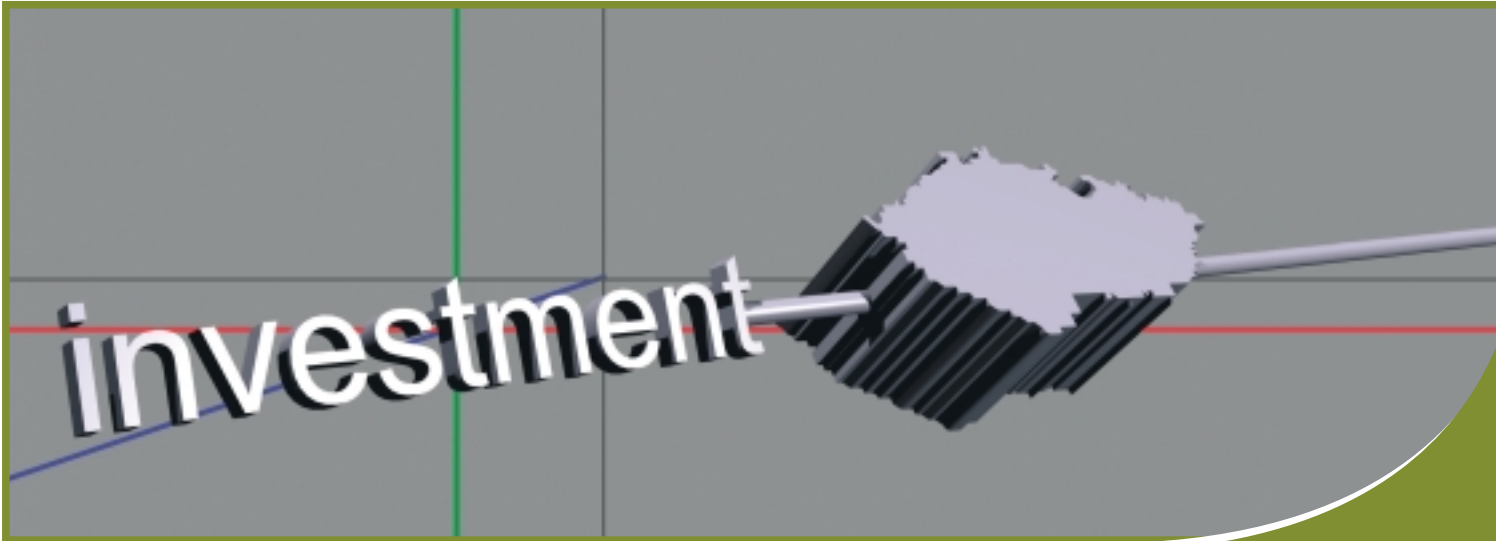
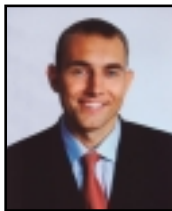


# CZECH BUSINESS *today*

4/2003



- ▲ The Foreign Direct Investment in the Czech Republic
- ▲ Eurozone Accession Strategy
- ▲ Czech Civil Society in the EU
- ▲ Czech Reaction to "Reach"



**Ing. Martin Jahn**

At the beginning of this year it was decided to merge three government agencies operating under the aegis of the Ministry of Trade and Industry - CzechIndustry, ARP (the Agency for the Business Development) and CzechInvest (the Agency for the Support of Foreign Investments) - into one agency led by CzechInvest. In terms of the support for foreign investment in the Czech Republic CzechInvest has been very successful, as is clear from the information available (c.f. the article on page 5). It was also chosen as the implementation agency for The Operational Programme Industry and Enterprise for 2004-2006, within the framework of preparations for drawing down the resources of the structural funds.

**The role of implementation agency represents a new departure for CzechInvest. How are preparations going for this new role? What**

## ***AN INTERVIEW WITH THE MANAGING DIRECTOR OF THE AGENCY CZECHINVEST, ING. MARTIN JAHN***

**phase has the merger process reached and how successful do you think it has been so far?**

The Minister of Trade and Industry decided to create a Czech agency for the support of business and investments in April of this year. The merger of the existing ministry agencies resulted in an integrated body, the task of which will be to improve the availability of support for companies in the CR. This agency will use the CzechInvest trademark and logo (CI).

