1999 Country Reports on Economic Policy and Trade Practices
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AUSTRIA

Key Economic Indicators

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

	1997	1998	1999	1/
Income, Production and Employment:				
Nominal GDP 2/	206,739.5	210,897.7	210,334.4	3/
Real GDP Growth (pct)	2.5	3.3	2.2	
GDP by Sector:				
Agriculture	4,662.5	4,584.3	N/A	
Manufacturing	44,568.1	45,648.9	N/A	
Services	116,647.5	118,315.2	N/A	
Government	13,188.3	13,247.7	N/A	
Per Capita GDP (US$)	25,607	26,046	25,964	3/
Labor Force (1,000s)	3,657	3,684	3,702	
Unemployment Rate (pct) 4/	4.4	4.7	4.4	
Money and Prices (annual percentage growth):				
Money Supply Growth (M2)	1.0	16.5	N/A	
Consumer Price Inflation	1.3	0.9	0.6	
Exchange Rate (AS/US$ annual average) 5/	12.20	12.38	12.86	
Balance of Payments and Trade:				
Total Exports FOB	58,607.9	62,579.8	63,140.0	
Exports to U.S.	2,148.4	2,533.5	2,430.0	
Total imports CIF	64,774.7	68,023.3	69,230.0	
Imports from U.S.	3,467.9	3,283.0	3,110.0	
Trade Balance	-6,166.8	-5,443.5	-6,090.0	
Balance with U.S.	-1,319.5	-749.5	-680.0	
External Public Debt	24,991.8	31,777.1	31,950.0	
Fiscal Deficit/GDP (pct)	1.8	2.2	2.0	
Current Account Deficit/GDP (pct)	2.5	2.2	2.2	
Debt Service Payments/GDP (pct) 6/	2.2	2.4	1.5	
Gold and Foreign Exchange Reserves (Year-End)	21,600.0	24,115.1	N/A	
Aid from U.S.	0	0	0	

Aid from All Other Sources	0	0	0

Footnotes:

1/ 1999 figures are all estimates based on latest available data and economic forecasts in October 1999.

2/ GDP at market prices, converted at average annual exchange rate.

3/ The apparent decline in 1999 figures is a result of exchange rate fluctuations between the Austrian Shilling (AS) and the US dollar.
In local AS currency, figures show an increase in 1999.

4/ Unemployment rate according to EU method.

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

6/ Debt service payments on external public debt.

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 (tied with Belgium) 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. By 1997, the government completed a 10-year privatization program. Most of the formerly state-owned industries are now in private hands. Further privatizations are underway, including in the banking, telecommunications and energy sectors.

Exports of Austrian goods and services account for almost 44 percent of GDP. Austria's major export market is the EU, accounting for 64 percent of Austrian exports (36 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 17 percent of Austrian exports by 1998. Numerous multinationals have established their regional headquarters in Austria as a "launching pad" to the CEE markets. In 1998, Hungary was equal to Switzerland as Austria's third largest export market.

The government sets 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, particularly in inflexible labor and product markets. With an increasing number of decisions being made on the EU level, the influence of the social partner institutions seems to have declined in past years.

In order to meet the Maastricht criteria for Economic and Monetary Union (EMU), in 1996-97, the government introduced an austerity program, under which it reduced its federal budget deficit from 5.1 percent (1995) to 2.5 percent of GDP (1998) and the total public deficit, which is decisive for the EMU, to 2.2 percent of GDP (1998). The tax increases included in the austerity program brought the share of total taxes in GDP to an all-time high of 44.9 percent (1997), since then it has declined slightly. The 1999 federal budget was designed to secure the consolidation begun in 1996. The total public sector deficit is forecast to fall to 2.0 percent in 1999. Social expenditures currently amount for almost 29 percent of GDP.

Another focus of economic policy is employment creation. Austria has been one of the foremost supporters of the EU-wide national employment plans. Its plan places strong emphasis on training and education, removal of bureaucratic hurdles, more labor flexibility and a more favorable climate for business start-ups. While some of these plans have been implemented, the government failed to address the planned reduction of wage and non-wage costs as part of the 2000-2001 tax reform due to a deadlock of the governing parties and the diverging interests of social partners, i.e., business and labor representatives.

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 ECB's focus on maintaining price stability in formulating exchange rate and monetary policies is viewed by the Austrian National Bank (ANB) as a continuation of the "hard schilling" policy the ANB pursued since 1981. By pegging the Austrian schilling (AS) to the German mark (DM), the government has successfully kept inflation under control and promoted stable economic growth. On December 31, 1998, the exchange rate for the Euro was irrevocably fixed at Austrian schillings 13.7603.

