Bulletin No. 10/1997.

Arm's Length Principle

The arm's length principle — the international transfer pricing standard that OECD Member countries have agreed to — should be used for tax purposes by multinational groups and tax administrations.

The authoritative statement of this is found in the OECD Model Tax Convention on Income and Capital, which forms the basis of the extensive network of bilateral income tax treaties between OECD Member countries and an increasing number of non-member countries.

The Guidelines provide a detailed review of the arm's length principle as the international standard and set forth guidelines for its application in practice.

Moreover, the Guidelines provide a detailed description of *traditional transaction methods* which can be used if the commercial or financial relations of the associated enterprises are not at arm's

length and the price in the uncontrolled transaction needs to be substituted for the price in the controlled transaction.



Jan Zurek

The traditional transaction methods such as the comparable uncontrolled price method, the resale price method, or the cost plus method could be applied for setting the price. The detailed description of these methods provides tax authorities with guidelines on how to proceed, as the Czech Income Taxes Act is very brief with regard to application of the arm's

length principle.

When traditional transaction methods cannot be reliably applied, the Guidelines also provide other methods — e.g. the profit split method or the transactional net margin method (*traditional profit methods*) — that are less frequently applied.

Intangible Property Transactions

In connection with the increasing importance of intangibles, special attention is given to the appropriate

methods under the arm's length principle for establishing transfer pricing for *transactions involving intangible property used in commercial activities, including marketing services.*

Such intangibles may have considerable value even though they may have no book value on the company's balance sheet. It is, however, often difficult to

evaluate the intangible property transactions for tax purposes.

The Guidelines analyze the term "intangible property", which is distinguished by two specific categories:

- *commercial intangibles* - including know-how, patents, designs or models that are used for the production of a good or the provision of a service, as well as the rights to use such industrial assets, etc.; and
- *marketing intangibles* - e.g., trademarks, trade names, customer lists, distribution channels, and unique names, symbols, or pictures that have an important promotional value for the product concerned.

Intra-Group Services

The Guidelines also address transfer pricing issues that arise when determining whether *services have been provided by one member of an multinational group to other members of that group*. In particular, the Guidelines review administrative, technical, financial, and commercial services, which may include management, co-ordination, and control function for whole group. Issues related to establishing arm's length pricing for those intra-group services are also mentioned.

The Guidelines' analysis of transfer pricing for intra-group services concentrates on determining whether intra-group services have been provided, and whether for tax

purposes the intra-group charge for such services is in accordance with the arm's length principle.

Minimizing Transfer Pricing Disputes

Based on the Guidelines, various administrative procedures can be applied

"The new Guidelines provide a detailed review of the arm's length principle as the international standard and set forth guidelines for its application in practice."

Continued on Page 18

New Vehicle Sales By Segment in Hungary

Place Your Web/Print Ad Here. This could be a direct link to your email address, web site, and new business. Your ad appears in the Print Edition, Email Edition and on CEAR.COM™

It's as easy as a mouse click.

cetmads@ibm.net

Passenger cars	1996	Market share in %	1997	Market share in %	Compared to the previous year
Small	15,893	21.38%	19,419	24.33%	122.19%
Lower medium	48,317	65.01%	48,444	60.69%	100.26%
Medium	7,726	10.39%	8,652	10.84%	111.99%
Large	1,021	1.37%	1,211	1.52%	118.61%
Luxury	38	0.05%	58	0.07%	152.63%
Sport	264	0.36%	205	0.26%	77.65%
Off road	888	1.19%	1,207	1.51%	135.92%
Space Wagon (mono cab)	179	0.24%	631	0.79%	352.51%
TOTAL	74,326	100%	79,827	100%	107.40%
Light Commercial Vehicles (<3.5 tons)					
Under 2.5 tons	3,409	28.12%	4,100	24.55%	120.27%
Between 2.5-3.5 tons	8,715	71.88%	12,592	75.39%	144.49%
TOTAL	12,124	100%	16,702	100%	137.76%
Commercial Vehicles From 3.5 tons					
3.5 ton	150	11.61%	144	7.26%	96.00%
3.51-5.0 tons	16	1.24%	308	15.52%	1925.00%
5.01-10.0 tons	252	19.50%	676	34.07%	268.25%
10.01-15.0 tons	99	7.66%	123	6.20%	124.24%
Above 15.01 tons	722	55.88%	706	35.58%	97.78%
Buses	53	4.10%	27	1.36%	50.94%
TOTAL	1,292	100%	1,984	100%	153.56%

Source: MGE; Suzuki

Sales Loss Leaders in Poland (1997)

