

# CZECH BUSINESS *today*

volume 3

Association Maison Tchèque

**CEBRE**

CZECH BUSINESS REPRESENTATION

2/2004



- Czech Companies and Accession
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Cyril  
Svoboda



***"WE WILL ACTIVELY SEEK TO STRENGTHEN EUROPEAN COOPERATION, BUT WITHOUT CREATING EXCLUSIVE ALLIANCES", SAYS THE MINISTER OF FOREIGN AFFAIRS, CYRIL SVOBODA***

**On 1 May 2004 the Czech Republic became a full member of the European Union. Do you regard the conditions which the CR managed to negotiate as a sound basis for our membership of the EU?**

The strategy of the CR during negotiations on accession was based on an analysis of the national interest and a thorough defence of this interest. For this reason the CR requested several transition periods as well as an exemption from the *acquis*, which would have had serious economic and social impacts, and concentrated its endeavours on achieving these concessions.

Overall the CR negotiated approximately twenty transition periods. The EU also agreed on a transition period to apply to the CR in the section "Free Movement of People" as it relates to the workforce, and in the section "Transport" as it relates to cabotage. However, in both cases

the CR had the opportunity to hold bilateral talks with individual member countries on the full application of the *acquis* immediately upon entering the EU. This means that the transition periods in question in no way compromise the quality of full membership of the CR in the EU, which will be assured, amongst other things, by the equal representation of the CR on EU bodies such as the Commission, the Council of Ministers, or the European Parliament. In comparison with the conditions of the accession of Spain and Portugal, for instance, the conditions of the CR are very favourable.

**Could you briefly introduce us to the main features of the direction the CR will follow within the EU which are being discussed at present and which will form the basis of Czech policy within the framework of the EU for years to come?**

During negotiations regarding the draft conception at the beginning of April this year the prime minister and the president reached agreement on a change to the title of this material to "The strategy of the government of the Czech Republic within the framework of the EU". The material identifies five main priority spheres on which the government of the CR will concentrate. These are: sustainable development, cohesion, the freedom and security of citizens, external security, and cooperation and diversity. Other material will ensue from this document which will be concerned with the internal priorities of the CR within the EU and which should be based on a consensus reached across the entire political spectrum of the CR.

Following a government recommendation and in order to provoke the widest discussion of this document, the material was subject to

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## Czech Companies and Accession – the View from Czech SME

The company Lagris was founded in 1991 as a family business. Seven years later it became a joint-stock company. In 2002 Lagris became a member of the Podravka group. A quality control management system has been introduced at the company in accordance with the ISO 9001 norm.

Lagris a.s. is one of the most important companies in the Czech food-processing industry. It offers a range of over 250 items and is involved in the production, processing, packaging, distribution and export of products and commodities. The company distributes the widest range of rice, including basmati, jasmine, and Indian rice, pulses, health foods, dry fruits, spices, salt, potato-based products, sauce bases, soups, and juices.

**Let's begin with the question which everyone is asked, be they politicians, civil servants or businessman, in connection with the entry of the CR into the EU. What benefits are you hoping for entry into the Union? What concrete advantages will it have for you?**

The main benefit for us will be simplification of trade with EU member countries. Customs formalities and phytosanitary checks of imports and exports, for instance with Poland, Hungary and other member states, will be a thing of the past. We are hoping that this will speed up the cross-border transportation of goods.

**And what negative impact will trade within the single market of the EU bring? Is it simply a question of greater competition, as frequently asserted?**

Lagris is a food-processing company and trades in agricultural products not only on the Czech market and those of EU member states, but also with third-country markets. This means that we shall become part of a highly regulated common agricultural and trade policy. This in turn will require a knowledge of European legislation as it affects imports of agricultural products from third countries and familiarity with the conditions of the joint organisation of the market for rice and cereals. The practical consequences of this are licences and high duties on the import of rice, since the interest of the EU is in protecting European rice producers. Another negative impact is the loss of export subventions by which the European Union subsidises its exports to non-member countries. With the change in market conditions we also have to reckon on our distributors in European countries changing. For this reason a knowledge of the preferential system and customs quotas is essential.

In order to remain competitive on the internal market we have had to invest in new technology which looks to have a great potential especially as regards trade with rice.

However, all of these negative impacts will mean opportunities for those companies which are lean and know how to avail themselves of the possibilities which the common market offers them.

**When did you begin preparations for entry into the EU? And what was the most serious problem you encountered?**

We started getting ready about a year ago and intensified preparations as the date approached.

Every company has its problems depending on what sphere it is operating in. We studied in detail how the joint organisation of the market for rice operates, and under what conditions we could import and export. One problem area is calculating the price of rice, since as yet we do not know what part customs quotas will play and how reforms of the common agricultural policy will manifest themselves in prices.

**When you look back, how would you prepare differently now? What would you say to companies from candidate countries such as Bulgaria, Rumania and Croatia, what should they concentrate on in the lead up to entry into the EU?**

They should definitely monitor current legislation and activities in their own sector, and not underestimate the importance of monitoring the market. It is important to have a view of what trends are dominating, how the market is developing, and where companies might find potential for growth. Entry into the EU means countries rid themselves of the barriers that a border represents, and this makes it easier for foreign companies to penetrate the market of the acceding country.

**Thank you very much for the interview**

Adéla Vychodilová  
Centre for European Integration, ECCR

## Czech Companies and Accession - the View from Brussels

Looking back to the time shortly before and after the accession of the ten new countries to the European Union from the perspective of CEBRE, the representative office of the Czech business community in Brussels, one has to say that it was an extremely busy period. On the one hand we were involved in a number of events which were organised in Brussels marking the enlargement of the Union (celebrations, seminars ...) and on the other hand we were overloaded by requests from Czech companies concerning what changes would take place when we entered the EU. We travelled more often to Prague to give presentations on various topics during EU-related seminars or even to the management of individual companies. Not to mention contact with the journalists writing about EU affairs.

