Growing graft

A STRATEGIC DECISION AGAINST CORRUPTION IS NEEDED

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Dear Members and Friends

THE JUNE EDITION of this magazine was titled: “A balancing act: fiscal discipline, less debt, more growth.” How true. The Bajnai government has multiple demanding tasks focusing on short-term issues like the fiscal deficit, budgetary issues, and also to regain trust and confidence locally and internationally. This is truly a balancing act in a situation where the local economy will shrink more than 6% (according to forecasts), and the global economy is in its worst recession since the early 20th century.

AmCham is of the opinion that the above issues should be addressed in parallel, as growth is the best cure for economic, social, and competitiveness problems. This growth potential is key for Hungary – as it requires saving jobs, improving regional and global competitiveness, restoring the fiscal balance, repaying external debt, and curtailing the black economy.

A few weeks ago, we had the unique opportunity to meet and to discuss the above with the new Minister of Finance and with the new Minister for Economy. They fully understand our positions and have taken note of the advice and comments offered by our experts.

Our position is clear, as it was articulated in our tax statement released a few weeks ago. We strive to give “ammunition” to those who believe more focused actions are necessary to combat immediate, short-term and middle-term issues for growth and for competitiveness.

We organized a press breakfast in June to conclude the Second Regional Energy Forum and share the findings of the Forum Summary Report with the media. We remain committed to the Energy Forum initiative, as the topic is a fundamental area affecting the competitiveness of not only Hungary, but of the entire Central and Eastern European region. The multi-stakeholder dialogue – initiated by GE to address supply, EU regulations, new technologies, and regional energy markets – is more important than ever. Therefore, the AmCham Energy and Environment Committee, led by Dániel Antal, is already preparing plans and new alliances for the Third Regional Energy Forum to be held in Budapest in 2010. In the coming months, you will hear more about this initiative.

Many of you are preparing for a holiday season. Good for you! I am not so sure AmCham will be able to afford a holiday recess, as the coming developments in economy, politics and the overall state of burdensome issues ahead will demand hard work and “business as usual” during the summer months as well. We are organizing major events, for instance an extraordinary business breakfast with Prime Minister Gordon Bajnai in July, and a business forum in early September with the leader of the opposition, Viktor Orbán. We hope to be able to get firsthand views of all the above matters, offering you a chance to ask questions, raise issues, and to make comments directly to key decision makers of this country.

I am looking forward to seeing you, and I wish you a pleasant summer holiday.

Best regards,
Gusztáv Bienerth

“More focused actions are necessary.”
Growing graft

A STRATEGIC DECISION AGAINST CORRUPTION IS NEEDED

Corporate fraud is likely to increase in the next few years, according to 67% of Hungarian respondents – mostly from big companies – in a recent Ernst & Young (E&Y) survey. At the same time, an opinion poll carried out by Transparency International (TI) shows that 47% of the population thinks that businesspeople are corrupt or very corrupt, which is an even worse confidence score than politicians (at 42%) receive. TI’s recently founded Corporate Supporters Forum is one outlet where it hopes to tackle this growing problem.

The story sounds all too familiar. “I don’t know how to avoid it,” says U, a person who recently started a new management job and requested anonymity for this article. “The only way to get our product sold is if I am willing to pay some form of bribe to my clients. ‘Of course you can be our supplier,’ some manager or middle manager tells me, ‘But first, I expect you to pay me Ft 100,000 or Ft 200,000 in cash.’ I have tried to get around it, but there is no way, it is everywhere,” he exclaims. And all those standing around him – most of them managers of other companies – nod knowingly. They have all been there, but none of them would like to be quoted on this. As TI explains it politely in a 2008 report on corruption risks in the business sector, “Hungarian business culture does not focus on fair competition.” And with the crisis, the problem is worsening, recent surveys indicate.

ALARMING SURVEYS

At the end of May, Ernst & Young’s Fraud Investigation & Dispute Services published the 2009 edition of its annual European Fraud Survey, which was conducted with 2,200 people in the biggest companies across 22 European countries. On a Europe-wide basis, a quarter of the people interviewed – mostly junior management and other key staff – consider it acceptable to bribe their clients with at least cash, personal gifts, or entertainment to consolidate the business and overcome the financial crisis (see Table 1). Almost one out of ten consider misstating a company’s financial performance an acceptable practice. Only 41% says that none of the above can be tolerated. The most quoted reasons for this anticipated growth in fraud are greater pressure to keep bonuses or compensation, more pressure to meet financial targets, and growing redundancies.

The Hungarian figures are somewhat contradictory, “but in the end, it seems that the situation here is worse than the average European landscape,” says Ferenc Bíró, head of Fraud Investigation & Dispute Services of E&Y Hungary. On the one hand, less of the Hungarian employees interviewed consider a bribe or doctoring a financial statement acceptable, and more of them say that “none of the above” is “okay”. But on the other hand, many more Hungarian managers expect fraud to increase in the next few years, 67% compared to European and CEE averages of 55% and 56% respectively (see Table 2). Also, no less than 97% of Hungarian respondents say that management is likely to cut corners in tough times (Europe 70%, CEE 62%), and no less than 60% thinks that senior management presents the biggest fraud risk (Europe 44%, CEE 46%). “So everybody knows what is unacceptable, but also thinks the current level of fraud is unlikely to decrease. Senior management is generally seen as the root cause of the problem, not as a part of the solution. Senior managers need to recognize their role in the problem,” Bíró states.
responsibility in setting the proper tone at the top and in introducing and maintaining an ethical corporate culture throughout the organization, a culture which is supported by appropriate control mechanisms,” Bíró comments.

Meanwhile, another recent survey by TI shows that the confidence of the Hungarian public regarding the integrity of the business sector has also fallen in recent years. In the poll, 47% of people say they consider the business sector as corrupt or very corrupt. Even politics – in Hungary often portrayed as the most corrupt sector of society – does better with a score of 42%. “This negative trend reflects that the highest risk for corruption stems from the intersection of business and politics,” says Noémi Alexa from TI Hungary. This is not only the responsibility of politicians, she says: “It takes two to tango.” At the same time, business-to-business corruption is also considerable, even though it is often played down a bit, especially by business representatives, she acknowledges. “Over the past 15 years, there have been a lot of self-cleaning initiatives, mostly among multinationals. But the vast majority of businesses and sectors still do far too little against corruption,” she says.

REALLY BIG NUMBERS

BY NATURE, getting hard figures about the costs of corruption is very difficult, but it is sure that the cost is considerable. According to estimates by TI (Corruption Risk in the Business Sector, 2008), systematic corruption adds as much as 20–25% to the cost of government procurement and often results in the purchase of inferior-quality or superfluous goods and services. Estimates of corruption fees in cash vary from 3–25% of the value of the given transaction, both within the business sector and at the intersection of business and (local) government. In larger tender projects, the kickback is typically 10%; in local government procurements, mayors can get 3–10%. Bribes can also include jobs for relatives, a car, or free entertainment (holiday, cultural events, invitations to a dinner or a conference, etc.).

TI reports that Hungary’s central government may lose Ft 40–50 billion annually, while the total of local government-level corruption may be two to three times that amount. But companies lose out a lot, as well. “International research indicates that 5–10% of turnover is lost to fraud. These are really big numbers,” says Bíró. So even if a company spends money to implement antifraud measures like the introduction of an ethical code, special control mechanisms, and staff education then it will still be able to save a lot of money if it succeeds in reducing the loss of fraud to a few percent, he says. “In the short run, it may cost a company some orders, but in the long run, it saves in stolen products, expensive tenders, and lost opportunities. Now is also the right time for senior management to take such a strategic decision as, with this crisis, corporate support forum

Earlier this year, TI started a Corporate Supporters Forum, of which five companies are the first members: Ernst & Young, E.ON, GlaxoSmithKline, and the two smaller companies Antalis and Sciamus. These companies have signed a statement that they abide by the principles of TI and have compliance mechanisms in place, says Alexa. They pay a fee and support TI, while TI consults their opinions. They also cooperate in promoting transparency in a wider circle. “It is not easy for businesspeople to say openly where they stand on these things, but these companies are the ones that start change. We want to slowly broaden this circle and get more and more companies on board,” says Alexa.

István Havas, country managing partner of E&y in Hungary, says that there is a sound reason for his company to have joined the Corporate Supporters Forum. “We are aware that our reputation for providing the highest-quality professional services in an independent, objective, and ethical manner is fundamental to our success. So over the years, we have developed a comprehensive and strong set of policies which are applied across all our people and our service lines. Besides our internal efforts, we have recognized our responsibility towards our community, and understand that our impact goes further than our close circle.”

| Table 1 |
| Justifiable actions to help businesses survive (Ernst & Young) |
| | Hungary | Central & Eastern Europe | Western Europe | European average |
| Cash payments to win / retain business | 21 | 29 | 23 | 25 |
| Personal gifts to win / retain business | 13 | 25 | 24 | 24 |
| Entertainment to win / retain business | 8 | 15 | 22 | 19 |
| Misstating company’s financial performance | 6 | 11 | 6 | 8 |
| None of the above | 49 | 34 | 45 | 41 |
| Don’t know | 23 | 17 | 8 | 12 |
employees will understand and accept stringent measures being implemented. I seriously believe that such a strategic decision is also a good investment,” says Bíró, an opinion which is wholeheartedly supported by TI’s Alexa. “There is enough international research to substantiate this. Also, as a company, you will be exposed to less risk, and most importantly, it increases your reliability,” she says.

**IMPLEMENTATION OF MEASURES**

SO SENIOR MANAGEMENT needs to take more responsibility, both agree. “I am convinced that most of them do prefer to behave ethically, but they feel the environment makes it difficult to do so,” says Bíró. But there is a lot that can be done, he says. First, both feel that companies should not only introduce an ethical code, but also actively implement it and train employees how to work with it. They also need to put effective control mechanisms in place. E&Y’s research indicates that the large majority of respondents think that external and internal audits are means to prevent fraud. “Overreliance on either of the audit functions to uncover fraud may easily give a false sense of comfort. While both statutory and internal audit standards and methodologies accommodate some sort of a fraud consideration, the role of these two functions is not specifically intended to detect, let alone prevent, misconduct happening in corporate life. To detect and prevent fraud, specialized knowledge and methods are needed. That is where we usually come in,” he explains.

On the sectoral level, companies could implement codes of ethics and integrity pacts, obliging companies and market players to abide by certain rules or be ostracized (or even thrown out in sectors with a chamber system, such as lawyers and notaries).

“Here, too, implementation and monitoring is essential,” says Alexa. “There has been such an initiative in the pharmaceutical industry, and it seems to work.” Calling in independent monitors to oversee tenders and procedures is another mechanism that has had good results in several other European countries.

On the state level, a lot should be done as well, they say. Bureaucracy must be diminished and company taxes lowered, especially to give more breathing space to SMEs which, in the current investment climate, are almost forced into the gray and black economy in order to survive. Laws need to be stricter. For example, the law on lobbying is far too loose, and there still is no effective whistleblower legislation, though it is in the making. Above all, law enforcement needs to be strengthened, as it is especially implementation that is lacking with even current laws not being enforced. “Only 3% of fraud and bribery cases are reported, with 10% of people saying they don’t act because they are afraid and over 50% because they think it doesn’t help, because nothing will be done anyway,” says Alexa. The fact that in all these years in Hungary, no major bribery case was prosecuted, tried, and sentenced says enough, she adds. “I know that the situation is worse in countries like Bulgaria, Ukraine, or Romania, but it is better in Western Europe or the US, and that is what we should measure ourselves with.”

The second story sounds all too familiar as well. “I never pay the full price (Ft 700) for the bus from my home to work,” says U. “I pay the bus driver Ft 200, and I get a ticket from him in case there is a control. When I leave the bus, I give the driver the ticket back. He makes money, I save money.” And all those around him nod knowingly.

**PARTY FINANCING LEGISLATION: BREAKING THE DEADLOCK**

It is well known that one of the major causes of corruption is political party financing. The current draft proposal in Parliament has languished in various committees for over a year, and there seems little chance for a consensus over it given the polarized political climate and the preelection jockeying by the parties. “We as Transparency International Hungary, together with Freedom House Europe, now want to break this deadlock by coming with our own proposal for a new law, supported by as many civic organizations as possible,” says Alexa. “We hope to have it finished sometime this summer. We will consult political parties to get their commitment and build a wide coalition of civil-society actors to support the initiative.”

