

Executive Guide for East–West Joint Ventures

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Foreword

This Executive Guide is designed to provide useful answers to business executive's basic and most essential questions on East-West joint ventures.

The Guide is a result of work by the international network of the Management of Technological Change (MTC) Project at the International Institute for Applied Systems Analysis (IIASA). The answers elucidate legislative practices based on the most recent documentation, as well as administrative practices should they differ. Provisions for each country were examined and approved by the respective chamber of commerce or competent national agency.

We gratefully acknowledge the efforts of all the national agencies in Bulgaria, Czechoslovakia, Hungary, Poland, and the USSR who provided assistance and contributed to the Guide. In particular, the authors would like to thank the national working groups for their cooperation and Dr. T. Benedek, Dr. V. Ranenko, and Mr. O. Becvar. We would also like to acknowledge the contribution of Mr. W. Leitner for his work on the Guide.

ROBERT H. PRY
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Introduction

The changing climate of East–West relations has provided new opportunities for business executives. As a result of this there has been an increasing tendency to replace part of the conventional trade relations by various means of industrial cooperation.

In recognition of these changes, almost all CMEA countries are gradually adapting their legislation and, to a lesser degree, their administrative procedures. This, as well as the willingness of Eastern (and Western) business people to take risks by stepping outside their accustomed environment, has proved encouraging to Western investors. The various types of industrial cooperation, such as joint production, joint contacts, and joint projects, have increased. East–West joint ventures have become the new and exciting arena in which to try out new ideas, seek broader contracts and move toward more mutually beneficial East–West relations. Although in terms of total investment, East–West joint ventures still only provide a small contribution to total East–West economic relations, they nevertheless constitute the beginning of the departure into future global economic partnerships.

The differing rates of success of the already established joint ventures of the seventies, together with the economic reforms, have resulted in special legislation on joint ventures during the eighties. By the end of 1988 the number of registered joint ventures located in CMEA countries had considerably increased. Although attempts at standardization in legislation can be observed in all CMEA countries, there are still many differences.

The idea of creating a guide for joint ventures was born during a discussion by researchers from the MTC project. It was stated that the decision-making process for investment requires comparative information on the existing possibilities in CMEA countries. This brochure is not just a practical guide; it also presents the results of discussions and research by experts from Bulgaria, Czechoslovakia, Hungary, Poland, the USSR, and IIASA on legislative and administrative practices in the different countries.

The Guide will provide business executives with answers to the most essential questions on joint ventures and will furnish comparative information on the possibilities that exist in different countries. Some answers reflect the experience of joint entrepreneurship in CMEA countries but do not necessarily follow the legislation or regulations. The Guide also contains useful addresses and legislative documents which may help foreign investors in making their choice. However, economic reforms in CMEA countries are dynamic and changes in legislation often occur several times per year. Therefore, IIASA intends to publish a revised and extended edition of the Guide once a year. Information about the revised Guide can be obtained from IIASA's Publications Department (see inside cover for the address).

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PART I

Joint Ventures: How They Developed Over the Years

1. Basic Figures From the General Statistics

The history of industrial cooperation between CMEA countries and Western developed countries has shown a stable tendency toward coproduction, as well as a growing interest in the creation of joint ventures.

East-West joint ventures can be regarded as a highly developed form of economic cooperation. In 1988 joint venture contracts represented 26% of all signed cooperation agreements between CMEA countries and industrialized Western countries.*

The share of joint venture agreements in the total number of East-West cooperation contracts has shown a definite tendency toward growth during the last few years, compared to other well-known and widely applied forms of cooperation such as licensing, delivery of plant equipment, and coproduction (see *Table 1*). The substantial growth in joint venture contracts since 1983 can be regarded as an indicator of the increasing importance attached to this new form of joint economic activity, both by Eastern and Western parties (see *Figure 1*).

Table 1. Ranking of East-West industrial cooperation (by years^a and by type of cooperation).

<i>Type of cooperation</i>	<i>1973</i>	<i>1976</i>	<i>1984</i>	<i>1986</i>	<i>1988</i>
Coproduction	1	1	1	1	1
Licensing	2	3	4	4	4
Joint ventures ^b	3	4	3	2	2
Delivery	4	2	2	3	3

^aOnly the years when changes take place are shown.

^bIncluding joint ventures located both in the West and in the East.

*Since the German Democratic Republic does not have any legal provisions for Western companies at the time this Executive Guide was written, it has not been included. A few contracts for joint ventures were made recently but the conditions were decided case by case.

The dynamics of the joint venture process vary from country to country. Rumania was the CMEA country who initiated the process and several big joint ventures were created during the 1970s. The five which still exist, represent the large, but substantially decreasing share of Rumanian joint venture capitalization. Because of this, Rumania is not included in the statistics given here.

During the early 1970s Hungary became the most active country in promoting joint ventures. Only recently did the Soviet Union take a more active part in the process, followed by Poland, Bulgaria, and Czechoslovakia. Because of its economic capacity and the huge market it represents, the USSR is presently becoming the driving force (see *Figure 2* for new joint ventures). The growth rate of the Soviet Union's share in the total number of East-West joint ventures located in CMEA countries is increasing rapidly, often by month (see *Figure 3* and *Figure 4*).

Although the number of enterprises with foreign capital participation in CMEA countries is growing remarkably fast, the amount of invested capital is still rather small. Total capitalization amounted to roughly US\$1.87 billion by the end of 1988 and to roughly US\$2.5 billion by the end of February 1989. However, we should not ignore the fact that this figure, as well as the number of joint ventures, tripled in 1988 compared to 1987 (see *Figure 5* and *Figure 6*). The average joint venture equity amounted to some US\$3.6 million in 1987 and to US\$3.7 million in 1988.

The new legislation introduced in all CMEA countries at the end of 1988 and the beginning of 1989 triggered a rapid growth in the number of joint ventures. For example, in Poland, within the space of four months, 61 joint ventures were registered. The total number of signed joint venture contracts represents 35% of all companies in the country. Within a period of three months, 25 joint ventures were created in Czechoslovakia. The total number of East-West joint ventures was estimated to be over 1,800 by the end of September 1989. In the Soviet Union alone nearly 100 joint venture contracts were signed every month.

The recent developments in the joint venture process is also characterized by national differences in the size of enterprises. In Hungary, for instance, a lot of small joint ventures exist, so their share in total capitalization is decreasing relative to the Soviet Union's share, where bigger (one to five million roubles) companies represent 27.8% of the total. In actual fact, the majority of the joint ventures have an authorized fund of up to one million roubles in the USSR. With regard to the foreign share in joint ventures capitalization, the total foreign investment was estimated at roughly US\$242 million at the end of 1987 (see *Figure 7*). It had increased to some US\$634 million by the end of 1988 (see *Figure 8*) and to approximately US\$900 million by the end of February 1989. Hungary, the leading country until 1988, attracted approximately US\$550 million in the earlier stage of the process.

The participation of Western countries also differs. From the beginning of the process until the end of 1987, the Federal Republic of Germany, closely followed by Austria, were the leading countries with respect to the number of companies in which they participated. Other countries were way behind with participation only in a small number of joint ventures, and with much less invested

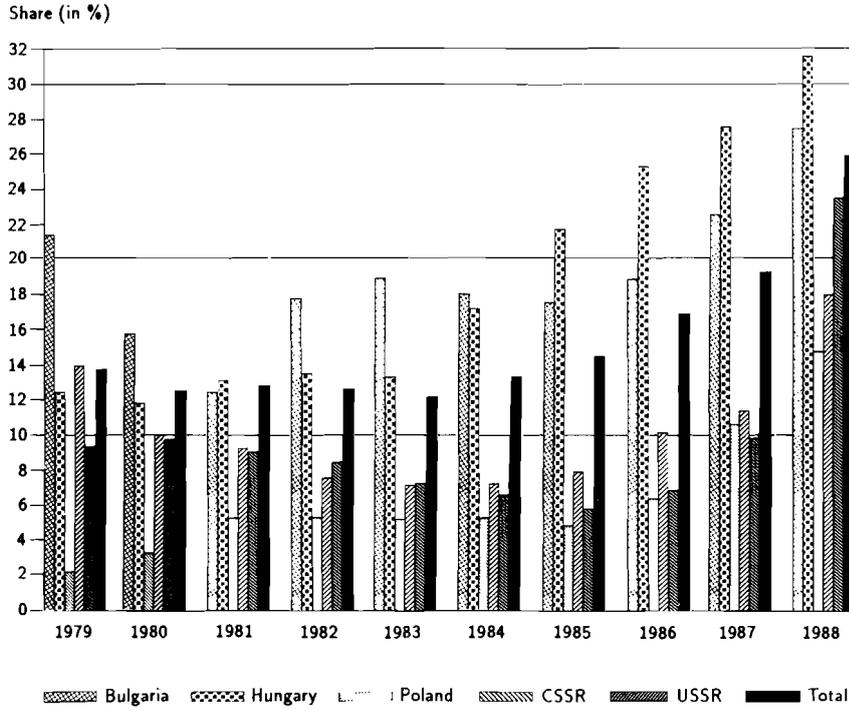


Figure 1. Share of joint ventures in the total number of contracts. Source: MTC Network.

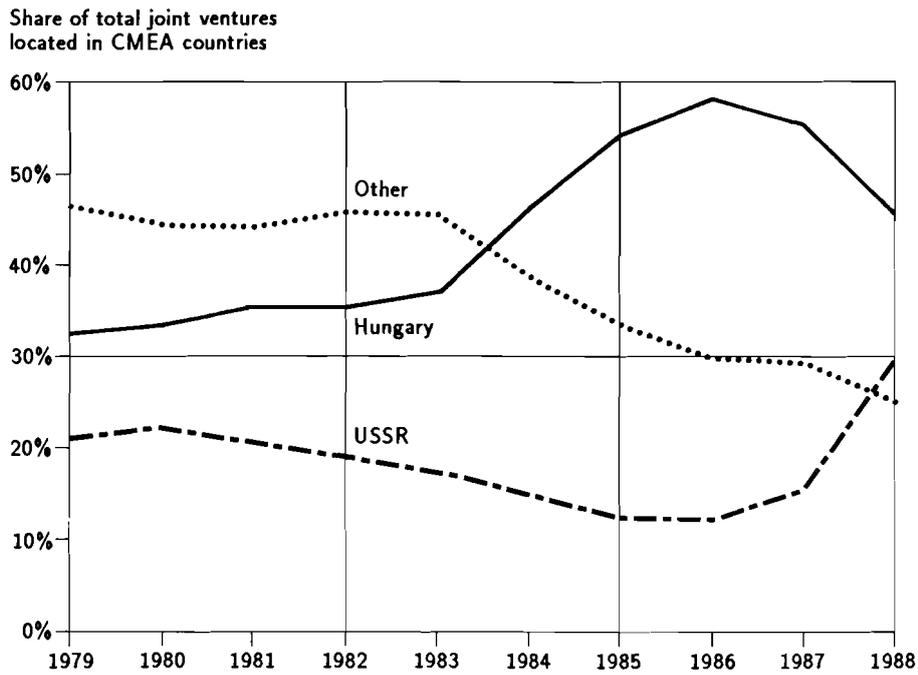


Figure 2. Number of East-West joint ventures. Source: ECE Reports 1979-1988.

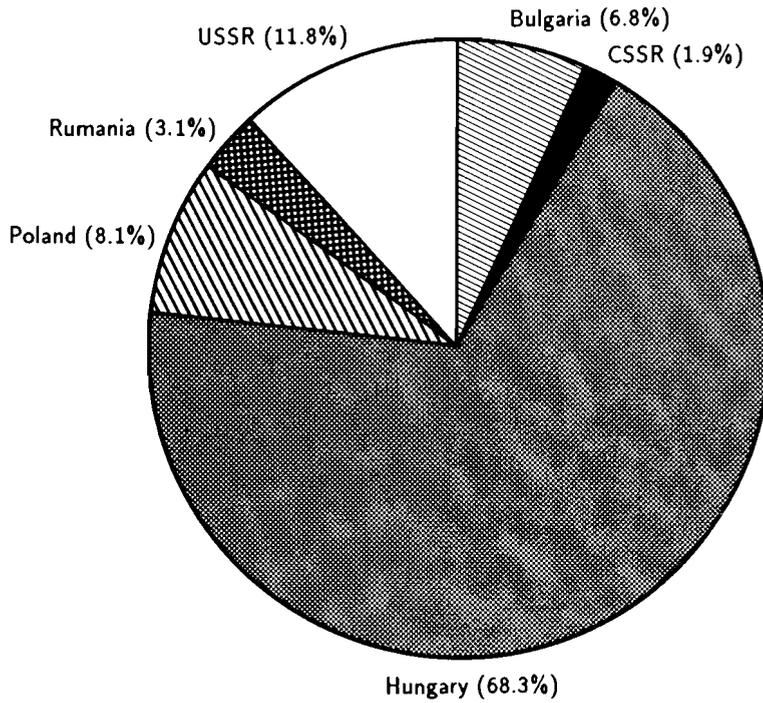


Figure 3. Number of East-West joint ventures in 1987 (total = US\$161 million).
Source: MTC Network.

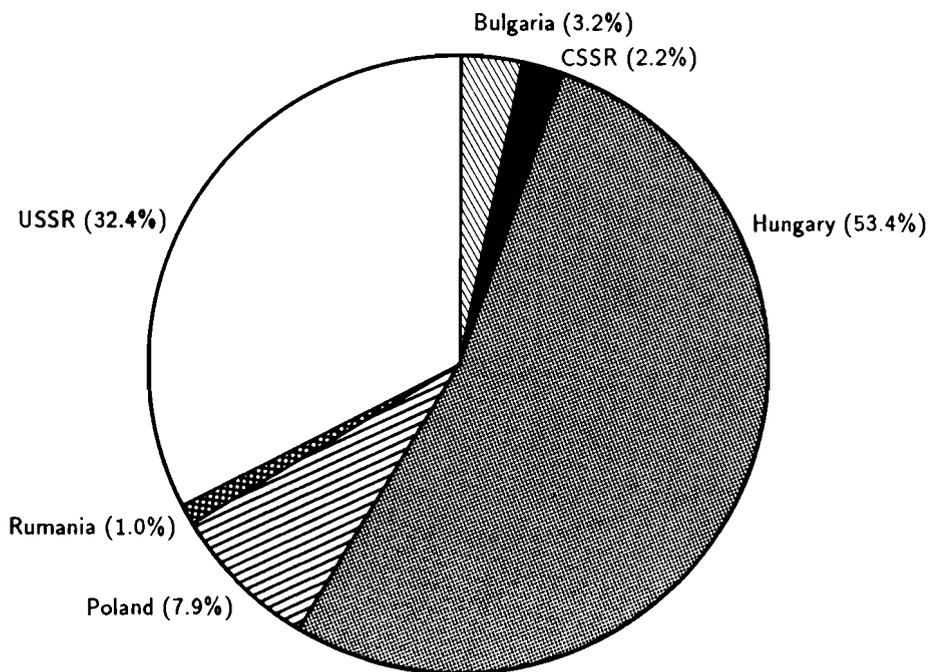


Figure 4. Number of East-West joint ventures in 1988 (total = US\$506 million).
Source: MTC Network.