### Prepared for the EU or not?

I think that one of the typical Czech characteristics, the wait-and-see approach, was true of many companies. Since they had to deal with their normal day-to-day business, they did not pay that much attention to preparations for the EU until the last moment. And if they did, preparations were usually not integrated across all the appropriate functions and activities within the company. On the whole you could say that large companies were better prepared than smaller ones. This is the conclusion of various surveys carried out on the state of readiness of companies, as well as being my personal experience. But of course it is hard to generalise. There are exceptions everywhere and you can find very well

prepared small companies and very poorly prepared large corporations. Sometimes we were really surprised when well-known companies requested advice regarding the most basic aspects of the EU.

At the end of the day it always depends on the company management to provide a sense of the direction in which the company is heading and to formulate its priorities. And here, too, it is about having the right people at the right places taking decisions at the right time.

### Main Areas of Interest

The main interest of companies from the beginning of the year was in the Common Trade Policy and changes to taxation and customs formalities in respect of international and intra-community trade. This is, in fact, one of a few areas where the change from 30th April to 1st May was very sudden. The reasons for this are obvious. Firstly, the Czech economy is very open and many companies, including SMEs, are involved in exports and imports. Secondly, foreign trade is now covered by regulations which had not been incorporated into Czech law and therefore became valid in the country only as of 1st May. This means that most of the old knowledge, expertise and habits became outdated and useless. People simply have to now get used to new tools and procedures. Those ones planning well in advance and looking for appropriate information did not experience any difficulties.

Another burning issue closely connected to foreign trade was raised by companies active in food

production. This did not relate to hygienic requirements (it would be too late anyway) but to the additional procedures and paperwork such companies have to deal with now when importing from third countries - the issuing of licences, import quotas, import procedures ... For a lot of these companies this is a question of life or death, since if a company does not receive an import licence then it is out of business. On the other hand, many companies exporting their products outside the EU availed themselves of the opportunity of EU export subsidies and were keen to find out how the entire system works.

### Late Implementation

The problem companies had to overcome when they were looking for information was that most of the systems and regulations were put in place at the last moment, e.g. in case of VAT legislation, and right up until their official approval there was still some degree of uncertainty. Companies therefore did not have sufficient time to orientate themselves and make all necessary changes to their internal processes.

Every change takes time to digest, and this is especially so in the case of entry into the European union. I believe that Czech companies will do their best to succeed. One should not forget that improvisation is one of the strong points of the Czech people.

Ondřej Hradil, CEBRE Brussels

## EESC – CR

## We are Looking forward to the EU

On the day the CR entered the EU representatives of social partners from the CR gained the right to represent their organisations and civil society as a whole at this important advisory institution. Preparing for work in the EESC (Economic and Social Committee) was the task of the Joint Consultative Committee CR-EU created by representatives of the EESC and representatives of employers, employees and other interest groups from the CR, which has been in existence since 2002. Thanks to this consultative committee the representatives of Czech civil society had the opportunity to become acquainted with the issues debated EESC and give their opinion on various aspects of the preparations of the CR for entry into the EU.

At the end of last year representatives of organisations sitting on the joint consultative committee nominated their candidates for the 12 positions of advisors which the Czech Republic has been allocated in the EESC. These advisors will be organised into the following individual groups:

#### 1st group - Employers:

**Josef Zbořil and Vladimíra Drbalová** for the Confederation of Industry of the CR, **Marie Zvolská** for the Confederation of Employers' and Entrepreneurs' Federations, and **Ivan Voleš** for the Economic Chamber of the CR

#### 2nd group - Employees' representatives

**Helena Čornejová, Dana Štechová** and **Vladimír Matoušek** for the Bohemian Moravian Confederation of Trades Unions, and **Ondřej Šmehlík** for the Association of Independent Unions

#### 3rd group - Other interest groups

**Ludvík Jírovec** for the Agrarian Chamber of the Czech Republic, **David Šmejkal** for the Coalition of Civil Consumer Activities of the CR, **David Stulík** for the Foundation for the Development of Civil Society, and **Ivana Plechatá** for the Confederation of Non-Governmental Organisations Operating in Healthcare and Social Work.

In this issue of the quarterly *Czech Business Today* we would like to introduce you to representatives of the employers.



the Confederation of Industry of the CR in January 1991 and has built up a sizeable network of

**Ms. Vladimíra Drbalová** is a graduate of the Foreign Trade Faculty of the Economic University in Prague. She has worked in business for many years for companies specialising in imports and exports of textiles and clothing. She began her career with

contacts and activities abroad. From 1996 she coordinated the activities of the confederation in international organisations (UNICE, IOE, BIAC) and since 1998 she has been preparing the confederation for the country's entry into the EU.

She regards her nomination as employer to the EESC as a great challenge and an incentive to consolidate her work within the confederation. Building a new Europe is linked to renewing the faith of citizens in the EU and fulfilling the principles of participatory democracy. Through her work for the EESC she wants to make an active contribution to this effort.



Since 1<sup>st</sup> February 1994 **Ms. Marie Zvolská** has been an employee of the Federation of Bohemian and Moravian Manufacturing Co-operatives. She works as a consultant providing members of the federation with advice on legal, tax and accountancy issues. She specialises in labour law, employment, collective bargaining, equal opportunities and the free movement of persons. Amongst other things she is a member of the Tripartite work team for relations under labour law, collective bargaining and employment, the work team for cooperation with the ILO, the sub-team of the departmental coordination group of the Ministry of Labour and Social Affairs for the free movement of persons, and the advisory committee of the DG Employment for the free movement of labour. In light of her specialist interests she would like to focus her activities in EESC on employment, social affairs, and citizenship.



**Mr. Ivan Voleš** in his position as director of the Economic Chamber Foreign Department, which includes the Centre for European Integration, participated in activities aimed at preparing the business sphere for the entry of the CR into the EU. This involved training, the provision of information, publication, and organisational activities. The Centre for European Integration has been significantly involved in the implementation of the largest project of the Economic Chamber of the CR over recent years, namely the creation of a network of Information Points for Entrepreneurs by means of which Czech entrepreneurs can learn everything they need to know in order to prepare for the changes which entry into the EU will bring.

