

# Doing Business in Austria

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## Political upsets and lack of dynamism drive doubts

The country's image has been harmed by electoral turmoil and the need for reform, says *Ralph Atkins*

Thomas Birtel, chief executive of Strabag, has the perfect office for the "crane test": measuring an economy's dynamism by the number of visible building sites. The Austrian construction company's futuristic headquarters on the east bank of the Danube has a panoramic view of Vienna.

Only one or two clusters of construction activity can be seen from the wall-to-ceiling windows of his corner office, however. That is partly because Austria's capital is a city of grand historic buildings, not new, high-rise offices. But Mr Birtel's view captures the strengths and weaknesses of Austria as a place to do business.

"It is a more-or-less stable situation, to put it positively, but there is a lack of dynamism, especially if you compare it with Germany," he says.

One of Europe's most affluent countries, sitting between east and west Europe, Austria faces a series of challenges as a place to do business.

The country's cherished economic stability has become a byword for sluggish growth in recent years, high labour costs, a slow pace of structural reform and glaring problems such as an expensive education system. "Some fresh wind would help," says Mr Birtel.

Meanwhile, political tensions mount in Vienna's opulent government buildings. While unemployment remains low by European standards, it is creeping higher and popular discontent is sweeping through the political system. There are parallels with the voter uprisings which led to Brexit in the UK and the rise of Donald Trump in the US.

Support has surged for Austria's far-right Freedom party, one of Europe's



'Some fresh wind would help,' Thomas Birtel of construction company Strabag says of the economy

longest-established nationalist movements. This throws into doubt the future of a system in which the two main political parties – the centre-left Social Democrats and centre-right People's party – have ruled the country separately or jointly since the second world war.

In May, Werner Faymann resigned as chancellor – the most prominent victim of Europe's refugee crisis, which led to a number of policy flip-flops by Austria's government, exacerbating voter exasperation with the coalition parties.

Christian Kern, the new Social Democratic chancellor, has sought to reset government policy to address voters' concerns about Austria's future in a globalised world. He has sounded notes of scepticism, for instance, about the proposed Comprehensive Economic and Trade Agreement (Ceta) deal between the EU and Canada, and the larger

**Face-off: 'Power needs control' reads a poster for presidential candidate Norbert Hofer of the far-right Freedom party opposite parliament in August**

AFP/Getty Images

EU-US free-trade agreement, the Transatlantic Trade and Investment Partnership (TTIP).

Austria's reputation for political stability has been undermined this year by fraught attempts to elect a new head of state. The initial upset in the presidential election was the first-round elimination in April of candidates from the two main parties. Then, in May's run-off, Norbert Hofer, the Freedom party candidate, made international headlines when he came close to defeating Alexander Van der Bellen, a Green party candidate who ran as an independent.

That election was declared invalid by the constitutional court after faults in postal ballot procedures. Adding to the impression Austria has become politically accident-prone, the government was forced in September to postpone the

*Continued on page 3*

### Inside

#### Foreign minister talks refugees and openness

Interview: Sebastian Kurz on migrants and the far right

Page 2



#### Beneath the shine

Apparent affluence distracts from questions about the economy

Page 2

#### Well connected

State rail operator ÖBB is efficient, expensive – and omnipresent

Page 2

#### Playing with the brand

Should businesses embrace or reject national stereotypes?

Page 3



#### The secret of Austria's 'hidden champions'

Highly educated, flexible workforce is essential to specialist manufacturers

Page 4

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## Doing Business in Austria

## ‘We are open to world’ despite refugee reversal

**Interview**  
**Sebastian Kurz**  
The foreign minister and possible future chancellor discusses migrants and the far right.  
By *Ralph Atkins*

Austria “was always a country open to the world and it will stay a country open to the world”, says its youthful foreign minister Sebastian Kurz.

He is in combative mood as he speaks in his office at the foreign ministry in Vienna. Europe’s refugee crisis last year challenged the image of Austria as an internationally-oriented country confidently positioned between east and west Europe.

Initially, as thousands streamed through the country towards Germany and Sweden, the coalition government supported Berlin’s “welcome culture”. Then, as the strain on infrastructure

grew, the government executed an about-turn, agreeing measures with neighbouring countries to close the Balkan route used by those fleeing wars in Syria and elsewhere.

Mr Kurz argues even so that the country’s fundamental values did not change. “Twenty per cent of the people in Austria have a so-called immigration background. Austria is the country with the highest migration within the EU,” he says. “Lots of migrants live in our country and they make a significant contribution to our economy.”

