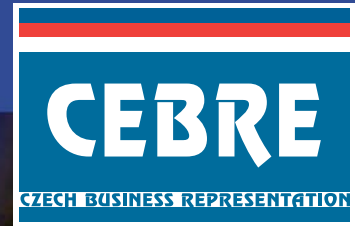


# Czech Business today

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- ***The Czech Republic in the EU: An Annual Report***
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## An Interview with the Czech Manager of the Year 2004, Ludmila Petráňová, Managing Director of ČEPS, a. s.

**At the end of April 2005 you were awarded the prestigious prize “Czech Manager of the Year 2004”. Which factors in your opinion most contributed to your being chosen?**

As far as the selection criteria are concerned you'll have to ask the selection commission. However, I think that in the five years that the joint-stock company ČEPS has been in existence we have succeeded in creating a respected company within Europe, we have dragged the balance sheet out of the red, and begun to ensure a normal return for shareholders of their investments. In addition to this we were the authors of the market rules for subsidiary services and a whole host of innovative rules for the electricity market.

**What has changed for your company since the entry of the Czech Republic into the European**

**Union? What has been the most important thing over the last twelve months?**

Our transmission system has actually been technically connected with the European system since 1995, and since that time we have been members of European professional associations. Entry into the EU gave a significant boost to our status in these important organisations. Another change which took place with entry into the EU was legislative in nature – EU regulations began to apply directly to us, specifically Regulation No 1228 on cross-border transmissions.

**What targets has your company set itself on the European market? Are you concerned for the future with the opening of the electricity market to foreign competition?**

Our company has not set itself any targets on the European market, because we do not produce, buy, nor do we sell electricity. We are a typical representative of the infrastructure and as such our aim is to support and facilitate the European market. In this respect we have already achieved a lot. As a contribution to increasing the comfort of



Ludmila Petráňová,  
Managing Director of ČEPS, a. s.

# The Czech Republic in the European Union: An Annual Report

The experience of our one year's membership of the EU is thus far positive and we are cautiously hopeful. The entry of the CR into the European Union did not fulfil the negative forecasts nor the catastrophic scenarios that were to be heard prior to accession. Indeed, many positive expectations have been met, especially as regards foreign trade. Naturally, certain effects of membership cannot yet be evaluated.

## The Failure of Negative Forecasts

To begin modestly we have to conclude that over the entire year there was no significant negative shock to the economy which could directly or indirectly be attributable to entry into the EU. This is relatively good news, especially in the light of the host of catastrophic scenarios doing the rounds prior to accession. These were being peddled by opponents to membership, whose "argument" was that prices would increase without a commensurate rise in income, as external competition crushed our weak and inexperienced manufacturers and traders, etc. It is not being irresponsible to state that almost none of this came to pass. No direct or indirect shock took place as a result of membership. There was no destructive impact on prices, with the exception of a cosmetic increase brought about by the sudden requirements of tax harmonisation (VAT, consumer tax), which increased the prices of some services. While some of the service providers in question (telecommunications, information services, legal and consultancy services) have not displayed any great signs of opposition, restaurant owners have yet to reconcile themselves to the increase in VAT to 19%, and a similar measure to be applied to hoteliers and accommodation providers after 1 January 2006 is seen as a nightmare. The impact of this manifested itself both in an increase of the prices of these services and in a significant reduction of margins, which could result in bankruptcy for some restaurant owners. The situation is different in the case of customs duties. The definitive abolition of duties and trade barriers within the EU and the transition to a joint customs tariff has brought down the price of many commodities. This is clear in the case of wine and other alcoholic drinks, as well as in foodstuffs of an exotic origin. Indeed, the overall impact on prices is almost negligible. The third type of impact is the result neither of customs duties nor taxes, but of European regulation of a different type, for instance production quotas. This affects sugar, the production of which in the CR is higher than the ceiling stipulated for the coming period. This fact contributed to an increase in the price of sugar which was more than merely cosmetic. However, the price of sugar has evolved moderately. After several months inflation began to fall and the Czech Republic once more belongs amongst the countries with the lowest inflation in the European Community.

Perhaps the single more serious problem is the increasing trade deficit with agricultural commodities and foodstuffs, especially with Poland. Naturally, we cannot resist this phenomenon with customs or non-customs barriers, but only by creating similar conditions to those which Polish farmers enjoy. Analogously, be it indirectly, the rules of the EU Joint Trade Policy, which relate to the rules of trade with third countries, have affected our internal market. Specifically we have in mind the import of shoes and textiles, for example from China, in the case of which import quotas to the whole of the EU were done away with from 1. 1. 2005. This measure could have a destructive impact on domestic manufacturers.

## Fulfilment of Positive Expectations

Without wanting to be grateful for small mercies, we can conclude that the influence of entry into the EU has resulted in our economy becoming a very respectably expanding organism (when compared with the entire EU-25 and especially with the former EU-15), with very positive prospects over the medium term. Nevertheless, compared with the other newcomers to the EU our growth dynamic is not remarkable, and the Baltic states, Slovakia, and recently Poland, are case studies in above-average growth.