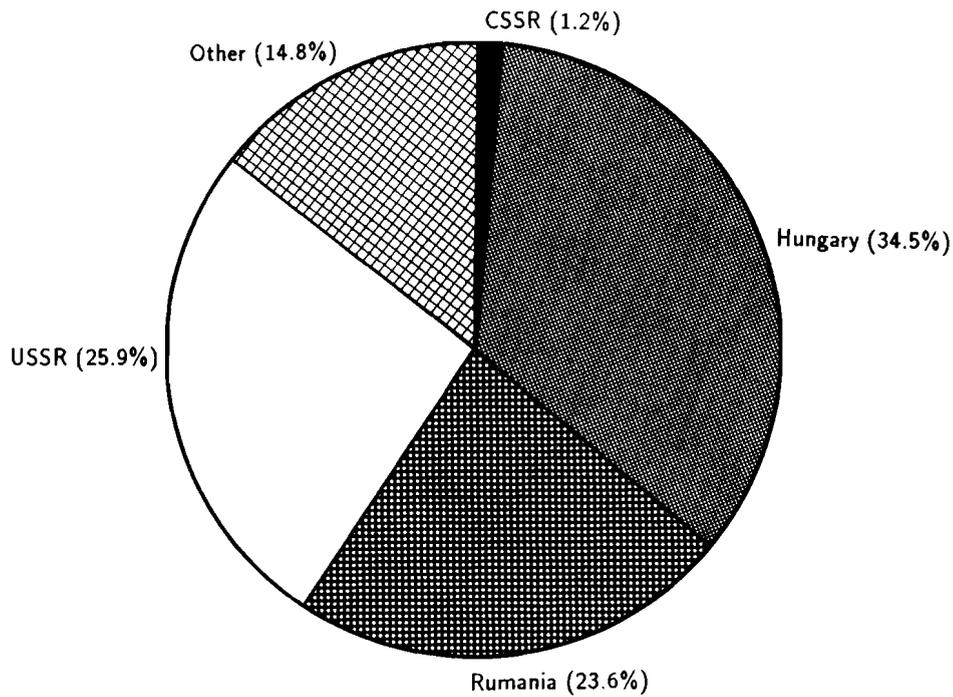


Figure 5. Share of joint venture capitalization in 1987 (total = US\$580million).
Source: MTC Network.

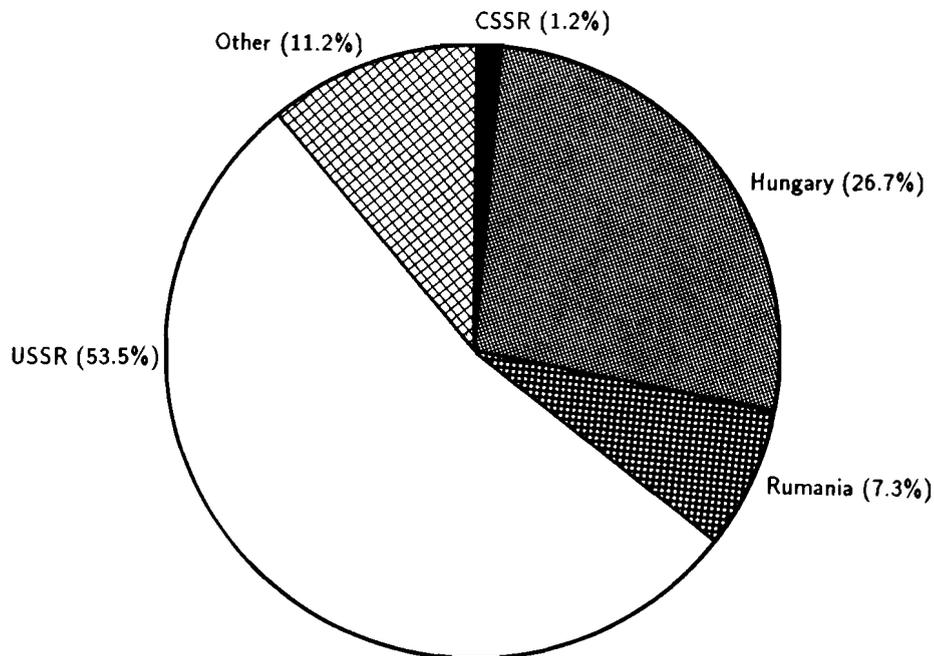


Figure 6. Share of joint venture capitalization in 1988 (total = US\$1.87 billion).
Source: MTC Network.

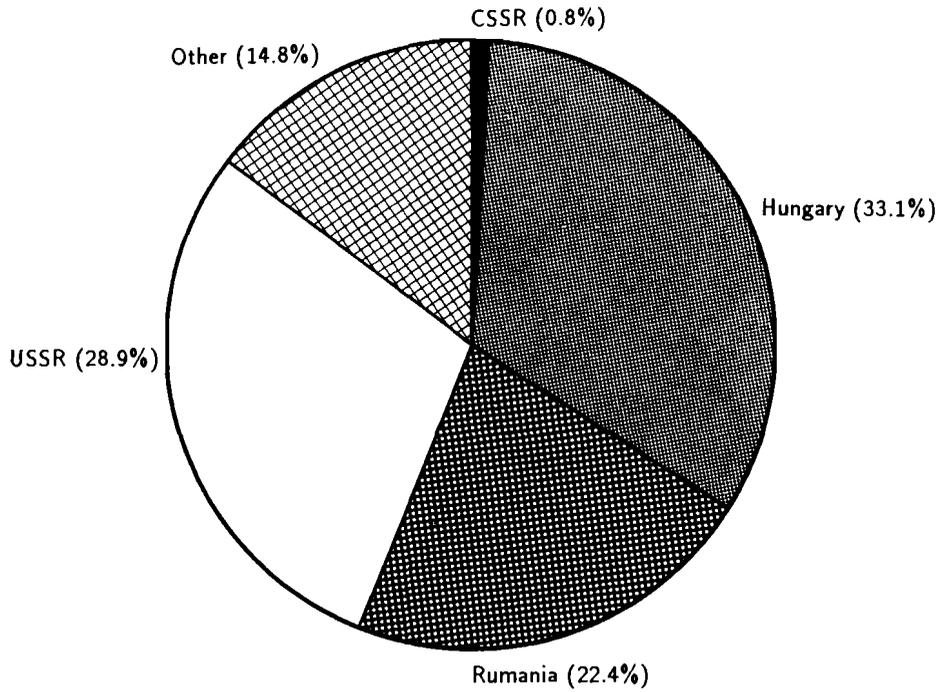


Figure 7. Joint venture foreign capital 1987 (total = US\$242 million). Source: MTC Network.

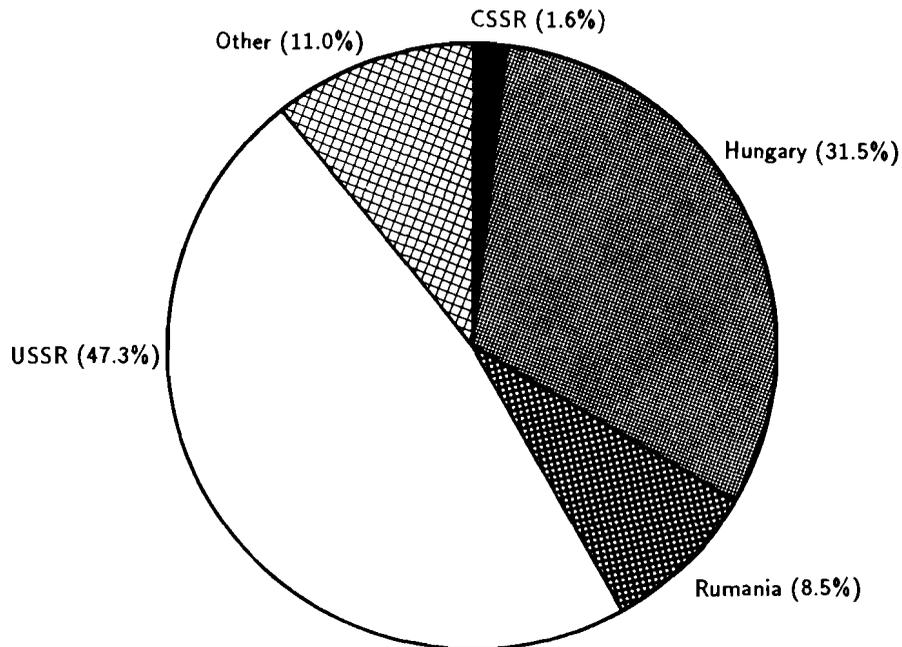


Figure 8. Joint venture foreign capital 1988 (total = US\$634 million). Source: MTC Network.

capital. In 1989 the Federal Republic of Germany is still the most active country in the process but in second place is Italy together with Austria. These are now very closely followed by the UK, the USA, and others.

The typical reason for forming joint ventures is based on the continuity of initial relations between partners. Historical relations, geographical reasons and economic traditions have been among the criteria for the choice of partners for the different countries. Austria is, for example, most active in Hungary, and Finland in the USSR. Not only do the dynamics of the joint venture process in different countries vary, but also the location of investments in the various branches and types of economic activity due to the differences in priorities and specifics of each country and partner.

2. Developments in the Different Countries

2.1. Bulgaria

- **First Legislative Act**

1980 – Decree No. 535 concerning economic cooperation between Bulgarian judicial persons and foreign judicial and physical persons was adopted – the first legal regulation legalizing joint ventures in Bulgaria.

- **Changes in Legislation**

1989 – Decree No. 56 concerning all kinds of economic activity in the country, including those with foreign participation, was adopted to standardize economic conditions for all organizations, as well as to stimulate foreign participation. A month later in February, regulations for the application of the decree were approved.

- **Development of the Process**

The first joint venture, with a Western partner, was founded in 1981. Despite the existence of stimulating legislation, the joint venture process developed rather slowly compared to countries like Hungary, the USSR, and Poland (*Figure 9*). Today the number of East–West joint ventures in Bulgaria is approximately 45. (Registered under Decree 535 and Decree 56 and published in the State Gazette up to the end of October 1989.)

- **Basic Characteristics of Joint Ventures**

Most joint ventures in Bulgaria can be found in the field of engineering services. In addition to their basic activities, some joint ventures also have commercial functions which were previously performed by a trade representative of the Western partner. The joint ventures registered under Decree 56 are predominantly in the area of production but with a very diversified range of activities.

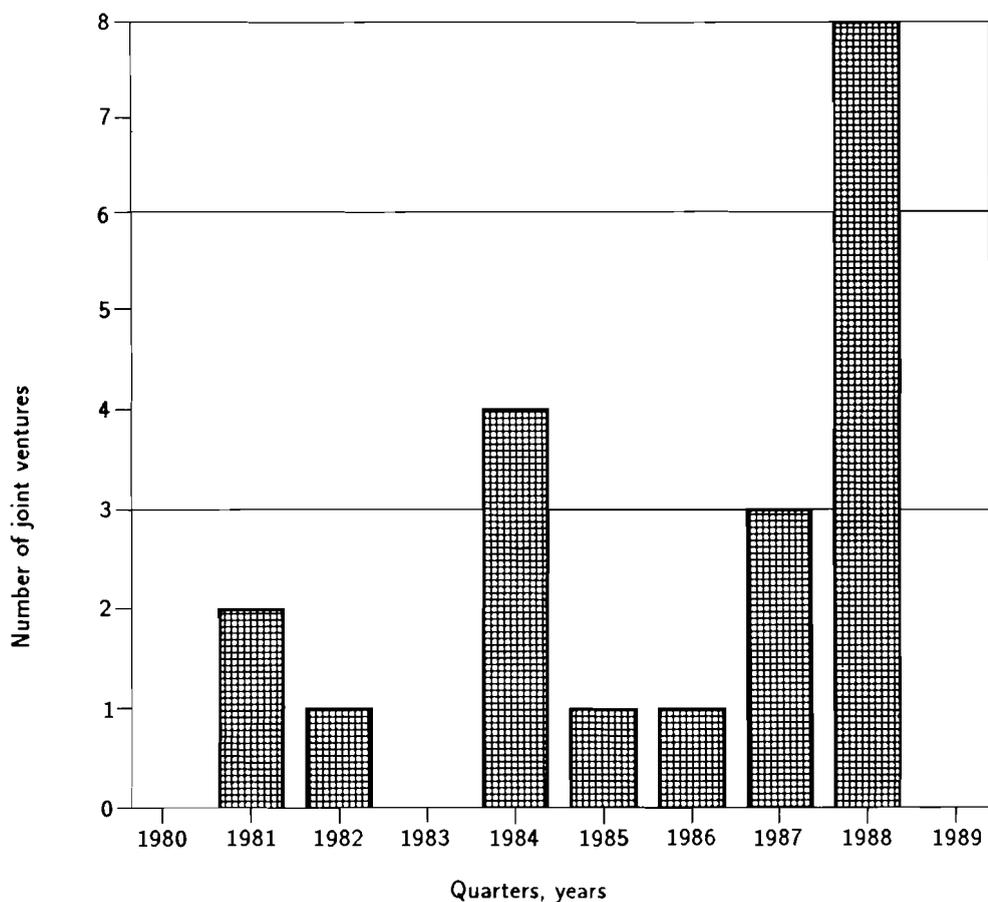


Figure 9. East-West joint venture process in Bulgaria.

- **Foreign Partner Participation**

The Western partners in Bulgarian joint ventures are, for example, companies from the USA, the Federal Republic of Germany, Japan, Austria, Switzerland, Greece, and Italy. No individual country is specifically active in the process.

2.2. Czechoslovakia

- **First Legislative Act**

1985 – The first legal regulation, Principles Governing the Establishment and Activities of the Joint Companies was adopted. This meant that joint companies, consisting of Czechoslovakian corporations and companies from non-socialist countries, could be set up in Czechoslovakia.

- **Changes in Legislation**

1988 – A special Act on Enterprise with Foreign Property Participation defines concrete conditions and procedures for establishing joint ventures as well as for their economic activities.

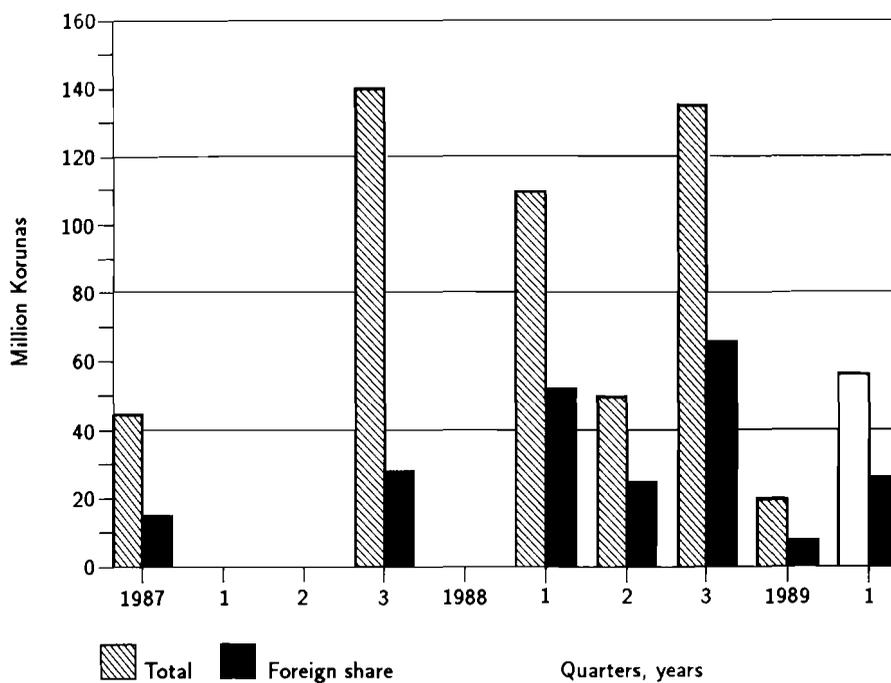


Figure 10. Capital invested in all joint ventures in the CSSR.