The merger of ARP and CzechIndustry with CzechInvest will be realised on the basis of a bill amending the Act on support of small and medium enterprises. Parliament has already passed this bill and it is now ready for the committee stage in the Senate and the president's signature. The anticipated date of the actual integration of the agencies is 1 January 2004. However, given the imminent entry of the Czech Republic into the European Union the three agencies began cooperating in the middle of this year. All three agencies have already moved under the one roof. The fact that we have a shared headquar-

ters means not only that collective projects are facilitated, but also negotiations with external partners run more smoothly. One body has a far better bargaining position, strategy and support programmes can be better coordinated.

Activities relating to utilisation of Phare 2003 resources and EU structural funds have already been transferred to CzechInvest. The agency is at present in the last phase of preparations for the provision of direct support to SMEs in the CR by means of Phare 2003. The total volume of resources to be offered to businesses for the purchase of new technology within the framework of this programme will be in excess of euro 17 million.

One condition which has to be met is that the end recipient must participate in funding the project from their own resources. CzechInvest will accept applications for support from Phare 2003 after the documentation has been approved by the European Commission delegation, i.e. during the 1st quarter of 2004 at the earliest.

(see page 8)

## 172 Days to the Finishing Post

That was the number of days remaining until the magical date of 1 May 2004, when the European Union is to be enlarged by a further 10 countries, when on 5 November commissioner Günter Verheugen, responsible for EU enlargement, officially introduced the monitoring report on the 10 acceding countries and the 3 candidate countries at a plenary session of the European Parliament in Brussels.

The amended title of the report already bears witness to its significance. The earlier "Regular Monitoring Report" was replaced by the title "Comprehensive Monitoring Report". As well as actually evaluating the individual candidate and acceding countries, the report also says that overall the 10 candidate countries are now ready for entry into the EU. This is the last large report focussing on the individual acceding countries.

### The Commission's Approach

While last year's report contained 150 pages, this year's weighs in significantly lighter at only 59 pages. The European Commission has divided the individual areas investigated into three categories as follows: areas in which the country in question is prepared for accession, areas in which certain problems remain and where more effort must be made, and areas which arouse serious misgivings and in which some fundamental steps must be taken forthwith. In practice this means that if there is not a fundamental improvement in these regions, there will be the threat of the application of the so-called protection clauses, which are specified in the Treaty on Accession. However, it would take the most serious situation indeed to see these clauses used. Only 3% of leg-

islation falls into the most serious category, according to the European Commission.

### An International Comparison

None of the acceding countries was awarded a gold star in this year's school report. Even the class swot, Slovenia, earned a lecture from the European Commission. The Commission included a total of 39 different areas in the third category, i.e. amongst the areas which are cause for worry. Poland, with ten such areas, was adjudged the dunce. The Czech Republic was placed in the middle of the pack with three problematic areas.

### The Czech Republic

Three areas were included in the most serious category where fundamental measures must be taken. The first relates to the free movement of persons and the mutual recognition of qualifications, especially as relate to healthcare personnel. The second area is agriculture and the food-processing industry, where many factories will have to adapt to the hygienic requirements of the EU or risk being closed down. The last area is that of highway transport, where the culprit is again the government. The Czech Republic has approved Union legislation in this sphere, though is far from complying with it and needs to beef up its control mechanisms considerably.

As well as these three most acute problem areas it is necessary to continue with preparations for membership of the Union in many other spheres. The European Commission included many other recommendations regarding tasks which need to be carried out, but this process is not sufficiently dynamic for it to be completed by 1 May 2004.

Areas are involved such as public tenders, insurance and information company legislation, loopholes in the system for utilising structural funds, telecommunications, etc. And of course there is the hardy perennial, corruption.

### Prospects for the Future

What lessons can companies learn from this year's monitoring report? First of all the report represents a relatively objective evaluation of the state of readiness for accession to the EU. It looks from the outside at problems which must be resolved if the integration of the CR into the EU is to be successful. Secondly, even though many of the problems subject to scrutiny are on the side of the government, it is companies whose efforts will be frustrated by a failure to remove such problems, for instance if the EU opts for use of the protective clause. This would mean the restriction of basic freedoms above and beyond the transition period specified in the Treaty on Accession. For this reason companies are requesting of their professional associations that they put pressure on the appropriate bodies in order that remedial measures are taken promptly.