Consequently it seems as though positive expectations have been met relatively speaking. The question remains to what extent entry into the EU influenced this remarkable economic growth. Nevertheless, the positive medium-term outlook is a cause for celebration. The impact of accession on this result is clear. The most positively influenced indicator without doubt is foreign trade. The growth dynamic of the export and import side is enormous and confirms the significant resurgence of commercial and entrepreneurial transactions involving the participation of Czech companies within the framework of the expanded EU. Even more positive is the fact that exports fared even better and after many years net export became a positive contributor to an increase in GDP. It is clear that the business cycle played a part in the development of foreign trade, but membership of the EU also contributed to the developments described. The reinforcement of foreign trade transactions was accompanied by a slight increase in the performance of international freight and personal transport. The only negative effect here can be seen in the ecological effects of the boom in transportation and in the worsening quality of the transport infrastructure. The impact of enlargement is clear in the continuing inflow of foreign direct investment, which has far from subsided. As well as the customary reasons, recently there has been a relocation of company headquarters and production activities from the traditional member countries to the newcomers, including the Czech Republic, above all for cost-related reasons and much lower administrative procedures after 1 May 2004. The change in the behaviour of foreign investors and their opinion of the state of affairs in the Czech Republic is not yet completely clear; this is a factor which will become more and more manifest in the future. Nevertheless, the fact of our membership increases the prestige of our country. But conduct and opinions, as is well known, take a long time to change. Even after 20 years of membership for Portugal and 24 years for Greece, these two countries are still seen by the founding fathers of the EU as the poor neighbours in the south.

The first year of membership confirmed that EU funds are no chimera but a fact. This despite the fact that a whole array of complaints can be made regarding their accessibility, as well as technical, administrative and conceptual insufficiencies. Nevertheless, around 5,000 project organisers enjoying the support of these funds would obviously hold a different view. In total more than CZK 30 billion has been made available, despite the fact that several operational programmes have registered considerable demand in excess of supply, while others have barely made the most of their potential. From the date of accession to the end of last year it is realistic to assume an amount distributed of some CZK 50 billion. This figure will not save the economy as a whole, but will offer important assistance to those who respect the rules and conditions of individual programmes. In any case the evaluation of the actual draw down of EU funds is thus far only partial.

On the other hand it can be said that Czech subjects have barely made use of the funds so far and have acquired very little information regarding direct grants and loans as announced directly by the European Commission.

The assessment of the utilisation of EU funds thus far should not be exclusively critical. Given the fact that we entered the present programme period at the beginning of its second half and that we have had few opportunities to influence its administration, it must be acknowledged that the volume of resources flowing from EU funds is considerably higher than during the pre-accession period.

Unfortunately there are still spheres in which it is not possible to submit projects. This involves projects falling under the remit of the Operating Programme for Human Resource Development, where several projects focussing on training activities can be submitted only from the beginning of this April, and others aimed at long-term life-long education and professional training are still not open for the submission of projects.

Some specialised companies carried out an audit of the provision of services linked with EU funds on the part of state bodies, and discovered several serious flaws. These are being remedied gradually. Here, too, learning is through practice and the acquisition of many new experiences. Several flaws are being removed, while others, for instance related to the quality of the evaluation of successful projects, will take longer to iron out.

Certain experiences indicate, for instance, that evaluation is not always objective, that several evaluators either knowingly promote certain projects, or are against those which are deserving. It is said that certain assessors have a link to the advisory companies which take care of the compilation of projects for their clients. And excessive delays, which block the speedy and flexible approval of projects, are also the subject of criticism. Here, too, participants are learning. And given the area as a whole, I don't believe there are many problematic cases.

## One Year Is Too Short

A year is too short a time for expectations in the sphere of structural reforms to be met or a reduction to take place in the level of unemployment. The likelihood is that new business opportunities will lead to the creation of new jobs, but a year is too short a time for this effect to be clear. At first sight it seems that nothing has really changed in this respect. Nevertheless, the demands on the labour market have increased and structural reforms will continue under the pressure of EU policies (New Lisbon, the New Financial Framework).

## Conclusion

In summation, it is clear that feelings overall and impressions are definitely positive, and that entry into the EU has unquestionably helped the Czech Republic. New business opportunities have been opened, students have studied abroad, and EU funds have become a reality. We have become part of a club in which rules apply which assist us, as long as we comply with them. Membership is also an unceasing inspiration to follow successful models (Luxembourg, Ireland, Finland). Several effects will take years, if not decades, to be realised, and a year is too short a time to judge them now – we refer in particular to a change of economic structure, an increase in wealth, more effective science and research, new modern workplaces, etc.

Petr Zahradník  
Česká spořitelna, a.s.



## What Has Changed over the Last Year for the Company OEZ since the Czech Republic Became a Member of the EU?

As a company we were really looking forward to 1. 5. 2004. We had spent a long time preparing for entry into the EU, but even so, the European Union was something new for us. In theory we knew the pros and cons of entering a single market, but theory is one thing and practice another altogether. Now, one year of membership on, we are wiser, and this is what we have learned so far.

Our preparations for entry into the EU began with extensive certification of all products and systems (OEZ was one of the first companies in the CR to have a comprehensively certified system in accordance with norms ISO 9001, ISO 14001, and BS 8800). Since the company was privatised in 1994, innovations have taken place in accordance with European norms and standards. One year prior to accession the company had a Euroaudit conducted, i.e. verification of the company's state of readiness for entry into the EU, and we fine-tuned the flaws uncovered by the audit right up until May 2004. In short, preparations were thorough.