Passenger Vehicles			Light Commercial Vehicles			Medium Commercial Vehicles		
Make	Units	Change Units '97 v '96	Make	Units	Change Units '97 v '96	Make	Units	Change Units '97 v '96
PF 126	48,437	-11,775	Fiat Cinq. Van	1,556	-5,460	FSC - Zuk	187	-261
FSO - Polonez	50,610	-8,956	FSO Polnez Truck	11,032	-3,328	VW Transporter	214	-184
Tavrija	170	-1,085	Fiat Uno Van	864	-401	Ford Transit	207	-32
Renault 19	0	-758	FSO Polnez Cargo	294	-388	Fiat Ducato	82	-31
Renault Megane	11,168	-713	Ford Escort Van	122	-65	Renault Trafic	38	-18
Lada	299	-681	Fiat Fiorino	31	-64	Merced.Sprinter 2	18	-17
Hyundai Accent	777	-680	Renault Clio Soc.	204	-26	Renault Master	14	-13
Renault Clio	1,853	-296	Peugeot 306 XA	42	-19	LDV	17	-6
Citroen ZX	788	-269						
Volvo 850 Series	0	-245						

Source: SAMAR s.c., Local Manufacturers and Official Importers, ACEA

Manufacturer of driving shafts, steering shafts, steering gears, and spare parts seeks foreign investor

Wieslaw Kosieradzki
PIAST
tel: 48-22-827-8700
fax: 48-22-826-7341
Poland

Manufacturer of centrifugal oil separators, heaters, water and oil coolers for cars & trucks, water pumps for vans, trucks, and ships seeks

foreign investor
Wieslaw Kosieradzki
PIAST
tel: 48-22-827-8700
fax: 48-22-826-7341
Poland

Manufacturer of fuel supply systems for car & van engines, compressors for pneumatic braking systems for cars, buses, & farm tractors, compressor units & pneumatic fittings, & spare parts for compressors seeks foreign

investor
Wieslaw Kosieradzki
PIAST

tel: 48-22-827-8700
fax: 48-22-826-7341
Poland

Manufacturer of hydraulic cylinders, up to 32 bars pressure, 25-160 piston diameter, up to 4,000 mm length, seeks Slovak

Republic commercial cooperation, offers production to order
Jorgen Varkonda
SNAZIR

re:Rerosa s.r.o.
tel: 421-7-5335-175
fax: 421-7-5335-022
Slovak Republic

Manufacturer of exhaust flanges, light welded steel constructions, agricultural machines, and hydraulic components under Sauer

Co. license seeks joint venture partner
Jorgen Varkonda
SNAZIR

re: Topolcianske Strojarne a.s.
tel: 421-7-5335-175
fax: 421-7-5335-022
Slovak Republic

Manufacturer of car & truck air and oil filters

seeks joint venture partner for production, financial, and distribution cooperation. Monthly air filter capacity for cars of 60,000, and 6,000 for trucks
Jorgen Varkonda
SNAZIR

re: Sandrik a.s.
tel: 421-7-5335-175
fax: 421-7-5335-022
Slovak Republic

Manufacturer of pressed parts for cars, press units, electric carriages, and machine tools seeks

commercial or production cooperation
Jorgen Varkonda
SNAZIR

re: BAZ a.s.
tel: 421-7-5335-175
fax: 421-7-5335-022
Slovak Republic

U.S. partner sought for Czech producer of crankshafts (various sizes up to 2500 mm lengths) for purpose of contract manufacturing. Company is supplier to producers of

engines for trucks, tractors, ships, & stationary aggregates. 1996 turnover expected to be \$20 million.
Jan Vesely
IESC
tel: 420-2-2499-3170
fax: 420-2-2499-3176
Czech Republic

Partner sought for producer of diesel injection equipment for

development, production, & sale of single and multi-cylinder in-line injection pumps for all types of diesel engines, as well as for injection systems, testing, measuring, & adjustment equipment. 1995 turnover was \$40 million.

Jan Vesely
IESC
tel: 420-2-2499-3170
fax: 420-2-2499-3176
Czech Republic

Manufacturer of plastic parts for Opel, Mercedes, VW, & Suzuki seeks equity partner who is engaged in plastic processing business \$5 million
Csaba Kilian

re: Pemu
ITDH tel: 36-1-118-0051
fax: 36-1-118-3732
Hungary

Supplier of seats for Suzuki cars & spare parts for Ikarus seeks purchaser.

Company undergoing privatization process.
Csaba Kilian
re: 02/Aut/96
ITDH
tel: 36-1-118-0051
fax: 36-1-118-3732
Hungary

Battery manufacturer seeks joint venture partner for processing used vehicle starter batteries

\$2.1 million
Csaba Kilian
re: Perion
ITDH
tel: 36-1-118-0051
fax: 36-1-118-3732
Hungary

Get the Word Out, Send Us Your News!

Make Sure Your PR & Marketing People See This

Make sure the auto industry hears about your company's activities in Central Europe. Send the CEAR™ your news about:

- recent and projected sales and production figures
- new joint ventures or cooperation agreements
- facility expansion plans (e.g. new equipment, new buildings)
- business expansion plans (e.g. new markets, new products, new supply contracts)
- personnel changes, recent awards, licenses, certifications
- new product news
- upcoming company events (e.g. supplier conferences)

Fax, email, or mail press releases to the CEAR™:

Email: cetmpr@ibm.net

Fax: +1-206-374-5282

Toll Free inside US Fax: (800) 684-3393

Slovak Republic Fax: +421-7-361-085

Post: 4800 Baseline Rd. Suite E104-340, Boulder, CO 80303 USA

**Sell Your Product,
Service, or
Opportunity with
a CEAR™
50 Word Classified
for USD\$100**

**Fax or Email Your Classified.
Include your**

name, phone, and fax.

