

# CZECH BUSINESS *today*

volume 3

Association Maison Tchèque

**CEBRE**

CZECH BUSINESS REPRESENTATION

3/2004



- Implementation of Structural Funds in the Czech Republic
- Czech Members of the European Parliament
- Emissions Trading
- Czech Investment Environment

Jan  
Kohout



**What do you consider to be your main priority as Czech ambassador to the EU? What are your main objectives?**

After several years of tough negotiations and internal preparations for EU membership, we have now begun to focus intensively on the day-to-day business of the EU. As the Czech Republic's Permanent Representative in Brussels, my primary task is to represent my country and serve its interests in the EU and its institutions. One of my important jobs is to ensure a high level of effective communication between the EU and the Czech Republic. Although I am aware that the upcoming period will be difficult and demanding, I believe and will do all I can to make sure the Czech Republic becomes a trustworthy and constructive partner of the other member states as well as of the EU as a whole. We can now forge specific positions in various European policies, and we

have the chance to grow and gain respect. I would like to help this process as much as I can.

**In your view, where is the EU headed after 1 May 2004, which in itself brought the greatest wave of enlargement to date? What will be the most important task for the EU?**

Enlargement has been perceived as one of the greatest challenges for the EU at the onset of the 21st century. In this respect, I think the EU has stood its ground. The acceptance of 10 very well prepared countries will obviously change the EU, but it will not really disturb the way it operates. And even if the EU still is not finished in terms of expansion, there will not be any more dramatic changes, with the possible exception of Turkey's admittance. The EU can now concentrate on more troublesome matters: to carry out economic reforms within the framework of the so-called Lisbon strategy, which looked great on paper, but

whose implementation has suffered setbacks; to finalise attempts to create a zone of safety and justice, including the fight against terrorism, to strengthen considerably our position in the world through Common Foreign, Defence and Security Policy, as well as trade and development policy. These are difficult tasks requiring the aspiration and will of the member states. The most difficult domestic task of the member states in the upcoming period will consist of the ratification of the newly passed European Constitution. At least 10 countries have decided or are considering organizing referenda, the results of which cannot be easily predicted. The Constitutional Agreement can give the European Union the needed power to resolve the aforementioned matter and its approval is absolutely necessary. I believe that Czech Republic will not be the country which would block the approval of the Constitution.

(see page 8)

# Structural Funds in the Czech Republic

## - Finally "in" – the Picture as well as the Decision Making Process

### The Past

In 1998 the government of the Czech Republic passed resolutions to commence preparations for the use of structural funds (SF) after the admittance of the Czech Republic to the EU. The agenda was then divided among the various ministries, which assigned it to one of their units or civil servants. The entrusted civil servants then began to perform their role as scouts, that were set down in an environment that was completely unknown for Czechs. With only a set of orders sent from Brussels, they were to monitor a demarcated territory, major obstacles, and propose steps that needed to be taken. In light of the numerous future tasks that it was discovered lay around the corner, they tried to convince their chiefs to reinforce the team. They did not always manage to establish good communication with their leaders for reports of more pressing problems were often preferably broadcasted on their meetings.

Yet in time the weight of the preparations began to shift more to the level of strategic decision-making. Fortunately in the case of strategic planning it was not only about an awareness of the fact that the European Union's SF are actually closer to regional development and policies of employment or education than to the Czech Republic's foreign relations. The steps taken in some cases really changed the mechanisms for providing public services that were commonly used in some organizations. Even though in the end each ministry approached preparations for implementation of structures in its own way, the final result was the establishment of organizational systems that are ready to allocate funds from the SF.

In the past the state administration did not have many problems whose solutions required intensive and systematic support from external partners, i.e. other ministries, regions or social partners. The partnership principal required by the European Commission was frequently perceived from the start of preparations for the SF as a con-

siderable burden that served to grind down the co-ordinating body. As it did in other areas of the preparatory process, time played an important role here - the main areas of friction between the various players were smoothed over, boundaries were defined for the purposes of delegating competencies, and constructive discussions could begin. Even though some institutions were unable to foster a feeling of mutual trust amongst themselves, at least the participating parties were able to glimpse the potential and abilities of the others. Carrying out the principle of partnership will remain one of the greatest and most beneficial experiences from the SF preparations that will pay dividends in other agendas.

### The Present

During the first weeks of the Czech Republic's membership in the EU, operational programmes were announced and as well as the first calls for the submission of projects. The first requests for grants are being collected. For instance, the Ministry of Industry and Trade, which announced Operational Programme Industry and Enterprise 2004-2006, registered 170 grants for contributions from the SF by mid-July. Due to the huge interest in certain types of support, it is quite likely that a portion of the funds will have to be rearranged among selected measures. If companies still do not know how to request support, they at least know where they obtain this information for free or for a fee. It might seem from the initial experiences that the implementation of SF in the Czech Republic is already in full swing. Let's hope that this start will continue smoothly and that the Czech Republic will become one of the countries that is able to effectively use the funds of offer.

It is a good sign that entrepreneurial and employer organizations are also interested in this area and that they are preparing their own projects. It is very important for these organizations to know how to offer its members - especially small and medium sized enterprises - services that they

will be interested in and will be willing to pay membership fees for. It is hard to imagine many other spheres in which these professional organizations could better utilise their positions than the provision of information and the preparation and co-ordination of projects financed from SF.

