

Czech

Business Today

Czech Business Today
volume 5, 2-2006
Published by



Liberalisation of services in Europe

SERVICES DIRECTIVE:
A REASONABLE COMPROMISE
IS NOT SUFFICIENT FOR
ENTREPRENEURS



AN INTERVIEW WITH ERNEST-ANTOINE SEILLIÈRE, PRESIDENT OF UNICE
CZECH POSITION VIS-À-VIS SERVICES DIRECTIVE
SUCCESSFUL SRI LANKA – CZECH INTERPRISE



An Interview with Ernest-Antoine Seillière

President of UNICE – the Voice of Business in Europe about current economic challenges of Europe, services directive and more...

As a Frenchman, how do you perceive the current situation in France after the spring crisis concerning new labour legislation for young people and students, which had to be taken back by the government?

I do not want to comment on French politics, but what is important is that we have to go on with reforms. There is no other solution if we want to prepare our countries for the challenges of the globalised world. The Growth & Jobs strategy rightly stresses that national member states have to implement the necessary reforms if we want to bring Europe back on the competitiveness track. In that regard, the new member states of the EU show great dynamism and willingness to reform, which is very impressive and a great example for everybody in Europe.

Do you see real chances for a more flexible labour market not only in France but in the whole EU? The discussions about the European Social Model which took place last year do not seem to have had any real results.

More flexible labour markets are necessary for Europe, but we should not cherish the illusion that this could be best done at EU level. We have a European social model based on values combining growth and social progress in Europe which is conjugated in 25 national social systems. These values can only be sustained if competitiveness is achieved. It is for this reason that the European growth and jobs strategy was decided. The social model will only be sustainable if the reforms we need are put in place in the Member States. Those who want to defend our social systems, as we do, will have to reform them. Some Member States have managed to introduce necessary reforms with success. However, others are still struggling in battles against movements which spread the illusion that the status quo is an option.

Important topics on the EU agenda this year include the directive on services in the internal market and the new chemical policy known under the acronym REACH. It seems that the decision-making

on these two dossiers is coming to the final stage. What is UNICE's point of view about the debate so far and the present situation?

Certainly a lot of work has already been done on both dossiers, but a lot still also lies ahead of us. Both of them are still in the legislative process, and in both dossiers important improvements still need to be made in order to avoid unnecessary burdens for companies.

Let's go a bit more into detail with the services directive. According to several expert studies the original proposal of the European Commission had high potential to kick-start further economic growth in the EU. Is the revised Commission proposal also viewed by UNICE as such an important stimulus for speeding up Europe's growth?

The Commission's amended proposal contains some improvements, although two major concerns remain. Firstly, the scope of the directive has been excessively reduced. UNICE particularly opposes the exclusion of temporary work agencies. Secondly, the amended proposal has not clarified some legal uncertainty. The ambiguity of the provisions dealing with the freedom to provide services will make companies dependent on ECJ case law in order to know the obligations they have to respect when they wish to offer services across frontiers. In order to counterbalance this loss of legal certainty and to increase transparency and information, UNICE considers that a system of notification and a registry of the national restrictions that Member States can impose on foreign service providers should be incorporated in the directive.

In the light of current developments, when do you think that a real free market with services will be established throughout Europe?

The final decision has not yet been taken, the Informal Competitiveness Council on 21 April 2006 still showed some divergences between Member States, in particular on the provisions on cross-border services. Before the Council takes its official position, UNICE urges the Council to take into account the findings of an impact



assessment ordered by the European Commission. The legislative procedure should not be rushed through, and the necessary time should be made available to carry out the above-mentioned assessment and look for improvements in the text.

Which topics, apart from the services directive and REACH, does UNICE put high on its priority list for the near future?

The more than 20 million companies in Europe, which we represent in UNICE - the Confederation of European Business, are worried that Europe risks running into the sand, without effective governance, hesitant about its political project and poorly understood by citizens. The essential objectives of companies are in particular:

- Member States must implement competitiveness enhancing reforms in order to achieve the Lisbon objectives,
- the European market must be fully integrated,
- the European Union must have effective governance,
- protectionist tendencies must be combated,
- enlargement opportunities must be seized to the full,
- the European social model must be modernised in order to be preserved.

These are the key challenges that have to be addressed, and this message is communicated to political decision-makers, not only on the European but also and foremost on the national level.

Can you name any recent examples of successful UNICE lobbying on behalf of the European corporate sector?

UNICE is actively following around 50 different dossiers, ranging from intellectual property to corporate social responsibility, from public procurement to international trade, etc. UNICE always attaches great importance not merely to criticise political and legislative initiatives, but to come up with concrete proposals for changes.

Otherwise, we can certainly consider it a big achievement that competitiveness is now at the top of the European agenda. At the first UNICE Day in 2003, our high-level conference which gathers every year about 1,000 political and business leaders from all over Europe and that we are organising this year on 17 October on the theme "Why do companies care about Europe?", we urged political decision-makers to face up to the competitiveness challenge. Although a lot still needs to be done, the re-launched Lisbon strategy as Growth & Jobs strategy was certainly a step in the right direction. Another example is the Commission's new quest to reduce the burden of unnecessary legislation.

The business community has been calling for such an initiative for a long time and already submitted concrete proposals to slim down and clear out the *acquis communautaire*. Commission Vice-President Günter Verheugen's announcement that up to 4,000 legislative texts are to be assessed is definitively a right approach to make life easier for business to generate growth and create jobs.

Thank you for the interview.