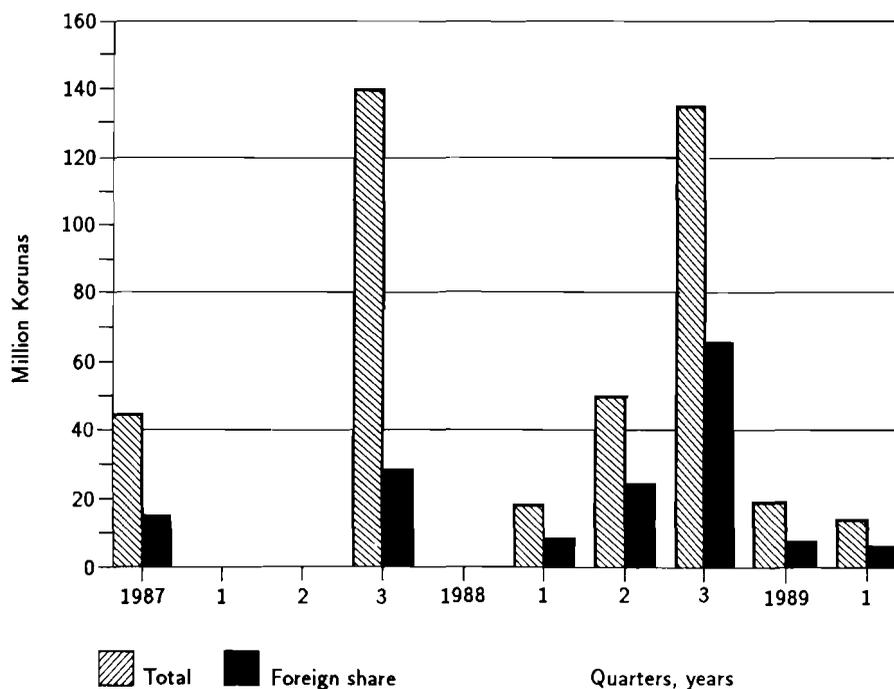


Figure 11. Capital invested per joint venture in the CSSR.

- **Development of the Process**

The first joint venture was established in 1986. At the beginning of 1989 sixteen joint ventures were in operation in Czechoslovakia. The practical use of the new 1988 legislation pushed the process ahead. The number of joint ventures registered under the new legislation exceeds 22.

- **Basic Characteristics of Joint Ventures**

Eighty percent of all joint ventures are companies limited by shares. The remaining 20% are associations. The distribution by industry is as follows:

- 25% are engaged in machinery and machine-tools.
- 13% are engaged in chemistry and timber industry.
- 6% are engaged in transport.
- 6% are engaged in electronics and software.
- 6% are engaged in civil engineering.
- 18% are engaged in service and trade.
- 13% are engaged in health care.
- 13% are engaged in others.

No joint ventures have been established in the consulting and banking sectors in Czechoslovakia. The total capitalization of joint ventures in Czechoslovakia, estimated for some 15 companies, is 556.7 million korunas. The total invested foreign capital amounts to 220 million korunas. The average capital per joint venture is 37.1 million korunas (see *Figure 10* and *Figure 11*).

- **Foreign Partners Participation**

Western countries participation in Czechoslovakian joint ventures can be ranked as follows: Austria, Denmark, France, the UK, and others.

2.3. Hungary

- **First Legislative Act**

1972 – Decree of the Minister of Finance concerning economic companies operating with the participation of foreign entities, and containing more detailed regulations on the operation of joint ventures.

- **Changes in Legislation**

1977 – Modification of the regulations for trade associations operating with foreign participation, declaring that after the agreement of the Minister of Finance, associations may be established that offer trade and services for improving the technical and commercial levels. An important change is the level of profit tax at 40%.

1978 – Two Decrees of the Minister of Finance were introduced: one renders it possible to establish mixed companies in the form of deposit companies, the other one regulates in detail all kind of taxes.

1979 – An order issued by the Minister of Finance described the procedures for obtaining permission for joint ventures. The regulation also commits the company to establish a risk fund to disburse tax and social security fees on wages and salaries.

1982 – A joint Decree of the Minister of Finance and the Minister of Foreign Trade regulating the joint undertaking in the free trade area of harbors was introduced.

1985 – Considerable changes were introduced. There is no longer any requirement for license application to begin negotiations. The only obligation is to declare when the preliminary talks end. The other important measure concerns taxation issues.

1986 – Simplification of the procedure to obtain licenses and applications for taxation privileges. These changes helped to increase the number of joint ventures.

1988 – Regulations extending the right for foreign trade activities in the private sector, declaring that private individuals, as well as their companies, are entitled to pursue trade activities.

1988 – One of the most important acts was enacted – the Company Act, which standardized the operating conditions for all economic organizations in the country, including those with foreign participation.

1988 – A special Act on the Investments of Foreigners in Hungary provided rules for establishing companies with foreign participation, for their operation, etc.

- **Development of the Process**

The first joint venture with a Western partner was founded in 1974. The process of joint venture establishment has developed rapidly over the last two years in Hungary. In 1988 the number of joint venture companies doubled and by the end of 1988 the total number of East–West joint ventures in Hungary was 282, with more than 25 Western countries participating. During the first four months of 1989 the number of newly established joint ventures exceeded 300 (see *Figure 12*).

- **Basic Characteristics of Joint Ventures**

Hungarian joint venture activities are involved with various sectors of the national economy but concentrate mainly on the industrial sector: more than 16% are in the machine building industry, 12% in light industry, 8% in the chemical industry, and 8% in the agriculture and food industry. Then follow the construction, packaging, computer and software industries. The

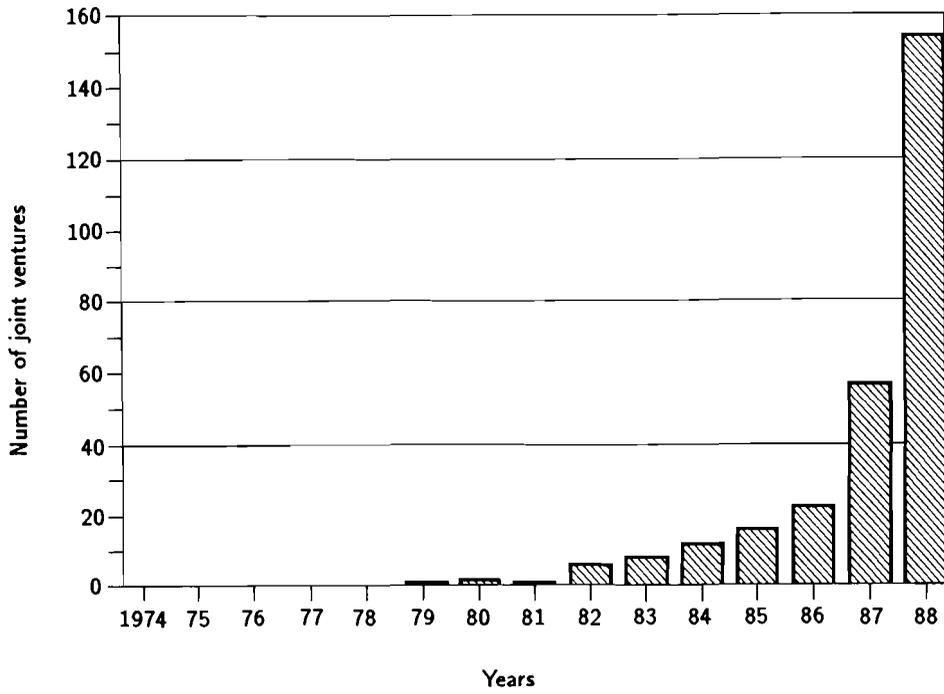


Figure 12. East-West joint ventures process in Hungary.

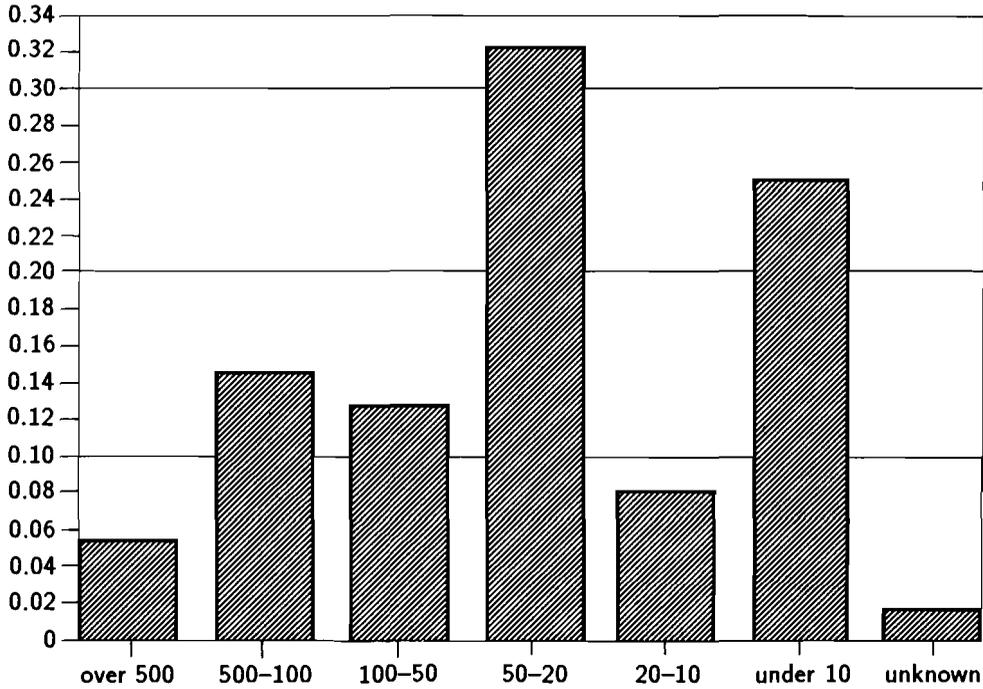


Figure 13. Distribution of Hungarian joint ventures by the amount of capital invested (in Hungarian forints).

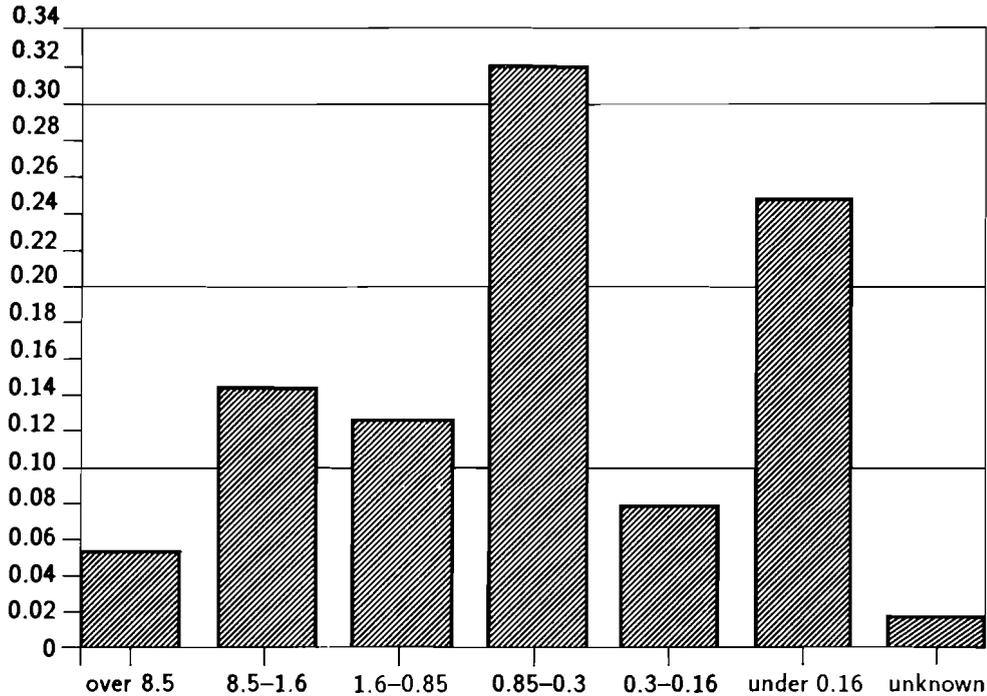


Figure 14. Distribution of Hungarian joint ventures by the amount of capital invested (in US\$).

general tendency over the last few years to establish joint ventures in the field of services is also valid for Hungary. Those joint ventures represent almost 50% of the total. Among these, consultancy joint ventures are the most popular representing 8% of the total, as well as those in hotel business and tourism with 6% of the total. The total capitalization of joint ventures in Hungary estimated to the end of 1988 was 38,111,320 thousand forints or about US\$635,189 thousand. The average participation of foreign partners in the initial joint venture capital is approximately 45.5%. The average capital per joint venture is about 137,586 thousand forints, i.e., about US\$2,293 thousand (see *Figure 13* and *Figure 14*). By the end of October 1989 the total capital invested amounted to nearly US\$800 million.

- **Foreign Partner Participation**

Western countries are ranked, according to their share of participation in Hungarian joint ventures, as follows: Austria (more than 77 joint ventures), Federal Republic of Germany (more than 62 joint ventures), Switzerland, USA, Sweden, and others.

2.4. Poland

- **First Legislative Act**

1986 – Joint ventures in Poland were allowed for the first time in 1986 but it should be mentioned that foreign firms have been investing in Poland for

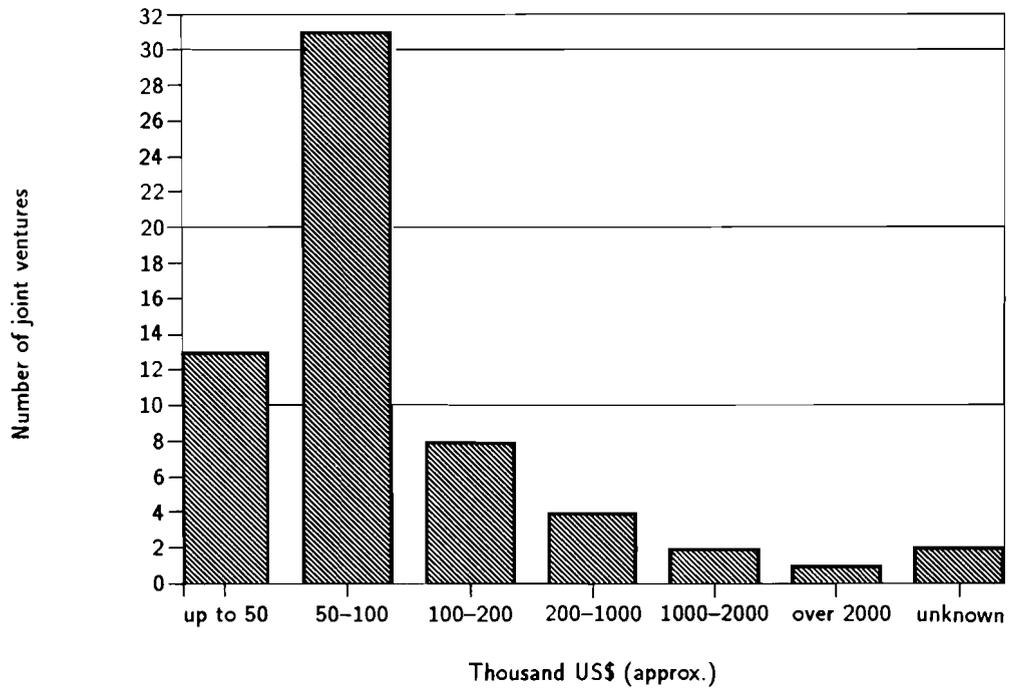


Figure 15. Foreign capital contribution in Polish joint ventures (under the new law).