### The Future

The numerous former scouts - not only from state administration - became SF specialists working in management positions. They have their own view on the current legislative arrangement of the structural policy, they are at present creating their own positions on the draft regulations that the European Commission has put forward and which should enter in force in 2007. These proposals can be expected to go through certain changes - whether cosmetic or radical remains to be seen - when they are discussed at the EU Council or in the European Parliament, and the Czech Republic will want their own recent experiences from the demanding SF preparations to pay dividends. Their enthusiasm will be even greater for the fact that it is the first time that they can fully join in the decision-making on EU matters in the area of regional development. One of the areas in which they could effectively apply the know-how they have acquired in developing partnership is in finding other member countries that will promote a joint position. Because from 2007 onwards that will be the policy at whose birth we were present.

Monitoring the absorption capacities of the individual spheres of economic and social life, i.e. the extent of fund take-up in various priorities, will be interesting and challenging. Based on the facts ascertained from grant applications as well as from the quality of completed projects, we should be better able to formulate future objectives: we will have a clearer picture of whether and by how much more or less to invest into concrete, innovations or equal opportunities.

*Martin Duda, CEBRE, Brussels*

## Operational Programme Industry and Enterprise - Initial Findings from Implementation

Operational Programme Industry and Enterprise 2004 - 2006 (OPIE) was announced in May 2004 by the Ministry of Industry and Trade, which is the programme's Managing Authority. It is one of the Czech Republic's five operational programmes that have arisen directly from the relevant part of the National Development Plan, geared in this case toward the sphere of economic development.

CzechInvest, an agency supporting business and investment, assumed the role of the implementation agency for OPIE along with other organizations - Českomoravská záruční a rozvojová banka, a.s. (ČMZRB), the trade support agency CzechTrade, and the Czech Energy Agency (CEA).

Since the programme was announced just two months ago, it is still too early to draw any conclusions or reach any assessments. Nevertheless, the initial findings and characteristics from the implementation phase can already be recorded. Clearly, the level of information has increased for

potential applicants of OPIE programmes. The nature of the interest in new information is shifting from requests for general information to requests for information that already satisfies a specific need when processing a business project. Seminars on OPIE programme in the various regions were attended by 1,386 people and, based on the suggestions and recommendations of the participants, the agency and its other partners are preparing special-focus workshops for those interested in receiving support.

The interest in information is also shown by the increased number of visits to the CzechInvest website, which was launched at the beginning of June.

Perhaps the most important role in the communication and support of OPIE programmes is played by CzechInvest's 13 regional offices. These offices are closest to the entrepreneurs in the individual regions, and with the support of the

employees of these offices over 200 business projects were prepared and approved as of 27 July. Most of the projects are geared toward the Development Programme (approx. 80%) as well as to the Innovation Programme. Territorially speaking, most projects concern the regions of Brno, Zlín and Olomouc. Most applicants consist of entrepreneurs from small and medium enterprises, but large companies are represented as well.

The initial findings from the OPIE programmes confirm an active response on the part of businesses. It can be assumed that the projects already presented, as well as those prepared to date, will contribute upon their implementation to raising the level and competitiveness of Czech industry, which is the main objective of the Operational Programme Industry and Enterprise.

*Kamila Hájková,  
CzechInvest*

# Structural Funds in the Czech Republic

## - Readiness to Draw from Structural Funds

"Structural funds" is a term that is gradually entering every Czech businessperson's vocabulary. After entering the European Union we joined the ranks of countries entitled to use these funds. In concrete terms there is almost CZK 80 billion (EURO 2.6 billion) earmarked for Czech Republic up until 2006 for projects promoting the civil-economic development of regions. The individual spheres of support are described in detail in what are called the operational programmes, of which there are five in the CR. Four of these programmes are nationwide (Industry and Enterprise, Human Resource Development, Infrastructure, Rural Development and Multi-functional Agriculture). They describe the specific sector and contain priorities from the point of view of the whole of the CR. One operational programme is aimed at the regions (Joint Regional Operational Programme) and contains a description of the regions of the CR and the priorities for development, not from the point of view of the individual sectors of the economy, but from that of regional requirements. This programme also offers a precise level of financial support set aside for the development of the individual regions.

Leaving aside Prague, almost the whole of the CR falls into the category underdeveloped and for this reason is being offered the most support. Gradually, all the actors of regional development are preparing to avail themselves of these resources. These include businessmen, municipal authorities, chambers of commerce, NGOs, and the regions themselves.

For businessmen there is the Operational Programme Industry and Enterprise, aimed at increasing the competitiveness of companies. There are some CZK 11 billion (EURO 360 million) available, mainly for the needs of small and medium sized enterprises. As part of this programme it is possible to receive support for industrial research and development and its link-up to the tertiary sphere, for business real estate, training centres for specialist requirements, the development of the production bases of small and medium enterprises, use of non-traditional energy sources by SMEs, etc. Since this is a nationwide programme there are no region-by-region resources specified, which means that companies applying for support find themselves competing with companies from regions around the CR. The body responsible for administering the programme is the government agency CzechInvest, which has a network of regional offices at its disposal. Other programmes earmarked for businesspeople fall into the Joint Regional Operational Programme. This involves support for the creation of new jobs and support for tourism. In both cases support will be distributed by means of the regions in the form of grant schemes.