Ondřej Hradil
CEBRE – Czech Business Representation



Ernest-Antoine Seillière studied law and political science. He began his career as a diplomat in the French Foreign Service. Later he spent a year lecturing at Harvard University's Center for International Affairs in the USA, after which he returned to France and started his career in business.

Mr. Seillière joined the family-owned steel producing company, the Wendel Group, in 1976. He took responsibility for managing the divestment of steel-producing activities and for restructuring the Wendel Group into a large investment company. Mr Seillière is Chairman and Chief Executive Officer of Wendel Investissement, the main holding company of the Wendel Group. The company's task is to invest in firms active in the industrial and service sectors and to help them become international leaders by fostering their development in industry, services and media (e.g. Legrand: products and systems for electrical installations, Bureau Veritas: conformity assessment and certification, Editis: publishing).

Mr. Seillière is Vice-Chairman of the Board of Cap Gemini Ernst and Young, and a member of the Supervisory Boards of Peugeot S.A., Hermès International S.A., and Bureau Veritas.

Between 1997 and 2005 he was President of MEDEF, the French Business Confederation. In July 2005 Mr. Seillière was appointed President of UNICE.



The amended Services Directive: A step towards the genuine free movement of services?



The accession of the Czech Republic into the EU two years ago gave the green light to small and medium-sized Czech enterprises to enter the markets of other EU Member States in order to provide their services.

Needless to say, the crux of the interests of our businesses is naturally focused on the markets of the previous 15 EU Member States where, as advising lawyers we can readily witness, the high levels of competence and competitiveness of our companies really comes across. On the other hand, in these markets we face a vast number of legal and administrative barriers which hinder the operations of Czech companies trading across borders, especially those which provide services.

The services sector is said to represent almost 70% of European economic activities whilst simultaneously having a substantially larger potential which is still undisclosed due to the vast restrictions that continue to hamper the intra-community Internal Market. Bearing this in mind, the Lisbon Summit in 2000 set out an ambitious objective to create within the European Union the largest economic area in the world by 2010, the major tool for achieving this aim being the new Services Directive.

The original proposal of the Directive was adopted by the EU Commission in January 2004 and, from the perspective of small and medium-sized Czech businesses, was concerned with making it substantially easier to provide services throughout the EU by removing many legal and administrative barriers.

However, the most recent political processes in the EU have been particularly affected by the negative results of French and Dutch referenda on the EU Constitution in 2005. Hence it is clear that the efforts for a rapid dismantling of the barriers to the free movement of services and the creation of a genuine internal market embodied

by the original proposal of the Services Directive seem to be, at least for the moment, suspended.

In April 2006 the EU Commission provided for an amended version of the Directive which was substantially limited in scope, especially as regards the provisions affecting the free movement of services. Amongst other things, the negative shift in the two following amendments should be, in my opinion, highlighted.

First, the scope of services covered by the Directive was further reduced. In addition to the services excluded from the original proposal (such as financial services, telecommunications, transport, port services, public administration, public education, and others) further services are to be excluded from the application of the Directive, such as those of temporary work agencies, healthcare services, audiovisual services, gambling, social housing, childcare, private security services, and taxation.

Second, the fundamental "country of origin" principle has been abandoned. In practise, businesses providing services in another member state on a temporary basis have to comply with the additional formalities imposed on them by the local administrators in the host state, which adds another layer of regulation to that of their home state. The principle of the country of origin set about to ensure that a service provider which operates legally in one member state could operate temporarily in another member state without the necessity of having to meet further administrative requirements, whilst also avoiding a duplication of the control of the host state and of the home state being applied to the service provider (subject to certain derogations).

As a result, the amended version of the Directive only provides for quite modest progress in the chapters de-

voted to the free movement of services in comparison with the original draft. For Czech businesses there are thus not many reasons for celebration.

On the other hand, after close scrutiny of the benefits of the amended draft Directive we may conclude that certain important progress may yet be achieved in the field of freedom of establishment. For example, when getting established in another EU member state, a business will be able to secure the complete administrative formalities required for establishment via a single point of contact in each member state and to complete all formalities online. We may thus reasonably hope that the authorisation process should be speeded up and result in the reduction of related costs.

Notwithstanding the quite modest results of more than six years of negotiations and the outlay of enormous effort and resources, we believe that the future expectations of businesses, including Czech companies, will not be entirely wasted. However, the golden opportunity to achieve the ambitious objectives as presented by the Lisbon Summit seems to definitely have slipped away.

Finally, I cannot desist from one more comment. We may often hear that the simplification of the EU vast legislation body deserves to be a high priority within the legislative process. The question necessarily arises whether the complex (more than 70 pages) amended proposal of the Directive may, bearing in mind its limited scope of application, really be placed at the heart of the drive to increase the competitiveness and productivity of the EU economy.

The official position of the Czech Republic vis-à-vis the new draft directive on services

On 4 April 2006 the European Commission submitted the revised wording of the draft directive on services on the internal market. This wording was first discussed on the level of member states by economic ministers on 22 April 2006 in Gratz, Austria.

In key points the revised version is based on the amendments of drafts accepted during the first reading by the European Parliament (16 February 2006). The draft of the EP was taken over almost literally word for word in the most important parts of the directive, i.e. Article 2, the extent of the force of the directive, and Article 16, the principle of the cross-border provision of services and the issue of posting employees abroad. In other parts of the directive the Commission more or less accepted the amended drafts of member states.