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**Table 2**

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<th>Increase significantly</th>
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Hungary Central & Eastern Europe Western Europe European average
Looking to pass
SMART GRIDS WILL BENEFIT EVERYBODY

The electricity meter boxes in many Hungarian households offer a confusing diversity of meters, switches, and fuses, often of considerable age. They seem a far cry from the new buzz in the international energy world: smart metering and smart electricity grids, which are capable of delivering energy in a much more efficient way. “Much of the electrical infrastructure in Hungary and the region is 40 to 60 years old. But such can be an advantage, as the need for renewal of the network is obvious, and these countries can leapfrog ahead by directly implementing the newest techniques,” says Rod Christie, CEO of GE Energy in Central and Eastern Europe and CIS.

At present, anybody in Hungary who wants to build a small-scale private or local power plant – be it solar panels on the roof, a windmill near a factory, or a small biomass power station at a pig farm – runs into huge bureaucratic and technical hurdles. When small electricity producers produce surpluses, they need the guarantee that they can sell electricity back to the grid, but Hungarian grid owner Mavir is not very accommodating in this.

CONGESTION
HUNGARY’S OLD ELECTRICAL infrastructure is basically not so different from the first networks in the beginning of the 20th century. Although it is robust, the network is not adjusted to a situation where numerous small electricity suppliers are connected to the grid. It is also not capable of dealing with sudden and unexpected peaks which can, for instance, occur in a windmill park.

In the past, the grid in Germany – Europe’s front-runner with regard to wind energy – used to suffer such serious overloading on stormy days that even neighboring countries connected to the German grid were affected. “But due to more modern windmills and better weather forecasting, that problem has now largely disappeared,” says Christie.

Still, overloading and other distribution problems are an important barrier in the development of renewable energy sources. Some renewable energy sources are actually underutilized or go to waste because of grid congestion, which goes very much against the EU’s target of increasing the share of renewable energy to 20% of total energy use by 2020.

SMART GRID
THE ANSWER to these problems lies in the development of smart grids: electricity networks that intelligently interact with the behavior and actions of producers, consumers, and those who produce as well as consume, for instance owners of solar cells or windmills. Like how the Internet allows users to exchange information in many different ways and directions, smart grids should allow for the flexible exchange of energy.

Thanks to a combination of clever hardware and software, a smart network knows where there is a surplus and where there are shortages, and it will ‘download’ energy from the most efficient producer at any given moment. In the present situation, the owner of solar cells in place A will simply have to buy energy from a conventional power plant if his cells don’t work because the
weather is overcast. But under such circumstances, a future smart grid would search for the best possible and cheapest option to find other energy, so if at the same moment wind turbines in place B were in full operation, that energy could go to place A.

**REFINED TARIFFS**

SMART GRIDS go hand in hand with smart metering, a technology which is already in operation in various countries in the world. In Italy, all old meters have been replaced by smart meters, while in Poland, smart meters are introduced on a voluntary basis.

These smart meters have a lot of advantages for energy companies. As the devices are connected to a central computer, there is no longer any need to send meter readers to the homes of consumers, and it is also possible to disconnect or reconnect a consumer from the central office or control point.

Interesting for consumers is that smart meters allow the possibility to refine electricity tariffs and offer individual customers different packages, or regulate energy use by increasing peak-hour prices and decreasing off-peak prices. This also encourages a more even spread of energy consumption during the day. In a market with competing energy companies, smart meters also make it much easier for consumers to switch from one provider to another.

But future possibilities are probably even bigger. Consumers and producers alike would profit from intelligent home networks that switch off the freezer for a while during peak hours or automatically charge hybrid electrical car batteries during off-peak hours.

It would not just save money, but also help in spreading general energy consumption and making better use of all available sources. “According to research, if consumers are informed about the different energy prices at peak and off-peak hours and are able to control their usage, peak demand can be reduced by 15% and total demand by more than 10%,” says Christie.

**FRAMEWORK**

MUCH OF ALL this is still in the future. “At present, there is a lot of research going on. Europe belongs to the front-runners in this field, as smart grids are of vital importance if the EU wants to realize its target of 20% renewable energy in 2020. That was, for GE, the reason to concentrate our smart-grid research in the German city of Munich,” Christie says. Renewal of the electric grid is expensive but, as Christie points out, older networks are less reliable and power failures also cost a lot of money. With rising energy prices, a more efficient grid benefits companies and small consumers alike. Substantive investments in smart grids and the renewable energy sector also would boost the economy in times of recession.

The general expectation is that the development of smart grids will be a gradual process, in which several solutions will be tested alongside each other. At the end, there will probably be different solutions for different situations, says Christie. “We are not talking about a complete change of the grid, rather about an enhancement of the existing network. And much will depend on the direction a country decides to go.”

Eurelectric, the European Union of the Electricity Industry, stresses that smart grids can only develop within the appropriate regulatory framework, and therefore, advocates wide-scale harmonization of regulations throughout the EU. But as energy is a strategic sector, such harmonization is not always easy. “Much depends on politicians,” says Christie, also noting that even though many regulations in the CEE region have been changed for the good, Hungary is staying behind countries like Romania and Bulgaria, instead of looking to pass and leapfrog ahead.
Attitudes are changing

MAKE IT PROFITABLE TO BE ENERGY EFFICIENT

“Some 60% of climate-change mitigation comes from energy efficiency. It swamps everything, and that’s where our focus should be,” says Mark Hopkins, representative for the United Nations Foundation, during a visit in Budapest. Efficiency, not just building power facilities, is the key to fulfilling our energy needs and to addressing climate change, he argues.

HOPKINS HAS BEEN traveling to a number of countries to talk about the US administration’s “new energy economy” plan, which included a stop at the Hungarian Ministry of Environment and Water on June 22. “There’s a high level of interest in this now, as there’s been a change in the political leadership, and the new leadership is pursuing a new level of engagement in a number of issues. Climate change is definitely one of those issues,” he explains.

Still, while the elected administration in Washington has changed, “you’ll find it’s still the same country. And Congress is highly skeptical of the new energy program,” Hopkins says. The US House of Representatives narrowly approved US President Barack Obama’s legislation to limit greenhouse gas emissions as this issue went to press; its passage in the Senate is uncertain. “As much energy and as cheaply as possible – this has traditionally been the US’s energy-efficiency policy,” Hopkins jokes. “For most Americans, this is seen as fundamental to economic ability, so changing it signals political action.”

INVESTMENT IN THE FUTURE

HOPKINS SAYS President Obama ran on an energy and climate change policy, and the economic meltdown is offering an opportunity. “In past economic meltdowns, it was about lowering taxes, but now we’re using the money to make an investment in the future, in energy. It’s putting a down payment on a new energy economy, including the further development of clean energy. It signals a level of investment in a variety of areas. By the end of the first presidential term, spending on energy efficiency will be 60% greater.”

Throughout, the bill is focused on creating job and business opportunities and a business infrastructure that can deal with climate concerns, according to Hopkins. Most of the money is going into energy efficiency, he says, explaining that the weatherizing of homes in the US is something that has been going on for decades. “Groups have been doing this for 30 years for the elderly, and they’ll get $5 billion for it this year – that’s 15 times more money. It’s one of the big job generators, as even high-school dropouts can be hired for this type of work.” He adds that $9 billion would be invested in making government buildings – which number 500,000 – more energy efficient, and $11 billion on other projects, like a smart energy grid.

One major change that has also recently occurred in America is in the electricity utility industry, says Hopkins. “How do you mitigate climate change if the industry makes money by building plants and selling electricity? A new regulatory approach changes the business model,” he says. The essence of this is the decoupling of sales from profit (the more you sell the more you earn), and guaranteeing the amount of profit to electricity providers regardless of how much electricity is sold, as well as changing the “loading order” – making energy efficiency top priority. “Think about it in terms of changing the business model, making it profitable for companies to deploy energy efficiency,” he adds.
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Muddling through

Already for years, experts have said that the situation in Hungarian health care is untenable and unsustainable. The past years of half-baked reform didn’t bring much improvement, if any, and “the level of care and treatment will deteriorate considerably over the next few years,” says Péter Mihály, economist at CEU. Above all, the sector now needs to create a long-term health care strategy, according to Csaba Szokodi, chairman of the AmCham health care committee.

If Hungary’s 128 hospitals, 128 are in financial trouble, said Rácz Jenő, former socialist minister of health care and current chairman of the Hungarian Hospital Association, at a press conference on June 10. In 2008, the hospitals had a combined income of Ft 552 billion, but that will probably be only Ft 539 billion in 2009, he stated. Another figure illustrating the dire situation in Hungarian health care is that 2,530 doctors have left the country since Hungary became an EU member in 2004, most of them dentists, but also many general practitioners, anesthetists, radiologists, and pathologists. In a press statement, István Éger, president of the Hungarian Chamber of Doctors, blamed low wages, a growing bureaucracy, and mounting administrative pressure.

Szokodi, also managing director of Johnson & Johnson Medical Hungary, agrees that the system is running into more and more trouble. “I’m a medical doctor myself, and I talk to many professionals in the field,” he says. “And on all levels you find that health care staff is upset, tired, badly paid, and working under pressure in bad conditions. On top of everything came the financial crisis, and now there is no other short-term option than to cut budgets again. The financial pressure has become unbearable, and we are approaching a very critical situation.”

To Mihály, one of the strategists behind the health care policy of the Gyurcsány government, all this is no surprise, he says, somewhat resigned. “Basically, this is what we anticipated that would happen if the Gyurcsány government would not succeed in its reform efforts.” There were some worthwhile changes and reforms in 2007–2008, he says, listing things like the reduction of the number of hospital beds by 16,000, decisions to close some hospitals and designate others for certain regional specialization, and the introduction of radical new regulation of pharmacy prices and subsidies to curtail the growth of drug use and its costs. “But the moment that the last and fundamental element – that is the introduction of private insurers in the health care market and, thus, competition in the financing of health care – failed, all else was undermined,” says Mihály.

He is also not surprised about the apparent breakdown of Hospinvest, the major private investor which bought the right to exploit several local and regional hospitals (among them those of Kiskunhalás, Gyöngyös, Éger, and Hatvan). The ultimate goal was to acquire 12 to 15 hospitals, rationalize and renovate them, and set up regional networks where centralized accounting, purchasing, and controlling
as well as a division of services and labor between hospitals in one region, to create efficiency gains. But then, the insurance reform failed, local doctors and politicians in Eger turned against them, and the financial crisis struck. When the EBRD, which in September 2007 took a 30% stake in the company for €4 million with the intention to stay for five to seven years, suddenly pulled out in March 2009 (selling its shares with a considerable loss), the die was cast. “They were extremely unlucky, as everything came together,” says Mihály. “But this is a bad signal to possible future investors in the health care market.”

**DETERIORATING CARE**

**NOT SURPRISINGLY,** Mihály is very pessimistic about the future. “My hunch is that Fidesz, when it comes to power, will – because of its heavy rhetoric in the past against reform – simply abandon health care. They will basically do nothing. Muddling through will be the motto, which means a serious deterioration of the system in four or five years’ time,” he says. He thinks the poorer strata of society will be hit hardest by this, as the middle class and the elite still have their own ways and *kis kapuk* (small doors) to access care of reasonable quality, either by paying *hálapénz* (gratitude money) for extra services or by going abroad.

This will only change if such loopholes will be cut off for the middle class, he says. “Currently, one pays Ft 50,000–80,000 *hálapénz* for a birth, while private hospital Telki charges Ft 250,000. That is still a huge difference. But because of the deterioration of services, *hálapénz* will go up, and if one has to pay a doctor Ft 150,000 or more for a birth, then people will be tempted to opt for official solutions, certainly if they can take out private insurance for additional care.”

Mihály does not believe that a gradual overhaul of the state health care system in Hungary is possible. “You cannot compare Hungary with Sweden where an efficient state system does exist. We pay the price for 50 years of communism. Institutions, people, bureaucracies can’t very well change after being on a certain path for such a long time. The paradox is that our communist past blocks both roads: a more privatized, as well as a more efficient state-controlled health care system.”

**CREATE CONSENSUS**

**IN MANY ASPECTS**, Szokodi agrees with Mihály. Yes, the former government tried to introduce very rapid and drastic changes that were partly in line with what AmCham also deems necessary, and yes, the whole process was interrupted by the referendum outcome. He also agrees that one of the major questions is how to finance the system. “Everybody knows that this public health care system that we have since the 1950s, with free and equal treatment for everybody, is not sustainable,” Szokodi says. “Somebody must take the political responsibility to say that we have no choice but to introduce a multiple-level system, where basic care is the same for all, but there is also a level where we need co-payment covered by additional and private insurance.” And even though Szokodi admits that it will be “very difficult” for Fidesz politicians to go into this direction, he also doesn’t entirely exclude it.