### Readiness of Czech Actors

As well as businessmen and other potential recipients of support the appropriate ministries are also naturally getting ready to use resources from the structural funds, along with their selected agencies. Since 1 May 2004, when we joined the EU and become entitled to utilise these funds, it has become clear that levels of readiness are many and varied. The best prepared are companies. They have sufficient new developmental objectives already prepared and there is no need to worry that they will not avail themselves of the funds on offer. The municipal authorities and town councils are less well prepared. These institutions have to go through

lengthy procedures of approval, political agreement, the provision of financing and the preparation of project documentation. Local authority representatives have poor experience of preparing projects from the pre-structural funds and so are waiting for the final conditions of support to be announced. But the least prepared for the entire process are the appropriate ministries. The whole way the announcement was made leaves one with the impression that something, anything, had to be announced as quickly as possible. The basic conditions of support were published on the Internet and then amended several times in the run up to the deadlines. This was often on the basis of queries put by the applicants for support regarding ambiguities, irregularities, etc. The Ministries made good their backlogs, oversights and errors in retrospect. At the same time the forms were changed as well as the methods for filling them in. All of these problems were then compounded by the incompetence of civil servants, who are frequently incapable of replying to questions put to them by applicants, even though this is what they are there for. Either that or an applicant has to wait forever for an answer, which, when it comes, is incomplete, imprecise, or combined with completely inconsistent recommendations. This is complicating the life of the applicants and acting as a disincentive to many applicants and support.

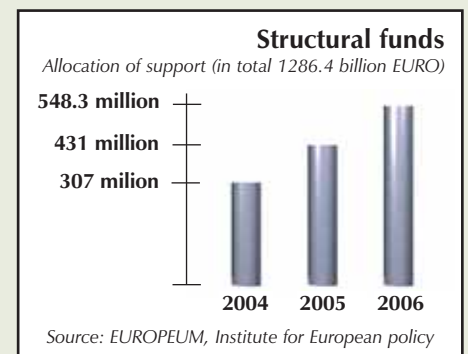
### First Experience

The first preparations and acceptance of applications during the period May to June is now behind us. The procedure was a learning process for both applicants and civil servants. Several interesting points came to light during the course of the process. The basic error encountered frequently is the idea that the money for your project is being awarded by Brussels. This is not so. The European Union provides resources to the Czech Republic on the basis of the National Developmental Plan as a kind of financial assistance for its implementation. The ministries, regions and special organisations subsequently distribute the support to the final beneficiaries; the support is drawn down on the basis of developmental projects submitted by the applicants, which contain specific outputs capable of meeting the global objectives specified in the NDP. It is not possible, therefore, to finance the regular activities of final beneficiaries. Support should function more as encouragement to implement further development subsequently realised from a party's own resources. Advisors in this sphere, as the hand-waving of their lobbying contacts in Brussels shows, have not understood the problem or have even lied to clients in an effort to drum up business. This is connected to the huge upswing in consultancy activities during preparation of projects. Unfortunately, most advisors do not have sufficient experience, and overnight agencies are appearing in order to exploit the popularity of the topic in the media and the ignorance of applicants. For this reason a client should always have sufficient references to the previous tasks undertaken by the advisor, since everyone had enough of an opportunity to display their mettle during the period of the pre-accession assistance from Phare, Sapard, ISPA funds etc. An important point to take into consideration when choosing an advisor is their ability to reflect the specific needs and requests of the client. Often the opposite approach is to be found in these con-

sultancy companies, which tailor their client's projects to their own ready-made model. The result is a kind of universal project which simply changes the name of the applicant. These projects are prepared according to a system of points within the programme in question in order to maximise the likelihood of support. The client is pleased that their project is selected, but then finds himself disillusioned by what he submitted, signed up to and have to achieve in order to actually draw down the support and to avoid having to return it.

### Deprived Regions

Another interesting aspect of support for business activities is the ability of individual regions to absorb



support. Although the support is intended mainly for deprived regions, paradoxically these regions are the worst at actually getting their hands on it. Their status means that they have less opportunity (mainly from a financial and specialist point of view) to prepare projects and ensure the requisite financing of projects. Thus the impact of the support is reduced and regions which do not have such need of it end up receiving more of it. The effect of the assistance is also lessened by other negative factors ensuing from the projects themselves, and which applicants should be aware of. This often involves the additional costs linked with the administration of handling the resources. Furthermore, delays in the system of distribution of the structural funds cause problems for the applicants, and as far as activities go which have to be swiftly and flexibly implemented, e.g. for reason of changes on the market, support of the structural funds is almost unusable.

### Conclusion

Overall support from the structural funds can only be expected to have a small impact on the development of the economy. Compared with the volume of GDP it is a small item and frequently fails to respond to the underlying causes of poor economic conditions. Companies are suffering problems other than insufficient development capital. These problems include the administrative barriers to doing business, the difficulty of enforcing the law, the lack of motivation to work, etc. But this is a topic which would require its own article. I would like to wish all applicants great success in making use of the support, and I am of the firm belief that they will know how to use the resources on offer to their own benefit and to the benefit of the country's economy as a whole.