Tel: +1-440-843-9658

Fax: +1-206-374-5282

Email: CETMLLC@IBM.NET

New Car Registrations Growth in Europe (1997)

Country	1997	1996	% Change
Italy**	2,411,900	1,732,200	39.24
Poland*	477,960	374,612	27.59
Sweden	225,000	183,800	22.42
Ireland**	136,600	115,200	18.58
Greece**	159,500	139,800	14.09
Spain**	1,012,100	910,900	11.11
Finland	104,500	95,800	9.08
U.K.	2,170,700	2,025,500	7.17
Denmark**	150,800	142,400	5.90
Luxembourg	31,300	30,000	4.33
Norway	127,700	125,000	2.16
Netherlands**	478,400	472,000	1.36
Germany**	3,528,200	3,496,300	0.91
Switzerland**	275,100	272,900	0.81
Belgium	396,200	397,400	-0.30
Portugal**	213,400	217,900	-2.07
Austria**	275,800	307,600	-10.34
France	1,713,000	2,132,100	-19.66

*Grey import not included

** Provisional figures

Source: SAMAR, s.c.

Tax, Customs Continued from Page 15

to avoid double taxation and to minimize and help resolve transfer pricing disputes when they arise between taxpayers and their tax administrations, or between different tax administrations. However, to date there is *no experience with their use in the Czech Republic in practice.*

Therefore, we do not expect that instruments such as the Advance Pricing Arrangements — which enable the advance determination of a transfer pricing methodology or conditions for the taxpayer to apply to specified controlled transactions — or the use of simultaneous tax examinations by two (or more) tax administrations to expedite the identification, processing, and resolution of transfer pricing issues, will be practically used in the Czech Republic in the near future.

However, we suppose that the Czech Republic, as an OECD member from December 21, 1995, should apply the OECD Transfer Pricing Guidelines. The Guidelines will serve not only as an aid for Czech tax authorities in applying the arm's length principle, but also to help harmonize Czech legal regulations with EU legislation.

Tax Changes

The Act on Reserves

The amendment of the Act on Reserves

came into effect on January 1, 1998. The changes concern reserves for repairs of tangible assets and provisions against receivables.

Provisions against receivables from debtors under bankruptcy or composition proceedings are tax deductible if the receivables are claimed to the court within a fixed time limit.

The Czech National Bank issued a directive concerning the creation of adjustments to loans. According to the directive, in some cases the creation of adjustments differ from those mentioned in the Act on Reserves. However, the Act on Reserves is decisive for tax purposes, as the directive of the Czech National Bank only determines how adjustments are created for Czech National Bank reporting purposes.

Criminal Code Addresses Violations of Tax Law

The amendment of the Criminal Code came into effect on January 1, 1998. The amendment addresses consequences for non-compliance with the tax law. Among other things, amendments pertain to unpaid tax, social and health insurance, state employment policy premiums, and some obligations of taxpayers in tax proceedings (for example the obligation to announce the conclusion of a contract that could effect the creation of the permanent establishment of a foreign company)■

Highlights Continued from Page 4

Slovakia Hikes Import Charges On Used Vehicle

In 1998, the charge assessed on used cars imported into Slovakia jumped ten-fold. Under a new law, the charge for importing used cars ranges from SK 10,000 (\$285) per car for cars up to 3 years old, to SK 50,000 (\$1,428) for cars more than 6 years old. Some 200 used car importers protested the law by blocking traffic for 15 minutes in the Trencin region of Slovakia.

Slovenia

New Car Sales Flat In Slovenia

New car sales in Slovenia grew only slightly in 1997 to 60,754 units, up from 60,139 units in 1996. Competition took its toll on market leader **Renault**. Although the company retained its number one position, its sales volume dropped 17.8% to 12,870 units, for a market share of 21.18%. **Volkswagen** occupied the number two slot with 7,337 units sold, up 4.8%. VW's market share topped 12%.

Big sales leaps were enjoyed by number three **Fiat**, who's sales grew by 35.6% to 5,356 units (8.82% market share), and **Skoda**, who watched sales jump 23.6% to 4,220 units, capturing it a market share of 6.95%.

International

New President at UT Automotive Europe

In January, **UT Automotive** announced the appointment of Volker Heuzeroth as president of **UT Automotive – Europe**, succeeding Richard Sloan. Heuzeroth joined UT Automotive in 1993 as managing director, Central Europe, and was named senior vice president, Europe, in 1995.

UT Automotive – Europe has factories throughout Europe, including facilities in Hungary and Poland ■

Research Request and Survey Form. A Service to the Readers of the CEAR™.
Please send in requests for research (Question #4) so that we can provide the information in future issues.