In 1998, the Austrian schilling lost little ground against the dollar. However, in 1999, the dollar continued to rise steadily against the schilling parallel to its rise against the common Euro currency.

3. Structural Policies

Austria's 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 percentage of GDP declined to 54.2 percent in 1998 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 no longer has majority ownership in formerly state-controlled companies such as OMV (oil and gas), VOEST (steel, plant engineering) or ELIN (electrical machinery and equipment). Subsidy programs have also been scaled back to conform to EU regulations.

After the passage of a more liberal business code in 1997, plans for making Austria more attractive for investors were implemented. While procedures for investors to obtain necessary permits and other approvals have been streamlined and the time for approvals cut considerably, plans for implementing "one-stop-shopping" for all necessary permits have not yet been realized. Delays have been caused by jurisdictional disputes among three federal ministries as well as differences in opinion between the federal government and business interest representatives. Approval for larger projects could still be bothersome and lengthy. Other measures implemented to improve the business climate and stimulate entrepreneurial activity include the reorganization of the Austrian stock market (the Vienna Stock Exchange was fully privatized and linked to the German Stock Exchange in Frankfurt), a new takeover act, the standardization of international accounting standards (IAS) or generally accepted accounting principles (US-GAAP), increased work time flexibility, and initial measures that have slightly increased wage and labor cost flexibility.

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 a high degree of liberalization, though high interconnection fees still serve as an impediment to market access. For decades, telecom was a monopoly in Austria, with the state-owned Post and Telecom Austria Company (PTA) being the only national supplier of networks and telecom services. The government also moved ahead with the liberalization of the highly centralized and virtually closed electricity market. A relevant Austrian law was adopted in 1998, providing for a progressive opening of the market by the year 2003. Preparations are also under way to liberalize the natural gas market.

The outgoing government (general elections took place on October 3, 1999) decided on the implementation of the tax reform it had promised for 2000. The tax reform for 2000 ended up in marginal tax rate adjustments and some "redistribution." The reform will, thus, stimulate economic growth in Austria in 2000, but it failed to meet the declared goal of a clear reduction of wage and non-wage costs. Moreover, the reform is likely to result in a higher overall government budget deficit in 2000, which may go up to as high as 2.5 percent of GDP, reversing the downward trend since 1995, over which time the overall government budget deficit declined steadily from 5.1 percent in 1995 to an estimated 2.0 percent in 1999.

4. Debt Management Policies

Austria's external debt management has had no significant impact on U.S. trade. At the end of 1998, the Austrian federal government's external debt amounted to $31.8 billion (25 percent of the government's overall debt) and consisted of 95 percent bonds and 5 percent credits and loans. Debt service on the federal government's external debt amounted to $5.0 billion in 1998, or 2.4 percent of GDP and 5.4 percent of total exports of goods and services. The total public sector external debt in 1998 was not significantly higher than the federal government's external debt. Total gross public debt was 63.1 percent of GDP at the end of 1998, just 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. Barriers to U.S. Exports

The U.S. is Austria's largest non-European trading partner with 4.8 percent of Austria's total 1998 imports coming from the U.S. The U.S. was Austria's fourth largest supplier worldwide after Germany, Italy, and France. 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:

Pharmaceuticals: Access of U.S. pharmaceutical products to the Austrian market has been restricted by the Austrian social insurance holding organization (Hauptverband der Sozialversicherungsträger).   The non-transparent procedures by which the Hauptverband approves drugs for reimbursement under Austrian health insurance regulations allegedly perpetuates a closed market favoring established, domestic suppliers.   Pharmaceuticals not approved by the Hauptverband have higher out-of-pocket costs for Austrian patients and therefore suffer a competitive disadvantage vis-à-vis approved products.

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. However, U.S. firms have experienced a strong pro-EU bias in awarding government tenders.   In defense contracts, offset agreements are common practice.   This pro-European bias also appears to play a role in privatization decisions, although in some cases the bias is even more narrowly defined with politicians calling for "Austrian solutions."

Beef Hormones: 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. While decisions on this policy must be made by all members of the EU, Austrian politicians have ruled out a lifting of the ban in the foreseeable future.

Poultry: The EU has not approved any U.S. poultry plants, ruling out the possibility of importing U.S. poultry, or products containing poultry.

GMOs: As the EU has not approved all genetically modified plants available in the U.S., 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. The ban of these corn types is contrary to EU regulations.

Other Financial Services: Providers of financial services, such as accountants, tax consultants, and property consultants, must submit specific proof of their qualifications, such as university education or number of years of practice. Other service activities also require a business license, for which one of the preconditions is legal residence. 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.