Were our expectations met? But what would a large electro-technological company expect anyway? Well, that trade and the administration thereof within the framework of the EU be simplified, that we would succeed with a project and receive grants from EU funds, the possibility of using the label "Made in the EU" would help improve the image of the company and its products in the world, and as far as competition was concerned, we expected an intensification ...

Expectations were met, but only partially. Competition certainly intensified, we were not mistaken in that. Moreover, a phenomenon appeared which we had not previously encountered, that of "re-export", against which a company in the EU is somewhat defenceless. Trading with companies in the Union was simplified slightly, i. e. became faster: we can now dispatch goods for Union customers without having to draw up documents, and the customer has the advantage of speedier deliveries. What's more, customs documents are things of the past, now we only have a duty to file internal Union imports and exports in Intrastat.

As far as EU funds and the possibility of grants is concerned, we very soon lost our rose-tinted spectacles. OEZ is categorised as a large company, and this single criterion prevented us from using a whole range of programmes. To take one example: OEZ has prepared a project for co-generation, which is a system for the combined production of electricity and heat. This would not only benefit the company but the environment as well, since, unlike classic electrical power stations, in which the heat created during the production of electricity is released into the atmosphere, a co-generational unit uses the heat for its heating system and thus saves on fuel. The European Union supports this system, but a large company such as OEZ has no chance of receiving a grant for this financial demanding investment. In this respect we are encountering a lack of concern and inflexibility of the European (and subsequently Czech) bureaucracy.



OEZ headquarters in Letohrad

A few words in conclusion. Our turnover with EU countries has increased, but this was nothing more than the result of the increase in the number of EU member countries. We have been successfully trading with the EU newcomers for some time, and membership of the EU has not fundamentally impacted on this. For our company the most significant thing was the long-term process of internal change necessary as part of the lead up to entry, but since being members of the European Union we have not noticed many marked changes.

Marcela Adamcová  
OEZ Euro-coordinator

## Employers and Commission's Green Book on Economic Migration: "At First We Must Use the Potential of the EU-25!"

The European Commission has been attempting to initiate a broad discussion of the question of economic migration since the summit in Tampere in 1999. Demographic changes in Europe have provoked an urgent need for a considered Union policy, which would comprise a combination of measures for the control of illegal migration and the management of legal migration. Despite the warnings of Tito Boeri of Bocconi University in Milan, calling into question the Commission's approach, the Green Book met with a positive response overall from EU member countries. Most of the countries expect a more liberal approach to immigration policy, with the emphasis on knowledge professions. More cautious countries regard the approach taken by the Commission in the Green Book as too uniform and at variance with reality in the Union, and lay emphasis on the implementation of existing rules and the stability of internal Union labour markets. However, both camps agree that the new communitarian framework must be sufficiently general to leave room for national modifications and the specific environments of member countries. For new EU member states the priority remains the relaxation of the rules governing the movement of the workforce within the Union itself. This is the point of view of the Czech Republic, which otherwise welcomes the European discussion regarding the future of economic migration. Under no circumstances is it possible to stipulate unified rules in respect of third countries on the one hand, and on the other have a differentiated approach amongst the individual member countries of the EU.

The recent case from Chemnitz, Saxony, in which abattoir workers were replaced by cheaper workers

from Slovakia, revived the discussion of to what extent German workers are under threat from Eastern European countries. However, Herbert Brücker of the Berlin Institute for Economic Research, says that while certain negative impacts on employment had to be expected in certain fields, in others new jobs would be created and that immigration overall would have a neutral effect on the labour market.

Employers view the European Commission proposals positively. Immigration should comply above all with the requirements of employers, and the general communitarian framework must

*"For new EU member states the priority remains the relaxation of the rules governing the movement of the workforce within the Union itself"*

be sufficiently broad as to enable member states to accept immigrants on the basis of the needs of their labour markets. Above all employers welcome the pressure to create fast and transparent procedures on a national level and to simplify administrative proceedings, above all the introduction of a one-stop shop procedure for permission to enter a country and to live and work in it to citizens from third countries, including a specific approach to certain categories of workers (specialists, the providers of services within the framework of commercial agreements, commercial visitors, and seasonal workers).

In June 2003 the Czech Republic was the first of the new member countries to launch a pilot project called the Active selection of qualified foreign workers. The aim of the project is not only to

fill gaps in the Czech job market, but above all to bring to the CR qualified workers and their families, capable of integrating into society on a long-term basis. The project, which combines elements of migration and integration, has resulted in a host of new experiences. A crucial event was the launch of a website linking the offer of qualified foreign workers from target countries to the demands of Czech employers involving jobs for which they could not find suitable workers from the CR and other countries. The Confederation of Industry of the Czech Republic has supported the project from the start and is making suggestions aimed at

developing the project along the lines of employer requirements. The demands of employers from the membership base of the Confederation are mostly for technical graduates, and for this reason the Confederation recommends that in the future employers have the possibility of direct contact with students from third countries studying suitable specializations, while their studies are still underway. This direct form of cooperation between employer and potential worker during the course of studies (specialist short-term attachments, the compilation of diploma theses) could inspire interest in employers in creating jobs and increase the effect of controlled immigration.