The Czech Republic regards the revised wording as a compromise which could be viewed as the basis for a future directive on services. Nevertheless, it is also aware that the text submitted suffers a host of legislative and technical defects which would considerably impede the implementation of the directive into national legislation. These defects must be clarified prior to

the directive being passed. They involve the somewhat vague provisions relating to the exclusion of individual sectors of services, such as healthcare, social and audiovisual services. The same goes for transport services, where related services were excluded, and the question arises whether the transportation of dead bodies or catering services etc. also falls under this exclusion. The Czech Republic also regards as issue the delineation of the relationship of the directive to other provisions of community law, and a certain discrepancy in the provisions relating to the principle of the cross-border provision of services (Articles 16 and 17).

As far as the problematic of posting workers abroad is concerned, the Czech Republic understands that there is not the political will to address this question directly in the directive. Nevertheless, the Czech Republic does not regard the Commission's communication on the posting of workers abroad, which the Commission submitted on 4 April 2006 along with the revised version, as being sufficient and would be glad to see this question resolved by legally binding means.

The final position of the Czech Republic vis-à-vis the

draft directive will be based, amongst other things, on the results of an impact study which it commissioned for the revised version of the European Commission. In the same way, when creating its position the CR will take into account the updated impact study by KPMG, which evaluates the economic impacts of the revised version on the Czech economy.

In conclusion it is important to note that the Austrian chair put great pressure on member states to accept the draft directive as quickly as possible, the plan being to attain political consensus at the May meeting of the Competitiveness Council (29 May 2006). The question now is how many disputed points can be resolved by that time.

Lucie Šestáková

Ministry of Industry and Trade of the Czech Republic

The position of the Economic Chamber of the Czech Republic regarding the transition period for the free movement of workforces within the EU

The Economic Chamber of the CR has made every effort at its disposal to see the transition period cancelled. Two years' experience has shown that there never existed and still do not exist any material arguments for its prolongation. The work-place quotas have not been met, the transition period means an unnecessary administrative and financial burden.

Four countries, Finland, Portugal, Greece and Spain, have decided to terminate the transition period, which prevented the free employment of workers of member countries of the Union from Central and Eastern European, after the first two years of its operation. By doing so they have joined Ireland, the United Kingdom and Sweden, which opened their job markets to the new members of the EU immediately after their entry. The remaining countries have retained the restrictions on the jobs market, though several countries have slackened their restrictions.

France, Luxembourg and Belgium have decided that they are not going to apply the restriction on the jobs market in selected areas. These countries will require the appropriate work permits, though these will not be issued automatically. In the case of France this involves, for instance, bricklayers or craftsmen (the list of French professions is available on the website www.anpe.fr). In Luxembourg the sectors of agriculture, viniculture, and employment in hotels and restaurants are being freed up. In Belgium the following professions are involved: hospital nurses, architects, accountants, auto-mechanics and others.

Italy is to issue more work permits for foreign workers, and from half way through this year Denmark is to simplify the administrative procedures involved in the allocation of work permits. The Dutch government, while approving the opening of the jobs market from 1 January 2007, though its proposal did not make it through Parliament in April. Member of the Dutch law-

giving body should reach a final decision by the end of this year.

On the other hand Austria and Germany have clearly stated that the transition period is to continue up till 2011.

In the case of countries where the transition period for the entry of Czech citizens on to the respective markets of these countries has been extended, the Economic chamber of the CR will request reciprocal measures in accordance with the Treaty on Accession to the EU. The transition measures represent a clear competitive disadvantage in these countries and the Economic Chamber of the CR insists that they must be removed as soon as possible.

Traian Urba

Economic Chamber of the Czech Republic



JAROMÍR DRÁBEK,
PRESIDENT OF THE ECONOMIC
CHAMBER OF THE CZECH REPUBLIC



Czech Confederation of Industry about the services directive:

The modified version of the directive on services has failed to live up to our expectations

“A reasonable compromise is not sufficient for entrepreneurs”



JAROSLAV MÍL
PRESIDENT OF THE CONFEDERATION
OF INDUSTRY OF THE CZECH REPUBLIC

On 4 April 2006 the board of commissioners of the European Commission discussed the modified version of the draft directive on services in the internal market, which is intended to revamp the original version of the Commission and the drafts of the European Parliament and Council into a brand new text.

The new draft aroused great hopes. If opinions in the EP were underpinned mainly by political interests and on the Council by national interests, it was expected that the Commission would display a certain overview, neutrality and an attempt at realism. The Commission is supposed to be the architect of the single market and the custodian and guardian of the Treaty on the EU. Moreover, the Commission is now opening discussions on the future form of the policy of the EU single market. If we want to have ambitious objectives, we mustn't be afraid of ambitious tools. A reasonable compromise will simply not do for business!

The Commission's modified version confirms the division in the ranks of the commissioners themselves. It is completely lacking in ambition and is fuelled by an attempt to reach a compromise. It involves simply cosmetic changes, mainly in the sphere of technical and administrative measures. The spirit of liberalisation is being lost and the drastic reduction in the scope of the directive after its first reading in the EP has been retained. The elimination of certain services, e.g. labour agency services, healthcare and security services, has lost any justification and material argument, and is utterly at odds with the aim of increasing employment and mobility in Europe. The derogation of services in the public economic interest and of international public law deriving from Article 16 is also at variance with the aim of the directive to become an effective tool of liberalisation of the internal market for services. There has not even been any fundamental change to the key Article 16 of the directive “free-

dom of the provision of services”. The Commission is attempting, in vain, to create the illusion that the principle of country of origin remains, given a correct interpretation and implementation of all the provisions of the article. The truth is, however, that legal security is petering out and member states are being offered sufficient room and arguments for preservation of the current restrictions and the creation of others.