František Jochman  
Regional Economic Chamber  
Ústí nad Labem

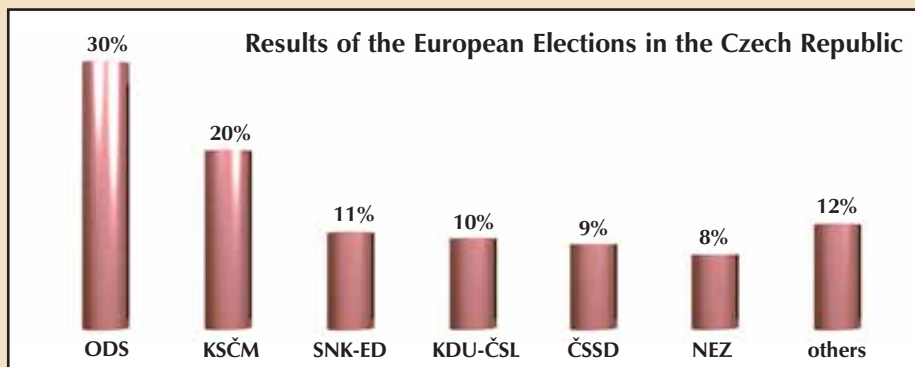


## Representatives of the Czech Republic at the European Parliament

The European elections which took place in the Czech Republic on 11 and 12 June 2004 saw the first ever 24 representatives of the Czech Republic elected to the European Parliament. These MEPs represent 6 political parties, with right and centre-right parties having a stronger showing in the parliament.

The strongest presence at the European Parliament will be enjoyed by the Civil Democratic Party (ODS), which won 9 seats. It is followed by the Communist Party (KSČM) with 6 MEPs, the Federation of Independent Candidates and European Democrats (SNK/ED) with 3 MEPs, the Christian Democratic Union (KDU-ČSL) with 2 seats, the Social Democrats (ČSSD) with 2 seats, and the Independents (NEZ) with 2 MEPs.

Most of the political parties elected to the European Parliament quickly incorporated themselves into established European alliances. Three of them, including the winning party, became part of the European People's Party and European Democrats (PPE-DE). It is worth mentioning that Czech politics has won for itself the post of deputy chair of the European Parliament in the figure of Miroslav Ouzký (ODS).



### CEBRE and Czech MEPs

Before Czech MEPs left their work at Brussels's European institutions for the summer break, CEBRE managed to meet up with some of them. The flow of information from Czech businesses to and from Brussels was the most frequently discussed topic. But each of the MEPs also focused on their own agenda: for instance Miroslav Ouzký, Vice-president of the EP, who was interested in companies'

attitudes toward the EU's proposed chemical policy, or Jan Březina, who ran through his ideas on streamlining advisory services for small and medium enterprises. Proposed and agreed forms of future co-operation - not only in the aforementioned areas - give plenty of hope for utilising the potential and know-how of Czech representatives and organizations operating in Brussels.

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## The position of Czech MEPs on individual EP committees

COMMITTEE	MEP	POLITICAL GROUP	PARTY
Committee for Regional Development	Jana BOBOŠÍKOVÁ	NI	NEZ
	Oldřich VLASÁK	PPE-DE	ODS
	Vladimír ŽELEZNÝ	IND/DEM	NEZ
Committee for Industry Research and Energy	Jan BŘEZINA	PPE-DE	KDU - ČSL
	Miloslav RANSDORF	GUE/NGL	KSČM
	Vladimír REMEK	GUE/NGL	KSČM
Committee for Employment and Social Affairs	Milan CABRNOCH	PPE-DE	ODS
	Richard FALBR	PSE	ČSSD
	Jiří MAŠTÁLKA	GUE/NGL	KSČM
Committee for Foreign Affairs	Libor ROUČEK	PSE	ČSSD
	Josef ZIELENIEC	PPE-DE	SNK/ED
Committee for Culture and Education	Věra FLASAROVÁ	GUE/NGL	KSČM
	Tomáš ZATLOUKAL	PPE-DE	SNK/ED
	Nina ŠKOTTOVÁ	PPE-DE	ODS
Committee for Legal Affairs	Daniel STROZ	GUE/NGL	KSČM
	Jaroslav ZVEŘINA	PPE-DE	ODS
Committee for Transport and Tourism	Petr DUCHOŇ	PPE-DE	ODS
	Jaromír KOHLÍČEK	GUE/NGL	KSČM
Committee for Development	Jana HYBÁŠKOVÁ	PPE-DE	SNK / ED
	Jan ZAHRADIL	PPE-DE	ODS
Budget Committee	Hynek FAJMON	PPE-DE	ODS
Committee for Budgetary Control	Petr DUCHOŇ	PPE-DE	ODS
Economic and Currency Committee	Ivo STREJČEK	PPE-DE	ODS
Committee for the Rights of Women and Equal Opportunities	Věra FLASAROVÁ	GUE/NGL	KSČM
Committee for the Environment, Public Health and Safety of Foodstuffs	Miroslav OUZKÝ	PPE-DE	ODS
Committee for the Internal Market and Consumer Protection	Zuzana ROITHOVÁ	PPE-DE	KDU - ČSL

## Emissions Trading

The National Allocation Plan unquestionably represents the most visible part of the energy trading system. This is completely understandable. The plan is the key to trading, above all from the point of view of individual businesses, which will be allocated permits with which they will do business for the following three years. To a certain extent the allocation unjustly pushes into the background other key elements related to the launch of the trading system, which have been no less arduous as tasks and are no less important. Well, that's life.