Vladimíra Drbalová  
Confederation of Industry of the CR  
member of the EESC

# What Has the First Year in the EU Been Like for Business Sectors?

The main topic of this issue of *Czech Business Today* is the first anniversary of the entry of the Czech Republic into the European Union. We marked this occasion by contacting the representatives of associations bringing together companies from the four important sectors of the Czech economy, and asking them to offer a brief assessment of the impact of the entry of the CR into the EU and the situation over the last twelve months. We put three questions to them:



Miroslav Jirovský  
President of Agricultural  
Association  
of the Czech Republic

## 1. Has the entry of the CR into the EU had any direct positive impacts on your sector? If so, what in particular?

Generally it can be said that it opened up access to the markets of EU countries, but also access to the markets of dozens of other countries which form a zone of free trade or customs union with the EU. This involves the remaining countries of the European Free Trade Associations (EFTA), Mediterranean countries, including Turkey, and developing countries which have concluded the appropriate contracts with the EU. Specifically this means that the disadvantageous customs rates stipulated by the Association Agreement have been abolished, which in general were 2.5x larger when exporting to the European Union than when importing. This was one of the causes of the deep negative balance of agricultural trade, which last year reached minus CZK 31 billion, with an increase of imports mainly from the EU-15 of around 300% since 1993. This has contributed to a restriction in agricultural production in the CR by around 1/3. At present the market has freed up and as far as certain commodities are concerned we are capable of asserting ourselves against the competition on the market of the EU-25, but this will require more time. Opening of the market without customs barriers has improved the status of basic manufacturers in relation to processors.

Stabilisation has taken place of the business environment: the common agricultural policy of the

## Farmers

EU is the basis of rules which have remained unchanged for several years.

There has been an increase in assistance and grants for agriculture by around CZK 9 billion, though this is only on a level of approximately 50% per 1 hectare of agricultural land in the CR against the EU-15.

## 2. Did the entry of the CR into the EU have any direct negative impacts on your sector? If so, what in particular?

The conditions for business in agriculture are not comparable in the new countries (EU-10) with those in the old member countries, nor will they be until 2010 or 2013. An increase in administration for receiving support from the EU. Equality has not been enforced between basic production and processors and the business chains. The federating of farmers into customer cooperatives is insufficient. The development of prices after entry into the EU was not favourable for Czech farmers.

A negative point is the increase in administration for receiving support from EU funds. The decrease in agriculture has continued, and with it the social and demographic situation in the countryside continues to deteriorate. Over the last 5 years around 10,000 workers have lost their jobs every year, and entry into the EU has seen this trend continue. Furthermore, wages are still low in this sphere and the gap is opening between agricultural wages and the average wage in the CR. Wages are some 70% of those in other sectors of the Czech Republic and have not yet reached the real level of wages of 1990.

We have not yet succeeded in resolving relations between primary manufacturers, processors and supra-national business chains, where there is continuing pressure from globalisation and the effort to find the right position within the framework of the foodstuffs chain.

## 3. How would you rate the position of your sector within the framework of the single internal market from a long-term perspective?

From the point of view of the grants policy 2005 and 2006 will remain essentially unchanged. We expect great changes after 2007. Firstly, the transfer of direct payments to payment per farm, with a requirement on crisis control, which is already putting pressure on new investments, precise records and the corroboration of activities. In the EU15 there is to be a gradual reduction of direct payments, in the SVE-10 an increase under the terms of the Copenhagen Protocol. Secondly, part of the Common Agricultural Policy from 2007 onwards is to be the new European Agricultural Fund for Regional Development (EAFRD), which brings together resources from the agricultural grants to the horizontal regional development plan and operational programmes, which up till now have comprised around 25-30% of grants (for the EU-25 this involves around € 97 billion for 2007-13). Their distribution is being prepared to a small extent in order to improve competitiveness, but mainly to protect the environment and safety of foodstuffs, and the diversification of products, including increased employment in the countryside.

The resulting form of the policy for 2007-2013 depends to a large extent on the level of the contribution to the future budget of the EU. The financial perspectives for 2007-2013 take into consideration expansion of the EU by Bulgaria and Rumania. Current payments are budgeted at 1.14% of GDP, but 6 countries, e.g. France and Germany, have requested a reduction of 1%. This would undoubtedly impact on the agricultural expenses of the EU-25.

It will also be necessary to focus on the problematic of the development of discussions at the WTO, above all customs preferences, access to the market, and protection against import dumping.

Miroslav Jirovský  
President of Agricultural Association  
of the Czech Republic

## Construction Sector

## 1. Has the entry of the CR into the EU had any direct positive impacts on your sector? If so, what in particular?

One of the positive effects of the entry of the Czech Republic into the EU is the possibility of drawing down financial resources from the structural funds for investment, especially in the sphere of transport construction and ecology. It is true that we still do not know how to make full use of this possibility, but in future years we anticipate that the regions in particular will be able to cover their construction investment costs from these resources.

## 2. Did the entry of the CR into the EU have any direct negative impacts on your sector? If so, what in particular?

A negative impact is the increased competition on the Czech construction market, where more and more foreign companies are starting to operate. This in itself was to be expected, but the

form of their participation is negative. Foreign companies usually participate in public contracts for a lower price, and because they do not come with construction capacity, Czech construction companies realise the contract for even lower prices. Yet our construction companies, because of disadvantageous access agreements and the protective measures of the old countries of the EU, cannot participate in public contracts in most countries. We regard this unbalanced relationship between Czech and foreign companies as discrimination.

## 3. How would you rate the position of your sector within the framework of the single internal market from a long-term perspective?

