

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™

April 1998

On The Web at <http://www.pear.com>™

Volume III, Issue 4

ISSN 1088-1123

Regional Market Highlights

Summary

- Hyundai Secures Position in Poland
- VW Bratislava to Produce Polo
- New Car Sales Growth Drops in Poland
- Isuzu's Polish Project on Track
- Magneti Marelli Eyeing Starter & Alternator Production in Poland
- GMAC in Czech Republic
- Ford Ka to be Assembled in Poland
- Continental Increases Stake in Barum
- Toyota to Visit Aro in Romania

Poland

Zasada Signs Agreement With

In This Issue

Feature Country: Slovak Republic

- Advertising & Marketing Review: p. 5
- Road Tax Anyone? Update on Slovakia's: p. 6
- Warsaw Auto Conference Draws Big Crowd: p. 9
- Fiat Responds to Challenges in A-class: p. 10
- Quality — Pursuing Total Quality: p. 11
- Russia's Components Sector Strategy: p. 14
- Slovak Tax & Customs Review: p. 15
- Getting to Know the Daewoo Auto Components Group: p. 16
- The Purchasing Manager's View: p. 9
- New Product Review — Modular Overhead System: p. 22
- Romania's Aro Won't Quit: p. 24

Extra Email Subscriber Data: pp. 25,26

Government for Hyundai Assembly in Poland

On March 2, the Ministry of Economy announced that on February 28, **Sobieslaw Zasada Centrum** signed with the ministry an agreement concerning production of Hyundai passenger cars.

Signing the agreement, however, does not mean that Zasada will automatically receive permission to import parts for assembly — the company must proceed with an investment plan. Unofficially, this may be a CKD factory for the Atos model in Starachowice valued at DM 120 million or DM 220 million, according to different sources.

According to J.B. Park, Warsaw-based **Hyundai Corporation** representative, Hyundai will first have to register a joint venture company with Zasada. According to ministry officials, the agreement clearly states that if there is no progress in investment, Zasada will have to pay custom duties on any parts imported to Poland.

The daily **Gazeta Wyborcza** wrote in its March 3 edition that Zasada will assemble Hyundai's Accent, Lantra, Sonata, and possibly the Atos in its factory in Glowno, totaling some 12,000 units by the end of this year.

New Car Sales Growth Rate in Poland Drops in January

New car registrations in Poland grew by only 1.98% in January, according to figures released by **Samar**. The lower growth was primarily due to a 48% drop in sales of

Continued on Page 2

Profile

Slovak Republic

Sachs Chief Plays for First Place in Slovakia

Boosting Sales and Battling Borders

*Peter Doll's goal is simple — to be number one. A second place finish doesn't even register on his success radar. Doll came to Slovakia three years ago to run **Sachs Trnava**, a clutch manufacturing joint venture formed in 1993 between **Mannesmann Sachs AG** and the Slovak company **TAZ**. His original goal of building the company up to 500 employees and 100 million DM in sales looks like it*

will be realized in two years. By the year 2002, Doll expects both of those figures to double again.

*Yearly production at the Sachs factory includes 600,000 passenger car clutches, 50,000 truck clutches, and 30,000 torque converters. About 95% of the company's production is exported to Western Europe, with the remaining 5% sold in Slovakia and the Czech Republic. Sachs counts among its major customers **Volkswagen-Skoda**, **Volvo**, and **ZF**. Since August 1996, Sachs Trnava has been 100% owned by*

Continued on Page 12



Peter Doll



April 1998

Volume III, Issue 4, 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
Pavol Varga, Bratislava
Bostjan Okorn, Ljubljana

March Columnists

Eva Fricova & Roman Hoferek, *Coopers & Lybrand*
Ray Barker, *Avon Rubber*
Heather Steinwedel, *Deloitte & Touche*

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 and USD\$900 for the Analyst Edition.

Business, Editorial, Subscription, Advertising, Market Research, Delivery Problem Inquiries to:

CENTRAL EUROPE AUTOMOTIVE REPORT™

Business and Circulation Office

4800 Baseline Rd., Suite E104-340

Boulder, CO 80303 USA

Tel: +1-440-843-9658 Fax: +1-206-374-5282

Email: cetmlc@ibm.net

Bratislava • Bucharest • Budapest • Cleveland
Ljubljana • Prague • Warsaw

Highlights Continued from Page 1

imported cars. Sales of commercial vehicles were also down during the first month of 1998. Total commercial vehicle sales dropped 11.39%.

Isuzu On Schedule In Poland

According to **Isuzu Motors Polska** president Hisaomi Sasaki, Isuzu's diesel engine plant under construction in Tychy, Poland is "progressing as scheduled." Isuzu has invested some DM 100 million into its new plant, which will have a production capacity of 300,000 units a year. The plant is expected to come on line in June, 1999.

"We will source components in Europe, not Japan," Sasaki told automotive executives attending the recent **EuroForum** automotive industry conference in Warsaw. "All potential suppliers able to meet the selection criteria will be invited to study and propose products."

In March and April of this year, about 50 future employees at the new plant will be sent to Japan for training.

New Assembly Regulations Ready Next Year In Poland

According to Marek Wejtko, director of multilateral integration at the **Polish Ministry of Economy**, new regulations governing the assembly of vehicles in Poland are being developed and will be out by early next year. Poland is trying to correct its liberal rules governing industrial assembly.

"By the beginning of next year, we'll have a complex solution to the assembly problem," said Wejtko. The new rules are meant to discourage simple SKD assembly. As a temporary solution, Poland recently introduced licenses for the duty-free import of parts for the industrial assembly of passenger vehicles.

Magneti Marelli Poland May Produce Starters & Alternators in Poland

According to **Magneti Marelli Poland** General Director Augusto Riggi, the company is studying the possibility of

producing starters and alternators in Poland. Magneti Marelli's current product range in Poland, where it employs 1,200 workers, includes instrument clusters, thermal systems, intake manifolds, exhaust systems, dashboard panels, and lubricants.

Total turnover of the company in 1997 was about \$100 million.

New Factories in the Walbrzych Special Zone

In February, **Petri Polska, Grossmann Polska, and BTR Automotive** received permits to operate in the Walbrzych special economic zone. According to **Rzeczpospolita** daily, Petri has purchased a 4.4-hectare lot and plans to invest PZL 25 million (\$7 million) in a factory for plastic accessory production. The company's product range will include door elements for the Opel Astra that will be made at the nearby **General Motors** factory in Gliwice. Jaroslaw Szymanski, Petri's director for production, says production will begin in June and the factory will employ 350 people.

Grossmann Polska intends to spend PZL 6 million to build a factory for manufacturing components for car interior finishing, such as leather and plastic-coated elements. The company expects to employ 150 workers.

BTR Automotive's operations in the Walbrzych zone will involve investment of PZL 22 million for the production of rubber tubes for cooling and air-conditioning systems. Some 300 employees will work at the new factory.

Daewoo Increases Capital at Andoria

Daewoo Heavy Industry plans to raise some \$30 million through a new share issue for the **Andoria Diesel Engine Factory**. Daewoo currently holds 40% of Andoria's shares. By the end of 1997, the Koreans had invested \$6.2 million in

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

Quality Series - information on improving supplier quality in the region

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

Bratislava • Bucharest • Budapest • Cleveland • Ljubljana • Prague • Warsaw

Andoria. This year's investments are estimated at \$20.7 million. Andoria's main customer is the **Daewoo Motor Polska** plant in Lublin.

Propane-Butane Cars in Poland

According to Ryszard Beszterda of the **Polish Liquefied Gas Organization**, about 310,000 cars in Poland are powered by propane-butane gas, which amounts to about 3% of the total of 8.5 million registered vehicles. The estimated cost of running an LPG car is 40% lower than that of a gasoline-powered car.

Ford Ka to be Assembled in Poland

Ford, which has been assembling Transit delivery vans and Escorts in Plonsk for two years now, and Fiestas since last fall, is planning to assemble the small Ka in Poland as well. The decision was taken after Ford sold 2,790 Ka cars in Poland last year.

Joanna Chudyba-Hudson, press spokeswoman for **Ford Distribution**, said that it is difficult to say right now how many cars will be brought in for assembly. Finished, painted bodies will be supplied from Spain.

Peugeot Takes to the Airfield

TransPoland plans to set up storage space for **Peugeot** on 30 hectares of the former Soviet military airfield near Brzeg (Opole province). After arriving by rail, cars would be de-conserved at the airfield and sent on to dealers throughout Poland by road transport.

Czech Republic

Czech Government Preparing Incentive Package for Investors

The Czech Republic is in the process of creating an incentives package which may affect any company investing more than \$10 million in the Czech Republic. Included will be tax deferrals and credits, re-training and job creation grants, and VAT deferral on hi-tech equipment imports. The new package may be approved by the Czech government by

the end of March.

Continental Group Increased Stake in Barum

A 24% stake in **Barum Continental Otrokovice**, the Czech Republic's biggest tire producer, will be bought by the **Continental** group from the **European Bank for Reconstruction and Development (EBRD)**, reported the Czech press agency, **CTK**.

The Continental group purchased a similar stake in Barum last year from **Ceska gumarenska spolecnost**, and has full management control over Barum. A 50/50 joint venture between Continental and **Michelin** owns a minority stake in the Otrokovice factory.

According to company officials, Barum is becoming the biggest production unit of the Continental group in Europe.

GMAC Enters Czech Republic

In February, **General Motors Acceptance Corporation (GMAC)**, the automobile financing subsidiary of **General Motors**, started operations in the Czech Republic through a Prague-based subsidiary. The unit, known as **Opel Leasing**, recently launched inventory funding for Opel dealers, and retail leasing for dealers' customers will be available in March.

Zoltan Marko, managing director, leads the new operation. Mr. Marko has held supervisory positions with the GMAC unit in Hungary and in the banking industry in Budapest.

Opel Leasing is headquartered in Prague and employs a staff of 14. In the coming months, the company plans to extend service to the Slovak Republic through a branch in Bratislava.

Daewoo Avia Preparing for New Truck Launch; General Director Has New Duties

Testing is underway at **Daewoo Avia** on its new AD 100 truck. The truck, scheduled to be launched in mid 1999, will be fitted with an engine that meets Euro III standards. The company is investing CZK 500 million (\$14.5 million) in new paint shop that will begin

trial operation in the near future.

Daewoo Avia General Director Kil Su Chung was recently appointed to the position of Daewoo president for the Czech Republic. In addition to his responsibilities for Daewoo Avia, he is also in charge of all Daewoo business operations in the Czech Republic. Daewoo recently reorganized its foreign business activities and dispatched new country presidents to some foreign locations.

Hungary

Reorganization of MMG Automatika & Bakony Underway

Bankar Holding is carrying out its reorganization plan for the two Hungarian auto component manufacturers it purchased at the end of last year — **MMG Automatika** and **Bakony**. Bankar's plans include a massive reduction of employees, identifying core business segments, introducing a productivity and cost reduction program, and benchmarking.

Bankar expects to consolidate the companies within 12 months, strengthen their market presence, and involve strategic partners. "We are confident of being able to attract strategic investors to the region," said Roland Palko, marketing consultant for Bankar-Sebesvari Management Consulting Ltd.

