

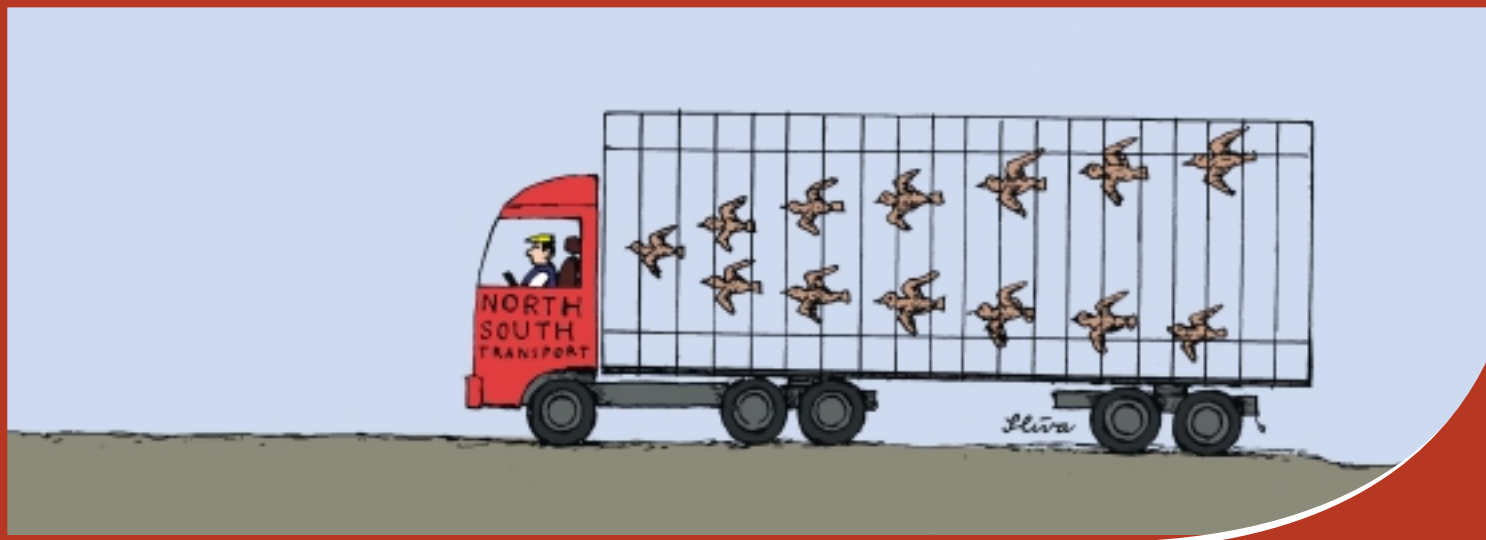
# CZECH BUSINESS *today*

1/2004

Association Maison Tchèque

**CEBRE**

CZECH BUSINESS REPRESENTATION



- ▶ Czech Companies and EU External Trade
- ▶ PPP in the Czech Republic
- ▶ Transport at Crossroads
- ▶ Food-Processing Industry

**Ing. Milan Šimonovský**



The most recent statistics indicate that there were 176,844 road accidents in the Czech Republic from January to November 2003, in which 1,224 people died. Your ministry wants to lower the traffic accident fatality rate by one half by 2010. What measures are you preparing?

The Ministry of Transport is preparing a National Highway Safety Strategy for discussion by the government, which, in accordance with EU targets, will aim to reduce the number of deaths on roads by 2010 to a half of 2002's figure. Individual measures will aim at improving the conduct of drivers, especially as regards speeding, not giving way, driving under the influence of alcohol, or failure to use safety belts. Great emphasis will be laid on increasing penalties for dangerous behaviour while behind the steering wheel. There will be a new legislation

## **AN INTERVIEW WITH ING. MILAN ŠIMONOVSKÝ MINISTER OF TRANSPORT**

introduced, with a new penalty points system or the possibility of the police confiscating a driving licence on the spot. This is a very ambitious strategy which will rely on prevention, reduction and improvements to the technical conditions of highways. It is essential to acquire the support of a majority of the population, since the success of the entire plan will depend on the behaviour of individual participants as drivers.

**On 15 January 2004 the legislative council of the government discussed an amendment to the Terrestrial Highways Act, which became effective in 2001. Why has this act been amended so soon?**

The main aim of this amendment is to make a significant contribution to improving road safety and the enforceability of the Act. The 2001 Act did not allow the state supervisory bodies to punish dangerous driving effectively, and this is the reason for the amendment. The draft act includes the introduction of a penalty points system to be applied to traffic offences. If they commit an offence against the free operation of

highway drivers will receive penalty points. When they reach 12 points, they will have their entitlement to drive withdrawn for a year. In order to regain their licence they will have to participate on a training course and pass a test of their fitness to drive. The system also allows for drivers who comply with the highway code over the long term to have points deleted from their licence, and thus to actively avert the threat of losing their licence.

In order to increase road safety the amendment also allows the Czech Police Force to retain a driving licence and to prevent continued use of a vehicle using technical means or by confiscating the vehicle.

The amendment to the Act also includes changes relating to the entry of the CR into the EU. It ensures that the use of restraining safety systems for children is harmonised with current EU practice, recognises the driving licences of member and non-member states of the EU and the issuing of licences as national driving licences in accordance with the EU model.