In most countries the construction industry retains its national character despite the single internal market in the European Union. For us it is important that administrative protective measures aimed against the participation of Czech companies abroad be abolished. Even though the

export of construction work will be a fraction of domestic production in the future, the possibility of companies to expand is fundamental to us. The acceptance of the Directive on services in the internal European market should help with this, but at present it is being boycotted by several members of the EU, above all Germany and France.

Václav Matyáš  
President of the Federation of Entrepreneurs in the Construction Industry in the CR



Václav Matyáš  
President of the Federation  
of Entrepreneurs in the  
Construction Industry  
in the CR



## Transport Sector



Jaroslav Hanák  
Vice-president of the  
Confederation  
of Industry of the CR  
President of the Transport  
Union of the CR

### 1. Has the entry of the CR into the EU had any direct positive impacts on your sector? If so, what in particular?

A large part of the Czech transportation industry was well prepared for international trade and cooperation with the former EU fifteen, and I am convinced that it had sufficient experience, contacts and qualifications. It should be pointed out that as far as highway transport above all was concerned, there was a fundamental change in that regulation of the market and transport companies using foreign transport permits ended. The end of this unfairness during the exchange of goods opened up space for most of our companies. It also showed that acquiring new customers on old EU markets would be extremely complex, since the market for most transport spheres is burdened with surplus capacities and there is minimal chance of asserting oneself independently in the face of deep-rooted protectionism. The only opportunity, something which the more capable transport companies, forwarding agents and logisticians of our transport sector understood, was the cre-

ation of joint companies or incorporation into supranational corporations.

A fundamentally positive measure for all spheres vis-à-vis exports and imports was the abolition of customs barriers. On the other hand for the more important forwarding agents and logistics and transport companies this means a severe drop in the volume of turnover and profits and has seen hundreds of employees being laid off.

The main effect for the largest national sphere, which in the Czech Republic is highway transport, was the ending of the many hours of waiting at border crossing points, above all to and from Germany and Austria.

### 2. Did the entry of the CR into the EU have any direct negative impacts on your sector? If so, what in particular?

Leaving aside the abolition of customs declarations and the subsequent redundancy of workers referred to above, there has been a fundamentally negative impact on the highway transport infrastructure. The irresponsible negotiations of the conditions of the Czech Republic for entry into the EU as far as the transport infrastructure, above all the highway network, was concerned, including the laxity and failure to appreciate the problem on the part of Brussels officials, has had the tragic consequence of flooding the country with lorries.

The introduction of German and Austrian tolls has dramatised the process even more. For the business sphere and the citizens of this country as a whole a sad fact is the limited activity of

the Czech government as far as the necessity for a radical resolution of cross-border tolls or the excessive fees imposed on short-term transits, as well as the minimum interest displayed in helping resolve the problem on the part of Brussels.

### 3. How would you rate the position of your sector within the framework of the single internal market from a long-term perspective.

It is very difficult to speak of the single internal market from the point of view of the transportation sphere, since for most of our branches this does not apply. As far as highway transport is concerned we are discriminated against with the application of the ban on cabotage in parameters 2+2+1 years, and there are few opportunities to do anything about this discrimination, mainly because of the pressure exerted by the German and Austrian governments and our transport companies and forwarding agents, even though there is light at the end of the tunnel ensuing from the last Czech-German mixed commission in March of this year. Railway freight and personal transport must wait for a definitive application of individual rail packages and the possible positive outcome of them.

The only sphere which has really availed itself of the new changes following entry into the EU and the links to the single internal market is air transport, in the form of the largest national transport company, ČSA, which is a fixed part of the SKY TEAM and thus has the open sky and opportunities at its disposal.

Jaroslav Hanák  
Vice-president of the Confederation  
of Industry of the CR  
President of the Transport Union of the CR

## Food and Drink Sector

### 1. Has the entry of the CR into the EU had any direct positive impacts on your sector? If so, what in particular?

The possibility of free access to the single market is perceived as positive from the position of the EU state administration, with the proviso that not everyone can apply this without restriction. This is a genuinely positive point, but unfortunately conditional upon so many other actors in light of the deformed European market for agricultural products and the differing economic strength of the individual competitors, that this "advantage" for our companies vis-à-vis the EU15 countries is lost. Another question is the opening up of access to the new EU25 market, which was very restricted for us because of the existence of many protective measures. Here there is a positive increase in trade and this could compensate for the growing imports of food industry products both from the EU15 and new member countries.

Another positive impact should be access to European structural and other funds and use of support mechanisms for exports of surplus agricultural commodities. But so far Czech food manufacturers have not been too successful in this sphere because of mistakes on the part of the state administration.

### 2. Has the entry of the CR into the EU had any direct negative impacts on your sector? If so, what in particular?

The most significant negative point was the forced investment caused by adaptation to the differing legislation on the date of accession. Assistance

from public resources was very low and companies face a heavy burden, a burden which is rarely compensated by access to Union resources for the reasons mentioned above.

Another minus is difficult access to the EU15 markets due to intense protection of the market by means of long-term support of the sales of local products, and the creation of an image of low quality in the case of products originating in Central and Eastern Europe on the part of various marketing agencies.

The last negative point is the substantial increase of competition on Czech market thanks to the operations of business chains and their pressure on prices, which, combined with an increase in the prices of agricultural products, has resulted in a further lowering of margins for Czech suppliers.

