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Eastern Europe less attractive for investors

The "Foreign Direct Investment Index 2007" by A.T. Kearney reveals that Eastern European countries are gradually losing their position as most attractive target countries in the international race for investments. According to this study China is in the lead now, followed by India and the USA. Only two Eastern European countries rank among the top 25: the Czech Republic ranking 25th (formerly 12th) and Poland ranking 22nd (formerly 5th). The main reason for declining investments is that the purchases of enterprises have already been completed. A reversal trend can be located in the reform countries of South-Eastern Europe and the former Soviet Union. There foreign direct invest-

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Companies from the east increasingly locate in

Last year the public Austria Business Agency located more than 200 international enterprises in our country. The interest from CEE keeps growing.

Previous year's record was beaten by 32% per cent with 201 foreign investors. With 82 projects Germany is again the most important investor - followed by Italy. The interest from CEE and SEE countries keeps growing.

The public business location agency ABA (Austria Business Agency) looks back on another bumper year. Compared with the previous peak year of 2006, the record for 2007 shows a further increase in all three parameters for success. In 2007, the number of investment projects handled jointly by ABA and the regional agencies reached a record figure of 201, compared with 152 in the year before. These companies invested € 394 million, which is about 70% more compared with 2006 (€ 230 million) and created 2.087 jobs, which is 45% more than in 2006.

Federal Minister of Economics and Labour, Martin Bartenstein, who represents the owners of ABA, is convinced that „this pleasing result is impressive proof that we are superbly positioned with our location policy, and economic policy milestones such as the 2005 tax reform, including taxation on groups of companies, are now bearing long-term fruit. Other measures such as more flexible working hours, the 2008 directive concerning skilled workers (Fachkräfteverordnung), and the abolition of inheritance tax make me positive that we can continue this success story in 2008 too.“

Never before have so many German companies chosen Austria as a location as in 2007 - 82 firms (2006: 72) placed themselves in the care of ABA when establishing new locations, among them 16 from the IT sector, six life science companies and six companies from the field of mechatronics. More than a quarter of the German investors came from Bavaria, 11 from Baden-Württemberg and another 11 came from Nordrhein-Westfalen. In 2007, Italy was once again the second biggest investor: 22 Italian companies located in Austria, an increase of 50% on the previous year.

Interest from the east has continued to grow as well. In 2007, ABA-Invest in Austria helped 23 companies from Central, Eastern and South-Eastern Europe to locate in Austria, - 22 in 2006. With seven investors Hungary is the most strongly represented country, ahead of Slovenia (four) and Romania (four investments).



Photo: BMWA

Martin Bartenstein considers Austria as an ideal service location for the east european countries

As in the year before the biggest group of investors was represented by service companies, at 116. Concerning this outcome, ABA Managing Director René Siegl remarks that „the trend towards Austria being a service industry location continues unabated. Compared with the previous year, though, we have been able to locate 50% more manufacturing companies (ten in 2006, 15 in 2007). Also a larger number of investors carrying on research and development in Austria (seven in 2006, ten in 2007) and the location of thirteen headquarters, seven of which are German, are the genuine confirmation that Austria is seen as a business hub.“

ABA provides free advice to interested companies on choice of location, labour and tax law matters, assists in finding cooperation partners and provides support and advice when dealing with the authorities.

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This pleasing end result is impressive proof that we are superbly positioned with our location and tax policy.”

Martin Bartenstein, Federal Minister of Economics & Labour

HU: significant rise of traffic fines

Soon driving too fast in Hungary does not only mean paying high fines but also covering the costs of the administrative procedures.

Soon a new system of administration fines for traffic offenders will enter into force in Hungary. From May on, traffic offenders will be presented with high bills.

Exceeding the speed limit in a 50 km-area by 25 km/h will mean a minimum fine of HUF 40.000.- (about EUR 160) Getting caught at 100 km/h, which happens quite frequently in Hungarian residential districts, means a fine of EUR 500. Driving bans can be imposed on foreigners much faster than before. Ignoring the red traffic light is fined with EUR 400.

