

CZECH BUSINESS *today*

Association Maison Tchèque

CEBRE

CZECH BUSINESS REPRESENTATION

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Economic Chamber of the Czech Republic (ECCR)

The Economic Chamber of the Czech Republic is the only entrepreneurial self-governance institution in the Czech Republic. Within its structure it comprises more than 60 active district chambers and regional chambers as well as of 70 professional associations covering the whole territory of the Czech Republic and the entire scale of enterprises from the largest to the smallest ones. This network secures an every-day contact with the entrepreneurs, monitoring of their interests and efficient representation towards the Czech Government. The ECCR provides customs and certification services, legal and legislative services, representative and information services. ECCR plays an important role in the support of export, European integration and SMEs. Its Court of Arbitration resolves through arbitration proceedings commercial disputes related to foreign and domestic trade.

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Confederation of Employers and Entrepreneurs Associations of the Czech Republic

Confederation of Employers and Entrepreneurs Associations of the Czech Republic is an independent, voluntary and open interest organisation aiming at promotion and co-ordination of entrepreneurial, employers' and professional interests in negotiations with the Parliament, the Government, the public administration and Trade Unions. At present, the organisation has following members: Association of Businessmen of the Czech Republic, Union of Employers Associations of the Czech Republic, Union of Agriculture of the Czech Republic, Association of Textile, Clothing and Leather Industry, Confederation of Commerce of the Czech Republic, Association of Building Entrepreneurs of the Czech Republic, Union of the Czech and Moravian Producer Cooperatives.

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The 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 interests of employers concerning social policy in the tripartite negotiations with the Government and Trade Unions. It strives to define, support and assert its members interests in order to reach prosperity and favourable business environment, provides consulting and information services focused on the international relations, trade opportunities, production co-operation, legislation, collective bargaining, European integration, education and training of its members. It is a full member of the International Organization of Employers (UNICE).

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The Economic Chamber of the Czech Republic
Jaromír Drábek, President

The Economic Chamber of the Czech Republic (ECCR) perceives the forthcoming EU enlargement as one of the most important assignments it must assist in. We are keen to take an active part in preparing Czech enterprises for the membership in the EU by facilitating their further internationalisation, supporting them in their search for potential partners and contacts abroad, and seeking financial support for Czech businesses to help them in becoming more competitive. Regular information flows towards entrepreneurs as well as exchange of know-how and tailored training on post-accession conditions are important parts of this effort. We can even say that entrepreneurs from several sectors are already well prepared for the European Single Market. Yet, there is still quite a significant proportion of entrepreneurs and businessmen still lacking any comprehensive information on the country's accession to the EU. That is why we intend to get involved in the process of improving the business environment in the Czech Republic. Although quite a lot of EU legislation has already been transposed within the framework of the preparation for EU enlargement, the implementation of this harmonised body of law is still rather complicated. As far as the taxation policy is concerned, we will continue to push for a lighter tax burden and more favourable tax environment. We maintain that the conditions for businesses must be as open as possible and we expect the same approach from our foreign partners. Our aim is to support cross-border co-operation, which we would like to become more extensive and simpler. At the same time, we maintain that Czech and foreign businesses shall have the same conditions and status on the Single Market. We do not agree with the unnecessary transitional periods in respect of free movement of labour. Other than that, all EU funding of business activities geared towards strengthening the country's infrastructure has our full backing.

To achieve all of these aims the Economic Chamber of the Czech Republic established a Centre for European Integration (CEI). One of the services the CEI provides is the ECCR EURO-CLUB. This forum of companies interested in EU matters was established in 1998, the main task being to provide for an effective transfer of up-to-date EU business-related information, to analyse the impact of EU membership for Czech entrepreneurs, and, last but not least, to initiate communication between companies and the Czech public administration. Recently, the ECCR came up with another "European" activity: it has established a Czech business representation in Brussels (CEBRE), offering to speak for and lobby on behalf of Czech entrepreneurs vis á vis EU institutions. This Brussels-based office provides the entrepreneurs and their founding organisations with the relevant EU-related information and helps them integrate into the internal market. Besides these activities, the ECCR has also educational programmes on offer. CEI, for example, runs a distance learning training course on "euro-management". Successful graduates of the course receive a "Certificate of EU Specialist". This, in



effect, qualifies them to become advisers on EU-related matters in their companies.

The implementation of the ECCR strategy largely depends on the entrepreneurial self-governance. Our wish is to receive some support from and greater recognition of our chamber network by not only the Eurochambres but also the respective bodies of the European Union and other international institutions. ■

Confederation of Industry of the Czech Republic
Stanislav Kázecký, President

The Confederation of Industry of the Czech Republic, like Czech businesses, is expected to face major tasks on both the national and international levels during the last stage preceding the Czech Republic's accession to the European Union.



Continuous integration of the Czech Republic into European and international structures means that the Confederation has grown more and more involved in a number of activities of various international organisations, such as the IOE, UNICE, or BIAC.

Should local enterprises not be competitive enough during the process of integration into the EU, serious economic and, in effect, also social problems might arise. In addition to that, an integration of a country with a weak economy would cause troubles not only to the country itself but it would also burden the EU incumbents. The Confederation has continuously and for a long time been seeking to identify and implement measures which would lead to an improvement of the country's business environment, higher economic growth and increased competitiveness of the Czech economy.

In that respect, tax system is considered critical by the Confederation. Candidate countries have sought to level their economic performances with the EU average, having stimulated their domestic growth by cutting the "taxation quota" (taxes plus mandatory contributions - health and social security). Especially those enterprises that invest heavily, extending their plants and financing their R&D, should receive preferential treatment.

A very special place within any advanced economy belongs to small and medium-sized enterprises (SMEs). Their role in boosting employment and facilitating regional development is indisputable. It is a precondition of the integration of our country into EU's economic structures that the European experience is brought to bear in this area as soon as possible.

The same could be said about transport and transport infrastructure development, but also about the energy sector. Making them competitive cannot be de-coupled from taking the costs of undertaking into account.