Slovakia

Volkswagen Bratislava to Produce VW Polo in New Production Hall

Volkswagen Bratislava will start manufacturing the VW Polo model as soon as it is technically possible. The precondition for the start of production is completion of a new production hall, which is scheduled to occur before the end of 1998.

According to Volkswagen Bratislava, 300 units of the Polo will be produced daily, with the possibility of increasing this amount. The factory will also continue with production of the new VW Golf.

Volkswagen Bratislava produced 40,885

Continued on Page 18

Auto Marketing & Advertising

Regional Special Report

Fiat Poland Replies to Customer Demands

Fiat's marketing plan, like the plans of most auto manufacturers today, is focused on giving customers exactly what they demand. "An auto company today must offer a wide, flexible and complete range of products," said Massimo Gentilini, General Director of **Fiat Auto Poland** during a speech in Warsaw in February. "That signifies as many models as possible for all the possible customers."

A European customer shopping in the small vehicle segment can choose from 31 versions of the Fiat Punto, including different content, prices, and versions.

According to Gentilini, Fiat's strategy is based on "The Reply", which involves supplying through new product concepts an appropriate answer to the needs of each customer. The results speak for themselves — the Fiat Punto was the best selling car in Europe in 1997 with some 590,000 units being delivered four years after the sales launch.

Gentilini noted that buyer expectations have changed drastically in Poland over the last 3 years. "While a large sector of the market considers the car as no more than a means of transport calling for basic functions and a low price, there are now developing Polish demands for performance characteristics and content, both at the level of international standards."

Fiat keeps an ear to the market and thinks that the Siena and Palio Weekend, both launched last year, were the proper replies to Polish market demands. "All research data indicates that the Polish customer wants to have a car with a genuine European touch, at an accessible price, with marked qualities of strength and comfort, and

the trunk space of bigger cars."

Thrifty Uses Web for Czech Promotion

Using the Internet, the **Thrifty Car Rental** company has targeted travelers to the Czech Republic for a new discount offer. When customers rent a vehicle from participating Thrifty locations in the Czech Republic, they can get 1 day free on 2 day rentals and 2 days free on 5 day rentals. The offer is available to customers who print out a special coupon located in the "Promotions" section of the Thrifty website.

"The Czech Republic was chosen for this offer since this is a new territory for Thrifty, and we wanted to highlight the Czech Republic as one of our new destinations," Thrifty's Chris Payne, told the CEAR.

"We decided to advertise via our website because we have determined that a lot of travelers visiting the Czech Republic are independent travelers who often book their own arrangements, and are likely using the internet as a form of booking."

The web offer is the first promotion Thrifty has undertaken in the Czech Republic, where the company currently has two locations, including an inter-terminal location at Ruzyně Airport in Prague and a suburban location next to Wencislav Square. Thrifty offers **Chrysler, Opel** and **Skoda** vehicles for hire through these offices.

Internet Changing the Dynamics of Car Selling

From a speech delivered by Scott Waldron, vice president of systems marketing, Reynolds and Reynolds Automotive Division, at the Automotive News World Congress held in January, 1998.

The Internet is critical to redefining successful vehicle marketing at the retail level. An estimated 300,000 of the 15 million cars and trucks sold in the U.S. last year (\$6 billion) were sold via the Internet. Individuals using the Internet to shop for a vehicle want an easier way to gather information prior to making a purchase . . .

Forrester Research expects that by 2002, 80% of auto dealers will be on the Net, and they will spend 12% of their ad budgets — or \$562 million — for on-line marketing. GM agrees the Internet is here to stay, hoping BuyPower will account for as much as 30% of GM sales.

Auto retailers are gravitating to the Internet today, utilizing a portion of their current marketing dollars to build brand and name recognition, and capture a share of this growing cyberspace market. But what makes that investment produce results is the re-design of the entire sales process for on-line consumers.

It's not just having a dealer homepage, or being part of a buying service. While those are important components, auto retailers must be focused on providing a more comprehensive Internet-based value proposition — one that drives consumer traffic for a variety of purposes and that directly connects auto retailers with consumers. Not just for the initial transaction of purchasing a vehicle, but through the broader lifecycle of the vehicle and the entire

Continued on Page 20

Subscribers

Visit the New
Subscriber Sites

[PEAR.COM](http://www.pear.com)™

Download
current and back issues.

Slovakia's Road Tax: A Primer

Slovak Legal Advisor

Eva Fricova & Roman Hoferek, Coopers & Lybrand Tax Consulting Services, k.s.

The Road Tax Act in Slovakia was enacted on January 1, 1993 and levies a tax on motor vehicles, wheeled tractors, and semi-trailers if they have a registration number plate and are used for business purposes. There are, however, various exemptions specified under the Act.

What vehicles are exempt?

The tax applies only to vehicles which are used for business purposes. The Act also exempts vehicles used in health services and those that are environmental friendly. The table below summarizes exemptions from the road tax.

Cars which are registered in Slovakia but are not present for the whole tax period are also exempt from the road tax.

Cars and small trucks (up to 3.5 tons) are exempt if the owner and driver are not Slovak tax residents for income tax purposes. Individuals are considered Slovak tax residents if they have a permanent residency permit or stay in Slovakia longer than 183 days in a given calendar year. Companies who have a seat, branch, or a permanent establishment in Slovakia are considered Slovak tax residents.

Tax period

For the applicable tax period, a distinction is made between vehicles registered in Slovakia and in foreign countries. For vehicles registered in Slovakia, the taxation period is the calendar year

(January 1 - December 31). Taxes for the entire year must be paid in advance by January 31.

For vehicles registered in foreign countries, the length of stay in Slovakia is the determining factor. The tax is paid to the customs authorities upon entering Slovakia. The driver declares the expected length of the stay in Slovakia and pays the appropriate amount, upon which he receives a receipt.

When leaving Slovakia, he submits the receipt to the customs authorities, who check the estimated length of stay against the actual. If the actual is longer than the estimated, the driver must pay the additional tax to the customs authorities.

Taxpayer

In the case of vehicles registered in Slovakia, the taxpayer is the keeper as specified in the technical and registration documents. For foreign vehicles, including temporarily imported vehicles, the tax must be paid by the permanent establishment (if existing) of the keeper, or by the individual using the car in Slovakia (the "driver").

Tax rates

Vehicles are split into two categories for determining tax liability.

1. Tax liability for cars is based on the cylinder capacity of the car's engine. The annual tax rates are shown in **Table 1**.
2. For other vehicles (buses, trucks, trailers, etc.), the tax liability is based on the number of axles and total weight. **Table 2** summarizes the tax liability by the number of axles. In each group, there are several sub-groups (depending on the total weight).

A motor vehicle and one trailer or semi-trailer are regarded as one vehicle for tax purposes.

Summary

In general, the Road Tax Act in Slovakia is similar to that of the Czech Republic. It applies only to vehicles that have a registration number plate and are used for business purposes. The amount of tax is dependent on engine cylinder capacity in the case of passenger cars, and on the number of axles and total weight of vehicles in the case of other vehicles. In addition, a distinction is made between locally and foreign registered vehicles ■

Table 1

Cylinder capacity (cm ³)	Tax (Sk)
up to 900	1,200
From 900 up to 1200	1,600
From 1200 up to 1500	2,200
From 1500 up to 2000	2,800
From 2000 up to 3000	3,500
Above 3000	4,200

Table 2

Number of axles	Tax (Sk)
1 axle or 2 axles	1,200 - 48,000
3 axles	11,000 - 54,000
4 axles or more	14,000 - 46,000

Category of Exempted Vehicles	Vehicles include...
Vehicles used in public services	Ambulances Fire and rescue vehicles Postal vehicles Public transportation
Environmental friendly vehicles	Electrical and solar-powered vehicles (only up to five years from date of registration)
Diplomatic Vehicles	Cars have special registration plate marked with "E" or "Z"
Vehicles used for testing and special purposes	Cars with special registration plate marked with "M" Wheeled tractors, trailers, and semi-trailers used specifically for agriculture and forestry Vehicles used to convey items from storage to shipment points for distances less than 50 km

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 EDITION SUBSCRIPTION:

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

STANDARD EMAIL EDITION* 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 email version of the report. Includes a pre-press emailed Microsoft Office 97 version (including a hyperlinked Excel article index) of the report delivered two weeks prior to the standard issue date. Includes additional market data which does not fit into the Standard Print Report. Includes a mid-month email report of important market news. AND, it includes **AutoNewsFast™** the weekly email news service of the CEAR™. This **SPECIAL ANALYST EDITION SUBSCRIPTION** is the highest level of information that we offer. In all, you receive 49 weekly reports, 11 issues, and 11 mid-issue reports. This Edition requires an email address.
PRICE ALL LOCATIONS USD\$900 PER YEAR

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.

* Substantial discounts available for multiple orders within the same company

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

Please Send a Free Sample Issue.

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 **APR98**

Best Selling Models in Poland (YTD January 1998)

Passenger Cars			Light Commercial Vehicles			Medium Commercial Vehicles		
Make	Units	% Change '98 v '97	Make	Units	% Change '98 v '97	Make	Units	% Change '98 v '97
Fiat Cinquecento	4,061	-5.76	FSO Polonez Truck	630	-43.65	Daewoo Lublin	840	-2.21
PF 126	3,413	-11.17	Skoda Pick up	281	1238.10	Mercedes Vito	207	58.02
Daewoo Nexia	3,255	181.57	Citroen C15	221	-17.23	FSC - Zuk	190	-13.24
Daewoo Lanos	3,254		Fiat Uno Van	147	6.52	Ford Transit	158	-4.82
Fiat Siena	2,917		GM - Opel Combo	66	10.00	Iveco Daily	110	155.81
Daewoo Tico	2,880	-0.28	Citroen Berlingo	55		VW Transporter	94	203.23
Opel Astra	2,156	64.71	Peugeot Partner	23	-65.15	Fiat Ducato	70	-38.05
Skoda Felicia	2,014	47.98	FSO Polonez Cargo	17	-46.88	Kia Ceres	65	209.52
Honda Civic	1,897	11.79	Ford Courier Van	13	-51.85	Peugeot Boxer	61	96.77
Fiat Punto	1,699	49.56	Fiat Cinquecento Van	12	-96.31	Mercedes Sprinter	29	-29.27

Source: SAMAR, s.c.

Try the New and Improved [CEAR.COM](http://www.pear.com)™- <http://www.pear.com>

Tips For Success In Central Europe

Stay Informed



Jeff Jones

To stay ahead in the fast-moving Central European auto industry, you have to stay informed. Neglect to keep yourself on top of the action, and you'll be left sniffing someone else's exhaust fumes.

Staying informed, of course, involves reading publications that focus on the auto industry. This is essential and is one of the quickest ways to fill yourself with vital data about your market. Since you are reading the CEAR™, you're successfully doing just that.