But he also thinks that politicians, time and again, make the mistake to not really listen to the health care field. There are many forums and conferences with hospital managers, doctors, and all kinds of experts, he says, and usually these representatives of the government, or the ministry of finance, or the major opposition party come along, have their prepared speeches, and before you know it, they’re gone again, and there is no real dialogue. “Another example is that we, as medical suppliers, are not treated as partners who have innovative solutions and technologies on offer, but as enemies who are only out to get their hands on the budget. That is really bad and has to change.”

In Szokodi’s opinion, it is about time that the health care sector takes the initiative and works together to create a consensus about a long-term health care strategy. “That is what we need most at the moment, a long-term vision of the sector which can then be supported by all political forces,” he says. “Yes, I’m afraid that we will see a deterioration of the quality of care and treatment, also because the crisis will mean more people will be sick due to unemployment and psychosomatic causes.” But if we allow this, we make a double mistake. Szokodi emphasizes, not only because of the health situation of the population in general, but also because good health care is a strategic element of the economy and of Hungary’s competitiveness.
Zero emissions

REVA ELECTRIC CAR HITS THE HUNGARIAN ROAD

“It’s not a theory or a plan. It’s here now – a third-generation electric vehicle,” says Zoltán Palotai, salesman for the Reva Electric Car – the first ready-to-drive, zero-emissions vehicle available in Hungary. The pioneering company is developing the infrastructure and piquing consumer interest for the electric vehicles, which may pave the way for more environmentally friendly products or local manufacturing opportunities.

DRAWING FROM POPULAR films, one would expect shoppers to scream and dive out of the path of a car barreling through a mall. But when the Reva car coasts through Arena Plaza, people stop in their tracks and stare as the nearly silent, brilliant-yellow vehicle passes them. “It’s really awesome to drive, but people ask, ‘What if someone crashes into you?’” Palotai says. “Well, everyone just stops and stares, so they won’t crash into me, but I’m worried they’ll crash into each other.”

For the summer, the mall is Reva’s Budapest headquarters, where customers can test-drive the car and view its vibrant exterior and comfortable leather interior. The Reva was designed in California, but made its debut in India in 2001, where it’s still headquartered. Although the vehicle just entered the Hungarian market in June – with sales points in Budapest and Debrecen – it already achieved success in other European markets, especially in London with more than 1,000 cars sold. In total, there are about 3,000 models on the road worldwide, according to reva.hu.

In Hungary, Reva is distributed through Comtex, which is composed of a small group of companies with diverse interests like textiles and fashion merchandise to medical instruments. This year, the local sales team has a goal of selling 100 cars, which are retailing for €12,500 and take two to four months to manufacture, according to Palotai. “It works in London, so it just needs time,” he says.

There is no way that this car will not appeal to Hungarians, says János Szabó, Comtex CEO. “The current motorization is not sustainable, and the Reva is cool, the Reva is friendly. It is the perfect vehicle for city use. And it is small, but big enough to save our world.”

ON THE ROAD

DRIVING THE AUTOMATIC “plug and play” Reva is as simple as driving a golf cart, says Palotai. The driver only needs to release the hand brake, turn a circular dial to put it in drive, and step on the so-called gas pedal. Although compact, the two-door hatchback car can comfortably fit two adults in the front seats and the small back seats can easily accommodate two children, or they can be folded down for extra storage space. The car has been driven by people as tall as 205 cm, Palotai adds.
The Reva, which is made for inner-city travel, can reach 80 km per hour, yet its acceleration is nearly noiseless, and it’s completely silent when still. While reducing noise pollution is one of the vehicle’s perks, its main appeal is that it doesn’t pollute. “It’s the best feeling when you drive it in the city, and it doesn’t poison the air,” Palotai says. “When I’m back in my regular car, I feel bad and the gasoline stinks.”

Not only are there zero direct emissions, there is a very small indirect emission caused from old-fashioned power stations, Szabó says. “The next good news is, as long as the electricity mix is going to be greener by setting up more and more renewable power station plants, your electric vehicle will be automatically greener in indirect emissions too,” Szabó says. There are plans to make the Reva even more environmentally friendly, such as putting solar panels on the roof, which has already been done with a few test cars.

Whatever the electricity source, it has no local pollution, and the car’s body and bumpers are made of recycled plastic and biodegradable materials. Furthermore, its used batteries are recycled through a reclamation process, according to Reva. A depleted battery can be fully charged within eight hours, and 80% charged in two hours, using a standard electrical cord. “At first I thought it would be difficult to charge, but then I realized electricity is everywhere,” says Palotai, who usually charges it in a garage, but has even charged it at a coffee shop.

INCENTIVES

CURRENTLY IN HUNGARY, there is no direct competition to this electric car, says Szabó. And while this singularity is beneficial to their business, it also means that Reva must lay the groundwork for the market and infrastructure.

In the future, Reva leaders have expressed a desire to build a European assembly plant in order to reduce carbon emissions from shipping vehicles, and Hungary could be a potential site, Szabó says. Thus, Comtex is working on the Hungarian business plan and cooperating with the governmental authorities, he adds.

For now, Comtex has begun conversations with decision makers to try and establish incentives so the cars are more appealing, such as electric charging stations or free parking in some districts, Szabó says. “There was no need for such incentives until this time, since there were no available commercial electrical vehicles in Hungary. But now it begins,” he says. Also, he is negotiating with the government to give cash subsidies to the buyers of electric vehicles, of about 25–30%.

“We are negotiating with governmental decision makers as well as local governments. I am sure they will support it,” says Szabó. However, even if the government doesn’t support the Reva directly, their mission and aim is to gain support for the wider use of environmentally friendly electrical vehicles.

CUTTING-EDGE CARS

Although they have not yet become commercially available, there are other Hungarian-designed low-emission vehicles on the horizon. One Hungarian-designed series of cars is the Bontino. These electric cars for inner-city use are being manufactured in Austria by Brixton Electric Motorcars. The company will start manufacturing about 150 cars, including two different models, in September which will cost between €9,200–14,000, depending on the type of batteries, according to Sándor László Horváth, Brixton CEO. The company is also creating solar-powered recharging stations and has plans to produce an electric truck and an urban tourist car.

In the hybrid market, there are novel designs being created by Antro, a nonprofit. Their cars include the large family car (the Duo) that can be separated to two identical mini-cars, called the Solo. Antro should start manufacturing in 2012, according to Zsolt Hegedűs, engineer and managing owner. This car will be able to run on vegetable oil and alcohol, as well as its electric motor, and solar cells on the roof will charge the car. Yet because of its sleek design, it will only use a quarter of the gasoline needed for standard autos. And what really sets the Antro design apart is its fitness component. The car will include a pedal generator, which gives the driver an option of powering the vehicle by cycling. Slated to start its manufacturing in 2012, the price of the car will be between €12–18,000, and the first plant will be built in Hungary.

Hybrid cars have an advantage to electric cars, because the can pass 700–900 km with one single refueling or recharging, whereas a solely electric car can only go about 150–205 km, says Hegedűs. “So we can say that the electric cars will remain in a city car category, until the new batteries will be significantly cheaper and have a bigger capacity,” Hegedűs adds.
Since 2000, the small village of Kozárd in the Cserhát Mountains has seen its number of tourist visitors grow from zero to 12,000 a year. The villagers managed to attract a regular flow of visitors with the natural beauty of the surrounding hillside, the orchards, and the quaint peasant architecture of the village dwellings, but also with a new educational nature trail and village events such as the annual Wood Concert and the Apple Festival. Last year, Kozárd – with its 65 guest beds – even hosted three small European conferences.

By Runa Hellinga

But Kozárd would never have come this far without Hungary’s accession to the EU, acknowledges local mayor Máriás Banos Hajasné. “Everything we developed in the last eight years was paid for from EU funds for regional development,” she says. Those EU funds helped to build the sewage system, pay for the school bus, set up the nature trail, restore the old clock tower, and construct the colorfully painted chapel which attracts wedding couples from near and far. They also helped to build an open-air stage, a playground, and a small camping site, which mainly caters to worshippers on pilgrimage from Martatzell in Austria to Csiksomlyó (Sumuleu Ciuc) in Romania, or from Medugorje in Bosnia to Czestochowa in Poland, two pilgrimage routes which both cross the village. Thanks to the EU, visitors can admire the lovely village center with its several statues and well-tended greenery, eat in the local restaurant, buy local produce like Mangalica meat, jam, honey, and poppy seed oil, or speak English with villagers who took an English course.

And there is more to come. Future plans include a small gallery dedicated to the local ethnic Palóc culture and construction of a village center that will house a library, offer space for young people, and even will have two TV studios to accommodate the regional TV station. For a village of 160 inhabitants, these are impressive achievements. It’s no wonder that no house in Kozárd stays empty for long.

EU priority

The remarkable scale of Kozárd’s renewal is largely due to the fact that the village has some very active, motivated people, but alone, these kind of local development projects are not unique at all. All over Hungary, one sees signs with the familiar blue EU flag with golden stars, indicating that Brussels is there helping to build or renovate a playground, a sewage system, a church, or a castle. Today, rural development would be unthinkable without EU funding, and in many places, it only started after the EU opened its pre-accession funds to Hungary.

The EU sees rural development in its member states as a priority. More than 91% of the union’s territory is rural, and more than 56% of the EU’s population lives in the

An educational nature trail is just one of many new attractions.
countryside. Rural development is seen as playing an important role in environmental protection as well as safeguarding the European cultural heritage. Therefore, Brussels set aside some €3.8 billion for rural development between 2007 and 2013 in Hungary alone. Those funds cover around 75% of the budget for the government’s New Hungarian Rural Development Program consisting of four different development areas: restructuring and strengthening the agricultural sector, including the provision of agricultural training and renewal of the agricultural infrastructure (45%); environment and landscape protection (33%); economic diversification, including support for micro businesses, tourism, measures to improve the quality of life, and training and capacity building (13%); and finally, to the LEADER program (6%), which aims to develop local communities. The latter is what helped Kozárd so much in its development plans.

LOCAL IDEAS AND CENTRALISM

THE SMALL SIGN at the entrance of Kozárd proclaims it to be a European village and part of the LEADER community. As such, it is part of the regional Cserhátalja LEADER group in which municipalities, small enterprises, and local civic organizations from 25 villages and the small town of Pásztó are represented, and which has the task to tender for EU subsidies. The Cserhátalja group – one of the 96 LEADER groups countrywide – has a budget of Ft 1.1 billion for the years 2009–2013.

With those funds, the LEADER program in the Cserhátalja supports not only smaller festivals and tourist promotion projects, but also micro businesses, such as the small entrepreneur who wanted to buy a van and a milk dispenser to start daily fresh milk delivery in the region. And although even a little money can do a lot in a small village, the budget could easily have been ten times as much, says Pál Hajas, head of the Cserhátalja group and husband of the Kozárd mayor. “The amount of subsidy applications we got this year exceeded our total budget for 2009–2013 by 36%,” he stipulates. Some of these applications were not very realistic, he concedes, for example the request to subsidize a Ft 20 million playground, something most villages build for Ft 1 million. “But we also had to turn down a lot of good ideas,” he adds, referring to the board of 12 people, representing the local municipalities, micro enterprises, and civic groups in the region, who judge all applications.

Another major problem is that subsidy money from Brussels comes via the Ministry of Agriculture, which seriously complicates matters, Hajas says. He is highly critical of the centralist way in which the government handles these issues, especially the long procedures and the long waiting periods before successful applicants actually get their money. “The current tender closed in February, but people still don’t know when they will get their money and can get started.” In the past, this bureaucratic approach seriously dampened the enthusiasm of applicants, he says. Tenders for a previous LEADER program were so tedious and complicated that many candidates withdrew their applications. Even more worrisome, he says, is that those who persisted and were awarded a subsidy ran into serious financial problems due to the long, drawn-out payment procedure. “We had to prefinance everything to get projects started, so we had to take out bank loans. But due to the late payment of the subsidies, we paid much more interest than calculated,” says Banos Hajasné, Kozárd’s mayor.

Hajas would favor a strong decentralization of the process, for instance by involving provinces, as was done very successfully in Spain. “The Spanish LEADER program is a huge success because the provinces are much closer to the local communities than the central government. They know what the needs in the villages are, and they also contribute to the program,” he says. But, he acknowledges, such a solution doesn’t seem very feasible in Hungary, where centralization is still predominant and provinces have no real power, nor money to spend.
“All my life, I’ve told friends here the story of how my mother and I left Hungary,” explains Vera Blinken of her and her husband’s decision to write a book about their experiences with Hungary, *Vera and the Ambassador: Escape and Return*. The book, presented in June in Budapest, tells both the personal story of Vera Blinken, a Hungarian who escaped from Hungary after World War II, as well as the story of her husband Donald Blinken’s stint as US Ambassador to Hungary during the Clinton administration in the 1990s.