### 3. How would you evaluate the position of your sector within the framework of the single internal market?

Leaving aside their own strenuous efforts and top-quality goods, in order to succeed on the single market our manufacturers need to create a functioning domestic business environment, from a tax and employment policy and a restriction on bureaucracy and administration, all the way to the creation of effective state support and lobbying tools along the lines of marketing agencies and business support agencies.

An important factor in the further development, not only of the Czech food industry and agriculture, involves reforming the Common Agricul-

tural Policy, without which the European agricultural sector will gradually become non-competitive and, naturally, the thorough protection of the interests of Czech producers when designating the frameworks of this reform in order that they not be restricted more than their competitors in the EU15, a point which is frequently overlooked in the proposals.

In conclusion Czech food manufacturers have met all the European regulations and instructions regarding hygiene, safety, ecology, etc. all in all to a higher level than is required of producers in the EU15. They have top-quality competitive products at their disposal, but unfortunately not always for competitive prices. They have "free" access to the single market and many of them operate with great success. And so despite the hidden barriers placed on us by EU bureaucracy, I believe that at least part of the Czech food producing segment will succeed in the future on the single market.

Miroslav Koberna  
Director of the Federation  
of Food and Drink Industries of the CR



Miroslav Koberna  
Director of the Federation  
of Food and Drink  
Industries of the CR

## Conference on Public Procurement Opportunities in the EU



Panel discussion on supporting of Czech companies in tenders in the EU

On 1 March the Knightly Hall of the Czech Senate filled up with representatives of companies who were greedy for information. The reason was simple. The Senate Committee for the Economy, Agriculture and Transport, together with CEBRE – Czech Business Representation in Brussels – organised a conference entitled Public Contracts in the European Union – New Opportunities for Czech Companies. As is clear, public contracts are of crucial interest to companies. Their share in the GDP of the European Union does not need further comment.

The morning block kicked off with a presentation of the results of research conducted by CEBRE and BusinessInfo into the participation of Czech companies in public contracts within the EU and their

relationship to them (c.f. Czech Business Today 1-2005), which prompted a discussion between the presidents of the Economic Chamber and the Confederation of Industry and the Deputy Minister of Industry and Trade on the possible forms of support for Czech companies during participation in public tenders in countries of the European Union.

The afternoon part was dominated by practical information focussing on Czech and European legislation in this sphere, the possibility of participation, information sources, and the concrete experiences of companies in public tenders in other countries of the European Union. There was a very positive response to the workshops on public contracts in Slovakia (with the participation of the director of the Slovak Office for Public Procurement) and in Germany, and on information technology and electronic processes in awarding public contracts.

Ondřej Hradil  
CEBRE Brussels

## Let's Speak of This More Loudly and Frequently!

For at least a year the Economic Chamber has been drawing attention to the barriers which are causing a drop in the number of active entrepreneurs. The main factors are the entry of the CR into the European Union, the introduction of a minimum tax, the increase in payments for health and social insurance, and further increases in the complexity of business legislation and a reduction in the legal security of businesspeople.

The aim of the chamber is to acquire a substantial influence allowing for the alleviation of these barriers and the improvement of the business climate. An important landmark was the approval of government regulation 1072 on 3 November, which covers the legislative rules of the government. Within the framework of

inter-departmental committee proceedings, lawgivers are obliged to send the intentions of those acts and draft legal regulations relating to the regulation of business activities to the Economic Chamber for its comments. The chamber has thus acquired an effective tool by which it can exercise fundamental influence over the approval of acts, decrees and regulations. This is a position which the chamber wants actively to utilise. It can be used to create substantial room for the application of constructive comments based on actual practice. The duty of the state is to create the best possible conditions for businesses, which can have a positive effect on level of GDP and bring prosperity to the Czech Republic. The Economic Chamber is interested in making the entire committee stage as effective as possible.

The Economic Chamber is organising seminars on specific draft bills which significantly affect business, for the participation of entrepreneurs and the chamber on the one hand, and representatives of the ministers as the authors and lawgivers of said bills on the other hand.

At the beginning of June a seminar will be held at the headquarters of the Economic Chamber on the draft Public Contracts Act and the related draft Public Private Partnership Act (the Concession Act).

Miluše Kohoutková  
Economic Chamber of the Czech Republic

## 15 Years of the Confederation of Industry of the Czech Republic

At the end of April 2005 celebrations were held in Prague for the 15th anniversary of the founding of the Confederation of Industry of the Czech Republic. In May 1990 the activities of what is today the largest non-governmental voluntary organisation, which brings together employers and entrepreneurs from the spheres of industry, transport and services, were re-inaugurated. The level of cooperation over the years has won respect from other parties at home and partner federations abroad.

The reminder of this significant event was linked with an announcement of the results of the prestigious competition Manager of the Year 2004. Many politicians and well-known personalities attended the official announcements of the winners and gave speeches.