The Confederation has a great respect for the principle of sustainable development. Yet, it cannot subscribe to the policy of adoption of environmental legislation which, although drawing upon EC directives, adds too hard and unrealistic provisions to it, provisions going far beyond the EU regulatory framework.

We aim at considerate implementation of transposed directives. During the process of preparation of the negotiation documents and

proposition of alternatives of accession procedures, the experts of the Confederation and other industry-specific associations have been and will be enforcing rightful interests of their members, seeking to reduce all the potential negative impacts of the future EU membership and the related obligations.

Opening CEBRE, a new Brussels-based office, has been a very good step on the way towards achieving our tasks. It is in the interest of our businesses to keep seeking and finding credible arguments enabling us to strengthen the confidence of the public in the accession of the Czech Republic into the European Union. ■

The Confederation of Employers' and Entrepreneurs' Associations
Milan Veverka, Chairman

All of the decade-long life of the Confederation of Employers' and Entrepreneurs' Associations has been based on the conviction that it is the business community that is the decisive factor of the Confederation's but also the country's prosperity. Since economic prosperity can significantly benefit or suffer from measures taken by governments and parliaments, the Confederation pays a great attention to their attitudes towards and impact on the Czech business environment. In this respect, it was the European Union and the introduction of the Single European Currency that have historically had the most significant institutional impact on European business environment.



The Confederation considers the entry of the Czech Republic into the European Union indisputable. This particular aspect of the Czech political course was also highlighted in our proposal of the new Government programme (published 2 July, 2002).

We are aware of the fact that the Czech Republic's accession to the EU opens up many opportunities for the country. These new chances include the same rights for both Czech and EU businesses, open access to European markets, equal rights for individuals, and availability of financial aid. At the same time, Czech companies will be exposed to a tough competition in which foreign enterprises can fall back on their own, strong financial resources. Most of the industrial sectors the Confederation represents have a good starting position. In construction and agriculture, for example, the productivity reaches the EU level, ranging from 72 to 88 %, while prices in these sectors come to about only 40 to 50 % of the EU average. This creates a room for price equalisation, assuming that these industrial products are otherwise competitive. We know, however, that it is in these very sectors that rigorous administrative EU regulations apply in the EU.

It is an important step forward to establish a body such as CEBRE, representing the interests of our companies in Brussels. We hope that keeping close contacts with EU institutions will help bring more opportunities while minimising the risks for the Czech Republic upon its entry into the EU. And, as soon as the accession negotiations are finalised, we expect the Czech Government to come up with a proper analysis of both the chances and risks for Czech businesses. ■

Czech Republic's Economy on the Eve of Entry into the European Union

It is the profound economic transformation the country has been going through since 1989 that explains why the Czech Republic has been such a success in the pre-accession negotiations with the EU; the number of chapters closed put the country onto the upper ranks of the list of twelve candidate countries. Within a historically short time, the Czech economy has changed into an open one. The currency has devalued quite dramatically, extensive privatisation has taken place where previously the state was almost the only owner, prices have been liberalised, monetary restrictions have been put in place, and deep structural changes have set in. Czech economy has shown great adaptability and the expectation is that it will show the same quality after the entry into the EU. Quite a vivid illustration of this adaptability can be seen in the change of Czech trade focus. While up until 1989 three quarters of all Czech exports were heading for the countries of the former communist block, it is to advanced economies that 75% of Czech exports are sold to, with EU countries absorbing 69% and the neighbouring Germany 39% of the total exports. Czech export performance is extremely good, indeed. The 2000 World Economic Yearbook placed it on the seventh rank of the list of 47 countries under the survey, out of which 29 were OECD members and 18 best performing newly industrialised countries.

International economic and financial organisations such as the International Monetary Fund in its analyses, e.g. the World Economic Outlook: Focus on Transitions Economies, September 2000, have a major appreciation for the fact that the Czech economy, unlike many other transition economies, has gone through this profound economic transformation, likened sometimes to a transformation shock, in a relatively good health and with no major social impact on the population. For example, Czech GDP exceeded the 1989 figure only in 2001, however this slow but steady growth has been accompanied by the lowest inflation of all transition economies. To have the full picture, Czech GDP expressed in terms of PPP per head was USD 13,408 in 2000, ten years after the start of economic transformation, the second largest of all the transition countries surveyed with Slovenia coming on top with USD 15,685.

According to a government-sponsored expert study of May this year ("Social and Economic Impact of the Integration of the Czech Republic into the European Union"), the Czech Republic's entry into the EU will first and foremost mean much more stable and predictable legal environment whose development and importance for the market economy has largely been overlooked in the previous years, a cause of frequent criticism. Better legal environment will bring lower transac-

tion costs to both domestic and foreign businesses operating in the Czech Republic in result of a change in rules guiding the behaviour of the business sector and a replacement of the current institutional stopgap by well-tested norms of behaviour. Since 1998, transposition of the EC legislation into the Czech legal order - launched in 1996 after entry negotiations had begun - has been accelerated. Today, a great number of the *acquis communautaire* pages have already been transposed into the Czech law. This has enhanced the country's rating, especially in the eyes of foreign investors who have been coming to the Czech Republic in yet growing numbers within the past three years. Foreign investment hit a record high of CZK 187 billion in 2001. So, the Czech

staff, are a significant segment of the Czech economy. Their contribution to the GDP has been on a steady climb: from 31% in 1996 to 41% in 2000. They give jobs to almost 60% of the Czech working population. SMEs, complaining now about restricted access to bank credit and difficulties with tapping into distribution networks, expect that as soon as the Czech Republic joins the EU, the pool of various financial resources so crucial for their development will grow bigger, including more support not only from SME-focused national but also European support funds, namely the EU Structural Funds in near future.