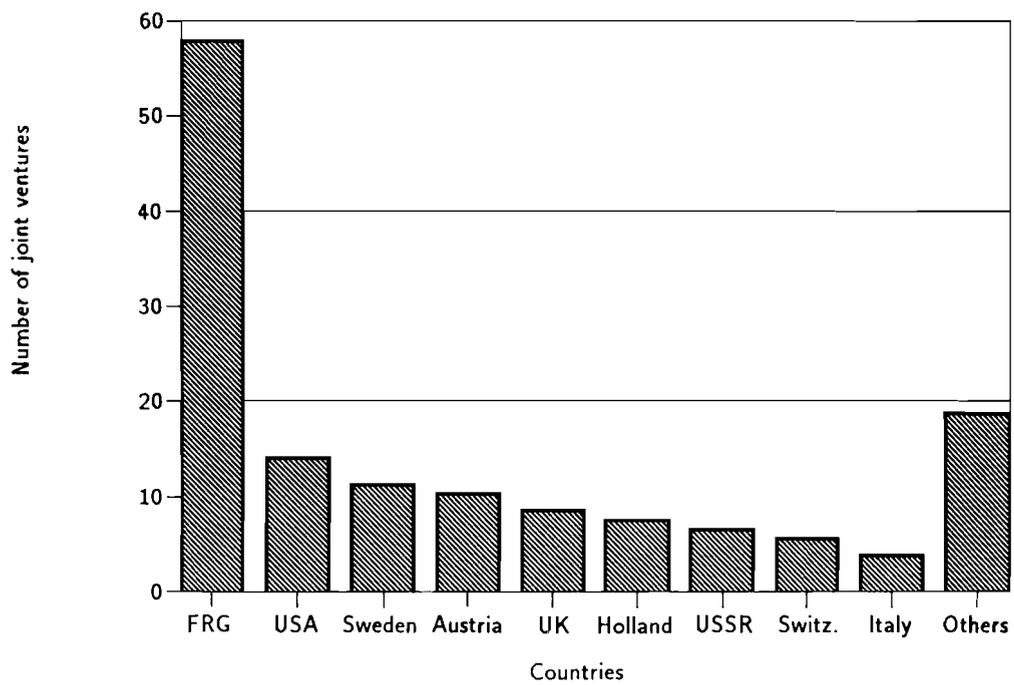


Figure 16. Participation of foreign partners in Polish joint ventures.

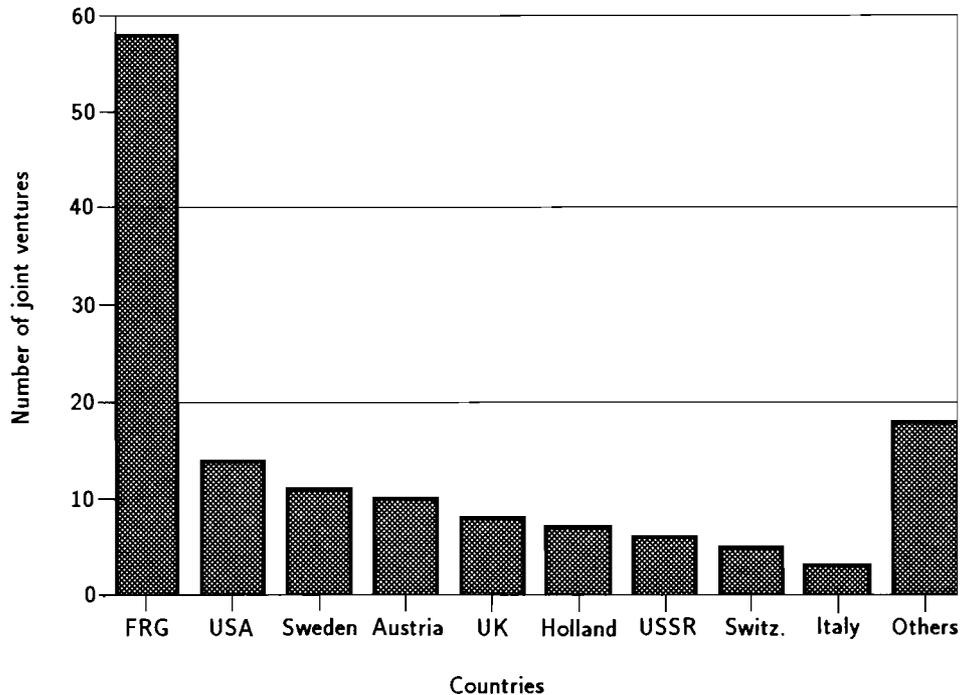


Figure 17. Foreign partners' participation in Polish joint ventures.

13 years. The 1986 Law allowed the establishment of companies with foreign capital participation (joint ventures), without restrictions on the size of company or industrial branch.

- Changes in Legislation

1988 – A Foreign Investment Law was approved in order to provide a more workable framework for the further development of mutually advantageous foreign capital investment in the Polish economy, and to guarantee the protection of foreign investment.

- Development of the Process

Under the first law allowing foreign companies' investment in Poland, 52 joint ventures were established with Western partners between November 12, 1986 and December 24, 1988. The new Polish Law which went into effect in January 1989 pushed the process ahead. The result is that 61 joint ventures were registered within four months (between January 16 and April 20, 1989).

- Basic Characteristics of Joint Ventures

According to their initial investments, most of the Polish joint companies can be classified as small or medium size. Over 60% have a total capital investment amounting to less than 100 million zloty (approximately US\$200,000). The tendency toward a decrease in the growth rate of the invested capital is also valid for Poland. More than 80% of the joint

companies registered under the 1989 Law have invested less than 100 million zloty, compared to 40% before the new legislation (*Figure 15*). Based on information about the most recently established joint ventures in Poland it can be noticed that the foreign investors added US\$100,000 or less in 44 of 50 ventures (*Figure 16*).

- **Foreign Partner Participation**

Among the Western countries with participation in Polish joint ventures the Federal Republic of Germany leads with a share of 40%, followed by the USA, Sweden, and Austria. Although the USA has only five joint ventures, it leads with respect to the value of investments which amount to US\$4,010,000. [These figures are based on 1989 information (MTC Network)]. The USA is followed closely by the Federal Republic of Germany and the UK (*Figure 17*).

2.5. USSR

- **First Legislative Act**

1987 – Decree No. 49 of the USSR Council of Ministers permitted, for the first time, joint ventures to be established with companies from capitalist and developing countries, on Soviet territory.

- **Changes in Legislation**

1988 – Decree No. 1405 defined some additional conditions for joint ventures. It allows the partners to decide upon the shares themselves and offers the possibility of appointing a foreign citizen as general manager of a joint venture.

1989 – Decree No. 203 adopted some measures on state regulation of external economic affairs.

- **Development of the Process**

The first joint venture with a Western partner was founded in 1987. A substantial growth in the number of joint ventures in the USSR can be observed from the end of 1988, where the average number of monthly registered joint ventures was 60–80. The estimated total number by September 1989 is approximately 700 (*Figure 18*). By April 1, 1989 the number of registered East–West joint ventures in the USSR was 290, with the participation of more than 300 Soviet companies, cooperatives and other organizations, as well as more than 290 Western companies from 22 countries.

- **Basic Characteristics of Joint Ventures**

Soviet joint ventures concentrate their activities more or less randomly on industry, services and activities like Research and Development (R&D),

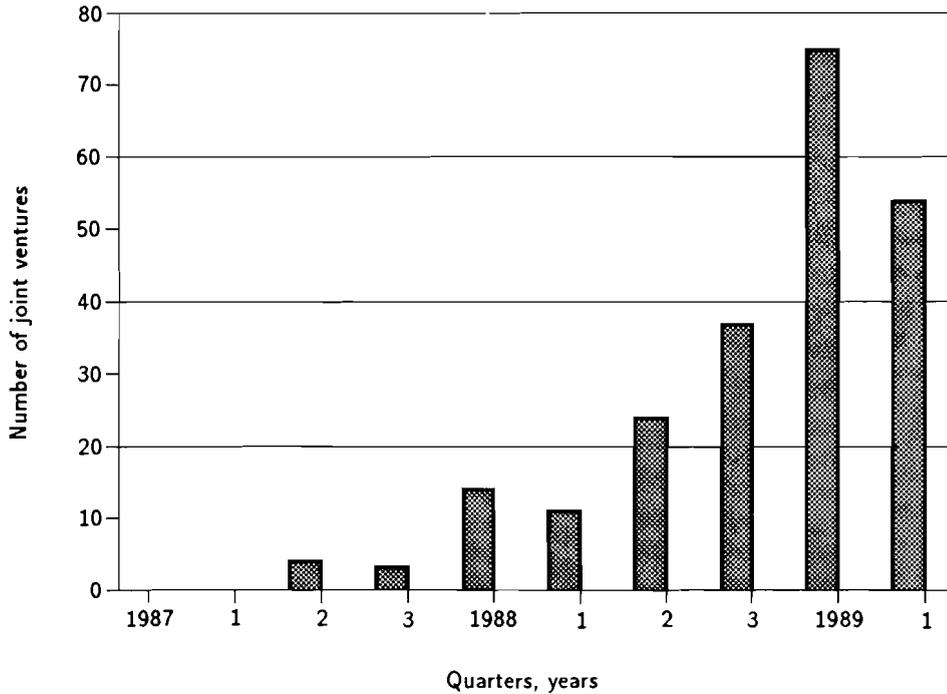


Figure 18. East-West joint venture process in the USSR.

engineering, consultancy, training, etc. The total capitalization of the joint ventures (all kinds of joint ventures such as East-East, East-West and East-developing country) in the USSR estimated to September 1, 1989 was 2,412 million roubles, the share of the Soviet participants being 58%, Western companies 34%, partners from CMEA countries 6.9%, and partners from the developing countries 1.3%. Fifty-seven percent of all joint ventures in the USSR have a capitalization fund of less than one million roubles, and 6.6% have more than five million roubles (*Figure 19*). The initial investments of joint ventures (capitalization fund + credits) is 1% of the annual capital investments of the whole USSR economy. The intensive growth in the number of East-West joint ventures in the USSR is accompanied by a less intensive growth in capital initially invested, as well as by a decrease in the absolute value of foreign investments per joint venture (*Figure 20*). The main reason for this is the growth of joint ventures in the fields of consultancy, engineering, information, and other services that do not need substantial initial investments.

- Foreign Partner Participation

In the rapidly growing joint venture process in the USSR, the Federal Republic of Germany, Finland, the USA, the UK, Austria, and Italy were the most active countries up to April, 1989 with 127, 100, 90, 62, 59, and 58 joint ventures, respectively. The Federal Republic of Germany invested the most capital, followed by Italy and France.

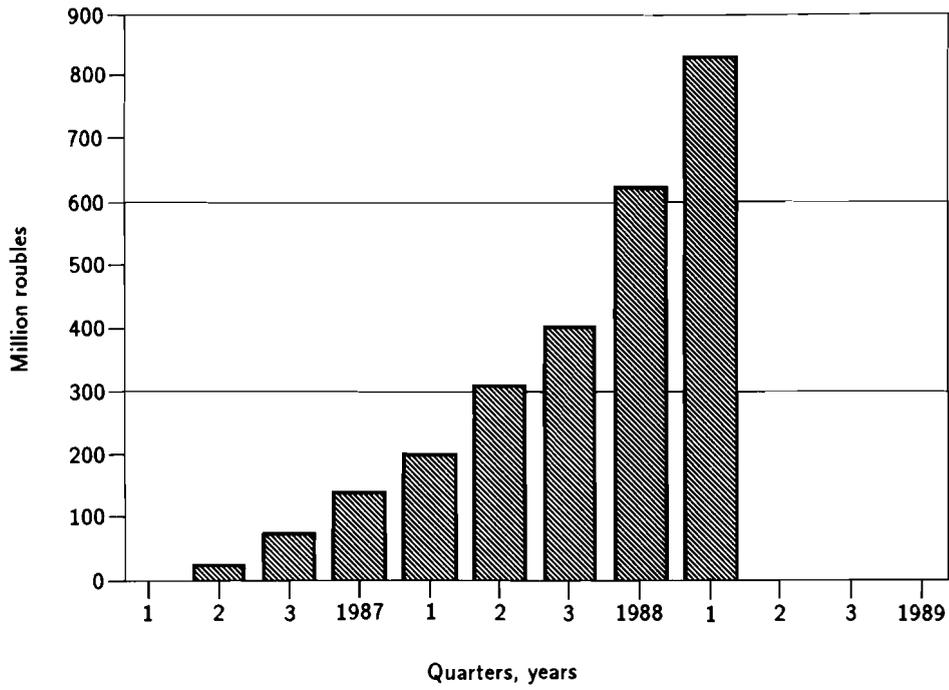


Figure 19. Capital invested in East-West joint ventures in the USSR.

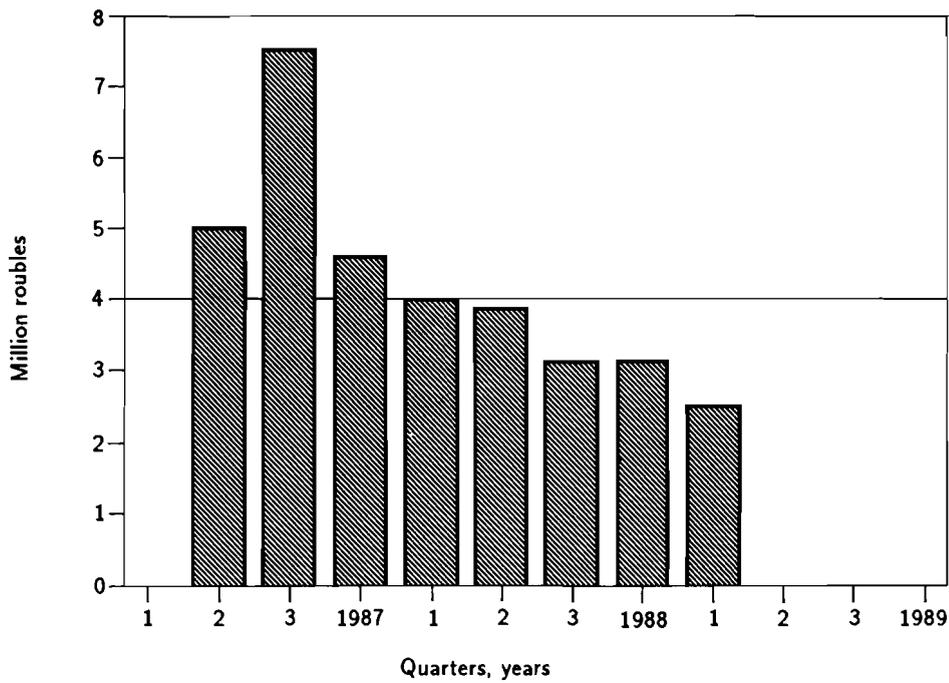


Figure 20. Capital invested per joint venture in the USSR.

PART II

Questions to Ask Before Setting Up an East–West Joint Venture

This section provides the answers to the 40 questions listed below for Bulgaria, Czechoslovakia, Hungary, Poland, and the USSR.