Ivan Voleš would like to work at the EESC in the working group for external relations, where he could draw on the many years of experience he has acquired abroad. He would also be able to apply his know-how from the business sector acquired during his work in managerial positions in several companies in the working group for the single market, production and consumption.

Since the EESC is a platform for the representation of interests, information and the expression of the opinions of civil society, I. Voleš would like to work for the interests of the Czech business sphere. He would draw on the extensive background of the network of the Economic Chamber, from which organisations he expects opinions and suggestions regarding materials submitted for consultation to the advisors of the EESC. He believes that, given the way that the CR and its representatives in Brussels will be acquiring experience from work on bodies of the EU, it will be possible to gradually pursue his own initiatives and proposals for the improvement of European legislation and thus fulfil the main aim of his membership of the EESC. He will attempt to ensure the most effective transfer of information from European sources to Czech businessman in order that they be as prepared as possible for the changes to come.



**Mr. Josef Zbořil** has worked for almost all of his professional life in the paper industry in many technical posts, from technician to top management. As managing director of the paper-making company Jihočeské papírny based in Větřní from 1990

1997 he guided the company through the process of transformation and privatisation and pursued a comprehensive programme aimed at making the company more environment-friendly and improving the environmental policy of the paper industry as a whole. He is a member of the Association of Chemical and Mining Production.

On leaving Jihočeské papírny in 1997 he began working as an advisor to the paper and pulp industry on management of the environment, and is also very active in the field of sustainable development. The most urgent problem being faced right now is the impact of the Integrated Pollution Prevention and Control regulation (IPPC) on industry as a whole and specifically on the paper industry, energy, and related areas.

He is active in the Confederation of Industry of CR and a member of the board of the Paper and Wood Pulp Federation (where he was chairman from 1993 to 1997). He is a member of the board of the Confederation of Industry of the CR with responsibility for the environment. He is also a member of the BIAC committee for the environment in Paris and UNICE in Brussels, and a member of the environmental commission of the Confederation of European Paper Industries (CEPI) in Brussels. He played an important part in drafting the environmental policy of the Confederation of Industry of the CR

In the EESC he wishes to involve himself in those issues dear to his heart, namely the environment and its current over-regulation in the EU and the CR, something which threatens the competitiveness of European industry and the fulfilment of the Lisbon strategy. He is also interested in the economic and social issues forming the basic pillars of sustainable development.

## Czech VAT

Czech VAT laws have undergone radical amendments since their introduction in 1993. Eleven years on, and on the very eve of EU accession, Parliament passed bills intended to harmonise Czech VAT law with the EU 6th Directive.

The passage of the amendments to the Czech VAT legislation was not without its drama. The Chamber of Deputies of the Czech Parliament passed the VAT bill on 26 February 2004. The Senate approved the bill on 1 April 2004. However, President Václav Klaus vetoed the bill on 9 April 2004 and returned it to the Chamber of Deputies. The Chamber of Deputies, exercising its constitutional powers, overrode the President's veto on 22 April 2004. This required the airlifting of an injured minister of foreign affairs to Parliament to vote in order to secure the necessary majority in Parliament. The Bill finally made it onto the statute books on 23 April 2004 under Act 235/2004. Never before was tax so exciting.

A summary of the main VAT changes follows. The changes took effect on 1 May 2004, except where stated otherwise:

### VAT Rate

The standard rate of VAT has been reduced to 19% (from the previous rate of 22%). The lower rate of 5% remains unchanged.

A range of goods and services will now be charged at the new VAT rate of 19%. These include:

- restaurant meals (except certain takeaway food which remains at 5%),
- accommodation in hotels and pensions (from 1 January 2005),
- financial leasing of private vehicles,
- language and educational courses,
- the services of hairdressers, dry-cleaners, laundromats,
- dance schools,
- veterinary services,
- household waste collection,
- tickets to sport events.

The standard tax rate also applies also to most services and to transfers of real property (unless the transfers are VAT exempt).

### Intra-Community supplies

The new VAT Act regulates the VAT obligations of

taxpayers in relation to intra-community supplies separately, depending on whether they are for goods or services.

Goods supplied between persons registered for VAT in different EU member states are governed by the basic self-assessment taxation mechanism applicable in the recipient's state. A Czech supplier of goods to a VAT-registered person in another member state does not add any Czech VAT to their invoice. The person receiving the goods includes the relevant amount of VAT applicable in their state, includes it in their tax return as a taxable supply, and claims tax deductions provided that the taxable supply is used by the recipient for their own customary trade. For any VAT payer who is able to fully recover his VAT on purchases (input tax) the whole transaction is tax neutral. Supplies of goods to the Czech Republic by a person registered for VAT in another member state represent the same transaction in reverse.

For the supply of goods to or from the Czech Republic involving an intra-community transaction, new rules are in place regarding the reporting of movements for Intrastate (acquisitions and dispatches) and EC Sales.

As a general rule, the place of tax liability for the provision of services within the EU will be the state in which the registered office, the place of residence or the business premises of the provider are situated. In such a case the tax is levied in the same way as in the case of an inland tax liability. For certain cross-border services, for example financial, insurance, advertising, consulting, electronic and telecommunications services, a special procedure which is known as the "reverse charge" applies. For such services, tax will be due and payable by the person who receives the services much in the same way as the taxation of the supply of goods is concerned.

Certain exceptions apply for services related to real property, transport services etc.

### New Requirements for Tax Documents

The new VAT Act sets out in some detail the new format of tax documents, particularly in relation to intra-community supplies of goods and services. Some data has to be added by the customer (e.g. in the case of the purchase of goods from another

member state or the provision of services by an entity registered for tax in another member state).