_EVERONE ALWAYS_ said to me ‘Oh, this is such a fascinating story – Vera, write a book!’ And I was very reluctant to do so, because I really didn’t want to talk about all of that,” explains Vera. “But when we came back from Hungary, then I thought, well this really now is a story – the circle has closed. I came here, went back, came back. And Donald and I thought it would be a much fuller story and a much more substantial book if it was not just a personal memoir, but historical as well – that’s why we did it together.”

**ESCAPE**

*THE BEGINNING OF THE BOOK* is a personal memoir, which tells the complicated story of how Vera’s mother was determined that the family depart Hungary to leave the communist dictatorship behind. “I was born during the war, and then we were liberated in January 1945,” she recounts. “Soon after that, my mother saw the writing on the wall that the Soviet occupation was going to be long-term, and she wanted to leave. But my father was reluctant to do so. So

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Budapest is vibrant – a tribute to the private sector.
when my father died in 1948 at 44 years old, my mother decided that this was a sign that she was right and had to take her child out of there. By that time, there was a crackdown, and it was very difficult to leave Hungary. My mother tried many different ways and nothing worked. Finally, at the end of 1949, they passed a law expelling all foreign citizens. The Italian ambassador was a friend of my parents, and he arranged a marriage for my mother – that was in name only – for humanitarian reasons so we could get out, and that’s how we left.”

Vera says her mother’s marriage was annulled in Italy, and they applied for US citizenship, which was easy because few Hungarians were filling the quota at the time. “So we arrived here to the US with Hungarian papers in the summer of 1950 and lived happily ever after,” she quips. It was decades later, according to the Blinkens, before Vera would see the country of her birth. “In 1987 my husband and I went back to Hungary. I went back, and my wife had much of a relationship at all with Hungary before their first visit. “She was reluctant to really talk about it, or certainly to visit it, so Hungary was not on our radar screen until 1987.” After that first visit, the Blinkens became involved in activities pertaining to Hungary. “So when Bill Clinton won the presidency, it was just logical that that’s what we would want to do.”

Donald says it was certainly a challenging time when they came back to Hungary in 1994 to take on the ambassadorship. “In 1994, Hungary had an enormous foreign debt overhanging its economy; its credit rating was very poor. The IMF was worried that Hungary might be another Mexico at the time, so there were serious difficulties to overcome. One of the great assets it had at the time was the fact that in 1994, most of the economy was still in public hands. The opportunity to privatize that economy freed up enormous amounts of capital to reduce foreign debt and introduced foreign know-how, as well as foreign capital, into the Hungarian economy after 40 years of stagnation. Finally, it was exposed to Western competitive, scientific, and business ideas.”

Vera remembers that in the beginning, coming to Hungary was very complicated and confusing for her. “I was a bit confused because of the language. In New York only my family spoke Hungarian. Everyone else around me was speaking English. When we arrived [in Budapest] everybody spoke Hungarian. I thought ‘My goodness, what is this?’ It seemed like one big happy family to me, and yet I realized it wasn’t family. So it took a while for me to sort out ‘I am the wife of the American ambassador, I was born in Hungary, so I have dual understanding.’ After I sorted that out, it was a rewarding time.”

Her language skills meant that the Blinkens moved freely about Budapest and were quite social. They also worked hard: Vera helped set up Primavera, the first mobile mammography program in Hungary, which today has screened over 130,000 women all over Hungary. While Donald believes that his overriding achievement as US ambassador was getting Hungarian leaders to understand that US and Western European NATO members had the country’s best interests in mind – economically and security-wise – and convincing the government to adopt market reforms and even to join NATO.

Today, however, Donald says he has mixed emotions on looking back at where Hungary is going 20 years after the political changes. “On the one hand, there’s been enormous and evident material and physical progress – Budapest is vibrant, too many cars, but lots of young people on the streets having a good time, new shops, lots of new buildings going up, old buildings being cleaned up – all of that is really a tribute to the vision of Budapest and the private sector. On the other hand, one is not happy about the political scene, because it’s too vitriolic, there are still too many political leaders attacking one another rather than attacking common problems. Hungary would be much better off if the politicians could agree at least on some of the major things that need to be done in order to strengthen the economy and social structure and get on with the job,” he says.

“To me it’s wonderful to see the dialogue, the open discussions, the freedom to speak up and move around the country and travel, which was so much lacking when we first started going to Hungary. So it’s exciting to see that,” Vera adds. As for her personal story, “I feel fortunate that when I’m in New York ‘itthon vagyok’ and when I’m in Hungary ‘otthon vagyok,’” she says.

### CHALLENGING TIMES

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Neo-Finlandization?

The term ‘Finlandization’ has dropped out of current diplomatic usage, since Finland has long since quit this state of affairs, and Russia is not the Soviet Union. But still, the term has stuck in the terminology of international relations texts with a distinct meaning. Generically, it’s a small state that acquiesces in the hard security sphere of influence of an authoritarian and hegemonic neighbor, while belonging, at the same time, to the liberal democratic and economic regime of the West.

For me, the term sprung to life again when talking to a civil-society leader from Belarus in Prague in the margins of the Eastern Partnership summit of May 7. I asked him what he made of Belarus joining the Eastern Partnership, with Moscow’s apparent non-objection. He replied, “We have the impression that Moscow has come to see a certain Finlandization of Belarus as unavoidable and even useful.” For Belarus, neo-Finlandization means remaining in Moscow’s orbit for strategic security affairs (strategic military installations, 50% ownership of the gas pipeline, no question of NATO aspirations), but becoming more open to its EU neighbors for personal contacts and eventual political liberalization and for modernizing its economy. All this has the ring of plausibility to it.

How does this syndrome look farther to the East? And is it likely to be a sustainable and stable formula? For example, in Moldova (Transnistria) and Armenia, the Russian military is present alongside its energy networks, neither has NATO membership aspirations, while both countries seek, at the same time, to gradually Europeanize. Ukraine hosts the Russian Black Sea Fleet, due to be evacuated in 2017, but Foreign Minister Lavrov says that Russia wants to extend its lease there. Overall, the strategic landscape becomes clearer: none of the six Eastern partners has a credible membership prospect for either the EU or NATO on the political horizon, the Russian strategic presence is sustained or growing throughout the region, and all countries seek political and economic ‘Europeanization’ in varying degrees.

RISKS

Is this a recipe for the stability of the wider Europe, or a recipe for a remake of the notorious instability of the buffer zones of European history? The Eastern Partnership was discussed explicitly at the EU-Russia summit in Khabarovsk on May 22. The EU side argued that the Eastern Partnership was positive all-around and was against no one, although it was evidently spurred on by the August war in Georgia. President Medvedev said, “They did try to convince me, but they did not completely succeed.”

Russki realpolitik and hard power sits alongside EU soft power and liberal democratic values. It is one thing for these two very different animals to be realistic, responsible, and mutually interdependent neighbors bilaterally – a plausibly stable proposition. But what happens when their respective presences cohabit in this buffer zone, whose states seem condemned to manage constant ambiguities in their political stances and to face constantly contradictory pressures? The Finnish Finlandization was stable and mutually beneficial for some decades, and then dissolved itself quietly and completely. But can the Eastern neighbors manage their affairs as smoothly? Only a naive optimist could assume this.

Gas supply security is an urgent topic for all sides.
There are not only the risks of miscalculation and misunderstanding attached to the ambiguities and contradictions of such regimes. We saw these risks actually mutate into a short but dreadful war in Georgia last August.

Today the risks inherent in the confusions and ambiguities of Ukraine’s relations with the EU and Russia are still just risks. But the political symbolism on display in Prague and Khabarovsk [in May] was not reassuring. What is clear is that neither the EU nor Russia is going to quit their overlapping neighborhood, the EU gently encouraging political and economic Europeanization, Russia seeking to consolidate its strategic security interests.

**CONFIDENCE BUILDING**

Are the two sets of leadership capable of achieving some more sincere convergence on some common European space, house, home, order, or architecture? They seem already to have used every conceivable image as labels for a box that remains largely empty. For example, the EU finds President Medvedev’s pleas for a new security architecture to be lacking in conceptual coherence and operational content. Russia dismisses the European Energy Charter, etc. What should they do? The Eastern Partnership offers some ad hoc participation maybe by third parties such as Russia and Turkey, but this is marginal tokenism. Something more substantial and balanced between all major parties is needed. Last month we published ideas for some major projects that could bring together the EU, Russia, the Eastern Partners, and Central Asia.

Let us add now another idea. Why not initiate a triangular EU-Russian-Ukrainian political dialogue, with all three as equal partners? Let it begin with an open search for confidence-building measures between the parties, together with discussion of urgent topics such as gas supply security.

Michael Emerson is Senior Research Fellow and head of the EU Foreign, Security and Neighborhood Policies research program at the Center for European Policy Studies (CEPS) in Brussels. He is the former EU ambassador to Russia. This comment was first published on May 28 on the website of CEPS (www.ceps.eu). The views expressed in CEPS commentaries are attributable only to the author in a personal capacity and not to any institution with which he is associated.
The response of the EU institutions to the crisis has, so far, been rather weak. The key bank rescue packages were decided at the national level with only minimal coordination from Brussels. Their implementation has been spotty, and most rescue packages were effectively rubber-stamped (under great political pressure) by the Commission’s services, which are supposed to protect the internal market from distortionary state aid.

Following publication of the de Larosière report, however, the EU machinery has swung into action and is now delivering concrete proposals for the much-needed new European architecture for financial supervision. The Commission’s proposals in May, endorsed by the European Council in June, are not revolutionary in the sense of creating new powers for supervision at the EU level, not even for the large banks of clear systemic importance. However, what is now on the table is potentially of immense importance, as it is the EU that will create a number of new institutions, and one should not underestimate the importance of this development. The history of the EU has shown repeatedly how the existence of strong institutions can fundamentally alter the distribution of power and thus affect policy. Let us consider what is being proposed.

### On Micro Supervision

**Three New Agencies** will be set up, which will look after the stability of banks, securities markets, and the insurance sector. Each agency will have its own staff and an independent director, supposedly chosen on the basis of open competition. It is true that these agencies will not be involved in day-to-day supervision, nor have the power to impose their will on member states (except if the latter disagree among themselves), and they will only be poorly coordinated among themselves. But their task will be to create a single rulebook, which is a key first step towards leveling the field in the financial sector and reducing regulatory competition in Europe. The decision-making bodies of the three agencies will be composed only of representatives of national interests, namely the heads of the national supervisory agencies, but decisions will be taken on the basis of qualified majority voting (QMV), which means, in practice, that it takes a coalition of at least three member states to block a decision. This should be sufficient to ensure rapid progress on this front, since the raison d’être of the presidents and their staff will be to advance this agenda.

The trend towards an increasing influence of these three European agencies will of course be strengthened by their power to impose binding arbitration in case of a major disagreement among (national) supervisors. Since such disagreements are more likely to arise during times of tension or crisis. This implies that when the next crisis comes, these new agencies could play a pivotal role. Indeed the Council Conclusions of June 18-19 said: “The European...
Council invites the Commission to make concrete proposals for how the European System of Financial Supervisors could play a strong coordinating role among supervisors in crisis situations.” (followed by a long series of caveats).

The opposition of the UK has been sidelined by the typical European method of a vague, but important-sounding reassurance: “Recognizing the potential or contingent liabilities that may be involved for member states, the European Council stresses that decisions taken by the European Supervisory Authorities should not impinge in any way on the fiscal responsibilities of member states.” This statement amounts to not only a truism but, at the same time, something of a deception in that the EU makes decisions all the time that have an impact on expenditure. (The EU sets rules on permissible VAT rates, for example, and even humble decisions on road safety standards that can imply higher expenditure.)

The key weakness in the setup, whose outline is now gradually emerging, is the coordination among the three ‘pillars,’ i.e. the three authorities within the European System of Financial Supervisors (ESFS), which exercises little real authority. However, each of the three pillars is likely to evolve over time into a strong authority.

MACRO-PRUDENTIAL SUPERVISION

THE EUROPEAN SYSTEMATIC RISK COUNCIL (ESRC) will not have any real power, and since it will have two representatives per member country, it will resemble more a mini parliament (with about 60–70 around the table), rather than an effective guardian of financial stability. However, the Commission’s proposal foresees a “steering committee” composed of eight members, two of whom would be from the ECB, and a further three would be the heads of the three new EU supervisory agencies mentioned above. This smaller group, dominated by persons representing EU and not national points of view, will, in all likelihood, dominate the ESRC given that it will, in most cases, have all the necessary information at its disposal and a dedicated staff to carry out the necessary supporting analysis. Moreover, the full ESRC is supposed to make decisions by simple majority on a one man (= one member country), one vote principle.