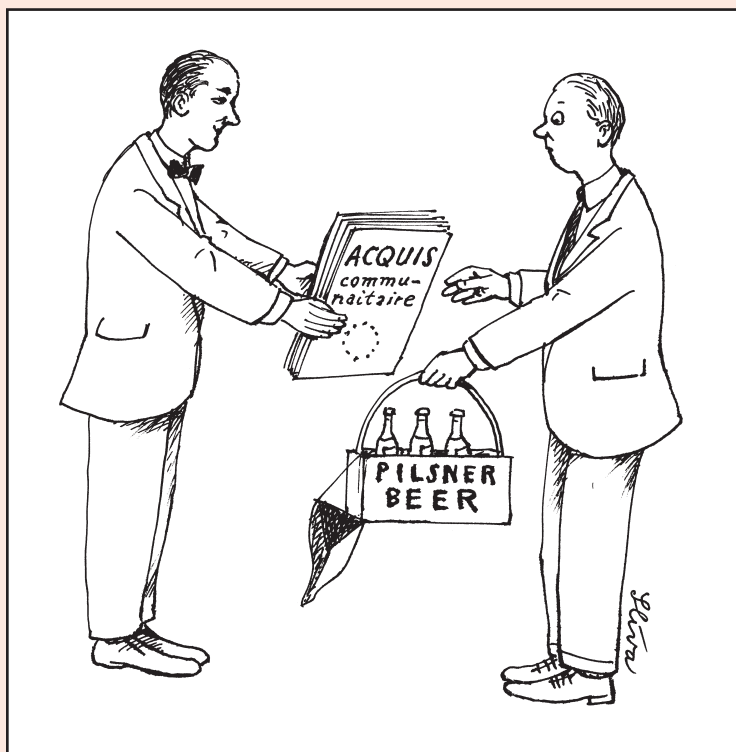
The FDI growth over the recent years has surely been one of the major factors contributing to the acceleration of the Czech Republic's economic growth at the turn of the millennium. With annual GDP growth of 3.6% in 2001, the country got two percentage points ahead of the EU where the GDP grew only by 1.6% on average last year. This 1.2 to 1.8% advance is claimed by the authors of the government-sponsored study mentioned above to have durable and solid basis and appears to be sustainable in the mid-term outlook, i.e. till 2008-2010.

In other words, the Czech Republic has started to be successful in overcoming the lag behind the average of Western European economic performance indicators. In reality, the Czech Republic is one of the most advanced countries within CEE with the GDP per inhabitant expressed in terms of PPP today standing at roughly 60% of the EU-15 average. For the matter of comparison: the same figure for Hungary or Slovakia is 50%, for Poland around 40% and only Slovenia is better off than the Czech Republic, with slightly more than 70%. Let us add that the current Czech economic performance equals that of Ireland and Greece upon their entry into the EU and even higher than Portugal had when

joining the EU (52%).

According to the Deka Converging Europe Indicator (DCEI) developed by DGZ Deka Bank and regularly published by Frankfurter Allgemeine Zeitung, the Czech Republic has had the best results of all the CEE countries since 1992. The latest score for the country is 78 points out of 100. The DCEI is a model employing all the major indicators of a country's economic convergence with the EU, i.e. the economic level, share of agriculture on GDP, unemployment rate, percentage of trade with the EU, progress in *acquis communautaire* transposition, economic policy, and financial system. Given a proper macroeconomic policy in the coming years remaining to the country's entry into the EU, the accelerated growth of Czech economy should further reduce the existing economic disparities between the Czech Republic and the EU in the medium term.

Dušan Provazník



Republic has come the first of all Central and East European (CEE) countries in the contest for FDI per head over the whole period of transformation and as a percentage on the current GDP. This is due to Czech Republic's geographical position - right in the centre of Europe, relatively well-developed infrastructure, proximity to EU external borders, and early entry date. Besides investment made in the process of privatisation of big state companies and banks, more and more substantial industrial (greenfield) investment started pouring into the country between 2000 and 2002, such as the Philips investment into a production facility in Hranice, North Moravia, or the Toyota and PSA Peugeot Citroen investment in Kolin, Bohemia.

The growing interest of foreign investors in the Czech Republic is a big chance for SMEs in particular since they may tap into this production chain by becoming subcontractors to part of the work on the final products by huge foreign investors. SMEs, i.e. enterprises with up to 250

SMEs with Less Than 50 Staff: Czech Success Stories

Conventional wisdom holds that the only Czech firm gaining competitive edge and winning success abroad is a big, well-funded business. Not so true, though.

There are hundreds of SMEs in the Czech Republic these days that export their products not only to the countries of the European Union but practically to all continents of the world. These firms, many of them starting up as family businesses, have flourished both on consumer goods markets and by exporting food, technology, and new lifestyle products.

Hockey Pucks from Walachia Conquer America

A family business GUFEX owned by Pavel Mráček and operating from a relatively poor Vsetín district in Moravia is a textbook example of a successful exporter. Ever since its establishment back in 1990, this company employing only a few staff has been in the idia-rubber business, relying on the classical pressing technology. Gufex is ready to provide customers with a wide range of products and make special, small-series or single-product deals for clients. The firm has drawn attention of the whole world after winning a tender for supplies of game pucks for the 2002 Salt Lake City Olympics Hockey Tournament. And yet, this is not the only export triumph for Gufex. Game pucks, something that simply no hockey player can do without, have come on the company production line right in 1994, and have become an export commodity par excellence. "At the very beginning, we started off with supplying Czech hockey leagues. But that was too small a number to make our production really effective, so we started looking at markets abroad, too," says Gufex owner Pavel Mráček. Soon, the firm's export strategy proved successful and as early as in mid 1990s Czech pucks made it right to the NHL. The watershed came in 1999: Gufex was awarded the IIHF quality certificate for the first time. Ever since then, this proof of excellent standards has been renewed every year. Besides prestige, this certification has also born very material fruit: it won Gufex an exclusive contractor deal for official supplies of all IIHF tournaments. "Our pucks are used not only in A-Group Hockey World Cup matches but also in lower-group tournaments, qualifications and in women and junior championships," adds Pavel Mráček. Last year, Gufex produced roughly one million pucks. About 85% of this volume went abroad, to the United States and Canada in particular.

Czech-Style Milking in Europe and Africa

AGROMILK Pelhřimov and BAUER Tábor teamed up to make a holding standing out as yet another success story. Both businesses started up with some 20 staff each. Today, however, the holding expanded this number to some 120 personnel. The company's annual turnover is about CZK 400 million. According to the holding's Economic Director Zdeňek Novák, some 40% of

the group production is exported abroad, mostly to Slovakia, Poland and former Soviet Union countries. But East European markets are not the only sales opportunities for Bauer Agromilk. Besides prospering in Bulgaria, the company has already cracked markets in Egypt and other African countries. Some technology supplies, indeed, go to EU countries, such as Germany or the Netherlands. Bauer Agromilk is unique in providing a complex stable infrastructure. Tailor-made cattle-milking technology package deals, in particular, are a great success. Novák believes that quality standards comparable to those provided by foreign business for keen prices and complex after-sales care are behind this success. "All of our contacts are the result of our own effort," says Novák. But technology supply is not where it ends for the company export-wise. Bauer Agromilk is constantly working on developing foreign office network, linking up with foreign partners at most times. "For example, we use some of their components - such as electronic controls in our products - getting the foot in the door of exotic markets," says Novák.

Příbram-based Bath-Tube Producer Goes Global

Příbram-based RAVAK, the largest Czech acrylate bath-tube and shower baths producer is one of the most successful Czech exporters. The company exports to some 50 countries today. And yet, Ravak is a typical Czech firm established in early 1990s by two families: the Vařekas and the Kreysas. But it was only in 1994 that Ravak launched its main production line, i.e. shower baths and acrylate bath-tubes, and no sooner than in 1996 did the firm go on expanding to foreign markets. "It was after we had saturated the Czech market, getting about 70% share of the domestic acrylate bath-tube and shower bath market, that the decision to expand came," says Ravak Deputy Chair of the Board Patrik Kreysa. Soon after, the company hit very similar numbers elsewhere in Central and East Europe too, seizing more than 50% shares of markets in individual countries. "Poland is the only exception to this. We've gained only about one third of the Polish market since the competition in Poland is extremely strong," specifies Kreysa. Ravak currently exports also to EU countries. Besides, the firm specialises also in Arab countries such as Saudi Arabia, Kuwait or Qatar. Recently, China has become a great challenge for Ravak. The company was one of the first bathroom design producers to set up a subsidiary in China, opening a small factory shop there later. How come that a mid-sized Czech enterprise established such a strong presence worldwide? "There are several factors in play here: first of all, we decided to go on to uncharted territories and try to make a repeat of our achievement on the Czech market. In the first phase, this effort was extremely investment-intensive, making it one of the most difficult strategic decisions the company had to make. Several years on, however, the choice proves right. So, today, we are a major competitor of the world's leading producers and would like to become a global player on the bathroom design products market," says Kreysa.

The second major reason behind this success, according to Kreysa, is having chosen the right sector. "We don't actually think of it today any more but just try to recall how few people had a shower bath or acrylate bath-tube at home some ten or fifteen years ago? Almost nobody did, in fact. So, ours is a new sector with a great dynamics. And we were able to step in at just the right moment," adds Kreysa. Lack of capital is a typical obstacle in the way of Czech businesses seeking expansion to foreign markets. Ravak, too, had to face this challenge. "We did not go down the traditional credit funding route - we did not consider it worthwhile. Instead, a foreign partner stepped in, limiting his activities only to financing with no management powers whatsoever," comments Kreysa on the most painful problem of Czech mid-sized enterprises.

And what is this major exporter's view on the still firming Czech crown? "We were never breaking into foreign markets by underbidding. Still, the strong crown will affect our competitiveness on foreign markets with no doubts. Why, the crown has appreciated by more than 20% to the euro over the past two years. And we'll have to adjust our prices to reflect this development," said Kreysa.

Czech vs. European SMEs: Still So Much To Catch Up With

The three above examples, together with hundreds there other success stories, prove that size does not necessarily determine a company's export potential. Still, the proportion of SMEs in the overall exporter profile remains small. According to the Czech Customs Office data, there is only a negligible fraction of natural persons among Czech exporters. Enterprises of up to 50 staff make up for 14% of Czech exports and 50-250-staff businesses have a 20% share of Czech exports. Year-on-year developments are not significant so far with firms of up to 50 employees having been the most promising display of change in the export-import ratio. These, along with the largest corporations, were the only ones that raised their share in total Czech exports last year by 0.41% while lowering their share in total Czech 2001 imports by 1.82%. In other words, smaller businesses have been cutting their imports while boosting their exports. And this is something even the largest companies with 250+ staff cannot boast of because - irrespective of having reported a year-on-year increase in their export share of 2.35% - they have, all the same, increased their share in total Czech imports by 2.98%. CzechTrade agency CEO Martin Tlapa points out that this situation is very unfavourable for the Czech Republic especially in comparison with EU countries where SMEs export some 50% of total national export figures. But as the country's entry into the EU draws near and the macroeconomic environment gets standardised, the potential for export activities to pick up is expected to grow. SMEs, in general, are more operative and, unlike the big, rather unified businesses, they are capable of offering clients special products.

Czech Enterprises on the Doorstep of the European Union

As the final date of the negotiation process between the Czech Republic and the European Union draws near Czech enterprises are speeding up their preparations for joining the Single Market. This is the main conclusion of the second survey conducted by Eurochambers in ten candidate countries in January and February this year (the first comprehensive survey was done in February and March 2001).

The survey aimed to map out recent developments in three areas:

- How well or otherwise are companies in the candidate countries informed on the EC legislation, i.e. the *acquis communautaire*?
- What is the companies' own evaluation of the process of harmonisation of the national law with the EC legislation?
- What is the companies' perception of their own prospects in the Single Market?

The sample of the 2002 survey covered 2,575 companies from all the ten candidate countries, 267 of which were Czech entrepreneurs.

Compared to the results of the survey in the remaining nine candidate countries, Czech businesses seem to be more prepared in some aspects to join the Single Market than companies in the other Accession countries. As for the information on the *acquis communautaire*, Czech companies had by far the best results of all the candidate countries: 6% of respondents are fully informed on the *acquis*, 66% claim to be partially informed and the percentage of those companies declaring to have no information at all on the *acquis* dropped down to 14%, compared to 22% from the last year. Even though 43% of Czech respondents declared that they had not started any organised preparation for their operation in the new environment yet, this is better than the average in the remaining nine candidate countries (49%). As for their business prospects in the Single Market, most Czech companies are confident about their abilities: 65% of respondents are optimistic or even very optimistic, which, however, is slightly below the 10-country average of 69%. Still, the number of pessimists is the second lowest in the Czech Republic. Almost two-third of the Czech companies polled expect to be able to adapt to the Single Market without changing the company strategy (31%) or using only their own means (41%). Only as little as one tenth of respondents expect serious difficulties in the financial and commercial areas, while almost two thirds

expect only minor difficulties. Only 17% of respondents would welcome finding a strategic partner. In general, Czech businesses and entrepreneurs belong to those in the Czech Republic who voice the strongest support to joining the EU, wishing for an early entry, prior to 2006: 93% of respondents are in favour of the entry while two thirds of Czech companies believe that the Czech Republic should join the EU before 2005.

Changes on the Labour Market

Mapping out the situation on the labour market, with regards to qualification and workforce mobility on both the Czech and European labour markets was the aim of another survey conducted by the Economic Chamber of the Czech Republic within the European Business Panel this May. Most of the 131 polled companies have been active in the processing sector, trade, construction, transport, and financial services. Most of them were small enterprises with up to 49 staff (51% of the total survey sample) with only 25% of the sample being mid-sized and as little as 24% big companies (50 to 249 and over 250 staff, respectively). The answers revealed that it is chiefly a lack of qualified staff and insufficient work experience that make it difficult for companies to fill vacancies. At the moment, qualified personnel in marketing, customer care, sales, and technical R&D is most wanted and lacked. These are generally jobs for university graduates.

Mere 13% of polled companies employ foreigners. If so, these are largely workers from other candidate countries and non-members of the EU. Only a small percentage of foreign workforce comes from EU countries. Large enough a pool of domestic workforce is being cited at the reason for respondents to hire such a low number of foreigners. As little as 22% of them conceives of filling vacancies with foreign nationals in future. In such a case, though, 56% of respondents claimed these would have to be highly qualified experts while 25% of the sample would hire them for jobs not requiring any qualification and only 18% for management posts.

According to 53% of the entrepreneurs polled, the EU enlargement will have only a negligible or no influence whatsoever on the Czech labour market development. It must be added, though, that 27% of companies believe that EU enlargement will have a positive impact on the Czech labour market while only 17% are of the opposite opinion.

Czech businesses are aware of the need for further training and education of their staff, organising therefore courses for their employees: 31% of respondents train their staff during working hours and 42% of the sample send their employees to externally-organised courses and training. Education of their own staff is part of most Czech firms' company strategy and a means to strengthen the loyalty of staff to the company. Such training and courses take from five to ten days per year in average.

Company Financing

A third survey undertaken by the Economic Chamber of the Czech Republic within the framework of European Business Panel in December last year was focused on methods of business financing. The results of this survey will serve as a basis for the European Commission's draft of the "New Framework for Financial Institutions Adequacy" Directive. This directive is to be transposed to the EU member states legislations in 2005, i.e. at a time when the Czech Republic is already expected to be a member country, providing the enlargement schedule is adhered to.

A total number of 107 businesses took part in this survey. The largest percentage of the sample (34.4%) were medium-size enterprises (50 to 249 employees). 65.38% of companies polled reported an annual turnover of more than EUR 100,000. Most of the businesses polled depend on banks for their financing whereas 67% of these are not happy with the choice available in external financing. Most companies (57.2%) cooperate with two to three banks while 33% have links with more than four banks and just 9.7% get financing from one bank only. No more than 35.9% of respondents believe that their bank is helping the company while providing the firm with beneficial advice at the same time and as much as 64% think otherwise. When asked about whether "your government or the EU could do more to make the access to funding easier for small enterprises" 46% of the polled replied "yes", adding that this may be done namely through proving help with drafting requests for financing by providing easier access to financial information and lending support to regional development banks.

Dušan Provazník

European Business Panel Survey
in the Czech Republic
- Bank Credit Refusal



30,28 %	■ Yes, due to lack of security/collateral
7,34 %	■ Yes, due to past economic record
4,59 %	■ Yes, due to lack of track record
5,50 %	■ Yes, due to insufficient credit score
3,67 %	■ Yes, due to high risk
0,97 %	■ Yes, other reasons
47,71 %	■ No

European Business Panel Survey
in the Czech Republic
- Satisfaction with External Finance



66,34 %	■ No
33,66 %	■ Yes

Coming to Establish Greater Certainty at Law in Business?

Austrian and German law has played a major role in both the process of development and codification of trade law in the Czech Republic. Czech commercial and trade legislation has gone through a number of key changes over the last century. The general Commercial Code from the times of the Austro-Hungarian empire, taken over into the Czechoslovak legislation, had undergone several unsuccessful re-enactments and was replaced in 1970s by a socialist Economic Code and International Trade Code. For political reasons, however, the former did not provide for undertaking - only for relations between socialist entities and between these and the state.

Socialist economic law was understood as a separate branch of law and the post-1989 legislation more or less accepted this view. The Commercial Code adopted in 1991 was originally intended as a "final solution" to the transition from a centrally planned to market economy. Unfortunately, this code has had many faults and

has been amended several times since adoption. The main cause of this "imperfection" was time pressure. So, the fast development of undertaking in the Czech Republic together with this very defective piece of legislation made way for two negative trends in Czech business environment: asset-stripping of companies and a lack of trust of foreign investors.

Up to these days, however, this codex-type Commercial Code of 1999 which has undergone so many amendments has remained the principal source of Czech commercial law, aiming to provide for a complex regulation of the position of business persons, commercial obligations, and other relations connected with trade and business. The fact that the Commercial Code provides for the position of business persons and rights in obligations causes duplicity with the Civil Code. Besides the above, the current wording of the Commercial Code also regulates such issues as unfair competition, the properties of the trade

name and commercial register, legal disposal of company property, or trading company rights and obligations. One of the last amendments to the Commercial Code (Act No. 370/2000 Coll.) provides for full harmonisation of Czech commercial law with EC directives regulating shares, trading company transformation, and Commercial Register in particular.

Changing business environment and the necessary harmonisation of the Czech law with EC legislation have lead the government to adopt an intended subject-matter of a Civil and Commercial Code. This substance of law approved by the Government on 18 April, 2001 is based on the premise of a unity of private law and the aim of as great universality of the Civil Code as possible. The body of commercial law will therefore be reduced quite substantially. The present situation, characteristic with vast numbers of direct Commercial Code amendments is caused not only by the rapidly changing social conditions in the country but also by the requirements stipulated in the Europe Agreement signed between the EU and the Czech Republic, is a gross indent into the certainty at law.

New and complex private law legislation seems to be the right solution. Changes in private law, which comprises both civil and commercial law, will put emphasis on the eminence of the Civil Code. The new Commercial Act will not create any new terminology of its own; instead, it will adopt only the most necessary terms, justified by the very nature of a particular issue, and will be guided by general principles set down under the Civil Code. Unlike the current legislation, the principle of "what is not prohibited is lawful" will prevail. No detailed legislative provisions on accounting records and accounting in general is expected. Most of the existing contracts shall then be regulated by the new Civil Code, except for those having distinct relation to the entrepreneur, such as transfer of firm. The "fair business" principle shall be strongly emphasised in commercial obligations. The future Commercial Act shall be fully harmonised with the EC legislation as of the date the Czech Republic's entry into the EU, so that no further harmonisation effort is needed then. The Commercial Act will no longer include general provisions on trading companies and winding up thereof, neither will it regulate commercial obligations and competition provided for by the Civil Code. The Commercial Act, however, will include provisions on the European Economic Interest Association and the European Company.

Further sources of commercial law shall be retained. These include in particular: the Bond Act, Trade Act, Accounting Act, Banking Act, Stock Exchange Act, Commodity Exchange Act, Investment Company and Investment Fund Act, Securities Act, State Company Act and Economic Competition Protection Act.

To put it simply, while the Civil Code provides for commercial obligations (contracts), Commercial Code regulates partnerships or trading companies. The complex re-enactment of private law suggested above shall replace the old and, due to the great number of amendments, also rather confusing codices of private law. And, crucially, it will bring much more certainty at law with relation to business relations in the Czech Republic.

Hana Hrubá

Small and Medium Sized Enterprises in Czech Economy

The role of small and medium-sized enterprises (SMEs), an important segment of the Czech national economy, is growing in the country. In 2001, almost 60% of Czech workforce was employed by SMEs, producing some 40% of Czech Republic's GDP. As far as foreign trade is concerned, SMEs exported more than 36% and imported some 49% of the total last year's figures. SMEs stood for 40.6% of 2001 investment.

Though not strong in the processing industry and not represented in woodworking, SMEs are very important for several sectors, mainly trade and services. SMEs are often the subcontractors for big industrial businesses and play an important role, indeed, in labour-intensive final production. Both flexibility and, to a great extent, innovation creativity are considered great strengths of SMEs. Their weaknesses, on the other hand, include limited financial robustness and, in effect, more difficulty in accessing credit and loans for further development. Also, low labour productivity, which leaves them far behind larger companies, dilutes their potential.

Besides limited access to credit, SMEs are handicapped in entering distribution networks and dealing with authorities when having to discuss business environment. Not only is it difficult for SMEs to tap into distribution networks selling abroad (which is almost a must for SMEs, on the

other hand) but they have also troubles in entering domestic distribution chains. Here, final production suppliers from among SMEs often face barriers of corporate trade policies of big store chains abusing their position of a dominant buyer. Similarly, acquisition or supply policies of foreign-owned large producers may easily result in Czech subcontractors often finding themselves in vassals' positions. Many small enterprises share the same, rather sceptical view on state administration bodies, including tax offices: SMEs perceive their behaviour as much more forthcoming with regards to larger companies than to small and medium-sized enterprises. SMEs are much more pressed by insufficient information provided to businesses on legislation and the implementation process. Time and financial pressures related to administrative tasks are also much greater on SMEs.

Enterprises, and SMEs in particular, expect that the next few years in the run-up to the entry of the Czech Republic into the EU but also in the months immediately after the entry will greatly extend the pool of various financial resources so crucial for their development. Various national and European support funds, namely the EU Structural Funds in near future, are being relied on in helping SMEs with funding.

Data: ECCR Analytic Centre

Year 2000	Number of Businesses				Number of Employees (in thousands)					
	SMEs up to 250 Employees	SMEs - Natural Persons	Total number of SMEs	Total number of all companies in the Czech Rep.	SMEs' share on the Czech market	SMEs up to 250 Employees	SMEs - Natural Persons	Total number of SMEs	Total number of all companies in the Czech Rep.	SMEs' share on the market
Industry	24324	128180	152504	153430	99.4%	506	124	630	1353	46.56%
Construction	7000	70780	77780	77867	99.89%	143	54	197	251	78.49%
Trade	34486	173795	208281	208402	99.94%	235	131	366	458	79.91%
Gastronomy	3113	38140	41253	41270	99.96%	41	63	104	117	88.89%
Transportation	4933	26074	31007	31097	99.71%	39	30	69	286	24.13%
Finance	1085	21894	22979	23010	99.87%	12	2	14	75	18.67%
Services	24006	153633	177639	177761	99.93%	223	77	300	362	82.87%
Agriculture	3529	45920	49449	49505	99.89%	132	22	154	182	84.62%
Total	102476	658416	760892	762342	99.81%	1331	503	1834	3084	59.47%

Czech Business Environment under Microscope

ECO-FARMING ON THE INCREASE

Czech eco-farming and bio-products are on the rise. According to some experts, Czech bio-products have a great chance to establish a promising presence on the enlarged Single Market. As far as the percentage of eco-farms to the overall farming land acreage is concerned, the Czech Republic has already made it to the top ranks of the European list. This percentage has risen twelve times over the past decade, exceeding five per cent last year. Austria has even twice as good a score as the Czech Republic but that is due to the fact that eco-farming has had a longer tradition there. A great boom of Czech eco-farming came in 1998, after subsidies to compensate in part for losses brought about by this way of farming kicked in. Today, farmers get CZK 1,000 per hectare of grazing land, CZK 2,000 per hectare of arable land, and CZK 3,500 per hectare of produce.

BRANCHES OF FOREIGN COMPANIES OPEN DOOR TO EASTERN MARKETS

Seeking expansion to Eastern markets is what often prompts global corporations to set up their branches in the Czech Republic. Many of them are turning their Czech branches into Central and East Europe centres. All their trade and marketing activities on other post-communist markets are directed from here. Take Moeller Elektrotechnika, a Czech subsidiary of the German electrotechnical concern Moeller Holding, as an example. The holding has its major production facility and headquarters, indeed, in the Czech Republic, making it a base for a push further Eastwards. This is due to cheaper labour cost in the Czech Republic but also because the costs of running East European business from Paris or Frankfurt are much higher than directing it from Prague.

MINISTER OF TRADE AND INDUSTRY WANTS BETTER CONDITIONS FOR SMEs

Minister of Trade and Industry Jiří Rusnok will seek improvement of conditions for SMEs. One of the problems marring this sector is the difficulty in accessing bank credit. Loans come cheap these days, yet banks are wary extending them, especially to small businesses. The reason is that a handful of big banks dominate the market, Rusnok claims. This, however, can be changed only through continuous discussions. Also, the Czech Republic's entry into the EU may change the situation after these banks get under the pressure of their competitors. Besides, the Czech and Moravian Guarantee and Development Bank should come up with a proposal for new, better ways of providing guarantees to start-ups, for example.

IN SEARCH FOR CHANGING BUSINESS ENVIRONMENT

As the new Government was being formed, business associations' representatives were presenting their views and requirements regarding a change of business environment in the Czech Republic. The Confederation of Employers' and Entrepreneurs' Associations claims that the new cabinet should focus on cultivating the economic environment in the country while introducing major reforms of the social system, e.g. pension system reform, and making investment incentives available in full to domestic businesses, too. "We know that it is neither the Government nor the Parliament that decide on economic prosperity. And yet, the Government's measures may either slow the growth or, to the contrary, to speed it up," explains Confederation Chairman Milan Veverka. Nine points on tax system reform forms the backbone of the proposals made by the business association to the new ministers. Here are the key ones:

- reduce direct income tax to 25% (down from today's 31%);
- increase tax deduction on acquisition of tangible fixed assets;
- allow inclusion of reconstruction and modernisation expenses of up to 50% of the value into costs;
- tolerate certain representation costs within the tax system;
- keep restaurants and flat building within the 5% VAT bracket as long as possible;
- substantially limit double taxation of income.

Milan Veverka believes that most of these requirements will have no negative bearing for the state budget. "Saying that tax rates cannot be moved is mistaken. It is the total tax collected that is crucial. If income tax drops down to 25%, more tax will be collected. In the same vein, higher GDP growth will result in higher VAT or consumption tax revenues," says Veverka.

HEDGING AGAINST EXCHANGE RATE RISKS UNDERESTIMATED BY COMPANIES

Czech exporters suffer from billions lost due to the steadily firming crown. Banks report enormous interest of companies in hedging against exchange rate risks. The long-term trend of currency appreciation has Czech exporters cashing in significantly less, partly due to the fact that most of them have no exchange rate risk hedging. As much as 53% of Czech companies polled recently by the CzechTrade agency had no covering against this type of risk in place. SMEs, in particular, use no such an insurance policy. Big companies, on the contrary, consider it absolutely commonplace.

Centre for European Integration
The Economic Chamber of the Czech Republic
Data: Ecomail News

FLASH NEWS: FLOODS IN THE CZECH REPUBLIC

Damage in the wake of disastrous floods exceed all estimates. Big Czech businesses have lost approximately CZK 8 billion according to the Czech Ministry of Industry and Trade's estimate: CZK 5.5 billion in direct damage and CZK 2.5 billion due to interrupted operation. Chemical and energy industries report the most extensive damage. The energy trader ČEZ, for example, will have to go for a total reconstruction of the Orlik and Štěchovice water power plants. The Spolana and Lovochemie hydroelectric stations have been flooded completely. Hundreds, if not thousands, businesses have been hit by the floods.

The top brass at the Ministry of Industry and Trade (MIT) wasted no time, reacting promptly with flood damage repair plans. Seeking to assist the sector, MIT was fast to draft a Reconstruction Programme based on the experience from the 1997 flooding in Moravia which showed that businesses, SMEs in particular, were in bad need for state assistance in accessing commercial credit to repair damage and re-launch operation. As much as CZK 500 million is to come from the public purse to help a selection of firms this year. The money will serve as a guarantee for bank loans and leasing contracts, or, alternatively, to take down 2 to 7 per cent of interest on such credit.

The Economic Chamber of the Czech Republic (ECCR) estimates that the recent flooding has left a mark on roughly 5,000 Czech businesses, burdening them with some CZK 20 billion of damage cost. The ECCR's calculation is based on the data provided by entrepreneurs themselves. As the clean-up works are far from completed, no figures on damage by region may be presented as yet, says ECCR President Jaromír Drábek. The most exact figures so far have been collected from among South Bohemian business community: the current estimate is some 1,000 entrepreneurs hit by the floods and approximately CZK 4 billion of damage in South Bohemia.