But don't limit yourself by reading only about your country or specific auto sector. The Central European market should be viewed as one big market. What happens in Bucharest is quite relevant to developments in Poland. Make sure you know what is happening beyond the borders of your home country. Don't be like the automotive supplier in Slovenia I spoke to two years ago that had never heard of Daewoo.

And don't forget to look beyond your own industry. Occasionally, leaf through publications or resources that cover other fields, such as science, entertainment, fashion, travel . . . whatever. See what kinds of problems or trends are prominent in those industries. You never know, you just might find the solution to your vexing marketing problem in *Sports Illustrated*.

Keeping informed requires more than just reading. You must also listen. Listen to the people that you work with, from the assistant in the fax room, to the worker operating the lathe, to those that work a few doors down from you.

Start a monthly breakfast meeting with people you normally don't talk to, or sit in on department meetings that are outside your area of expertise. You'll learn important information about your company and possibly obtain fresh ideas for your own affairs.

And listen to people outside your company. I regularly meet with the owner of a local newspaper and we talk about our respective experiences and problems. It's time well spent and we both benefit from the exchange of ideas.

Stay informed to stay on top. Make sure you are a frontrunner, and not lost back in the jumble of elbows and noise with the rest of the pack.

cetmjaj@ibm.net

Visit the [Central Europe Supplier Development Forum](http://www.pear.com/autoforum) at <http://www.pear.com/autoforum> or click here [PEAR.COM](http://www.pear.com)™

Fastest Sales Climbers in Poland (YTD January 1998)

Passenger Cars			Light Commercial Vehicles			Medium Commercial Vehicles		
Make	Units	Change '98 v. '97	Make	Units	Change '98 v. '97	Make	Units	Change '98 v. '97
		Units			Units			Units
Daewoo Lanos	3,254	3,254	Skoda Pick up	281	260	Mercedes Vito	207	76
Fiat Siena	2,917	2,917	Citroen Berlingo	55	55	Iveco Daily	110	67
Daewoo Nexia	3,255	2,099	Fiat Uno Van	147	9	VW Transporter	94	63
Daewoo Nubira	924	924	GM - Opel Combo	66	6	Kia Ceres	65	44
Opel Astra	2,156	847	Piaggio Porter	5	5	Peugeot Boxer	61	30
Skoda Felicia	2,014	653	Peugeot 106XA	2	2	Kia Preggio	18	18
Fiat Punto	1,699	563	Toyota Hilux	6	1	Hyundai H100 P/V	19	6
Toyota Corolla	588	456				Nissan Vanette	8	5
Skoda Octavia	420	420				Peugeot Expert	4	4
Citroen Xsara	315	315				LDV	12	2

Source: SAMAR, s.c.

Warsaw Auto Conference Draws Regional Players

CEAR™ Presents Executive of the Year Award

Warsaw hosted another major automotive conference in late February. This time, it was **EuroForum's** 3rd Annual Conference for the Central European Automotive Industry. The event attracted over 180 top auto executives, governmental officials, and consultants. Speakers from some 20 companies, including **Fiat, GM/Opel, VW, Delphi, Isuzu, Lucas, Ford Bank Polska, and Zastava** gave presentations on a wide range of topics, including company plans for the region, the pursuit of quality, leasing and financing trends, looming overcapacity, and sales trends.

The second day of the conference was kicked off with the presentation of the **Central Europe Automotive Report's** 1997 Automotive Executive of the Year award. The award, given to **Daewoo Group** Chairman Kim Woo-Choong, was accepted by **Daewoo- FSO** president Jin Chul Suk.

Excerpts from a few of the conference presentations follow:

"The Ministry of Economy will continue to monitor and support the development of the Polish automotive industry and forecasts the following effects: 1) an increase in the value of value-added products as a result of the increased share of Polish parts and components in vehicles; 2) elimination of simple SKD assembly due to a lack of economic grounds for such operations; and 3) increased exports, which will improve the balance of trade." *Marek Wejtko, Director of Multilateral Economic Relations, Ministry of Economy*

"As for the new licensing regulation [for vehicle assembly], let me first say that we, the EU side, are happy that there are no immediate problems. We can live with this regulation for the moment and we are grateful that the Polish government has taken this decision However, some questions remain to be resolved. First, the licenses which have now been issued expire at the end of this year. What is to happen next year?

Second, what about newcomers? The market should, in principle, remain open for new investors, but the conditions that apply in that case are not clear.

Newcomers have to convince the Ministry of Economy that they are serious investors, but the law is not specific about the conditions. This leaves room for case-by-case judgement which is not good for transparency." *Jan Willem Blankert, Counsellor, Delegation of the European Commission in Poland*

"The leading change is that the Czech Republic is in the process of creating an incentives package which could affect any company investing more than USD 10 million. We are hoping this package will be approved by the government by the end of March and will make the Czech Republic markedly more attractive in relation to our neighbors in both western and central Europe Czech authorities now see FDI as the quickest means of accelerating our economic transformation." *Jan A. Havelka, CEO, CzechInvest*

"The most dynamic growing segment in 1997 [in Poland] was the MPV segment with an increase of more than 609%. The biggest loss was noted by segment A, represented by the PF 126, Fiat Cinquecento, and Daewoo Tico. The position of segment A is changing. Poland is getting closer to Western standards and segment A is becoming more of a second family car or young peoples segment than a family car segment. Total segment sales in 1997 were 145,667 units, which represents 30.48% of the market." *Wojciech Drzewiecki, Samar s.c.*

"The most glaring example of hindrances existing in the development of leasing [in Poland] are the disadvantageous principles of settling lease transactions on vehicles. In Western European countries, automobiles comprise 40%-50% of leased property, and in Hungary and the Czech Republic as much as 55%-80%.

In many countries there are different limitations against investment in expensive, luxury [vehicles], but nowhere else are they so effectively implemented as in Poland. Currently, besides Bulgaria, Poland is the only country in Europe where auto leasing simply does not pay out." *Andrzej Czuba, Volkswagen Leasing Polska*

The Purchasing Manager's View: Buying in Central Europe

Opel's Czech & Slovak Purchasing Manager Josef Dolezal Assesses Supply Base

"What are the biggest problems faced by local suppliers and what is GM/Opel doing to improve the supply base?"

Privatization is not fully complete, there's a lack of financing, inexperienced management, modern production and quality systems are not implemented, and companies are not known to carmakers. In order to improve the supply base, GM/Opel is focusing on the selection process (lean manufacturing and quality) and cooperation in the pre-production phase (e.g. training and know-how systems transfer).

"How long will it take before local suppliers can provide the kind of research and development services demanded by GM/Opel?"

Approximately 20% of local companies have good research and development facilities already, the next 20% [of companies] will be OK in 5 years, and the rest won't be able to meet GM/Opel requirements and must produce the existing developed parts.

"What will the Czech and Slovak supply base look like in 5 years? Will there be any small companies left, or will they have all merged with larger Western companies?"

The tendency is that Western mother companies are establishing more and more daughter companies in Central Europe. I estimate that 80% of suppliers will be in this "daughters" category in 5 years.

"What is your estimate of how long the price advantage for parts

Continued on Page 18

Fiat's New Seicento Poised For Battle in Poland

Italian Carmaker Hopes To Fend Off Daewoo With New Model

Two or three years ago, the small-car market in Poland was dominated by two Fiat-produced models: the Cinquecento and the Maluch (Fiat 126). Enter **Daewoo**, whose Tico model challenged Fiat's dominance.

Last year, sales of Daewoo's Tico showed impressive growth — over 42,000 Ticos were sold in Poland, compared to some 30,000 units sold in 1996. As a result of this competitive challenge, sales of the Maluch dropped by nearly 20%.

Even though the Maluch remains the cheapest car on the Polish market, its popularity has waned, primarily because of its outdated construction. It seems likely that the Maluch's market position will gradually dwindle to nothing. So what is Fiat's response? The Seicento.

The European premiere of Fiat's Seicento — successor to the Cinquecento -- is scheduled for this Spring. The Italian car company is betting that the new model will make a big splash on the small-car market.

The Seicento — at 3.32 meters long and 1.15 meters wide — will be available with 900 and 1100 cc engines, with 40 hp and 55 hp, respectively. Fiat also plans automatic and electric-engine versions.

Production of the new model has already started in the Fiat Auto Poland plant in Tychy, Poland, but the manufacturer still hasn't revealed the date of the Polish premiere, nor Seicento's expected price. The car will probably cost 10-15% more than the Cinquecento 900, currently priced at PZL 23,500 (\$6,900).

The new model will not oust the Cinquecento from Fiat Auto Poland's production lines. Fiat representatives claim the factory will probably continue to manufacture the Cinquecento until the year 2001. The Cinquecento is Poland's most popular small-engine car, with over 54,500 units sold last year.

Tough Competition in A-Class Segment

The arrival of the Seicento means fiercer competition on the small car market in Poland -- and there is much to battle for. According to **Samar**, over 145,000 A-class cars were sold in Poland in 1997, 20,000 more than in 1996. Other car sectors have developed more dynamically, but small cars still enjoy immense popularity among Polish drivers. Last year, every third car bought in Poland was an A-class vehicle.

According to Enrico Pavoni, chairman of the board of **Fiat Polska Sp. z o.o.**, Fiat is well prepared to face competition on the Polish market.

"No other company in Poland can as yet offer such a wide range of cars produced in Poland, as well as cars imported from Italy — Fiats, Alfa Romeos, and Lancias," said Pavoni. "Considering that the number of companies assembling and importing cars on the Polish market is increasing, a 35% market share is very good."

Coming Soon: Improved Financing for Fiat Cars

Fiat is also trying to make it more convenient to purchase its cars. **Fiat Bank Polska** will open shop in the

coming months. It has already received a license from the **National Bank of Poland** to grant car loans.

Fiat also plans to extend its activities to the insurance sector. **Toro Poland Investment**, a company owned by Fiat, is acquiring shares in Polish insurance companies. It already holds more than 30% of **Petrus** insurance company.

Fiat Plans to Dominate Segment

As Pavoni puts it, in the A-segment Fiat plans to remain the leader, regardless of how many new models appear in this segment. The company expects the Seicento to achieve the same popularity enjoyed by the Cinquecento on markets across Europe. "We hope that, thanks to the Seicento, our share in this segment will increase," said Pavoni.

Other companies are far from taking a "wait and see" approach. **Daewoo** has announced plans to begin the production of the D'art, the Tico's successor, in 1999 and **Hyundai** would like to introduce a small-engine car, the Atos, in 1999.

Fiat Auto Poland produced about 328,000 cars in 1997, or 6.8% more than the previous year. Fiat's total investment in Poland reached \$1.15 billion in 1997. According to Fiat's plans, in the next four to five years investments will be no less than \$500 million.

The Fiat corporation doesn't rule out involvement in other sectors, either. Possibilities are being reviewed for projects such as production of rolling stock in Poland, investment in the energy sector, and a high speed tilting train project.