### New Format of VAT Numbers

A new VAT-number format has been introduced. It is made up of the "CZ" code and the company number (IČ) in the case of legal entities, and the birth certificate number in the case of natural persons, or the business identification number if appropriate. The first three numbers of the original VAT number (representing the taxpayer's tax office), including the hyphen, has been abolished. Current registration certificates remain valid and taxpayers can apply to the tax authorities for a certificate showing the new tax identification number. This is recommended where the taxpayer trades with taxpayers from other member states or provides/receives services subject to the reverse charge.

### Advance Payments

A taxpayer is obliged to charge output tax and declare the taxable supply in the tax return covering the date of supply or the date of receipt of payment, whichever is the earlier. If the taxpayer receives advance payments, then VAT is payable on the amount received (amount received is deemed to include VAT). A valid tax document must be issued on the request of the taxpayer. To ease the administrative burden, a tax calendar document may be appropriate in such cases.

### New VAT Tax Return

A new VAT return form, which includes new lines that deal with the intra-community delivery of goods and services, is to be introduced.

### Registration

The turnover threshold that triggers compulsory registration has been reduced to CZK 1 million (31,250 Euro) in respect of supplies in the preceding 12 calendar months.

Ian Rowbotham, Senior Consultant  
Haarmann Hemmelrath Prague

## Confederation of Industry of the Czech Republic has a New President



The General Meeting of the Confederation of Industry of the CR, which took place on Thursday 29 April 2004 in Prostějov, elected Jaroslav Míl, MBA, the former managing director and chairman of the board of directors of ČEZ a.s., the largest energy company in the

CR, to be the new president of the confederation. The meeting also elected seven vice-presidents, plus the members of the board and supervisory board. The new 46-year-old president announced his resolve to reinforce the prestige of the confederation

and its influence on a domestic and international level.

(More information is available on [www.spcr.cz](http://www.spcr.cz))

### Jaroslav Míl

- was born 10th August 1958 in Prague.

### Education

- Sheffield Hallam University
- Master of Business Administration, Sheffield Business School (M.B.A.)
- Czech Technical University
- Degree in the Economics and Management of Energy
- Czech Technical University
- Post Graduate Study specialising in Nuclear Power Plants and Spent Fuel Management

### Career

- April 2004
- President of the Confederation of Industry of the Czech Republic
- July 2000 - October 2003
- Chairman of the Board and Chief Executive Officer of ČEZ, a. s. (Czech Power Company)
- March 2000 - July 2003
- Chairman of the Board and Chief Executive Officer of EOP, a. s. (the biggest independent producer of electricity and heat in the Czech Republic, owned by International Power)
- 1994 - 2000
- ČEZ, a. s., Director of the "Procurement and Fuel Cycles" Section
- 1985 - 1994
- ČEZ, a. s., various technical positions

## Public Tender Law

Since 1 January 1995 Act 199/1994 Coll. on public contracts has applied, which has undergone many amendments (12 in all). In many cases its application has not been a simple matter for the organiser, because of the many ambiguities and unclear interpretations of the individual regulations of the Act.

I would like to summarise the valid legislation, especially the individual regulations of the Act with which tender organisers have had difficulties. I would also like to point to the most frequent mistakes which tender organisers make. However, I have to state that these days organisers have apprised themselves of both the procedural means and individual regulations of substantive law and the gaps in the law, and not even the individual forms of issuing a tender cause organisers any great problems.

The re-codification of public contract bidding, i.e. Act 40/2004 Coll. on public contracts, involves another concept of issuing tenders from the point of view of substantive and procedural law, and it is respect of these aspects that I shall offer my thoughts.

### What is the effect of the amendment to the organisation of public tenders?

As I have stated, there have already been twelve amendments to the Act. Gradually the circle of orders to which the Act does not relate has expanded. The decisive limits for stipulating the method of announcing public orders, the necessary credentials for participation, and the phrasing regarding security have been amended, to mention but a few of the changes.

When I think back to 1995 and 1996 I remember the huge problems which we encountered as tender organisers when a series of tenders were suspended because none of the bidders had the necessary credentials. They lacked an officially verified trade certificate or an extract from the commercial register and the tender had to be cancelled and reissued several times in many cases. The wording relating to the trade licence was especially unclear for many bidders, and many understood the term trade authorisation to mean either a certificate or an extract from the Commercial Register, and it was only when disqualified from proceedings they learned it meant both, and in the prescribed form (i.e. an original or officially verified photocopy of the documents). This is a problem which we almost never encounter these days.

Another regulation which gave individual participants problems was the correct application of the specification of the level of monetary obligation (section 67 of the Act), since the formulation spoke ambiguously of a settlement of a same or comparable type.

We were also plagued by the relatively long deadlines for the settlement of appeals, and in the case of many commercial tenders this fact meant the impossibility of realising orders simply because the length of the process, often many months, prevented them from approving the order in the appropriate budget. The situation was improved with the application of section 50, the call to one bidder to submit a bid, which was the only way of realising a certain contract.

### Which were the most frequent mistakes made by tender participants?

I shall name but a few:

- insufficient designation of the subject of the order,
- insufficient application of the level of the limits and poorly selected method of tender organisation,
- poorly selected criteria (credentials, compliance with tender conditions, the suitability of the draft contract, the comprehensiveness of the offer, shoddy evaluation of credentials, the leveraged creation of conditions in the form of a call to a single bidder, a contract differing from the winning bid, a contract with annexes at variance with the regulation that the price proposed by the bidder is the highest permissible).

As a lawyer I understand the Public Contract Act in its wider context, especially the process of contractual negotiation, and I regard the contract which is the final product of the process as fundamental. I believe that in many cases the organiser concentrated on strictly procedural law and left the contract to second place. Many organisers took the bidder's proposal as final.

Contracts continue not to cover sufficiently security, contractual penalties and liability clauses. This means that the organiser is unable to successfully enforce a settlement in many cases.

I believe that correct application, above all of the Commercial Code, not only of the law on obligations but the general regulations of the newly approved legislation, will become accepted practice. For this reason when we analyse the years 1995 - 2004, when the new legislation was passed, I see as very important the preparation of the employees of the individual organisers for the new concept of public tender organisation, which will require a change of approach to this problematic.