Companies with Foreign Participation

1. *What legal types of companies, with foreign participation, can be established in the country?*

Establishment

2. *Is a formal application required to operate a business with foreign capital?*
3. *Do any restrictions exist on the activities of the future company?*
4. *What are the contents of an application?*
5. *Do the authorities have to make a decision about an application within a certain period of time?*
6. *Who is contacted first in the country?*
7. *Do priority areas or activities for foreign investment exist?*

Capital and Ownership

8. *Do any limitations exist regarding the share of foreign capital?*
9. *Who is entitled to participate in a joint venture?*
10. *What forms of capital are accepted?*
11. *Is a minimum value of foreign investment required?*
12. *What provisions exist for the purchase and use of real estate?*
13. *What kind of provisions exist for property protection and security in case of nationalization/expropriation, bankruptcy, and liquidation?*

Financial Framework

Profit and taxation

14. *Definition and calculation of profit.*
15. *Which profit tax rate is applied?*
16. *What kind of profit tax reduction and exemption can be expected?*
17. *Do any limitations exist on profit repatriation?*
18. *In which currency can the profit share be transferred? Which exchange rate is applied to the repatriated profit?*
19. *Does any additional tax exist on profits that are repatriated by the foreign partner(s)?*
20. *What other kind of taxes are relevant for companies with foreign participation?*

Banking

21. *Is special permission required to operate with foreign currency?*
22. *Do definite quotas exist for hard currency accounts for joint ventures (obligatory sales of the joint venture's foreign currency to the State Bank)?*
23. *Do any requirements exist for joint ventures that intend to raise credits with banks in local or hard currency?*

Funds

24. *Do any funds have to be established? What is the annual installment and the amount required?*
25. *Are funds allocated before or after profit taxation?*

Accounting and Bookkeeping

26. *In which currency do accounts and books have to be kept?*

Operational Framework

27. *How is the joint venture connected to the State Plan?*
28. *Do any provisions exist guaranteeing supplies from domestic sources?*
29. *Do guarantees for sales to domestic and foreign markets exist?*
30. *Are direct trade operations possible and if not, which institutions deal with these issues?*
31. *Which goods are exempt from export and import duties?*

Labor and Personnel

- 32. Can a joint venture employ foreigners? Is a separate permission required?*
- 33. Do special provisions exist concerning the number of employees?*
- 34. In which currency(ies) can salaries be paid?*
- 35. Does a separate salary tax rate exist for salary shares transferred abroad?*
- 36. Which procedure has to be followed when dismissing employees? How can trade unions influence the decisions on staff employment?*
- 37. Will a labor market be established?*

Management

- 38. Is a certain nationality required for the management positions in the company?*
- 39. Is a certain nationality required for other members of the board?*
- 40. Do special provisions exist for the decision making process at the board level, or in general?*

BULGARIA

Companies with Foreign Participation

1. What legal types of companies, with foreign participation, can be established in the country?

Foreign legal and natural persons can participate in a joint company in Bulgaria or establish their own companies, branches, subsidiaries, etc. Companies with foreign participation can be:

- Limited liability companies (LLC).
- Joint stock companies or companies limited by shares.
- 100% foreign-owned subsidiaries which adhere to the general rules.

Establishment

2. Is a formal application required to operate a business with foreign capital?

In cases where foreign participation is more than 49%, official permission is required by the Ministry of Economy and Planning and by the Ministry of Foreign Economic Relations (in the case of a limited liability company). In the case of a company limited by shares, official permission is required if the foreign share is more than 20%. The application (declaration) has to be submitted to the Ministry of Economy and Planning by the Bulgarian partner in the case of joint activities.

The foreign legal and natural persons are also obliged to apply for official permission in the case of an independent business activity in Bulgaria, by submitting a declaration to the Ministry of Economy and Planning.

The permissions are issued by the Minister of Economy and Planning in agreement with the Minister of Foreign Economic Relations. Foreign legal and natural persons can acquire shares in LLCs and a CoLtd under the same conditions. The relevant state authority determines the economic activities that do not require a special permission.

Foreigners have to pay the whole amount of their shares when entering into a company limited by shares. A bank branch can be opened with a minimum capital of 10 million leva.

Foreign persons can open trade agencies in the country under two conditions: permission from the Ministry of Economy and Planning and a minimum of 50% of the employees have to be Bulgarian. The trade agency is not considered to be a legal person. According to Decree No. 56, the Council of Ministers may decide not to apply the provisions of this Decree to foreigners when they are citizens of a country where Bulgarian companies are discriminated against. The final registration of any company has to be made with the Court. The registration fee should be paid in foreign and local currency, proportional to the partners' shares.

3. Do any restrictions exist on the activities of the future company?

The requirements on environmental protection have to be fulfilled. Foreign subsidiaries are restricted in as far as they have to concentrate their activities only on what has been indicated in the contract.

4. What are the contents of an application?

All kinds of companies have to be registered with the Court on the basis of an application accompanied by the following documents:

- A foundation act: for a joint company, a foundation agreement for a branch company (or subsidiary), an act of the management board of the parent company.
- Statutes of the company and some other documents depending on the form of the company.

Two or more legal persons are needed to register a CoLtd. The requirements are as follows:

- The statute to be adopted.
- Distribution of all shares.
- 30% of the capital to be available.
- Management and supervisory boards to be elected.
- All other requirements in the acting regulations to be fulfilled.

The company's statute should set out:

- Name and official address of the company.
- Type and scope of activity.
- Capital.
- Number and nominal value of the shares (including personnel and bearer stocks).
- Distribution of profit, covering of losses, dividends identification, as well as conditions of payment for dividends.

- Issues concerning the General Assembly of the shareholders.
- Issues concerning the management and supervisory boards, their mandate and liabilities.
- Miscellaneous.

A *limited liability* company (LLC) can be established by a minimum of two persons on the basis of an agreement – a statute – adopted by the partners.

The following points have to be defined in the statute:

- Name and official address of the company.
- Type of activity.
- Capital and shares.
- Conditions and time periods in case of termination of the company.

The registration procedure is applied not only to the foundation, but also to the reorganization, and winding up of the company. The decision of the courts is published in the State Gazette and the date of publishing is the operative date for the creation, the reorganization or the winding up of the new legal company.

5. *Do the authorities have to make a decision about an application within a certain period of time?*

No.

6. *Who is contacted first in the country?*

The people contacted first in order to find a Bulgarian partner differ according to the form of joint activity and foreign investment. Contacts with potential Bulgarian partners could be established directly, through the Trade Departments of Bulgarian Embassies, the Bulgarian Chamber of Commerce, the Bulgarian Industrial Association and the Bulgarian Foreign Trade Bank.

Other trade banks such as the Economic Bank, the Bank for Economic Projects, the Mineral Bank, the Electronics Commercial Bank, the Biochem Commercial Bank, the Transport Techniques Bank, the Agricultural and Cooperative Bank, the Construction Bank, and the Transport Bank can be contacted for information.

If required, an application should be submitted to the Ministry of Economy and Planning.

7. *Do priority areas or activities for foreign investment exist?*

Priority is given to those activities that are concentrated on high-tech areas. They are defined by the Council of Ministers.

Capital and Ownership

8. *Do any limitations exist regarding the share of foreign capital?*

No. It is possible to have a company that is 100% foreign owned.

9. *Who is entitled to participate in a joint venture?*

- Legal persons with an official address abroad.
- Natural persons, citizens of foreign countries.
- Bulgarians with a permanent residence abroad.
- Legal Bulgarian persons.

10. *What forms of capital are accepted?*

Investment can be in cash or in kind, and has to be specified in the statutes by the partners.

11. *Is a minimum value of foreign investment required?*

There is a general requirement for a company limited by shares to have a capital of at least 1 million leva, for an LLC the minimum amount of capital is 50,000 leva. The minimum value of one share in a CoLtd is 1,000 leva.

12. *What provisions exist for the purchase and use of real estate?*

Purchase of real estate on Bulgarian territory is not permitted. However, joint ventures have the use of Bulgarian real estate and the right to build and/or use the immobilities, which are state property, for a fixed term with the permission of the Council of Ministers. The use has to be related to the business activities of the company.

13. *What kind of provisions exist for property protection and security in case of nationalization/expropriation, bankruptcy, and liquidation?*

Economic activity and foreign investments are protected by the State. Investments (including immovable property) by foreigners cannot be confiscated by administrative order.

Foreign investments and property can only be confiscated when state and public needs cannot be satisfied without such measures being taken. In this case, reimbursement has to be negotiated and agreed upon. If agreement is not reached the amount of compensation will be determined by the district court. Nothing has been confiscated since joint ventures were set up nine years ago.

Financial Framework

Profit and taxation

14. Definition and calculation of profit.

Profit is equal to the sales of goods and services and pecuniary income minus expenses, plus depreciation according to the rates applicable to state owned enterprises.

Profit before taxation is also called *balance profit*. All taxes are paid from *balance profit*.

15. Which profit tax rate is applied?

The basic tax on profits is 30% in the following cases:

- In LLC companies when the foreign share is more than 49% and more than five million leva in convertible currency or more than 50 million transferable roubles.
- In CoLtd companies when the foreign share is more than 20%.

In all other cases the basic profit tax is 50%. Profits from an independent foreign economic activity in Bulgaria have a basic tax of 40%. All income of foreigners resulting from dividends, shares, and author's license remuneration, are taxed 15%. Companies with foreign participation are taxed 10% on dividends.

16. What kind of profit tax reduction and exemption can be expected?

With special permission from the Minister of Economy and Planning and in coordination with the Minister of Foreign Economic Relations, joint companies with even less foreign capital participation than above can enjoy lower taxation and tax exemption. This is decided case by case. Joint ventures can be exempt from profit tax, if they operate in the field of high-tech. The part of the profit granted to Bulgarian cultural, scientific, and educational institutes, foundations, etc., is also exempt from taxation.

17. Do any limitations exist on profit repatriation?

Foreign partners can transfer abroad their share of foreign currency profits without separate authorization. They can also transfer their share if the company is liquidated.

There are two situations in which profits in leva can be repatriated; when they are earned from economic activity fulfilled under contracts with state

bodies; and in the case of compensation for expropriated foreign investments, if the company is liquidated. In such cases the levas are transferred into the desired foreign currency according to the exchange rate of the Bulgarian Foreign Trade Bank.

18. In which currency can the profit share be transferred? Which exchange rate is applied to the repatriated profit?

Repatriation is possible only from hard currency profits (see answer to question 17).

19. Does any additional tax exist on profits that are repatriated by the foreign partner(s)?

No.

20. What other kind of taxes are relevant for companies with foreign participation?

In the case of a foreign majority (described above) – value added tax, regional taxes, local fees. In the case of a foreign minority – value added tax, wage tax, real estate tax, regional taxes.

Banking

21. Is special permission required to operate with foreign currency?

A general foreign currency authorization is required to operate with foreign currency.

22. Do definite quotas exist for hard currency accounts for joint ventures (obligatory sales of the joint venture's foreign currency to the State Bank)?

No.

23. Do any requirements exist for joint ventures that intend to raise credits with banks in local or hard currency?

Credits can be obtained from the Bulgarian Exchange Bank or from abroad. Accounts with foreign banks can be opened once the company has permission for foreign exchange. The company keeps accounts at a Bulgarian exchange bank of its choice. This bank can guarantee the company's obligations.

Interest rates and deposits are negotiated between the firms and the banks.

Funds

24. Do any funds have to be established? What is the annual installment and the amount required?

A development fund has to be established. In the case of a foreign majority the companies are free to decide upon funds and their amount.

25. Are funds allocated before or after profit taxation?

They are allocated after profit taxation.

Accounting and Bookkeeping

26. In which currency do accounts and books have to be kept?

In leva, the Bulgarian currency.

Operational Framework

27. How is the joint venture connected to the State Plan?

All Bulgarian companies can receive so-called state orders and execute them under a contract with a state body. Such state orders cannot amount to more than two thirds of the company's production capacity. This is valid for joint ventures with a foreign minority. Joint ventures with a foreign majority do not have such obligations, but they can draw up contracts with state bodies.

28. Do any provisions exist guaranteeing supplies from domestic sources?

The joint companies operate under the same regulations as Bulgarian enterprises with regard to supplies in Bulgaria. The supply is usually organized through contracts between the clients and the suppliers. Joint ventures can purchase necessary goods or services in Bulgaria with leva and with foreign currencies, or import them.

29. Do guarantees for sales to domestic and foreign markets exist?

Generally no licenses are necessary for foreign trade for joint ventures, except for a few limited commodities. When the company is established, general rights for trading are given. Goods and services can also be sold by the company in Bulgaria for foreign exchange. Furthermore, companies can sell currencies at foreign exchange auctions organized by the Bank.

Apart from the restriction concerning real estate, foreign partners can freely use leva profits on the Bulgarian Market. Prices of goods and services sold both

in and out of the country by the joint ventures, foreign subsidiaries or fully foreign owned enterprises are freely negotiable with clients. There is a list of high priority consumer goods and services for which fixed or marginal prices are set by the Council of Ministers. These prices are obligatory for every company in the country. The Council of Ministers can introduce additional conditions for foreigners and joint ventures regarding the prices of some raw materials and energy resources.

30. Are direct trade operations possible and if not, which institutions deal with these issues?

Direct foreign trade operations can be executed freely without any requirement for licenses, except where import and export quotas are established by the Council of Ministers for certain goods.

31. Which goods are exempt from export and import duties?

The foreign partners' investments in kind, all raw and primary material imports by the company for its operations, and equipment for the production of export goods are exempt from import duties. Any items left by the foreign partner upon dissolution of the firm are exempt from export duty.

Labor and Personnel

32. Can a joint venture employ foreigners? Is a separate permission required?

Foreign citizens can be employed by the company without any additional permission. General permission is given by Decree No. 56. All details concerning conditions of work, conditions of payment, personal and family insurance, etc., are set out in the contract when the company is formed, or in the individual contracts of employment (in the case of a foreign majority). Bulgarian labor legislation is applicable in all other cases.

33. Do special provisions exist concerning the number of employees?

No.

34. In which currency(ies) can salaries be paid?

The salaries can be paid in leva or partly in foreign currency. This is subject to negotiations between the employee and the management (see answer to question 32).

35. Does a separate salary tax rate exist for salary shares transferred abroad?

No.

36. Which procedure has to be followed when dismissing employees? How can trade unions influence the decisions on staff employment?

Bulgarian legislation serves as the basis for employment conditions, social insurance, and the influence of trade unions, if the contract contains no special provisions for them. In the case of a foreign majority, labor conditions are defined in the contract.

For foreigners the provisions of their individual labor contracts are applicable.

37. Will a labor market be established?

No.

Management

38. Is a certain nationality required for the management positions in the company?

No.

39. Is a certain nationality required for other members of the board?

No.

40. Do special provisions exist for the decision making process at the board level, or in general?

No.

CZECHOSLOVAKIA

Companies with Foreign Participation

1. *What legal types of companies, with foreign participation, can be established in the country?*

The legal form of companies with foreign participation is not stipulated by law. Most joint ventures are joint-stock companies, and in addition, several consortiums exist. An exception is one Limited (Ltd.) company in Czechoslovakia, the functioning of which is not explicitly regulated by Czechoslovakian legislation.

Establishment

2. *Is a formal application required to operate a business with foreign capital?*

Yes. Applications for authorizing agreements to be made or amended should be submitted to a central state authority by the Czechoslovakian partner.

3. *Do any restrictions exist on the activities of the future company?*

As far as the economic activity of the joint venture is concerned, it can conduct business with any sector of the national economy with the exception of those sectors that are related to national defense and security.

4. *What are the contents of an application?*

In the application, the Czechoslovakian participant has to indicate:

- His name, official address, and subject of activity.
- The purpose and objective of the future joint venture.
- The proposed type and scope of activities, of the joint venture, its legal status, name, and official address.
- A technical-economic analysis of the proposed activities of the joint venture (feasibility study).
- The value of the authorized fund, the participants' share in this fund, type and currency of the shares, the method of profit distribution and coverage of losses, and the minimum amount allowed in the reserve fund.

- Representation of the participants in the management of the joint venture.
- Data on the foreign participant.

The application must be accompanied by a draft of the agreement.

5. *Do the authorities have to make a decision about an application within a certain period of time?*

Yes, the central authority is bound to issue its decision within 3 months from the time when the application was submitted.

The decision also depends on the following criteria:

- The contribution the proposed enterprise will make to the development of the Czechoslovakian national economy.
- The probability that the proposed joint venture will carry out its business activities properly.
- The proposed ratio of the equity shares (however, no advice is given by law as to what might be regarded as the preferred ratio).

6. *Who is contacted first in the country?*

The various ministries who are responsible for dealing with the activities of joint ventures, the Chamber of Commerce, and various state organizations.

7. *Do priority areas or activities for foreign investment exist?*

Legislatively there is no priority area or activity promoted by tax reduction or other favorable conditions.

Capital and Ownership

8. *Do any limitations exist regarding the share of foreign capital?*

No.