All of this package could be decided on the basis of QMV, which means that from this point onwards, no single member country can stop the entire process. Two key elements need to be preserved at all cost: 1) the combination of a single rulebook with powers of binding arbitration, and 2) the combination of an independent staff with majority voting.

Daniel Gros is Director of the Center for European Policy Studies (CEPS) in Brussels. This comment was first published on June 22 on the website of CEPS (www.ceps.eu). The views expressed in CEPS commentaries are attributable only to the author in a personal capacity and not to any institution with which he is associated.
Radical shifts

After the short period of hesitation which followed the defeat at the EP election, inner-party fights at MSZP – involving groups within the party as well as individuals – are now fully under way. The main areas of conflict are: who is going to be the leading figure of the tattered Hungarian left wing, where will he lead the party, and last but not least, how will he handle the crisis?

**By Kornélia Magyar, Progressive Institute**

In the long run, one dominant fault line will crucially influence the party’s faith: will the party opt for a traditional left-wing or a progressive political orientation? Even if the younger generation would take over power from the “old boys,” this does not necessarily mean that the classical left-wing ideology triumphs over the progressive wing of the party, as there are advocates of both political wings among the young socialists. But it is highly unlikely that the socialists can find a partner for such a shift to the left among the other parliamentary parties, while governing alone is impossible. So such a shift would fuel the debate on calling snap elections – as demanded by the opposition for months.

Meanwhile, Fidesz is giving more and more details about their plans for the time after their predicted election victory. Gradually, the party is giving up its strategy of strictly rejecting any kind of reforms or austerity measures. A new strategy seems to be emerging: while Fidesz emphasises its position as a party of the center, it is trying to push the socialists into the same corner as Jobbik by claiming that these two parties will mainly have to deal with each other, since they will have to fight over the “leftover voters.” With this strategy, Fidesz is trying to cover up both its responsibility for the emergence of Jobbik and the failure of their strategy to cover the entire right-wing landscape. The question is what approach Fidesz will chose towards extreme right-wing voters: will they draw a clear line, distancing themselves from the extremists? Or will they do this only symbolically, while at the same time sending signals towards more extremist voters with the help of the most radical party representatives (e.g. László Kövér and István Tarlós). At the moment, it seems that they are using both strategies at the same time.

The triumph of Jobbik has been one of the main topics of domestic political debates. The party’s success seems to be based on the fact that they are not only playing the traditional anti-Semitic card, they rather appeal to deeply-rooted anti-Gypsy resentments, thus establishing a monopoly on a problem which has been sadly ignored by mainstream political forces. As a consequence, the very real problems created by the coexistence of Gypsies and Hungarians did not just prompt right-wing extremists to vote for Jobbik, but also drove disappointed voters of the mainstream parties – who are otherwise not radical in any way – into the arms of the extremists. Apart from anti-Gypsy racism and a particular form of anti-capitalism, which aims at the lowest instincts of the petit bourgeois, Jobbik does not have a clear political profile.

SZDSZ has not only lost its mandates at the EP, but it was overtaken by the just six-month-old political group LMP. This clearly indicates that the liberals have hit rock bottom, and the inexorable collapse of the party seems to be practically accepted by the party, as well.

Meanwhile, MDF’s party leader Ibolya Dávid is in a hurry to squelch the inner-party opposition, as she has less than a year left to capitalize on the reputation of the former finance minister and new EP-MP Lajos Bokros and win over those 8-10% of conservative, market-oriented voters, who are disappointed with SZDSZ but have been reluctant so far to vote for MDF.
The European Parliamentary elections on June 7 also had significant consequences in domestic politics in Hungary. First, the vote induced fundamental changes in the internal lives of the two parties that can be seen as the losers of the election: MSZP and SZDSZ. On the other hand, some profound shifts may start within the Hungarian party system that has seemed to be stable for the last 20 years.

The election also has its first direct victim: Gábor Fodor. The chairman of the liberal party submitted his resignation immediately after the publication of the results. The less than 2% support made it evident for the leadership of SZDSZ that the elitist policy conducted by the party in the last five to six years has led to the loss of all contacts of SZDSZ with society. All warnings from intellectuals who belong or used to belong to the closer circles of the party that incomprehensible and non-credible politics lead to a dead end were in vain. And the party leadership, which itself was struggling with deep dividedness and animosities, kept on putting their faith into the unconditional support of liberal voters estimated to be around 10%. But much of this support was lost, and a spectacular leadership change will hardly suffice to restore this confidence.

The governing party is in no easy situation either. MSZP suffered a tragic defeat. It collapsed under the burdens of one-party governance and the legitimacy deficit accumulated over the last four years, so that it seems almost natural that internal conflicts looming since the departure of Ferenc Gyurcsány flared up right after the elections. Disguised as a conflict of the older and younger generations, the main characteristic of the dispute is, however, that it is mainly a fight for positions instead of the irreconcilable debate about programs that divides young socialists and the “great veterans” of the party. Having said that, neither camp has formulated a program that can be supported, described as leftist or social-democratic over the past few months. A clear conclusion from this is that confrontations of this kind will hardly help insecure socialist voters to return to support the party.

MSZP is drifting, but it still might have sufficient convergent power to keep on supporting the Bajnai government together with the liberals until the end of this year. In the meantime, the prime minister has delivered his first undertakings: the rearrangement of the tax regime, the cutting of social spending, and the passing of the property tax. But he knows all too well that he is no longer at the helm of governance, his fate being in the hands of the socialists and the liberals.

One more longer-term outcome of the elections is that the already inveterate Hungarian party system may see transformation. We cannot draw general consequences yet, but it seems certain that the Socialist Party has shrunk from the status of large party to a medium-sized one, while its support may erode further, and internal conflicts might even lead to a rift in the party. The vacuum that arose on the liberal side with the marginalization of SZDSZ could be filled by MDF or the new organization “Lehet Más a Politika” [Politics Can Be Different]; the first through a complete revamping of their voters and closer supporters, the latter through the increased institutionalization of the party.

The largest surprise of the elections was the strengthening of the radical Jobbik Magyarország party. Only Fidesz could be able to contain right-wing radicalization in Hungary today. So Fidesz, which has already been functioning as a center party and will, by all probability, be elected into government in the next parliamentary elections, does not only have the task but also the responsibility to prevent this indecent organization from gaining more ground.
TAX PACKAGE ADOPTED

ON JUNE 29, Parliament approved the Bajnai government’s tax changes package for 2010 with a vote of 211 ayes, 152 nays, and a single abstention. The changes were a condition for Hungary’s €20 billion support package from the IMF, EU, and World Bank.

The package will, amongst other actions, increase the threshold for the lower 17% personal income tax bracket to Ft 5 million in 2010 and to Ft 15 million in 2011, although the tax base will also be increased to include payroll taxes. On the other hand, VAT will be hiked to 25%, and a 25% tax will be levied on extra-wage benefits such as hot-meal vouchers (which were tax exempt before). Also, the rate for the simplified business tax will increase from 25% to 30% next year, and a 25% tax will be levied on extra-wage benefits such as hot-meal vouchers (which were tax exempt before). Also, the rate for the simplified business tax will increase from 25% to 30% next year, and a 25% tax will be levied on extra-wage benefits such as hot-meal vouchers (which were tax exempt before).

According to Finance Minister Péter Oszkó, the much-criticized local business tax can only be abolished in a few years, when the economy is growing again and if there is a reform of the local council system. The tax generates Ft 500 billion in revenue for local councils, which they cannot do without. Oszkó also said Hungary can regain its previous level of competitiveness if the degree of tax centralization is reduced from its current mark of around 40% to 33–35%, adding that the latter can be achieved in 2012. The Czech Republic and Poland have 32–33% tax centralization, Slovakia has 30%, Oszkó said. He also noted that Poland had a central deficit of 3.0% in 2008 and is expected to have a deficit of 7% in 2010, so the Polish financial minister might increase tax revenues next year.

FUNDING TO RENOVATE MARGARET BRIDGE

THE CABINET of Budapest Mayor Gábor Demszky agreed that the renovation of Margaret Bridge, one of the main traffic arteries over the Danube, cannot be postponed any longer, despite the fact that the lowest bid received was Ft 22 billion, rather than the Ft 14.8 billion maximum earmarked for the project. The city must now come up with an additional Ft 17.1 billion. To raise the cash, construction of the connecting road to the M5 motorway will be postponed, saving Ft 1.7 billion. Some Ft 2 billion will be saved on cycle path projects, and Budapest expects EU subsidies will cover that amount. All other bridge renovations in the coming two years will be postponed. The renovation of the Margaret Bridge is planned to start in July, and the bridge is scheduled to reopen to vehicular traffic in August 2010.

PATEC’S FIRST PLANT IN EUROPE

SINGAPORE-BASED automotive industry supplier Patec is building a €5–8 million plant in Szikszó, the company’s first in Europe, owner Michael Wee announced. The plant, to provide work for 70 people, is expected to reach full capacity at the end of this year or the beginning of next. It will be a supplier for Honda, Toyota, Volkswagen, and Peugeot. Patec already has plants in China and Indonesia. The company decided to build a plant in Europe to be closer to its partners there. Patec considered sites in Poland, Slovakia, and the Czech Republic as well as several cities in Hungary. Although the economic crisis slowed the pace of the investments, Patec did not shelve its plans, Wee said.
NEW HEAD OF WATCHDOG PSZÁF

PARLIAMENT ELECTED Ádám Farkas to head financial market regulator PSZÁF with a mandate for six years. Prime Minister Gordon Bajnai nominated Farkas, former CEO of Allianz Bank, to replace István Farkas on July 1. István Farkas resigned because he did not wish to be an obstacle to change at PSZÁF. Earlier, PSZÁF’s new chief told the Parliament’s budget committee that the oversight body needed to be transformed after consultations with the EU and the IMF.

There was a lot of speculation in the Hungarian press recently about the future of PSZÁF. According to some, the finance ministry had criticized many aspects of PSZÁF’s operations advocating integrating a new financial oversight body into the Central Bank. But there are also ideas floating around about a new oversight body with a director proposed by the prime minister and appointed by the president, an idea that according to MTI, is not supported by the Bajnai government. According to news portal Index’s sources, it has become a generally accepted view over the past months among market analysts, investors, and other financial players that PSZÁF has been overly forgiving with banks. The market has been criticizing the watchdog for not being tough enough even when it would be justified, i.e. when the banks take overly risky steps.

Bajnai said the objective is for Hungary’s financial supervision to better protect the interests of Hungarian citizens, and in order to do this, the supervisor must engage in preventive actions, not merely take retroactive measures. The IMF also urged authorities to seek ways to provide PSZÁF with the necessary regulatory powers and also to swiftly enhance remedial action and bank resolution frameworks.

Meanwhile, András Simor, governor of Hungary’s central bank (MNB), has held talks with the heads of the largest local commercial banks to discuss how to make lending practices more prudent and how to mitigate risks of foreign-currency-based lending. Simor, who initiated the talks, urged local banks to jointly work out regulations that would make forint-based loans more competitive against foreign currency loans, the MNB said in a statement. Simor asked the banks to incorporate the risks of foreign currency loans in their lending conditions. He believes this could help improve Hungary’s risk assessment, and through that, to a reduction of forint interest rates. Those present at the discussion agreed that the MNB and the banks will establish a joint-working group to create these guidelines.

DIPLOMATIC MISSIONS STREAMLINED

HUNGARY WILL STREAMLINE its network of diplomatic missions and end up with 102 representations in 80 states as a result, Foreign Minister Péter Balázs told a parliamentary committee. Hungary would close its embassies in Luxembourg, Venezuela, Chile, and Malaysia, as well as its consulates general in Dusseldorf, Lyon, Krakow, Chicago, Toronto, Sao Paulo, Hong Kong, and Sydney. Hungary will also integrate its UNESCO mission into the country’s embassy in Paris and combine its WTO and UN delegations in Geneva, as well as its OSCE and UN delegations in Vienna. Balázs said the closings and consolidations would save Ft 2 billion per year and increase the efficiency of Hungary’s network of diplomatic representation. The closings and mergers will eliminate 70 positions, though all those who lose their jobs as a result will be transferred to other positions within the foreign ministry. Hungary will also review its membership in international organizations. Balázs noted that the foreign ministry’s 2009 budget was reduced from the originally stipulated Ft 49 billion to Ft 44 billion, adding that money stemming from sale of the ministry’s property in the affected locations will be allocated to the central budget.