However, there have been certain positive changes against the proposals of the EU. “Notification and screening” has re-entered the game. This involves the duty of member states to inform the Commission of a newly introduced measure which restricts the provision of services and the law of the Commission, within three months of announcing an investigation into the compatibility of the new measures with community legislation. However, the words “shall” and “should” considerably weaken this duty.

Articles 24 and 25 (the posting of workers) have inexplicably dropped out of the wording of the directive. And yet it was only a matter of finding a more correct and strict formulation which would have emphasised the fact that the directive on services does not prejudice the posting of workers directive.

The exclusion of employment law, including collective agreements and industrial actions (1.6), from the directive on services has provoked considerable concern. The intention of the directive is not to regulate this sphere, but simply to create the principles of a legal framework applicable for the cross-border provision of services while respecting existing community legislation. The exclusion of employment law creates fertile ground for mistaken interpretations, which is against the interests of the directive.

Entrepreneurs and employers on all levels have already several times expressed their interests, hopes,

and disappointments during the course of the entire negotiating process on the directive on services in the internal market. Now there are worries that all hopes for an effective instrument for the liberalisation of services in Europe are lost, since the informal meeting of the Council on Competitiveness 21 - 22. 4. 2006 in Gratz was held in the spirit of political agreement and support for the Commission's draft. Although the more liberal countries are attempting to return the directive to the working bodies of the council, the Austrian chair is pressing for the conclusion of negotiations by the end of its mandate and the EP representatives invited are warning that, in the event of further amendments to the draft, the directive will not pass a second reading.

Entrepreneurs and employers on a national and European level want and need a directive on services in the internal market as early as possible. But they do not wish to see a compromise which has no ambition or added value and will never lead to the creation of an effective tool for the liberalisation of services in Europe.

It is sad that the Commission is lacking in vision and has allowed itself to be intimidated from any idea which would be to the benefit of greater competitiveness of our continent by a group of trade unionists which, paradoxically, is kept going by entrepreneurs.

Jaroslav Míl
President of the Confederation of Industry
of the Czech Republic

The prerequisites for the successful development of the Czech construction industry



The main condition for the continued successful development of the Czech construction industry is that economic growth is maintained and not afflicted by any significantly negative impacts, e.g. a sharp increase in the price of oil and other energy sources, or negative political events in the world. However, even given a healthy tempo of economic development, the further progress of the construction industry needs the policy of the next government to be in favour of investment, so that the states funds for transport infrastructure and for housing development are filled, despite resources from privatisation drying up. In 2005 the volume of investment in construction was CZK 420 billion. The supply of work in the CR on transport, industrial, environmental and residential construction work is such that the meet the same annual volumes could be maintained for at least the next 10 years.

There are sufficient construction capacities. The decisive factor is financial resources. For this reason it will be very important in the foreseeable future that financial resources from EU funds are utilised successfully. Association of Building Entrepreneurs of the Czech Republic is of the opinion that one central location should be established (e.g. a ministry or delegated state organisation, e.g. Czechinvest etc.), which would be the coordinator of the projects submitted, and above all that such a location should be staffed with specialists with a knowledge of the problematic in question to such an extent that projects are not eliminated simply on the basis of formalities, and also so that co-financing be coordinated. We know that several EU countries have such central locations, which is one of the reason why they are successful in utilising EU funds (e.g. Portugal).

A condition for the development of housing construction is the retention of 5 % VAT after the year 2007,

when the exemption negotiated in the accession treaty between the CR and the EU ends. At present the situation is such that, in countries of the EU in general there is an exemption on repairs to the housing stock for inclusion in reduced rates of VAT until the year 2010. The reduced rate of VAT for housing construction in EU countries is proposed by the EC for social housing, while it is within the competence of national governments to define social housing. In the CR there is a proposal social housing includes apartments with a surface area of up to 90 m², and family houses up to 150 m². However, the proposals of national governments will be approved by the European Parliament half way through 2007. If the Czech proposal is accepted, it would relate to approximately 90% of the housing construction in the CR. However, a question still remains as to whether the reduced rate of VAT will continue to exist in the future, and at what percentage rate.

For the successful development of the Czech construction industry it is also important that regulatory conditions exist on the market for domestic and foreign companies, in order that improper business activities are not practiced on the part of foreign companies, e.g. business companies participating in public tenders without supplier capacities, which offer apparently very reasonable prices for the tenderer and investors, but shortly afterwards transfer the delivery of constructions to domestic companies for an even lower price. This threatens the existence of a company at the end of the supply chain and causes many problems to investors, including the necessary increase of prices and poor quality of construction work.

The situation is all the worse at present for the fact that Czech companies cannot practically attempt to acquire the status of higher suppliers of construction in most European countries, especially where it would be advantageous for them (Austria, Germany), because of the existence of entrenched administrative barriers, or even contracts concluded in the past which should no longer apply now that we are members of the EU.

For this reason Association of Building Entrepreneurs of the Czech Republic is making every effort to protect the Czech construction market against the improper business activities of certain foreign companies, e.g. the operation of a system of certified participants in public contracts in accordance with the new Act on public contracts.

A new Labour Code should also contribute to the de-

velopment of construction work, by liberalising the jobs market and simplifying the rules for the employment of workers, as well as creating more room for mutual agreements (collective agreements) between the employers and employees. However, this is not the case, and the new Labour Code is much more complicated than the original one, does not free up the workforce, and has not removed several provisions which are unconstitutional.