I shall attempt to outline which new organisational changes the new legislation will involve for the organiser.

The necessity of being acquainted with relatively complex regulations of commercial law relating to general arrangements, compensation of damage, and a ban on discrimination, breaches of good ethics. I would also not underestimate problems relating to national technical norms, European technical norms and issues of quality. I believe that many organisers do not have sufficient specialists and that individual employees will have to mug up on this area.

From 1 May 2004, Act 40/2004 Coll. on public contracts became valid which involves new concepts of substantive and procedural law. At the same time executive decree no. 239/2004 Coll. was issued which stipulates in detail the contents and scope of the tender documentation of a building, along with decree no. 240/2004 Coll. on information systems and the organisation of public tenders and the method of evaluating bids according to their economic suitability.

From 1 May 2004 the new euro-amendment to Act 455/2004 Coll. becomes valid on trade activities (the Trade Act) and Act 167/2004 Coll. This amendment to the Trade Act is an important change in respect of the process of organising public contracts, since foreign physical entities or legal

person can now enter the bidding process. At the same time it is necessary to accept the fact that Act 40/2004 Coll. is a special legal addendum to Act 513/1991 Coll. (the Commercial Code) as amended, and a good knowledge of certain problems of commercial law will be necessary during the process of organising a public tender.

Act 40/2004 Coll. covers the legal entities and physical persons who are obliged to issue tenders, the procedure when issuing a tender, the type of proceedings, public competition for a bid, and supervision of the entire tender process. The Act introduces a new concept, that of a public contract for a supply, service or construction work in the case of which it is anticipated that the subject of the contract will exceed CZK 2,000,000 (62.500 Euro) without VAT.

In such a case, the organiser must require a transparent, non-discriminatory procedure for the customer price in the place of the performance. This rule applies to all types of proceedings. The interpretation of these concepts by individual participants in practice will be fundamental.

When interpreting tender proceedings and the methods of organisation, which are open proceedings, closed proceedings, published proceedings and unpublished proceedings, the listener is

**For this reason when we analyse the years 1995 - 2004, when the new legislation was passed, I see as very important the preparation of the employees of the individual organisers for the new concept of public tender organisation, which will require a change of approach to this problematic.**

acquainted not only with the interpretation of the appropriate regulations of the law, but the individual legal tasks, both substantive and procedural are gone through in such a way that they are of benefit to the practical application. Another change is the new concept of an evaluation commission, which applies to open and closed proceedings. The new Act contains a passage entitled List of Qualified Suppliers, which is important for individual suppliers.

The wording allows listeners the correct application of the process of appeal and its investigation by the organiser in their practice. The Act also contains a passage relating to supervision of public tenders. The passage on legal tort and fines which can be applied to organisers by the supervisory body offers an opportunity for consideration of not only the thorough knowledge required of the processes of issuing a public tender, but for the organiser the creation of an internal organisation, both in respect of personnel and a change of internal regulations. As is clear the new legislation brings various applicatory difficulties. And though we always approach new legislation with concern, I believe that the law is applicable to both the organiser and the supplier, and it must simply be studied in detail with the issues above in mind.

*Kateřina Āerna, Secretary General  
of the Prague 13 Municipal Authority*

# The Energy Conception of the Czech Republic

In March of this year the Czech government approved a draft state energy conception which defines the priorities and objectives of the Czech Republic in the energy sector and characterises the specific tools required for the realisation thereof. It contains steps to be taken for the creation of conditions ensuring a reliable and safe supply of energy for a reasonable price, the effective utilisation of energy sources with a minimum impact on the environment, and also monitors the continuation of sustainable development. It also looks at the direction things are likely to move in up until 2030.

This comprehensive set of priorities and objectives to be monitored over the long term were drawn up on the basis of analyses of the development and current situation in energy management in the Czech Republic, with consideration given to the procedures and standards of the European Union and obligations ensuing from international contracts in the sphere of energy management.

The approval of this document will contribute to the resolution of problems associated with companies operating in the energy sphere and will be an important measure for the development of Czech electrical companies in the new environment of the EU. The main strategic objective is the stipulation of a basic conception of the long-term development of the energy sector, including preparation of the essential legislation and economic framework which will provide an incentive to both producers and consumers to make savings to the benefit of the environment.

One of the long-term objectives of the state energy conception in the consumer sphere is the gradual reduction of the demands made by energy and raw materials in the creation of gross

domestic product and the attainment of a maximum level of efficiency corresponding to the advanced industrial countries. Support for this aim will involve prioritising energy sources which squeeze the most out of their materials and provide value for money. We must give preference to technology and processes which optimise the energy consumed and create added value.

At present the Czech Republic consumes more primary sources of energy and electricity in relation to the gross domestic product that is objectively necessary. Despite the progress achieved since 1990, energy and electricity demands on GDP are almost twice the average of EU member countries. Transport, industry and the construction trade make great demands on the consumption of energy.

Several basic systemic measures were taken in recent years in accordance with practice in EU member countries, and a National Programme of Economic Utilisation of Energy, including the use of renewable and secondary resources, was launched. The current requirement is for the reinforcement of the efficiency of the system and the introduction of a market environment to the energy sphere.

An important priority of the approved energy conception is a preference for long-term renewable sources, the use of which not only contributes to protection of the environment, but also, when combined with reserves of brown and black coal found in the CR, will help the country achieve independence from foreign energy. In this respect an important point is that the utilisation of energy from renewable sources leads in specific cases to higher prices. This involves not only an increase of production costs, but higher costs of storing stand-by energy supplies.

After 2010 the gradual phasing out of some of the existing coal power stations and their replacement by new modern sources is also anticipated by the approved energy conception. The share of coal power stations within the total production of electricity should gradually fall to approximately a half.


Optimisation of the share of nuclear energy in order to lower damage to the environment and to reduce the production of greenhouse gases is also part of the energy conception. The development of nuclear energy is also part of the attempt to gradually increase the independence of the Czech Republic from sources of energy originating in risk-related regions and to reduce its dependence on the reliability of supplies of foreign energy. The approved draft energy conception does not rule out continuing the construction of nuclear power stations, and the share of energy produced by nuclear power stations would gradually increase.