GUEST WORKERS OUT

SOME 11,000-12,000 foreign guest workers, partly those illegally employed in Hungary, started leaving for home due to the economic downturn, the business daily Napi Gazdaság reported, quoting statistics from the regional labor offices. On the basis of the already announced group layoffs, a further 4,000 foreigners are expected to leave the country by the end of the summer, the paper said. According to data by the State Employment Service, in the first quarter of 2009, 15% less work permits were issued than a year earlier, and the same tendency is expected to continue in the second quarter. In Hungary’s southwestern region, some 15–20% of the new jobs are created by laying off foreigners, the paper wrote.

★
SALE OF WARSAW STOCK EXCHANGE?

The Polish State Treasury received preliminary offers for the purchase of the Warsaw Stock Exchange (WSE), together with various development plans. The government will now analyze these to verify whether they meet its expectations. The treasury did not say who submitted the offers, but it is known that invitations were sent to the NYSE, Euronext, Nasdaq, OMX, Deutsche Börse, and the London Stock Exchange. The concept of selling a majority stake in the WSE is controversial, and experts warn that it threatens the exodus of the largest companies to Western floors. Smaller brokerage houses also fear the impact and effects that may result following a change of owner. To dispel fears, the treasury appointed a Social Consultation Council comprised of market representatives. According to experts, the WSE is worth about 1 billion zloty. The Polish state controls a 98.8% stake in the bourse, and the plan envisages disposing from 51-73.82% to a sector investor, while the remaining stake of 25% plus one share will be sold within two to three years. (WBJ)

BUDGET CUTS SAVED LATVIA

The recently approved budget amendments for 2009 in Latvia have cut all teachers’ salaries in half as of September 1. The teachers will be receiving the bare minimum subsistence amount. In order not to exceed the allocated budget, more dramatic cuts will have to be introduced in schools in the last four months of 2009. In other state-funded institutions, salaries will be curbed sooner, with the budget amendments becoming effective July 1. The cuts also include a 10% reduced old-age pension and a 70% cut in the pensions of pensioners who still work. Latvia’s prime minister hailed tough budget savings as preventing state bankruptcy. He said work would start soon on cuts to the 2010 budget, showing the urgency of Latvia’s situation as it faces a near 20% fall in economic growth and the need to ensure continued funding from the EU and IMF. Latvia is also discussing the launch of a progressive income tax to replace the current flat tax of 23%. (Baltic Times)

ROMANIAN IMMIGRANTS GOING HOME?

Romanian and Spanish authorities are discussing a plan to provide incentives for unemployed Romanian migrants to return home to fill public sector vacancies. Romania has had trouble finding enough workers to go ahead with the construction of motorways and other infrastructure projects. The initiative was launched by the Federation of Romanian Associations in Europe when it suggested that governments should offer relocation assistance for 300,000 jobless immigrants in Spain (Spain currently has a Romanian population of 700,000).

The Spanish government immediately voiced support when it announced that it would cover travel costs for the project. The plan is also likely to receive a positive response in Bucharest. If the plan is implemented, jobless Romanians in Spain will be faced with a complex choice. The unemployment benefit they receive from the Spanish state, which averages between €800 and €1,000 a month, is often considerably higher than the wages they could expect to earn if they returned home.

At the same time, the Romanian government should certainly be aware that Romanians living abroad continue to make a hefty contribution to Romania’s GDP, even if this revenue stream is now declining. In the first quarter of 2009, Romanians living abroad sent €1.1 billion home. €154 million less than the sum sent over the same period last year. (Romania Libera)

ROMANIA/BULGARIA: LABOR COSTS UP

While the economic crisis widens, gross domestic product is contracting sharply, and industrial production is increasingly lower. Romania and Bulgaria still hold the top spot in the EU in terms of increased labor costs, according to Eurostat, the European statistical bureau. Labor costs (wages, salaries, and non-wage costs) advanced 18.6% year-on-year in the first three months of 2009, and salary earnings continue to increase. Economists explain this situation by the fact that the average salaries in both countries are still lower than the European average, and there was a drastic reduction in personnel. Paradoxically, this reduction in staff has actually driven up labor costs, as many of the layoffs involved employees with very low salaries and for whom expenses were quite low. (standard.money.ro)
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29 | 09 | 2009
BUDAPEST

Main partner: vodafone
Partner: MAGYAR MARKETING SZÖVETSÉG
In a novel model for Hungary that is changing the standards of patronage, the Kogart Contemporary Art Collection has formed an alliance between Hungary’s artistic community and business sector. With private-sector leaders donating funds that go directly toward supporting local artists, businesspeople are furthering the sustainability and appreciation of art, while receiving creative marketing and networking benefits.

**WE NEED TO CREATE** a circle of companies around Kogart that think they are more than just the company and that they can understand and help to create values in society, – says Gábor Karsai, chief executive for Kogart Holding Investment. It doesn’t take much time in the Kogart House – a beautifully restored villa on Andrássy út – to recognize the values it embodies. It is reflected in the immaculate galleries with hardwood floors and welcoming antique furniture, down to the gourmet Kogart Restaurant, which serves healthy, fine foods in an artistic setting. This organization encourages people to live balanced, pleasure-filled lives that titillate the mind, body and spirit, which is furthered through Kogart’s supplementary interests, like a private hospital in Telki and a future spiritual center (see box).

A contributing tenet of this balance is to be surrounded by beauty through a vibrant art scene, which is why the Kogart Contemporary Art Collection came to be. It began one year ago with three main goals: to increase appreciation for the arts, to promote talented young artists, and to create an internationally recognized, chiefly Hungarian contemporary art collection. Turning to the private sector to drive this initiative is important, because it’s filling a funding vacuum that arose as the government withdrew art funding, following the political shift, Karsai says. “I think, especially in Eastern Europe, we need to focus on cultural and other types of values, because we suffered more in the last 100 years than Western Europe. We work with companies to revive these values. The idea of corporate social responsibility has never been more crucial than it is today.”

**THE COLLECTION**

**THE CONTEMPORARY ART** Collection program, which began in 2007 and is slated to run until 2012, operates under the auspices of The Kovács Gábor Art Foundation, which displays exhibitions at the Kogart House. Each year, members of a 12-person organizing committee contact at least 100 companies that are asked to make a Ft 1 million annual donation for one to five years to advance the arts and business concept. In addition to the business support, the Hungarian government donated Ft 50 million to the project. “The Hungarian state found it important to take part, because it’s for a common interest,” Karsai says.

The financing goes directly to purchase 100 pieces of art from 100 different contemporary Hungarian artists each year.

“Kogart can be an informal meeting point.”
who are selected through a juried process. Most of the artwork becomes part of the collection and is exhibited both in a catalog and in a gallery, while 25 of the works are auctioned off, with proceeds benefiting 25 different nonprofits. “Many of the artists are grateful and joyful,” Karsai says. “They thought it was time to show themselves and come together in a collection to show the Hungarian trend of art.” Furthermore, the foundation awards three Ft 1 million grants to separate artists selected by the jury to fund study trips abroad. Also, this year, they gave a $25,000 Fulbright scholarship, which “shows commitment to young talents,” Karsai adds.

“They have brought a totally new, different view into the world of Hungarian art,” says Lajos Golovics, an art historian who runs Mukincs.com, a Hungarian painting and investment analysis and advising portal. “It is interesting because, until today, art institutions wanted to stay alive with the support of the Hungarian state or government. If they got some money they were happy, if not they were crying and went bankrupt. Kogart was founded with a totally different system, and this system works pretty well.” There should be more like it, he adds, and he encourages programs like Kogart to work harder to separate themselves from politics.

**BUSINESS BENEFITS**

**BEYOND SOCIAL** responsibility, there are measurable business benefits for companies that commit to this initiative. For example, the donations are tax deductible, and the companies are promoted, specifically when they are listed as capital partners in the program’s annual art catalog. Although the economic downturn has pinched the marketing budgets of many businesses, Karsai doesn’t think this should be problematic for Kogart. “We don’t think this is a marketing cost,” Karsai says. “We hope they look at the crisis as a chance to create a new start.”

Additionally, when the businesses become donors, its employees can join the Friends of Kogart program, where they can take part in many exclusive events, such as art openings, literary readings, or salons, most which are hosted inside the Kogart house. Additionally the organization is launching a three-year academy that emphasizes self-knowledge through mind, body, and spirit, according to Karsai. “Kogart has organized tons of interesting exhibitions and campaigns to increase the popularity of art. They have good clubs, and books, and catalogues,” Golovics says.

These events provide an excellent networking opportunity outside the business sphere. “A very high percentage of Friends of Kogart are active in business life. Kogart can be an informal meeting point,” says Mihály Tóth, chairman of the Friends of Kogart board of trustees. “They can share values, the pleasure, and enjoyment of life. It’s a very good starting point.” However, Karsai believes that the most important reasons companies join the program is because they want to “support something beyond business-related activities” and wish to create values in society, some of which can be discussed and developed through the Kogart House. “The key to solving problems is more cooperation, more value-oriented ideas, more conversations,” Karsai says. “I hope Kogart can be a huge contributor in regard to this vision and enhance to form these communities.”

**KOGART: HEALTHY BODY AND MIND**

Under the Kogart identity, there are two main entities. One is the The Kovács Gábor Art Foundation, which was founded in 2003, and is responsible for exhibitions at the Kogart House and the Kogart Contemporary Art Collection. The other piece, Kogart Holding, was founded in January and is the umbrella organization for the diverse interests of the founder, Gábor Kovács. Represented by Venus – an icon of harmony, beauty, and balance – the holding company fuses elements of art, health care, gastronomy, and spirituality.

“We want to create a world in these institutions that gives clients and friends a special feeling of life, focusing on quality in all different fields,” says Gábor Karsai, Kogart Holding chief executive. This includes an outpatient clinic and the Telki Hospital, which was the first private hospital in Hungary, that opened in 1998. It treats patients in a five-star hotel setting, features the museum’s artwork, and serves food from the Kogart Restaurant, another part of the holding company. In addition, Kogart will soon open a renovated monastery near the Austrian border, as well as a Southeast Asian art museum and an education center – both near the Kogart House, according to Karsai.
András Török’s Budapest

SEVEN “HUNGARICUM” GIFT IDEAS

THE WHITE KING, BY GYÖRGY DRAGOMÁN
The second novel by a young Hungarian writer, born in 1973 in Transylvania. Since the age of 13, he has lived in Hungary. The novel tells a horrible and funny story from the viewpoint of a small boy: 18 chapters, all finely crafted short stories, stand perfectly independent of the others. At the time of publication, the book was translated into 29 languages. (Houghton Mifflin, 2007)

VINTAGE PRINT OF A 1930s PHOTOGRAPH
Several of the world’s most historically renowned photographers came from Hungary. But whilst they were making their names abroad, their lesser-known contemporaries stayed behind. Now, beautiful, original signed prints of their photographs are available at very reasonable prices at Vintage Gallery. (Pest V, Magyar utca 26, www.vintage.hu)

A BOTTLE OF TOKAJI WINE
It is a fact that only white grapes tend to be grown in the Tokaj region of northeastern Hungary. The most famous sweet wine from the region is the Tokaji “Aszú” dessert wine. The various qualities of it are graded from three to six puttonyos; the higher the grading, the more expensive the price. (Many shops, e.g. Budapest Wine Society, www.bortarsasag.hu)

THE SYMPHONIC POEMS OF FERENC LISZT
Though he could not speak Hungarian and he did not actually spend that much time here, Liszt (1811-1886) always regarded himself as staunchly Hungarian. Amongst many fine modern recordings of his works are those by the Budapest Festival Orchestra under their founding conductor Iván Fischer. (www.bfz.hu)

SOMETHING NEW: A SHORT FILM SET IN A MARKET
Short films, an orphan sort of art form, may find a new niche “market” with the advent of the YouTube-like portals from now on – great news. Spare seven minutes and have a look of a little film étude by a young Hungarian filmmaker named Márton Szirmai. It focuses on life in a Budapest market, on social tensions in contemporary Hungary or anywhere in the world. It is found on a specialized portal called Daazo. (http://www.daazo.com/film/e7619e14-fae0-102b-80ef-000e2e531ae0/)

SOMETHING OLD: THE OLD MUSIC ACADEMY
The neo-Renaissance palazzo was the first purpose-built home of the Music Academy, completed in 1889. Its founder Ferenc Liszt actually lived here – his home is now a great small museum. On Saturdays at 11 am there are free concerts, usually by students. From November, the Music Academy proper in Liszt Square will close down for a two-year complete face-lift, but the old one will be operational all along. (Pest VI, Vörösmarty utca 35, Andrássy corner)

A BOTTLE OF UNICUM
This is a bitters sold in a distinctive round, black bottle. Its origins are over two centuries old, and it is best imbibed cold. Available in a range of sizes, in many shops. The Zwack Unicum Heritage Visitor’s Center in the old factory is fun to visit. (Pest IX, Soroksári út 26, www.zwackunicum.hu)

KONTROLL
A hilariously funny film on a bunch of metro ticket controllers, produced in 2003 and directed by Antal Nimród. Available on one or two DVD versions. For connoisseurs of Budapest or of unpredictable European films. (Easiest to buy on www.amazon.com)

RED PAPRIKA IN A CLOTH SACHET
Although paprika itself is of American origin, the grinding of it is a particularly Hungarian invention. It is an absolutely essential ingredient in traditional Hungarian cooking. (Central Market, Pest IX, Fővám tér, and many other shops)

★
The image below is a deliberately commissioned graphical representation of our new pricing policy!
Chateau Visz
CULINARY ART
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DINING GUIDE

The components of the dishes are all linked together: flavors, colors, and textures reappear, turn around, and transform from course to course. It could all be by chance, yet it is not. This is incredibly conscious, creative, stouthearted perfectionism at work. Everything is perfectly fresh and surprisingly processed, local ingredients are of outstanding quality, compositions are light and unambiguous, yet uncommon, and there is the intrepid search for old and new tastes.