(see page 8)

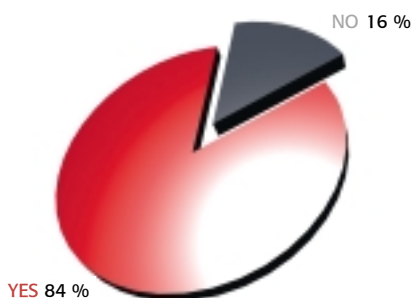
# Are Czech Companies Prepared for Changes in Foreign Trade?

The Czech Business Representation to the EU has been active since its establishment, not only in providing up-to-date information about the EU to Czech companies but also in analysing their needs and state of readiness for the single market. The last topic we focused on was the readiness of Czech companies for changes in the way foreign trade is organised (customs tariffs and procedures). As these issues are subject to regulations on the level of the EU, this will be one of the areas which will dramatically change from day one of accession, a fact which may come as a surprise to some companies. During November and December CEBRE organised a web-based company survey in which 230 firms participated. The number of companies involved prevents us from reaching far-ranging conclusions but provides quite a vivid picture of the present situation. Various companies participated representing varying degrees of foreign trade involvement. The aim of the survey was to chart the awareness of the changes, the state of readiness for them, and to ascertain the degree of satisfaction with the information resources available.

## Readiness and Access to Information

Perhaps the most heartening finding to ensue from the survey was that Czech companies are genuinely preparing for entry into the EU in this specific sphere. As many as 84 % of respondents

Has your company begun preparing for the impact on your foreign trade activities of the entry of the CR into the EU?



were occupied with the impact of accession on their foreign trade activities at the time of the survey. A somewhat less positive fact is that almost three quarters of companies (73 %) report a lack of information regarding the forthcoming conditions for foreign trade.

## Knowledge of the Problem

The first area surveyed was knowledge of the procedures (customs and tax) which will be applied to foreign trade. The second was customs tariffs. Customs and tax procedures linked with foreign trade will differ in the case of transactions with EU countries and third-party countries. In the case of trade with EU members it will no longer be a case of foreign trade in the true sense of the word, but more an intra-union trade. Knowledge of these procedures is not overwhelming. Only

28 % of respondents said that they knew the procedures, and 57 % knew them only in part. In the case of trade with third-party countries these figures were 30 % and 45 % respectively.

Since all companies participating in the survey actively trade abroad it is a somewhat sobering fact that almost a third of companies (31 % in the case of exports, 25 % in the case of imports) have

Do you have enough information regarding the future conditions of foreign trade?



no idea whether customs tariffs on the goods they are trading will change or not, despite the fact that a change to customs tariffs could have a considerable impact on the competitiveness of their goods on the market. The survey showed that for the majority of companies customs tariffs would not change (44 % exports, 40 % imports). This is understandable since already approximately two thirds of our foreign trade is conducted with partners from EU countries and this trade is conducted without any customs duties being applied (with the exception of anti-dumping measures) in the case of most commodities. After expansion the share of trade with EU countries will certainly increase.

The survey also attempted to discover what opinions businesses had of the possibility of protection of the market against third-country imports within the framework of the EU. At present the Czech Republic is very liberal in this respect, a fact which prompts complaints from a wide spectrum of companies (e.g. regarding the

import of cheap textiles from Asia). As opposed to the CR the EU is very protectionist (think of the problems of our steelworks) but despite this Czech companies are sceptical regarding protection of the market against third country imports. As many as 55 % of them believe that barriers to unfair imports will be worse, and to an extent they have a point, since within the EU a majority of companies from a specific sphere from the entire union is required to apply for anti-dumping proceedings, and not only one country.

## Sources of Information

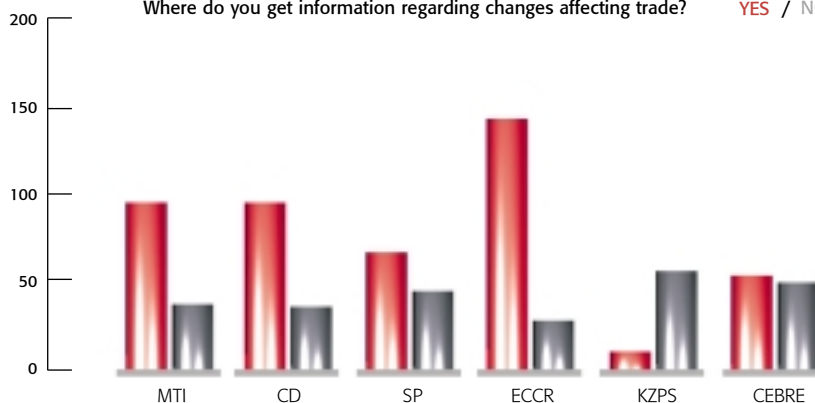
A substantial part of the survey was aimed at ascertaining where companies acquired their information regarding this issue. The results show clearly that the state administration, instead of being the main source, has been caught napping in this respect (c.f. the graph). In its defence it has to be said that many issues are being solved en route (new systems being built, etc.) and thus it was not possible to give certain information to businessmen in advance. It is up to the individual ministries and central bodies whether they inform the business sector of working proposals while drawing their attention to the fact that this is not yet the final version. Nevertheless, businessmen need information in order to prepare for change. The activities of chambers of commerce came out particularly well in the survey, which are the most appreciated information sources regarding changes to foreign trade after the entry of the CR into the EU. Other sources also play an important role, including the Internet and specialist press, as well as help from foreign business partners.

In the future companies would welcome greater information activities on the part of official bodies, above all the Ministry of Trade and Industry (MTI), the Customs Directorate (CD) and the regional customs authorities.

As the survey shows, not inconsiderable effort will be required to bridge 1 May 2004 as there will be new procedures and new systems in place to which both companies and the state administration will have to adapt.