The safe provision of energy supplies while taking the requisite measures to minimise negative impacts on the environment are tasks of a long-term character. The steps recommended will ensure an open discussion regarding the possibilities attainable within the sphere of the development of energy, and not simply under the conditions of the Czech Republic. The analysis undertaken in order to arrive at an opinion regarding the future storage of energy in the European region is an important step leading to cooperation on the creation of a common energy conception which would be supported by member states of the European Union.

*Ing. Rudolf Pejša  
Czech Federation of Employees  
in the Energy Industry*

## Economic Indicators

### State budget deficit



The state budget deficit increased in April 2004 to CZK 38.1 billion (Euro 1.2 billion) from March's level of CZK 7.82 billion (Euro 244 million). In April 2003 the state operated with a deficit of CZK 64.4 billion (Euro 2 billion). Over the entire year the ministry forecasts a deficit of CZK 115 billion (Euro 3.6 billion). State expenses were CZK 282.1 billion (Euro 8.8 billion) over the first four months of the year, a rise of almost CZK 11 billion (Euro 340 million) on the same period last year. The total income came to CZK 244 billion (Euro 7.6 billion), a year-on-year rise of CZK 37.3 billion (Euro 1.2 billion). April's drop in the budget is the result of the payment of the state contribution to mortgages for 2003 of CZK 14.8 billion (Euro 460 million). The state also handed out CZK 3.5 billion (Euro 104 million) to the regions. A new burden was the CZK 2 billion (Euro 62 million) the CR contributed to EU coffers. This is the share of the EU in the collection of VAT and the contribution according to the level of gross national income.

### Economic growth

The governor of the Czech National Bank believes that over the next few years the Czech economy will grow at twice the rate of the current EU member countries. This is a view shared by the European Commission, which believes that this is the average rate of growth that all new EU countries will record. GDP growth is forecast to be 4% this year and 4.2% next year. The economies of the current fifteen will increase by 2% this year and by 2.4% next year. If these forecasts are correct, the Czech Republic should attain parity with the rest of the union by 2033. However, the potential of the Czech economy is much higher. If the government were prepared to pursue courageous reforms, GDP could rise by as much as 6% per annum, in which case the CR would attain economic parity with the current fifteen countries in 10 years.

### Number of employees

The ranks of employed Czechs again thinned out somewhat this year. According to the Czech Statistical Office 4,671,000 people had sole or main employment from January to March this year, which figure is sixty nine thousand down on the same period last year. The numbers of both employees, by far the bulk of the workforce, but

also entrepreneurs, were down. From January to March the number of employees was 3,844 million, down 61,500 year-on-year. Most jobs were lost from heavy industry, construction and education. Some 804,200 people were self-employed in the first quarter of 2004, which is 1,400 fewer than the previous year. Those working on a self-employed basis account for 17.2% of employment, which is above the level of the fifteen current members of the EU.

### Public debt

The public debt will remain below 60% of GDP until 2010. The Minister of Finance stated that this forecast was dependant on the continuation of the planned reforms. A public debt lower than 60% of GDP is one of the conditions under which the CR could adopt the euro at the end of this decade. The latest study by Erste Bank shows that the share of the public debt of the CR, i.e. the total debt of the state, health insurance companies, off-balance-sheet funds and local budgets, is almost 38% of GDP. The CR meets the Maastricht criteria for public debt, inflation and interest rates. The only stumbling block is the public sector deficit, just under six percent of GDP. However, this figure is increasing over the longterm.

### Better Conditions for Businessmen

Premier Vladimír Špidla and the Minister of Trade Milan Urban met with representatives of the Economic Chamber at the beginning of May with a promise that they would try to meet the latter's requirements regarding easing the conditions for entrepreneurs. In the first three months of the year 100,000 entrepreneurs from around the CR ceased their business activities. In the past a figure of this magnitude has applied to the entire year. Representatives of the government and the Economic Chamber have decided to hold regular meetings every two months. Concrete measures will then be drawn up by the Council for the Development of the Business Environment, and the government will put these measures into practice. However, the Prime Minister of the CR also warned that the government was not prepared to satisfy all the requirements of entrepreneurs. Businesspeople are keen to see a clarification and simplification of legislation, the approval of new legislation at least six months before it becomes valid, the removal of useless red tape, a lower tax burden, the elimination of a statutory minimum income tax, a functioning business register administered by the Chamber, more authority to be granted the Chamber, and the renewal of the activities of the government business council.

### Internet Usage

Czech companies use the Internet at least as frequently as their counterparts in the Union. Last year 86 % of companies in the EU used the Internet, while the figure for the CR was 88 %. Some experts believe that Czech companies are more advanced in terms of modern technology than Western European companies. The fact that certain technology arrived later in the CR than in countries of the Union paradoxically means that Czech companies gained an advantage. New technology arriving in the Czech Republic is already based on use of the Internet. In Western Europe it is not unusual for companies to be using communication media older than the Internet. However, Czech businesses lag behind their European counterparts as for as quality of connection is concerned.

March 2004 saw another record being broken for visit rates to the Internet in the CR. For the first time in history more than four million people visited it. Internet use is most widespread in Prague, where 48% of the population use it, twice as much as the rest of the regions.

### Finance for the Regions

The government proposes that the regions receive a full 16 % of the income tax collected by the state instead of the current 3.1 %. Parliament has yet to approve the measure. The first version of the Tax Expenditure Act was rejected in November. Under the plan the regions would receive some CZK 65 billion (Euro 2,1 billion), said premier Špidla. The most fundamental change against the original proposal is the fact that, until such time as the social services act is passed, the resources for social services will be transferred to the regions in the form of grants and will not be part of centralised budget planning. A sum of around CZK 2.5 billion (Euro 0,07 billion) is involved.