“Last year we took in 90,000 people [seeking asylum] – the second highest figure per head of population after Sweden in the EU. We took in more refugees than the US, Canada and other countries that have a population many times larger.”

What he opposed, Mr Kurz says, were uncontrolled inflows of “illegal” immigrants, picking destinations for the best standard of living. “As a human, I understand that 100 per cent but it overburdens our system and cannot function. It is not an Austrian phenomenon. Luckily Europe, step by step, recognised that these mass refugee movements to Europe cannot work.”

His arguments are well rehearsed.

Mr Kurz, who is 30 years old, is a polished performer and a rising star in the centre-right People’s party. He is widely tipped as a future chancellor.

His response to the refugee crisis is finely calibrated at a time when rising support for the far-right Freedom party has drained support from his party and the Social Democrats, which rule in a “grand coalition”. The Freedom party plays on fears about immigration and, in opinion polls, is Austria’s most popular political movement.

A likely outcome from national elections, due by September 2018 but widely expected to be called earlier, is a coalition between the Freedom and the People’s parties. This would shock mainstream politicians in other countries, given that the Freedom party was founded by ex-Nazis in the 1950s.

Mr Kurz remains calm on the matter. The Freedom party, he points out, already governs in two of Austria’s nine provinces (together with the Social Democrats in Burgenland and the People’s party in Upper Austria). Meanwhile, the fact that the ultra-conservative Swiss People’s Party is Switzerland’s most popular political party does not generate “massive reporting in the international media”.

‘Austria is the country with the highest migration in the European Union’



Not wishing to be an apologist for the Freedom party, however, he takes care to distance himself from it on some issues. The Freedom party, for instance, sees ideological links with the so-called Visegrad Four, the eastern European states of Poland, Hungary, the Czech Republic and Slovakia. Mr Kurz argues that Austria is “known in the world as a very secure, and stable land that is solidly anchored in west Europe, but at the same time offers a good bridge to east Europe”.

Next year Austria chairs the Organisation for Security and Co-operation in Europe, the Vienna-based intergovernmental security body. One of Austria’s priorities will be to take advantage of its status as a link between east and west. “We want to create more trust within the OSCE area,” the foreign minister says. “There is ‘bloc’ thinking between east and west, between the US and Russia, that is not good for us.” Other Austrian priorities are to combat radicalism among the young and resolve conflicts in the Ukraine region.

Geography still brings economic advantages. Eastern connections attract international businesses –

some 300 have regional headquarters in the country, he notes. Businesses also benefit, Mr Kurz adds, from the quality of the education system (though he does not mention that it is very expensive to run) and Austria’s political stability.

Diplomatically, he avoids commenting on his ideas for economic reform, maybe through fear of inflaming differences in the ruling coalition of Social Democratic chancellor Christian Kern. But he does not share Mr Kern’s recent concerns about threats to Austrian living standards from European trade treaties planned with Canada and the US: “We’re an exporting country – six out of every 10 euros are earned from exports. Our companies are active worldwide. I don’t detect globalisation angst among them.”

Mr Kurz agrees there may be political upheaval after the national elections. The coalition “is not enjoying so much support and the political landscape has changed considerably. Party membership is no longer inherited but instead people build their own opinions [and] are more mobile in how they vote”.

Will he manoeuvre himself into a position to run for chancellor? Mr Kurz is again diplomatic. “I intend to do my current job as well as possible – that is more than fulfilling enough for me.”

## Apparent affluence distracts from underlying strains and weaknesses

## Economy

High labour taxes, public spending and deficit policy are being questioned, writes *Ralph Atkins*

Does Austria really have an economic problem? By European standards, it appears in an enviable situation. Gross domestic product will expand by 1.7 per cent this year – faster than in the past four years and at roughly the same pace as Germany, according to forecasts by Wifo, the Austrian institute of economic research.

At about 6 per cent, unemployment as a share of the workforce is relatively low. The country is affluent and Vienna regularly comes close to the top of global “liveability” indices, scoring especially highly for its infrastructure.

Yet a clue that all is not necessarily well with the economy comes in indices of global competitiveness. Austria ranked 19th in this year’s list compiled by the World Economic Forum, organisers of the Davos economic summit. Although higher than in previous years, that was a long way behind, for instance, the UK in seventh place. As for Austria’s western neighbours, Germany ranked fifth and Switzerland kept its position at the top of the list.

Further causes for concern are apparent in the country’s recent economic performance. Before this year, growth was at best spluttering and lagged behind the pace of expansion in Germany and across the eurozone. “If a country grows by less than 1 per cent for four or five years, there is obviously something wrong,” says Marcus Scheibler, Wifo’s deputy director.