Magda Sowinska (Warsaw)

New Expert Directories On-Line

Place Your Listing in the new Central Europe Expert Directories on [PEAR.COM](http://www.pear.com)™ .
Generating new business on the Internet is as easy as a mouse click. <http://www.pear.com> cetmads@ibm.net

Creating a Total Quality Environment

Building Supplier Quality: Lesson 1

With Ray Barker, Group Director, Business Excellence Strategy, Avon Rubber

New Feature

The Creation of a Total Quality Operation

It must be recognized that improvements in any aspects of a business operation may possibly lead to a state of continuous quality improvement, but Total Quality will only be achieved by a radical, coordinated approach throughout the entire operation, and that demands leadership.

The five stages to make this happen are:

- **Understand the need for an explicit company vision statement.**

We must clearly define where we want our business to be. We must clearly know where we are now and why we are not where we would like to be. With this knowledge, it is possible to plot a route forward.

- **Understand the role of Quality in Management.**

Why have we been led to believe that increasing quality is a problem? We must change this belief to understand that increasing quality is the answer to our problem. Deming told us years ago that managers need to learn that when they increase the quality of whatever they do, productivity goes up and costs go down.

Increasing quality decreases variability which increases the probability of certainty. This removal of "fog" around uncertain management processes allows management to make decisions which have a greater degree of certainty, so allowing the company to progress closer to its vision. This concept requires a management led attitudinal training and education program.

- **Understand what managers must do to achieve Total Quality.**

Management is responsible for the system within which people work. The manager should, therefore, work on improving the system. This requires the help and input of the user of the system (worker) which means teamwork, led by management.

Managers must be able to tell what constitutes improvement and be able to measure it in terms of quality as well as quantity of outputs. Managers must lead in

problem identification and problem resolution.

Managers must train their supervisors and fellow workers to be problem solvers too. Managers must constantly seek methods to improve the performance of the system for which they are responsible.

- **Understand the need to acquire skills and capabilities to solve problems and seek improvements.**

Everyone needs to understand that the only economic way to increase the quality of the output of a process is to work on improvement of the quality of the inputs, to achieve some improvements at lowest cost.

Such skills include:

- (a) ability to check upon the performances of a system

—how to describe a system so that other people will understand what is being talked about

- how to collect data
- how to analyze data
- how to communicate results

- (b) ability to cooperate with other people in generating methods to improve systems

- to participate in group problem definition
- to participate in group problem solving

- (c) ability to deal with statistical variations. This ability will require the mastery of seven simple methods of analysis (Ishikawa tools).

- **Understand the need to make improvements a way of life within the operation.**

The harnessing of everyone's involvement and hence commitment towards improvement will only be assured if it is evident that management cares about improving quality.

Then are two ways management may make this caring evident. The most powerful is by daily actions and example giving leadership towards improvement. Second, by creating a control structure which makes continuous improvement an operational certainty.

The creation of a Total Quality operation demands a balanced amount of attitudinal change, use of a management control system, together with application of appropriate tools and techniques. The common thread is management leadership and a dedicated passion to improve. A system without passion will not succeed, neither will passion without a system.

However, improvement in general cannot be achieved without specific improvements being identified and realized. It is this focus on many specific improvement opportunities which produces a radical improvement in quality levels to break through existing barriers.

Such intensive focus on specific improvement opportunities (sometimes called problems) demands the creation of teams with membership specific to the improvement action, the detailed knowledge and use of process improvement tools and techniques, and dedicated management leadership.

The creation of a Total Quality operation is the result of the optimal use of human resources in the pursuit of excellent performance. It is an evolutionary process that comes about primarily by a change in traditional management style and behavior. Since only management can decide on how the human resource is used within an organization, the rate at which improvement progresses towards Total Quality becomes dependent solely on management skills, energy, and knowledge of the improvement process.

Next Month: How to Achieve Quality Improvement Success

Quality in Action

Tier I Supplier in Slovakia Nurtures Quality

In need of a reliable supply of castings, the Slovakia-based clutch producer **Sachs Trnava** worked with a local castings maker for 1 1/2 years, helping the company to improve its technology.

Today, after plenty of handholding and a massive commitment of time, that local supplier's quality is rated excellent. According to Sachs Trnava chief Peter Doll, not only does the supplier supply Sachs but now other Western manufacturers are banging on the company's door. Quality can be nurtured in Central Europe, but it takes time and effort.

Mannesmann Sachs.

Mr. Doll was interviewed by the **CEAR** at the end of February.

CEAR: What's the growth potential for your company in Slovakia?

Doll: When I came over to Slovakia in September 1995, my personal goal was to have a company with about 500 people and 100 million DM in sales. By the year 2000, I can reach [these goals]. By the year 2002, I think it's possible to double these figures to about 1,000 employees and sales of 200 million DM. That's very possible. It can be achieved without any great [effort]. Everything is going well with our company, so I can't complain.

CEAR: Why has your company been able to achieve such high growth?

Doll: The primary reason is that our parent company trusts us. They have confidence in us. This trust is very important in a big company. When decisions are made in Europe and we aren't there, it's our job to get them to think of us as a good, trustworthy company.

The second reason is that we produce products that use know-how [developed] in the 1970's, 1980's, and 1990's, products that can be made much more economically in Central Europe. In my opinion, this kind of know-how, produced in low volume or high volume, doesn't belong in Western Europe.

Right now, auto manufacturers are developing vehicles for the years 2005 and 2008 — products for these vehicles must stay in Western Europe because a lot of development work [is necessary].

CEAR: Sachs Trnava is the pioneer in Central Europe for the Sachs division. Are any other investments by Sachs or Mannesmann planned for Central Europe?

Doll: We're getting more and more visitors from different divisions of our parent company. So there's a lot of interest in possibly moving some

production to Slovakia or Central Europe.

Our numbers look good. The growth looks good. And we're doing our sales job at home. So, we've got some interest.

"By the year 2002, I think it's possible to have about 1,000 employees and sales of DM 200 million. That's very possible. It can be achieved without any great effort."

CEAR: What's your current product line-up?

Doll: In 1993, we started with clutches for small cars and large trucks. Since last year, we've also been producing large torque converters for buses, trucks, agriculture machinery, and construction machinery.

We're the only large torque converter producer in all of Europe. If someone needs a bus with an automatic transmission, they get our torque converter. We're doing this [in Central Europe] because volume is very low in this type of business. I have about 150 different part numbers and about 100 parts per part number. With this low volume, it's really very inefficient to produce in Western Europe.

CEAR: Any plans to expand your product range beyond clutches and torque converters?

Doll: I'm now looking at rebuilding Skoda clutches. We'll rebuild them to original equipment quality and sell them back to Skoda. Thus, a service customer would have a choice between a rebuilt clutch for price x or a new clutch for price y.

Our parent company [is rebuilding clutches] in Western Europe and Brazil and when I saw that, I thought, what a great idea for Slovakia since our labor is less expensive than in Western Europe.

We talked to Skoda and they were for it. It's good for the environment. So in the next two months, we'll start rebuilding Skoda clutches.

CEAR: What's your production growth program for the next few years?

Doll: On the clutch side, by the year 2000 I will double production. That's very possible. With torque converters, I have to stabilize. My production is going too fast, so I need a year break.

I've had sales growth every year — for about 3 years now — of about 50%-70% and the biggest growth is on the torque converter side. By 1999, I promised my people here that we'll take a break. Growth of 20%-25% is very healthy, but with more than 25%, watch out.

CEAR: In general, what kind of growth in the clutch and torque converter industry do you see over the next 3-5 years?

Doll: Our torque converter is also used in construction equipment and I can see that in Central and Eastern Europe there will be a lot of construction. So, just looking at that I foresee growth of 10%-15% a year.

On the clutch side, the industry itself will grow 1%-3%. Since everybody is moving to Central Europe, my company's sales will grow 25%-40%. The companies that are coming want products from Central Europe, so automatically [our] sales increase. And it doesn't matter if they're coming to Poland, Czech Republic, or Slovak Republic. If Opel is in Poland, you don't necessarily have to be in Poland.

CEAR: Any new customers on the horizon?

Doll: Ford in Poland is interested. GM/Opel is building their new factory in Poland and they've already visited us and are showing interest in purchasing components from us.

CEAR: What is your investment plan for the factory?

Doll: We're investing about 10 million DM a year and will do this for the next 2-3 years. We're buying new equipment, mainly from Western Europe. We have

to produce Western European quality and there is no chance to produce that quality with local machinery.

CEAR: What's unique about your production program in Slovakia?

Doll: As I mentioned, we are the only producer of large torque converters, which is about as unique as you can get. Also, what we do here is a little different from what's done in Western Europe.

Torque converters were always produced in Western Europe on the side of some [other] high volume product. It was somewhat organized for large volume production. Since I have [a small number of] torque converter spare part numbers, I organized my company a little differently to produce low volumes more efficiently.

CEAR: How do you make your torque converter production more efficient?

Doll: The whole torque converter production is organized around the customer/supplier relationship, which is nothing new. One production cell is producing their components and those components are needed to produce, say, a sub-assembly. There's someone in charge of the manufacturing cell and he makes sure that his customer, who may be only ten feet away, is happy.

I believe in the internal customer concept. I believe the customer and supplier relationship has to be there and that's what we do here.

CEAR: How do you motivate your workers to perform at high levels of productivity?

Doll: It's hard to put your finger on things like motivation, but as I see it the key is money. We are not the highest paying company, but we're also not the lowest. We're more on the high side of the scale. That's one motivator.

The second is getting information down to the people, [such as] why we are doing one thing instead of another, why we have to work longer hours one day. People are really happy if they know why they are doing something. Even if it's someone on a lathe or drilling

machine — if he knows why something must be done in the next two hours instead of the next 2 months, then you get a 10% increase in speed.

“The most difficult task is teaching employees that if the customer wants something by 8 a.m. tomorrow, he wants it by 8 a.m. Don't ask him why. Just deliver it.”

CEAR: How are your workers adapting to working for a Western company?

Doll: The workers are very willing to learn. They are hungry to learn. When I started here, I told everyone I play for first place, not second. You go with me or without. And I can see they are with me.

CEAR: What's the most difficult aspect of producing components in Slovakia?

Doll: I guess the most difficult part is on-time delivery. Teaching [employees] that if the customer wants something by 8 a.m. tomorrow, he wants it by 8 a.m. Don't ask him why. Just deliver it. That's probably the most difficult task I have here — deliveries on time. I still have to work with my people on that.

CEAR: What are your strategies for improving delivery times?

Doll: I have a delivery evaluation [system] with most of my customers. It's directed to me so I know what the customer thinks about my delivery.

Every three months, I'm receiving information from our customers regarding delivery times. Which way we are going, whether we are improving or not, is very important to me.

CEAR: Delivery is obviously impacted by border crossings. Is the border situation getting any better?

Doll: No, it's not getting better. If I have to deliver something for the next morning and then the trucks get stuck at the border for 10 hours, then I'm getting

mad.

CEAR: Since you must deliver just-in-time, how do you overcome this?

Doll: Basically, I'm delivering my products a day earlier. So that's another day [added to the process]. It doesn't have to be that way.

CEAR: What percentage of your parts purchases are made in Central Europe?

Doll: Not enough. Between 0% and 10%.

CEAR: What's the biggest problem?