1. What sections of the CEAR™ do you find most useful? Rank each on a scale of 1 to 5, with a rating of 1 meaning Very Useful, and a rating of 5 meaning Not Useful.

- | | |
|----------------------------|---------------------------|
| Feature Country..... | Data Tables..... |
| Profile Interview..... | Supplier Lists..... |
| Legal Advisor..... | Focus on Investment..... |
| Opportunity Spotlight..... | Accounting & Finance..... |
| Calendar..... | Russia/CIS Watch..... |
| Advertisements..... | |

2. Which Central Europe markets do you find most interesting? Rank them in order of interest, with 1 being Most Interesting and 10 being Least Interesting.

- | | |
|---------------------|----------------------|
| Bulgaria..... | CIS..... |
| Czech Republic..... | Hungary..... |
| Poland..... | Romania..... |
| Russia..... | Slovak Republic..... |
| Slovenia..... | Ukraine..... |
| Other..... | |

3. Name your two most important print or information sources for both news and automotive information covering Central Europe?

- General News:
- | | |
|----|----|
| 1. | 2. |
|----|----|
- Automotive Information:
- | | |
|----|----|
| 1. | 2. |
|----|----|

4. What information or research would you like to see in the CEAR™?

5. The Annual Subscription Rate for the Standard Edition of the CEAR(TM) is US\$500 for 11 Issues. This rate is, place an X next to your choice:

-Reasonable For Its Coverage
.....Too High For Its Coverage

6. On average, how many people other than yourself will read your CEAR(TM) issue?

7. I would not subscribe to the CEAR(TM) because:

Thank you for your help.

Name(optional):.....

RETURN THIS SURVEY BY FAX, EMAIL REPLY OR MAIL TO:

CENTRAL EUROPE AUTOMOTIVE REPORT™
4800 Baseline Rd. Suite E104-340
Boulder, Colorado 80303 USA
Tel: +1-440-843-9658
Fax: +1-206-374-5282
Email: cetmpr@ibm.net

MAR98

1997 Car Production at Revoz/Renault Plant in Slovenia

Month	Clio	Clio II	Total	Production Exports	Domestic Sales (local production)	Domestic Sales (import cars/ LCVs)
Jan-97	6,841		6,841	6,466	375	684
Feb-97	6,644		6,644	6,295	349	1,290
Mar-97	7,639		7,639	7,212	427	953
Apr-97	9,996		9,996	9,418	578	1,009
May-97	9,638		9,638	8,824	814	1,436
Jun-97	9,848		9,848	9,004	844	1,161
Jul-97	10,715		10,715	9,791	924	1,766
Aug-97	1,179		1,179	1,085	94	752
Sep-97	9,082		9,082	8,216	866	1,211
Oct-97	8,787		8,787	8,108	679	1,278
Nov-97	8,519		8,519	8,196	323	1,058
Dec-97	7,063	5	7,068	6,789	274	1,112
TOTAL	95,951	5	95,956	89,404	6,547	13,710

Source: Revoz/Renault

CE or Similar Foreign Certificates

CE or similar foreign certificates do not relieve the producer or importer of Specified Products from the duty to assess the conformity of the Specified Products to the requirements specified in the relevant Decrees or, if the relevant Decree so requires, from the duty to use so-called "authorized persons" to carry out such assessment (see discussion below). "Authorized persons" may, in their discretion, recognize foreign certificates and foreign tests.

Fines

Failure by a producer or an importer to comply with the duties outlined above could result in a fine of up to CZK 20,000,000 by the Czech Trade Inspection.

Duties Relating to All Products (Including Specified Products)

Generally, only "safe" products may be introduced into the Czech market. A safe product is deemed to be a product which:

- (a) conforms to the relevant technical regulations which are issued by the relevant state authorities, including any

relevant Decrees; or

- (b) if there is no such technical regulation, conforms to the (i) requirements of the relevant norms or (ii) scientific and technical knowledge existing at the time the product is introduced onto the market.

Distributors may not distribute any products which they know (or should know based on their experience or on information available to them) do not comply with the aforementioned safety requirements. Consumers must be informed of means to lower possible risks in those cases where such means would not be apparent without such information.

Generally, any potentially unsafe product must be easily recognizable as such by a consumer/user.

In the event that a user of a product is injured as a result of a breach of any safety requirements, the producer, importer, or distributor shall be liable for the consequences as specified in the relevant Czech legislation (e.g., Civil Code, Customer Protection Act).

• Steps that should be taken by Producers, Importers, and Distributors of Products

First, it will be necessary to determine whether the imported products fall within the list of Specified Products under the Decrees. Depending on the results of such determination, the following options are generally available:

- (a) If the imported products do not fall within the definition of Specified Products and if they are safe, they may be imported into the Czech Republic without the need to carry out the Assessment of Conformity and the need to issue a Declaration of Conformity. Please note, however, that certain norms (approximately 300) must be complied with until December 31, 1999.