Ondřej Hradil  
CEBRE Brussels, [www.cebrecz](http://www.cebrecz)

Where do you get information regarding changes affecting trade? YES / NO



NB: The graph shows the number of positive and negative responses. The respondents could choose between several possibilities. A total of 230 respondents participated.

## Public Private Partnership in the Czech Republic

One of the systemic changes approved by the Czech government in its Conception of Public Budget Reform is the creation of a legal and institutional framework for the Public Private Partnership. The term is usually abbreviated to PPP.

This is a set of methods of cooperation between subjects of the public and private sector on the preparation, construction and operation of certain types of constructions in the public interest and the provision of public services on the basis of long-term contractual relations. Individual variants of PPP, if they are applied successfully using qualified people, may impact positively on the effectiveness of public services, including the operation of the state administration, and accelerate implementation of important infrastructural projects with a positive effect on the development of the economy. Certain types of risk are associated with PPP which must be minimised by creating conditions for transparent and highly professional use of the instrument.

The most fundamental characteristic of this type of contractual relationship is its longevity (a minimum of 5 years, usually more like 15, 20 years or even more), the transfer of risk from the public to the private sector, and the evaluation of the long-term costs and benefits of a project (over the entire forecast duration of the project). Public sector bodies also play a different role compared with traditional methods. The public administration defines the parameters of the services required, decides on the selection of a PPP solution amongst alternative implementations of a specific project, holds discussions with private partners regarding contractual conditions, monitors project implementation, stipulates the conditions for payment of the services provided corresponding to the parameters agreed on, and in many cases receives the relevant property into its ownership and operation after the expiry of a period agreed on in advance and under conditions agreed on.

When designing the framework for the systematic application of the Public-Private Partnership it is necessary to give consideration to the weak aspects and risks associated with it, which are, above all:

- very complex contractual relations linked with high costs of the preparation of contracts;
- high requirements of a specialist level of economic analysis essential both in the phase when a choice is being made between PPP and traditional approaches to a project, and in the phase of contract preparation and negotiation;
- extensive contracts with built-in economic and material parameters can be a source of undesirable rigidity;
- performance standards can provoke undesirable side-effects;
- the distribution of payments for investment or services must be underpinned by a sophisticated system of managing future obligations of the public budgets;
- leaving aside a few exceptions bodies of the public administration do not have sufficiently qualified specialists at their disposal in order to be able to function as genuinely equal professional partners during negotiations with the private sector.

In the Czech Republic over recent years several projects have been or are going to be implemented which could be regarded as PPP projects. Experience with the projects shows that:

- there are certain legal barriers impeding implementation of projects of this type in certain cases;
- without conditions stipulated in advance and defined on a highly professional level on the part of the public sector, there is the risk of the project aims not being met, or the fulfilment of the targets at the cost of inefficient use of the public resources invested;
- a general framework for application of PPP must be established giving consideration, amongst other things, to the potential future obligations of the public budgets.

Bearing in mind the principles, pros and cons, and the current situation regarding use of the Public Private Partnership in the CR, the government set forth fundamental and clear conditions in its Directive 624 of 23 June 2003 for the effective application of PPP, i.e. the necessity of creating a

**Bearing in mind the principles, pros and cons, and the current situation regarding use of the Public Private Partnership in the CR, the government set forth fundamental and clear conditions in its Directive 624 of 23 June 2003 for the effective application of PPP, i.e. the necessity of creating a legal and institutional framework for a quality selection of effective solutions, which would not impact negatively on the future balance of public resources.**

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The task of creating a framework for the qualified selection of effective solutions in the realm of partnership did not become part of the reform of public finance by chance. The basic targets of reform include support of the long-term sustainability and stability of public finance and the creation of conditions for the effective provision of public services. In the sphere of Public Private Partnership this means using the potential of material and economic gains which this concept offers while monitoring and regulating the obligations on the public sector thus arising.

Since the government directive was passed many steps have been taken leading to the creation of a framework for the systematic, professional application of Public Private Partnership in the Czech Republic. The Ministry of Finance and the National Property Fund have created a project steering committee and with representatives of ten ministers have created an inter-departmental team which commenced operations at the beginning of August 2003.

The current situation at the individual ministries was charted from the point of view of the application of PPP (knowledge of the concept of PPP, projects realised or in the pipeline, the facilities of employees qualified to manage projects of this type, the intentions of the individual ministries vis-a-vis PPP, pilot projects under consideration, etc.). A legal analysis was drawn up of the feasibility of Public Private Partnership in the Czech Republic.

Experiences were charted with private financing of public services in the world, and the resulting know-how was used during the drawing up of government policy.

In January of this year, in Directive No. 7/2004 the government approved the policy, which declares its support of the professional management of project implementation and resolves the role of regulation and the regulator. The aim of the government is to monitor and regulate future obligations incurred by individual sections of public finance by partnership agreements. The approved policy created the basic framework for monitoring and regulation which will comply with the Eurostat rules being prepared.

Certain towns and regions have already entered into or are preparing to enter into similar projects, while other towns have expressed an interest in such projects. Their representatives are aware of the insufficient readiness of their employees to be genuine, professional, qualified partners during the preparation and implementation of such a project. Like the ministries and

other central bodies, they do not usually have sufficient specialists prepared to work on partnership projects at their disposal. This work demands qualifications in law, the ability to analyse the financial aspects of transactions and to define the material parameters of the services required, all of this not forgetting the demands on time.