Doll: Quality. Delivery. I'm a tier one supplier to the auto industry and it's very tough for me to find a tier two supplier. Very, very tough. And my buying power here is 50% of my sales. I really wish some tier two suppliers could hear this message and do something in Central Europe. And, sure, I can't buy everything locally, but 50% of half of my sales is still millions of deutsche marks.

CEAR: Is there enough business to support a tier two supplier who sets up a local factory?

Doll: I think for raw materials like castings and forgings, things in that area, there's enough business here to build up a healthy company. The company could be anywhere — Slovakia, Poland, Hungary — it doesn't matter. But I wish they would hear my message. There are a lot of opportunities here.

CEAR: How automated is your factory?

Doll: My production line has as little automation as possible. Flexibility is everything. If you have automation, you aren't flexible. In Europe in the 1970's and 1980's you could run a whole production hall with one guy. That is absolutely not the future. You have to be very flexible in production.

CEAR: What is another key to survival in the supplier industry?

Doll: The key is learning that the customer is boss. Don't forget the customer. Sometimes in doing our jobs

Continued on Page 18

Last year, the Russian Federation Ministry of Economics issued a development strategy for the Russian automotive industry up to the year 2005. Based on the Industrial Policy Concept as approved by the Russian government in the Protocol of November 28, 1996, the details of this strategy may be instructive for foreign manufacturers seeking to establish operations in the Russian auto sector. Excerpts of the development strategy related to Russia's components sector follow:

Future demand for automobile components for the Russian automotive industry can be met by:

- spinning off components divisions and reforming existing components suppliers;
- relying on components suppliers which remained in the CIS countries;
- converting defense factories to manufacture prospective components using indigenous developments and overseas licenses jointly with foreign partners;
- setting up joint ventures with foreign partners

Existing [companies] need to extend the range and types of components, upgrade their products, and cut production costs.

It appears expedient for the more viable components suppliers to build large integrated structures capable of satisfying the needs of virtually all automotive corporations.

As for restructuring, capacities at **AMO ZIL** and **AO KamAZ** [exist to] manufacture 10 to 13-ton single-stage hypoid driving axles for prospective long-haul heavy ZIL and KamAZ tractor-trailers. The same capacities could manufacture 8 to 10-ton single-stage axles for buses.

IZTM (Ishimbai) manufactures 12-ton driving axles for buses and is preparing

to manufacture trolley bus axles of similar design and dimensions. **IZTM** can master a number of other bus and trolley bus axles, in particular driving axles for prospective low-floor buses.

It is necessary to develop further the family of mechanical transmissions with friction clutches at the **Yaroslavl** and **Tutaev Engine Plants** for **MAZ**, **KrAZ**, **KamAZ**, and **UralAZ** trucks and **LiAZ** buses in order to improve their technical level, build automatic modifications, and to launch diaphragm clutches.

“Industrial policy will be aimed at supporting production capabilities to make automobiles and components which meet market requirements. Support will be tightly linked to restructuring enterprises and dealerships, improving their financial status, and diversifying production.”

Capacities should be developed at **TMO (Tyumen)** to produce state-of-the-art diaphragm clutches for **UAZ**, **ZIL**, and **KamAZ**.

The Russian automotive industry depends on supplies from CIS countries. For example, the **Avtogidrousilitel Plant** in Borisov, Belarus manufactures power steering for **KamAZ**, **GAZ**, **UralAZ** trucks and **LiAZ** and **PAZ** buses. And **AO Belkard** in Grodno, Belarus produces propeller shafts for **KamAZ**, **AZLK**, **GAZ**, **UralAZ**, **VAZ (Niva cars)**, and **LiAZ buses**. Facilities for these components should be installed or expanded in Russia.

In addition, it is expedient to organize

production of 8-10-16 stage mechanical gear boxes with automated control, power steering, steering wheel electrical amplifiers for passenger cars, passive safety devices, anti-locking braking systems, and other components. Licenses should be bought to speed up the production of new products.

For the foreseeable future, conventional gasoline and diesel engines will remain the sole energy sources for various types of vehicles. Meanwhile, the technological gap between Russian mass produced engines — which largely determine a vehicle's competitiveness — and Western models continues to grow.

Engine production capacities will remain sufficient in the near term — to manufacture up to 2.5 to 3 million vehicles annually — but current technologies fail to meet modern standards.

Based on projected development of the domestic market and existing capacities, it will be quite realistic to supply engines for the projected output of vehicles until the year 2005, though it should be remembered that indigenous automobiles have lost their monopoly.

Objectives of the [engine development strategies are]:

- to set up specialist production of two diesel families — 1.5 to 2.5 liters — at the Moscow and Altay factories, and 2.5 to 4.0 liters at the Middle Volga and Moscow region factories for light vehicles;
- to build a new family of 1.5 to 2.5 liter gasoline engines at the Middle Volga and Moscow region factories;
- to convert gasoline **ZIL** and **GAZ** truck engines to gas;
- to reduce consumption of liquid engine fuels, to dramatically improve environmental parameters

Continued on Page 16

Import Surcharge Dropping; Customs Duty & VAT Review

Slovak Tax, Customs, and Finance Update

Heather Steinwedel, Tax Department Manager, Deloitte & Touche, Slovakia

Import Surcharge

Pursuant to the December 17, 1997 decision by the **World Trade Organization**, Slovakia was required to reduce its import surcharge from 7% to 5%, effective January 1, 1998. On April 1, 1998, Slovakia must further reduce the surcharge to 3%, and completely eliminate the surcharge by October 1, 1998.

Customs Duty and Value Added Tax

The general customs duty on the import of cars in Slovakia is 38%, and the general rate for spare parts varies from around 11% to 16%.

However, contractual customs duty rates of 18.1% may be applied on the import of cars in the following circumstances:

- on imports from GATT member states;
- on imports from countries which have a Customs Zone agreement or Free Trade agreement signed with Slovakia. This includes, for example, the CEFTA agreement signed between the Czech Republic, Hungary, Poland, Slovakia, Slovenia and Romania, and the Free Trade Agreement between Slovakia and EFTA member states (Norway, Switzerland, Iceland, Liechtenstein). Under the CEFTA, customs duties are gradually being reduced and will ultimately be eliminated.
- on imports from the EU

Contractual customs duty rates apply both for new and used cars, and the engine capacity size is irrelevant. The contractual rates for spare parts varies from around 3.2% to 4.3%.

VAT

Apart from paying customs duty when crossing the border, VAT is also payable on the import of goods into Slovakia by the importer of the goods. The general rate is 23% which is applied to the customs value of the goods to determine the VAT payable.

In relation to both customs and VAT, there are various regimes which exist to reduce, extinguish, or postpone the duties and taxes generally payable on import. These will be discussed in further detail below.



Heather Steinwedel

Fund for Foreign Trade Support

Obligatory contributions in the amount of 0.1% of the value of import and export sales are still required to be paid to the Fund for Foreign Trade Support by local importers and local exporters. The contributions must be made when releasing goods into free trade circulation in Slovakia or when releasing goods for export.

General Tax Considerations

In addition to VAT and other import duties and taxes, important issues which should be considered by all companies conducting business activities in Slovakia include:

- Foreign entities with activities in Slovakia who are not registered with the tax office should consider whether their activities give rise to taxable profits in Slovakia. The general rule is that a taxable presence is created if the foreign entity has a fixed place of business in Slovakia through which it is carrying on its business.
- Similarly, a taxable presence may be

created in Slovakia by the secondment of foreign experts by a foreign entity to its subsidiary in Slovakia. The rules are not clear on this issue so each situation must be considered separately.

- Under Slovak law, interest on loans from certain related parties will not be deductible in relation to the amount of the loans which exceed four times the equity of the company.

“The general customs duty on the import of cars in Slovakia is 38%, and the general rate for spare parts varies from around 11% to 16%.

A contractual rate of 18.1% for cars may be applied in certain circumstances.”

The rules can be complicated, particularly in relation to the treatment of supplier credit. There are various mechanisms which may be implemented to reduce the risks in this regard.

- Special rules exist in relation to the import of used cars.
- Various import regimes exist in Slovakia which may provide planning opportunities in relation to the import of cars. These are discussed in more detail below.

Import Regimes

According to the Slovak Customs Law, goods can be imported into the Slovak Republic under eight different regimes. The following five regimes will be discussed in further detail:

- a) free circulation
- b) transit
- c) storage in a bonded warehouse
- d) active regime

Continued on Page 20

- of engines to (EURO-2);
- to implement provisions to increase the output and range of engine components;
- to implement proposals to utilize the most advanced designs in products of other industries

The greater demands on automobile engines, especially [within] environmental parameters, [requires] development and installation of facilities for the production of components such as turbo-compressors, fuel pumps with enhanced injection, heat exchangers for air cooling, catalytic converters, pistons, inserts, valves, sleeves, and bushings.

[Thus], it is necessary to:

- expand and retool turbo-compressor production facilities at a number of companies, including **YAMZ, TKR-9, KamAZ, TKR-7, GAZ, TKR-**

5.5, MPF Turbotekhnika;

- retool production capacities for high energy fuel injection devices at factories in the High Volga industrial region (**YAZDA, YAZTA**);
- organize production of fuel equipment for car and light truck diesel engines;
- create demand for the catalytic converters of Russian manufacturers for diesel and gasoline engines of cars, trucks, and buses;
- build capacities to manufacture heat exchangers for air cooling based on converted factories **ALPAS** (Volgodonsk), **Teploobmennik** (Nizhni Novgorod), utilizing the latest Western advances in environmentally friendly production;
- master production of advanced microprocessor controls at **SEPO**

(Saratov);

- develop and modernize enough capacity to manufacture other components, including air and other filters, pumps, mufflers, and thermostats

As a rule, these strategies should be based on the "pursuit principle". The main industrial policies within this strategy are to install internationally allowable protective import tariffs which will be progressively lowered over a period necessary for the achievement of acceptable quality standards and costs, and to implement generally acceptable non-tariff methods.

The industrial policy within the above strategies will be aimed at supporting production capabilities to make automobiles and components which meet market requirements. Support will be tightly linked to restructuring enterprises and dealerships, improving their financial status, and diversifying production ■

Getting to Know the Daewoo Automotive Components Group

The Polish supply base is getting a facelift. In September of last year, **Daewoo** formed in Poland the **Daewoo Automotive Components Group (DACG)**. Included in this group are the many branch supply companies of the **FSO** company that Daewoo took over in November 1995.

Some of the companies will remain subsidiaries of Daewoo, whereas others have been partnered up with Korean companies. By the year 2001, Korean firms will have invested \$364 million into these joint ventures, sales of the companies should reach \$735 million, and total employment will rise to over 8,500 workers.

The DACG is a mixture of companies with confusing names that produce a wide range of products. To help you navigate your way through the tangle, the CEAR has put together the following handy list.