The Ministry of the Environment published the draft allocation plan and put it forward for comments by the general public on 3 June 2004, and a week later the draft entered the committee stage, which ended on 2 July. Space for suggestions was reduced by time pressures, since the Czech Republic is lagging considerably behind the deadline for notification stipulated by the European Commission. For this reason the suggestions made by the public were not included in the allocation plan as it progressed through the committee stage.

So far the committee stage has resulted in suggestions from only the Ministry of Industry and Trade, the Ministry of Finance, and non-governmental ecological organisations, though there has been a far broader range of proposals from the general public. Both individuals and civic associations gave their opinion of the plan, as well as companies and professional federations. The suggestions can be divided into three basic groups.

### Suggestions to NAP

The first group comprises suggestions resulting from a failure to understand certain elements both of the trading system and the national allocation plan. They were valuable in that they were a gauge of how much the Czech public understood this complex problem or is prepared to give it their thought, and to what extent the plan put forward by us is intelligible.

The second group comprised proposals based both on criticism of the trading system as such, and above all taking issue with the climate change policy of the European Union, the very origin of this trading system. The groups making these proposals wanted the system to be set up in such a way that it pay greater heed to the relatively advantageous status of the Czech Republic vis-à-vis meeting the reduction quotas set by the Kyoto Protocol. These groups suggested using the trading system as a mechanism for compensating investment made by companies in the nineties, the costs of economic transformation, and the pressures imposed by the entry into the single market of the EU. However, there were also relevant concerns expressed of loss of competitiveness, above all from the region outside the EU.

The last group involved concrete proposals and observations regarding the individual elements of the plan and addressing concrete aspects of its application to Czech businesses. In many cases the suggestions described in detail concrete problems and drew attention to the potential weak points of the allocation plan. Although many of the proposals from this group of suggestions cannot be realised in practice, this was unquestionably the most valuable part of the deliberative proceedings, since in many cases it helped identify specific problem areas and proposed resolutions where and when possible.

### NAP problems

The basic problem of the allocation plan, despite all its technical finesse, remains the volume of licenses to be distributed amongst companies. The main area of dispute is whether the allocation plan should utilise a lower level of allocation at first in order to put pressure on companies to make reductions, innovate or purchase licenses, or whether the relative ease with which the quotas of the Kyoto protocol can be met allows for the full allocation of permits to the anticipated

### The Ministry of the Environment puts the finishing touches to the draft allocation plan for consideration by the Czech government.

level of requirements, i.e. in accordance with the criteria of the appropriate instructions. All this given the fact that meeting the Kyoto quotas does not mean that the Czech Republic does not have problems with emissions of greenhouse gases per capita or per product unit, or with the effective utilisation of fossil fuels and energy in general.

Despite these factors the Ministry of the Environment decided to listen attentively to companies and set the level of allocation in such a way that it covered the anticipated requirements of companies. This means that we are heading down a path which is open to criticism, mainly from ecological organisations, and with some justification. The basic problem, however, remains the energy sector. It is worth reflecting on what the government approved in its State Energy Conception, which anticipates the development of the energy sector accompanied by a fall in the overall emission of greenhouse gases. This document must be born in mind during preparation of the allocation plan.

In many other sectors one problem has been the input data used for allocation prognoses, which has not always adequately reflected developments over recent years. This has meant that sectors which have recently recorded dynamic growth have, because of the data selected, found themselves in difficulties. This problem was also the subject of dozens of suggestions and observations.

### Next Steps

At present the Ministry of the Environment is working on collating these suggestions and modifications of the material so that they can be presented for discussion by the new government, since the outgoing cabinet left this difficult decision to be taken by its successor. It is not true what has been heard in the media recently, that the Ministry of the Environment, when preparing its draft, proceeded arrogantly and did not sufficiently reflect the requirements of companies. Nevertheless, a receptive approach does not mean automatically that each and every suggestion must be born in mind. In many cases the requirements for increased allocation are backed up by very flawed arguments, and forecast requirements really cannot be interpreted as having as much as I want.

However, many of the suggestions will be incorporated in the plan. Above all this will involve the division of the energy sector into three

independent parts: electrical, CZT (district heating) and industrial energy, a move which will allow us a better overview of the aspects specific to each individual group of facilities. Energy sources supplying energy to facilities which fall within the trading system because of their technological emissions will be classified using the same parameters as their parent sector. In many of the industrial sectors agreement has already been reached on setting up the parameters of allocation and the input data has been cleaned of ambiguities and errors. The reserve for new resources will be

increased and set in such a way that it will not be subtracted from the basic allocation. A prerequisite of this approach, however, is that unused licenses will be cancelled. Those companies which recorded considerable growth in 2001-2003 will have the opportunity of an individual modification of their allocation base in order to allow for this development. Other such modifications could also be enumerated.

### Conclusion

It ensues from what has been said so far that it would be unfair to claim that we have failed to listen to companies and to pay heed to their specific problems. Proof of this are the dozens of meetings which the department of climate change has had and is still having.