For this reason the government instructed the Minister of Finance to create a Public Private Partnership Implementation centre, which will offer applicants specialist assistance when implementing such projects. Applicants will be central bodies of the state administration, the regions and municipalities. The concept of a centre where know-how will be concentrated and used in the interests of the public sector has already proved its worth in many countries. The mission of the World Bank, which focussed on institutional conditions in the Czech Republic for establishing partnership projects, unambiguously recommended the creation of such a worksite.

The full use of the principles of partnership as one of the standard methods for the provision of public services in the Czech Republic will require many years of work on the part of many specialists. However, we believe that following an ambitious yet prudent approach in accordance with the approved policy, we shall exert a positive influence on the parameters of several public services and support the stability of the development of public finances.

Kateřina Helikarová  
PPP steering team, Ministry of Finance CR

# The Food-Processing Industry Prepares for Entry into the EU

2004 is the year in which the pre-accession period ends for our republic. In the company of nine candidate countries the Czech Republic will become a full member of the European Community. The 1 May 2004 will be a watershed for producers of food and drink, a crucial segment of the Czech processing industry and closely linked to agriculture.

Within the framework of the processing industry the food processing industry is very varied in character, especially in respect of the type of ownership, the role of the individual branches in the providing sustenance for the population, the existing technology of the production facilities and the orientation of the individual production spheres, their concentration and organisation, and human resources. In 2002 the food industry had a share of 13.1% of total revenues of the processing industry from the sale of its products and services.

Statistics regarding the number of companies producing foodstuffs show a drop in the average number of firms with 20 or more employees. The lowering of the number of food-processing companies after 2000 was the result of the more and more competitive conditions, both on the purchasing and selling markets, as well as conditions set forth in food-processing and veterinary regulations ensuring health standards and the quality of food, and requirements on the protection of the environment and other standards. The reduction in the business base in 2001 was the result of the unfavourable economic situation in a significant number of companies in 2000 and the very restricted support programmes for this branch. Future developments will probably see a drop in the number of food-processing companies and a growing production concentration. Similar trends are underway in EU countries.

The development of the food-processing industry and its individual production spheres is also linked with the results of negotiations with the European Commission on the subject of agriculture, especially as it relates to the level of quotas per selected commodity (e.g. milk, sugar, corn).

The reduction in the number of companies will be accompanied by a drop in the number of employees. This trend is the result of a growth in productivity, which is essential in order to increase the competitiveness of food-processing companies. A drop in employment in the food sector will create the requisite space for a rise in wages, which will take place in the case of decisive output. However, a greater appreciation of the workforce should be accompanied by a rise in the level of its qualifications.

The following factors and systematic measures are involved:

- the character of demand specifying the supply of foodstuffs on the basis of suitably selected marketing strategies;
- an investment character allowing for the application of modern technology increasing the quality of production, savings during the processing of raw materials and other costs, and a development of innovations which are suitable from the point of view of ecological problems and which utilise direct foreign investment;
- in the sphere of human resources a growth in

productivity and an increase in the qualifications of management and employees prepared to use correct production practice based on foodstuff legislation passed;

- long-term growth in productivity by the acceptance of European standards and the cultivation of a business environment in food chains, creating both broad business links while preserving small and medium enterprises.

A priority of national policy linked to the food policy of the European Union remains ensuring a high level of hygiene and safety of foodstuffs. This objective is attained by improving the legal framework and an effective system of controls throughout the food chain. The priority of food policy aimed at greater safety of foodstuffs was drawn up in the strategy passed by government and included in the statutory duties of food manufacturers.

Amongst the priorities of policy in the sphere of food industry is harmonisation of legislation with the directives of the European Community and its implementation in business practice. This involves questions of food safety and controls. However, maximum effort is being applied this year by the Czech institutions responsible and at present this sphere of legislation is being put into harmony with EC legislation. It should be said that as part of the negotiations on accession the Czech Republic undertook to work into Czech law the entirety of the law of the European Community, including extensive veterinary legislation, by the accession date.

In 1999 a new Veterinary Act was passed into which a large part of directives relating to requirements on the processing of raw materials or the production of foodstuffs of animal origin was worked. After the Act became effective evaluation of operations was commenced in accordance with the methodology of the State Veterinary Administration valid at that time, and operations classified into several categories. By the end of 2002 many business had been allocated to category C which it had been thought would not meet the veterinary requirements. The Czech Republic, like other candidate countries, become the target of a growing number of controls in all spheres of management, and controls of the processing industry are usually focussed on the meeting of the requirements of regulations of the European Community. The last mission aimed at a control of companies processing raw materials or producing food of animal origin took place in January 2004.

At the beginning of 2003 the National Plan for the Modernisation of the Processing Companies was compiled in which the Czech Republic undertook to ensure that by 1 January 2004 all operations would meet the requirements of the *aquis communautaire*. After the amendment to the Veterinary Act become effective nationwide controls were carried out by the State Veterinary Administration, the result of which was the registration of operations, approval of their fitness to continue, and the allocation of a registration mark or an order to terminate operations or suspend activities. On 31 December 2003 a total of 670 processing operations in this branch were closed down on the basis of the newly passed legislative norms. Exemptions are given in the List of

Companies with a Transitional Period which is part of appendix V to the Treaty of Accession. However, of the original 42 concerns, 22 have already rectified matters or suspended their activities for the period necessary to remove defects.