While unemployment is low, the rate is rising. What is more, this year’s economic growth rate has been flattered by the impact of the migration crisis, which saw thousands fleeing wars in countries such as Syria and crossing Austria on their way to Germany and elsewhere. This brought a one-off boost to public spending from support for refugees.

As the European Commission warned in May, however: “The medium-term effect on employment and growth hinges on refugees’ successful labour market and social integration, including via educational support.” Given the controversy over migration, none of this can be considered a given.

Longer-term prospects are still more worrying. Austria received a substantial boost from its proximity to faster-growing eastern European nations after the fall of the Berlin Wall in 1989 and the subsequent expansion of the European Union. But it cannot expect more of the same in the future.

“We thought it was our performance but it was a growth illusion,” says Franz Schellhorn, director of the Agenda Austria think-tank. “We have had under-investment and shrinking productivity growth – the dynamism is not there.”

Among concerns are tax rates, especially on labour. According to the Paris-based Organisation for Economic Co-operation and Development (OECD), Austria’s so-called “tax wedge” – taxes on labour income paid by employers and employers as a share of labour costs – is the second highest among industrialised countries.

## A mixed picture for business

## Global competitiveness

Top 20 countries (score)



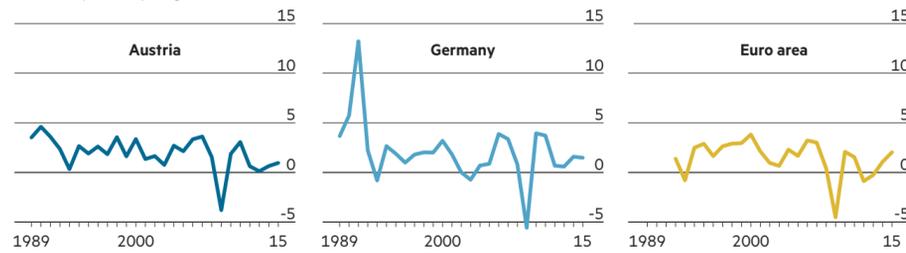
## The 10 most liveable cities

Overall rating (100=ideal)



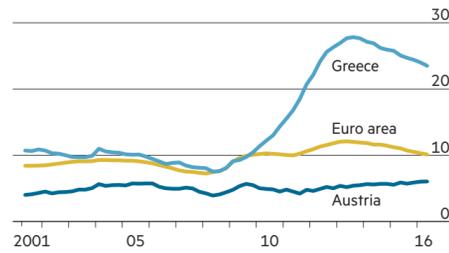
## Economic growth

Real GDP year-on-year growth (%)



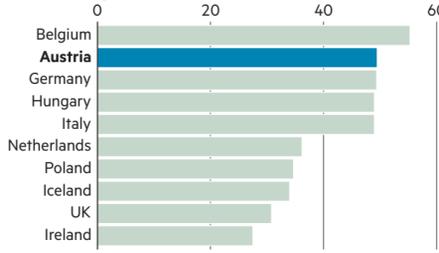
## Unemployment rate

Per cent



## Taxing wages

Total tax wedge\* as a % of labour costs



FT graphic. Sources: World Economic Forum; Economist Intelligence Unit Liveability Ranking 2016, Bloomberg, IMF; OECD \* Paid by employers and employees on labour

High taxes and government spending have long formed part of Austria’s economic approach. They have arguably been essential, for instance, in maintaining its very good transport infrastructure.

“You always have to work on your economic model,” concedes Jan Krainer, a Social Democrat parliamentarian. “We have a lot to do on our education system and making the public part of society more efficient and work better,” he adds. “But I don’t think we have to say ‘we’re no good at this, let’s downsize the public side.’”

In sharp contrast to Germany, however, Austria has long run public sector deficits, raising fears about whether expenditure levels will be sustainable without yet higher taxes. The risks are all the greater given Austria’s escalating pension and health liabilities. In a study this month by Allianz, the German financial group, the Austrian pension system was ranked 28th out of 54 countries in terms of long-term sustainability – above France and Belgium but below Germany and the UK.

This year’s growth rate has been flattered by the impact of the migration crisis

## Rail system ‘is like a heart that pumps heat around Europe’

## Infrastructure

Operator ÖBB’s grand claim reflects network’s central role, influence but high cost, writes *Andrew Byrne*

Austria’s state-owned rail operator ÖBB can seem omnipresent. Its fingerprints appear to be everywhere, from valuable real estate developments at historic Vienna train stations to the halls of the federal government, where ÖBB’s former chief executive Christian Kern has been chancellor since May.

