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AUSTRIA

Key Economic Indicators

(Millions of U.S. dollars unless otherwise indicated)

	1998	1999	2000	1/
Income, Production and Employment:				
Nominal GDP	210,897.7	208,264.9	192,618.0	2/
Real GDP Growth (pct)	2.9	2.1	3.5	
GDP by Sector:				
Agriculture	4,584.3	4,176.8	N/A	
Manufacturing	62,263.6	61,528.7	N/A	
Services	118,315.2	117,264.4	N/A	
Government	13,247.7	13,026.1	N/A	
Per Capita GDP (US$)	26,107	25,948	23,782	2/
Labor Force (1,000s)	3,684	3,700	3,716	
Unemployment Rate (pct)	4.5	3.7	3.5	
Money and Prices (annual percentage growth):				
Money Supply Growth (M2)	3.3	3.9	N/A	
Consumer Price Inflation	0.9	0.6	2.3	
Exchange Rate (AS/US$ annual average) 3/	12.38	12.91	14.63	
Balance of Payments and Trade:				
Total Exports FOB	62,579.8	64,235.2	65,390.0	
Exports to U.S.	2,533.5	2,931.5	3,000.0	
Total imports CIF	68,023.3	69,617.4	69,660.0	
Imports from U.S.	3,283.0	3,719.9	3,485.0	
Trade Balance	-5,443.5	-5,382.2	-4,270.0	
Balance with U.S.	-749.5	-788.4	-485.0	
External Public Debt 4/	31,980.8	17,925.8	13,260.4	
Fiscal Deficit/GDP (pct)	2.3	2.1	1.6	
Current Account Deficit/GDP (pct)	2.3	2.8	3.0	
Debt Service Payments/GDP (pct) 5/	1.4	0.5	1.4	
Gold and Foreign Exchange Reserves (Year-End) 6/	24,089.0	20,100.0	N/A	
Aid from U.S.	0	0	0	
Aid from All Other Sources	0	0	0	

1/ 2000 figures are all estimates based on latest available data and economic forecasts in October 2000.

2/ The apparent decline in 1999 and 2000 figures is a result of exchange rate fluctuations between the Austrian Schilling (AS) and the U.S. dollar. In local AS currency, figures show an increase in both 1999 and 2000.

3/ There is only an official rate, no parallel rates.

4/ Since the start of the Economic and Monetary Union (EMU) on January 1,,1999, external debt is defined as debt denominated in other currencies than the Euro.

5/ Debt service payments on external public debt.

6/ Since the start of the EMU, the Austrian National Bank's foreign exchange reserves are part of the Eurosystem.

Sources: Austrian Institute for Economic Research (WIFO), Austrian Central Statistical Office, Austrian Federal Finance Ministry, and Austrian National Bank.

1. General Policy Framework

Based on per capita GDP, Austria is the third richest EU country. Austria has a skilled labor force and a record of excellent industrial relations. Its economy is dominated by services, accounting for two thirds of employment, followed by the manufacturing sectors. Small and medium-sized companies are predominant. After previous governments had privatized most of the formerly state-owned manufacturing industries, the new government decided to go ahead with further privatization, including in the banking, telecommunications and energy sectors and will also review full privatization of its shareholdings in already partly privatized companies, including Austrian Airlines and OMV petroleum company.

Exports of Austrian goods and services account for more than 45 percent of GDP. Austria's major goods export market is the EU, accounting for 63 percent of Austrian exports (35 percent to Germany, 8 percent to Italy). However, given Austria's traditional expertise in Central and Eastern European (CEE) markets, exports to that region have soared since 1989, accounting for 15 percent of Austrian exports by 1999. Numerous multinationals have established their regional headquarters in Austria as a "launching pad" to the CEE markets.

The new Conservative (OVP)-Freedom Party (FPO) government seems to be prepared to break with the Austrian tradition of setting economic policy in consultation with the so-called "Social Partnership," consisting of the representative bodies of business, farmers, and labor. Designed to minimize social unrest, this consensual approach has come under criticism for slowing the pace of economic reforms. The new government broke precedent by not consulting with the social partner institutions on important economic policy decisions such as social reform and balancing the budget. Success in implementing key reforms, particularly on budget deficit reduction, is necessary to bring Austria into closer alignment with its European partners.