As far as legislation of foodstuffs is concerned it can be concluded that the transposition of the *aquis communautaire* has been almost completed. At present it simply remains to pass several legal norms, which are of a clarificatory character. The basic legal norm which must be passed by the date of entry is an amendment to Act 110/1997 Coll., on foodstuffs and tobacco products, which relates to acceptance of the sectional directive of the European Parliament and Council No. 178/2002. The most significant change will be expansion of the purview of the Act to the commercial sphere in connection with a new definition of the "operator of a food-processing enterprise".

One of the closely monitored spheres was evaluation of the impact of the requirements of Regulation 451/2002 Coll., on the conditions and requirements on the operation and personal hygiene of food not of animal origin, by which the EC Regulation 93/43 EEC on the hygiene of foodstuffs was transposed. The state supervisory body, along with the state agricultural and food-processing inspectorate, processed the results of an investigation into companies processing raw materials of a vegetable origin on 30 June 2003. Of the 1,169 plants investigated some 50% were evaluated as showing minimum failure to observe hygiene conditions and requirements (a level of discrepancy of less than 85%), another 44% were evaluated and showed a level of discrepancies of 63-85% against the decree. The remaining were evaluated as displaying a large number of defects. The operations founded up until the date of the validity of Regulation 451/2002 Coll., (1 July 2003) must be put into harmony with European Community directives no later than the date the CR enters the EU.

The weakness of Czech companies in general, but especially food-processing companies, include:

- a limited overview of European integrationist tendencies and regulation in the pipeline ensuing from European norms;
- limited knowledge of other European markets, consumer customs and consumer specifics;
- limited knowledge of the strategies and events planned by the competitors on other European markets;
- limited knowledge and insufficient use of modern procedures of strategic planning;
- a company culture turned inwards, demotivating expansion into European and competition.

Despite the various problems the Czech food-processing industry will encounter after entry into the EU, it should be pointed out that the sector has been preparing itself for entry responsibly for some time and will be capable of competing with manufacturers both from existing members countries and from other countries joining the EU.

Eva Příbylová  
Ministry of Agriculture  
Food Industry Department

## Decisions Concerning Transport in the CR will be Taken in Brussels



**An interview with the president of the Federation of Transport, Jaroslav Hanák.**

The Federation of Transport is an association of employers and businesses operating in all the core and related spheres of transport. It was formed at the beginning of the nineties of the twentieth century, when the new political and economic situation in the Czech Republic created a need for an organisation which would protect the interest of employees and businessmen working in the transport sphere during the period of transformation. At the beginning of 1994 the federation affiliated with the Federation of Trade, which is an umbrella organisation for all spheres of industry and brings together the most important companies. This group adopted the title Federation of Trade and Industry of the CR and is the most powerful business federation in the country. It affiliates more than 25 business federations representing 1.3 million employees. The Federation of Transport affiliates 143 companies operating in the field of transport and providing employment to more than 140 thousand people. The federation is divided into ten specialist sections in which the problems associated with individual types of transport are dealt with.

**Could you give a short assessment of your year at the head of the Federation of Transport?**

Over the last year we have mainly managed to consolidate the management of the federation and the specialist sections. The federation has also greatly improved its image, as witness its top quality website [www.svazdopravy.cz](http://www.svazdopravy.cz), on which you can find all the key information regarding its activities. Another no less important matter is the creation of links with the government, MPs and senators. We have taken huge steps forward on previous years in the art of lobbying. We also should not overlook the way that Czech Rail was able to reach agreement with the unions without using threats or provoking social unrest regarding company restructuring.

**Not everything was resolved as you wished. Enormous effort was required, for instance, to compensate for the increase in VAT on fuel ...**

The experience I acquired at the end of last year through cooperation with employees from the ČESMAD Bohemia Federation of Haulage Contractors in lobbying for highway transport was of enormous value. On the one hand we managed to persuade senators that right was on the side of the businesses, but in the end we were defeated by the distribution of political power in parliament. My own negotiations with premier Vladimír Špidla ended in success and a reduction in the rate of highway tax for ecological vehicles. Discussions with representatives of the state administration and legislators over the last few months have been a very useful experience, especially given the imminent entry of the Czech Republic into the EU. I am convinced that officials in Brussels are right when they estimate

that eighty percent of decisions on transport will be taken in Brussels and only twelve percent will be taken on a national level, which means that neither the Czech government nor parliament will play such an important role from 1 May 2004 onwards.

**Who will be looking after the interests of Czech transport companies in Brussels?**

The Czech Republic does not have a representative in Brussels who would protect the interests of Czech transport companies within the EU. We do not even have a representation comparable with other candidate countries, for instance, Poland, Hungary and even the Baltic states, though an exception to this is the general representation of Czech Rail for the purpose of integration into the European railway system. This is the result of the high costs involved in maintaining a team of employees there. However, in the future Czech transport will probably not evade having its own representative in Brussels. At present we are acquiring detailed information regarding events in the European Union by means of the agency CEBRE. We are also looking after national highway transport interests in collaboration with the International Road Transport Union (IRU), where we are represented in key bodies

**In the past you have not made any secret of your criticism of the state supervision...**

I believe that the government has greatly underestimated the sphere of state specialist supervision and that the ministry responsible has not given it enough attention. In practice the situation has not improved, though it is a good thing that mobile teams have been created and that they are mainly lorries. I am still of the opinion that freight lorries with wood or stones should be weighed only as they come out of the forest or quarry. I must emphasise that a Czech transportation company lorry travelling along a motorway is not overloaded in 99.9 percent of cases, since this is simply not permitted. The state administration should concern itself with creating a level playing field and protect the domestic environment, as they do in other countries. It should be weighing foreign lorries and checking that foreign transport companies have their licences in order and are complying with AETR, etc. Foreign transport companies do what they like in the Czech Republic. From this point of view there has been no dramatic improvements in the work of the state specialist supervision.