EVERYTHING IN THE PARK around the mansion, situated south of Balatonlelle, is as it should be: a landscaped garden, ancient trees, and a manicured lawn. Windows on the left of the renovated building afford a view into the kitchen, where preparations are being made.

The menu is only two pages long, a seven-course meal on either, but this doesn’t make the choice any easier. While I’m waiting, the chef sends his regards with three entrées, like a mini dinner: a wonderfully light fish sausage made from pikeperch from Lake Balaton and sided with astoundingly fresh watermelon cubes and elderflower sabayon sauce, an amazingly soft and silky cream of ox heart carrot soup, and lamb shoulder cubes confit and with celery cream, which suggest that meats and vegetables are treated with extraordinary skill and discipline.

My regular appetizer is crispy pork belly with kocsosnya (jellied pork) and St. James scallops. The dish is visually appealing: the soft-coured tender scallops perched on what seems the reiteration of the disznósajt (head cheese) into a concasse (roughly chopped) texture, are securely ensconced in the reddened belly chops. Putting the belly chops and the disznósajt together in the same appetizer is perhaps a little over-the-top; one without the other would have been a justified accompaniment for the scallops. Personally, I would go with the disznósajt, as the belly chops turned out a tad too chewy. But the side dishes are magnificent: cream of carrot with its ochre-like color, perfectly sautéed leeks and fresh asparagus, and lemon balm sauce which holds the entrée together with its accentuated lightness.

My next course is ravioli filled with runny egg yolk, accompanied with sweetbread and crayfish. The sight is compelling – the ravioli are perfectly round and stretched thin, so the deep ochre yolk and a chervil leaf shine through. On the side are lush, fleshy emerald asparagus heads. The buttery chervil sauce serves as the base for it all, and the sweetbread rounds are in the shape of the St. James scallops, with the tomato concassé and a crayfish on top. The pasta brings form, the yolk tenderness, the sweetbread depth, and the sauce unites it all.

The main course is water buffalo rump, simmered for eight hours and sided with Savoy cabbage with apricots, gnocchi, and wine sauce. The components of the dish are assembled in such a magnificent way that it spells the end of me: it seems to be some sort of lecture on what our culinary art should be all about.

The dessert is sweet woodruff and strawberry mille-feuilles, chocolate caramel and young salvia ice cream. The mille-feuilles is embodied between two paper-thin chocolate caramel sheets and is embracing fresh strawberries, with the nectarous salvia ice cream on top. It is all the work from a mad, yet disciplined, artist.

Dining Guide examines the quality and level of ingredients, technologies and creativity of the kitchen, ambiance, presentation, service, and the relation between enjoyability and price level, all according to professional standards. Based on these criteria, the restaurant is rated an average on a ten-point scale (see below left).

CHATEAU VISZ
Berencsepuszta T: (+36 85) 710 003
Open: Mon-Sun 12-14:30pm and 19-22pm
Reservation recommended!
FORMULA 1
HUNGARIAN GRAND PRIX
July 24-26

CENTRAL EUROPE’S top racecourse – the twisting Hungaroring track, located just outside Budapest’s city limits – takes center stage worldwide as the planet’s fastest drivers arrive here to test their speeding skills. Featuring multiple hairpin turns and steep grades, the Hungaroring is known less for high velocity than for courageous overtaking maneuvers and close finishes – and spectating here is ideal, as at least 80% of the high-revving action is visible from any seat. Hungaroring is located less than 20 kilometers from downtown Budapest via the M3 highway – log onto www.hungaroring.hu for complete ticketing and transportation details.

SZIGET FESTIVAL
August 12-17

HUNGARY’S BIGGEST annual party takes place on a Danube River island just north of downtown Budapest, featuring a star-packed lineup of the planet’s top musicians – topping the bill this year is Lily Allen on August 12, Fatboy Slim on August 13, The Offspring on August 16, and plentiful other regional and international acts. All the while, a cornucopia of wild activities and fascinating attractions are presented all day and night out on Óbudai Island (District III, just north of Árpád Bridge); check out www.szigetfestival.com for complete info.

ROBERT CAPA EXHIBIT
July 3–October 11

THROUGH HIS haunting close-up footage from World War II, the Spanish Civil War, and many other major 20th-century conflicts, Hungarian photojournalist Robert Capa earned a reputation as the greatest combat photographer of all time. In this new exhibition, Capa is commemorated through a comprehensive showcase of his oeuvre, drawn from Hungary’s recently acquired collection of some 1,000 images, including portraits of notable figures like John Steinbeck and Pablo Picasso, all displayed at the Ludwig Museum (Pest IX, Komor Marcell u. 1); see www.lumu.hu for more details.

BORSOS RETROSPECTIVE
Until October 25

CONSIDERED AMONG Europe’s finest portrait painters of the 19th century, Hungarian artist József Borsos produced a huge repertoire of delicately tinted works portraying numerous aristocrats and historical figures – yet often overlooked are Borsos’s still-life works and conversation pieces, along with a huge body of early photography, including one of the first pictures of Franz Liszt. A wide range of these visions are now on display in this temporary exhibit at the Hungarian National Gallery (Buda I, Royal Palace); visit www.mng.hu for details.
JUST WHAT IS IBM’S response to the global financial crisis and economic downturn? Ask Péter Paál, CEO of IBM Hungary, and he’ll tell you about IBM’s Smarter Planet initiative and how the company’s global vision can be applied locally here in Hungary.

“In Hungary and all over the world, we are experiencing that something has changed, and we believe that we cannot really use the resources, the environment, and the overall ‘system’ in the same way we used to,” he explains. “This is a time when the leaders of businesses, all the institutions everywhere see this as an opportunity to transform how the world works. IBM's vision to combat the crisis is really about a smarter planet, where people, companies, and societies use their resources in a smarter, more efficient way and are able to create more value out of it.”

He says the strategy was centered on three systems to support a smarter planet: that they be interconnected, instrumented, and intelligent. “We also need new forms of leadership,” he says. “In today’s world, very few systems are the responsibility of a single entity or decision maker. Almost all of them require many different kinds of expertise, so we must infuse, not just our processes, but our decision-making and management systems with intelligence.”

CREATE A NEW ECONOMY

IN CONNECTION with that, Paál says, “It’s not really enough to mend old structures. We have to create a new economy that can work in new circumstances. This contains a special message in it for Hungary. We cannot sustain unproductive workplaces, but instead have to develop new skills and create a new environment that triggers productivity and innovation.” A new example, he says, is IBM’s academic partnership program with Hungary’s Eötvös Loránd University. “We gave them some funds, and using these, they built special language labs for students with disabilities, because even if they have a nice degree, it’s nothing if they don’t speak a foreign language.”

Other global examples of the Smarter Planet initiative include IBM building intelligence into utilities to lower costs for customers and more effectively balance the grid. The company is also working with major cities like Brisbane, Stockholm, and London to deploy smarter traffic systems. “As a result of the system in Stockholm, it has 20% less traffic, a 12% drop in emissions, and an additional 40,000 public transport users. Budapest also needs to install such systems,” Paál says.

Local application of smart technology in Hungary can be experienced at a leading do-it-yourself store in Vecsés, where IBM implemented the first do-it-yourself store in the world, with a ‘virtual basket.’ “It’s a small, handheld tool which provides detailed information and offers promotional information for shopping items.”

IMPORTANT TO ADAPT

A NEW SHORT-TERM vision, of course, involves acknowledging the present economic constraints for many enterprises. “It’s also important to adapt,” says Paál. “At IBM, we realize that our customers’ business priority is to reduce costs, and we have enhanced our portfolio with offers that help our clients achieve that goal.” This includes, Paál says, the introduction of a micro site for financial decision makers where they can get useful tips for cost reduction in IT. “The website offers help, not only for large, but also for small- and medium-sized enterprises, and there’s a booklet that anyone can download for free called ‘Costbusters.’”

Another element of IBM’s offerings and capabilities regards financing, according to Paál. “We have IBM global financing, which offers flexible options to finance IT investment, such as deferred payment, helping out with the initial financial difficulties of an IT development. Clients want to cut costs, and we offer a solution but also financing, so that by the time the solution is implemented from their savings, they can pay back the financing costs.”
Politics of common sense

AMCHAM BREAKFAST WITH PRIME MINISTER GORDON BAJNAI

ONE OF OUR main tasks now is to prepare an acceptable 2010 budget, in line with the agreement with the IMF and EU, and with no more than a 3.8% deficit, assured Prime Minister Gordon Bajnai to those who attended the AmCham Extraordinary Business Breakfast on July 3 at the Budapest Marriott Hotel. “I can guarantee you here and now that there will be no election budget,” he added. “We cannot go on with this approach of promises that may not necessarily be kept and that have disastrous consequences if they are. Hungary must understand that we have to come to a politics of common sense.”

As the main overall tasks of this government, Bajnai listed four elements: keeping the financial equilibrium, restarting economic growth, protecting citizens and companies against the harshest consequences of the crisis, and restoring confidence, not only with foreign investors, but also within Hungary itself. “We need more self-confidence. We also need to see what is good, while we need to try and come up with suggestions for practical solutions to repair what is bad,” Bajnai emphasized, listing two recent positive developments.

First, Merrill Lynch said in a recent weekly analysis of emerging markets that Hungary may emerge from the current global recession in the strongest fiscal position among the world’s major economies, if the budget is kept. Secondly, American investment magazine Site Selection has named the Hungarian Investment and Trade Development Agency (ITDH) Eastern Europe’s best national investment agency. Both are positive signs that we are doing a good job and that we are getting somewhere, Bajnai said.

Earlier in his speech, he had given an overview of the sweeping pension and social reforms, as well as the various measures taken to reduce the tax wedge and shift the weight of taxes away from labor, which the cabinet had already done since coming to office in May. Partly, these were very painful measures for society, Bajnai stated, but they prevented a total collapse, after which unbearable measures would have been needed. “What we do now, during this crisis, defines Hungary for decades and allows us to become, once again, one of the most stable, predictable, and fastest growing countries in Europe,” he said.

Bajnai also addressed the sharp political divide in the country – “or should we say the ‘political iron curtain’ which infiltrates everything and has become a very dangerous process. In my opinion, politicians should constrain themselves more, but that is just a humble wish because as a prime minister, I have very little power to influence this,” he said.

As for tasks in the next months besides the budget, Bajnai mentioned further reducing red tape and bureaucracy. The government is finalizing a survey about the main bureaucratic problems for companies, and based on the outcomes, it will come up with suggestions to further deregulate, he announced. These will be measures to simplify the tax regime, to make labor administration less ridged, and to make licensing procedures easier – all areas in which the first steps have already been taken, he said.

He also answered questions from AmCham audience members about various other subjects such as government tenders in the IT sector, health care, corruption, education, and tourism.

“What we do now defines Hungary for decades.”
AmCham Career School is rolling

GUSZTÁV BIENERTH, PRESIDENT of AmCham, was the first guest speaker in the AmCham Career School series on June 10. This new event, initiated by AmCham’s Labor and Education Council and László Metzing, AmCham’s chief operating officer, aims to help young, mid-level managers in their career development. “When I learned about this opportunity, I didn’t hesitate for a minute to sign up,” says Petra Schulhof, public relations and marketing manager for the Budapest Marriott Hotel. “Building my career and learning from successful people and their experiences has always interested me. Being one of the many applicants within Marriott, we are rotating the attendance among the courses.” Bienerth’s speech was “inspiring,” says Schulhof. “Not only did we get a picture of an admirable career and ambitions, but we also had the chance to ask questions of specific interests. I learned some must-do’s to become a successful manager, and many questions in my head were cleared up by listening. It gave me the chance to see things from a different perspective than what I see every day during my work. I would definitely suggest the course to everyone who feel the need for some professional advice, who has doubts about future career steps, or who just needs motivation.”