As a member of the EU's Economic and Monetary Union (EMU), Austria is required to keep its budget deficit in line with the Maastricht convergence criteria. After successful reduction of the federal budget deficit since 1996, the budget consolidation process slowed in

1999 as a result of income tax reductions and increases in so-called family allowances. In 1999, the federal budget deficit was 2.4 percent of GDP and the total public deficit (which is the EMU criterion) 2.1 percent of GDP. Strong economic growth and swift implementation of tax increases and pension reform should help the new government to limit the total public sector deficit to 1.6 percent of GDP in 2000. The new government has announced its intent to balance the budget by 2002.

Other focuses of economic policy are introducing the single euro currency, reforming the social and pension systems, implementing an ambitious privatization program, and creating a more competitive business environment. Although Austria's economy has become considerably more liberal and open, foreign investors as well as local businesses still must cope with rigidities, barriers to market entry, and an elaborate regulatory environment in some sectors.

2. Exchange Rate Policies

As one of the eleven EU member states participating in EMU, Austria on January 1, 1999 surrendered its sovereign power to formulate monetary policy to the European Central Bank (ECB). The government successfully met all EMU convergence criteria due to austerity measures implemented in 1996-97, and is pursuing a policy of further reducing the fiscal deficit and the public debt. The Austrian National Bank (ANB) is a member of the European System of Central Banks (ESCB) and supports the ESCB's focus on maintaining price stability in formulating exchange rate and monetary policies. On December 31, 1998, the exchange rate for the euro was irrevocably fixed at Austrian schillings (AS) 13.7603.

In 1999, the euro, and with it the Austrian schilling, lost little ground against the dollar. In 2000, the dollar continued to rise steadily against the schilling parallel to its rise against the single euro currency.

3. Structural Policies

Austria's 1995 accession to the EU forced the government to accelerate structural reforms and to liberalize its economy. Most nontariff barriers to merchandise trade have been removed and cross-border capital movements have been fully liberalized.

While the government continues to be a major player in the economy, the scope of government involvement, a traditional feature of the Austrian economy, has been significantly reduced in recent years. The amount of total government spending (federal, provincial and local governments as well as social security institutions, but not including government holdings) as a percentage of GDP declined to 54.1 percent in 1999 from 57.4 percent in 1995. (Note: the figure for the government contribution to GDP, as shown in the table, reflects only narrow public administration functions and does not include social and other expenditures). The government's plans for a balanced budget and privatization should reduce this share further. In May 2000, Parliament passed a law establishing legal framework for privatization of remaining government shareholdings. Over the next three years, the government plans to sell the Vienna airport company, Austria tobacco company, Telekom Austria, Dorotheum auction house and bank, and others. It will also review full privatization of its shareholdings in already partly privatized companies, including Austrian Airlines, OMV petroleum company and Voest-Alpine steel. In August 2000, the government sold the Postal Savings Bank. A stated policy of “maintaining the Austrian interest” in banks and basic industries has so far not had any real effect. Foreign investors have been successful in obtaining shares in important Austrian industry sectors, for example the banking, telecom and energy sectors.

As a result of EU liberalization directives, the government has also moved ahead with liberalization legislation in the telecom and energy sectors. The opening of the market for conventional telephones on January 1, 1998 represented the final phase of Austria’s telecom liberalization. The Austrian telecom services sector now exhibits some degree of liberalization. The government also moved ahead with the liberalization of the highly centralized and virtually closed electricity market. The electricity market is now supposed to be opened by 2001, and the gas market by 2002. However, the government is likely to keep its 51-percent majority in the federal power company “Verbund,” because selling these shares requires a two-thirds majority in Parliament and the Social Democratic Party (SPO) refuses to approve such a move. Preparations are also under way to liberalize the natural gas market.