That a state railway company is so prominent underlines the importance of transport infrastructure for Austrian business. The World Economic Forum ranked Austria 14th in the world for infrastructure in its 2016 competitiveness index. That places it just behind neighbouring Germany (eighth) and Switzerland (sixth) – but Austria would rank even higher if the analysis were limited to road and rail, says Michael Peneder, a researcher at the Austrian Institute of Economic Research, which compiled the local data for the study.

This state of the art transport infrastructure and Austria’s economic well-being are inextricably linked, says Andreas Matthä, ÖBB chief executive.

“You need a modern, good infrastructure – in rail, roads and broadband – to support business,” he says. “Austria lies along four out of Europe’s nine major goods transport corridors, so we’re in a remarkably good economic and geographical position. You can think of it like a heart that pumps heat around the European system.”

Austria’s public investment of €258 per capita in railways in 2012 was second only in Europe to Switzerland’s, at €349. The UK spent €110 per head.

Analysts say the price is worth it for the country’s outsized tourism and logistics sectors. Herbert Kasser, secretary-general at the Ministry for Transport, Innovation and Technology, says the benefits are even broader, citing greater labour mobility, access to com-

‘Businesses seek locations that are well connected and easily accessible’

modities, tourism and opening up new markets for Austrian firms.

“This all results in long-term productivity gains and economic growth,” he says, citing a study suggesting that for every €68,000 spent on railway capital stock, an extra job is created.

Mr Peneder adds: “Business generally seeks locations that are well connected, easily accessible and attractive for people to work in.”

VCÖ, a transport lobby group, points to improvements in rail frequency, connections and upgrades to rolling stock and stations over the past 10 years. “Austrians speak with ‘modest pride’ about the progress of the rail industry,” says Ulla Rasmussen, VCÖ’s international transport policy co-ordinator.

The development of medium-term, six-year public investment programmes



On track: the system is well regarded

has been important to rail improvements, which involve risk analysis methods to prevent cost and time overruns.

This level of expertise has allowed Austrian engineers and planners to expand their horizons to international transport mega-projects such as the multibillion-euro Brenner Base Tunnel. Scheduled for completion in 2026, the world’s longest underground railway connection will burrow 55km through the eastern Alps to connect Innsbruck in Austria with Fortezza in Italy.

“There is a long-term strategy behind all of this,” says Konrad Bergmeister, chief executive of BBT SE, the Austrian-Italian company behind the Brenner tunnel. “Austria is a country where tourism is a governing factor. To go from Italy to Germany or from east Europe to west, you need to cross the country. This might explain why transport technology and investment is so well developed here.”

Companies such as ÖBB are also innovating in response to changing customer demand. ÖBB has announced it will experiment with reviving some of Europe’s night-train services, which have been slowly disappearing.

Mr Matthä says ÖBB will also launch a pilot scheme offering customers access to a fleet of cars to drive from train stations to their destination, initially partnering with Flinkster, a car-sharing company.

Little of this would be possible without large-scale public investment. ÖBB staff members speak with pride about their rail services that are publicly owned and operated, in contrast with the UK’s semi-privatised rail system.

“The railways and roads are an important backbone for our economy. So it is right to have state influence,” says Mr Matthä. “What we also notice is that integrating the railway company into the country’s infrastructure produces clearly better performance.”

VCÖ, the lobby group, argues Austria should aim to match Switzerland’s per capita train usage by 2025. It says the average Swiss resident travels 2,429km by train per year – the highest in Europe – compared with 1,426km for Austrians, who rank second.

Rail enthusiasts believe investment in trains is good for the planet and will help cut carbon emissions. Austria, with its large logistics sector, has not met reduction targets under the EU’s 2020 programme.

“Investment in a more environmentally friendly transport system is inevitable if we want to reach our common climate goals,” Mr Kasser says.

## Doing Business in Austria

## Is Brand Austria a marketing asset or liability?

**Branding Companies find a strong national image can be both a 'model and a corset', writes Andrew Byrne**

Its loyal customers, Almdudler is an Alpine Austrian dream in a bottle. The 59-year-old soft drink's name was inspired by an old expression about yodelling in mountain pastures. In the company boardroom, which resembles a wood-panelled mountain lodge, Gerhard Schilling, managing director, describes the flavoured soda as a mixture of tradition, humorous cliché and leisure – "all of the Austrian traits in one drink".

As if to underline this, carts full of lederhosen are pushed through the lobby of the giant bottle-shaped office in Vienna's leafy Grinzing neighbourhood in preparation for the company's Trachtenpaerchen Ball – a lively annual festival of dirndl-filled merriment.