9. *Who is entitled to participate in a joint venture?*

From Czechoslovakia only legal persons with an official address in Czechoslovakia may take part. Foreign partners may be legal or natural persons with domicile outside Czechoslovakia.

10. *What forms of capital are accepted?*

Practically all forms, but the Czechoslovakian participant may not make use of any real estate in the joint venture. This is usually avoided as real estate may be used as part of the Eastern partners' share of the rent payment in the future.

11. *Is a minimum value of foreign investment required?*

No.

12. *What provisions exist for the purchase and use of real estate?*

Real estate may not be purchased, only rented.

13. *What kind of provisions exist for property protection and security in case of nationalization/expropriation, bankruptcy, and liquidation?*

The property of a joint venture or any rights and interests in such property may be expropriated only under a certain law, with immediate financial compensation, transferable abroad. A joint venture shall not cease to exist unless, and until, wound up. The liquidator is obliged to dispose of the property in accordance with the partners' decision.

Financial Framework

Profit and taxation

14. *Definition and calculation of profit.*

Profit is defined as sales of goods and services, minus expenses, plus depreciation. Depreciation is linear according to generally binding rules of law. Exceptions can be granted by the Ministry of Finance.

15. *Which profit tax rate is applied?*

Profit tax is 40%.

16. *What kind of profit tax reduction and exemption can be expected?*

The Federal Ministry of Finance can grant full or partial exemption from taxes to a newly established joint company for a maximum period of two years, or it can modify the calculation basis for social security contributions. The Government may decrease the tax rate and social security contributions for a further period.

17. *Do any limitations exist on profit repatriation?*

The foreign participant is entitled to transfer his annual profit share, profits derived from liquidation or sale of shares in foreign currency, provided that the joint venture holds sufficient foreign exchange funds. If the company goes into liquidation, the share of invested capital is transferred in the currency that it was originally paid in.

18. *In which currency can the profit share be transferred? Which exchange rate is applied to the repatriated profit?*

Profit shares can be transferred in any currency at the current exchange rate of the Czechoslovakian National Bank.

19. *Does any additional tax exist on profits that are repatriated by the foreign partner(s)?*

The taxation is influenced by existing inter-state agreements on double taxation. The rate is 25%. In the case of double taxation the rate is 5%–10%.

20. *What other kind of taxes are relevant for companies with foreign participation?*

Income tax, social insurance contributions (50% of wage earned), taxation on dividends, possibly turn-over tax (to be borne by the consumer).

Banking

21. *Is special permission required to operate with foreign currency?*

No, joint ventures may open foreign currency accounts. Special authorization is not needed.

22. *Do definite quotas exist for hard currency accounts for joint ventures (obligatory sales of the joint venture's foreign currency to the State Bank)?*

No definite quotas exist. The joint venture has the right to dispose freely of any foreign currency earned.

23. *Do any requirements exist for joint ventures that intend to raise loans with banks in local or hard currency?*

The joint venture is free to raise credits in foreign currency from a Czechoslovakian foreign exchange bank. Only credits in hard currency from a foreign bank require the approval of the Czechoslovakian State Bank.

Funds

24. *Do any funds have to be established? What is the annual installment and the amount required?*

A reserve fund, a fund for cultural and social needs, and a remuneration fund have to be set up. The annual installment for the reserve fund should not be less

than 5% of profits, after deduction of obligatory taxes up to the amount stipulated in the contract. Installments for the fund for cultural and social needs and the remuneration fund are regulated by common law stipulations. A joint venture is free to establish additional funds.

25. Are funds allocated before or after profit taxation?

They are allocated after profit taxation.

Accounting and Bookkeeping

26. In which currency do accounts and books have to be kept?

In Czechoslovakian currency, according to the generally binding legal provisions. Exceptions may be granted by the Federal Ministry of Finance.

Operational Framework

27. How is the joint venture connected to the State Plan?

No tasks may be imposed on joint ventures by the State Plan of Economic and Social Development.

28. Do any provisions exist guaranteeing supplies from domestic sources?

Supply is effected on the basis of commercial contracts.

29. Do guarantees for sales to domestic and foreign markets exist?

All relations with Czechoslovakian legal persons, including sales and supplies, are determined by the Economic Code. (This assumes that the provisions of the Economic Code setting the obligations to conclude, modify or cancel a contract without the actual intention of the parties involved, or the power to create, modify or cancel such obligations, as well as those provisions which, do not correspond to the nature of the enterprise, or are inconsistent with the concept of legal standing as defined in the Act on Enterprise with Foreign Property Participation, are not valid.) The International Trade Code is applicable.

30. Are direct trade operations possible and if not, which institutions deal with these issues?

Joint ventures can perform foreign trade operations both directly, where they need authorization from the Federal Ministry of Foreign Trade, or through a foreign trade organization.

31. Which goods are exempt from export and import duties?

Joint ventures do not pay export or import duties at all.

Labor and Personnel

32. Can a joint venture employ foreigners? Is a separate permission required?

Yes. No special permission is needed.

33. Do special provisions exist concerning the number of employees?

No.

34. In which currency(ies) can salaries be paid?

In the national currency. The joint venture retains the insurance paid abroad for its employees who are not domiciled in Czechoslovakia. The joint venture has the right to transfer sums abroad for the payment of social security insurance for its employees domiciled abroad.

35. Does a separate salary tax rate exist for salary shares transferred abroad?

An employee of the company domiciled abroad has the right to transfer abroad his income earned from working in the company. Only the joint venture's foreign currency assets can be used for the transfer.

36. Which procedure has to be followed when dismissing employees? How can trade unions influence the decisions on staff employment?

The Labor Code which prescribes a generally applicable 2 months' notice has to be respected. The trade unions can influence the management of joint ventures on staff issues.

In joint ventures with foreign capital participation, the trade unions fight for the rights of the employees.

37. Will a labor market be established?

The establishment of an artificial labor market is not planned. Some features, such as a discrepancy in demand in certain professions, has been observed.

Management

38. Is a certain nationality required for the management positions in the company?

No.

39. Is a certain nationality required for other members of the board?

No; an agreement between the participants has to be reached. No binding regulations exist concerning executive officers. Usually a director (managing director) heads the management; the technical directors or deputy directors are directly subordinated to him.

40. Do special provisions exist for the decision making process at the board level, or in general?

No provisions exist. The decision making process is defined in the agreement between the partners.

HUNGARY

Companies with Foreign Participation

1. What legal types of companies, with foreign participation, can be established in the country?

Foreign legal persons can participate in a joint company in Hungary or establish their own companies, branches, subsidiaries, etc. Natural persons can be shareholders (see also answer to question 9). Companies with foreign participation can be:

- Limited liability companies (LLC).
- Joint stock companies or companies limited by shares.
- 100% foreign-owned subsidiaries under the general rules for all companies.
- Unlimited partnership.
- Deposit partnership.
- Union.
- Joint enterprise.

Establishment

2. Is a formal application required to operate a business with foreign capital?

The joint permission of the Minister of Finance and Minister of Trade is required for the foundation of a company fully owned, or mainly controlled by foreigners, or for conversion into such a company.

Neither the permission of the foreign exchange authority, nor any other permission is required if there is no foreign majority.

3. Do any restrictions exist on the activities of the future company?

No.

4. What are the contents of an application?

The application is only needed if there is a foreign majority. The application for permission has to be submitted to the Minister of Finance by the Hungarian partner. In cases where the new company will be fully owned by a foreigner,

permission has to be applied for through a Hungarian representative. The application has to be in Hungarian. It has to contain:

- The names of the Hungarian and foreign partners (founders), the type and official address (domicile) of their companies.
- The form of the (intended) company, the place of its registration and its official address; a description of its range of activities.
- In the case of an already existing company: the size of the existing property (primary stock, registered capital) on the day when the application is filed; in the case of the foundation of a new company: the corresponding planned data.
- The method of distribution of the net after-tax profit.
- A description of the company's intended business strategy accompanied by assessable data.

All companies have to be registered with the Court.

5. *Do the authorities have to make a decision about an application within a certain period of time?*

If the relevant application is not rejected within ninety (90) days, the said permission shall be deemed granted.

6. *Who is contacted first in the country?*

An application is submitted to the Minister of Finance and the Minister of Trade in order to obtain permission to operate, in the case of a foreign majority. There are special agencies who provide help during the formation phase as well as in drawing up the contract (Investcenters, Chamber of Commerce, etc.).

7. *Do priority areas or activities for foreign investment exist?*

The preferred business activities in Hungary are the following: electronics, machine and vessel components, machine tool production, production of machines for agriculture, foodstuff industry, forestry, packing technologies, production of medical products, technological developments for more efficient use of resources, communication services, tourism, and biotechnology (tax allowances: the first five years are free, then 20%). (See Part III.)

Capital and Ownership

8. *Do any limitations exist regarding the share of foreign capital?*

There is no limitation. A company can even be fully-owned by a foreigner. Foreigners are only entitled to buy registered shares. Bearers' shares have to be transformed into registered shares before selling them to foreigners, in order to render the transfer of dividends possible.

9. *Who is entitled to participate in a joint venture?*

Hungarians: The state, legal entities, economic associations not possessing legal entity, as well as natural persons may participate; only legal entities may be members of a union or of a joint enterprise.

Foreigners: Foreigners may only participate in the foundation of a company or become members in a company, if they own a company under their own national legislation, or are registered in a trade (or other economic) register under their own national legislation. Any foreign natural person or legal entity may be a shareholder.

10. *What forms of capital are accepted?*

Investment can be in cash or in kind and has to be specified by the partners in the agreement when the company is established.

- Money deposits (cash contributions) in convertible currency on the foreigner's side, in the case of a company operating in free trade areas, on both sides.
- Non-monetary contributions: any negotiable object having a property value, intellectual creation or valuable rights (e.g., copyright).

The foreigner is obliged to pay his pecuniary contribution in a freely convertible currency, unless an international agreement states otherwise.

11. *Is a minimum value of foreign investment required?*

As far as the size of the capital is concerned:

- The primary stock of a limited liability company shall amount at least to one million Hungarian forints (about US\$20,000), the cash contribution should not be less than 30% of the primary stock and not less than 500,000 forints (about US\$10,000).
- The registered capital of the company limited by shares shall not be less than ten million forints (about US\$200,000), the cash contribution (pecuniary contribution) shall not be less than 30% of the registered capital and five million forints (about US\$100,000).

A minimum value of foreign investment is not required, but certain taxational advantages are not granted in cases where the foreign share is less than five million forints (about US\$100,000) or less than 20% of the total capital of the company. A company must have a minimum capital of one million forints. In those cases where the capital exceeds 25 million forints (US\$500,000) and the foreign share amounts to a minimum of 30%, tax advantages are possible.

Another condition that is valid for a limited liability company is the requirement that the invested capital per member must not be less than 100,000 forints. The face value of a share must not be less than 10,000 forints.

12. What provisions exist for the purchase and use of real estate?

The company is entitled to acquire ownership and other rights on real estate that is needed for its economic activities defined in the deed of association (company statute). Furthermore, the company can freely dispose of its assets within the limits of Hungarian legislation and the deed of association (company statute).

13. What kind of provisions exist for property protection and security in case of nationalization/expropriation, bankruptcy, and liquidation?

Foreign capital invested in Hungary is fully protected. The terms of protection correspond to those which apply in Western countries. Foreign investors receive guarantees from the state for compensation for losses derived from nationalization or expropriation of their property. The compensation shall cover the actual value. There are agreements for investment protection between the Hungarian government and several other Western governments.

Finally banks may undertake a guarantee, subject to the usual banking terms, for the company's commitments toward a foreign member. In a case of persistent insolvency the appropriate provisions for the liquidation procedure have to be applied. These regulations concern: the reasons for terminating the company, the final accounts, the involvement of the executive officers of the company, the involvement of a liquidator, the role of the Court of Registration in the case of bankruptcy. The claims against the economic association or its members, arising from the liabilities imposed on the company, shall expire within five years from the termination of the association or of the membership, respectively. In the statute a shorter deadline can be defined.

Financial Framework

Profit and taxation

14. Definition and calculation of profit.

Profit is equal to sales minus expenses, plus depreciation according to rates applicable to state owned enterprises.

15. Which profit tax rate is applied?

The profit tax rate is 40% on that part of the tax base not exceeding three million forints (about US\$60,000), and 50% on the part which exceeds this amount. A reduction of 20% is granted to every joint venture that attains these two levels. However, in November 1989 it was decided in Parliament to reduce the 40% rate to 35% and the 50% rate to 40%.

16. What kind of profit tax reduction and exemption can be expected?

A company can enjoy some reduction and even exemption from profit tax as follows:

- (a) The company is entitled to any tax allowance granted to other Hungarian business organizations.
- (b) If more than half of the company's sales receipts come from the production of commodities or from the operation of a hotel constructed by the company, then in the first five years the tax is 20%, from the sixth year onward 30%. The five year period starts when sales of commodities or the rendering of the said services begin, respectively.
- (c) If the company carries on an activity of special importance for the Hungarian economy – as defined in the annex of the law – no tax is paid in the first five years and 20% from the sixth year onward.
- (d) If a foreign member (shareholder) reinvests his dividends partly, or entirely in the company, the latter shall be entitled to a tax allowance which equals the amount of tax due on the said sum.

For (b) and (d) a precondition requires that the capital of the company should exceed 25 million forints (about US\$500,000) and the foreign share should not be less than 30% at the time of foundation.

17. Do any limitations exist on profit repatriation?

Foreign partners can transfer abroad their share of foreign currency profits without separate authorization, as well as their share should the company go into liquidation, provided the company is properly covered.

18. In which currency can the profit share be transferred? Which exchange rate is applied to the repatriated profit?

In any convertible currency chosen by the foreigner at the official exchange rate of the Hungarian National Bank.

19. Does any additional tax exist on profits that are repatriated by the foreign partner(s)?

There is no additional tax on the share of profits eventually transferred.

20. What other kind of taxes are relevant for companies with foreign participation?

Only the above mentioned entrepreneur's profit tax. Neither the company, nor the members have to make any other payments, on the basis of profits, to the State budget.

VAT is deducted from the company's total income (gross sales) and it is contributed to the state budget. The standard rate is 25%, but legislation provides a list of VAT rates for individual products. Reductions and even exemptions are granted for some products.

Banking

21. Is special permission required to operate with foreign currency?

Joint ventures are, as a rule, not authorized to operate with foreign currency in the same manner as other Hungarian enterprises, except joint ventures established in duty free zones. These companies have to carry on their business operations and keep their accounts in the convertible currency determined in the deed of association (company statutes).

22. Do definite quotas exist for hard currency accounts for joint ventures (obligatory sales of the joint venture's foreign currency to the State Bank)?

Only companies in free trade areas may have hard currency accounts. All others have no quotas at all.

23. Do any requirements exist for joint ventures that intend to raise credits with banks in local or hard currency?

The companies work with Hungarian and/or with joint venture banks in the usual manner, except for those joint ventures in free trade areas that are authorized to carry on part of their business with foreign banks.

The usual requirements for raising credits are applicable. Joint ventures need permission from the Hungarian National Bank if they intend to raise credits.

Funds

24. Do any funds have to be established? What is the annual installment and the amount required?

There is no compulsory regulation for the creation of funds. They are subject to negotiation and agreement between the partners.

25. Are funds allocated before or after profit taxation?

After profit taxation.

Accounting and Bookkeeping

26. In which currency do accounts and books have to be kept?

In Hungarian currency (forints) with the exception of companies operating in free trade areas that keep their accounts in the convertible currency determined in the deed of association. The company's accounts, the drawing up of its balance sheet, submission of statistical data, and auditing shall be performed under the rules that are also applicable for domestic organizations.

Operational Framework

27. How is the joint venture connected to the State Plan?

There is no connection at all.

28. Do any provisions exist guaranteeing supplies from domestic sources?

Companies will operate under the same regulations as Hungarian enterprises with regard to supplies in Hungary.