- (b) If the imported products fall within the definition of Specified Products, an Assessment of Conformity followed by the issuance of a Declaration of Conformity are obligatory and, if a Specified Product falls within the scope of more than one Decree, all of them must be complied with.

After the Assessment of Conformity has been carried out, the Declaration of Conformity may be issued ■

Exhibitions, Conferences, and Shows in 1998

1998			
Mar. 5-15	Geneva, Switzerland Int'l Motor Show	Sept. 15-20	Nitra, Slovakia Autosalon Nitra
April 11-19	New York, NY Int'l Auto Show	Sept. 15-20	Frankfurt, Germany Automechanika
April 15-19	Tallinn, Estonia Tallinn Auto Show	Sept. 27-Oct. 1	Paris, France FISITA Congress
April 18-26	Ljubljana, Slovenia Slovenian Motor Show	Sept. 29-Oct. 4	Budapest, Hungary Autotechnika
April 24-May 3	Turin, Italy International Auto Show	Oct. 1-11	Paris, France Int'l Paris Motor Show
April 25-27	Toronto, Ontario Canadian Int'l Automotive Aftermarket Show	Oct. 6-8	Detroit, MI Global Powertrain Congress
April 25-30	Poznan, Poland Int'l Fair of Auto Industry	Oct. 8-12	Ho Chi Minh City, Vietnam Auto Vietnam 98
April 27-29	Singapore, Singapore Automechanika Asia	Oct. 21-Nov. 1	Birmingham, UK Int'l Motor Show
May 12-14	Detroit, MI SAE Int'l Automotive Manufacturing Conference & Exhib.	Oct. 29-Nov. 1	Istanbul, Turkey Commercial Vehicles 98
May 12-14	Goteburg, Sweden Vehicle Industry Suppliers and Buyers Expos	Oct. 29-Nov. 8	Sao Paulo, Brazil Brazil Int'l Automobile Trade Show
May 29-June 7	Porto, Portugal Auto Show	Nov. 12-15	Cairo, Egypt Cairo Motor Show
June 3-14	Buenos Aires, Argentina Auto Show	Nov. 17-21	Sofia, Bulgaria Bulgaria Int'l Specialized Tradeshow
June 6-11	Brno, Czech Republic AutoTec	Nov. 27-Dec. 6	Essen, Germany Essen Motor Show
June 11-17	Beijing, China Auto China '98		
June 22-27	Kiev, Ukraine Auto Show		
June 24-28	Rio de Janeiro, Brazil Auto Brazil 98		
Sept. 5-13	Hannover, Germany Int'l Motorshow for Commercial Vehicles		

For more information, please contact the CEAR™. To list Contact Information for your show contact Tel: +1-440-843-9658, Fax: +1-206-374-5282, or Email: cetmlc@ibm.net

IMTESO

Components: filters, air suspension, brakes
Ing. Milos Ptacek
Director
Tel: +420-2-581-4413
Fax: +420-2-581-3121

IVACAR SERVICE

Commercial vehicle superstructures (insulated, temperature controlled, freezer), platform trucks, special superstructures for all makes of CVs
Ing. Frantisek Dostal
Director
Tel: +420-502-921-156
Fax: +420-502-921-240

ITT AUTOMOTIVE

Components: ATE (brake, clutch actuating), SWF (electrical wipers, motors, switches), KONI (shock absorbers)
Peter Philipp
Executive
Tel: +420-2-232-1968
Fax: +420-2-232-2433

JAWA

Motorcycles, parts, and accessories, metal and plastic components
Ing. Josef Mrva
Managing Director
Tel: +420-301-901-444
Fax: +420-301-901-500

JIHOSTROJ

Development, manufacture, sales, and service of hydraulic elements and units for motor vehicles, oil gear pumps, hydraulic jacks, aircraft parts
Jiri Gerle
Managing Director
Tel: +420-336-715-05
Fax: +420-336-711-81

KAROSA

Buses, coaches, spare parts
Ing. Rudolf Cerny
Managing Director
Tel: +420-468-521-188
Fax: +420-468-216-48

KARSIT

Metal frames for car seats, metal and plastic parts, surface treatment, vacuum plastic molding, mechanical and hydraulic pressing.
Frantisek Ripa
General Manager
Tel: +420-442-2645
Fax: +420-442-2481

KDYNIMUM

Precision castings (wax smelttable models)
Josef Sustek
Managing Director
Tel: +420-189-915-101
Fax: +420-189-915-115

KNORR-AUTOBRZDY

Brake systems for commercial vehicles
Hans G. Ruckriegel
Executive
Tel: +420-427-933-31
Fax: +420-427-933-36

KOSTAL CR

Electrical/electronic components & equipment
Dr. Jan Dressler
Executive
Tel: +420-316-512-078
Fax: +420-316-514-416

KOGEL

Commercial vehicle superstructures (temp. cooled)
Ing. Petr Kalcev
Chairman
Tel: n/a
Fax: +420-2-242-510-69