Owned by the family of founder Erwin Klein, Almdudler has an unusual

branding strategy. Unlike large Austrian consumer brands, the drinks company has embraced nostalgic national stereotypes.

This runs counter to the approach of large brands such as Red Bull, the energy drinks company which reported revenue of €5.9bn in 2015. Few even know that Red Bull is Austrian-owned.

The contrast highlights a conundrum faced by companies considering how to capitalise on "Brand Austria" abroad. While many consumers have a generally positive impression of the country, it is often limited to a narrow set of clichés summed up by one foreign ministry official as "Mozart and *The Sound of Music*".

Companies such as Red Bull, Swarovski crystals and Novomatic, the gambling group, have instead largely eschewed their Austrian heritage in an effort to make their products relatable to international consumers. That raises the question of whether "Brand Austria" is a marketing asset or a liability. "It can be both a model and a corset," admits Mr Schilling.

Gerhard Hrebicek, chief executive of Eurobrand, a consultancy that publishes a Europe-wide brand valuation study, says Austrian business and government are attuned to the dilemma.



Trappings: co-owner Thomas Klein (centre) and Gerhard Schilling (second right) at the company ball

"Many have argued we need to reconceptualise the country's brand, looking towards technology, innovation, start-ups," he says. "But we're still tied into this tourism perspective. Tourism accounts for so much of Austria's economy, so we live off these clichés."

The tourism market was worth €51.2bn or 15 per cent of the country's GDP in 2015, according to the World Travel and Tourism Council. Much of this was earned by selling Austria as a ski

destination and as home to Vienna's opera houses and palaces. The capital has also copied Bavaria's tourist use of beer festivals as a magnet for tourists.

Austrians promoting the country abroad argue that Mozart and the Von Trapps have given the country a valuable set of universally recognisable images which can be adapted for many tourist and consumer audiences.

Almdudler has deftly exploited this vision of Austrian pastoral leisure but with a cheeky twist – the bottles feature a grinning, amorous couple in traditional clothing. Over the years the couple have grown slimmer, the lederhosen and dirndls more revealing. A new low-calorie "Flitzer" version features the couple wearing little more than neckerchiefs. "Up in the mountains, there is no sin," smiles Mr Schilling.

Sexing up traditional Austrian imagery has helped Almdudler connect with a younger audience and Mr Schilling says product launches have been successful in Germany, Switzerland, Hungary and the Benelux countries.

The strategy has limits and not every brand can easily marry tradition and modernity. "When they tried to launch Almdudler in the US 15 years ago, no one there could even spell it," says

Mr Hrebicek. "Red Bull broke out of this mould from the start with an English name and an unusual can. If you want to be an international product, you need an international brand."

Many of Austria's largest companies seem to agree. Alongside Red Bull and Swarovski, Raiffeisen and Erste banks have become industry leaders in central and eastern Europe. Their images are a world away from the leather breeches of the Trachtenpaerchen Ball.

Austrian brand experts are keenly aware of the need to update these symbols of tradition for a modern audience. In the words of an Austrian foreign ministry memo: "We need to use old stereotypes to open new perspectives."

Businesses have urged the government to set up a brand office within the federal ministry of transport, innovation and technology – following a lead taken by Switzerland in "national trademarking" – and updating its image as a modern investment destination.

Experts warn that takes time. "Nation branding is not just a campaign," says Mr Hrebicek. "It means co-ordinating among government, regions, industry associations, tourism authorities and then implementing a strategy. That will require serious commitment."

## Political upsets and low dynamism drive doubts

Continued from page 1

election re-run because of problems with glue used in postal ballot papers.

Few are willing to predict the outcome of the contest, now set for December 4. Although the presidency is largely ceremonial, victory for Mr Hofer could harm Austria's image. The Freedom party was founded in the 1950s by ex-Nazis and is strident in demanding curbs on immigration. Its role in a government coalition in 2000 led to Austria being ostracised by its EU partners.

European allies are unlikely to take such steps this time but a win for Mr Hofer could again throw into doubt Austria's position on the planned EU trade deals with Canada and the US. "He will not sign if the population is not consulted – he will insist on a referendum as a precondition for his signature," says Andreas Karlsböck, Freedom party MP.

Austria faces no immediate crisis. The economy will grow by about 1.7 per cent this year, respectable for an advanced European economy, according to Wifo,

Social Democratic chancellor Christian Kern's coalition with the People's party has been troubled



the Austrian Institute of Economic Research. In the past year it has removed the threat to the stability of its bank system stemming from the collapse of Hypo Alpe Adria bank. A deal has been struck with bondholders who lost out when it failed after the global financial crisis.