29. Do guarantees for sales to domestic and foreign markets exist?

The company is entitled to carry out foreign, wholesale, and retail trade, according to generally binding rules of legislation. There is a wholesale market and wholesalers who act and function according to the rules of demand and supply. In principle, the prices are set by the market conditions. In addition, provisions against unfair business activities and unfair price setting apply. The competent authority is entitled to set prices for certain goods.

30. Are direct trade operations possible and if not, which institutions deal with these issues?

Direct foreign trade operations are possible except the requirement of a license for a few limited commodities. Direct foreign trade to CMEA countries for the time being is not possible due to the quotas and agreements between CMEA countries.

31. Which goods are exempt from export and import duties?

General goods are subject to import duties. Production materials imported into the country as the contribution of the foreign partner to the authorized capital are duty-free.

Labor and Personnel

32. Can a joint venture employ foreigners? Is a separate permission required?

Foreign citizens can be employed by the company without any additional permission. General permission is given by law. All details concerning conditions of work, conditions of payments, personal and family insurance, etc., are regulated in the contract when the company is formed or in the individual labor contracts of the employees.

33. Do special provisions exist concerning the number of employees?

No, in the case of the joint venture; an economic association which has exclusively natives as members may not employ more than 500 people. This provision does not apply, however, to economic associations fully or mainly owned by foreigners.

34. In which currency(ies) can salaries be paid?

The salaries are paid in Hungarian forints. Foreign employees can transfer 50% of their salary without special permission.

35. Does a separate salary tax rate exist for salary shares transferred abroad?

Fifty percent of the individual income earned in the joint venture by the foreign employee can be freely transferred in the currency of his home country.

36. Which procedure has to be followed when dismissing employees? How can trade unions influence the decisions on staff employment?

According to the provisions of the ILO (International Labor Organization), the trade unions have the right to express their opinion on questions related to the employees' working situation and conditions.

37. Will a labor market be established?

No. The possibility to hire and to be hired is free.

Management

38. Is a certain nationality required for the management positions in the company?

No.

39. Is a certain nationality required for other members of the board?

No.

40. Do special provisions exist for the decision making process at the board level, or in general?

No. In a company limited by shares where the number of employees exceeds 200 (annual average) one third of the members of the Supervisory Board will be elected by the employees.

In the Supervisory Board, whenever the opinion of the delegates of the employees differs from that of the Supervisory Board it is obligatory to announce this minority opinion in the General Assembly.

POLAND

Companies with Foreign Participation

1. *What legal types of companies, with foreign participation, can be established in the country?*
 - Limited liability companies in which the foreign investor holds 100% of the shares.
 - Joint stock or limited liability companies with equity contributed by Polish and foreign partners.
 - Joint stock companies where the foreign partners, together with other foreign and/or Polish partners raise equity through a public subscription of shares. The President of the Foreign Investment Agency (FIA) must agree to the sale of these shares, and will set the ratio of Polish and foreign investors. All shares must be registered.

Establishment

2. *Is a formal application required to operate a business with foreign capital?*

An official application has to be submitted to the Agency for foreign investment in order to obtain permission to operate a company. Permission is also required for the transfer of shares or ownership interests among shareholders, the acquisition of shares or stocks by new persons, a change in the ratio of equity holdings, voting rules, the nature and value of contributions, and a change in the company's field of activity.

3. *Do any restrictions exist on the activities of the future company?*

The application for a joint venture can be rejected if the intended economic activity:

- Endangers the economic interests of Poland.
- Does not meet the requirements of environmental protection.
- Is incompatible with national security and defense or protection of state secrets.

4. *What are the contents of an application?*

- Specification of partners.
- Scope and subject of business activities, with special regard to exports and imports.
- Planned duration of business activities.
- Initial capital and credit needs.
- Proportion of equity shares, forms of capital invested.
- Location of the new enterprise.
- Contract (draft).
- Documents on the financial standing and legal status of the partners.
- Financial and economic assessment of envisaged company.
- Feasibility study of the proposed company.

5. *Do the authorities have to make a decision about an application within a certain period of time?*

Within two months. If permission is not granted the interested parties have the right to appeal to the President of the Agency to have the case re-examined. Once permission has been obtained the joint venture has to be listed in the local commercial register. Registration should take place within two weeks after permission has been granted.

6. *Who is contacted first in the country?*

An application is submitted to the recently established Foreign Investment Agency (FIA) in order to obtain permission to operate. A feasibility study which is required for the application can be done by Polish consulting companies.

7. *Do priority areas or activities for foreign investment exist?*

The establishment of joint ventures is permitted in the areas of production, trade, service, and construction. The preferred areas include:

- The introduction of modern technologies or management techniques.
- The delivery of goods or services for export.
- The improvement of domestic supply with modern high-quality goods or services.
- The introduction of environmental protection equipment.

The Polish Government has issued a specific list of business areas in which foreign investments are encouraged. (See Part III.)

Capital and Ownership

8. Do any limitations exist regarding the share of foreign capital?

Between 20%–100% of capital stock, to be determined after consultation with the FIA.

9. Who is entitled to participate in a joint venture?

Polish partners – the treasury and other legal entities and natural persons domiciled in Poland.

Foreign partners – legal and natural entities domiciled abroad; natural persons and companies without legal status created by those who are domiciled abroad.

10. What forms of capital are accepted?

Investment can be in cash or in kind. Zloty investments must be accompanied by official exchange documents. The value of the investments in kind (buildings, equipment, licenses, trademarks, patents, etc.) should be specified when the contract is drawn up. The value of the contributions in kind can be subject to verification by independent authorities at the request of the FIA.

11. Is a minimum value of foreign investment required?

The total value of foreign investment in a company must not be less than 25 million zloties. This amount is adjusted to the foreign exchange rate for currency in which the contribution is made. At the time when this law was passed the official amount was 50,000 zloty. When the foreign share is more than 20%, tax benefits are quite possible.

12. What provisions exist for the purchase and use of real estate?

The Polish partner can contribute rights to use state-owned real estate according to the provisions for the use of state-owned land for long-term use or lease. Companies can also acquire and lease real estate not owned by the state. In the case where the foreign partner owns a majority share of the company, any purchase must be verified by the Ministry of Internal Affairs. Purchases from the foreign shareholder's profit require a separate foreign exchange permission.

13. What kind of provisions exist for property protection and security in case of nationalization/expropriation, bankruptcy, and liquidation?

The foreign partner can receive a guarantee for compensation of losses due to expropriation or nationalization from the Minister of Finance.

Financial Framework

Profit and taxation

14. Definition and calculation of profit.

Profit is equal to sales minus expenses, plus depreciation according to rates applicable to state owned enterprises. Deductions are made for charitable contributions of up to 10% of income.

15. Which profit tax rate is applied?

Forty percent minus 0.4% for each percentage point of sales exported (thus the minimum is 10%). Taxable profit is calculated using depreciation applicable to state owned enterprises.

16. What kind of profit tax reduction and exemption can be expected?

No corporate profit tax is charged for the first three years after establishment (i.e., date of first invoice). Tax exemption can be extended for another three years with the approval of the President of the FIA where companies are active in a preferred business area. If the company is dissolved during the first six years, profit taxes have to be paid retroactively for the entire period of activity.

17. Do any limitations exist on profit repatriation?

Foreign partners can transfer abroad their share of foreign currency profits without separate authorization. They can transfer more than this amount with special permission from the Finance Minister. Polish partners can transfer their share to their own foreign exchange account.

Dividends in foreign currency can be paid as long as export revenues exceed import expenses.

18. In which currency can the profit share be transferred? Which exchange rate is applied to the repatriated profit?

Repatriation is only possible for the hard currency profit share.

19. Does any additional tax exist on profits that are repatriated by the foreign partner(s)?

The foreign partners profit is subject to a 30% tax unless international agreements provide otherwise. Poland has signed double taxation agreements with 21 countries. Companies from these countries pay 5%–15% tax.

20. What other kind of taxes are relevant for companies with foreign participation?

Turnover tax, agricultural tax, wage tax, real estate tax, local taxes, stamp duty, and community and city fees.

Banking

21. Is special permission required to operate with foreign currency?

General foreign currency authorization is required to operate with foreign currency.

22. Do definite quotas exist for hard currency accounts for joint ventures (obligatory sales of the joint venture's foreign currency to the State Bank)?

Fifteen percent of the foreign currency earnings from exports have to be sold to the Polish foreign trade bank. The President of the FIA can reduce this rate in cases where it seems reasonable from an economic point of view.

23. Do any requirements exist for joint ventures that intend to raise credits with banks in local or hard currency?

Credits can be obtained from the Polish exchange bank or from abroad. Accounts with foreign banks can be opened once the company has foreign exchange permission. The company keeps accounts at a Polish exchange bank of its choice. This bank can guarantee the company's obligations.

Funds

24. Do any funds have to be established? What is the annual installment and the amount required?

Eight percent of after-tax profit will be paid to a reserve fund to cover possible losses. Such contributions can cease once the reserve fund reaches 4% of the company's expenses in a fiscal year.

25. Are funds allocated before or after profit taxation?

After profit taxation.

Accounting and Bookkeeping

26. In which currency do accounts and books have to be kept?

General accounting principles are provided by the Minister of Finance. As a rule accounts and books must be kept in Polish currency. So far, assets, liabilities, income, etc., in hard currency are considered separately.

Operational Framework

27. How is the joint venture connected to the State Plan?

There is no direct connection to the State Plan.

28. Do any provisions exist guaranteeing supplies from domestic sources?

Companies will operate under the same regulations as Polish enterprises as regards supplies in Poland. State enterprises can transfer fixed assets and limited rights to them, into the company. Companies can purchase necessary goods or services in Poland for foreign currencies or import them. State owned enterprises may sell fixed assets to joint ventures.

29. Do guarantees for sales to domestic and foreign markets exist?

No licenses are necessary for foreign trade, except for a few limited commodities. After the required sale of 15% to the Polish Bank, all other foreign currency revenues can be spent without separate authorization for the purchase of goods and services abroad or in Poland. Goods and services can also be sold by the company in Poland for foreign exchange once it has a general foreign currency authorization. In addition, companies can sell currencies at foreign exchange auctions.

Apart from the restriction concerning real estate, foreign partners can freely use zloty profits on the Polish Market.

30. Are direct trade operations possible and if not, which institutions deal with these issues?

Direct foreign trade operations are possible, the only exception is that for a limited number of commodities, licenses are required.

31. Which goods are exempt from export and import duties?

The foreign partners investments in kind, and all imports of goods by the company for operations, are exempt from import duties during the firm's first three years of operation. Any items the foreign partner leaves upon dissolution of the firm are exempt from export duty.

Labor and Personnel

32. Can a joint venture employ foreigners? Is a separate permission required?

Foreign citizens can be employed by the company with the permission of the competent regional authority. Wage specifications have to be defined in the contract of establishment or by management. While cash payments are generally in zloties, at least a certain percentage of payments are usually made in foreign exchange.

The permission is not required for persons acting on behalf of the foreign partner in the joint venture.

33. Do special provisions exist concerning the number of employees?

No.

34. In which currency(ies) can salaries be paid?

In general, in zloties; for foreigners, salaries may partly be paid in foreign currency from the foreign currency revenues of the joint venture. This part may be transferred abroad. The salaries of Polish employees are subject to the same taxation which is applied to employees of non-socialized entities.

35. Does a separate salary tax rate exist for salary shares transferred abroad?

Foreign employees will be taxed 30% on hard currency wages repatriated, unless a bilateral agreement states otherwise.

36. Which procedure has to be followed when dismissing employees? How can trade unions influence the decisions on staff employment?

Polish legislation serves as the basis for the stipulation of employment conditions, social insurance, and the influence of the trade unions.

37. Will a labor market be established?

No. The possibility to hire and to be hired is free.

Management

38. Is a certain nationality required for the management positions in the company?

No.

39. Is a certain nationality required for other members of the board?

No.

40. Do special provisions exist for the decision making process at the board level, or in general?

No.

USSR

Companies with Foreign Participation

1. *What legal types of companies, with foreign participation, can be established in the country?*
 - Limited Liability Companies may be formed; Soviet and foreign shares in the joint ventures statutory capital (authorized fund) shall be determined in an agreement between the concerned parties.
 - Pools, consortiums, associations, trading houses and banks can also be established with foreign participation.

Establishment

2. *Is a formal application required to operate a business with foreign capital?*

Joint ventures may be established with the consent of the superior agencies of the Soviet partner. A formal application is required on behalf of the Soviet partner. Cooperative enterprises may establish joint ventures with the consent of the government of a Union Republic without regional division, from the government of an autonomous Republic, the executive committee of the regional council, the executive city committee in Moscow and Leningrad, or of the Ministry of a cooperative parent organization. After having obtained the endorsement, the joint venture has to be registered with the Ministry of Finance.

3. *Do any restrictions exist on the activities of the future company?*

Legislation allows joint ventures in any field of activity. However, parties should be aware that there is legislation prohibiting foreign involvement in certain specific sectors. Joint ventures can be created both in the industrial and service sectors and there are no limitations on the partners nor on the size of the venture.

4. *What are the contents of an application?*

Along with the formal written application by one of the partners the following material has to be elaborated and submitted to the Ministry of Finance:

- A set of statutory documents (agreement and charter of the joint venture) signed and legally endorsed.
- A feasibility study approved by both parties and endorsed by the Soviet partner's supervisory agency.

5. *Do the authorities have to make a decision about an application within a certain period of time?*

No. In general, registration and the setting-up of the company takes about three months.

6. *Who is contacted first in the country?*

Usually a registered state consultancy organization (or sometimes cooperative consultancy organization) is contacted by the Soviet pioneer organizations (possible partner). Also it is advisable to contact the Ministry of Foreign Economic Affairs, the Chamber of Commerce, the ministries or state associations of the individual Republics, as well as the Association of Joint Ventures.

7. *Do priority areas or activities for foreign investment exist?*

In general, all joint ventures have been established with the goal of producing a variety of consumer goods, including agricultural products, medical technology and pharmaceuticals; major high-technology products have a certain priority. Regional priorities are settled by tax reduction or even tax exemption for regions of the Far East.

Capital and Ownership

8. *Do any limitations exist regarding the share of foreign capital?*

There are no limitations.

9. *Who is entitled to participate in a joint venture?*

Only legal Soviet and foreign persons are entitled to participate in a joint venture:

- Foreign legal persons: companies.
- Soviet legal persons: state and cooperative enterprises, organizations, associations, etc.

10. *What forms of capital are accepted?*

Contributions to the registered capital of a joint venture (authorized fund) may be made in cash or in kind, e.g., buildings, equipment, and other property, rights

to use land, water and other natural resources, intellectual property rights, including patents, know-how, etc.

11. Is a minimum value of foreign investment required?

No.

12. What provisions exist for the purchase and use of real estate?

Contributions of the Soviet partner to the authorized fund of the joint venture may include buildings, rights to use land, water, and other natural resources. Joint ventures as legal entities can acquire property rights themselves.

The contractual value of land is determined in document No. 472 adopted by a decision of the Government of the Russian Union Republic and calculated in roubles.

13. What kind of provisions exist for property protection and security in case of nationalization/expropriation, bankruptcy, and liquidation?

A joint venture's property is protected by Soviet legislation from confiscation by administrative order. The appropriation of a joint venture can only be carried out after a decision by bodies empowered under USSR legislation to hear disputes involving joint ventures.

Financial Framework

Profit and taxation

14. Definition and calculation of profit.

Real (taxable) profit is equal to *balance profit* minus payments made to the reserve fund and other development funds. Accordingly, *balance profit* is equal to total sales minus total expenses (including depreciation).

15. Which profit tax rate is applied?

The rate of profit tax is 30% for an ordinary joint venture and 10% for one in a Far East region.