At present the Czech construction industry is fully competitive on a European and global scale. The construction work carried out is technically top class, and the level of materials and technology is of a high quality.

The competitiveness of the Czech construction industry could be reduced by a lack of qualified employees in the basic professions, as well as the high price of technical norms for small and medium sized companies, which are the main suppliers of constructions or their parts.

Association of Building Entrepreneurs of the Czech Republic believes that technical norms for the building trade should be freely available, especially for small and medium sized companies. This would be a concrete benefit to small and medium enterprises, whose interests are frequently spoken of, without significant action yet having been taken.

Václav Matyáš
President of the Association
of Building Entrepreneurs of the Czech Republic

Association of Building Entrepreneurs of the Czech Republic has 900 members from the sphere of the production of construction materials, design and the implementation of construction work. It is based in Prague and has offices in all the regions of the Czech Republic.

The association is a member of the Czech tripartite and the European Construction Industry Federation – FIEC.

Recently the association celebrated 15 years' of its existence and successful activities for Czech construction industry.



EU legislation and financial services



Financial services comprise a solid part of the economy of the EU. In 2000 they generated 8.5% of added value created by the private sector and 14.8% by the services sector. In the same year they employed approximately 5.3 million people, i.e. 8.5% of the employable population. Most European financial institutions are relatively small and in 2000 more than three quarters of companies had a balance sheet of less than EUR 1 billion. Nevertheless, recently there has been a trend for concentration, and the number of companies in this category has decreased by 18.4% between 1997 and 2000. The main role in the mediation of financial services is taken by the acceptance of deposits and the provision of credit.

The activities of the European Commission in the sphere of financial services, as in other branches, consists above all in the creation of a functional EU market instead of 25 fragmented national markets. Two factors have helped the realisation of this aim in the sphere of financial services. Firstly, the acceptance of a single currency, the euro, and secondly, after in-depth analyses, the Commission arrived at the conclusion, supported by the foremost economic specialists, that such integration would bring fundamental benefits. The basic idea is to allow financial institutions operating in one country to be able to offer the same financial services on an EU-wide basis, with the same regulatory rules to apply on the single market.

The first work activities began in 1998, and the Financial Services Action Plan (FSAP) was accepted as a high priority in 1999, on the understanding that its 42 measures should be implemented by the end of 2005. By January 2006, 41 of 42 of the planned legislative drafts within the framework of the FSAP, i.e. as many as 98 %, were accepted in accordance with the plan, apart from the 14th Company Law Directive on the Cross Border Transfer of Registered Office, and at the same time work was

launched on implementation of the approved legislative acts. Given the extent of the action plan it is not possible to carry out a detailed analysis of the activities of the European Community in this sphere, and so I will simply sketch out the main pillars. One of the most important of the directives accepted was that on markets with financial instruments, on the basis of which financial companies, during their activities within the framework of the EU, will not have to meet 25 various legislative frameworks of individual members states. Another important element is the directive on money, which specifies that companies may manage one pension fund for all their European employees, while at the same time nullifying the restrictions to which these funds have to comply when investing. Another positive benefit is the directive on collateral, which reduces the costs of cross-border financial transactions by means of joint rules for trading in collateral (the safekeeping of cash or equity during financial transactions). Nevertheless, despite acceptance of an entire range of legislative regulations, there are many questions remaining and some degree of scepticism (especially from the British) both regarding several compromises which the legislation contains, and the actual implementation and monitoring of compliance. In the EU there does not yet exist any equivalent of the American Securities and Exchange Commission. Instead, in the EU-25 there are 60 various institutions responsible for supervision of the European and national securities market.

Filip Neterda
Office of the Government of the Czech Republic

Business Project of the Year 2006

THE AWARD FOR BUSINESS PROJECT OF THE YEAR IS GIVEN TO OUTSTANDING PROJECTS IMPLEMENTED BY CZECH COMPANIES WHICH WERE GIVEN SUPPORT FROM THE STRUCTURAL FUNDS OF THE EUROPEAN UNION.

The Business Project of 2005, the first year of the award, was held under the aegis of the Ministry of Industry and Trade of the Czech Republic, and organised by the Investment and Business Development Agency CzechInvest, and the Association for Foreign investment (AFI). Czech companies, members of the Confederation of Industry of the CR, won half of the prizes for the best business projects of 2005.

• In the category Cluster of the Year the prize was won by the Prague company PolyPlasty s.r.o., for the project Search by Company for the OMNIPACK cluster.

- In the category Project with the Greatest Innovation Potential the jury awarded top prize to the Liberec Research Institute for Textile Machines for its project The Introduction of the Manufacture of CAMEL Pneumatic Weaving Machines.
- In the category Technological Development of the Year the company Durabo from Čelákovice won, for its project entitled The Introduction of Top-class Polygraphic Technology.
- In the category Business Incubator of the Year the winner was the company BIC Ostrava s.r.o. The jury was particularly taken with its project entitled Expansion of Services to Businesspeople.

"These prizes confirm a trend which we are monitoring in the Czech Republic at present. Strength and success is already very visible in the sector of small and medium enterprises. The AFI brings together a whole host of companies which hold consultations, advise each other, and operate on a specialist level in many spheres of business in which SMEs represent a huge potential for the future," said Martin Slabý, chairman of the Association for Foreign Investment, which is the project partner.