Notwithstanding this the method by which the allocation plan has been prepared is the constant target of harsh criticism, most of it emotive and personal rather than objective. Few of the critics see the hundreds of hours of hard work handling data from 500 facilities, the daily resolution of the individual problems of individual facilities, political meetings and the pressure from various parties, and the hundreds of phone calls, emails and letters. However, there is one interesting point to note. Although companies frequently argue over the million impacts of the trading system on their economic fortunes, they have never of their own bat created a platform which would prepare solid arguments, studies and data which we could use, not only within the framework of domestic discussion, but when defending the allocation plan before the European Commission. A similar platform (the Emission Trading Group) was created upon the launch of trading in emissions in Great Britain and was an equal partner of the government's during discussions. In the Czech Republic we are still witnessing a pretty uncoordinated protest groups, full of sound and fury, signifying nothing. And this is a pity. Though you would not realise it from what the media says our aim is to prepare a top-quality National Allocation Plan which will be approved by the European Commission and which will best reflect the specific conditions of this country. Perhaps we will manage it some day.

Tomáš Chmelík  
Ministry of the Environment  
of the Czech Republic

## A Look at the Czech Investment Environment

In the recent years the Czech Republic has figured amongst countries offering a very favourable environment for foreign investment. According to the agency CzechInvest in the first half of this year the agency acted as mediator for 60 new projects with a total value of CZK 27 billion (EURO 900 million), and investors promised to create some 8,500 new jobs, which is 3,000 more jobs than in 2003. The number of investment projects has doubled in the first half of this year and the overall value of investments rose more than CZK 3.5 billion (EURO 113 million). The vast majority of the new investments have been aimed at the regions which are stricken with the highest level of unemployment, i.e. to Moravia Silesia and the Ústi nad Labem region.

The largest foreign investor in 2003 was the logistics company DHL. This company is building a European service and logistics centre in Prague for CZK 5.8 billion (EURO 180 million) and creating 866 new jobs at the same time. The second largest investor this year was Exxon Mobil, which has established a services centre in Prague for CZK 2.4 billion (EURO 74 million) with 1,300 jobs. Third in line was Daikin, the air-conditioning systems manufacture, which invested CZK 3 billion

in Pilsen and created work opportunities for 430 people. This clearly shows move to a more advanced foreign direct investment such as service and competence centres, and research and development laboratories.

The region of Ústi nad Labem was unusually successful in 2003 as far as attracting foreign investors went. Jana Víšková from CzechInvest claims that the region is receiving the most investment in Europe, fifty projects in all. Investment has been promised, mainly by foreign companies, of some CZK 52 billion (EURO 1,7 billion) and 9,400 jobs. She also had good words to say about the study by Ernst & Young, which points out that it is mainly automotive companies investing in the region. Although investors have promised to create almost ten thousand jobs, CzechInvest and the labour offices do not want to say when these jobs will materialise.

However, these positive figures need to be balanced by negative features which are putting the brakes on foreign investment.

One of these involves the policy on issuing visas, as a result of which the Czech Republic loses out on billions of crowns a year. The country is not losing money only because of reduced tourism, but

because investors are less interested. This problem applies above all to potential investors from Russia, China and Arabian countries.

Another ingrained problem is the complexity and inflexibility of the legal and administrative environment regulating entry into business. This can be seen if you compare how long it takes to record a company in the Commercial Register here with another country, or the lack of contact between the individual offices of the state administration, which means that businessmen have to obtain the same confirmation at various phases of establishing a company. In this case, perhaps brighter days are around the corner, since the government is giving consideration to the concept of "one contact point for businessmen", a policy which is supported by businessmen via the Economic Chamber of the Czech Republic. The implementation of this project might be speeded up by the new Deputy Prime Minister for Economics, Mr Martin Jahn, who has been straining after improvement of the Czech business environment since he was appointed the Chief Executive Officer of CzechInvest.

Robert Mulač,

Centre for European Integration, ECCR

## Economic Indicators

### Budget Deficit



The budget deficit showed a surprise drop at the end of July, falling to CZK 48.8 billion (EURO 1.55 billion) from June's figure of CZK 49.7 billion (EURO 1.6 billion). Non-tax revenue rose and the state collected more

in taxes. The Ministry of Finance press spokesperson announced that this time last year the state was running a deficit of more than CZK 62 billion (EURO 2 billion). In June more than CZK 35 billion (EURO 1.1 billion) was collected in taxes, up more than CZK 2 billion on the previous months. Companies using tax advisors paid CZK 8 billion in income tax. After a fall in June VAT collections also rose, and year-on-year the state collected 10 % more in consumer taxes.

### Lower Foreign Trade Deficit

The Czech foreign trade deficit could fall to some CZK 64 billion (EURO 2.1 billion) this year, which would be the lowest for the last 10 years. This was the news put out by the Deputy Minister of Trade and Industry, Martin Tlapa. Last year's trends hint at a lowering of the deficit. According to information available so far imports into the CR outdid exports by CZK 11.7 billion (EURO 380 million) in the first half of the year, while that figure was CZK 17.4 billion (EURO 561 million) last year. The total trade deficit last year was CZK 69.4

billion (EURO 2.2 billion), according to the Czech Statistics Office. Tlapa says that these positive forecasts could suffer most from a rise in the price of oil, which on the commodity markets has now reached new records. Oil could increase company expenses and thus increase the price of their goods. The result might be a fall in demand.