Foreign Direct Investment: A 1997 U.S. Investor Confidence Survey compiled by the American Chamber of Commerce cites high labor, telecommunications and energy costs, the complex Austrian legal situation, and difficulties in obtaining work permits for key personnel as major obstacles. A 1998 follow-up survey noted improvements in the regulatory process and faster permit processing. The reform of the Residence Law and the Foreign Workers Employment Law enacted in mid-1997 exempts skilled U.S. labor (e.g. managers and their dependents) from an increasingly restrictive quota system for residence permits. Electricity and telecommunications costs, also noted in the survey as an impediment to business in Austria, have been significantly reduced through EU-wide liberalization.

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, offers export financing programs for small and medium-sized companies with annual export sales of up to $8.2 million. Following Austria's accession to the EU, the AKB stopped providing economic risk guarantees for short term financing of exports to OECD countries. A 1995 amendment to Austria's Export Guarantees Act enables the AKB to guarantee untied credits. In 1996, the AKB made its export guarantee system more transparent by publishing conditions and eligible country lists.

7. Protection of U.S. Intellectual Property

Austria is a party to the World Intellectual Property Organization and several international intellectual property conventions, including the European Patent Convention, the Patent Cooperation Treaty, the Madrid Trademark Agreement, the Budapest Treaty on the International Recognition of the Deposit of Microorganisms for the Purpose of Patent Procedure, the Universal Copyright Convention, the Brussels Convention Relating to the Distribution of Program-carrying Signals transmitted by Satellite, and the Geneva Treaty on the International Registration of Audiovisual Works. In compliance with the World Trade Organization Treaty on Intellectual Property (WTO TRIPS) agreement obligations, Austria extended patent terms; patents on inventions are now valid up to 20 years after application.

Austrian copyright law grants the author the exclusive right to publish, distribute, copy, adapt, translate, and broadcast his work. Infringement proceedings, however, can be time consuming and complicated. Austria’s copyright law is in conformity with the EU directives on intellectual property rights.

However, under Austrian copyright law "tourist establishments" (hotels, inns, bed and breakfast establishments, etc.) may show cinematographic works or other audiovisual works, including videos, to their guests. While the license fee to the copyright owners is mandatory, Austrian law does not require prior authorization by the copyright holder. The U.S. holds this provision to be inconsistent with Austria's obligations under the Berne 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 Berne Convention and the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). The U.S. 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 U.S.'s view, the copyright owners should receive the revenues generated from these fees and any deductions for cultural purposes should be held to a minimum.

Austria is not mentioned in the 1999 Special 301 Watch List or Priority Watch List and is not identified as a Priority Foreign Country.

8. Worker Rights

a. The Right of Association: Workers in Austria have the constitutional right to associate freely and the de facto right to strike. Guarantees in the Austrian Constitution governing freedom of association cover the rights of workers to join unions and engage in union activities. Labor participates in the "social partnership," in which the leaders of Austria's labor, business, and agricultural institutions jointly develop draft legislation on social and economic issues, thereby influencing the country's overall economic policy.

b. The Right to Organize and Bargain Collectively: Austrian unions enjoy the right to organize and bargain collectively. Some 50 percent of Austria's 3.2 million-strong labor force is unionized. The Austrian Trade Union Federation (OGB) is exclusively responsible for collective bargaining. All workers except civil servants are required to be members of the Austrian Chamber of Labor. Leaders of the OGB and the Chamber of Labor are democratically elected. Workers are legally entitled to elect one-third of the board of major companies.

c. Prohibition of Forced or Compulsory Labor: Forced or compulsory labor is prohibited by law.

d. Minimum Age for Employment of Children: The minimum legal working age is 15. The law is enforced by the Ministry for Social Affairs.

e. Acceptable Conditions of Work: There is no legally mandated minimum wage in Austria. Instead, minimum wage scales are set in annual collective bargaining agreements between employers and employee organizations. Workers whose incomes fall below the poverty line are eligible for social welfare benefits. Over half of the workforce works a maximum of either 38 or 38.5 hours per week, a result of collective bargaining agreements. 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 **--** 1998

(Millions of U.S. Dollars)

Category		Amount
Petroleum		152
Total Manufacturing		1,062
Food & Kindred Products	30	
Chemicals & Allied Products	45	
Primary & Fabricated Metals	2	
Industrial Machinery and Equipment	114	
Electric & Electronic Equipment	(1)	
Transportation Equipment	295	
Other Manufacturing	(1)	
Wholesale Trade		515
Banking		(1)
Finance/Insurance/Real Estate		(1)
Services		200
Other Industries		-38
TOTAL ALL INDUSTRIES		3,838

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

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