The ECCR has called upon its members who have been severely affected by the floods to report the damage they have incurred through their regional and district economic chambers and trade associations, using a common form provided by and returned to the relevant chambers. This data will then be used by the ECCR when negotiating cheap loans with banks, public bodies and European institutions. Besides that, the ECCR set up a special Flood Account to help affected businesses directly. A 'Flood Exchange' has been created on the Chamber's web page; flood-stricken entrepreneurs may ask their colleagues for concrete help here and, vice versa, businessmen willing to offer help may do so through this site. Partner chambers from abroad, including Eurochambers, have been approached by the ECCR with requests for help. The Chamber has also thrown its full weight behind an initiative by the Děčín-based company Wetest Pneu, asking entrepreneurs for 2002 income tax prepayments to boost the country's budget.

The next issue will bring you details on the effect of this year's flooding in the Czech Republic on the country's business community. We will also inform you on the help provided by CEBRE founding members to both firms and entrepreneurs.

Implementation of the Environmental Acquis in Czech Industry

Introduction

Czech industry has gone a long way in succeeding to improve its environmental performance over the past twelve years. Discharges of all major pollutants have been greatly reduced by 75 to even 95% to all media and there is virtually no single source of pollution which would exceed current - very stringent, at that - emission limits set by Czech environmental laws.

All these profound changes have been accomplished during the highly demanding process of the Czech economic transformation in the 1990s. There is no doubt that such an improvement of environmental performance has been achieved chiefly through end-of-pipe (external treatment) measures. Nonetheless, it should be noted, that in-process improvements have played a very significant role too. "Soft" measures have also been important: participation of numerous leading Czech enterprises in global and European voluntary environmental activities (WBCSD, etc.), along with the adoption of Environmental Management Systems (EMAS and ISO 14 000) have contributed to the generally positive development mentioned above.

One of such positive examples is the Czech Pulp & Paper Industry. Paper industry, in general, is considered a very serious polluter of the environment, although there is hardly anybody who could imagine a single day without paper! Its ill fame simply persists from the past although its environmental performance stands out as a very good example of the achievements of Czech industry as a whole.

How to cope with EU Environmental Acquis?

My conviction is that, based upon the recent development, Czech industry, by and large, will be ready to comply with even more stringent new legislation that has either been transposed already or is in the process of transposition. Two years ago, we have adopted Industrial Environmental Policy reflecting all the major trends regarding sustainability and we have become active players in Czech legislative process. Agreements have been concluded individually between several ministries and the Confederation of Industry of the Czech Republic on co-operation, and this

provides a basis for our experts' involvement in the drafting of each bill initiated by the Ministry of Environment.

Besides this co-operation we are actively involved even in the readings and discussions of bills in the Czech Parliament because not every suggestion of our experts is accepted in the preparatory phase. Partnership of this kind, in my opinion, is an essential prerequisite not only for a good law as a piece of legislation but also for successful implementation of such an act.

The Environmental Acquis adoption process in the Czech Republic requires a satisfactory and adequate framework. We believe that the 6th Environmental Acquis Programme does this service while offering a good overview of trends that should be followed in the legislation process. We



hope that most of the actors involved will eventually understand the philosophy of the Programme and that they will use it as a tool for further enhancement of the general environmental performance in this country, gearing it

towards setting reasonable environmental targets and establishing good partnership without compromising economic competitiveness.

The new Waste Law adopted recently seems to be a fairly good one and Czech industry is quite well aware of the additional requirements expected, which are aimed at steady reduction of bio degradable waste being landfilled. The Packaging Waste Law reflects, in many aspects, a good deal of common sense to achieve maximum results at minimum cost. This law, in particular, is a prime example of Czech industry's participation in the legislative process.

We expect well-discussed and reasonable Air and Water Laws and, in spite of some different standpoints regarding air emission limits, we believe that common sense will eventually prevail, allowing to set up fair and manageable standards.

Fundamentally new to the Czech Republic is the adoption of the Integrated Pollution and Prevention Control (IPPC) Directive. I have been involved in the process for many years already and it is my strong belief that this standard is the best opportunity to build a base for much more extensive co-operation of all the stakeholders. This kind of co-operation is an essential prerequi-

site of a successful implementation of this concept and all of the "test runs". In this respect, twinning projects of simulated permitting process have shown the benefits of IPPC, achievable only on condition of the understanding by all of multidimensional environmental protection requirements and business position.

Having thoroughly understood the nature of this Directive, the great majority of installations decided not to ask for any transition period. The new Czech law must establish processes reflecting the views of Czech industry as well as the new legal framework. The baseline of eventual success is the negotiation process. I have briefly scanned paper industry in terms of the BREF (Best Available Techniques Reference Document) compliance and it makes me believe that this concept would eventually, by and large, contribute to enhanced competitiveness of our economy by means of eco-efficiency.

We have only one reservation to the IPPC Directive: we do not understand the logic behind the provision regulating the cut-off date between existing and new installations. Since no law can be retroactive, any cut-off date should simply be set after the new law comes into effect in the country in question. The EU administration should think of this obvious logic.

Conclusion

Czech industry has a proven track record of improving its environmental performance since the very early 1990s. I think that the Environmental Acquis, when reasonably adopted, is not considered a threat by Czech industrial enterprises in general. It needs to be well understood and the role of industrial associations is to help their member organisations in this learning process and defend justified vital interests of the industry as such. We consider it absolutely essential to make use of the experience of European industrial confederations. Therefore, many of our member organisations have already joined these confederations. Let me express my belief that the generally positive industrial attitude and co-operation - both within this country and on the international level - will ease the tensions of the entire enlargement process while bringing Czech industry to even higher standards of environmental performance.

Josef Zbořil

Confederation of Industry of the Czech Republic



- Represents the Czech Business Community in Brussels
- Provides Entrepreneurs and their Organisations with Information and Services Facilitating their Integration into the Single European Market
- Defends Interests of Czech Business Community within Integrating Europe and Helps in Satisfying their Needs
- Represents Various Czech Entrepreneurs and Employers Organisations at their Pan-European Counterparts
- Promotes Interests of Czech Businesses within the Context of EU Institutions and European Associations

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