LUCAS AUTOBRZDY

Car brakes and their parts
Michael Charlton
General Manager
Tel: +420-428-872-44
Fax: +420-428-237-85

MAGNETON

Vehicle electrical equipment (alternators, starters, distributors, ignition coils, wiring systems)
Ing. Miroslav Ostadal
Managing Director
Tel: +420-634-331-238
Fax: +420-634-442-101

MANN FILTR JIPAP

Paper filter cartridges for air, oil, fuel, and body interior filters
Ing. Ota Mudrak
Director
Tel: +420-618-954-46
Fax: +420-618-954-45

MARS SVRATKA

LCV & tractor seats, surface treatment, pressing, welding
Jiri Netolicky
Managing Director
Tel: +420-616-66-24-92
Fax: +420-616-23-27

MATADOR PRAHA

Representation of Matador Slovakia (tires)
Ing. Jaroslav Gabriz
Director
Tel: +420-2-660-370-79
Fax: +420-2-660-370-79

METAL

Light alloy pistons OD 20-300 mm, castings
Jiri Aster
Chairman
Tel: +420-47-562-0598
Fax: +420-47-562-0455

METALIS

Water pumps for car engines, AI pressure die castings, trimming tools

Ing. Vaclav Spatenka
Director
Tel: +420-17-382-5451
Fax: +420-17-382-5458

MOTOKOV

Import/export, advertising agency services, official importer of JAGUAR and HYUNDAI cars
JUDr. Rene Kraus
Managing Director
Tel: +420-2-611-411-11
Fax: +420-2-612-11316

MOTOR JIKOV

Petrol fuel system components, small motorcycles, light agricultural machinery, small engines, castings
Ing. Frantisek Losek
Chairman
Tel: +420-38-770-0911
Fax: +420-38-731-1764

MOTORPAL

Diesel injection equipment /injection pumps, speed governors, couplings, injection advance devices, fuel feed pumps
Ing. Frantisek Kovar
Chairman
Tel: +420-66-713-2464
Fax: +420-66-713-2272

MTX RS

Sport and special cars
Ing. Petr Bold
Managing Director
Tel: +420-2-667-108-02
Fax: +420-2-800-734

ORLICAN

Temperature controlled vehicles - semitrailers, trailers and trucks, superstructures
Ing. Petr Marec
Director
Tel: +420-468-952
Fax: +420-468-972-488

Place Your Web/Print Ad Here.
This could be a direct link to your email address, web site, and new business.
Your ad appears in the Print Edition, Email Edition and on
CEAR.COM™
It's as easy as a mouse click.
cetmads@ibm.net

Too Much Info for the Print Edition. CEAR™ Email Subscribers got:

1. Sales of New Cars and Commercial Vehicles in Poland - Data Table
2. This issue including the extra information listed above delivered to their desk on February 25th.

Get what you missed, and get it early by switching to the Email Edition. Email us at cetmpr@ibm.net and we will set you up.

Passenger Car & Jeep Sales in Hungary

Source:MGE

Profile Continued from Page 13

Brand	1996	Market share in %	1997	Market share in %	Compared previous year
ALFA ROMEO	297	0.40%	209	0.26%	70.4%
ALEKO	51	0.07%		0.00%	0.0%
AUDI	700	0.94%	1,066	1.34%	152.3%
BMW	195	0.26%	312	0.39%	160.0%
CHRYSLER	301	0.40%	227	0.28%	75.4%
CITROEN	713	0.96%	1,371	1.72%	192.3%
DACIA	101	0.14%	15	0.02%	14.9%
DAEWOO	6,569	8.84%	7,104	8.90%	108.1%
DAIHATSU	1	0.00%	2	0.00%	200.0%
FIAT	4,910	6.61%	3,951	4.95%	80.5%
FORD	5,151	6.93%	7,081	8.87%	137.5%
HONDA	1,098	1.48%	1,872	2.35%	170.5%
HYUNDAI	715	0.96%	180	0.23%	25.2%
KIA		0.00%	134	0.17%	
LADA	2,646	3.56%	528	0.66%	20.0%
LANCIA	12	0.02%	71	0.09%	591.7%
LAND-ROVER	17	0.02%	21	0.03%	123.5%
MASERATI	3	0.00%	1	0.00%	33.3%
MAZDA	628	0.84%	625	0.78%	99.5%
MERCEDES	170	0.23%	248	0.31%	145.9%
MITSUBISHI	964	1.30%	1,107	1.39%	114.8%
NISSAN	712	0.96%	1,442	1.81%	202.5%
OPEL	15,581	20.96%	12,950	16.22%	83.1%
PEUGEOT	1,871	2.52%	2,535	3.18%	135.5%
PROTON		0.00%	30	0.04%	
RENAULT	5,135	6.91%	4,803	6.02%	93.5%
ROVER	205	0.28%	281	0.35%	137.1%
SAAB	102	0.14%	117	0.15%	114.7%
SEAT	1,710	2.30%	1,979	2.48%	115.7%
SKODA	2,131	2.87%	2,828	3.54%	132.7%
SSANGYONG	173	0.23%	179	0.22%	103.5%
SUBARU		0.00%	44	0.06%	
SUZUKI	14,013	18.85%	16,040	20.09%	114.5%
TAVRIA	63	0.08%	2	0.00%	3.2%
TOYOTA	1,671	2.25%	2,109	2.64%	126.2%
VOLKSWAGEN	5,399	7.26%	7,752	9.71%	143.6%
VOLVO	318	0.43%	611	0.77%	192.1%
Total	74,326	100%	79,827	100%	107.4%

CEAR: What's needed to improve the business conditions in the Czech Republic?