**Are you satisfied with the progress made on a transport policy?**

Drafting a state transport policy is a very complex process and we are holding regular discussions on this topic with the Minister of Transport Milan Šimonovský and his team. My feeling is that the officials at the ministry are slightly afraid of finalising this matter. Businessmen operating in transport are applying a great deal of pressure to ensure that the transport policy contain a section on the financial resources which this area needs, and there will also be a clause included on the personal liability of officials. It is extremely important that civil servants, MPs and senators are aware of the risk ensuing from the budget not being allocated the requisite volume of financial resources for transport. It is no less

important that civil servants are answerable for specific tasks, create the conditions for business, and deliver on what they guaranteed.

A third important sphere is the distribution of transport work amongst the individual types of transport. I am concerned that the current government coalition is intending to support railway transport and I do not know a European country where the share of highway and rail transport has been changed in such a radical way. In the Czech Republic we do not have enough money and, though I do not want to malign anyone, not enough specialists who could increase the overall performance of rail transport sufficiently over the short term. It is an unrealistic idea which will damage the transport sector as a whole. Support for all forms of transport should be equal.

**Will Czech transport companies succeed in the European Union?**

I can only assess the state of readiness of the CR for entry into the EU on the level of freight and private highway transport. I am convinced that medium and large companies have prepared very well. Many of them have received quality certification and their managements have drawn up excellent company strategies. Many company representatives know the conditions for business in European Union very well, and will not, I believe, be too surprised by changes to operations brought about by the expansion of the EU. A completely different question is how prepared companies are in terms of finance, how healthy their books are. Added to that there is the matter of how well their regular workers are prepared on the specialist and language side of things. These will be crucial areas, since the vast majority of haulage firms have high quality freight vehicles. An uncompromising battle for licences obliged them to create the best vehicle fleet in Europe here in the Czech Republic.

**Are you expecting an invasion of foreign companies into the Czech Republic?**

It is extremely complex to say how strong the attack will be on the domestic market and who will want to establish a place for themselves in the Czech Republic. I believe that the large players will come from both West and East. Although I know the domestic companies very well and have been working in transport more than twenty years, I would not want to predict who will suddenly appear in the CR in May of 2005, which companies will come here, who will control the market, who will merge with whom, what will result, who will go under, who agreements already been negotiated with, etc. Everything depends on the market, and the most important thing is whether a domestic company maintains its place on the domestic market or not. The idea of a Czech company taking over the market in Germany or France is very naive: though everyone is equal in the EU, governments of the member countries continue to protect domestic companies. For Czech companies the situation will be more difficult, since our government has not taken any measures for their protection on the domestic market.

Milan Žalud

Editor of RELIANT News  
(a magazine devoted to logistics, transport, service technology and stock management)

## NEW REPRESENTATION OFFICES

*Dear Ladies and Gentlemen,*



*In just a few short days, at the beginning of May, the Czech Republic will become a member of the European Union. I believe that our country will become a valid member of this group with something significant to offer. An important role in the process will be played by one of the regions, that of Liberec Region. Even though, with the exception of Prague, our region is the smallest in the Czech Republic, it is rich in opportunities. In order to acquaint you with the Liberec Region, its programme documents and projects, last year we opened an office in Brussels in Scotland House.*

*I would now like to take this opportunity to inform you of the introductory presentation of the Liberec Region, which will be held on 14 April 2004, from 2 p.m., in the conference rooms of Scotland House, R. Point Schuman 6, Brussels. This social event will be attended by the most important figures from our region, as well as Pavel Telička, the ambassador and head of the Mission of the Czech Republic to the EC, and representatives of institutions of the EU. The programme will include an informal part in the traditional style of the Liberec Region. Czech Svijany beer, which is brewed in the region, will be served during the day, and the presentation will include an exhibition of glass from students at two colleges of fine arts. More detailed information regarding the Liberec Region can be found on our web pages [www.kraj-lbc.cz](http://www.kraj-lbc.cz), and more detailed information of the presentation on [radana.vejvodova@kraj.lbc.cz](mailto:radana.vejvodova@kraj.lbc.cz).*



**Pavel Pavlík**  
President  
of the Liberec Region

## Central Bohemia Region opens its European Office in Brussels



The largest region of the Czech Republic decided to enter the Capital of the European Union.

The Central Bohemia Region is an important region of the Czech Republic, which due to its strategic location offers a wide range of opportunities for investment and

work activities, education and recreation for both Czech citizens and fellow citizens of the European Union.

"We intend to use the economic and cultural powers of Central Bohemia Region and to offer them to EU-member states. We believe that the potential of our region could be used by different target groups - investors, entrepreneurs, trainees, students and tourists. That is why we intend to have our representatives in Brussels. Their task will be to promote the interests of the Central Bohemia Region to develop further and fulfil the expectations of the inhabitants. I believe we will manage to achieve this goal and our region will become an active partner in the field of regional policy of the EU", said Petr Bendl, Governor of Central Bohemia Region.

The European Office of the Central Bohemia Region will be based in the Etterbeek-quarter in Avenue d'Auderghem 84, near the European Commission premises and not far away from the seat of the Council of the European Union and the Committee of the Regions, which is especially important for the regional policy. The European Office of Central Bohemia Region will be officially opened on March 16, 2004 by

**Mr. Petr Bendl,**  
Governor of Central Bohemia Region.

## CzechInvest Reinforces its Presence in Brussels



Up until recently, the primary task of CzechInvest was to promote the Czech Republic as the ideal target location for foreign investment. On January 2, 2004, a merger with other agencies run by the Ministry of Industry and Trade brought into existence the 'new' CzechInvest as the Business and Investment Development Agency.