Austrians, moreover, remain strongly committed to European economic integration – support for EU membership has risen since the UK Brexit vote. In the immediate aftermath, the Freedom

party's Mr Hofer hinted that he might back "Öxit" (Austrian exit) if the EU did not reform, but it soon became clear that this would cost votes.

"You saw how dangerous it was to play with the idea of leaving the EU," says Lothar Höbelt, a history professor at Vienna university. "Probably it was a bad idea to mention it at all."

Foreign minister Sebastian Kurz insists that Austria's geography and economic strengths mean it remains a good place to do business (see interview, page 2). "We're an exporting country. Six out of every €10 is earned from exports. Our companies are active worldwide – I don't detect any globalisation angst among them," he says.

There is scant sign of the coalition running more smoothly since Mr Kern's arrival. The Social Democrats and People's party are wary of handing successes to each other, so initiatives soon run into resistance. "I am very pessimistic about anything happening in the next few weeks or months. I think we're heading for new elections earlier than we think, maybe at the start of next year," says a coalition MP, who declined to be named.

"This whole coalition is a misconception – they have never agreed a programme," adds Thomas Hofer (no relation), a political analyst.

One beneficiary might be Mr Kurz, the 30-year-old foreign minister, who is tipped as a People's party candidate for the chancellorship. But the People's party lags behind the Social Democrats and the Freedom party in opinion polls.

Without an effective fightback by Mr Kern, the chances rise that not only will the Freedom party win the most votes, but that its leader, Heinz-Christian Strache, could become the next Austrian chancellor, delivering a large jolt to the world's view of Austria.



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## Doing Business in Austria



# Why 'hidden champions' need support

### OPINION

Christoph Neumayer

Austria has written a remarkable success story in recent decades, particularly since 1989 and the fall of communism to the east. This achievement can be attributed largely to the internationalisation of the economy, based on strong, mainly medium-sized enterprises and industries, a highly developed tourism sector and innovative small enterprises. But the continuation of this narrative is far from guaranteed.

Manufacturing industry and associated sectors are central to creating wealth in the Austrian economy, especially in economically and geopolitically challenging times. Some 2.5m jobs – two out of three – are directly or indirectly linked to manufacturing and related sectors, which account for 56 per cent of added value. Austria is one of the few remaining European countries with a strong industrial base.

Austria exported the equivalent of 53 per cent of GDP in 2015, underlining that the nation's prospects are inseparable from the success of its exporting companies. These tend to be research-intensive businesses. In the past year, research and development expenditure rose by nearly 2.9 per cent to €10.4bn and is now equivalent to almost 3 per cent of GDP.

The corporate sector accounts for some 64 per cent of R&D spending. Austria recently increased to 12 per cent the amount of this expenditure that research-intensive companies can recover annually from the state. This enables additional research worth €80m. Reforms will also ease the tax burden on employing research personnel from 2016.

The number of global market leaders, or "hidden champions", in various sectors of this small economy is remarkable. These often low-profile companies' strength is not their size but the fact that they fill a niche and are competitive because of their creativity, innovation and adaptability. They range from Rosenbauer, one of the world's three largest manufacturers of fire vehicles, to Engel group, a world market leader in plastics processing.

Depending on the precise definition, Austria is home to about 160 "hidden champions", specialised businesses employing some 450,000 people (see profile, below). Three out of four are industrial manufacturing companies. Within their niches, they are among the top three companies globally, or number one in Europe. They are also internationally focused, with export rates of more than 90 per cent. The fact that the frontrunners are connected to about 800 small and medium-sized enterprises on average confirms their significance for the Austrian economy.

Given increasing global competition, the success story can continue only if companies can rely on a competitive framework. In recent years, politicians have failed to improve the context for doing business in a sustainable manner. The consequences are apparent in the figures. In a few years Austria has gone from being the country with the lowest unemployment rate to ranking ninth of the 28 EU members. Economic growth is projected to be 1.5 per cent this year, average for the eurozone, while investment is below average.

Austria's politicians must urgently strengthen the business environment with appropriate measures. These may entail cuts in the short term, but they are vital to rebuild confidence and create an investment-friendly climate. This agenda must include greater flexibility on working hours (within a maximum 40-hour week), further easing of the high tax burden on labour and a decrease in bureaucracy.