November's monitoring report by the European Commission is the last document of its kind compiled on the Czech Republic. After accession to the EU the acceptance of new Union legislation by the CR will be regularly monitored, as it will in the other members countries, using, for instance, the Internal Market Scoreboard, which will review the share of Union legislation not included by member countries in national law.

Ondřej Hradil,  
CEBRE Brusel, [www.cebre.cz](http://www.cebre.cz)

## Eurozone Accession Strategy

After a long period of negotiations the Czech Republic will join the European Union in May 2004. The CR, like other new member states, does not have an opt-out provision on adoption of the euro, but it does not seem as though replacement of CZK is imminent. Any country willing to join the eurozone must fulfil the Maastricht criteria prior to the adoption of the euro. These criteria cover price stability, long-term interest rates, the government budgetary position, the level of government debt, and exchange rate levels. The exchange rate criterion requires a EU member state to participate in Exchange Rate Mechanisms II and to maintain the exchange rate stable at a defined central parity for at least two years prior to evaluation of the criterion. So the earliest date that new member states could adopt the euro would seem to be some time at the beginning of 2007.

Adoption of the euro could bring great benefits for the Czech economy. The irrevocable pinning of the currency within the Economic and Monetary Union will reduce its volatility and eliminate the exchange rate risk vis-à-vis other countries within the eurozone. The requirement of near-balanced public budgets will lead to further structural reforms and help further reduce long-term interest rates. Households and firms will profit from access to the liquid and transparent capital markets of the

eurozone. All this will lead to a more efficient allocation of resources and higher sustainable long-term economic growth.

However, there may also be some risks associated with adoption of the euro. The loss of an independent monetary policy will mean the loss of an important instrument that can be used to help mitigate the negative effects of possible asymmetric shocks hitting the Czech economy. The prerequisite for ensuring the ability of the Czech economy to successfully respond to shocks will be a stabilising fiscal policy that is not bounded by excessive public deficits. Other key factors allowing the country to benefit from membership of the eurozone include a flexible labour market and well-functioning financial markets.

Participation in ERM II - unlike the irrevocable pinning of the exchange rate within the EMU - does not in itself eliminate the risk of currency turbulence. In some cases it could reduce exchange rate volatility, in others it could even stimulate crises. So the Czech National Bank regards this system as merely the gateway into the eurozone and a prolonged stay in the ERM II, without the option of an early adoption of the euro, does not appear a very attractive prospect.

Having carefully analysed the benefits and risks of the timing of euro adoption, the CNB recom-

mended the Government to implement the necessary measures in such a way as not to rule out the possibility of joining the eurozone around 2007. Those reforms are not only needed for adoption of the euro, but would strengthen the economy itself and help to achieve higher and sustainable growth.

However, the current fiscal policy is generating growing deficits and so makes the Maastricht criterion out of reach for the Czech Republic. The Government is aware of the fiscal situation and has initiated reforms aimed at reducing the budget deficit to no more than 4 % of GDP in 2006. However, even further cuts and more profound structural reforms will be necessary in order to ensure the long-term sustainability of fiscal policy and its stabilising function. This puts back the possible replacement of the Czech crown by the euro to some time around 2009-2010. This position, together with the decision not to join ERM II immediately after EU accession, is included in the "Czech Republic's Eurozone Accession Strategy", a joint document put out by the Czech Government and the CNB, approved by the Government in October 2003 and available to the general public.

Luděk Niedermayer  
Vice-Governor of the Czech National Bank

## The Law is Just the Beginning

The amendment to the Telecommunications Bill, which came into force on 20 August, put the Czech telecommunications market on the road to full liberalisation. It set out the legislative framework within which subscriber lines would be made available, and should result in the termination of the monopoly status of the dominant operator Czech Telecom.

The road to a fully competitive market has thus reached an important milestone, even if the end of the road, i.e. a full range of services for reasonable prices, is not yet in sight. In the case of the practical utilisation of the subscriber lines made available, so-called Local Loop Unbundling (LLU), we can expect a repetition of the same situation as the last time efforts were made to deprive Czech Telecom of its exclusive status on the market, i.e. a long-drawn out process, especially as far as prices are concerned. The arbitrator in this case is the market regulator or Czech Telecommunications Authority. However, any intervention on its part usually comes after a long wait: the organisation does not react proactively but only moves in the event of irresolvable differences between the parties affected.