### Utilisation of Cohesion Fund in the CR

The first projects are to be funded in the CR from EU cohesion funds. Three of these projects involve transport and two the environment. The sums requested are more than 7 billion CZK (Euro 0,2 billion). The CF inter-departmental steering committee will approve the projects. The committee must decide on the money to be made available for the three stages of the construction of a modern rail corridor. Other money from the European funds will go on the construction of sewers and waste water cleaning stations. By 2006 the republic could have received up to a billion euros from the Cohesion Funds (CZK 33 billion). The funds are earmarked for the environment and transport. Both public and private subjects can avail themselves of the funds for the purpose of large projects with budgets exceeding ten million euros (some CZK 330 million).

It will be possible to receive some euro 100 million (roughly CZK 3.2 billion) from the Operational Programme Infrastructure. The CR has already received euro 260 million (approximately CZK 8.3 billion) from the pre-accession funds of the ISPA. Along with national resources the EU has so far supported projects with CZK 15.1 billion (Euro 0,47 billion). ISPA funds have so far been used on building a link between the 1st and 2nd rail corridor, and on highways, e.g. the three sections of the D8 Motorway.

### Elections to the European Parliament

The first elections in history to the European Parliament (EP) in the Czech Republic will be participated in by 31 political parties, movements and coalitions. Amongst those registered are the main parliamentary parties (ČSSD, KDU-ČSL, US-DEU, ODS, KSČM). The basic monthly salary of each of the 24 Czech MEPs will be CZK 65,000 gross (Euro 2030) (almost four times the average wage in the CR in 2003).

A total of 61 % of the population have declared their willingness to participate in the elections in March 2004. However, more than a quarter of Czech voters (28 %) do not intend participating. The remaining 11 % of those questioned still have not made up their minds. Party support more or less reflects the preferences of the individual parties in the Czech parliament at present, which means that 32 % of those questioned say they would vote for the ODS, the ČSSD and KSČM would each pick up 14 %, and the KDU-ČSL would have the support of 7.5 % of voters. The rest of the parties did not receive more than 2 percent support. Almost a quarter (22 %) of the Czech population has not yet decided how it will vote. The as yet undecided frequently say that they want to vote for concrete personalities to the European Parliament, and will vote only when offered the list of candidates. Which party a candidate belongs to is not important for them.

### Translations of European Norms

All basic European Acts, norms and regulations have now been translated into Czech according to Czech civil servants. An exception to this is legislation which Brussels passed recently, and bills which relate to internal EU relationships. A comprehensive package of Union legislation has not yet been printed, though is gradually becoming available in electronic form via the Internet.

### European Court of Human Rights

The disputes which the Czech Republic is conducting with its citizens at the European Court of Human Rights have already cost it more than 17 million CZK (Euro 0,53 million) from 1993 to the present day. In cases in which citizens complained above all of slow court procedures, the republic has been convicted fifteen times, and a settlement has been concluded twice. Preliminary statistics released by the office of the European Court indicate that the number of complaints made against the Czech Republic in 2003 increased from 465 in 2002 to 874 in 2003, a rise of 88 %. The exact causes of the sharp rise are not known, though a certain influence might be had by what is the apparent higher popularity of complaints to the court, the result of the relative ease with which suits can be filed.

### Restrictions on Cash Payments

Amounts of more than euro 15,000 (some half a million crowns) must be paid by citizens and business by means of bank accounts. If this limit on cash transactions is exceeded, the inland revenue may impose a fine of up to 5 million CZK (Euro 156 250). The Ministry of Finance says that the new Act aims to limit tax evasion and to contribute to the fight against the legalisation of revenue from criminal activities. The limit on levels of cash payments will also result in savings on the printing of money, according to the government. The limitation is not intended to apply to payments of wages, remuneration, pensions, pension fund settlements, payment of tax, insurance premiums and payments to held in notarial custody.

### Electronic Tolls

The Ministry of Transport has proposed the introduction of electronic tolls. If the cabinet approves the plan for a fee to be imposed on the highways, the state transport infrastructure fund might announce a public tender for a supplier of the system by the end of the year. The Ministry of Transport wants the tender, which will be announced by the Czech Republic and Slovakia jointly, to resolve the problem of which current technology to select. The system will be based either on satellite-based monitoring of kilometres travelled, or a system based on the principle of microwaves. The ministry believes that the technology is developing so quickly that it is possible that a new system will appear. The state will require that any system used be compatible with all the technologies used in Europe. Estimates put the amount which could be raised by electronic tolls on Czech highways as 5 to 8 billion CZK (Euro 0,15 to 0,25 billion) annually, which will be used on the construction and maintenance of the transport infrastructure.

### New Criminal Bill

At the end of April a new draft criminal bill was submitted to the Czech government. If it emerges unscathed from the approval process, from 1 January 2006 it will bring huge changes to the rule of law. The most important such change is the possibility of punishing legal entities, i.e. companies. The ministry had originally reckoned on the new law becoming valid from January 2005, but this date has been put back a year. However, even this deadline is subject to the bill being given a smooth ride through parliament.

(source: ekomail, Hospodářské noviny, www.ihned.cz, www.businessinfo.cz)

(interview with Cyril Svoboda from page 1)  
consultations with the president, the Senate, Parliament, the district sheriffs, business and social partners, and of course the general public, in the form of seminars and internet presentations. The original draft strategy was modified and expanded on the basis of these consultations. I anticipate that the government will debate the material and approve it by the end of May.

**What direction is the European Union heading in after the largest wave of enlargement ever, and do you anticipate problems? What can our republic contribute to the process of integration and what will be the role of the CR in the New Europe?**

The Czech Republic is entering the EU at a time when Europe is not only undergoing unprecedented enlargement, but reforms are also underway aimed both at improving the operations of the Union and reinforcing the role of the EU in global matters.

The vision of the EU as a dynamic community and important partner on the international stage will be boosted by a long-term strategy monitoring the economic-social development of the EU (the Lisbon strategy), the reinforcement of the internal stability of the EU (further expansion of freedom, security and justice), and the overall cohesion of the expanded Union (the form of the EU structural policy), as well as the development

of relations with the countries and regions outside the EU (the New Neighbours Initiative). Even prior to entry the CR was monitoring these objectives and as a member state is ready to contribute to their continued development.