Authorities plan to pass on the costs for measuring and administrative expenses to the traffic offenders as a special deterrent. These costs, charged in addition to the fine, may run up to another EUR 400. Parking offences are already prosecuted across the border (from about EUR 40 on). The

capital city of Budapest plans to extend the most efficient system of wheel clamps especially for foreign vehicles to get the fines much faster. Anyway, it pays to stick to the rules.

It is annoying that the problem of expired Austrian badges of the vehicle condition check has not been solved yet. In Austria there is a period of tolerance of four months which Hungary does not accept. There an expired badge results in losing the number plates and the registration certificate.

It is also new that, apart from the police, local governments as well as operators of roads may conduct traffic controls from May 1st on.

Ukraine

Ukraine's way into the WTO is open now

The EU estimates that Ukraine's way to join the World Trade Organization is open now. According to latest information the EU was the last WTO-trading partner whose approval had been missing. Questions on tariffs had to be settled first. Peter Mandelson, EU-Commissioner for External Trade, called this the first step towards the country's stronger integration into the worldwide and European economy. Being the largest trading partner the EU now plans to enter into negotiations on a free trade agreement with Kiev.

The Czech Republic: highest increase of hourly wages

In the Czech Republic the statistical central office has found out that the hourly wages in the Czech Republic have grown from EUR 5,74 in 2004 to meanwhile EUR 7,14, which is an increase of 30,5 per cent. Thus since its EU-accession the Czech Republic has been the country with the largest increase of hourly wages. Over the same period the average incomes in comparable branches have only grown by some 20 per cent in Slovakia and Hungary. Presently productivity is higher in Slovakia than in the Czech Republic. In 2007, it reached 73,5 per cent in the Czech Republic and 75,5 per cent in Slovakia.

Austria increases exports to Eastern

Last year Austrian exports grew by 9,6 per cent. The countries of Eastern Europe were the driving force of this increase.

In 2007, Austria achieved its biggest trade balance surplus in the history of the Second Republic. Austrian exports of goods and services outperformed imports by € 1,5 billion. This means an increase of 9,6 per cent over the year.

Especially pleasing is the increase of exports to Eastern Europe. Compared with the same period of the previous year, the amount of exports in this sector grew by 15,7 per cent during the first ten months of 2007. In the first ten months of 2007 the positive trade balance with Eastern Europe amounted to some € 0,5 billion. Since the opening of the East Austrian exports to this region have increased tenfold. Presently 21,8 per cent of all shipments from Austria go to Eastern Europe. Thus after Germany this region is Austria's second largest trading partner.



Nearly 22 per cent of all shipments from Austria go to Eastern Europe.

New pallet standards for Croatia

On January 1st, 2008 Croatia introduced the new pallet standard ISPM nr.15. This standard defines in which form solid-wood means of packaging (pallets) must be treated to protect them permanently from infestation by pests.

Therefore since January 1st only such pallets must be used for deliveries to Croatia which meet this standard and are marked correspondingly.

This means for export firms that wooden means of packaging not treated as demanded and without ISPM-marking are stopped by the customs authorities at the customs control and further transportation may be forbidden.

Serbian customs authorities demand precise declaration of country of origin

At the end of 2007 Serbian customs regulations were altered. The declaration "country of origin EU" is no longer accepted by Serbian customs authorities. This means that the country of origin must be precisely declared for shipments from an EU-country to Serbia.

If the declaration of the country of origin is missing the customs clearance on importation will be delayed till details have been cleared. This will lead to delays in the delivery of the goods.

Schengen enlargement and open frontiers

Odd indeed: open borders in Croatia and Slovenia while Bulgaria and Romania increase border control.

The latest Schengen-enlargement comes up with some strange effects in certain places. The Slovenian-Croatian border, for instance, remains open at several places. On the other hand the Schengen-enlargement motivates the two new EU-members Romania and Bulgaria to implement the accession criteria much faster and to increase border controls.