Oversized federal structures and an insufficiently innovative social partnership system between business and other economic interests such as trade unions, which used to be an asset, have become an obstacle. Budgetary reform of the pension and social system also remains to be addressed. There is not much time left. Austria is at a crossroads and must act quickly. Only through decisive action will industry be able to maintain its function as a driver of growth, jobs and prosperity in Austria.

Christoph Neumayer is secretary-general of the Federation of Austrian Industries

# Values collide at the crossroads between Europe's east and west

## Geopolitics

The refugee crisis caused tensions at home, with neighbours and for country's sense of place in the world, writes *Andrew Byrne*

About the time European leaders met to discuss the future of the western Balkans at Vienna's Hofburg Palace on August 27 last year, police found an abandoned truck on a motorway less than 50km away. Inside were 71 dead migrants.

Although few people realised the significance immediately, the discovery made clear that Europe's deadly refugee crisis would not be confined to faraway Mediterranean beaches.

The tragedies of that summer sparked a humanitarian outpouring in Austria that has over time given way to a more hard-nosed, security-based approach to the crisis. Austria's historical commitment to regional openness has been tempered by public alarm and a realisation that the country's location at Europe's crossroads between east and west leaves it open to risks as well as benefits.

"I think you have got to take a look at the reality," interior minister Wolfgang Sobotka told reporters this month, as he called for an extension of internal EU

Divide: asylum seekers at Austria's border with Slovenia last summer  
AFP/Getty Images

'We have a long tradition of welcoming people humanely and we lost this way of thinking in the last few months'

border checks. "In Greece there are 50,000 refugees . . . and there are many in the Balkan countries."

Austria's eastern and Balkan hinterland has long been a source of human capital and investment opportunities. The refugee crisis, however, has forced the governing coalition to reassess its border policies because of fears that the country is overexposed to flows of people and terrorism risks.

Authorities have started laying foundations for a possible border fence with fellow EU member Hungary – something unimaginable last year. More significantly, foreign minister Sebastian Kurz this year orchestrated a border clampdown along the western Balkan route, making it the priority in his dealings with Balkan neighbours.

"Closing the western Balkan route was key for Austria and Germany in stabilising things before the migration deal with Turkey, but it comes with a cost," says Vedran Dzihic, a regional analyst at the university of Vienna. He fears the policy has set back efforts to extend EU membership to Balkan countries.

Mr Dzihic says the policy has upset Greece, which found its northern frontier sealed and has long had a cooler approach to EU enlargement. Some people fear the policy of expanding the EU is on ice indefinitely thanks to strains over crises including migration. That would be a blow to Austria's economic interests and places a question mark over its role as a champion of EU enlargement.

The regional links are political but

also historical, economic and human. Mr Dzihic estimates that up to 500,000 Austrian residents – about 6 per cent of the population – are from families who migrated from the Balkans. Austria is the biggest foreign investor in Croatia and one of the most significant in Serbia, making regional stability an important factor for Austrian interests.

"Austria and the Balkan region are like conjoined twins – the region needs remittances from their family members in Austria, and Austria needs the human capital," says Mr Dzihic, himself a Bosnian immigrant.

The refugee question has changed priorities. Austria has used its diplomatic clout to tighten Balkan borders and declared a fixed annual limit of 37,500 asylum seekers who can enter the country.

Although most asylum seekers in 2015 were Syrian, Iraqi or Afghan, Austria has also deported thousands back to Kosovo, the small Balkan republic which is untroubled by war and one day hopes to join the EU. Some people feared last year's border clampdown would lead to a humanitarian emergency in Balkan countries poorly equipped to handle refugees. That has been largely avoided thanks to an EU-Turkey deal to stem refugee arrivals.

Austria's refugee limit will probably be breached in the autumn, increasing pressure on the governing grand coalition ahead of the presidential election, to be held on December 4. A spokesman for Austria's interior minis-

try says 28,300 had been registered by the end of September.

Once the cap is reached, Vienna may declare a state of emergency and deny access to asylum seekers at its border with Hungary. This is despite a lack of progress in talks with Budapest on refugee returns and is in possible contravention of international human rights laws.

Besides upsetting Hungary and potentially creating a new migration bottleneck, shutting out refugees would be a turnaround from last year's *Willkommenkultur*, or welcome to foreigners, associated with the country's new chancellor, Christian Kern.

"We have a long tradition of welcoming people humanely and we lost this way of thinking in the last few months," says Klaus Schwertner, chief executive of Caritas Vienna, the largest charity helping refugees in Austria. "But we should remember how successful we were at this after the second world war."

Regardless, Austria will still need to integrate the 90,000 asylum seekers who arrived in 2015. This represents "a huge challenge, which needs many millions of euros more in resources", says Mr Schwertner.