Růžena Hejná
Confederation of Industry of the Czech Republic

The share of the tertiary sector in the performance of the Czech economy

The structure of the Czech economy is characterised by the relatively low share taken by the primary sector in GDP and employment, with a share of the overall production of the CR of less than 3 %, and of overall employment only slightly exceeding 4 %. The secondary sector, industry, contributes roughly a third to production in the CR. The largest share in the creation of GDP and employment represents the tertiary sector of services. In 2004 services took a share of overall production in the CR of 59 percent and of employment as much as 65 percent. However, in comparison with advanced countries, the CR has a lower share of services in the creation of total added value, e.g. in comparison with the EU-15 (by 9%), the USA (by 15%), and Japan (by 11%).

The significance of services in other sectors

The significance of services is closely linked with their growing utilisation in other branches of the economy. In the Czech Republic 29 % of the performance of services is provided back into industrial production, 12 % into construction and the hospitality industry, 11 % to the public sector, 2 % to the primary sector, and finally 46 % is provided within the framework of the services sector.

The most important component is represented by services for industry, which have a direct impact on the competitiveness and performance of enterprises, whether this involve industrial producers or other service providers. Though it is difficult to quantify precisely the ratio of the performance of business related services (BRS) to the industrial sector, for the purposes of arriving at

a definition of BRS it can be stated that services for industry are the kind of services which, by virtue of volume and the quality of their output, impact significantly on the total creation of the value of industrial enterprises or other services for industry.

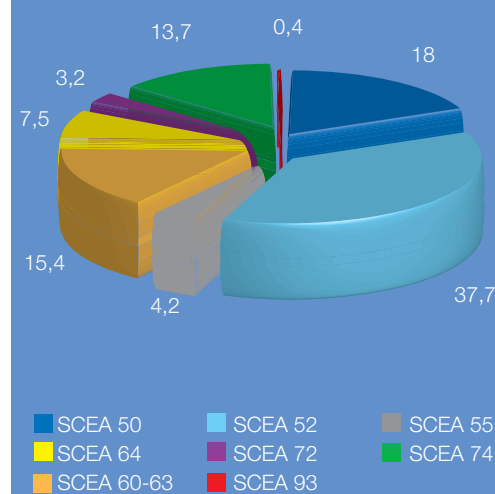
Amongst the most significant groups of services for industry are Sector Classification of Economic Activities (SCEA) 74 (other business activities) and SCEA 72 (activities in the sphere of computer technology), which, as well as absolute size measured by the creation of GDP and employment, also embody a continual potential for growth of macroeconomic indicators. From this point of view the groups SCEA 74.1. and SCEA 74.2. (i.e. legal and accountancy activities, tax and other consultation, market research and public opinion; architectural and engineering activities) above all are the main representatives of the significance of the group. Other important groups are SCEA 51 and 52 (wholesale and retail), though from the point of view of potential growth, above all an increase in productivity and profitability, they attain significantly worse results.

Other selected groups within the framework of SCEA 45 (45.3 and 45.4 – construction assembly work and constructional completion activities) attain above average indicators of a macroeconomic analysis, which, by virtue of their size, are amongst the most important group of services, while maintaining a relatively good level of growth criteria.

Traian Urban

The Economic Chamber of the CR

The share of individual branches in overall revenues of services for 2005 in %



SCEA 50, 52, 55, 60, 61, 62, 63, 64, 72, 74, 93
- Services

SCEA 50, 52, 55 – Total retail

SCEA 50, 52 - Retail, including the motor segment

SCEA 50 - Motor segment

SCEA 52 - Retail

SCEA 60, 61, 62, 63, 64

- Transport and communications

SCEA 72, 74, 93 – Selected market services

Commissioner Verheugen visits the Economic Chamber

At the end of March Günter Verheugen Vice-President of the European Commission in charge of Enterprise and Industry portfolio paid a visit to the Czech Republic. Apart from meeting with Czech politicians he did not miss this opportunity to discuss current economic challenges of the EU with Czech businessmen. He kindly accepted the invitation of the Economic Chamber of the Czech Republic.

His speech and the following discussion was centred on the renewal of Growth and Jobs strategy. He summarized the main features of the renewed Growth and Jobs strategy in three points - enhanced ownership, greater coherence, and a stronger focus on growth and jobs. Last year member state governments submitted National Action Programmes and in autumn they should already report on results achieved.

In its report to the spring council Commission has identified four areas on which the efforts should be concentrated this and next year. These include:

- Knowledge and innovation
- Unlocking the business potential, including promoting SMEs
- Responsibility to globalisation and ageing
- Common EU energy policy

The presentation was very well received but there was some scepticism about the ability to deliver. There were already too many promises now the time for real actions should come.

Ondřej Hradil, CEBRE Czech Business Representation

“Higher productivity is also the only way for businesses in Europe to remain competitive, as new competitors join the global economy. Bringing about higher productivity, while also ensuring sufficient labour supply, will largely depend on the framework conditions set by legislators and regulators in Europe.”



COMMISSIONER GÜNTER VERHEUGEN
SPEAKING TO CZECH BUSINESSMEN
AT THE CHAMBER PREMISES IN PRAGUE



News

New managing director of CzechTrade



From 15 March 2006 management of the export promotion agency CzechTrade has been taken over by the hitherto director of the Czech representative office in Denmark, Ivan Jukl. Mr Jukl is a graduate of the Faculty of Electrical Engineering of the Czech Technical University in Prague, and has undertaken management courses at the Dutch European Institute and the Japanese Postgraduate Training Centre.