16. What kind of profit tax reduction and exemption can be expected?

Ordinary joint ventures are exempt from profit tax for the initial two years (i.e., joint ventures enjoy tax exemption for two years). However, for the Far East regions, tax exemption is for three years after initial profits are made.

The USSR Ministry of Finance can reduce profit tax or decide on tax exemption in individual cases.

17. Do any limitations exist on profit repatriation?

There is no limitation on profit repatriation. Foreign partners have the right to transfer their foreign exchange profit share (in any currency) abroad without special approval and/or authorization. The foreign partner has also the right to receive and transfer in cash and foreign exchange the residual value of his contribution.

18. In which currency can the profit share be transferred? Which exchange rate is applied to the repatriated profit?

Foreign joint venture partners can transfer their profit share in any currency. In all cases, the current exchange rate at the USSR State Bank is applied.

19. Does any additional tax exist on profits that are repatriated by the foreign partner(s)?

In general, the profit which is repatriated by the foreign partners is subject to 20% tax, payable in that particular currency. However, such profits could be exempt from taxes or enjoy reductions on the basis of a special decision by the USSR Ministry of Finance (particularly in cases of double taxation with certain countries).

20. What other kind of taxes are relevant for companies with foreign participation?

- Wage tax.
- Pension tax.

Banking

21. Is special permission required to operate with foreign currency?

No special permission is required.

22. Do definite quotas exist for hard currency accounts for joint ventures (obligatory sales of the joint venture's foreign currency to the State Bank)?

There are no quotas.

23. Do any requirements exist for joint ventures that intend to raise credits with banks in local or hard currency?

A joint venture may obtain commercial credits in foreign currency from the USSR Vnesheconombank, from specialized Soviet banks, and from foreign banks and firms with the consent of the USSR Vnesheconombank. The USSR

Vnesheconombank and the USSR State Bank have the right to control the way in which the credits given to a joint venture are used and secured, as well as the conditions of repayment. Credits in local currency can also be obtained. Credits have to be raised in compliance with Soviet legislation or international banking practice.

Funds

24. Do any funds have to be established? What is the annual installment and the amount required?

A *reserve fund* has to be established by all joint ventures to prevent them from possible losses. Contributions to a reserve fund of a joint venture can cease, once the value of the fund reaches 25% of the joint venture's registered capital (authorized fund).

The size of the annual installment of the reserve fund is not stipulated. A joint venture shall set up *other funds* to cover further production, scientific and technological developments needed for the operation of a joint venture, and to ensure favorable social conditions for the employees.

25. Are funds allocated before or after profit taxation?

Funds have to be allocated before profit taxation.

Accounting and Bookkeeping

26. In which currency do accounts and books have to be kept?

Joint venture accounts should be kept in accordance with the procedures valid for Soviet state owned enterprises, i.e., in roubles. Accounting can be done differently after approval by the Ministry of Finance of the USSR.

Operational Framework

27. How is the joint venture connected to the State Plan?

The USSR State bodies neither fix obligatory planning targets for joint ventures, nor do they guarantee the supply of raw material and components or the sale of final products.

28. Do any provisions exist guaranteeing supplies from domestic sources?

There are no provisions. All supplies for a joint venture can only be provided on a contractual basis only. Payments can either be made in roubles or in foreign currency depending on the agreement with the supplier.

29. Do guarantees for sales to domestic and foreign markets exist?

There are no provisions guaranteeing sales to domestic and foreign markets.

30. Are direct trade operations possible and if not, which institutions deal with these issues?

Joint ventures have the right to undertake direct export/import operations with goods and/or services that are intended for their own activities, or they can use the services of the Foreign Trade Organization (FTO) on a contractual basis. Goods may be sold to Soviet customers both in roubles and in foreign exchange.

31. Which goods are exempt from export and import duties?

The equipment, material and other property brought to the Soviet Union by foreign participants in joint ventures as their contribution to the registered capital are exempt from customs duties. Joint venture production imports are subject to the lowest or zero duty.

Labor and Personnel

32. Can a joint venture employ foreigners? Is a separate permission required?

A joint venture can employ foreigners without any special permission.

33. Do special provisions exist concerning the number of employees?

There are no provisions concerning the number of employees.

34. In which currency(ies) can salaries be paid?

Salaries to Soviet citizens have to be paid in roubles. For foreigners matters related to salaries, leave, and pensions have to be regulated in individual contracts.

35. Does a separate salary tax rate exist for salary shares transferred abroad?

There is no separate tax for salary shares transferred abroad.

36. Which procedure has to be followed when dismissing employees? How can trade unions influence the decisions on staff employment?

The management of a joint venture should conclude a collective bargaining agreement with a trade union that is organized within the enterprise. The content of such agreements, including provisions on social conditions, is determined by Soviet legislation and by the relevant statutory documents of a joint venture.

Working hours and holidays for Soviet citizens and foreign personnel, as well as their social insurance, have also to be regulated in this document.

37. Will a labor market be established?

There is no regulation to this effect in the USSR joint venture legislation, and no practice.

Management

38. Is a certain nationality required for the management positions in the in the company?

The Chairman (CEO) and the Director General can have any nationality.

39. Is a certain nationality required for other members of the board?

This has to be decided by the joint venture partners by mutual agreement. The Board consists of persons appointed by the partners.

40. Do special provisions exist for the decision making process at the board level, or in general?

The decision making procedure has to be stipulated in the statutory documents.

PART III

Useful Information

Related Legislation

Bulgaria

- Decree No. 56 of the State Council of the People's Republic of Bulgaria on Economic Activity, January 13, 1989, State Gazette No.4. Regulations for the Implementation of Decree No. 56, Council of Ministers of the People's Republic of Bulgaria, February 21, 1989, State Gazette No. 15.
- Decree No. 535 of the State Council, 1980, is still applicable for joint ventures registered before Decree No. 56 of 1989 came into force.
- Decree No. 2 of the Ministry Council, 15 February 1989, State Gazette No. 15, 1989.
- Decree No. 9 of the Ministry Council on the registration fee, 28 March 1989, State Gazette No. 27, 1989.
- Decree No. 2242 of the State Council on free trade areas, 1987, State Gazette, 1987.
- Regulations for the application of Decree No. 2242, State Gazette No. 86, 1987.
- Law on International Trade Arbitration, 1988, State Gazette No. 50, 1988.
- Decree No. 40 on Business Trips and Fellowship, 1987.
- Decree No. 33 on the Statute of Banks, 1987, State Gazette No. 46, 1987.
- Regulations of Depreciation Norms: Decree No. 37 of the Ministry Council, 1987; amendments as of 1988, State Gazette No. 1, No. 2, and No. 4, 1989.
- Decree No. 612 on Changes in the Civil Code, State Gazette No. 31, 1989.
- Regulations for the Registration of Legal Persons, State Gazette No. 82, 1987.

Czechoslovakia

- Act on Enterprise with Foreign Property Participation – Federal Assembly, 1 January 1989.
- Act No. 242 on Collaboration of Companies Limited by Shares, 1949.
- Act No. 101 on Collaboration on the Basis of Legal Relations arising from International Business Transactions, 1963.
- Act No. 42 on Economic Relations with Foreign Countries, 1980; amended by Act No. 102, 1988.

- Czechoslovakian Law on Taxation, amended 1 January 1989.
- Czechoslovakian Law on Labor.
- Act on Administrative Procedures No. 71, 1967.
- Czechoslovakian Commercial Code.
- Act No. 99 on the Civil Procedure Code, 1963.
- Foreign Exchange Act No. 142, 1970.

Hungary

- Act VI, 1988, on Economic Associations (Company Act).
- Act IX, 1988, on the Entrepreneur's Profit Tax.
- Act XXIVa, 1988, on the Investment of Foreigners in Hungary.

Poland

- Polish Foreign Investment Law, December 23, 1988.
- Polish Commercial Code, 1934.
- Regulations of the Polish Commercial Register.
- Provisions on the Use of State-Owned Land.
- Polish Labor Laws.
- Accounting Principles according to specifications of the Ministry of Finance.
- Regulations for Foreign Currency Operations, Various International Agreements.

USSR

- Decree on issues related to the establishment of joint ventures on the territory of the USSR and their activities, international associations, and organization, with the joint participation of Soviet and foreign organizations, firms and administrative bodies – adopted by the USSR Supreme Soviet on 13 January 1987.
- Decision on procedures regulating the establishment of joint ventures in the USSR and their activities, with participation of Soviet organizations and firms – adopted by the Council of Ministers of the USSR on 13 January 1987.

The above two documents are supplemented by the provisions of the following new documents:

- Resolution by the USSR Council of Ministers on *Further External Economic Operations by State, Cooperative and Other Public Enterprises, Companies and Organizations* (No. 1405) – adopted by the USSR Council of Ministers on 2 December 1988.
- Decree of the USSR Council of Ministers on *Measures for State Regulation of Foreign Economic Relations* – adopted on 7 March 1989.
- Regulations No. 124 and No. 226 of the Ministry of Finance.
- The Statement of the USSR Ministry of Finance on *The Application of Accounting and Bookkeeping principles by Joint Ventures* – issued 27 February 1987.

- Instruction No. 224 of the USSR Ministry of Finance on *The Registration of Joint Ventures in the USSR*, 24 November 1987.
- Statute on Discoveries, Inventions and Inventive Proposals, 21 August 1975 – Decree No 584 of the USSR Council of Ministers.
- Decree No. 848 of the USSR Council of Ministers, 8 March 1965, and the Trademark Statute, 1974.
- Casual Instruction No. 74, amended on 4 November 1987.
- Soviet Labor Legislation.

Hungarian Priorities for Foreign Investment

Annexed to the Hungarian Foreign Investment Act of 1988, the following fields are listed. Investments in any of the fields will be entitled to tax exemption and reduction (see answer to question 17 – Hungary):

- Electronics and electronization (development and manufacture of active, passive and electromechanical components; production of computer peripherals; production of electronic telecommunication main and subexchanges; manufacture of robot-technology; services related to the application of such means; computer assisted designing systems (CAD); production of electronic equipment including electronic appliance for general consumer use).
- Production of vehicles and components.
- Production of machine-tools.
- Production of agricultural, food-processing and forestry machinery and equipment.
- Specific components for engineering industry (production of precision prefabricates; castings, forgings and pressing; production of components and subassemblies of general use (high-grade fittings, valves, hydraulic and pneumatic elements, increased and high stress-resistant synthetic parts and technological materials); production of up-to-date coupling elements; production of tools and devices; production of technical ceramics).
- Packaging techniques (production of packaging materials and appliances; production of packaging machines).
- Production of pharmaceuticals, plant protective agents and intermediates (production of new drugs; production of innovative plant protectives; production of key intermediates to the manufacturing of pharmaceuticals and plant protectives; production of veterinary preparations).
- Production of articles – as a result of relating investments – increasing the export, or decreasing the imports against convertible currencies, for agriculture and food-processing industry.
- Development of the domestic protein-basis.
- Production of propagating or breeding materials.
- Products, materials and devices resulting from the technological development aimed at saving materials or energy, also including manufacturing of equipment for the utilization of byproducts and waste-materials available in

large quantities (development and application of technologies aimed at the production of materials of high solidity and more up-to-date construction and of smaller volume such as structural materials, technologies improving the quality of materials); production of elements used in process-control enabling the continuous measurement and checking of technological prescriptions and qualitative parameters; development of means for low-waste technologies improving per unit consumption of materials; production of equipment for recycling of massive by-products and wastes (e.g. in forestry, plant cultivation, and animal breeding). Telecommunication services.

- Tourism (establishment and operation of facilities serving medical and thermal convalescence tourism, if operated by the legal person who has established them; restoring of historical castles and mansions; establishment and management of hotels of medium category, if operated by the legal person who has established them).
- Biotechnology (developed on the basis of biotechnological processes).

Polish Priorities for Foreign Investment

The priorities set by Decree No. 17 of 16 February 1989 for investment by joint companies which were granted an additional tax-free period, are as follows (see answer to question 17 - Poland):

- *Agro-processing industry* (production of machinery and equipment for food processing industry and catering (including freezing and cooling equipment); production of baby foods and special dietary products; production of protein concentrates, animal feed additives and mineral premixes; potato processing; fruit and vegetable processing; herb raising and processing).
- *Production of pharmaceuticals and medical equipment* (manufacture of medical and laboratory products; manufacture of rehabilitation equipment; manufacture of wheelchairs (with electric or combustion engines); manufacture of pharmaceutical and herbal products; manufacture of laboratory reagents, tests, isotopes and radioactive products, etc.)
- *Chemical and paper industry* (manufacture of highly concentrated fertilizers; manufacture of crop protection products; manufacture of polyester, styrene, epoxy and polyurethane; manufacture of paper and boards).
- *Construction materials* (manufacture of finishing equipment for civil buildings; manufacture of electric tools; manufacture of metal plumbing; manufacture of plastic products for construction/building industry; manufacture of finishing and insulating products, high quality and sanitary ceramics; manufacture of energy, water and gas measuring equipment).
- *Environment protection* (manufacture of equipment for the protection of environment; construction of waste treatment plants (biological and mechanical)).
- *Modern technologies* (introduction of energy-, fuel-, raw material-saving technologies, based on original scientific research, including patents, know-how and licences and their application to the manufacture of products;

- manufacture of energy-, fuel-, raw material-saving machinery and equipment).
- *Telecommunications, electronics and electronic products* (manufacture of modern telecommunication equipment; manufacture of telecommunication cables; manufacture of computer systems, electronic data processing equipment and computer software; manufacture of optical fibres and optical cables and equipment for their production; manufacture of industrial robots; technological and measuring equipment for VLSI and LSI; manufacture of equipment for surface assembly; manufacture of modern electronic components (passive and active); manufacture of materials for the electronics industry (including low tonnage chemistry); manufacture of quartz pipes and derivatives for the electronics industry; manufacture of laminates for integrated circuits).
 - *Manufacture of scientific and control and measuring equipment.*
 - *Printing and office automation equipment* (manufacture of printing equipment (including small scale); manufacture of modern office automation equipment).
 - *Products of powder metallurgy.*
 - *Finished products* (manufacture of new generation household equipment, of higher standards and exploitation parameters; manufacture of new generation appliances, on the basis of technologies that were not applied in Poland; manufacture of metal cutting tools).
 - *Packaging* (manufacture of packaging and package-producing equipment; manufacture of packages and packaging materials).
 - *Transport* (manufacture of servicing equipment for rail, road, air and water transport; manufacture of equipment for the mechanization of freight loading).
 - *Tourism* (construction and exploitation of hotels, recreational and tourist facilities).

Institutions to Contact for Information on East–West Joint Ventures in CMEA Countries

Bulgaria

- Ministry of Foreign Economic Relations
(responsible for foreign capital
investments in Bulgaria)
Alexander Jendov Str. 2
1000 Sofia
- Chamber of Commerce
11a Alexander Stamboliski Str.
1000 Sofia

Czechoslovakia

- Chamber of Commerce and Industry
Argentinska 38
170 00 Prague 7
- Institute of Economic Research for Electrotechnical Industries
Kounicka 24
100 00 Prague 10

Hungary

- Chamber of Commerce and Industry/World Trade Center Budapest
Kossuth Lajos ter 6-8
1055 Budapest
- "Joint Venture Club"
Kossuth Lajos ter 6-8
1055 Budapest

Poland

- Polish Chamber of Commerce, Chamber of Foreign Investors
ul. Trebacka 4
00-950 Warsaw
- Agency for Foreign Investment/
Ministry for External Economic Cooperation
ul. Wiejska 10, P.O. Box P 225
00-950 Warsaw

USSR

- All-Union Research Institute of External Economic Affairs
Degtiarny by street 7, Post Office 9
103009 Moscow
- Chamber of Commerce and Industry
6, ul. Kuileysheva
103684 Moscow
- Joint Ventures Association
Karl Marx prospekt
Moscow