Schlick: Inflation reduction. The tax system is very inflexible. I'm not 100% sure about what the government is doing to improve things. From my point of view, the situation is more serious than they realize. I think a lot of things must still be improved.

Borders are also a problem. [Crossing] the border sometimes takes a full day. Border administration takes a lot of time and [manpower]. It's very complicated.

CEAR: Do you plan to use your facilities in the Czech Republic to supply customers further to the East, such as in Russia?

Schlick: VDO has a company in Russia and I think that was the right thing to do because Russia is so far away. We're helping them with logistics and with building the company, but in the case of Russia, you have to be there. We're responsible only for the Czech Republic, Poland, Hungary, Slovakia, and Romania

FUTURE ISSUES

Getting To Know The Daewoo Automotive Components Group

Regional Special Report: Auto Marketing & Advertising

Poland Sales and Production Statistics

5 Questions With Skoda's Detlef Wittig

Slovak Car Park Analysis

Wiring Harness Review

Slovak Tax & Legislative Update

Interview With Ford Bank Polska

THIS IS A SPECIAL NEWS BULLETIN FROM:

AutoNewsFastTM



Special Central Europe Automotive Industry Email News Bulletin Service Teams Up With The CEARTM Analyst Edition

Begin Bulletin

The AutoNewsFastTM Special Automotive Industry Email News Bulletin Service sends you weekly email bulletins that keep you on top of what's happening in the Central Europe Automotive Industry. And now AutoNewsFastTM is teamed up with the CENTRAL EUROPE AUTOMOTIVE REPORTTM. When you subscribe to AutoNewsFastTM you also receive by email, the special Analyst Edition of the CENTRAL EUROPE AUTOMOTIVE REPORTTM. The CEARTM Analyst Edition alone is a USD\$900 value.

Automotive Market Highlights and News Stories as they come in, information from CENTRAL EUROPE AUTOMOTIVE REPORTTM columns before they are published, reliable auto industry rumors, automotive sales and production figures, tips, information from or about automotive conferences, previews of upcoming stories in the CEARTM, and interview excerpts. Informative and Fast. AutoNewsFastTM on your computer every Monday morning. Need a Competitive Edge in Central Europe? Don't Be Left Behind. AutoNewsFastTM keeps you ahead of the competition! Don't miss another week of news. Fax this Order Form today, and mail your personal, business, or bank check or wire tomorrow.

****End Bulletin****

AutoNewsFastTM Order Form

Name: _____ Title: _____
Company: _____ Business Activity: _____
Street Address: _____ City: _____
State: _____ Zip/Post Code: _____
Country: _____ Email Address: _____
Telephone: _____ Fax: _____

One Year Subscription - Delivered Weekly to your email address.

Send Me a One Year Subscription to **AutoNewsFastTM**, including the **Email Analyst Edition** of the **CENTRAL EUROPE AUTOMOTIVE REPORTTM**. That's 49 weekly reports, 11 issues, and 11 mid-issue reports for **USD\$1,850**

Payment Options and Information:

I will Wire Funds I will Mail a Check

Payment due in US Dollars or equivalent Canadian Dollars, British Pounds, German Marks, French Francs, Austrian Schillings, or Japanese Yen. We accept Personal, Company, or Bank Checks drawn on US, Canadian, UK, German, French, Austrian, or Japanese Banks payable to "Central European Trade & Marketing, L.L.C." or wire funds to Colorado National Bank, 1600 28th St., Boulder, CO 80306 USA, Bank Routing #102000021, for Central European Trade & Marketing, L.L.C. Account #194311741285. Subscriber, Customer, or Agency is responsible for any wire fee.

Fax, Mail or Email Your Order and Mail Your Check To:
CENTRAL EUROPE AUTOMOTIVE REPORTTM for **AutoNewsFastTM**
4800 Baseline Rd. Suite E104-340, Boulder, Colorado 80303 USA
Tel: +1-440-843-9658 Fax: +1-206-374-5282 Email: cetmlc@ibm.net

BAT & SKODA ELCAR Team Up

Develop Electric & Super-Efficient Vehicles for the 21st Century

New Product Review

Jumping on the environmental and electric vehicle bandwagon, the US-based **Battery Automated Transportation (BAT) International**, and the Czech **SKODA ELCAR** have signed a letter of intent to develop electric and super-efficient vehicles.