As of the end of February, here's how the DACG shapes up:

Subsidiaries

- ZPTK Zuromin

- ZZN Wyszkw
- ZPZP Warszawa
- ZSD Nysa

Joint Venture Companies

- Hanster ZAS Elblag (mechanical & chemical parts)
- Hanyang ZAS Elblag (mechanical parts)
- Sungsan ZEM Elk (wiring harnesses/electric equipment)
- DPI ZCS Ciechanow (wiring harnesses/electric equipment; mechanical parts)
- DWE ZZN Polska (car audio)
- Un Wha ZZN (car audio)
- Kwangjin ZPP Siedlce (mechanical parts)
- Koram ZSM Warszawa (car seats; chemical parts)
- JC-ZSM Warszawa (wiring harnesses/electric equipment)
- Shinchang ZPZP Warszawa (mechanical parts)
- Daedong ZSM Warszawa (wiring harnesses/electric equipment; mechanical and chemical parts)
- Dongwon ZS Kozuchow (mechanical parts)
- Tongheung ZTS Grojec (car seats)
- Seojin ZS Kozuchow (clutches;

instrumentation for making stamping dies)

- Daesung ZSM Elk (electric parts, electric control units)
- Bukdoo ZSM Warszawa (speakers)

Planned Joint Ventures

- Central ZPCS Opole (ball joint, mechanical parts)
- Pomatics Zuromin (compounding materials - polypropylene)

Customers of the Daewoo Automotive Components Group

DAEWOO GROUP

In Poland

- Daewoo FSO
- Daewoo Motor Lublin
- Nysa

Daewoo Companies in Other Countries

- Czech Republic
- Romania
- Uzbekistan
- India
- Vietnam
- Ukraine

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
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

ITDH
re: Pemu
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
ITDH
re: 02/Aut/96
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
ITDH
re: Perion
tel: 36-1-118-0051
fax: 36-1-118-3732
Hungary

Russian bus company seeks American joint venture partner to manufacture new bus models. Business plan available in English
Victor Sergeevich Kostromin
General Director
Pavlovo Bus Co.
tel: 7-83171-6-81-14
fax: 7-83171-6-03-18
Russia

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.
Including an Internet Listing
at <http://www.pear.com>
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

production will last in Central Europe?"

For at least 10 years the price will be cheaper due to the labor rate.

"Will GM/Opel purchase supplies from Czech and Slovak suppliers for its mini world car when production starts in Poland?"

Yes, the localization of deliveries not only from the Czech and Slovak Republics, but from the whole Central Europe region will be very important for the Opel plant in Gliwice.

"Are you comfortable doing business with Slovak suppliers considering the political instability there? Have you had difficulty encouraging your existing Western suppliers to work with Slovak suppliers?"

It seems to me that Western companies hesitate to enter the Slovak industry more due to the existing structure and status than due to the political instability — factories are either too huge (with a military program in the past) or too small, less skilled workers, lack of experienced managers, and an inconvenient transport infrastructure.

Nevertheless, there are some Western automotive suppliers that have already "broken into" the Slovak industry, such as **Sachs, Leoni Drahtwerke, Magna, MIBA, Siemens, Kuester, Contitech, and Inalfa.**

"How has the role of purchasing managers changed in the past few years?"

Suppliers are more international and the mother companies frequently transfer production between countries. Thus, purchasing staff must think more globally than locally. Price now belongs to the "core" criteria. There's a concentrated focus on supplier quality and supplier development. Worldwide quality certification is a basis for supplier production and quality assessment ■

here, and I know everybody has a lot to do, we are forgetting that the customer is paying our salary.

CEAR: You worked for 11 years in the US. What's one of the biggest differences that you've noticed between production there and here?

Doll: Over the last three years, I've noticed a difference — not just in Central Europe, but all of Europe — [in how problems are handled]. If you have a problem here, most European guys spend time trying to find out whose mistake it was.

Highlights Continued from Page 4

cars last year with a daily average of 122 units. The production plan for 1998 is 120,000 units, with a daily average of 329 cars. In January, the plant produced 3,866 units for a daily average of 124 units. Production in February rose to 5,849 cars, with the daily average rising to 209 units.

The growing production is requiring the company to hire more workers. The current number of employees exceeds 4,000, compared to 3,800 at the end of last year, and this figure will rise to 4,500 by the end of 1998.

Sachs Trnava To Start Rebuilding Clutches For Skoda

The Slovak-based **Sachs Trnava**, maker of clutches and torque converters, is preparing to begin rebuilding Skoda clutches. Sachs Trnava was formed in Slovakia in 1993 and currently produces each year 600,000 passenger car clutches, 50,000 truck clutches, and 30,000 torque converters. The company is the only producer of torque converters in all of Europe. (for more on Sachs, see this month's Profile interview on page 1)

All Porsche Models Now Available in Slovakia

Porsche's entire 15-make range of sports cars is now available in Slovakia, including the Boxster and the 911 Carrera. Porsche accessories are also sold in Slovakia.

I'm used to doing it differently. In the US, we spent hardly a minute trying to find out who made the mistake. We spent 99% of our time trying to fix the problem, without even knowing who [erred]. If I can get my people to focus less on looking for the [culprit] and more on fixing the problem, then I'm far ahead of everybody ■

Romania

Toyota to Visit 4x4 Maker Aro — Engine Cooperation in Works

By early March, a powerful **Toyota** delegation will visit troubled off-road vehicle manufacturer **Aro**. The visit is related to a project under whose provisions the two main product lines of Aro — Aro 24 and Aro 10 — would be powered by Toyota 2,500cc engines. The project would eventually develop into a joint venture to assemble Toyota engines. (for more on Aro, see article on page 24)

Slovenia

New Car Sales Up During First Two Months

New car sales in Slovenia rose over 9% during the first two months of 1998, with sales totaling 9,502 units. **Renault** was the best selling brand with 1,775 units sold and a market share of 18.68%. At this time in 1997, Renault's market share stood at 21.27%. The company is facing strong competition from other makes, including **Volkswagen, Daewoo, and Citroen.**

Daewoo, the third best selling make behind Volkswagen, sold 937 units during the first two months and saw its market share jump from 2.65% to 9.86%. Citroen's market share also rose strongly from 4.08% a year ago to 7.66%. The fifth best selling make Fiat watched its market share drop from 11.66% to 7.42% ■

BEST SELLING PASSENGER CAR MODELS IN SLOVENIA (1997)

MODEL	1997	MARKET SHARE
RENAULT CLIO	5,632	9.27%
VOLKSWAGEN POLO	3,789	6.24%
RENAULT MEGANE	3,778	6.22%
SKODA FELICIA	3,680	6.06%
FIAT PUNTO	2,503	4.12%
RENAULT TWINGO	2,233	3.68%
VOLKSWAGEN GOLF	2,162	3.56%
HYUNDAI ACCENT	1,826	3.01%
FORD FIESTA	1,395	2.30%
CITROEN AX	1,318	2.17%
DAEWOO NEXIA	1,236	2.03%
OPEL ASTRA	1,214	2.00%
CITROEN SAXO	1,122	1.85%
PEUGEOT 106	1,093	1.80%
SEAT CORDOBA	1,079	1.78%
OPEL CORSA	1,073	1.77%
FIAT UNO	1,063	1.75%
VOLKSWAGEN PASSAT	1,060	1.74%
HONDA CIVIC	1,038	1.71%
HYUNDAI LANTRA	931	1.53%
OTHERS	21,529	35.44%
TOTAL	60,754	100.00%

SOURCE: REVOZ

TOP SELLING COMMERCIAL VEHICLE MODELS IN SLOVENIA (1997)

MODEL	UNITS SOLD	MRKT SHARE
VOLKSWAGEN CADDY	480	10.62%
PEUGEOT BOXER	440	9.73%
CITROEN JUMPER	376	8.32%
CITROEN BERLINGO	325	7.19%
VOLKSWAGEN TRANSPORTER	307	6.79%
MERCEDES-BENZ VITO	247	5.46%
RENAULT EXPRESS	212	4.69%
FIAT DUCATO	206	4.56%
SEAT INCA	185	4.09%
FIAT SCUDO	176	3.89%
HYUNDAI H 100 DLX	151	3.34%
MERCEDES-BENZ SPRINTER	147	3.25%
IVECO 35 E/40 E	138	3.05%
RENAULT TRAFIC	128	2.83%
RENAULT CLIO	113	2.50%
SKODA FELICIA PICK UP	108	2.39%
MAZDA B 2500 D	105	2.32%
FORD TRANSIT	73	1.61%
VOLKSWAGEN LT 35	63	1.39%
VOLKSWAGEN 70 X 1C	60	1.33%
OTHERS	481	10.64%
TOTAL	4,521	100.00%

SOURCE: REVOZ

Skoda Auto's Worldwide Sales

Country	1997 Sales	1996 Sales	% Change
Czech Republic	100,459	87,394	+ 14.9
Slovak Republic	28,723	23,035	+ 24.7
Poland*	27,881	15,840	+ 76.0
Hungary	3,281	2,541	+ 29.1
Slovenia	4,405	3,764	+ 17.0
Croatia	4,095	2,517	+ 62.7
Subtotal	168,844	136,217	+ 23.9
Germany	30,097	21,605	+ 39.3
Great Britain	16,639	13,346	+ 24.6
Italy	22,336	8,859	+ 152.1
Austria	11,709	9,457	+ 23.8
Sweden	10,205	4,150	+ 145.9
Subtotal	125,338	88,530	+ 39.3
Total Worldwide	336,334	261,067	+ 28.8

* Poznan assembly plant

Source: Skoda Auto

BEST SELLING COMMERCIAL VEHICLE BRANDS IN SLOVENIA (1997)

BRAND	UNITS	MARKET SHARE
VOLKSWAGEN	934	20.66%
CITROEN	753	16.66%
PEUGEOT	479	10.60%
RENAULT	476	10.53%
FIAT	458	10.13%
MERCEDES-BENZ	402	8.89%
SEAT	185	4.09%
HYUNDAI	152	3.36%
IVECO	138	3.05%
MAZDA	137	3.03%
SKODA	108	2.39%
FORD	103	2.28%
KIA	66	1.46%
OPEL	30	0.66%
TOYOTA	28	0.62%
OTHERS	75	1.66%
TOTAL	4,521	100%

Source: Revoz

Auto Marketing

Continued from Page 5

lifespan of the consumer. It's about winning customers for life . . .

For both the consumer and auto retailer to win, the process of marketing a vehicle must truly be reinvented. A whole new retail process [must be initiated] that meets the needs of today's consumers. The investment really lies in the commitment of people, process, and technology. These are tools that will power dealers into the next generation of auto retailing . . . ■

Visit
the
New
Central Europe
Expert Directories

<http://www.cear.com>
or click
[CEAR.COM](http://www.cear.com)™

Tax, Customs Continued from Page 15

e) temporary use

Free circulation

After releasing goods into the free circulation regime, the foreign goods are considered to be Slovak goods. To be released into the free regime, certain formalities must be complied with. Customs duties and VAT are payable in full at the time of import. VAT can be reclaimed by registered VAT payers in their next VAT return.

Transit

Transit is a regime under which the goods are being transported under customs supervision from one customs body to another. No VAT or customs duties are payable under this regime.

Storage in a bonded warehouse

This regime enables the storage of 1) foreign goods without application of customs duties and other trade-political rules; and 2) Slovak goods that are supposed to be exported, in a bonded warehouse without any time limitations (unless otherwise determined by the customs officials).