Its primary task now is to support and advise entrepreneurs in the Czech Republic. CzechInvest has also taken on activities that relate to utilizing Structural Funds, namely the Operational Program of Industry and Enterprise 2004 - 2006.

Given the new scope of CzechInvest's activities and the imminent accession of the Czech Republic to the EU, the agency has decided to reinforce its Brussels office. In January 2004, Klára Rundová was appointed EU Liaison and Communication Officer. Her task is to act as a contact person between EU institutions and CzechInvest, to supply information on European

funding for Czech entrepreneurs, and to increase awareness of the Czech business climate in Brussels.



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### The Czech Public and the European Union

Public polls taken in December 2003 focused on, among other things, the concerns of Czech citizens as their country approached the threshold of EU accession. The poll's results showed that 44% of those surveyed are most worried about rising prices in 2004.

The next most common concern was related to loss of employment. In connection with the possible impacts of the country's integration into the European Union, the respondents most frequently shared the view that this step will result in a partial loss of the country's sovereignty, that Czechs will be forced to face uncertainties related to population migration and that more serious economic problems will occur. In addition, most respondents hope for laws providing greater security, increased security for their country as a whole as well as for democracy. Fewer people expect economic advantages and legislative improvement to accompany EU accession. Clearly the lowest expectation lies in the standard of living, which only a third of respondents expect to rise.

As in the past two years, citizens this year consider the media to be the main source providing them with information on the country's integration to the European Union, while the government's role in this is also considered significant. More than two-fifths of those polled feel that elected representatives of both chambers of Parliament or scientific and educational institutions are among the most important entities. The importance of political parties was emphasised by 29% of respondents and over a fifth of those polled indicated the president was important.

### Czech Patents

Last year Czech inventors and innovators submitted 627 patent applications, a year-on-year increase of 18 percent. Foreign companies had a hand in the lion's share of the total number of patent applications though, submitting 83 percent of them. The total number of submitted applications did, however, show a year-on-year drop of 700 to 3,579 applications. The patent office granted 1,802 patents, while over 20,000 past applications are still being decided on.

Most of the patent applications were in the area of Organic chemistry and medicine, with the office granting 181 and 164 patents, respectively, in these fields. Companies from the USA and Germany most actively sought patents. The number of trademark applications grew last year to an all-time high of 10,145 applications.

### Sexual Harassment

The Czech body of laws will begin to describe more explicitly what actually constitutes sexual harassment. President Václav Klaus signed an amendment to the Labour Code defining sexual harassment. The president's signature is necessary for the law to go into effect. Most of the disputes that arose in passing the amendment concerned the very process of defining sexual harassment.

### Asylum Policy in the Czech Republic

Some 16 million crowns (EUR 500,000) will go toward integrating foreigners granted asylum into Czech society in 2004. Towns should obtain CZK 14 million (EUR 437,000) from regions to provide housing, and CZK 2 million (EUR 62.5 thousand) is earmarked for free Czech courses for foreigners. The joint plan of the Ministries of the Interior and of Labour was passed by the Czech government. According to the approved plan, those granted asylum are to have an easier time obtaining housing in the Czech Republic starting this year. To date, these foreigners either accepted a municipally-owned flat offered to them or else their name fell to the bottom of the list. What's more, the subsidy for providing accommodations for people granted asylum in the Czech Republic had until now only gone to the town.

According to information supplied by the Ministry of Labour and Social Affairs, which together with the Ministries of the Interior and Education played a part in the integration, the Czech Republic granted asylum to 209 asylum seekers last year.

While police are arresting increasingly fewer individuals illegally entering the country each year, the number of foreigners found to be without residency permits in the Czech Republic is on the rise. Last year police arrested 13,206 people who had illegally crossed the border, a drop of 535 from 2002. Those caught by police without residency permits in the country numbered 21,350, nearly 2000 more than the previous year.

### Tourism after EU Entry

EU entry should be reflected in tourism as well. If the current estimate has 100 million visitors coming to the Czech Republic, this figure could be 150 million in 2008. Czech Tourism, the agency for the support of the Czech tourist trade, offered that predicted effect of EU membership. In their view, a flood of foreign students can be expected, as can an increase in business trips as well as a significant growth in tourists attending congresses hosted by the Czech Republic. Obviously, this change cannot be expected to immediately accompany EU membership. A review of data on the past entrance of Spain, Portugal, Finland, Sweden or Austria shows that an increase in tourism occurred during the 3rd and 4th year after EU accession.

### Farmers to Enter EU in Debt

Farmers will enter the EU with debts that will hinder their ability to compete. The average rate of indebtedness for Czech farms is several-fold higher than in countries already with EU membership. The total debt of Czech farms exceeds CZK 40 billion (EUR 1.25 billion). The Association of Private Farms has pointed out that Czech farms will also have some advantages over farms in countries which already belong to the EU in that the price of land, rent and work is much lower in the Czech Republic. Independent farmers have much lower debts than farm co-operatives and their ensuing companies. Co-operatives have been struggling with transformation shares for over ten years now and still have debts of some CZK 15 billion (EUR 468 million) toward individuals for assets and years worked.