He also has experience in the private sector. From 1998 to 2000 he held managerial positions in the sphere of foreign trade and international relations with the companies EZ Praha and ELTODO. He then worked for five years at the representative office in Denmark, where he concentrated on promoting and publicising the economic interests of the Czech Republic, as well as the EU agenda.

His arrival should bring new ideas to the agency and put CzechTrade amongst the most successful agencies on a European-wide scale, said the Minister of Industry and Trade, Milan Urban. Mr Jukl acknowledges that increasing the number of successful clients is the priority with which he starts work at CzechTrade.

At present CzechTrade has 31 foreign representations and offers a host of training and financial programmes. The agency also runs the portal businessinfo.cz, intended for exporters.

Traian Urban
Economic Chamber of the CR

Most admired Czech companies

As in previous years Czech Top 100 published the list of most admired Czech companies for the current year. This year as in previous years the top places were taken by traditional Czech companies and. The most admired company of 2006 is the carmaker ŠKODA AUTO (its eight victory in a row), followed by the electricity giant ČEZ.

The good news is that the Czech corporate landscape is dynamically changing. In the top 10 most admired companies we can find three new names, and in the top 100 more than 20 % of the companies represented appear for the first time. "This new blood is witness to the dynamism of the Czech economy and the successful marketing communication of companies, which forms their image," said the president of Czech Top 100 Jan Struž at a press conference.

The final ranking is based on votes cast by managers of major companies, economic and financial analysts, and representatives of trade unions and business associations. Apart from the most admired company ranking, every year Czech Top 100 publishes the following rankings: the 100 most important Czech companies, the TOP 10 of system integration, and the 100 best annual reports.

Ondřej Hradil, CEBRE Czech Business Representation

Company	Sector	2006 ranking	2005 ranking
ŠKODA AUTO a.s	automotive	1	1
ČEZ, a. s. utilities	utilities	2	2
Zentiva, a.s	pharmaceuticals	3	3
Pižeňský prazdroj, a.s	food & beverages	4	4
STUDENT AGENCY, s.r.o.	tourism	5	-
Skanska CZ a.s.	construction	6	5
Budějovický Budvar	food & beverages	7	6
Eurotel Praha, spol. s.r.o.	telecommunications	8	-
TRINECKÉ ŽELEZARNY, a.s	steel	9	8
PPF a.s	financial services	10	-

Source: czechtop100.cz

The Economic Chamber of the Czech Republic has an ISO certificate



AFTER HALF A YEAR'S IMPLEMENTATION OF THE MANAGEMENT SYSTEM, THE VICE-PRESIDENT OF THE ECONOMIC CHAMBER OF THE CZECH REPUBLIC, JAN WIESNER, RECEIVED AN ISO CERTIFICATE FOR "THE SUPPORT OF BUSINESS ACTIVITIES AND THE PROMOTION AND PROTECTION OF THE INTERESTS AND REQUIREMENTS OF ENTREPRENEURS."

The Office of the Economic Chamber of the Czech Republic has received a quality management system certificate in accordance with the ČSN EN ISO 9000 standard. The introduction of this standard should lead to the improved efficiency of the activities of the Office of the Economic Chamber, to an acceleration and simplification of internal processes, and to an improvement in the services provided to the general business public, members and non-members of the Chamber.

The ISO 9000 international quality management standards are awarded in control processes for the application of elements minimising the possibility of poor quality outputs. Experience with the application of the standards in the Czech Republic has been mostly positive. The management control system in accordance with ISO 9000 has already been introduced at seven thousand organisations, above all in the spheres of machine-tool engineering, the construction industry, and electro-technology. It is also applied in the sphere of services, where it is expanding dynamically.

The allocation of ISO 9000 is the culmination of one stage in the implementation of a quality management system within the framework of the Economic Chamber of the Czech Republic. It assists in the formation of a clear position for the Chamber as a modern organisation with a clear vision and the concrete aim of providing support and assistance in the development and cultivation of the business environment.

Ilona Sánchezová
The Economic Chamber of the Czech Republic
Photo: archive of Komora.cz

CEBRE seminars – legal barriers in public procurement, doing business in Slovakia

In what ways are the rules for commissioning public contracts in the CR changing to take account of new EU directives? What legal and tax differences does a Czech company have to take into account if it decides to provide services in Slovakia?

Within the framework of its day-to-day activities CEBRE identified these questions as those most frequently posed by Czech businessmen. For this reason it contacted top Czech law firms with an offer of seminars which would provide answers to these questions.

On 30 March a seminar was held on public contracts in accordance with the new European amendments to

directives 2004/17/EC and 2004/18/EC and the new Czech Act on public contracts, from the point of view of suppliers. During the seminar, co-organised by CEBRE, the law firm ROWAN LEGAL, and the Federation of Industry of the CR, participants were able to familiarise themselves with the evaluation of bids by means of electronic auctions, and with the problematic of qualification requirements, which represent the most frequent reason why bidders are disqualified from a public tender. In light of the huge interest displayed we organised two seminars on this theme.

The business activities of Czech companies in Slovakia

was the topic of a seminar organised on 4 May under the specialist supervision of the law firm Peterka & Partners. The morning session focussed on the cross-border provision of services, while the afternoon was devoted to the conditions applying to companies settling in Slovakia. Even though Slovakia is almost a domestic market for Czech companies (given the intertwined history of the countries and the lack of any language barrier), business in Slovakia differs in many respects from business in the CR.