There exists a certain risk that the expansion of the EU to twenty five countries may see a stagnation of these aims or else cause them to be dispersed into groups of countries moving at various speeds. The Czech Republic will therefore actively work on continuing effective European cooperation without creating exclusive alliances.

We also wish to participate in the overall reinforcement of the political role of the EU in Europe and the world, and on increasing the economic, intellectual and cultural potential of the entire Union. As the country located in the very heart of the European we have a wealth of historical experience, frequently embodied in our much admired cultural monuments. This experience will be our contribution to European cooperation.

**What are the chances of approving the text of the European constitution by the end of this year? Do you think that the Czech Republic will decide on the constitution in a referendum?**

The current chair of the EU, Ireland, has made considerable progress in finding a compromise regarding the disputed points of the constitution, and this has increased the chance of a swift conclusion to negotiations and its final acceptance.

The last summit of the European Council expressed its conviction that the debate could be concluded by June of this year, which means that it is highly likely that the text of the constitution will be approved prior to the end of the Irish tenure of the chair.

Basically I agree with the idea of holding a referendum in the CR on the European constitution. The people of the CR gave a resounding "yes" to European integration in last year's referendum on accession, and even though the constitution does not represent such a radical step in the direction of further European integration - it is more concerned with simplifying and improving the operations of European institutions - a referendum is a legitimate tool to express the opinion and will of the population. The likelihood is that many members of the EU will organise a referendum on the constitution and the CR will most likely join their ranks.

The proposal has been mooted of holding a referendum on a European-wide basis and not just in individual countries. This would emphasise the joint outlook taken by European citizens to integration and would avert the risk of possible nationalisation of the debate. We could well support such a possibility.

**Thank you very much for the interview**

Adéla Vychodilová  
Centre for European Integration, ECCR



**Economic Chamber  
of the Czech Republic (ECCR)**

The Economic Chamber of the Czech Republic is the self-governance institution in the Czech Republic. Within its structure it embraces more than 60 active district chambers and regional chambers, as well as 70 professional associations covering the entire territory of the Czech Republic and the entire scale of enterprises, from the largest to the smallest. This network ensures daily contact with the entrepreneurs, the monitoring of their interests, and efficient representation vis a vis the Czech Government. The ECCR provides customs and certification services, legal and legislative services, and representative and information services. It plays an important role in supporting exports, European integration, and SMEs. Its Court of Arbitration resolves commercial disputes relating to foreign and domestic trade.

**Contact:**  
Economic Chamber of the Czech Republic  
Freyova 27, 190 00 Prague 9, Czech Republic  
tel.: +420-224 096 111  
fax: +420-224 096 222  
e-mail: info@komora.cz  
www.komora.cz



**Confederation of Employers' and Entrepreneurs'  
Associations of the Czech Republic**

The Confederation of Employers' and Entrepreneurs' Associations of the Czech Republic is an independent, voluntary and open lobby group promoting and co-ordinating entrepreneurial, employers' and professional interests in negotiations with Parliament, the Government, public administration and the Trade Unions. At present the organisation has the following members: the Association of Entrepreneurs of the Czech Republic, the Union of Employers' Associations of the Czech Republic, the Union of Agriculture of the Czech Republic, the Association of Textile, Clothing and Leather Industries, the Association of Building Entrepreneurs of the Czech Republic, the Union of the Czech and Moravian Producer Cooperatives.

**Contact:**  
The Confederation of Employers' and Entrepreneurs' Associations of the Czech Republic  
Těšnov 5, 110 01 Prague 1, Czech Republic  
tel.: +420-222 324 985  
fax: +420-224 230 606  
e-mail: kzps@kzps.cz  
www.kzps.cz



**Confederation of Industry  
of the Czech Republic**

The Confederation of Industry of the Czech Republic is a non-governmental, voluntary federation of employers and entrepreneurs in the Czech Republic. It represents and defends the interests of employers in the sphere of social policy during tripartite negotiations with the Government and Trade Unions. It strives to define, support and assert its members' interests in order to achieve prosperity and a favourable business environment. It also provides consultation and information services for its members which focus on international relations, trade opportunities, production co-operation, legislation, collective bargaining, European integration, education, and training. It is a full member of the International Organisation of Employers (UNICE).

**Contact:**  
The Confederation of Industry  
of the Czech Republic  
Mikulandská 7, 113 61 Prague 1  
tel.: +420-224 934 514  
fax: +420-224 934 038  
e-mail: spcr@spcr.cz  
www.spcr.cz



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**CEBRE - Czech Business Representation**  
Bastion Tower, level 20, 5 Place du Champ de Mars, 1050 Brussels;  
Tel.: 0032 2 550 3547/49; Fax: 0032 2 550 3548; e-mail: cebre.europe@mail.be

**Czech Business Today**

Quarterly; June 2004 issue, volume 3

**Publisher:** Economic Chamber of the Czech Republic, Freyova 27, 190 00 Prague 9, IČ : 49279530; in co-operation with Confederation of Employers' and Entrepreneurs' Associations of the Czech Republic and Confederation of Industry of the Czech Republic; **Editorial Board:** Štajf Ota; Fischer Aleš; Hradil Ondřej; Voleš Ivan **Editor:** Centre for European Integration, Economic Chamber of the Czech Republic, Adéla Vychodilová, e-mail: vychodilova@komora.cz; **Advertising:** Centre for European Integration, Economic Chamber of the Czech Republic, Adéla Vychodilová, Freyova 27, 190 00 Prague 9, tel.: +420 224 096 356, fax: +420 224 096 227, e-mail: cebre@komora.cz,

**Registration:** Ministry of Culture of the Czech Republic - MK ČR E 13767; **Publisher service:** Q-art-s; klenik@q-art.cz **Edition:** 1000 printouts