## Cercle Tchèque

The days when it was rare to stumble across a Czech in Brussels are long gone. The expansion of the European Union last year has seen a gradual increase in the Czech community in Brussels, whether this involves employees of European institutions or the representatives of Czech organisations at the EU. The first diplomatic representation of the Czech Republic in the European Community was at the beginning of the nineties. Others were slow to follow. The catalyst for the creation of more Czech offices in Brussels was, of course, 1 May 2004, when the CR entered the EU. The first to take the trip to

President of the Confederation, Jaroslav Míl, caused something of a stir with his speech, in which he said, amongst other things: "The fact that we are a respected partner of the government, trade unions and international institutions does not mean that we have completely met our targets. The truth is, this cannot even be attained. Our fight against excessive bureaucracy and our attempt to improve the conditions under which business is conducted is an ongoing task which will never end. We have achieved many successes, but the conditions for the development of companies are not on a level which is customary in advanced countries. Not even over the last 15 years have we fully succeeded in persuading politicians, and above all the state administration, that before you cut the cake, you have to bake it. It still seems that we serve the state, and not

the state us". He added: "While amongst businesspeople business ethics are tightening up, the ethics of the government display a long-term downward trend. The effects of this situation, both abroad and above all as a model of possible and publicly acceptable conduct at home, will be highly destructive. It is no exaggeration to say that we must all be concerned by what examples of behaviour we are offering to succeeding generations".

Anna Veverková  
Confederation of Industry of the Czech Republic



Jaroslav Míl  
President  
of Confederation  
of Industry  
of the CR

Brussels were entrepreneurial organisations like ČEZ or CEBRE – Czech Business Representation in Brussels. The importance of Brussels as the centre of European matters was realised by the Prague Municipal Authorities, who opened up an office there. Over the last year several other Czech Regions have followed suit – Central Bohemia, South Bohemia and the Zlín region.

The growing number of Czech representative bodies creates a need for good communication and the creation of an integrated profile of the Czech Republic. This was the impetus for the cre-

ation at the end of last year of an informal platform under the title the "Cercle Tchèque", thanks to which Czech representatives in Brussels have the opportunity to meet up every month and to discuss the possibilities for mutual cooperation as well as current European topics with external guests. The task of organisation and secretariat was taken on by CEBRE. Topics discussed so far include the Lisbon Strategy, the European Constitution, and high on the agenda recently the directive on services in the internal market.

Ondřej Hradil  
CEBRE Brussels



# News from the *Czech Republic*

## Karel Kovanda is appointed Deputy Director-General at DG RELEX

The current Czech envoy to NATO, Karel Kovanda, has been appointed representative to the director general for foreign relations at the European Commission. He is the second Czech to occupy such a high function in the executive of the EU. Kovanda came out top over more than one hundred people, most of them top diplomats from the 10 new member countries. Of the final three candidates Benita Ferrer-Waldner preferred him over the Polish deputy foreign minister, Jan Truszczyński, and the Polish ambassador to the EU, Marek Grela. At the general directorate Kovanda will manage departments responsible for relations with advanced countries of the world (USA, Canada, Australia, Norway), with multilateral organisations such as the UNO and the Organisation for Security and Cooperation in Europe, and the overall conception of the joint foreign, security and defence policy of the EU. Karel Kovanda was the first Czech ambassador to the North Atlantic Treaty Organisation. From 1993 to 1997 Kovanda was ambassador to the UN, where for six months he was chairman of the Security Council. Kovanda likes to remember how, as a diplomat in the nineties, he became a father of three.

Other Czechs to occupy top administrative posts in the EU include Marie Bohatá and Ivan Pilip. At the end of last year Marie Bohatá was appointed deputy director of Eurostat. During her career she has worked for the Czech Academy of Sciences, and from 2000 - 2003 was chairwoman of the Czech Statistical Office. Ivan Pilip, in the middle of the nineties Minister of Finance and Minister of Education, Youth and Sports of the CR, is currently vice-president of the European Investment Bank (EIB).



Mr Karel Kovanda

## The Czech Court of arbitration will rule on disputes regarding the domain .eu

EURid, the European Registry of Internet Domain Names, has selected the Czech Court of Arbitration of the Economic and Agrarian Chamber to draw up the rules for the alternative resolution of disputes over the domain name .eu. The court will collaborate on this task with a special team of IT specialists from around Europe led by a specialist in the internet and electronic commerce legislation, Zbyněk Loebel. The court already resolves disputes regarding the domain name .cz. A decisive role in the selection of the Czech Court of Arbitration was played by the many years of its existence and its successful creation of an international team of experts from many EU countries, who have experience with the resolution of similar disputes, e.g. at the World Intellectual Property Organisation (WIPO).

## This year the CR expects a record number of tourists

Up to eight or nine percent more tourists may be visiting the CR this year. CzechTourism, the agency for the support of tourism, puts the figure at more than 8.5 million people. According to official statistics and the agency's calculations 7.9 million foreigners travelled to the Czech Republic last year, more than 19.4 percent than the preceding year. While trips to the CR are increasing more slowly than last year, the increase will still represent twice that of the world average. Interest in the CR is on the up thanks to the entry of the CR into the EU, and the expansion of low-cost flights has also had a huge impact. At present, for instance, there are around sixty flights a week between Prague and United Kingdom. The increase in incoming tourism to the CR is also supported by the renewed interest in travel around the world over the last two years. However, this year's forecasts will only be realised if world tourism does not suffer some negative event like, for instance, SARS, large terrorist attacks, or war. Hotel and restaurant owners have also reported an increase in their revenues.