BAT and SKODA ELCAR have agreed to a set of cooperative activities to develop and produce super-efficient vehicles for the world market. The two companies were brought together by **Lockheed Martin** as part of its industrial cooperation or "offset" activities in the Czech Republic.

"SKODA's ELCAR advanced vehicle program is truly 21st-century transportation," said Joseph LaStella, president of BAT. "It incorporates lightweight body materials, bonded to a strong space-age steel tube frame for composite strength. The vehicles are built for safety, ecology, and corrosion resistance."

The lightweight vehicles produced by SKODA ELCAR, a part of the **SKODA Pilsen Group** (unrelated to SKODA

Auto), will use engine and electric/hybrid electric drive systems supplied by BAT.

"As a result of cutting-edge engine and electric/hybrid electric drive systems provided by BAT, SKODA ELCAR will be able to compete aggressively throughout Europe and other global markets," said Karl Kleinmond, managing director of SKODA ELCAR.

BAT to Provide New Technologies and Systems: 100 Miles to the Gallon?

Pursuant to the agreement, BAT will provide SKODA ELCAR with long-life, low-cost nickel metal hydride batteries for electric and hybrid electric vehicles. By combining fiber nickel electrode technology with BAT proprietary SEALER technology, SKODA can use batteries that last more than 12 years, with zero maintenance and a life-cycle cost of approximately CZK .85 per kilometer (4 cents per mile).

Engine technology supplied by BAT is also expected to extend the range of an electric vehicle to 480-500 kilometers (300-312 miles). According to BAT,

their electric and hybrid electric systems are designed to meet high efficiency goals, long drive system life, and stringent safety standards.

BAT will also provide engine technology to SKODA ELCAR that can reportedly improve vehicle fuel efficiency in an internal combustion engine by approximately 40%, resulting in a fuel economy of approximately 33 kilometers per liter (100 miles/gallon).

"Lockheed Martin and BAT will provide assistance in seeking strategic partners, customers, and funding to expand vehicle manufacturing activities," said BAT's LaStella. "The combination of advanced technology, strategic partnerships, and international financing will place SKODA ELCAR in an important position as an advanced transportation technology leader."

Send New Product Info to CEAR™

Email: cetmpr@ibm.net

Fax: +1-206-374-5282

Post: 4800 Baseline Rd., E104-340, Boulder, CO 80303 USA

Polish Vehicle Market Segmentation (1997)

Passenger Cars & Commercial Vehicles

Segment	YEARLY SALES (Units)		CHANGE %	MARKET SHARE (%)		SALES IN DECEMBER	
	1997	1996		1997	1996	1997	1996
1. Segment A	145,667	124,213	17.27	30.48	33.16	10,321	7,839
2. Segment B	115,370	82,991	39.02	24.14	22.15	8,693	5,130
3. Segment C	166,205	139,354	19.27	34.77	37.20	14,085	11,010
4. Segment C/D	42,825	24,839	72.41	8.96	6.63	2,905	840
5. Segment D/E	2,416	1,231	96.26	0.51	0.33	226	35
6. Segment F	202	111	81.98	0.04	0.03	5	4
7. Segment S	1,312	751	74.70	0.27	0.20	66	5
8. Segment MPV	3,159	445	609.89	0.66	0.12	250	48
9. Segment 4WD	804	677	18.76	0.17	0.18	96	69
Total Passenger Cars	477,960	374,612	18.76	100.00	100.00	36,647	24,980
9. Light Comm. Seg.	26,087	29,770	-12.37	47.17	58.61	2,225	3,730
10. Medium Comm. Seg.	29,216	21,023	38.97	52.83	41.39	3,030	2,536
Total Comm. Vehicles	55,303	50,793	0.00	100.00	100.00	5,255	6,266

Source: SAMAR s.c., Local Manufacturers and Official Importers, ACEA

CEAR™ Extra Data For PDF Edition

This Data did not fit in the Print Edition, but it is made available to PDF email subscribers

Sales of New Cars and Commercial Vehicles in Poland (1997)

	1992	1993	Sales (Units)			January - December		% Change
			1994	1995	1996	1997	1996	
Passenger Cars								
Local Production	144,748	170,549	199,724	206,284	260,265	337,467	260,265	29.66
Import	54,531	71,059	50,558	58,754	114,347	140,493	114,347	22.87
Total	199,279	241,608	250,282	265,038	374,612	477,960	374,612	27.59
Commercial Vehicles								
Local Production	19,665	18,475	21,413	27,984	43,015	43,086	43,207	-0.28
Import	3,250	5,497	2,542	3,962	7,778	12,217	7,586	61.05
Total	22,915	23,972	23,955	31,946	50,793	55,303	50,793	8.88

Source: SAMAR, s.c.

Place Your Internet/Print Ad Here.

**This could be a direct link to your email address, web site,
and new business.**

Your ad appears in the Print Edition, Email Edition and on [CEAR.COM](http://www.pear.com)™

It's as easy as a mouse click cetmads@ibm.net