In past years, the government has successfully cut red tape to make Austria more attractive for investors. Procedures for investors to obtain necessary permits and other approvals have been streamlined and the time for approvals cut considerably; however, plans for implementing “one-stop-shopping” for all necessary permits have not yet been realized due to jurisdictional problems. Approval for larger projects could still be burdensome and lengthy. The “one-stop-shop” for business permits is again on the agenda of the new government. Other measures planned to improve the business climate and stimulate entrepreneurial activity include the reduction of non-wage costs for labor, strengthening the equity market for small and medium-sized enterprises, reducing the number of laws and regulations for business, drafting a new company law, amending the bankruptcy law, reforming the Business Code to liberalize establishing new businesses, allowing more flexible work hours and more liberal shopping hours.

4. Debt Management Policies

Austria's external debt management has had no significant impact on U.S. trade. At the end of 1999, the Austrian federal government's external debt amounted to $17.9 billion (14 percent of the government's overall debt) and consisted of 93 percent bonds and 7 percent credits and loans. Debt service on the federal government's external debt amounted to $1.1 billion in 1999, or 0.5 percent of GDP and 1.2 percent of total exports of goods and services. The total public sector external debt in 1999 was not significantly higher than the federal government’s external debt. Total gross public debt was 64.9 percent of GDP at the end of 1999 and, thus, still beyond the 60 percent ceiling set under the Maastricht convergence criteria. Republic of Austria bonds are rated AAA by recognized international credit rating agencies.

5. Significant Barriers to U.S. Exports

The United States is Austria’s largest non-European trading partner, contributing 5.8 percent of Austria’s total 1999 imports. The United States was Austria’s third largest supplier worldwide after Germany and Italy. The Austrian government thus has a clear interest in maintaining close and smooth trade ties. However, there are a number of obstacles hindering further increases of U.S. exports to Austria.

Import License Requirements: The EU, and therefore Austria, requires import licenses for a number of products, first and foremost for agricultural and health products due to health grounds. Access of U.S. pharmaceuticals to the Austrian market has been particularly restricted by the Austrian social insurance company (“Hauptverband der Sozialversicherungstraeger”) that approves drugs for reimbursement under Austrian health insurance regulations and favors domestic suppliers. Pharmaceuticals not approved by that company have higher out-of-pocket costs for patients. In general, an Austrian importer must possess an export license from the supplier country and then obtain permission to import from the Austrian authorities.

Various agricultural products are banned from the Austrian market for the same reasons. The EU ban on beef imports from cattle treated with hormones severely restricts U.S. exports of beef to Austria. Despite a WTO decision that the ban is inconsistent with the rules of international trade, the EU has not lifted the ban. The Austrian government, moreover, has ruled out a lifting of the ban in the foreseeable future. Further, the EU has not approved any U.S. poultry plants, ruling out the possibility of importing U.S. poultry, or products containing poultry. Finally, the EU has not approved most genetically modified plants available in the United States; imports of these plants or products containing these plants are not permitted. Austria has gone even further than its EU partners: Novartis corn and Monsanto BT corn, approved by the European Commission, are not permitted in Austria.

Service Barriers: Providers of financial services such as insurance and banking have to meet reciprocity requirements, and at least one manager of each branch or subsidiary must have residence in Austria. Providers of legal services must submit specific proof of their qualifications, such as university education or number of years of practice. Potential health and social services providers are subject to an economic test and must obtain a business permit from the local governments. Travel agencies and tour operators require a proof of qualification and must be listed with the Austrian Ministry of Economics. Under the WTO General Agreement on Trade in Services, Austrian officials insist that Austria's commitments on trade in professional services extend only to intra-corporate transfers. U.S. service companies often form joint ventures with Austrian firms to circumvent these restrictions.

Labeling requirements: Information is required for most (and all wrapped) foodstuffs identifying the composition of the product, the manufacturer, methods of storage and preparation and the quantity. Other important requirements include washing instructions on textiles, and certification of safety (the CE mark) on machines, toys and baby accessories.

Investment barriers: Austria is in compliance with World Trade Organization Trade Related Investment Measures (TRIMS) agreement notification. There are limited restrictions on foreign investment in Austria with regard to sectors (see next paragraph). However, at least one manager must meet residency and other legal qualifications. Non-residents must appoint a representative in Austria. Although not required in order to gain access to tax incentives, performance requirements may be imposed when foreign investors seek financial or other assistance from the Austrian government. The Residence Law and the Foreign Workers Employment Law exempt skilled U.S. labor (e.g., managers and their dependents) from an increasingly restrictive quota system for residence permits.

