

Central & Eastern Europe Commercial Update

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Central and Eastern Europe Business Information Center (CEEBC), in cooperation with
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May 2003

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Calendar of Events

May

5/20–5/23

BaltTechnika

Vilnius, Lithuania

5/27–5/30

Industria

Budapest, Hungary

5/28

Hungarian Trade and
Investment Conference:
“Hungary: The Profitable
Way into Europe for
U.S. Business”

Tysons Corner, Va.

[Event details and contact
information on page 5](#)

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IT and Telecommunications in Lithuania Baltic Innovation and Sophistication

The Lithuanian Development Agency presents here an overview of the Lithuanian information technology and telecommunications (ITT) sector, in preparation for the World Information Technology Forum, to be held in Vilnius on Aug. 27–29, 2003. The International Federation for Information Processing, which includes 44 countries, organizes the forum every two years. Its principal objective is to stimulate research, development, and international cooperation in IT. Foreign IT companies, working in conjunction with the Lithuanian government, will sponsor the forum.

Lithuania's ITT Sector at a Glance

Lithuania, once called the Silicon Valley of the Soviet Union, today serves as a cost-effective, efficient regional hub for foreign companies operating in European ITT markets.

Lithuania's economy continues to grow at a robust 6-percent rate, in contrast with the general European economic slowdown. The International Monetary Fund recently gave Lithuania high marks for economic performance and called it a success story. The Economist Intelligence Unit singled out Lithuania as having one of the best growth outlooks in Central and Eastern Europe. Foreign direct investment showed substantial gains in 2002 and is expected to continue to grow, further stimulated by Lithuania's anticipated NATO and EU membership (in Spring 2003 and 2004, respectively).

The Lithuanian ITT sector is currently experiencing rapid annual growth at an all-time high of 25 to 30 percent (compared with only a 2.8-percent forecast for global ITT growth). The estimated market value of the sector is 1.5 billion euros. IT companies have been very successful in exporting software products and software devel-

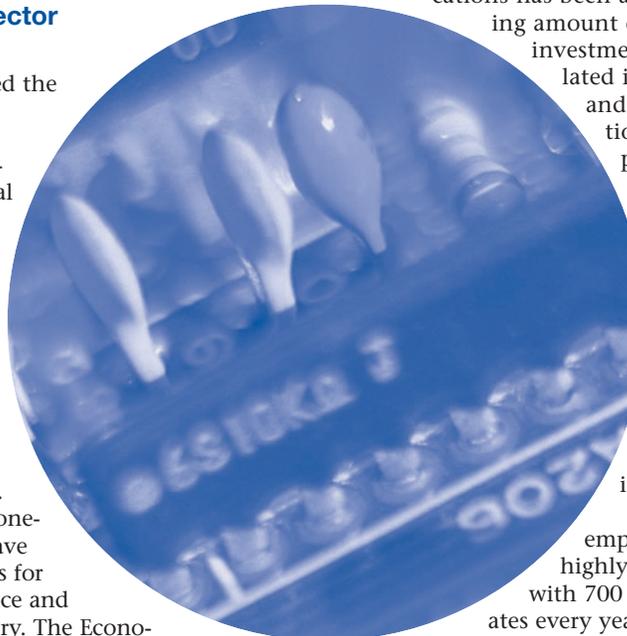
opment services (these exports exceeded 30 million euros in 2002). Lithuania has also been implementing strategic initiatives for e-government and a knowledge-based society. Furthermore, Lithuania was the first Baltic country to adopt an electronic signature law.

Scandinavian and U.S. investors dominate the telecommunications sector in Lithuania. With their help, fixed-network provider AB Lietuvos Telekomas and the three local mobile operators have rapidly expanded Lithuania's telecommunications infrastructure and introduced truly cutting-edge services. Telecommuni-

cations has been attracting an increasing amount of public and private investment, which has translated into new technology and overall modernization. In fact, over the past five years, the mobile telecommunications market in Lithuania has grown more than 60 times (from 15,000 mobile phone users in 1996 to more than a million in 2002), and service providers say demand is still accelerating.

The ITT sector employs more than 10,000 highly qualified specialists, with 700 fresh university graduates every year, allowing active and efficient development of information technology and telecommunications. High-tech fields of study are currently among the top choices for students in Lithuanian universities. Major Lithuanian ITT companies cooperate closely with leading technological universities, and such businesses even offer their own specialized internal training programs to students. Companies are thus able to attract a large number of qualified ITT specialists both for local and international projects.

Most international customers already working with Lithuanian ITT companies praise the expertise, quality, flexibility, realistic pricing,



(Continued on page 6—Lithuania)

Eye on Southeast Europe

Telecommunications Markets in Southeast Europe Opportunities for U.S. Firms



Croatia, Romania, Bulgaria, Bosnia and Herzegovina, FYR Macedonia, Albania, and Serbia and Montenegro are linked geographically, but they differ greatly with regard to the development of their telecommunications sectors.

After decades of communist rule and years of conflict, Southeast European telecommunications markets are still in the early stages of transformation. They are in the midst of major transitions from monopolies to free competition, from voice to data systems, and from fixed lines to mobile penetration.

Market Conditions

Greater competition and demand for new technologies are creating extensive market opportunities for U.S. telecommunications equipment suppliers and service providers. In addition, as the region moves closer economically to the level of the European Union, greater discretionary income will continue to increase telecommunications growth throughout the region. Both new entrants and incumbent operators in Southeast Europe must invest in state-of-the-art technologies to improve the quality, speed, coverage, and capacity of their networks. Wireless technologies, especially those that support high-speed data and voice services, are particularly popular, as they are relatively quick and cost-effective to install. A number of licenses for GSM, WLL, LMDS, and MMDS services have been or soon will be awarded in the region, creating attractive opportunities for U.S. firms. There are an estimated 12 million main telephone lines in Southeast Europe, which translates into average tele-density of approximately 22 percent. And while overall cellular penetration is low, mobile communications is the fastest-growing segment of the telecommunications sector, with annual growth of 86 percent in 2001.

Equipment

The telecommunications equipment sector is fully liberalized throughout Southeast Europe. Nearly all equipment is imported. The largest players within the equipment market are Alcatel, Siemens, Ericsson, Nortel, and Nokia. U.S. telecommunications equipment, known worldwide for its high quality, is also very well received. U.S. exports of telecommunications equipment to Southeast Europe totaled \$85 million in 2001, a nearly 200-percent increase over 2000. Romania imported the bulk of U.S. equipment in 2001, which totaled \$58 million. According to the U.S. Department of Commerce, the telecommunications sector ranked first in Croatia, second in Bosnia and Herzegovina, and third in Bulgaria and Macedonia as best trade prospects for American IT companies.

Telecommunications-related software is also in high demand—particularly business packages for administrative and management functions, databases, and billing systems. As the telecommunications sector matures in these countries, software applications for new mobile services are also expected to be a high-growth area.

Services

Opportunities further abound in value-added services, like implementing billing systems. This will become even more pertinent as Southeast European countries will need to offer discounts and billing schemes to attract customers and add Internet-related services to their portfolios. In addition, call center services are in demand as the focus on improved telecommunications customer service rises.

The role of U.S. companies has also grown in the last several years, most notably regarding supplies for cellular networks, WLL, and satellite systems. U.S. equipment suppliers have great opportunities in marketing the following technologies and products:

- Technologies for expanding existing cable TV networks to allow new services such as high-speed data and voice connections;
- WLL technologies;
- Overlay networks (wire and wireless);
- Technologies for more efficient use of installed cable networks;
- Fiber optic cable and connectors (single and double layer ATM backbones on optical fiber);
- Digital switches, packet switches, and PBXs;
- Radio base stations and base station controllers;
- Wireless networks;
- HDSL technology; and
- Modems, handsets, telephone sets, and fax machines.

Although the current decline in telecommunications markets in the United States and Western Europe negatively affects growth in the global telecommunications sector, most countries in Southeast Europe are moving ahead with market liberalization, expanding business opportunities for U.S. exporters and investors in the region.

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EU Accession Extras

Slovene Referendum Positive



On March 23, 2003, Slovenia, the first Central and East European country to hold an EU accession referendum, approved membership with approximately 90-percent support. In an earlier referendum, Malta, another candidate country, also approved EU membership. Source: *Enlargement Weekly*.

Accession Treaty Signed



On April 16, 2003, representatives of the 15 EU member states, along with leaders of the 10 EU accession countries, met in Athens to sign the Treaty of Accession. This allows the eight Central and Eastern European candidates (the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia, and Slovenia), as well as Malta and Cyprus, to join the European Union in May 2004. The candidate countries continue to hold referenda on accession within their own nations. Source: RFE/RL.

EU Patent Approved



In March, the European Union finally ended its lengthy debate over the establishment of an EU-wide patent. A central patent office will be established in 2010. Prior to that time, national courts will be able to supervise EU patent filing, which could be in operation in two to three years. The EU patent will cover all 25 member states (the current 15 and the 10 accession candidates). The new patent system will decrease the cost of obtaining a patent from around 50,000 euros (five times more than in the United States) to around 25,000 euros. Source: *EU Observer*.

CEFTA Membership Changes



A March meeting of the Central European Free Trade Agreement revealed future changes in membership. Slovenia, Hungary, Poland, the Czech Republic, and Slovakia announced their exit from the organization, based on their pending EU accession. Bulgaria, Croatia, and Romania remain in the group. Source: RFE/RL.



Central and Eastern Europe Commercial Opportunities

Slovakia: Poultry Processing Firm Seeks Strategic Investor



Hydina ZK is a private company with 549 employees. The company's business is poultry processing, production of poultry products, food wholesale and retail, and restaurant services. Its three subsidiaries complement these activities by producing feedstuffs and by breeding chickens. The company has a 25-percent share of the poultry products market in Slovakia. It exports its products to the European Union as well as to the Czech Republic and Hungary. Hydina ZK has ISO 9001:2000 and ISO 14001 certification, and it follows HACCP and GMP procedures. As the company envisions its growth potential increasing in the market, it seeks a strategic investor to increase its production and to become a major player.

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Romania: Company Seeks U.S. Paper Stock Partner



S.C. Palas S.A. Constantza is seeking a U.S. investor/partner to build a production facility for wastepaper stock. The facility would produce 20,000 tons/year of bleached wastepaper; 30,000 tons/year of paper from bleached wastepaper stock; 30,000 tons/year of corrugated board; and 5,000 tons/year of packaging and paper confections. The domestic market and imports from the United States would supply the necessary raw materials: wastepaper, white long/short fiber pulp, and natural liner paper. The Romanian sponsor expects to import production equipment from U.S. companies.

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Slovenia: Industrial Ventilation Firm Seeks U.S. Partner



Klima Celje is a privately owned Slovene manufacturer of fans and industrial ventilation devices. Klima Celje exports approximately 60 percent of its production to Western Europe, has been in business for 50 years, and has more than 200 employees.

The company has extensive experience in the application and manufacturing of air-conditioning systems. It produces ventilation, air-conditioning, filtration, dampening, pneumatic, and measuring equipment. Klima Celje also provides after-sales services. Klima products are used in air conditioning, air transportation, the production of filters and silencers, equipment for re-use of waste hot air, and fire-protection and anti-explosion equipment. Klima products are further used in tunnels and mines and in equipment in the food, agriculture, and shipbuilding industries. Klima Celje is interested in partnering with a U.S. company to further expand in European markets.

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Latvia: Wholesaler Desires U.S. Heating Systems



A Latvian wholesaler wants to import industrial and household heating systems from the United States. It is also ready to become an official distributor and representative for the supplier in the Baltic region. The heating systems can operate either on gas, liquefied gas, or heavy fuel. The importer is interested in various systems with power capacities of up to 500 kW. The largest demand currently is for systems with a capacity of 24–150 kW.

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Upcoming Events

May

5/20–5/23

BaltTechnika

Vilnius, Lithuania

Exhibition: industrial equipment, electronics, electrical engineering, measuring equipment, and environmental protection.

Further information:
E-mail: dana@litexpo.lt

5/27–5/30

Industria

Budapest, Hungary

This is an international industrial trade fair.

Further information:
Hungexpo Co. Ltd.
Expo ter 1 (Albertirsai ut 10)
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Tel: +361-263-6443, 263-6183
Fax: +361-263-6086
E-mail: industria@hungexpo.hu
Web site: www.industria.hu

5/28

Hungarian Trade and Investment Conference: “Hungary: The Profitable Way into Europe for U.S. Business”

Tysons Corner, Va.

Further information:
Hungarian Trade Commission
Tel: (212) 752-3060
E-mail: itdnewyork@hungariantrade.org

For a more complete list of events, go to
CEEBICnet: www.export.gov/ceebic.

This notice is provided solely as an informational resource and does not constitute U.S. Department of Commerce endorsement of these events. All information published in the *Commercial Update* regarding trade events is subject to change without notice by the organizers of those events.



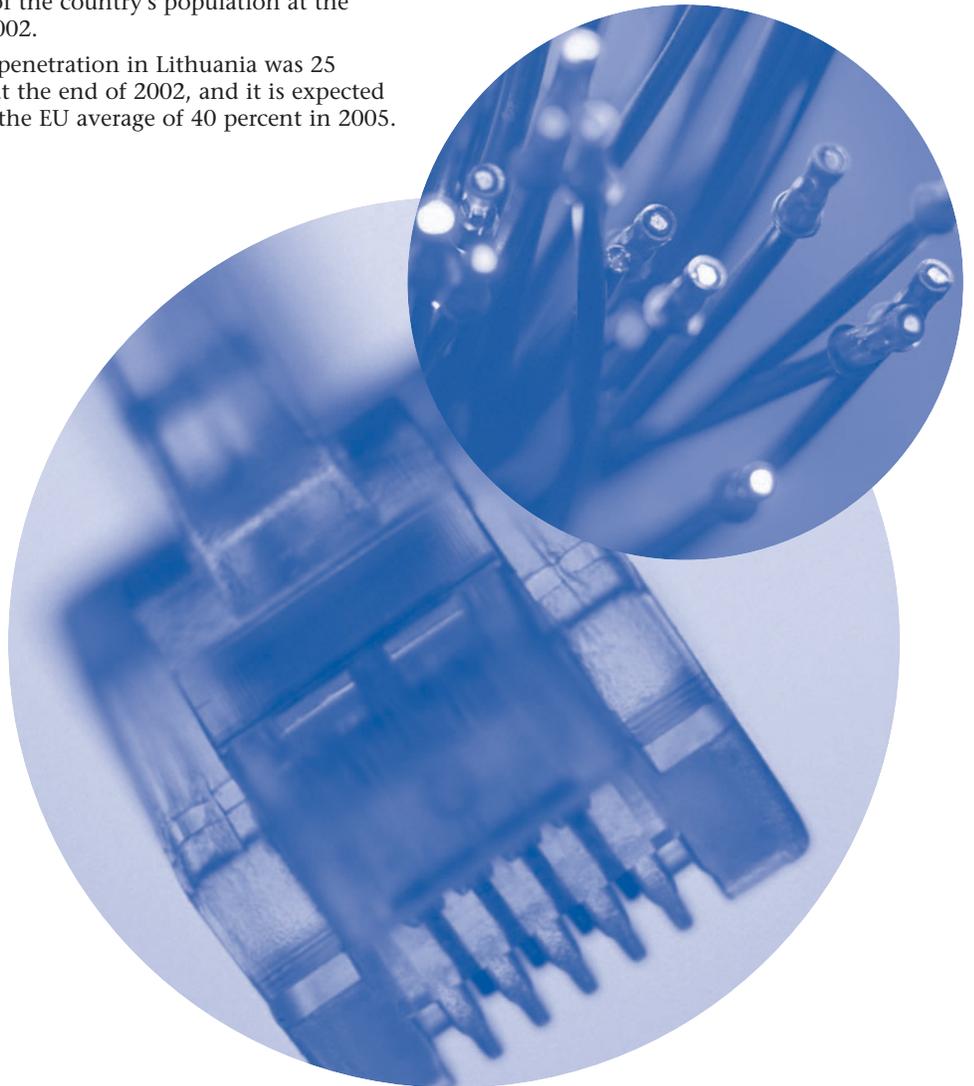
Lithuania—from page 1

and professional services available in the Lithuanian market. Bentley Systems, Inc. (USA), British Telecom, the Danish Ministry of Finance, Ericsson Erisoft (Sweden), Merkantidata (Denmark), Nordic Telecom Company, and WM-data (Sweden) all do business in Lithuania. U.S. software company Oracle sees Lithuania as the fastest-growing market in the Baltic states.

Key facts:

- Lithuania's ITT sector currently generates about 7 percent of GDP, and it is expected to constitute 25 percent of GDP by 2015.
 - Cellular penetration has overcome the density of fixed lines. Cellular service reached 45 percent of the country's population at the end of 2002.
 - Internet penetration in Lithuania was 25 percent at the end of 2002, and it is expected to reach the EU average of 40 percent in 2005.
- More than a million payment cards are in circulation for a total population of 3.5 million people.
 - Lithuania maintains a strong R & D infrastructure with 19 higher education institutions. The proportion of graduates is one of the highest in Central and Eastern Europe: 3.3 university graduates annually per 1,000 inhabitants.

Find out more about Lithuania's economy and business and investment climate at www.lda.lt. For further information on the World Information Technology Forum, see www.witfor.lt.



Around the Region

Estonia and Lithuania: Market Economy Status



On Feb. 28, 2003, the U.S. Department of Commerce announced its determinations regarding the status of Estonia and Lithuania as non-market economies under U.S. antidumping and countervailing duty laws. Estonia and Lithuania have undertaken significant and far-reaching reforms, and the department's analysis indicates that each country has made the transition to a market economy. This finding will be effective as of Jan. 1, 2003, and it will apply to all future administrative proceedings covering periods of investigation or review that fall after this date.

Regional: ICT Growth over 9 Percent in 2003



The information and computer technology (ICT) market in Central and Eastern Europe is expected to grow by 9.25 percent this year, according to the European Information Technology Observatory. Development of infrastructure associated with EU accession is driving growth in the ICT market. The market—with an expected value of 43.7 billion euros by the end of this year—is also being influenced by foreign direct investment, the growth of small- and medium-sized enterprises, and the liberalization of the telecommunications sector. Source: www.europemedia.net.



Serbia and Montenegro: Work on Corridor 10 to Begin



Construction of the Belgrade–Novi Sad section of European Corridor 10, which runs from Salzburg to Thessalonica, has begun. Companies from Belgrade and Uzice, as well as an Austrian company, will take part in the construction. After completion, travel time from Belgrade to Novi Sad will be reduced to half an hour. Source: www.serbia.sr.gov.yu/news.



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