The just recently established new Schengen border between Slovenia and Croatia is not as tight as it should be. Between the former federal republics of Ex-Yugoslavia the border is permanently open at some minor border crossings. The reason for the open border in East-Slovenia is quite simple. While Slovenia invested a lot of money in purchasing leading edge equipment for monitoring the 670 km of external Schengen frontier, it just lacks some of the simplest means for securing the border. The delivery of those keys which enable inhabitants to unlock the beams at unmonitored border crossings has been delayed. Therefore the police has decided to leave the border open for the moment.

In the course of the Schengen-enlargement the number of monitored points of entry between Croatia and Slovenia has been reduced dramatically. In order to avoid hardships for the local inhabitants more crossing points have been provided with lockable beams. Those Slovenians or Croatsians who work on the other side of the border or own land there shall be given keys for the locks to enable them to lock and unlock the beams themselves.

While Slovenia is still fighting with its Schengen borders the two youngest EU-members make every effort to join Schengen as soon as possible. Despite planning their accession for 2011, Romania and Bulgaria cannot expect their accession earlier than in 2012. This is what Dragutin Mate, President of the EU Council, pointed out after the signing of an agreement on the Schengen alignment by the ministers of the interior of both countries during an informal meeting of the EU Ministers of the Interior in Slovenia. In this agreement Romania and Bulgaria bind themselves to tight coordination in the compliance with the accession criteria.

Till their final accession the EU keeps checking

on the implementation of the necessary measures for border management. Rumen Petkov, Bulgarian Minister of the Interior, wants to intensify the dialogue with the European Commission, which will repeatedly present reports on Bulgaria's Schengen fitness to the EU Parliament.

Bulgaria and Romania do not necessarily have to join the Schengen area at the same time, but both countries want to do so. It would be irrational if an additional border had to be established between the two countries for just a few months. Meeting the Schengen criteria is much more difficult for Romania than for its neighbour Bulgaria. While Romania has to secure almost 1.450 km of the future Schengen borderline, Bulgaria only has to do so for 700 km.

In the last three years Bulgaria has significantly intensified its border checks. Petkov informed that most of the points of entry had been equipped with cameras. And the policemen on duty there often change. Due to this corruption is said to have dropped significantly. Previous year more than 1.000 people who wanted to get into the country illegally were arrested at the Bulgarian border.

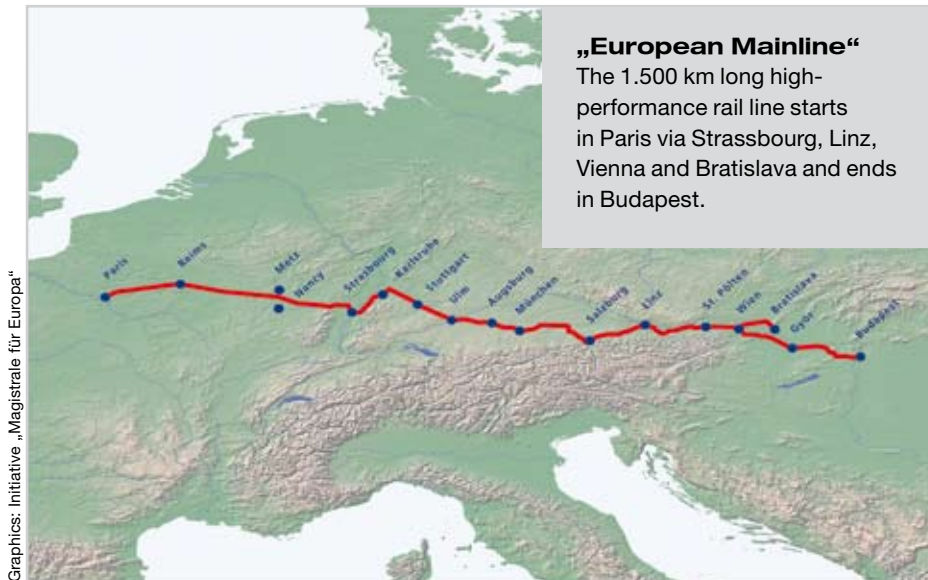
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I am to blame that the dialogue between the Ministry of the Interior and the European Commission has not been active enough.