The speaker for the next session will be József Tarsoly, general manager of Coca-Cola Hungary.

Win a Healthy Workplace Award!

AS PART OF AmCham’s Healthy Workplace Program, the AmCham Healthy Workplace Award is going to be announced this year for the seventh time. AmCham invites its member companies to apply in the following categories: small enterprises, medium-sized enterprises, corporations, large corporations, and best practice.

Maintaining the health of employees and indirectly enhancing productivity, thus being more competitive, is a prerequisite to fulfill the mission of AmCham, i.e. to promote the global competitiveness of the country, according to the AmCham Board of Governors and the members of the Healthcare Committee. The main objective of the Healthy Workplace Program, launched in November 2002, is therefore to support the members of AmCham in fulfilling the standards of a healthy workplace.

The program has become one of AmCham’s most successful and reputable initiatives, aimed at promoting the recommendations set forth in the Hungarian government’s National Healthcare Program, while also being supported by the Ministry of Health. Since its establishment, more than 90 companies have joined the program, who – after incorporating the suggested recommendations or certifying their continuing adherence – can display the Healthy Workplace Certificate, issued by AmCham.

The annual Healthy Workplace Award, only available for AmCham member companies in good standing, is also part of the program. The deadline for applications for the award is 5 pm, September 28, 2009. All applications will be evaluated by an independent advisory board. Visit www.amcham.hu for more information.

A Day to Make it Happen

CORPORATE VOLUNTEER DAY

WHEN?
September 2009

WHAT CAN YOUR COMPANY DO AND WHERE?
Provide much-needed help in Budapest and Hungary’s less-developed areas, especially at institutions that care for disadvantaged children. Selected institutions, chosen by the AmCham Foundation, will be posted on the AmCham website in July 2009.

HOW CAN YOUR COMPANY HELP?
You and your colleagues can help less-fortunate children by joining the AmCham Foundation’s “A Day to Make it Happen” initiative. All you need to do is sign your company up at foundation@amcham.hu, and we will provide you all the information you need.

MORE WAYS TO HELP:
• Through volunteer work, supporting one of the selected organizations or institutes.
• According to the profile of your company we are also grateful for in-kind contributions like tools or materials. At present, we especially need cleaning and painting materials and gardening tools.
• Monetary support.
The EBRD is doing well

IN THE TELECOM, MEDIA, and technology sectors, the European Bank for Reconstruction and Development finances everything above the infrastructural layer, said Nicholas Jeffery, EBRD senior advisor, at the AmCham Business Forum on June 25 at the Budapest Marriott Hotel. “Broadband penetration is important, but if you don’t have content, it’s like winking at a pretty lady across the room in the dark – you know you’re doing it, but she doesn’t see it,” he said.

Because telecom privatizations are finished in the region, the bank’s strategy is moving away from telecoms and into media and technology, he said. According to Jeffery, the EBRD is doing well despite the crisis. “We’re the prettiest girl at the dance who has cash, can mobilize quickly, and has a mandate to get rid of that cash. Most banks who receive money from government sit on it, so it doesn’t filter down to consumers or businesses.”

Still, the EBRD is a bank, he says. “We expect commercial, internal rates of return and won’t look at a project unless it can get a return of 30–35%. We’re patient capital that can work for seven to ten years. We’re not risk averse and are the single largest investor anywhere in Eastern Europe. This year we will do €7 billion, and last year we did €5.6 billion; we made €2.6 billion last year. We invest that entire amount of money again into this year.”

Last year, the average deal size in Hungary was €20–25 million, but that will be €200 million in 2009, he adds. “This year, we’re likely to invest up to €750 million into Hungary alone – it’s a huge amount of money.”

AmCham 20th Anniversary

THE AMERICAN CHAMBER of Commerce in Hungary was established 20 years ago, and we invite all our members, partners, and friends to celebrate with us on November 6, 2009. According to our traditions, we will commemorate this unique moment in AmCham’s history in the House of Parliament. We hope to see you there; please mark your calendar.

Join the Membership Card Program

AS THE AMERICAN CHAMBER of Commerce in Hungary celebrates its 20th anniversary this year, we would like to issue a Membership Card to symbolically thank our members for their continuous support over the past two decades and to enhance membership loyalty for the next 20 years.

The card, to be issued in the fall of 2009, will offer various privileges exclusive to our members. As you have had the chance to utilize member-to-member offers within the chamber in the past, this card will broaden the spectrum of available discounts in the future.

We design the card to bring benefits to all our members by:

- making a business offer
- placing their logo or advertisement in the discount booklet
- making use of the offers of fellow members

We kindly invite our members from all sectors to join this program and be part of the AmCham Membership Card initiative as a business offer provider. Valuable sponsorship opportunities will be introduced soon for our partners.

For more information please contact Zsófia Juhász, marketing and communications manager, at zsofia.juhasz@amcham.hu
FOLLOWING THE SUCCESS of our new event series, AmCham Hungary organized its third Business After Hours (and the last one before the summer season) at ICON Restaurant on June 9. More than 120 people enjoyed the hospitality of ICON Restaurant at Hilton Budapest, where our members could be among the first to experience the superior quality cuisine. As usual this event offered an excellent opportunity to meet fellow AmCham members and for the first time they could also win great raffle prizes, thanks to the generous offers from Hilton Budapest, ICON Restaurant, FirstMed Centers, Omorovicza Skincare, and Juhász Testvérek Pincészete.

Our new members AVL AUTÓKUT Mérnöki Kft., L.E.S.Europe Kft., Pivot Human Capital Kft., and Vilmos Levente Kovács had the possibility to introduce themselves in the very pleasant atmosphere of the restaurant. The host of the event was Péter Paál, Country General Manager of IBM Hungary, who highly contributed to the success of this event.
European AmChams meet in US

"CAPITALISM IS AT A CROSSROADS," SAYS PRESIDENT OF THE US CHAMBER

IN JUNE, AMCHAM HUNGARY CEO Péter Dávid was in Washington D.C. with the CEOs of about 30 European AmChams for the 2009 meeting of the European Council of American Chambers of Commerce (ECACC) and the US Chamber of Commerce.

One of the most debated topics was a plan from the Obama administration to change the tax deferral, which refers to investment earnings such as interest, dividends, and capital gains that accumulate free from taxation until the investor withdraws and takes possession of them.

Throughout his election campaign, President Barack Obama threatened to raise taxes on “companies that ship jobs overseas” without ever specifying what exactly he meant. Now the details are becoming clearer, and they would significantly change the way US multinationals are taxed on their foreign profits. It is estimated that the change would increase taxes on these companies by more than $200 billion over the next ten years.

If the US is trying to disadvantage the competitiveness of US companies in worldwide markets, impede US economic growth, and cause domestic job loss, then proposals limiting or repealing deferral are the way to go – just ask US shippers, US Chamber President Thomas Donohue told ECACC representatives. “But if we are working to keep US companies competitive worldwide and spur economic growth, limiting or repealing deferral is not the answer. The US Chamber is working hard to ensure this tax deferral proposal does not become law,” he said.

DEFEND FREE ENTERPRISE

BY THE TIME of the ECACC meeting, the US Chamber also announced its wish to develop a sweeping national advocacy campaign to defend and advance America’s free enterprise values in the face of rapid government growth and attacks by anti-business activists. “Supporters and critics alike agree that capitalism is at a crossroads,” Donohue said. “It’s time to remind all Americans that it was a free enterprise system, based on the values of individual initiative, hard work, risk, innovation, and profit, that built our great country. We must take immediate action to reaffirm the spirit of enterprise in America. Dire economic circumstances have certainly justified some out-of-the-ordinary remedial actions by government, but enough is enough. If we don’t stop the rapidly growing influence of government over private sector activity, we will squander America’s unmatched capacity to innovate and create a standard of living and free society that is the envy of the world. Free enterprise is not a perfect system, but it is the best system.”

As Donohue pointed out, the business community is interested in seeing President Obama succeed, “but not too much.” Free capital markets and free enterprises should be protected and the bailout that businesses have received “should be returned to the government as quickly as possible,” he added. “Europeans are asking us when we are starting investing and buying again. At the moment, we cannot; we have to be cautious, cut back, and implement a more moderate policy.”

THE US CHAMBER AND ECACC

The US Chamber of Commerce is the world’s largest business federation, representing 3 million businesses of all sizes, sectors, and regions, as well as state and local chambers and industry associations. From its headquarters in Washington, the chamber maintains a professional staff of hundreds of the nation’s top policy experts, lobbyists, lawyers, and communicators.

Founded in 1963, ECACC today represents the corporate interests of more than 17,000 American and European companies, based in 40 countries and employing more than 20 million people. ECACC member companies account for more than $1.1 trillion in investment on both sides of the Atlantic. Representatives of ECACC members meet twice annually, and one of these meetings, devoted to policy matters, traditionally takes place in spring in Washington D.C., while the other one is held in a European country and focuses on best practices.
AMCHAM

Calendar of Events

SEPTEMBER

2 Wednesday 12 pm
Business Forum
Location: Budapest Marriott Hotel

9 Wednesday 4 pm
Seminar & Cocktail
Topic: Sustainability; The Key To Survival?
Location: Kempinski Hotel Corvinus Budapest

6 Sunday 10 am – 4 pm
AmCham Family Sports Day 2009
Location: Global Football Park & Sporthotel, Telki

21 Wednesday 4 pm
Seminar & Cocktail
Location: Kempinski Hotel Corvinus Budapest

Note: Our events schedule may be subject to change. Please always check the AmCham website (www.amcham.hu) for the most up-to-date information.

NEW MEMBERS – BUSINESS

PIVOT HUMAN CAPITAL KFT.

Managing Director: Csaba Csedő
Address: 1124 Budapest, Tamás Áron u. 38.
Phone: (+36 1) 769 0266
E-mail: szilvia.auth@pivothc.eu
Website: www.pivothc.eu

Pivot Human Capital is a highly innovative executive search & management consultancy with a unique organization structure and flexible business model aiming at serving customers with the highest quality services possible. We have an impressive databank and high-end direct search resources.

Our customers include some of the most prestigious multinational companies as well as distinguished local entities. We also operate on a partnership bases in the CEE region to cover customers’ eventual cross-border needs.

NEW MEMBERS – CORPORATE

ETHANOL EUROPE B.V.

CEO: Mark Turley
Address: 1051 Budapest, Zrínyi u. 16. III/10.
Phone: (+36) 269 2922
Fax: (+36) 269 2922
Website: www.ethanol.eu

Ethanol Europe is a privately held investment vehicle formed to design, develop, permit, own, finance and operate a commercial-scale ethanol facility in Southeastern Europe.

The Ethanol Europe team is comprised of professionals with substantial international and industry experience. Due to recent developments in the US, we are also engaged in certain activities related to an acquisition in that country.

NEW ADDRESS:
Budapest 1051 Szent István tér 11.
Mailing Address: Budapest 1365 Pl.: 741.
T: (+36) 269 9880
Fax: (+36) 269 9888
E-mail: info@amcham.hu
Website: www.amcham.hu

AMCHAM STAFF

PÉTER DÁVID
Chief Executive Officer
peter.david@amcham.hu
T: (+36) 266 9880

LÁSZLÓ METZING
Chief Operating Officer
laszlo.metzing@amcham.hu
T: (+36) 266 9880 / ext. 316

ANITA ÁRVAI
Events Manager
anita.arvai@amcham.hu
T: (+36) 266 9880 / ext. 325

KRISZTINA BEDŐ
Manager Event and Content Development
krisztiina.bedo@amcham.hu
T: (+36) 266 9880 / ext. 319

ERIKA BOSNYÁK
Finance Manager
erika.bosnya@amcham.hu
T: (+36) 266 9880 / ext. 312

ILDIKÓ BRYJÁK
Project Manager
ildiko.bryjak@amcham.hu
T: (+36) 266 9880 / ext. 310

ZSÓFIA JUHÁSZ
Marketing and Communications Manager
zsopfa.juhasz@amcham.hu
T: (+36) 266 9880 / ext. 360

EMÍLIA RÉPÁSZKY
Membership Manager
emilia.repaszky@amcham.hu
T: (+36) 266 9880 / ext. 329

PÉTER TAUSZ
Research and Legal Specialist
peter.tausz@amcham.hu
T: (+36) 266 9880 / ext. 350
19TH CSÁNGÓ FESTIVAL
JÁSZBERÉNY
Folklore Festival of Minorities and Folk Art Fair
6 - 9 August 2009
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