### Overcoming that Last Mile

But let us return to the amendment of the Telecommunications Bill approved this August. What does it contain and what will it entail? Its main aim is to stipulate a duty on the part of Czech Telecom to make subscriber lines available to alternative operators. This means that the dominant operator must allow its competitors into the commercially very interesting and so far unavailable parts of its metallic network, which ends up directly in the subscriber stations of the end customer. Access to this so-called last mile can be either full or shared. In the first instance the alternative operator receives complete control over the telecommunications services provided to the subscriber, can offer both voice and data services, carry out installation of the necessary equipment itself, and be responsible for its problem-free operation and

draw up invoices. The customer may be not only an end user (an individual or company) but another operator or Internet Service Provider.

In the case of the shared option the frequency spectrum will be divided in such a way that CT will continue to provide voice services, while the competition will provide data services. The customer will pay two separate bills to two different operators.

### Price will be crucial

The timetable anticipates that within 30 days of the amendment being approved (i.e. by 19 September 2003) Czech Telecom should publish a so-called Reference Unbundling Offer (RUO). The following 60 days are set aside for talks between CT and alternative operators. The main point of these discussions will be the prices offered. If the parties cannot reach agreement - which is very probable - then the Telecommunications Authority steps in.

We can assume lack of agreement on prices offered by Telecom, for two reasons: on the one hand it is not in Telecom's interest to speed up these talks and to allow the competitors to encroach onto its hitherto exclusive preserve, and on the other it is well known that the calculation of prices will be based on the so-called cost model. This is something which has already caused bitter disputes in the discussion on connection fees. The alternative operators protest against prices based on the costs of what they see as the inefficient management of the dominant operator, and are pushing hard for a method of calculation based on incremental costs.

Despite this there is the hope that negotiations could be simpler than is customary, the reason being that at the APVTS (Association of Public Telecommunications Networks Operators) they have started work on a project entitled a "Local Loop Unbundling Specimen Referential Bid". According to the chairman of the APVTS, the specimen referential bid defines the basic conditions and procedures necessary for concluding contracts on allowing access to subscriber lines, including the coordinated use of capacities and equipment,

operating rules, and other basic requirements for the introduction of LLU. The aim is to speed up the entire process of putting the amended Telecommunications Bill into practice. The advantage of the approach taken by the APVTS is the fact that all the interested parties come together on the organisation's premises. However, nothing is valid, since the traditional stalemate has arisen in which Czech Telecom has come up with prices which are unacceptable to the alternative operators. The latter are trying to negotiate, and refer to the proposals of the APVTS, but as yet nothing is yet valid. The Czech Telecommunications Authority is approaching the matter in its usual fashion, i.e. we shall have to wait months for a decent result.

### Does a model exist within the EU?

In the case of Local Loop Unbundling a look at the situation in Western European countries serves rather as a warning than as an example to follow. The problem is that hopes of the dominant and alternative telecommunications operators reaching agreement without the help of a third party have been considerably exaggerated. The dominant operators (understandably) do not intend giving up anything earlier than they have to, and so in Western European countries the individual national regulators are forced into a host of interventions, the aim of which is to impose a price in the referential bids. It is difficult to imagine the situation in the Czech Republic being significantly different.

As far as a method for calculating price goes, opinions differ. Should it be stipulated by law, by the regulator, or should the operators themselves decide on it? Even in this sphere there is no clear fix.