Rumen Petkov, Bulgarian Minister of the Interior

Austria's support for the "European Mainline"

The European Mainline shall provide efficient personal and freight traffic with top links to urban areas along 1.500 km.



Graphics: Initiative „Magistrale für Europa“

„European Mainline“

The 1.500 km long high-performance rail line starts in Paris via Strassbourg, Linz, Vienna and Bratislava and ends in Budapest.

The Austrian Federal Economic Chamber (AFEC) has become a new supporting member of the initiative “European Mainline”. The goal of the initiative is the development of the west – east high-performance rail line Paris – Vienna – Bratislava – Budapest.

“The ground has been prepared for the participation of the Austrian economy in the high-performance-rail-line project “European Mainline”, Christoph Leitl, President of the AFEC, pointed out at the latest meeting of the initiative “Mainline for Europe”.

By signing the Austrian Federal Economic Chamber has become a supporting member of the initiative. The agreement concerns financing the common office. “We can adequately position interests of the Austrian economy in this border-crossing infrastructure project by financial support for the common office which has been established as an interface in Germany”, Leitl explains.

For Austria this gigantic project means doubling the capacities between Vienna and Bratislava, a clear reduction of the running time between Bratislava and Salzburg as well as a significant increase of capacities on the rail on the Upper-Austrian section of the high-speed track. Though originally not provided, Linz has been included as a stopover in

the track routing.

The goal of the initiative “European Mainline” is the complete construction of the west-east high-speed rail line for passenger and freight traffic from Paris via Bratislava to Budapest with top links to the local public and the regional traffic along the 1.500 km long track. In 1990, the project was initiated by the cities, regions and industrial and commercial chambers situated along the rail line. Its construction is considered an essential precondition for the quick economic, political and cultural integration of Western and Eastern Europe. The rail line, also known as TEN-Project 17, is co-financed by the EU with EUR 438 million.

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“For Austria this gigantic project means doubling the capacities between Vienna and Bratislava.”

Christoph Leitl, President of the AFEC

EBRD-loan for Bosnia-Herzegovina

The EBRD (European Bank for Reconstruction and Development) has appropriated € 180 million for the construction of the motorways of the Pan European Corridor VC across Bosnia-Herzegovina. The government of the federation Bosnia-Herzegovina expects that the same amount of money will be appropriated by the EIB (European Investment Bank).

The first loan is used for the construction of sections Sarajevo – Zenica and Mostar- southern Croatian border. The construction of the link with the Croatian motorway net near Svilaj shall be financed by the EIB-loan. So far Bosnia-Herzegovina has built 29km from its own purse. Another 9 km shall be completed this year. Thus the towns Sarajevo-Visoko-Kakanj, situated along the section Sarajevo – Zenica, are connected by motorway.

Bosnia-Herzegovina: more departures

Many enterprises have increased their business relations with South-Eastern European countries. Gebrüder Weiss takes account of this development and increases the numbers of departures to Bosnia-Herzegovina. Now Gebrüder Weiss runs a service from terminal Vienna/ Maria Lanzendorf to Bosnia-Herzegovina twice a week.

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EU-newcomers profit from flat tax

Uniform taxation helps on the way to free market economy.

Since January 1st, all Bulgarians pay a standard rate of income tax of only 10 per cent. Other new EU-countries like the Czech Republic, Estonia or Romania have already introduced uniform tax rates too. According to experts this measure is ideal for countries on their way from a centrally managed economy to market economy.

At the end of December the Bulgarian Parliament adopted the bill about uniform income tax. Now, with a rate of only 10 per cent, Bulgaria has the lowest flat tax in the European Union since the turn of the year. Before this there existed three rates of income tax in the country: 10, 16 and 24 per cent.