Austria's previous immigration surges, including refugees fleeing conflict in the Balkans, have helped provide necessary workers. How it manages the current influx at its borders will have consequences, not only for Austria's political and economic fortunes, but also for regional stability.

# Niche manufacturer shines light on 'special economic charisma'

## Profile

A well-educated, versatile workforce outweighs many other problems, veteran employer tells *Eric Frey*

When Norbert Zimmermann acquired the majority of Berndorf in a management buyout in 1988, the hitherto state-owned metals-processing company was suffering huge losses and surviving on public subsidies.

Today, Berndorf is a world market leader in conveyor and processing belts used in manufacturing and a leading producer of machinery and engine components, heat treatment systems, wires and stainless steel swimming pools. In the manner of a successful German *Mittelstand* company, Berndorf has carved out several industrial niches using advanced technology and with a focus on quality.

Most of the company's €600m in sales is generated outside the country and only a third of its 2,500 employees are

based in Austria. Its leading production sites, however, are in the town of Berndorf, 40km south of Vienna, and elsewhere in the country.

In Austria, blue-collar workers are well-educated and versatile, says Mr Zimmermann, who was Berndorf's chief executive for 20 years and is president of the supervisory board. This strength makes up for steep labour costs, high taxes and often burdensome regulations, he adds. When it comes to the company producing abroad, for instance in the US and China, it is because markets are there, Mr Zimmermann says, and not because Berndorf is avoiding high output costs at home.

Mr Zimmermann cites an emblematic product, a band for the production of flat screens that is 3m wide and 100m long. "It weighs several tons and is mirror-polished, without a visible welding seam. This is truly high-tech," he says.

To achieve such precision, he adds, requires a workforce that can combine engineering, organisation and business skills. "This type of worker makes up Austria's special economic charisma."

Berndorf was founded in the mid-19th century by the German Krupp family to

produce speciality metals. The brand is still best-known for its elegant silverware, a line that was sold to French competitor Guy Degrenne and was reacquired in a management buyout in 2007.

The typical Berndorf employee has no university degree but is the product of Austria's apprentice system that combines school with work experience for teenagers, many of whom carry on to acquire engineering degrees.

Just as Austria's system of social partnership between unions and business associations assures a near-absence of strikes, Mr Zimmermann says the relationship between management and workers in Berndorf is reinforced by a profit-sharing scheme for employees and a culture of open dialogue.

There are thousands of small and medium-sized companies in Austria that follow a similar business philosophy – "hidden champions" in the world

'Austrians are little rascals,' says Norbert Zimmermann, Berndorf's president



market for specialised industrial goods (see column, above).

"Austrian companies succeed by taking blockbuster technologies that were developed elsewhere and combining them to create high-tech products," says Christian Helmenstein, chief economist at the Federation of Austrian Industries.

"This requires technological competence and problem-solving abilities, something that Austrians are good at."

Mr Zimmermann has a controlling stake in oilfield equipment maker Schöeller-Bleckmann, which is quoted on the Vienna stock exchange. While Berndorf has had unspectacular but steady profits, SBO has seen bumper years when oil prices were high but suffered falling sales and a net loss of €19m last year after a net profit of €54m in 2014.

It avoided lay-offs by switching to short-time working. Employees topped up income from their reduced hours with pay held back from overtime worked previously, precisely to prepare for difficult times. This flexible approach to working hours went to the limits of Austrian labour laws, he admits.

"This is typical for Austria," he says.



In the loop: belt making at a Berndorf factory in Austria — Chris Zenz

"The perceived level of regulation is terrible but at the end of the day, management makes a deal with the workers' council so both sides are satisfied. In Germany, the rules are just as strict, but the trade unions are stronger. In Switzerland, there are far fewer rules and they are obeyed. Austrians are little rascals."

Mr Zimmermann is worried about Austria's economic future. "We are living on the dividends of the 1960s, when Austria became such a strong business location," he says.

The businessman cites a political deadlock in the governing coalition of Social Democrats and the centre-right People's party, which he says has failed to undertake reforms to pensions, expensive provincial administrations and labour laws.

Instead, regulations have become more cumbersome and tend to scare investors away, he says, and governing parties resort to populism of their own to fend off the challenge of the right-wing Freedom party.

Berndorf has no further plans to move production out of Austria, but Mr Zimmermann says, "if I inherited a fortune today and had to make a choice where to invest, I would not go to Austria". His choice would be Switzerland, "where labour costs are even higher but the political system is far more predictable".

Only a determined reform programme based on the best practices from other countries would keep Austria as a top industrial location, he says.