Under this regime, the payment of VAT and customs duties may be deferred or, in the case of reexport, not imposed. It is likely, however, that a guarantee or deposit of 100% of the amount of the taxes and duties will be required. The VAT refund is not available until the actual VAT payment is made.

Active regime

Under this regime, foreign goods may be imported to Slovakia either without import duty or with a refund of the duty. The goods may go through several manufacturing operations which are approved by customs but must then be reexported. A guarantee or deposit may also be required under this regime.

Temporary use

Foreign goods that are supposed to be exported back unchanged after use may be imported to Slovakia fully or partially exempt from customs duties. This regime generally applies to leased goods. VAT and customs are payable at the end of the lease period or 33 months (whichever is first) and are calculated at the rate of 3% per month. A guarantee or deposit is generally required under this regime ■

Exhibitions, Conferences, and Shows in 1998 & 1999

1998

April 11-19 New York, NY Int'l Auto Show
April 15-19 Tallinn, Estonia Tallinn Auto Show
April 18-26 Ljubljana, Slovenia Slovenian Motor Show
April 24-May 3 Turin, Italy International Auto Show
April 25-27 Toronto, Ontario Canadian Int'l Automotive Aftermarket Show
April 25-30 Poznan, Poland Int'l Fair of Auto Industry
April 27-29 Singapore, Singapore Automechanika Asia
April 29-May 3 Manila, Philippines Philippines Int'l Motor Show
May 12-14 Detroit, MI SAE Int'l Automotive Manufacturing Conference & Exhib.
May 12-14 Goteburg, Sweden Vehicle Industry Suppliers and Buyers Expos
May 29-June 7 Porto, Portugal Auto Show
June 3-14 Buenos Aires, Argentina Auto Show
June 6-11 Brno, Czech Republic AutoTec
June 23-30 Beijing, China Auto China '98
June 22-27 Kiev, Ukraine Auto Show
June 24-28 Rio de Janeiro, Brazil Auto Brazil 98
August 26-30 Moscow, Russia Moscow Int'l Motor Show
Sept. 3-10 Hannover, Germany Int'l Motor Show for Commercial Vehicles
Sept. 15-20 Nitra, Slovakia Autosalon Nitra
Sept. 15-20 Frankfurt, Germany Automechanika
Sept. 18-27 Bucharest, Romania Bucharest Motor Show

Sept. 27-Oct. 1 Paris, France FISITA Congress
Sept. 29-Oct. 4 Budapest, Hungary Autotechnika
Oct. 1-11 Paris, France Int'l Paris Motor Show
Oct. 6-8 Detroit, MI Global Powertrain Congress
Oct. 8-12 Ho Chi Minh City, Vietnam Auto Vietnam 98
Oct. 23-Nov. 1 Birmingham, UK British Int'l Motor Show
Nov. 5-8 Istanbul, Turkey Auto Show
Oct. 29-Nov. 8 Sao Paulo, Brazil Brazil Int'l Automobile Trade Show
Nov. 12-15 Cairo, Egypt Cairo Motor Show
Nov. 17-21 Sofia, Bulgaria Bulgaria Int'l Specialized Trade Show
Nov. 27-Dec. 6 Essen, Germany Essen Motor Show

1999

Jan. 16-24 Brussels, Belgium Brussels Int'l Motor Show
March 11-21 Geneva, Switzerland Geneva Int'l Motor Show
April 8-16 Stockholm, Sweden Stockholm Int'l Motor Show
May 22-30 Barcelona, Spain Barcelona Int'l Motor Show
Nov. 13-21 Athens, Greece Athens Int'l Motor Show

Visit Trade Events under the Expert Directories at <http://www.cear.com>
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, Email: cetmlc@ibm.net

Akusit, a.s.

lead-acid batteries,
aluminum and zinc
castings
Jan Ferjancik
Chairman

Tel: [421] (8) 5962-1004
Fax: [421] (8) 5962-1017

Auto-Engineering, spol. s r.o.

vehicle body design and
development
Frantisek Kralicek
Director

Tel: [421] (6) 5672-1100
Fax: [421] (6) 5642-827

AVC, a.s.

drivetrain and steering
components (mostly
geared), cold forming
Dusan Haluska

Tel: [421] (8) 2421-006
Fax: [421] (8) 2421-574

BAZ, a.s.

rear axles, brake parts,
toolings, pressings
Pavol Bastek
Managing Director

Tel: [421] (7) 2730-19
Fax: [421] (7) 2732-10

Complex, spol. s r.o.

commercial and mediat-
ing activity, truck sales/
export
Vladimir Balco
Director

Tel: [421] (9) 5622-5535
Fax: [421] (9) 5622-0017

Contitech - VEGUM, s.r.o.

rubber parts, rubber
sealings for windows
Pavol Janega
Chairman

Tel: [421] (8) 6299-388
Fax: [421] (8) 6299-146

Gemer

filter cartridges, road
signs, car jacks
Igor Viest
Chairman

Tel: [421] (9) 4195-112
Fax: [421] (9) 4195-214

JL, spol. s r.o.

materials for vehicle
painting
Jan Lelkes
Owner

Tel: [421] (7) 2409-740
Fax: [421] (7) 2409-742

KLF-ZVL, a.s.

Forgings, rolling bear-
ings, tooling
Anton Jezik
Managing Director

Tel: [421] (8) 2621-2620
Fax: [421] (8) 2621-2818

Kuster automobilova technika s.r.o.

flexible shafts, control
cables (including
handbrake)
Jan Kostur
Executive

Tel: [421] (8) 8788-174
Fax: [421] (8) 8788-477

Liaz Velky Krtis, spol. s r.o.

three-wheeled commer-
cial vehicles, components
(e.g. ball joints)
Maria Novakova
Director

Tel: [421] (8) 5422-239
Fax: [421] (8) 5422-029

Liaz Zvolen, spol. s r.o.

trucks, trailers, semitrail-
ers
Jozef Filanda
Director

Tel: [421] (8) 5523-151
Fax: [421] (8) 5532-1964

MATADOR, a.s.

tires, rubber hoses
Stefan Rosina
Managing Director

Tel: [421] (8) 2526-03
Fax: [421] (8) 2542-289

MIBA Slovakia, s.r.o.

slide bearings, sintered
products
Vladimir Toman
Director

Tel: [421] (8) 4586-4730
Fax: [421] (8) 4586-4732

Mireal, spol. s r.o.

towing devices for
commercial vehicles
Jaroslav Banoci
President

Tel: [421] (9) 4623-659
Fax: [421] (9) 4623-331

Motokom, s.r.o.

Gearbox consoles
Juraj Bobrik
General Manager

Tel: [421] (7) 8240-61
Fax: [421] (7) 8387-01

Novop, a.s.

commercial vehicle
superstructures, commer-
cial vehicle repairs
Jan Kacani
Managing Director

Tel: [421] (8) 6323-312
Fax: [421] (8) 6321-922

PAL- INALFA, a.s.

brake components,
metal & plastic parts,
sunroof plastic
Ivan Gajdos
Managing Director

Tel: [421] (8) 7832-360
Fax: [421] (8) 7833-294

Presskam, s.r.o.

auto pressings and
weldings
Viliam Liedl
General Manager

Tel: [421] (7) 7695-90
Fax: [421] (7) 7696-05

Robert Bosch, spol. s r.o.

accessories (including
audio), diagnostic
equipment
Tyll Weber-Carstanjen

Tel: [421] (7) 8224-49
Fax: [421] (7) 8398-79

Sachs Trnava, spol. s r.o.

clutches, rebuilt
clutches, torque
converters,
Peter Doll
Director

Tel: [421] (8) 0553-6307
Fax: [421] (8) 0523-352

Sandrik Stos, a.s.

air filters, jerry-cans,
jacks
Ervin Muller
Managing Director

Tel: [421] (9) 4393-731
Fax: [421] (9) 4393-710

SANDRIK, a.s.

oil and air filters, jerry
cans
Jan Garaj
Managing Director

Tel: [421] (8) 5849-4430
Fax: [421] (8) 5849-4637

Slov-Avia

commercial vehicle
superstructures, light
trailers, propeller shafts
Milan Hanzel
Managing Director

Tel: [421] (8) 9333-31
Fax: [421] (8) 9424-05

Sluzba Nitra V.D.I.

electrical equipment and
components
Jan Fulop
Chairman

Tel: [421] (8) 7524-424
Fax: [421] (8) 7526-508

Sova, spol. s r.o.

technical consulting
(CAD systems)
Martin Morhac
Director

Tel: [421] (7) 2394-12
Fax: [421] (7) 2315-57

**Place Your
Web and 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 Loss Leaders in Poland
2. New Car Registrations Growth in Europe
3. Polish Vehicle Market Segmentation
4. This issue including the extra information listed above delivered to their desk on March 25th.

**Get what you missed, and
get it early. Switch to the Email Edition.**

**Email us at cetmpr@ibm.net
and we will set you up.**

**Email and Analyst Subscribers can now
download current and back issues at
<http://www.pear.com>**

Modular Overhead System Cuts Installation Time by 50%

New Product Review

An integrated, one-piece headliner module that promises to slash installation time by up to 50% for vehicle manufacturers has been developed by **Lear Donnelly Overhead Systems, LLC**. The EcoLiner™ modular headliner is reportedly one of the industry's first 100% recyclable headliners which permits installation from outside the vehicle.

"We are now able to ship just-in-time and in sequence a fully tested headliner system that snaps into place without a worker ever getting inside the vehicle," said Richard Perreault, president of Lear Donnelly.

The system is fastened to the vehicle with the patented ZClip™, a one-piece, bendable plastic, screw-less attachment that closes by folding in on itself without breaking. Dubbed a "living hinge door," it snaps into sheet metal and locks into place.

Advantage Over Conventional Headliners

Assembling conventional headliners requires workers to fasten the headliner with screws and install components from inside the vehicle, creating an assortment of ergonomic problems that can lead to improper installation and damaged components.

Lear Donnelly's overhead module, with components such as grab handles, consoles, speakers, visors, and coat hooks already in place, can be installed by workers fastening the ZClips™ through the door openings from outside the vehicle.

"We anticipate this modular approach will reduce assembly tooling, labor, and part numbers while increasing quality, especially in the area of fit and finish," said Perreault.

Recyclable Material

The EcoLiner™ is made of recyclable material consisting of 100% polyester terethalate, which contains 50% recycled content. The benefit of using this material is that scrap or end-of-life headliners can be recycled into more headliners.

The EcoLiner™ is stiff enough for shipping and accommodating modular integration of components, but is flexible enough to avoid creasing during installation. Its construction consists of non-woven polyester fabric with lofty fibers for improved acoustics.

Lear Donnelly Overhead Systems is a 50-50 joint venture between Southfield, Michigan-based **Lear Corporation** and Holland, Michigan-based **Donnelly Corporation**. Lear Donnelly designs, develops, markets, and manufactures overhead systems, headliners, overhead consoles and lighting components, vehicle electrification interfaces, electronic components, and assist handles. The company currently has locations the United States, United Kingdom, Ireland and the Czech Republic.