So Bulgaria follows a number of other new EU-countries, which had already introduced a uniform income tax rate before. Since 1994 Estonia has levied a uniform tax of 22 per cent on private incomes and has announced to reduce this flat tax rate to 20 per cent till 2009. In Slovakia the flat tax rate is 19 per cent, in Romania it is 16 per cent. At the turn of the year the Czech Republic also introduced a flat tax rate of 15 per cent on incomes, planning to reduce this rate to 12,5 per cent till 2009.

Flat tax is also a matter of discussion in several Eastern European countries which are no EU-members. At the beginning of January the Bosnian Parliament adopted the introduction of a uniform income tax of 10 per cent. In Russia and Ukraine the flat tax rate is 13 per cent. In Macedonia income tax and corporation income tax were reduced from 12 to 10 per cent on January 1st. Thus this Balkan Country belongs to the countries with the lowest flat tax rate.

According to economic experts the uniform taxation of incomes helps Eastern European countries on their way to market economy. It proves especially effective to fight clandestine work. A relatively low income tax rate does, in fact, increase the employers' willingness to register illegal workers. Thus the black economy is fought successfully and the taxpayers' honesty is improved.

The flat tax also has an influence on the public funds. Because of the flat tax Bulgaria hopes to gain more than € 280 million additional tax revenues. Since the introduction of the uniform tax rate of



A relatively low income tax rate does, in fact, increase the employers' willingness to register illegal workers.

12 per cent revenues have significantly increased in Georgia. Before the tax reform they only amounted to 14,5 per cent of the gross domestic product. For this year the government expects tax revenues to make up 24 per cent of the GDP.

But national trade unions criticize the flat tax model, calling the uniform income tax "anti-social". Mainly well-to-do households would profit from the flat tax.

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The term "flat tax" is used for a single-stage income tax rate. In this case of uniform taxation there is only one constant rate which, at the same time, is the marginal tax bracket.

Robert E. Hall und Alvin Rabushka, from: Wikipedia

The CEE markets in the focus of attention

Several things have changed in the GW group since January 1st, 2008.



With the new „Region East of GW“ including Hungary and Slovakia GW is on the right way to regionalize various tasks.

At the beginning of this year the GW group introduced several innovations. Andreas Zwerger has taken over the branch in Vienna, Jan Krupa is the new managing director in Slovakia, and Thomas Schauer has been made managing director for Hungary. Appointed as regional director for the east, Jürgen Bauer coordinates the countries Slovakia, Hungary, Eastern Austria (catchment area Vienna, Pöchlarn) as well as the high-tech logistics branch tectraxx. On January 7th, the first Orange Combi Cargo was put on the rail.

Jürgen Bauer has already directed the region Eastern Austria before, now with the beginning of this year, his sphere of responsibility includes the countries Slovakia and Hungary. “From this I expect a better use of synergies – mainly because of the regionalization of various tasks”, Bauer explains.

After the integration of all logistics and IT-systems had been managed successfully in 2007, Jan Krupa from Slovakia has now taken the reins as new managing director on January 1st. Together with him Slovakia, on the one hand, wants to fully concentrate on market cultivation and, on the other hand, wants to complete its cultural integration. As Jan Krupa has a lot of experience in the automotive sector Jürgen Bauer expects appropriate initiati-

ves and “hopefully, many new customers from this sector”.

After two most successful years of GW-Hungary and the extension of the terminal in Dunaharaszti last year, which will be completed during the first quarter of 2008, Hungary has now a new managing director - Thomas Schauer. His task is to adjust the structures of GW-Hungary to the new dimension. With tectraxx, the GW high-tech logistics specialist, Bauer wants to concentrate his interest on the CEE-markets. “We can already tell that there is a huge backlog demand especially in the service branch in the countries of Middle and Eastern Europe and tectraxx is well-prepared for this.”

On January 7th, the first train of the daily GW unit train link left the Wiener Westbahnhof for Hall / Tyrol and Bludenz. Bauer considers this Orange Combi Cargo a unique chance - for the regions near the border and also for an ecologic and cost-efficient covering of a part of the distance between Romania and Bulgaria on the one end and the area of Eastern Switzerland and Southern Germany on the other.

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