## A referendum in the CR is still unclear

It has still not been decided whether the European Constitution will be subject to a referendum in the Czech Republic or whether it will be ratified by Parliament. A draft government bill is circulating in Parliament at present, but there is still a dispute between the government and opposition parties regarding the form of the bill to be submitted and the date on which a referendum should take place. While the governing social democratic party (ČSSD) is for a bill on a general referendum and would prefer that it be held along with elections to Parliament in June 2006, the opposition ODS, which has a majority in the upper chamber of Parliament wants a simple referendum held prior to the parliamentary elections. Irrespective of whether and when a referendum will take place the government is drawing up a communication strategy with which it wants to explain to the population the advantages of the constitution and to lower the level of opposition. The former Prime minister, Stanislav Gross, has shifted responsibility away from the Ministry of Foreign Affairs directly to the Office of the Government, where he has established a special Department for Information regarding European Matters under the leadership of the former press spokesperson of the Permanent Representation of the CR to the EU, Petra Mašínová. The new Prime minister, Jiří Paroubek, also regards approval of the European constitution as a crucial priority of his new government's agenda. Within the EU the CR is regarded as one of the countries with a high percentage of opponents to the constitution, above all because of the critical approach taken by the president, Václav Klaus. Top Czech and European politicians have already countered his pronouncements against the constitution. Over the last few days, for instance, the Vice-chairwoman of the European Commission, Margot Wallström, has outlined ten arguments in favour of voting for the European constitution.

## Growth in Czech exports is the third fastest in the world

Since entry into the EU the development of Czech foreign trade has exceeded all expectations. A study by the investment bank Lehman Brothers shows that last year Czech exports rose faster than all other European countries and on a global scale the performance of Czech exports was exceeded only by China and South Korea. According to the pro-export state agency CzechTrade, one year on from entry into the EU Czech exporters are perceived as more reliable partners, while membership of the EU has increased the prestige of Czech goods. The same conclusion is reached by the latest research by the directors of the thirtieth office of CzechTrade, which now operates in twenty six countries of the world. The excellent results of Czech exports, reflected in the balance of trade surplus, are an important driver of growth in the Czech economy this year. A potential threat to Czech exports could be the excessively fast rate at which the Czech crown is growing stronger against the euro and the US dollar. An over-strong crown could threaten the competitiveness of Czech products on world markets.

## Imports of Chinese clothing have increased by two thirds

In the first quarter of this year huge quantities of Chinese clothing and textiles flooded the Czech market, the import of which into EU countries has not been restricted by quotas since January. From January to March 2005 the value of imported Chinese clothes has risen year-on-year by 68 percent to something around 1.64 billion crowns. The import of Chinese textiles and fabrics has not increased to such an extent: from last year's 262 million crowns to 355 million this year.

## The growth of Czech GDP reaches four percent

The Czech economy is in the best condition it has been in for ten years, according to the deputy premier for the economy, Martin Jahn. In his opinion the fast rate of economic growth is allowing for further tax and social reforms which will increase competitiveness and speed up economic growth. According to figures from the Czech Statistical Office the rate of growth of the Czech economy increased last year to four percent from 3.7 percent the preceding year, which exceeded the expectations of many Czech economists. Jahn believes that this growth is healthy since it comprises exports by domestic manufacturers and investment. "Good results are being reported not only by foreign companies, but Czech firms too, which have undergone restructuring and boosted their export activities," he said. The CR was also helped by entry into the EU, which simplified the penetration of Czech goods into the markets of EU countries. Furthermore, despite initial confusion over the submission of applications, funds are now being drawn down from EU funds.

Source: ekomail, www.novinky.cz, www.ihned.cz

(interview with Ludmila Petrářová from page 1)

market participants, i.e. clients of our transmission services, when trading in electricity, in November we organised an international coordinated auction of capacities with Germany (with the operator of the north-eastern part of the transmission system, Vattenfall) and with Poland, and this November we want to include other countries in the event. Since 2003 we have, with the support of the Czech state administration, been part of the single European transmission tariff, and so traders who transmit electricity within the framework of continental European have the same tariffs everywhere.

**Has entry into the EU involved additional costs for your company, for instance in connection with compliance with norms or in the administrative sphere?**

No.

**What do you think are the prospects vis-à-vis the development of the Czech power industry within the framework of the European Union?**

Over the medium-term the European Union has insufficient power sources. If Czech manufacturers wanted and were able to engage in this sphere,

there would certainly be space for them to develop. For us as the owner and operator of a transmission network it is mainly a case of negotiating with neighbouring transmission systems on the reinforcement of international management, not only in order to support our manufacturers, but also to support the planned import of electricity to Europe from Eastern countries.

**Thank you very much for the interview.**

*Martin Petříček  
Economic Chamber of the Czech Republic*

The competition "Manager of the Year" is organised every year by the Czech Management Association, the Confederation of Employers' and Entrepreneurs' Associations of the Czech Republic, and the Confederation of Industry of the Czech Republic, in cooperation with the Management Federal Fund. It recognises the achievements of specific personalities in management, presents their results to the general public, and illustrates their part in the development of the Czech economy. Any manager from a private or state owned company who has held a management position in the Czech Republic for at least three years can participate in the competition.

On 21 April 2005 at the Žofín Palace in Prague, the thirteenth winner was announced. The award for male Manager of the Year 2004 went to Zdeněk Burda of the construction company Skanska CZ a. s., and for female Manager of the Year 2004 to Ludmila Petrářová from ČEPS a. s., with whom we publish an interview in this issue. Managers of small and medium enterprises and managers operating in various branches of the Czech economy were awarded special prizes.



*Zdeněk Burda and Ludmila Petrářová  
Managers of the Year 2004*



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 custom 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 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, and 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 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 à 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 association at European business federations

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

CEBRE – Czech Business Representation

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