Foreign and domestic private enterprises are free to establish, acquire, and dispose of interests in business enterprises, with the exception of television, railroads, some utilities, and state monopolies. As the government continues to pursue privatization, some of these industries are gradually being opened up to private investment as well. Austria was required to open its fixed-line telecommunication market January 1, 1998 in line with EU directives. Several competitors now offer fixed-line service over Telekom Austria lines, which, however, still dominates fixed-line service over the "last mile."

The telecommunications control authority issued an order for unbundling of the local loop in September 2000. Competitors are supposed to negotiate with Telekom Austria regarding conditions of local loop access, and will have recourse to the telecoms control authority if they cannot reach agreement with the dominant carrier. Concerning third generation mobile telephony, the invitation for bids was issued and the auction of up to six licenses was planned for November 2000.

The Austrian electricity market will be fully liberalized for consumers in October 2001, but the majority shares of the Austrian suppliers remain in the hands of various levels of governments. The ambitious privatization program of Austria's new government, approved by Parliament in May 2000, foresees full or partial privatization of many important Austrian companies. Overall costs in Austria are similar to those in France and Italy, lower than in Germany and Japan, but higher than in the United States, Canada and the U.K.

Government Procurement: Austria is a party to the WTO Government Procurement Agreement; Austria's Federal Procurement Law was amended in January 1997 to bring its procurement legislation in line with EU guidelines, particularly on services. In defense contracts, offset agreements are common practice. U.S. firms have reported experiencing a strong pro-EU bias in government contract awards, and a similar pro-EU bias (in some instances an even more narrow call for "Austrian solutions") has also appeared to play a role in some privatization decisions. In a recent procurement case, however, the U.S. firm Sikorsky was able to secure a major contract for "Blackhawk" helicopters over European competitors, in a hard-fought competition in which offsets were a major factor.

Customs Procedures: There are no particularly burdensome procedures. However, in order with the EU Generalized System of Preferences, a customs declaration must be made in order to bring goods from a third country to Austria. Depending on the product and the country of origin, specific evidence must be included.

6. Export Subsidies Policies

The government provides export promotion loans and guarantees within the framework of the OECD export credit arrangement and the WTO Agreement on Subsidies and Countervailing Measures. The Austrian Kontrollbank (AKB), Austria's export financing agency, administers the government's export guarantees. Credits under the AKB's export financing scheme are provided in conformity with the rules of the OECD Arrangement on Guidelines for Officially Supported Export Credits ("Consensus"). The AKB operates a transparent export guarantee system by publishing conditions and eligible country lists.

7. Protection of U.S. Intellectual Property

The legal system protects secured interests in intellectual property rights, including patents, trademarks and copyrights. Austria is a party to the World Intellectual Property Organization and several international intellectual property conventions, such as the European Patent Convention, the Paris Industrial Property Convention, the Madrid Trademark Agreement, the Budapest Treaty on the International Recognition of the Deposit of Microorganisms for the Purpose of Patent Procedure, the Universal Copyright Convention, the Brussels Convention Relating to the Distribution of Program-carrying Signals transmitted by Satellite, and the Geneva Treaty on the International Registration of Audiovisual Works. In the World Trade Organization Treaty on Intellectual Property (WTO TRIPS) negotiations Austria prefers the "first-to-file," and not the U.S.-favored "first-to-invent" principle; further, initiatives should be encouraged to promote trade of property protected by copyright, according to Austrian negotiators.

Patents: In compliance with the WTO TRIPS agreement obligations, Austria extended patent terms on inventions to 20 years after application. However, the Parliament has delayed the decision on a patent law amendment that would have implemented the 1998 EU guideline on the protection of biotechnological inventions. This amendment would strengthen regulations on patent offences and compensation, and the obligations to give information.