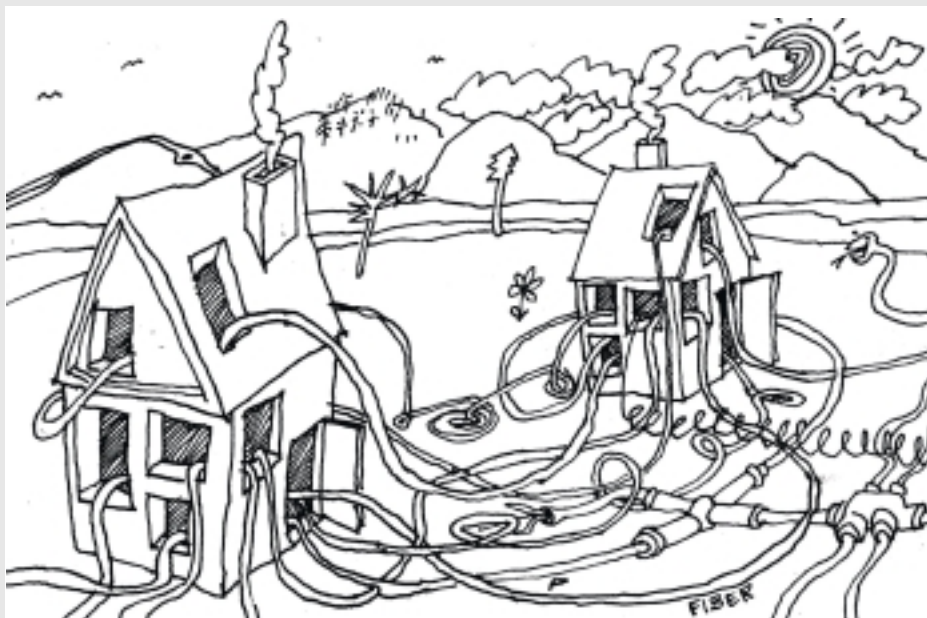
At the same time the availability of the service in respect of its price plays a crucial role in liberalisation of the market since it determines the willingness of the alternative operators to invest in equipment to the local loops. Investment must have at least some return guaranteed, and if prices are high for access to the last mile this is by no means sure.

### This is no trivial matter

The problems could be examined from the point of view of many parties, though one basic fact has always to be borne in mind: to a certain extent the entire development of the national economy depends on the development of telecommunications. The key is extending broadband access to the Internet for both small and medium-sized companies and households. Its use on a large scale will not only stimulate the development of electronic commerce, but reasonable prices of this service will allow for faster introduction of so-called e-government, i.e. use of the Internet as part of the state administration. This leads not only to better quality services for citizens, but the possibility of making significant savings in the state budget.

It is clear that any view of the benefits of the amended Telecommunications Bill should examine the current boundaries of the sphere in question, and should also take in the Electronic Communications Bill under preparation.

Dagmar Ruščáková, independent journalist  
dagmar.ruscakova@tiscali.cz





## The Federation of the Chemical Industry of the Czech Republic Reacts to the Draft REACH Statute

The Czech Federation of the Chemical Industry (SCHP ČR) was founded in 1990 as a voluntary association of manufacturing, commercial, design, research, and consultative organisations operating in the sphere of the chemical, pharmaceutical and petrochemical industry and the plastics and rubber-processing industry. The federation at present has one hundred and three hundred members representing more than 60% of workers in this field and more than 70% of total production.

The federation concentrates most of its activities on active support of the business interests of its member companies in the Czech Republic and the support and incorporation of the Czech chemical industry into the European and world economies. It emphasises the importance of the preparations of the chemical industry for the entry of the Czech Republic into the EU, represents companies at meetings with the authorities, and submits all the economic, legislative and technical information available to its member organisations. The federation also represents member companies in the resolution of employment, social and wage issues, health and safety at work, collective bargaining with trades unions, and negotiations with civil service bodies.

Within the Czech Republic the SCHP ČR closely cooperates with the Confederation of Industry of the Czech Republic, of which it is a member, and with other organisations affiliating companies operating in various spheres of chemical production, such as the Federation of Plastics Processors, the Pharmaceutical Industry Federation, the Czech Association of Petroleum Industry and Commerce, and the Czech Association of Soaps and Detergents Manufacturers. The Association of Paint Manufacturers and the Association of Technical Gasses are joint members of the Federation of the Chemical Industry.

Since June 2001 the SCHP ČR has been a regular member of the Council of the European Federations of the Chemical Industry (CEFIC), and is a member of the Federation of European



Commercial Chemical Products (FECC). The SCHP ČR has forged and maintained many contacts and cooperates with similar foreign federations, above all in the countries of Western and Central Europe, and its affiliated organisations are members of many other European and world associations operating in the individual spheres of chemical production.

Preparation of a new policy in the chemical industry represents a binding step toward the regulation of chemical substances and products within the European Union. On 29 October this year the European Commission published an official draft statute entitled REACH (Registration,

Evaluation, Authorisation, Chemicals), which formulates this new chemical policy in the European Union.