### Rise in Unemployment

The unemployment rate rose in July to 10.1 % from June's figure of 9.9 %. This means that 532,128 people were without work at the end of July. But according to the methodology of the International Labour Organization, by which most EU member states comply and which is now once more being used by the Ministry of Labour and Social Affairs, unemployment was lower, at 9.2 %. In June unemployment was 8.8 % according to the ILO methodology. This does not include people who are registered at labour offices but cannot take up work immediately. The rate of registered unemployment amongst women was 11.1 % and amongst men 7.7 %. As of 31 July labour offices registered 45,737 free workplaces. There are on average 11.6 people applying for each job.

### Inflation

The rate of increases in the prices of goods and services again increased in July, rising by 3.2 % year-on-year, the largest hike for 2 years. Analysts agree that seasonal effects are responsible for the higher level of inflation. This is the highest year-on-year increase since May 2002, up 0.4 % on June. An increase in the price of summer holidays is mainly responsible for July's rise. Analysts

expected year-on-year growth of 3.1 % and month-on-month of 0.3 %. In a month-on-month comparison the price of services rose and the price of goods fell. While the price of goods fell by 0.5 %, the price of services rose by 1.6 %. Accommodation was also to blame for the increases, with payments to housing cooperatives and landlords rising. January's change to excise duty saw a rise in the price of tobacco products.

### Slow Growth

The Czech Republic is recording the slowest rate of growth in Central Europe. Although its rate of growth is accelerating, this year and next the Czech Republic will remain in last place on the ladder of countries of Central Europe, reveals a study by leading Czech bank ČSOB. While this year an estimate by the ČSOB has the Czech economy growing by 3.3 %, neighbouring Poland will grow by 6 %, Slovak GDP will grow by 4.9 %, and Hungary will report growth of 3.6 %. Next year, although economic growth in the Czech Republic looks set to increase to a rate of 3.7 %, it will still trail behind that of Poland and Slovakia. All the region's countries are bogged down in problems with public finance (with the exception of Slovakia), but the Czech Republic has the highest deficit in relation to GDP. The previous government at least took a step on the road to reviving the fortunes of Czech state finance, but it was too little, say economists.

(Sources: ekomail,

Hospodářské noviny, www.ihned.cz)



### New Czech Government

On 24 August 2004 the Houses of Parliament gave a vote of confidence to the government of premier Stanislav Gross, with all 101 MPs of the government side voting for the government as expected. Thus came to an end a two-month long political crisis caused by the failure of the governing coalition in the European elections. The new government is now in a position to begin implementation of its own programme, which was announced prior to the key vote of confidence. "The government's announcement promises measures to improve the economy and the business environment. Unfortunately, the measures in practice seem to point in the opposite direction," said president of the Economic Chamber of the Czech Republic, Jaromír Drábek, of the current debate of the programme underway. For instance, he rejects the changes to tax, which will handicap people on higher incomes. On the contrary, he agrees with the principle of privatising all state enterprises and turning them into joint-stock companies, with the reservation that the cash injection thus acquired not be drowned in current expenditure. Drábek also praises the government for aiming to clarify legislation and to speed up work associated with the commercial registers. "We shall see how these generally formulated objectives are translated into concrete steps," he concluded.

### Czech Commissioner Knows his Portfolio

On 12 August 2004 the president designate of the next European Commission, Jose Manuel Barroso, officially introduced the individual candidates nominated by member countries for the post of European commissioners, and included a specification of their portfolio. The Czech representative, ex-premier Vladimír Špidla, was assigned to the agenda of employment, social affairs and equal opportunities. The new commission is to begin its work from 1 November 2004, assuming that it is approved by the European Parliament.

### Government Offices should be Obligated to Explicate the Law

Confederation of Industry of the Czech Republic has submitted a proposal to premier Gross that government offices should be obliged to explicate relevant legislation to businessmen. Businessmen would then have the security of knowing that they were proceeding in accordance with the law. The Confederation presented the proposal to the new premier, Stanislav Gross, amongst others, and the president of the federation, Jaroslav Míl, believes that agreement might be possible. Gross has announced the development of business activities as one of his priorities. According to Míl businessmen are victims of the ambiguous wording of Czech acts, resolutions and other norms which they cannot be expected to master, and thus comply with. He believes the new government could begin by putting the full wording of all valid regulations on the Internet, so that companies at least had access to them.

### Public Private Partnership

In six months time cooperation should commence between the state and private companies. Pilot Public-Private-Partnership projects will be submitted by the end of September and work on them should begin in February of next year. The government is examining a cooperation plan to last until 2006. In June work will be on the second wave of projects submitted by the end of January. Over the next two years private companies could be investing anything from CZK 15 to 30 billion (EURO 500 to 900 million) crowns in state orders annually. When the entire system is up and running and the regions and municipalities have become involved this figure could be as much as CZK 50 billion (EURO 1.6 billion) a year. A public private partnership centre has been created for this purpose. Certain aspects of current legislation are holding things up, especially the rules covering concessions. The act on public contracts and budgetary rules is to be amended. The EU will apparently not allow assistance from European funds to be used in the PPP system.

### Czech Transmision Period - Regulation on Packing

From February of this year regulation 2004/12/CE came into force relating to waste from packaging, which amends the original regulation 94/62/EC. The new regulation lays a duty on member states to ensure the utilisation and recycling of waste from packaging. Given that the new requirements are relatively demanding, there were several transition periods allowed. The CR has a transition period lasting until 2012, by which time it should have attained a level of utilisation which is in general higher than that required by the EU. The amendment stresses that measures aimed at increasing the utilisation of packaging in the individual countries do not disturb the internal trading of the Union.