Martin Duda,
CEBRE Czech Business Representation

Sri Lanka – Czech Interprise

The Economic Chamber of the Czech Republic and the Ceylon Chamber of Commerce, under the aegis of the European Commission, organised the participation of Czech small and medium sized entrepreneurs at a unique bilateral contact event entitled Sri Lanka – Czech Interprise, which took place from 16 – 18 March 2006 in Colombo, Sri Lanka. The event was part of the Asia-Invest programme administered by the European Commission, which provided a contribution to the costs of Czech companies which embarked on this long trip.

The format of the organisation of these meetings, favoured by enterprises, allows for contacts to be effectively struck up in accordance with an overall plan established in advance. Czech entrepreneurs were provided with a list of the guest Sri Lankan companies from three approved spheres – the rubber, power, and environmental technology industries. They selected interesting partners from this list and a computer system created a programme of negotiation for them. The great advantage of this was that the Czech participants acquired basic information regarding their Sri Lankan counterparts prior to the event.

In the centre of attention

The Sri Lanka – Czech Interprise event enjoyed great attention on the part of Sri Lankan state bodies and institutions, with the Sri Lankan Minister of Trade present at the inauguration ceremony. Over the course of the event the Deputy Minister for Planning put in an appearance, and also present were representatives of the most important banks, the Sri Lankan agency for the support of exports, the Sri Lanka investment agency, and other representatives of the state and public administration. At the same

time as the prestigious event Sri Lanka – Czech Interprise was taking place, the largest Sri Lankan trade fair this year was underway, IMEXPRO 2006, which was also organised by the Ceylon Chamber of Commerce. This was a multi-sector exhibition, and participants included companies from India, Pakistan, Germany, Slovakia, and other countries. The Czech participants at Sri Lanka – Czech Interprise enjoyed free entry to the fair, which was interesting added value for them.

Sri Lanka – Czech Interprise allowed a total of 20 Czech small and medium companies to strike up interesting contacts in this somewhat exotic territory, which, however, has a solid business environment and offers Czech companies concrete possibilities of cooperation. The Czech Republic enjoys a good reputation in Sri Lanka, thanks to the swift and directed humanitarian aid provided after the tsunami of the year before last. Moreover, most of the Czech participants were recipients of support from the Ministry of Industry and Trade of the Czech Republic, which, within the framework of the renewal of the infrastructure in Sri Lanka, approved dozens of projects, above all in the sphere of technology for the processing of waste, sewage plants, etc., which meant that orientation in this environment was already easier for them.

It doesn't end here

The success of the event inspired the Economic Chamber of the CR and Ceylon Chamber of Commerce to submit another similar project within the framework of the Asia-Invest programme for approval by the European Commission during this year. A concrete results of the Sri Lanka – Czech Interprise event was the creation of a Sri Lankan section of the Sri Lanka – Czech mixed economic committee to supplement the already existing Czech section. The mixed economic committee, which has great support both from the Czech and Sri Lanka side, should serve as an effective business platform for the specification of the development of Czech/Sri Lankan mutual trade, and should in this respect bring concrete initiatives both from the point of view of form, and, above all, from the point of view of perspective spheres, specific projects, as well as financing.

Jiří Hansl, Economic Chamber of the Czech Republic
(From the magazine Komora.cz No. 5/2006)

OPENING SESSION OF SRI LANKA – CZECH INTERPRISE IN COLOMBO, SRI LANKA





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 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, monitoring of their interests, and efficient representation vis-à-vis the Czech Government. The ECCR provides customs and certification services, legal and legislative services as well as 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 coordinating entrepreneurial, employers' and professional interests in negotiations with Parliament, Government, public administration and Trade Unions. At present the organization 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 and The Employers' Union of Mining and Oil Industries.

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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 favorable business environment. It also provides consultation and information services for its members that focus on international relations, trade opportunities, production cooperation, legislation, collective bargaining, European integration, education and training. It is a full member of the International Organization of Employers (UNICE).

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- Protects the interests of Czech business community vis á vis the EU institutions
- Informs Czech businesses about EU legislation affecting them
- Trains Czech entrepreneurs and managers in Brussels, the heart of the EU
- Represents Czech business associations at European business federations

CEBRE operates within the legal framework of CzechTrade in Brussels as a part of the commercial and economic section of the Embassy of the Czech Republic to the Kingdom of Belgium.

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Czech Business Today

Published by: Economic Chamber of the Czech Republic in cooperation with Confederation of Employers and Entrepreneurs Associations of the Czech Republic and Confederation of Industry of the Czech Republic • Contact: Hospodářská komora ČR, Freyova 27, Prague 9, Czech Republic, Centre for European Integration, e-mail: redakce@komora.cz, cebre@komora.cz, tel: +420 296 646 606, +420 296 646 356 • Managing editor: Iлона Sánchezová • Editors: Aleš Fischer, Eva Svobodová, Traian Urban • Translation: Phil Jones • Editorial Board: Blanka Jakubcová, Jan Wiesner, Ivan Voleš, Dagmar Kuchtová, Jakub Rainisch, Ondřej Hradil • Design and project management: Štrob, Širc, Slovák s r.o., Oldřichova 28, Praha 2 • Printed by: JPJ Consulting Production • Registration: Ministry of Culture of the Czech Republic - MK CR E 13767 • Periodicity: Quarterly • Edition: 850 copies • Distribution: Own • This edition was published 12 June 2006 • The views expressed in Czech Business Today are not necessarily those of the company. Permission to reprint any article will usually be given on application to the publisher.