The draft was accepted by the European Commission following extensive Internet discussions which were held from 7 May to 10 July 2003. (The Federation of the Chemical Industry expressed its point of view during these discussions.) The European Commission then submitted the draft to the European Parliament and the European Council for further negotiations.

The published draft shows that the legislative text known by its acronym REACH has undergone several important and positive changes against the working material submitted to the Internet discussion on 7 May 2003, above all in respect of:

- a substantial simplification of the requirements on producers and importers of chemical substances and products and a considerable lowering of the requirements on the user of chemical substances and products,
- the system of preliminary written reports on chemical safety has been abolished,
- polymers will not be registered or evaluated (assessed),
- the registration of imported or manufactured chemical substances or chemical products by one manufacturer/importer in quantities of between 1 to 10 tons per year will be simpler,
- support for the substitution of dangerous chemical substances - the European Commission will support the substitution plans of a company when reaching decisions on the authorization of dangerous substances,
- the administration of REACH is simplified by the fact that the proposed European Chemical Agency will be fully responsible for all aspects of registration,
- the draft guarantees greater legal security for the subject being registered and data,
- the requirements on chemical products have been simplified,
- ensuring public access to information relating to the problematic of industrial intellectual ownership respects the commercial secrecy of subjects.

The Federation of the Chemical Industry welcomes these changes because they approximate much more to the draft statute of the original aims of the White Book on Strategy for a Future Chemical Policy, above all in respect of the following spheres:

- the protection of health and the environment,
- the maintenance and reinforcement of the competitiveness of the European chemical industry,
- support for forms of testing which lower the use of laboratory animals,
- compliance with the international obligations of the EU to the WTO.

Although the draft represents a significant improvement, the federation is of the opinion that several questions remain unresolved. An

evaluation will be necessary of the effect of implementation of the draft chemical legislation on the chemical industry and the user sector of the economy, and a suitable methodology for assessing this impact will need to be created. At the same time it is necessary to evaluate the implementation of this legislation on small and medium-sized enterprises with the aim of drafting measures to support them.

At present in the Czech Republic a project is underway initiated by the Ministry of Trade and Industry entitled "The impact of the REACH

**At the same time it is necessary to evaluate the implementation of this legislation on small and medium-sized enterprises with the aim of drafting measures to support them.**

chemical policy on the processing industry of the Czech Republic" headed by the Research Institute of Organic Synthetics in Pardubice, in which the Federation of the Chemical Industry and other associations of the processing industry are playing an active role.

At the same time state bodies are holding consultations regarding the issue with representatives of the manufacturing spheres of the chemical industry both in Europe and the Czech Republic. For instance, on 31 October 2003 a working meeting of representatives of the Council of European Federations of the Chemical Industry (CEFIC), the Ministry of the Environment, and the Federation of the Chemical Industry was held at the Ministry's offices devoted to this topic.

The Federation of the Chemical Industry and the CEFIC are preparing an international conference on the issue of new chemical legislation for Central and East European countries, which is to be held during the 1st quarter of 2004 in Prague.

The preparation of new and effective chemical legislation is an extremely demanding process both for the government and non-governmental representatives, as well as employees' groups, environmental groups and other civil initiatives. The Czech Federation of the Chemical Industry has been monitoring this process carefully from the start and will continue to do so in accordance with the opinion of the CEFIC so as to ensure transparency, feasibility, and the simplification of the existing drafts of the new chemical policy, with the aim of protecting the interests of its members.

*Ing. František Dvořák  
Ing. Vladimír Janeček  
Federation of the Chemical Industry  
of the Czech Republic*

# Foreign Investment - Quantity Alternating with Quality

In 2002 the Czech Republic attracted record levels of foreign direct investment totalling euro 9,886 billion (USD 9,305 billion). This is the highest recorded influx of FDI in the history of the independent Czech Republic, giving us the number one position in Central and Eastern Europe in the period since 1999 when calculated per capita. As usual the largest investors included Germany, Holland and Austria, though investment from Japan also grew markedly.

There is a new trend being revealed in respect of the structure of FDI in the Czech Republic, which sees an increase in the number of costly projects in the sphere of research, development and shared services. The Czech economy has already managed to receive investments from many world players, such as Accenture and DHL, LogicaCMG, