CHAPTER 7 INVESTMENT CLIMATE STATEMENT

Introduction

Austria, a crossroads of Europe, is itself at a crossroads as an investment location. Austria, and Vienna in particular, face growing challenges from its Eastern neighbors. The number of companies (mostly European) establishing a regional base in Vienna fell to five in 2002 from twenty the preceding year, while the number of U.S. firms in Austria did not grow from 2000 to 2002.

Slow economic growth prospects, particularly in Central Europe, are likely the main reason for slowed investment, or disinvestment, in Austria. By the time the slump may end in 2004, however, all of Austria's Eastern neighbors will be in the EU. Budapest, Prague and Bratislava will be competing directly with Vienna, in theory offering the same degree of investor protection as any other EU member state capital. Both the American Chamber of Commerce in Austria (in its 2002 investment survey) and the Austrian Business Agency have registered the competition challenge to Austria. Many have pointed out that the direct transportation links among Austria's Eastern neighbors are in some places better then those running through Austria. Among the three capitals mentioned above, only Budapest is connected to Vienna by a superhighway. The Austrian government has long-term plans to address these infrastructure gaps; but many view the current state of transport links as a missed opportunity.

Austria continues to offer some advantageous conditions but also some challenges to foreign investors. We have sought to describe both below in candid terms for potential investors' benefit.

A. Openness to Foreign Investment

A.1 Government attitude toward foreign private investment

Due to its early break-up after two and a half years in September 2002, the first Schuessel government, a center-right coalition between the Austrian People's Party (OVP) and the Freedom Party (FPO), was not able to implement all of its economic reform program; but it did make some reforms in the direction of a more open, liberal and deregulated society. The new OVP-FPO coalition (Schuessel II) government, in office since February 2003 and with a considerably stronger OVP, continues to pursue economic and social reform aimed at streamlining government, creating a more competitive business environment, and further strengthening Austria's attractiveness as a location for investment. Priorities include downsizing the public sector, simplifying and streamlining the social welfare system, liberalizing shop opening hours, raising the labor participation rate, and introducing more flexible work hours. Budget consolidation will remain a goal in accordance with the EMU'S Stability and Growth Pact; but balancing the consolidated public sector budget is now a medium-term goal over the economic cycle. The government intends to continue privatizations.

The second Schuessel government has already moved to enact social and structural reform to make Austria a more liberal and open society and improve its attractiveness to foreign investors. However, its controversial pension reform produced major challenges to the government after less than four months in office, including the two largest strikes in 50 years. The strikes concentrated on the public sector, with only moderate impact on private enterprises, and Austria remains a country with few strikes. Nonetheless, these strikes were political actions against the government rather than management-labor disputes. Other contentious issues ahead include the government's coming plans to harmonize the various pension systems, reform health care and carry out administrative reform, including a cut in civil service jobs.

Liberalization and deregulation in energy and telecom sectors have lowered prices to business users. However, continued barriers to entry and to competition have resulted in only partial liberalization with resulting maintenance of above-average charges in some areas (e.g., electrical grid charges, according to the International Energy Agency). Austria is a high-tax country. It has no wealth or net worth tax, and no trade tax (Gewerbesteuer), unlike neighboring Germany, and a relatively favorable 34% corporate tax rate. Effective 2004, however, the government will phase out certain tax breaks for Austrian parent corporations and holding companies to conform to the EU's Code of Conduct for business taxation. Overall, OECD figures place Austria fourth among OECD members in total tax and social payments, at 45.7% of GDP.

Austria welcomes all foreign direct investment that does not have a negative impact on the environment, particularly those investments that create new jobs in high technology, promote capital intensive industries, are linked with research activities, improve productivity, replace imports, and increase exports. In 2002, the government introduced additional tax incentives for industrial research to stimulate research-based investment and attract international research organizations to Austria. In some regions, Austria also offers special facilities and services ("cluster" packages) to foreign investors, for example, for automotive producers or manufacturers of chips, silicon and high-tech products. Austria's basic policies toward foreign direct investment are not expected to change in coming years. A large number of foreign firms, including some 360 U.S. companies, have invested in Austria and most have expanded their original investment over time.

There are no formal sectoral or geographic restrictions on foreign investment, although investment is not encouraged in sectors with excess capacity, such as steel, textiles, and paper. Austria offers financial and tax incentives within EU parameters to firms undertaking projects in economically depressed areas and underdeveloped districts on Austria's eastern and southern borders. Some of these geographic areas are also eligible for subsidies under EU regional and cross-border programs. The only instances of local opposition to investment in the manufacturing sector have arisen out of environmental concerns.

Potential U.S. investors need to factor Austria's strict environmental laws into their decision-making process. Austria has imposed marketing bans on some agricultural biotechnology products despite existing EU approvals. The European Commission has not taken steps to overturn the bans, despite the fact that the EU's Scientific Committee has found no justification for the bans. Austria supports a "moratorium" within the EU on introduction of genetically modified seeds, which is currently the subject of U.S.-EU consultations in the World Trade Organization. Trace or "adventitious" presence of even EU-approved biotechnology products is only allowed up to 0.1%, with zero tolerance for unapproved varieties. Strict liability regulations for research, production, and distribution of GMOs also apply. U.S. investors considering production facilities emitting C02 in Austria will have to take into consideration Austria's commitment to cut its C02 emissions by 13% from the 1990 level according to the Kyoto Protocol (1997) and scrutinize closely the national implementation of the EU's regulatory framework on greenhouse gas emissions and trading that is planned to enter into force in 2005.

In investor surveys and international rankings, Austria consistently earns high marks for proximity to Central and Eastern European (CEE) markets, health infrastructure, personal security, quality of living conditions, rule of law, education/skill and motivation of labor, quality of education, and mobile phone costs, but low marks for the tax burden, rigid labor practices, patent registration, relative lack of risk capital financing, restrictive immigration laws, size of the public sector, and regulatory red tape, particularly when considering Austria as a regional headquarters. The accession of ten countries to the ED in May 2004, including four bordering Austria, may present Austria with stiffer competition from these countries for U.S. investment, particularly in sectors where wage costs are decisive.

Acquisitions, mergers, takeovers, cartels:

In 2002, the Austrian government established an independent Federal Competition Authority (FCA) and a federal public cartel prosecutor, removing the administration of anti-trust law from the Cartel Court. In its first year of operation, the FCA has not been particularly pro-active, reportedly due to a shortage of personnel.

International acquisitions and takeovers of domestic enterprises are permitted in Austria. International cartels are not prohibited, but are subject to oversight by the cartel court to prevent the abuse of market power. Cartel court consent requires that the applicant refrain from market behavior that would limit or impede competition. Selling below cost is considered one possible abuse of a dominant market position. The cartel court must be notified of mergers and acquisitions if combined world-wide sales are in excess of Euro 300 million (USD 345 million at the current exchange rate of USD 1.00 to Euro 0.87), if domestic sales exceed Euro 15 million (USD 17.3 million), or if two of the firms involved each have world-wide sales exceeding Euro 2.0 million (USD 2.3 million). The new anti-trust regulations do not provide for the dissolution of previously completed and approved mergers. An independent energy regulatory authority separately examines antitrust concerns in the energy sector; however it did not raise objections to a 2002 alliance between the two largest Austrian electricity providers, capturing two-thirds of the market.

A takeover law, in effect since January 1, 1999, applies to both friendly and unsolicited takeovers of corporations headquartered in Austria and listed on the Vienna Stock Exchange. It provides investors protection against unfair practices, since any shareholder obtaining a controlling stake in a corporation (30% or more of all shares) is required to offer to buy out smaller shareholders at a defined "fair market" price. An independent takeover commission at the Vienna Stock Exchange oversees compliance.

Screening mechanisms:

Only those foreign investments with Austrian government financial assistance are subject to government overview. Screening is intended only to ensure compliance with EU regulations which limit such assistance to disadvantaged geographic areas.

Privatization:

In the ongoing privatization of public enterprises, foreign and domestic investors are, in principle, treated equally. In line with its privatization initiative the previous government sold 100% of its shares in the Postal Savings Bank, the Dorotheum auction house and bank, and the Print Media industrial printing concern. It also divested a 41.1% share of the Austrian tobacco company, a 17.38% stake in the Vienna airport company, and a majority of shares in Telekom Austria (TA). The new government's further near-term privatization plans include selling off 100% of the shares of the companies Boehler Uddeholm, Voest-Alpine (VA) Technology, Voest-Alpine (VA) steel, Austrian Postal Bus, Austrian Mining Holding, and Telekom Austria.

The Austrian government has expressed a preference for "Austrian solutions" in many sectors. This means it views it as desirable to maintain an Austrian core shareholding by syndicates formed by banks, insurance companies, pension funds and industrial enterprises. One "Austrian solution" was in the electricity sector, where the two largest domestic suppliers were encouraged to form an alliance despite potential antitrust concerns. Another "Austrian solution" came about in natural gas trading and supply following liberalization of that market. In addition, despite the liberalization of electricity markets, by law the federal and provincial governments maintain at least 51% majority shares in all electricity providers. Foreign investors have however been successful in obtaining shares in important Austrian industry sectors, including the telecom and energy sectors, in Austria's largest bank, Bank Austria, and in the Austrian tobacco company.

Treatment of foreign investors:

There is no discrimination against foreign investors, but they are required to follow a number of regulations. Although participation by Austrian citizens in ownership or management is not required, at least one manager must meet residence and other legal requirements. Non-residents must appoint a representative in Austria. Expatriates are allowed to deduct certain expenses (costs associated with moving, maintaining a double residence, education of children) from Austrian-earned income. On January 1, 2003, an amendment of the Austrian immigration law went into effect, which requires permanent legal residents to take German language and civics courses. Foreign executives and their dependents (who are technically in one of the affected visa categories) are exempt.

Investment incentives:

Until 2006, 41% of Austria's land area is eligible for support under various EU structural fund programs. The Austrian federal, provincial, and local governments also provide financial incentives within EU guidelines to promote investments in Austria. Incentives under these programs are equally available to domestic and foreign investors and range from tax incentives to preferential loans, guarantees and grants. Most of these incentives are available only if the planned investment meets specified criteria (e.g., implementation of new technology, reducing unemployment, etc.). Tax allowances for employee advanced training and R&D expenditures are available. The government has merged various institutions providing financial incentives into a "one-stop shop" named Austria Wirtschaftsservice (further information, in German language only, is available under http://www.awsg.at).

A.2. Conversion and Transfer Policies

There are no restrictions on converting or transferring funds associated with foreign investment. In Austria, all cross-border capital transactions for non-residents and residents, including the acquisition of Austrian securities, debt service, and the repatriation of profits, interest payments, dividends, and proceeds from the sale of an investment are fully liberalized.

Since March 1, 2002, the Euro, a freely convertible currency, is the only legal tender in Austria. Investors are shielded from any exchange rate risk in the entire Euro-area, where the Euro is legal tender. The eleven other member countries of the Economic and Monetary Union (EMU) are: Belgium, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, and Spain.

Since the start of the EMU on January 1, 1999, the European Central Bank (ECB) has been responsible for setting monetary policy in the EMU area. The ECB's primary goal in defining monetary policy is to maintain price stability. The Austrian National Bank has one seat and one vote on the ECB's Governing Council.

A.3. Expropriation and Compensation

Expropriation of private property in Austria is rare and may proceed only on the basis of special legal authorization. It can be instigated only when no other alternative for satisfying the public interest exists; when the action is exclusively in the public interest; and when the owner receives just compensation. The expropriation process is fully transparent and non-discriminatory towards foreign firms.

A.4. Dispute Settlement

The Austrian legal system provides an effective means for protecting property and contractual rights of nationals and foreigners. Additionally, Austria is a member of the International Center for the Settlement of Investment Disputes. The New York Convention of 1958 also grants enforcement of foreign arbitration awards in Austria. There have been no recent reports of bilateral investment disputes.

A.5. Performance Requirements/Incentives

Austria is in compliance with the World Trade Organization Trade Related Investment Measures (TRIMS) agreement. There are virtually no restrictions on foreign investment in Austria and foreign investors receive national treatment in the main. However, some requirements exist. For example, at least one manager must meet residency and other legal qualifications. Non-residents must appoint a representative in Austria.

Although not required to gain access to tax incentives, performance requirements may be imposed when foreign investors seek financial or other assistance from the Austrian government. There is no requirement, however, that nationals hold shares in foreign investments, that the share of foreign equity be reduced over time, or that technology be transferred.

The U.S. and Austria are signatories to a 1931 Treaty of Friendship, Commerce, and Consular Rights. The Austrian immigration law is restrictive on the overall number of visas, but a few non-immigrant business visa classifications, including intra-company transferees/rotational workers and employees on temporary duty, are eligible for visas with no numerical limitations. Recruitment of long-term overseas specialists or those with managerial duties is under quota controls. The 2002 Amendment of the Austrian immigration law, effective January 1, 2003, has more clearly defined employment-based immigrants as multinational executives/managers or similar professionals who are self-employed, and has sought to streamline procedures for obtaining visas and work authorization. The new integration policy requiring immigrants to attain a certain minimum level of competence in the German language will not/not affect executives and their dependents (who are technically in one of the affected immigrant-visa categories). The 2002 Immigration Amendment was intended to address problems reported by U.S. and other investors with availability of visas and temporary work permits for non-managerial staff for training in Vienna, by creating a category of temporary trainee visas in the case of joint ventures.

A.6. Right to Private Ownership and Establishment

Foreign and domestic private enterprises are free to establish, acquire, and dispose of interests in business enterprises, with the exception of railroad infrastructure, some utilities, and few state monopolies such as gambling. As the government continues to pursue privatization, some of these industries are gradually being opened up to private investment as well. For example, the Austrian government implemented legal changes in 1997 and 2001 to allow private radio and private terrestrial TV under a limited number of licenses. The postal monopoly for wire-transmitted voice telephony and infrastructure was dismantled in 1998. The Austrian electricity market was partially liberalized in February 1999 for bulk purchasers and in October 2001 for consumers, and the Austrian gas market was fully liberalized in October 2002. However, by law the federal and provincial governments maintain at least 51% majority shares in all electricity providers. In line with EU regulations, the government is working to liberalize the postal letter mail monopoly. The ambitious privatization program of Austria's government foresees full or partial privatization of many important Austrian companies. In most business activities, 100% foreign ownership is permitted. Foreign direct investment is restricted only when competing with monopolies and utilities. License requirements, such as in the banking and insurance sectors, apply equally to domestic and foreign investors. The latter, however, is dependent on reciprocity. Specific regulations on requirements for joint ventures do not exist.

A.7. Protection of Property Rights

The Austrian legal system protects secured interests in property, both movable and real. Mortgages are recognized, if they are registered in the land register and the underlying contracts are valid. The land register provides a reliable system for recording interests in property. For any real estate agreement to be effective, the agreement must be entered with the land register. This requires approval of the land transfer commission or the office of the provincial governor. Any interested party has access to the land register.

Austria has laws to protect intellectual property rights, including patent and trademark laws, a law protecting industrial designs and models, and a copyright law, all of which offer the holder protection. Legislation also protects three-dimensional semiconductor chip layout design. In 2001, Austria, in line with ED requirements, implemented a law against product piracy to prevent trade in falsifications and imitations. Austria is one of a number of EU member states that have yet to implement the EU Directive on Legal Protection of Biotech Inventions. Several U.S. pharmaceutical companies have also reported problems obtaining timely remedy in Austrian courts in defending process-based patents against generic competitors.

Austria is a party to the World Intellectual Property Organization (WIPO) and several international property conventions, including the European Patent Convention, the Patent Cooperation Treaty, the Madrid Trademark Agreement, the Budapest Treaty on the International Recognition of the Deposit of Microorganisms for the Purpose of Patent Procedure, the Universal Copyright Convention, the Brussels Convention Relating to the Distribution of Program-Carrying Signals Transmitted by Satellite, and the Geneva Treaty on the International Registration of Audiovisual Works. In compliance with the World Trade Organization Treaty on Intellectual Property (TRIPS), Austria extended patent terms so that patents on inventions are valid up to 20 years after application. Since both the United States and Austria are members of the "Paris Union" International Convention for the Protection of Industrial Property, American investors are entitled to the same kind of protection under Austrian patent legislation as are Austrian nationals. In accordance with the Madrid Agreement, Austria's protection period for trademarks is ten years, with the option to extend for another ten years, if registration is renewed before expiration.

Trade secrets are protected by various regulations. For example the right to privacy, the data protection law, and the federal statistics law prevent publication of production data, provided there are four producers or less.

Austrian copyright law grants the author the exclusive right to publish, distribute, copy, adapt, translate, and broadcast his work. Infringement proceedings, however, can be time consuming and complicated. Austria's copyright law is in conformity with the EU directives on intellectual property rights. Effective July 1, 2003, an amendment to the Austrian Copyright Act implemented the EU Directive on the Harmonization of Certain Aspects of Copyright and Related Rights in the Information Society and regulates copyrights of works on the internet, protection of computer programs and related damage compensation.

A.8. Transparency of the Regulatory System

The Austrian government has made some progress in streamlining its complex and cumbersome permit and paperwork requirements. However the 2002 AmCham U.S. Embassy survey of investor confidence continued to identify "unpredictable and inflexible bureaucratic rules" as one of four major concerns. The government maintains that the time for obtaining all necessary permits has been reduced to about three months, except for large projects requiring an environmental impact assessment. With the 2002 reform of the Business Code, the government implemented a "one-stop shop" for the business permit, but not yet including plant and building permits. The reform also sought to facilitate establishment of new businesses, by simplifying requirements and reducing the number of business categories to two (those requiring official approval and those requiring none).

Tax and labor laws, as well as health and safety standards, are applied uniformly and do not influence the sectoral allocation of investments. The Austrian investment climate has become more conducive for business since Austria became a member of the ED. However the 2002 Investor Confidence Survey cited "inflexible shop-opening hours and working times" as another major concern. The government plans to implement more flexible work time regulations by introducing flex-time, including on the company level, and more liberal regulations for shop opening hours, although virtually all shops will remain closed on Sundays.

A.9. Efficient Capital Markets and Portfolio Investment

A broad variety of credit and portfolio investment instruments are traded in an open capital market. Foreign firms have access to this local market without restrictions and are free to use foreign credit markets as well. The Vienna Stock Exchange, reorganized as a stock corporation and privatized in 1999, connected its cash market to Xetra, Frankfurt's electronic trading system, so that traders world-wide have on-screen information and direct access to all stocks listed in Vienna. Quotations on the Vienna Stock Exchange are in the Euro currency and the fee system is transparent. All listed companies are required to publish quarterly reports. Criminal penalties for insider trading are in place. Since April 1, 2002, the "Austrian Securities Authority" (an Austrian version of the U.S. Securities and Exchange Commission), established in 1998 to police irregularities on the stock exchange, is now part of Austria's Financial Market Supervision Authority (FMA), which together with the Austrian National Bank is responsible for supervising banks, insurance companies, securities markets, and pension funds.

Buy-back regulations implemented in 1999 have considerably expanded the previously very limited possibilities for issuers to acquire their own shares. Austria's regulations comply with international standards permitting buy-backs as an instrument to influence a company's capital structure, to reduce excess liquidity, or to prepare for listings on exchanges abroad.

The legal, regulatory, and accounting systems are transparent and consistent with international norms. Austrian regulations governing accounting standards will provide U.S. investors with improved and internationally standardized financial information.

Austrian-based companies, including subsidiaries of U.S. parent companies, are required to present their consolidated financial statements in accordance with International Accounting Standards (IAS) or Generally Accepted Accounting Principles (US-GAAP). Promotion of good corporate governance is making progress. The Austrian Code of Corporate Governance was has been introduced in October 2002. However, to date few companies have signed on to it.

Austria has a highly developed banking system with worldwide correspondent relationships, as well as representative offices and branches in the United States and other major financial centers. Austrian banks also have a huge network in Central and Eastern European countries. Total assets of Austria's five largest banks amounted to about Euro 370 billion (USD 425.5 billion) in 2002.

Austria's venture capital market is underdeveloped, but has expanded significantly in recent years. The volume of venture capital raised in Austria during the period 1999-2001 was Euro 556 million (USD 639.4 million), 170% more than during 1996-1998, according to a recently published study by AVCO, a Vienna-based Austrian Private Equity and Venture Capital Organization. In 2002, fund raising totaled Euro 177 million (USD 203.6 million).

A.10. Political violence

There have been no incidents of politically motivated damage to foreign businesses. Civil disturbances are extremely rare. The two major strikes that the unions organized in May/June 2002 to resist the government's pension reform plans were peaceful demonstrations with no violence.

A.11. Corruption

The Austrian penal code contains penalties for bribery, which include a fine of up to Euro 327 (USD 376) per day for up to 360 days or up to two years imprisonment for the payer of a bribe and up to five years imprisonment for the recipient of a bribe. Under the penal code, any person who bribes a civil servant, a foreign official or a manager of an Austrian public enterprise is subject to criminal penalties. Austria completed ratification of the OECD Anti-Bribery Convention May 20, 1999, when the Austrian government deposited the ratification instrument with the OECD in Paris. The Convention entered into force July 19, 1999. Corresponding penal code legislation has been in place since summer 1998.

Prior to the implementation of the OECD Convention, the tax deductibility of bribes and any gray market payments (regardless of their title as operating, income-related or other expenses) was abolished. The non-deductibility covers all payments and other material grants, the granting or accepting of which is subject to legal penalties. The Federal Ministry of Justice has the primary responsibility for prosecuting acts of corruption, but in the case of public tenders, the Federal Chancellery may also become involved. Corruption allegations, often anonymous, have arisen regarding various government procurements; but no case thus far has reached the public prosecutor's evidentiary threshold for pursuing prosecution.

B. Bilateral Investment Agreements

Austria has bilateral investment agreements in force with Albania, Argentina, Armenia, Azerbaijan, Bangladesh, Belarus, Belize, Bolivia, Bosnia-Herzegovina, Bulgaria, Cape Verde, Chile, China, Croatia, Cuba, Egypt, Estonia, Hong Kong, Hungary, India, Jordan, Kuwait, Latvia, Lebanon, Lithuania, Malaysia, Macedonia, Mexico, Moldova, Mongolia, Morocco, Oman, Paraguay, Poland, Romania, Slovenia, South Korea, South Africa, Tunisia, Turkey, Ukraine, Uzbekistan, Vietnam, and the Federal Republic of Yugoslavia (FRY). Agreements with Algeria, Iran and Zimbabwe have been signed, but are not yet in effect. Additional agreements with Georgia, North Korea, Philippines, Saudi Arabia and United Arab Emirates have been initialed. Until new agreements take effect, the existing agreements with the former Czechoslovakia continue to apply to the Czech Republic and Slovakia, and that with former Soviet Union to Russia. Austria has begun negotiations with Russia for a new agreement. The government's goal is to achieve a total of 75-80 bilateral investment agreements. Under all these agreements, investment disputes that cannot be settled amicably may be submitted to the International Center for Settlement of Investment Disputes or an arbitration court according to the UNCITRAL arbitration regulations.

The U.S. and Austria are parties to a bilateral double taxation treaty covering income and corporate taxes, which went into effect on February 1, 1998. Another bilateral double taxation treaty covering estates, inheritances, gifts and generation-skipping transfers has been in effect since 1982.

C. OPIC and Other Investment Insurance Programs

OPIC programs are not available for Austria. Since May 1997 Austria has been a member of the Multilateral Investment Guarantee Agency (MIGA).

D. Labor

Austria has a highly educated labor force of about four million people, of which 3.5 million are dependent employees and 500,000 self-employed and farmers. Austria's labor market is more rigid than that of the U.S., but more flexible than some other EU members'. Depending on labor demand, government policies limit the number of foreign workers to between 8-10% of the salaried workforce. In 2002, the number of guest workers, predominantly from the former Yugoslavia and Turkey, averaged 334,100. Austria and Germany have obtained support from the EU to adopt a transition period following EU expansion in 2004 before fully allowing free movement of labor within an expanded EU.

While demographic trends indicate little growth in the labor force over the next few years, other factors, such as productivity gains, industrial restructuring, federal employment incentives for women and older employees, the gradual phase-out of early retirement to raise the actual retirement age, and government efforts to reduce civil service employment are intended to offset the demographics. In general, skilled labor is available in sufficient numbers, however, regional shortages of highly specialized laborers in specific sectors such as systems administration, metalworking, health and tourism services may occur. The government's labor market policy is oriented towards the EU goals of raising the labor market participation rate to 70% (currently 68.3%) by 2010, that of women to 60% (currently 59.4%), and that of workers age 55-64 to 50%. The government also plans to introduce more flexible work hours and a monthly minimum wage of Euro 1,000, and require unemployment recipients to be more flexible regarding which jobs they would accept.

Compared to other EU countries, Austria had a relatively low unemployment rate of 4.3% in 2002, according to EU calculations. The outlook for 2003-2004 suggests an unemployment rate (EU measure) of about 4.3-4.4%, falling only slightly to 4.2% in

2005, assuming real growth of 2.5% that year. Starting in 2005, the number of young people entering the labor market will start to decline due to past low birth rates, so that in the medium-term Austria could confront a labor market shortage. The U.S. Embassy in Vienna has no reports of American firms encountering problems in finding the required staff in the Austrian labor market. The Investor Confidence Survey cited Austria's highly productive and well-educated work force as a major positive feature.

Legislation enacted in early 1996 and again in 1999 is designed to counteract rising unemployment among older workers. It provides financial bonuses for companies hiring workers age 50 and above, and penalties for businesses laying off workers within this age group. After the pension reform of 2000 provided for a higher early retirement age for all retirees and higher cuts in pension payments for early retirement as a disincentive to workers to retire early, the government's 2003 pension reform provides for a gradual phase out of early retirement by 2014 and a commitment for harmonizing the various pension systems, including that of the civil service.

Terms of employment are closely regulated by law in Austria. Working hours, minimum vacation time (5 weeks), holidays, maternity leave, juvenile work allowances, statutory separation notice, and protection against dismissal are all secured by law. However, the requirements of ED membership promoted an increase in work flexibility. In 2000, the government abolished differential treatment between white and blue-collar workers. The night shift ban for women was completely abolished and gender-neutral regulations for night work were introduced by mid-2002 in compliance with EU requirements. A new severance pay system, designed to enhance worker flexibility further, became effective December 31, 2002. Under this new system severance pay funds were established to which employers contribute 1.53% of the monthly pay, and employees have the right to carry their accrued entitlement with them when changing the employer.

Austrian social insurance is compulsory and comprises health insurance, old-age pension insurance, unemployment insurance, and accident insurance. Social insurance contributions are a percentage of total monthly earnings and are shared by employers and employees.

High non-wage payroll costs (70% of direct wage costs) are frequently cited as a reason for Austria's relatively high labor costs. In the past two years these non-wage payroll costs have declined slightly (due to lower employee absences and a lower severance pay burden as large cuts in employment in state-owned industries and major structural changes are completed). The first Schuessel government was committed to cut these costs further, despite challenges from organized labor. However, only a fraction of the promised cut in employer costs was achieved, through tighter leave policies. Other measures, including a reduction of employer social welfare contributions, are again on the agenda of the second Schuessel government. It is unclear whether the government will be able to fulfill its promise given budgetary constraints and a weakening economy.

Close to 50% of the work force is unionized. At least one-third of the members of a corporation's board of directors must come from the firm's staff, and shop stewards must be regularly consulted by the company management on various issues. These co-determination rights of employees are comprehensive and regulated by law. Generally speaking, labor-management relations have been harmonious in post-WWII Austria, as reflected in extremely low strike figures in past decades. This is mainly due to Austria's consensual labor movement, which seeks to shape national economic policies on the basis of business, government, and labor concerns. Over the past two years, OVP-FPO governments have not shied from a more confrontational union-government relationship. Unions have conducted several individual work stoppages, several protest rallies, and one-day strikes over this period. The unions' two major strikes in May/June 2003 protested the government's pension reform plans and its failure to consult the country's labor union federation OGB before sending reform bills to Parliament for approval. These strikes were thus a political action against the government and did not reflect management-labor disputes.

Collective bargaining revolves mainly around wage adjustments, fringe benefits, and reduction of the work week. The government's plan to introduce an annual gross salary of Euro 14,000 as an adequate minimum wage matches the ideas of Austrian labor. While existing legal provisions stipulate a maximum work week of 40 hours, collective bargaining agreements provide for a work week of 38 or 38.5 hours per week for more than half of all employees. Legislation for more flexible work hours has been in place since 1997. However, the government plans to introduce more flexibility by authorizing flex-time in company agreements.

E. Foreign-trade Zones/Free Ports

Austria has no foreign trade zones anymore. It only has two customs warehouses in Vienna and Tyrol province, where products of foreign origin may be stored without the obligation to pay duty. Their impact has been limited, and foreign investors have shown little interest.

F. Foreign Direct Investment Statistics

Following record inflows in 2000 and 2001, new foreign direct investment dropped significantly in 2002 to Euro 1.8 billion (USD 2.1 billion), equal to 0.8% of GDP, the lowest inflow since 1995. This was due to the absence of "mega-deals" such as the takeover by foreign investors of Bank Austria in 2000 or Austria tobacco company in 2001 and in addition to some dis-investment. This raised the value of the foreign direct investment stock in Austria to Euro 41.3 billion (USD 47.5 billion), equal to 19.0% of GDP, of which U.S. firms invested an estimated Euro 2.8 billion (USD 3.2 billion).

Note: Figures converted at the current exchange rate of USD 1.00 for Euro 0.87. The 2002 annual average exchange rate was USD 1.00 for Euro 1.058.

Source: Austrian National Bank statistics on Austrian outward and inward direct investment at the end of 2000, published in June 2002. Available 2001 and 2002 data are from the Austrian National Bank's current account statistics.

Table 1:
Foreign direct investment in Austria 1996-2002

Year	Number of Firms with Direct Foreign Participation	Nominal Capital (Euro billion)	Total equity (1) (Euro billion)
1996	2,362	5.4	15.6
1997	2,464	5.7	17.9
1998	2,525	7.0	20.1
1999	2,542	7.2	23.4
2000	2,588	11.1	32.7
2001 (2)	n/a	n/a	39.5
2002 (2)	n/a	n/a	41.3

Footnotes:
(1) total equity comprises nominal capital, statutory and voluntary reserves, profits/losses carried forward, and net credit position;
(2) preliminary figures.

Table 2:
Foreign direct investment in Austria by country of origin 1996-2000 (in percent of total equity)

Year	U.S.	Switzerland, Liechtenstein	Germany	Italy	Netherlands	Others
1996	7	13	44	3	9	24
1997	7	13	47	4	9	20
1998	8	12	41	8	8	25
1999	8	13	41	7	7	26
2000	6	9	50	5	5	25

Table 3:
Foreign direct investment in Austria by industry sectors in 2000 (latest available figures)

Sector	Total Equity (Euro million)	Employees in 1,000
Mining and Energy	316	1
INDUSTRY		
Metals, Machinery	1,489	31
Vehicles	412	11
Electrical engineering, Electronics	2,293	28
Petroleum, Chemicals	2,385	18
Paper, Wood	878	6
Textiles, Clothing, Leather	252	8
Food, Drink, Tobacco	668	9
Building and Allied Trades	554	8
Miscellaneous	86	2
SUBTOTAL INDUSTRY:	9,016	121
NON-INDUSTRY		
Trade	6,331	72
Transport, Communication	1,775	13
Tourism	259	6
Banking, Insurance, Finance	5,856	21
Real estate, Business related Services	9,092	17
Other Services	60	1
SUBTOTAL NON-INDUSTRY:	23,373	130
TOTAL:	32,705	251

Note: differences due to rounding.

Table 4:
Austrian direct investment abroad 1996-2002

Year	Number of forms with Austrian direct Investment	Nominal capital (Euro billion)	Total equity (1) (Euro billion)
1996	1,810	6.0	10.4
1997	1,942	6.8	12.9
1998	2,006	7.9	14.9
1999	2,095	9.3	19.0
2000	2,227	10.7	26.7
2001 (2)	n/a	n/a	30.6
2002 (2)	n/a	n/a	36.3

Footnotes:
(1) total assets comprises nominal capital, other equity including exchange rate adjustments, and net credit position;
(2) preliminary figures.

Table 5:
Austrian direct investment abroad by country of destination 1996-2000 (in percent of total equity)

Year	U.S.	Switzerland, Liechtenstein	Germany	UK	Hungary	Czech Republic	Others
1996	5	8	20	4	13	9	41
1997	9	9	16	7	11	8	40
1998	8	7	16	10	10	8	41
1999	8	6	14	9	9	7	47
2000	7	5	20	7	7	8	46

Table 6:
Austrian direct investment abroad by industry sectors in 2000 (latest available figures)

Sector	Total Equity (Euro million)	Employees in 1,000
Mining and Energy	333	2
INDUSTRY		
Metals, Machinery	1,804	21
Vehicles	116	8
Electrical engineering, Electronics	692	24
Petroleum, Chemicals	1,212	20
Paper, Wood	770	13
Textiles, Clothing, Leather	79	7
Food, Drink, Tobacco	486	12
Building and Allied Trades	1,557	32
Miscellaneous	73	5
SUBTOTAL INDUSTRY:	6,789	142
NON-INDUSTRY		
Trade	3,209	40
Transport, Communication	92	2
Tourism	231	3
Banking, Insurance, Finance	5,582	34
Real estate, Business related Services	10,158	20
Other Services	280	5
SUBTOTAL NON-INDUSTRY:	19,553	104
TOTAL:	26,675	248

Note: differences due to rounding.

List of Major Foreign Investors:

Some 360 U.S. firms hold investments in Austria, which range from simple sales offices to major production facilities. The following is a short list of U.S. firms holding major investments in Austria:

American Express Bank Ltd.
Andlinger & Company, Inc.
Baxter International Inc.
Cisco Systems, Inc.
Citibank Overseas Investment Corp.
The Coca-Cola Company
CSC Computer Sciences Corporation
Deloitte & Touche LLP
Delphi Automotive Systems
Eastman Kodak Company
Electronic Data Systems Corp.
Exxon Corporation
General Electric Capital Corporation
General Electric Power Systems
General Motors Corp.
Harman International Industries Inc.
Hewlett-Packard Company
Honeywell Inc.
IBM World Trade Corp.
ITT Fluid Technology Corp.
Johnson & Johnson Int.
Johnson Controls Inc.
Kraft Foods International, Inc.
Lear Corporation
Lem Dyn Amp
McDonald's Corporation
Marriott International, Inc.
Mars Inc.
MeadWestvaco Corp.
Merck & Co., Inc.
Modine USA
Otis Elevator Co.
Pioneer Overseas Corp.
PricewaterhouseCoopers LLP
PQ International Inc.
Quintiles Transnational Corp.
Schindler Elevator Corp.
Starwood Hotels and Resorts Worldwide, Inc.
Toys"R"Us, Inc.
United Global Corn, Inc.
Unysis Corporation
Verizon Information Services Inc.
Western Wireless International
Worthington Cylinder Corp.
York International
Xerox Corporation

The following is a brief list of firms headquartered in countries other than the U.S. holding major investments in Austria:

Alcatel Holding, Netherlands
Allianz AG, Germany
Amer, Finland
Asea Brown Boveri, Switzerland
Assicurazioni Generali, Italy
Aventis, Germany
Axel Springer Verlag, Germany
Bank for Foreign Trade, Russia
BASF, Germany
Bayer AG, Germany
Bayerische Landesbank, Germany
Bayerische Motorenwerke (BMW), Germany
Bayerische Hypo-Vereinsbank AG, Germany
Bombardier, Canada
Bosch Robert AG, Germany
Borealis, Denmark
BP Amoco, UK
DaimlerChrysler, Germany
Detergenta Investment, Germany
Deutsche Telekom, Germany
Electricite de France, France
Electrolux, Sweden
Epcos AG, Germany
Ericsson, Sweden
Flextronics International, Singapore
Gallaher, U.K.
Heineken, Netherlands
Hipp, Germany
Infineon, Netherlands
KoneCorp., Finland
Koramic, Belgium
Liebherr, Switzerland
Magna, Canada
MAN, Germany
Mazda Corp., Japan
Mondi Europe, Luxembourg and UK
Nestle S.A., Switzerland
NKT Cables, Denmark
Novartis, Switzerland
Nycomed Holding, Denmark
Philips, Netherlands
Rewe, Germany
Rothenberger, Germany
RWE, Germany
Sappi Ltd, South Africa
Shell Petroleum N.V., Netherlands
Siemens, Germany
Smurfit Group, Ireland
Solvay Et Cie, Belgium
Sony, Japan
Sueddeutscher Verlag, Germany
Svenska Cellulosa Ab (SCA), Sweden
Unilever N.V., Netherlands

Voith, Germany
Westdeutsche Allgemeine Zeitung (WAZ), Germany
Westdeutsche Landesbank, Germany