Copyrights: The copyright law grants the author the exclusive right to publish, distribute, copy, adapt, translate, and broadcast his work. Infringement proceedings, however, can be time consuming and complicated. A special problem under Austrian copyright law is that "tourist establishments" (hotels, inns, bed and breakfast establishments, etc.) may show cinematographic works or other audiovisual works, including videos, to their guests without prior authorization from the copyright holder. The United States holds this provision to be inconsistent with Austria's obligations under the Bern Convention and TRIPS. Following bilateral U.S.-Austrian talks in 1997, the Austrian Arbitration Commission determined the rates to be paid for such public showings. Austria considers this step sufficient compensation for the interests of the copyright holders and in compliance with both the Bern Convention and the TRIPS agreement. The United States has expressed reservations to this position. Austrian copyright law also requires that a license fee be paid on imports of home video cassettes and broadcasting transmissions. Of these fees, 51 percent are paid into a fund dedicated to social and cultural projects. In the view of the United States, the copyright owners should receive the revenues generated from these fees and any deductions for cultural purposes should be held to a minimum.

New Technologies: Due to the alleged possibility of patenting genes, plants and animals, Austria is reluctant to implement the EU directive 98/44/EG on the protection of biotechnological inventions. The delay may infringe U.S. investments. Content piracy on the Internet is another growing problem although the copyright law is fully applicable in this regard. However the Austrian courts are hesitant to enforce the law against the pirates.

American investors are entitled to the same kind of protection under Austrian patent and copyright legislation as are Austrian nationals. Intellectual property problems do not specifically affect U.S. trade. Austria was not mentioned in the U.S. government's "Special 301" review in 2000.

8. Worker Rights

a. *The Right of Association:* Workers have the constitutional right to form and join unions without prior authorization. All 13 national unions belong to the Austrian Trade Union Federation (OGB), which has a highly centralized leadership structure that does, de facto, not allow the formation of other independent unions. Although the right to strike is not provided explicitly in the Constitution, it is universally recognized. Labor participates in the "social partnership," in which the leaders of Austria's labor, business, and agricultural institutions jointly try to influence legislation on social and economic issues. Under the current government their impact is decreasing.

b. *The Right to Organize and Bargain Collectively:* Unions have the right to organize and bargain collectively. Almost all large companies, private or state-owned, are organized. Worker councils operate at the enterprise level, and workers are entitled by law to elect one-third of the members of supervisory boards of major companies. Collective agreements covering wages, benefits and working conditions are negotiated exclusively by the OGB with the National Chamber of Commerce and its associations, which represent the employers. All workers except civil servants are required to be members of the Austrian Chamber of Labor, a public body that is enabled to act for workers' rights along with the OGB.

c. *Prohibition of Forced or Compulsory Labor:* Forced or compulsory labor is prohibited by law, and this prohibition is enforced effectively.

d. *Minimum Age for Employment of Children:* The minimum legal working age is 15. The law is enforced effectively.

e. *Acceptable Conditions of Work:* There is no legally mandated minimum wage. Instead, nationwide collective bargaining agreements set minimums by job classification for each industry. Workers as well as the jobless are entitled to a variety of generous social benefits that guarantee a high standard of living on average. Over half of the workforce works a maximum of either 38 or 38.5 hours per week, although the legal workweek has been established at 40 hours. The Labor Inspectorate ensures the effective protection of workers by requiring companies to meet Austria's extensive occupational health and safety standards.

f. *Rights in Sectors with U.S. Investment:* Labor laws tend to be consistently enforced in all sectors, including the automotive sector, in which the majority of U.S. capital is invested.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1999

(Millions of U.S. dollars)

Category		Amount
Petroleum		(1)
Total Manufacturing		1,115
Food & Kindred Products	31	
Chemicals & Allied Products	53	
Primary & Fabricated Metals	1	
Industrial Machinery and Equipment	67	
Electric & Electronic Equipment	413	
Transportation Equipment	351	
Other Manufacturing	198	
Wholesale Trade		603
Banking		(1)
Finance/Insurance/Real Estate		140
Services		158
Other Industries		-65
TOTAL ALL INDUSTRIES		3,696

(1) Suppressed to avoid disclosing data of individual companies.

Source: U.S. Department of Commerce, Bureau of Economic Analysis.