### Transportation in Czech Republic to Increase with EU Admission

Czech borders were crossed by vehicles traveling both in and out of the country roughly 6.7 million times in 2002. With the complete opening of borders this May, the Ministry of Transport estimates that lorry crossings could increase by a million. In light of this, the state is aware that it will not have the funds to pay for road damage caused by heavy vehicles. The Road and Motorway Directorate earmarked CZK 2.8 billion (EUR 87.5 million) in 2002 for repairs to main roads, but the needed amount is closer to CZK 8 billion (EUR 250 million) a year. Overloaded lorries are mostly to blame for the state of Czech roads. Proceeds from increased sales of motorway-travel permits have done little to solve the problem, officials are hoping for better results from electronic tolls for lorries.

### Czech Republic Shuts Down 505 Food-Processing Plants

In compliance with the Czech Republic's obligations toward the EU, the Czech Veterinary Authority shut down by the end of last year 505 food-processing plants due to non-compliance with the EU's hygienic and veterinary guidelines and with Czech law. The European Commission praised this severe measure. According to initial estimates, 320 plants were closed, but by the year's end another 180 or so plants were found to have been unable to perform the necessary improvements within the given timeframe. Some 2,800 plants processing meat, milk, fish or eggs were inspected with regard to EU norms, of which 505 failed inspections. Some voluntarily ended their activities, while others were closed down by the Veterinary Authority. The proper application of EU regulations was also evaluated in January by inspectors from EU-member states.

### Drop in Upper VAT Rates by 3 percent



The government has agreed on a second phase in public finance reforms. After discussions on the introduction of a third VAT rate, an agreement was made on harmonizing the current two rates (5% and 22%) in

lowering the upper rates by 3% to 19%. The upper VAT rate is applied to most goods and services. The government coalition would also like to apply the upper rate to accommodation services, water rates, tickets to cultural and sporting events, and personal hygiene products. Foodstuffs and medicines will predominantly remain subject to the lowered rate. The government would like to use this price hike brought about by the shift to a basic VAT to benefit families with children and pensioners. By May of this year the government hopes to push through a bill enabling pensioners to receive a lump sum of CZK 1,000 (EUR 31) and families with children to receive a lump sum of CZK 2,000 (EUR 62) for each child eligible for allowances.

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

(interview with Milan Šimonovský from page 1)

**The Infrastructure Operational programme falls within the remit of your ministry. As part of it you are going to support projects financed from structural funds aimed at improving the transport infrastructure. What is the current state of play as regards utilisation of these funds?**

The Operational Programme (OP) Infrastructure was the subject of discussions with the European Commission in the second half of 2003. These discussions ended at the beginning of December 2003 and after inter-service consultations with the European Commission the programme was declared settled.

As far as drawing down the resources is concerned it will be essential to ensure joint financing from the public funds of the CR. In the case of transport we reckon on using resources of the state traffic infrastructure fund for the purposes of joint financing.

In order to begin utilising the structural funds by means of the OP Infrastructure, we still have to compile a Programme Complement to the OP Infrastructure, which will contain a detailed description of the individual measures and criteria for project selection. When this is ready it will have to be approved by the Office for the Protection of Competition, after which the Programme Complement will be discussed by the OP Infrastructure Monitoring Committee. The intermediate body for the OP Infrastructure which will be entrusted with project implementation in the sphere of transport will operate within the framework of the activities of the Implementation of EU Funds Department of the Ministry of Transport.

**There is talk of the Czech Republic becoming a logistics centre, the crossroads of Europe, after accession. Do you think this will actually happen? What will be the impact?**

Linking this country to the common market will see an increase in freight transportation. Our aim is to speed up the construction of a basic network of high capacity terrestrial roads and link them with neighbouring states. We are also modernising the transit rail corridors. We are laying emphasis on the effective cooperation of transportation systems within the framework of mixed transport. A logistics centre belongs to this concept. I hope that the CR will be a logistics centre for more than just Europe.

**Do you think that our transport companies will hold their own against those of current and acceding countries after entry into the EU?**

As far as highway transportation activities go the 2004 will be a milestone. For Czech companies the entire European market is opening up, with all the attendant advantages and disadvantages. At present, Czech transport companies have limited access within the framework of European states, since, unlike transport companies in EU countries, they are subject to licence proceedings, the administrative restriction and regulation of highway freight transport. In certain cases the lack of such licences is so serious that it practically prevents Czech companies from offering customers a realistic service. On the day of accession to the EU all bilateral licences between members countries and Czech companies will be annulled and Czech companies will thus be able to operate on the EU market for international transportation (bilateral, transit

and third country transport), without useless administrative barriers, which is what foreign entry licenses undoubtedly are. As far as cabotage is concerned a 2+2+1 interim period has been agreed for the CR in the Accession Treaty. However, it was also agreed that current and new members may gradually exchange entitlements to cabotage on the basis of mutual agreements, including the possibility of full liberalisation.

Entry into the EU will also mean the free movement of transport resources, the removal of problems stretching back many years with border check waiting times with our neighbouring countries and thus the acceleration of profitability per vehicle and equality of access to the transport market of EU countries. On the other hand we can expect a flood of competition, both from current and new EU members.

I am convinced that Czech transport companies realise that only those which are able to meet the requirements of their clients while at the same time remaining a step ahead of their competitors will survive. As well as the simple transportation of goods some of our transport companies are already able to provide warehouse stocking, while the most advanced are prepared to provide the customer with optimal integrated logistics services. On the other hand their situation will not be easy and it will take considerable strength not to go under in the face of the growing competition.

**Thank you very much for the interview**

Adéla Vychodilová  
Centre for European Integration, ECCR



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

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

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

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

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**Confederation of Industry of the Czech Republic**

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

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- Represents the Czech Business Community in Brussels
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