Sales of New Cars and Commercial Vehicles in Poland

	Sales (Units)						YTD January	
	1992	1993	1994	1995	1996	1997	1998	% Change vs '97
Passenger Cars								
Local Production	144,748	170,549	199,724	206,284	260,265	337,467	31,963	46.65%
Import	54,531	71,059	50,558	58,754	114,347	140,493	10,314	-47.54%
Total	199,279	241,608	250,282	265,038	374,612	477,960	42,277	1.98%
Commercial Vehicles								
Local Production	19,665	18,475	21,413	28,076	43,207	43,086	2,904	-15.09%
Import	3,250	5,497	2,542	3,870	7,586	12,217	597	12.43%
Total	22,915	23,972	23,955	31,946	50,793	55,303	3,501	-11.39%

Source: SAMAR, s.c.

Best Selling Brands in Poland (YTD January 1998)

Passenger Cars			Commercial Vehicles		
Make	Volume	Market Share	Make	Volume	Market Share
FIAT	14,833	35.09%	DAEWOO M. PL.	1,030	29.42%
DAEWOO	11,829	27.98%	DAEWOO	647	18.48%
GM-OPEL	3,216	7.61%	CITROEN	302	8.63%
SKODA	2,434	5.76%	SKODA	281	8.03%
HONDA	2,059	4.87%	MERCEDES	236	6.74%
RENAULT	1,656	3.92%	FIAT	229	6.54%
TOYOTA	1,069	2.53%	FORD	172	4.91%
FORD	973	2.30%	VW	139	3.97%
VW	923	2.18%	IVECO	110	3.14%
SEAT	830	1.96%	PEUGEOT	95	2.71%

Source: SAMAR, s.c.

Ranking By Retail Volume

FUTURE ISSUES

- Poland's Special Economic Zones
- Auto Electronics Review
- Achieving Quality Improvement
- Poland Sales, Production Statistics
- 5 Questions With Skoda's Wittig
- Slovak Car Park Analysis
- Wiring Harness Review
- Romanian Tax & Investment Update
- Interview With Ford Bank Polska

THIS IS A SPECIAL NEWS BULLETIN FROM:

AutoNewsFastTM



**Special Central Europe Automotive Industry Email News Bulletin Service
Included 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 included with the CEARTM Analyst Edition.

Automotive Market Highlights and News Stories as they come in, information from CENTRAL EUROPE AUTOMOTIVE REPORTTM columns before they are published, reliable auto industry news, 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****

CEARTM Analyst Edition & AutoNewsFastTM Order Form

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

One Year Subscription

Send Me a One Year Subscription to **AutoNewsFastTM** and the **CEARTM Analyst Edition**.
That's 49 weekly reports, 11 issues, and 11 mid-issue reports for **USD\$900**

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

Romanian Off-Road Carmaker Aro Struggles To Survive

Toyota & Exports May Be The Solution

Company Spotlight

Company: Aro S.A.

Location: Campulung-Muscel,
Romania

Contact: Sorin Olteanu

Business: 4WD Vehicle Manufacturer

One of the former glories of the Romanian automotive industry, the off-road vehicle manufacturer **Aro**, stubbornly struggles to survive. Plagued by a chronic lack of working capital, problems with trade unions, and frequent management changes at the top, Aro still looks forward.

Engine Project With Toyota

A series of events indicate that better times may come. By early March, a powerful Toyota delegation will visit the company. The two companies are discussing a project in which Aro's two main product lines — Aro 24 and Aro 10 — would be powered by Toyota 2,500cc engines.

The project would eventually develop into a joint venture to assemble Toyota engines. Coincidentally or not, March 2 is the deadline set by the **State**

Ownership Fund (who holds 70% of ARO's stock) for submission of takeover proposals.

Engines from numerous companies have powered Aro 4WD cars. Over the past several years, **Peugeot, Renault** and **Ford** Cosworth engines did the job. More recently, **Daewoo** 1,600cc engines, manufactured in Romania, were tested, "with very good results on our Aro 10 cars," stated Aro's CEO Sorin Olteanu.

Besides engines, the main items Aro imports are tires (included in the engine kit) and board elements.

Salvation Through Export

With a production capacity of 8,000 units per annum, Aro is pinning its hopes on exports. Besides the favorable market it has always enjoyed in France, Aro's exports to Venezuela and Poland are on the target list.

Yet the big hit may be the US — Aro's cooperation with Miami-based **East European Imports** has yielded results beyond the most optimistic expectations.

Through a Romanian trade company, Aro exports fully-equipped chassis and bodies to the US, where American engines, drivetrains, and other equipment and accessories are added.

The car sells for some \$13,000, less than half the average price of an American sport utility vehicle. Demand has skyrocketed to 10,000 units — about ten times more than initial estimates.

Turkey and the Mideast may also develop into promising markets. Olteanu said he's looking to sign a 5,000 unit contract with a Turkish company, and another project is underway with the Jordanian Ministry of Defense. According to the terms of the project, the deal should develop into a production agreement, under which Aro cars would be assembled in Jordan. Later, the Jordanians would buy a license for producing Aro cars.

Catalin Dimofte (Bucharest)

New Car Registrations in Slovenia by Brand (1996 v. 1997)

BRAND	1996 UNITS	1996 SHARE	1997 UNITS	1997 SHARE	UNITS CHNG.	SHARE CHNG.
RENAULT	15,652	26.03%	12,870	21.18%	-17.77%	-18.61%
VOLKSWAGEN	7,003	11.64%	7,337	12.08%	4.77%	3.71%
FIAT	3,951	6.57%	5,356	8.82%	35.56%	34.19%
SKODA	3,414	5.68%	4,220	6.95%	23.61%	22.36%
OPEL	3,785	6.29%	3,228	5.31%	-14.72%	-15.58%
CITROEN	740	1.23%	3,153	5.19%	326.08%	321.77%
HYUNDAI	4,391	7.30%	3,122	5.14%	-28.90%	-29.62%
FORD	3,602	5.99%	3,042	5.01%	-15.55%	-16.40%
DAEWOO	1,531	2.55%	2,326	3.83%	51.93%	50.39%
SEAT	2,025	3.37%	2,272	3.74%	12.20%	11.06%
PEUGEOT	1,608	2.67%	1,994	3.28%	24.00%	22.75%
AUDI	1,247	2.07%	1,540	2.53%	23.50%	22.25%
ROVER	731	1.22%	1,407	2.32%	92.48%	90.53%
SUZUKI	1,308	2.17%	1,366	2.25%	4.43%	3.38%
KIA	1,002	1.67%	1,314	2.16%	31.14%	29.81%
HONDA	1,088	1.81%	1,236	2.03%	13.60%	12.45%
LADA	1,930	3.21%	777	1.28%	-59.74%	-60.15%
NISSAN	600	1.00%	755	1.24%	25.83%	24.56%
BMW	505	0.84%	516	0.85%	2.18%	1.14%
MAZDA	668	1.11%	512	0.84%	-23.35%	-24.13%
VOLVO	337	0.56%	278	0.46%	-17.51%	-18.34%
OTHER	3,021	5.02%	2,133	3.51%	-29.39%	-30.11%
TOTAL	60,139	100.00%	60,754	100.00%		

SOURCE: REVOZ

CEAR™ Extra Data For Email Edition

This Data did not fit in the Print Edition, but it is made available to Email Subscribers

Polish Vehicle Market Segmentation (YTD January 1998)

Segment	YTD SALES (Units)		CHANGE (%)	MARKET SHARE (%)		SALES IN JANUARY	
	1998	1997		1998	1997	1998	1997
1. Segment A	10,354	11,053	-6.32	24.49	26.66	10,354	11,053
2. Segment B	8,391	9,615	-12.73	19.85	23.19	8,391	9,615
3. Segment C	19,111	12,089	58.09	45.20	29.16	19,111	12,089
4. Segment C/D	3,815	8,279	-53.92	9.02	19.97	3,815	8,279
5. Segment D/E	270	105	157.14	0.64	0.25	270	105
6. Segment F	6	3	100.00	0.01	0.01	6	3
7. Segment S	66	166	-60.24	0.16	0.40	66	166
8. Segment MPV	224	109	105.50	0.53	0.26	224	109
9. Segment 4WD	40	37	8.11	0.09	0.09	40	37
Total Passenger Cars	42,277	41,456	8.11	100.00	100.00	42,277	41,456
10. Light Comm. Segment	1,519	2,174	-30.13	43.39	55.02	1,519	2,174
11. Medium Comm. Segment	1,982	1,777	11.54	56.61	44.98	1,982	1,777
Total Commercial Vehicles	3,501	3,951	-11.39	100.00	100.00	3,501	3,951

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

New Car Registrations Growth in Europe (YTD January)

	Country	1998	1997	% Change
1	Italy**	269,400	203,900	32.12
2	Germany**	263,000	266,100	-1.16
3	U.K.	232,100	207,000	12.13
4	France	138,200	122,300	13.00
5	Netherlands**	75,400	72,000	4.72
6	Spain**	72,200	67,900	6.33
7	Belgium	47,600	44,500	6.97
8	Poland*	42,277	41,456	1.98
9	Austria**	24,000	23,900	0.42
10	Ireland**	22,300	20,400	9.31
11	Switzerland**	21,000	22,600	-7.08
12	Greece**	17,800	17,500	1.71
13	Sweden	17,800	14,000	27.14
14	Portugal**	15,800	16,000	-1.25
15	Finland	14,000	13,500	3.70
16	Denmark**	10,900	10,200	6.86
17	Norway	8,100	11,200	-27.68
18	Luxembourg	2,100	2,200	-4.55

*Grey import not included

** Provisional figures

Source: SAMAR, s.c.

CEAR™ Extra Data For Email Edition

This Data did not fit in the Print Edition, but it is made available to Email Subscribers

Sales Loss Leaders in Poland (YTD January 1998)

Passenger Cars			Light Commercial Vehicles			Medium Commercial Vehicles		
Make	Units	Change '98 v. '97	Make	Units	Change '98 v. '97	Make	Units	Change '98 v. '97
FSO-Polonez	1,264	-2,210	FSO Polonez Truck	630	-488	Fiat Ducato	70	-43
Peugeot 406	163	-1,781	Fiat Cinquecento Van	12	-313	FSC - Zuk	190	-29
Toyota Carina E	363	-1,437	Citroen C15	221	-46	Daewoo Lublin	840	-19
Citroen Saxo	145	-789	Peugeot Partner	23	-43	Mercedes Sprinter	29	-12
Daewoo Espero	217	-774	VW Caddy	12	-30	Ford Transit	158	-8
Renault Megane	894	-521	FSO Polonez Cargo	17	-15	Renault Trafic	13	-8
Fiat Marea	140	-501	Ford Courier Van	13	-14	Citroen Jumper	25	-1
Renault Clio	85	-473	Renault Clio Societe	4	-14			
Seat Ibiza	118	-432	Ford Escort Van	1	-10			
PF 126	3,413	-429	Renault Express	10	-8			

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

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
[PEAR.COM](http://www.pear.com)™

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