### The CR still has Millions of Shareholders

The Czech Republic has one of the highest numbers of shareholders. More than ten years after voucher privatisation there are some two and a half million share accounts remaining out of the original seven and a half million. This despite the fact that numbers are going down all the time. New figures released by the Securities Centre show that in the first half of this year there was a reduction of some seventy thousand share accounts. Moreover, most shareholders are doing nothing with their stock. However, voucher privatisation means that the country still has one of the highest numbers of shareholders, even approaching the record level in the United States.

### Easier Life for Businessmen

Selected trade offices have inaugurated the trial operation of central records of businessmen, thanks to which businessmen should be able to avoid running around various different offices, filling out similar forms, and tracking down various confirmations and statements. Once the information has been filled in civil

servants will be able to circulate it amongst themselves automatically. The database actively reacts to changes of residence or business activities, including registration, or to termination of activities. Other offices linked up to the system hear of the changes automatically. In the future the interactive database may be able to uncover the indebtedness of cooperating companies for business partners. But legislation will have to be amended to make this possible. In the first phase the idea is only to lighten the workload of civil servants, admit the project creators from the Ministry of Industry and Trade.

### The Anti-Spam Act

Companies offering free email boxes are not happy about new anti-spam legislation. These companies earn money through the advertisements attached to each e-mail sent. Under the new law the recipient of the message must give their agreement in advance, something which, for instance, the portal Centrum.cz cannot guarantee. The same thing applies to advertisements sent to mobile telephones - Eurotel attaches long advertisements to messages sent from the web. The new law will introduce fines of up to CZK 10 million (EURO 320 thousand) on spammers, though the spokesperson of the Ministry of Informatics reassured companies that this form of advertising will not be regarded as being in breach of the law.

### Suspension of Money from Other EU Funds

In September 2004 the results should be known of an audit which the Ministry of Finance commissioned to look into the way that funds were being drawn down from the EU. It seems that the results so far are poor, and if the entire audit were to continue that way, Brussels would react by suspending advance payments and other money. The Ministry of Finance is denying this. On 4 August the European Commission suspended some two billion crowns of the pre-accession Phare fund. The spokesperson of the EC in the CR said that the Czech Republic had not supplied all the necessary information. However the Ministry of Finance claims that the audit will not have a direct impact on the way the funds are drawn down. They say the audit is a national initiative and that the commission did not require it.

### VAT Law

Breaking the law in the CR is simple - simply comply with it. Thousands of companies have been doing this for more than two months. To abide by the new amendment on VAT means breaking it elsewhere. What's more, many paragraphs allow for various interpretations. For example, importers still do not know which exchange rate to use when calculating the tax they have to pay, whether this is the rate on the day the goods arrived from abroad, as laid down by the Accountancy Act, or the day the invoice is drawn up, as required by the new VAT Act. But even businessmen with no business relations abroad have similar problems. From May construction companies have been wondering what to record as a residential construction in order to pay the reduced five percent rate of VAT.

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

(interview with Jan Kohout from page 1)

**What's your view on the real European policy? Do national interests play an important role in creating European policy or are they at least partially held back?**

The EU used properly to be called a community of law. The tasks, principles and rules of the Union are defined by the founding agreements and other European legislation. I understand your phrase "real European policy" as the practical performance of these rules in fully respecting them. National interests play a key role in the reality of European integration and they should. The very idea of European integration arose from the backdrop of the national interests of the founding six, who realised that intensive co-operation under peaceful conditions is much more advantageous for their development than war and rivalry. It's completely understandable that countries try to defend their interests within the framework of the EU - we do the same; it's our obligation toward

our citizens and entrepreneurs. Member states must, however, honour other national interests and, if their own interests cannot be pushed through, they must yield to the interests of the majority. In most cases it pays for a country not to insist on a partial narrow-minded position.

**Do you think we are sufficiently prepared for full-value membership in the EU; for instance, with regard to the Czech Republic's ability to draw from structural funds?**

The fact that EU member states agreed with the Czech Republic's entry into the European Union provides ample proof that we are prepared. Today we are fully integrated; we are part of European policies and events. We have the chance to influence them, to actively enter them and promote our interests. On the practical side, this means plenty of hard work. We must refine co-ordination mechanisms, train specialists, communicate effectively on the Prague - Brussels line, have quality and reliable state administration that will

actively take part in the development of policies, their forms and content. There is still room for improvement in the flow of information, which would, among other things, lead to an easier orientation within overly complicated European structures. As for structural funds, I feel that we managed to prepare as much as possible within a relatively short timeframe. The fact that interest in support is high and that both our entrepreneurs as well as our regional structures are taking the bull by the horns and submitting top-quality, professional projects bear witness to this. But we can not become complacent; everything is just around the corner. Each citizen should try to look for, obtain and take an interest in information. The success of the effective utilisation of EU financial support depends only on us.

**Thank you very much for the interview**

Robert Mulač

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.

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**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.

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**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).

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- Represents the Czech Business Community in Brussels
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**Czech Business Today**

Quarterly; September 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, Robert Mulač, Freyova 27, 190 00 Prague 9, tel.: +420 296 646 356, fax: +420 296 646 221, 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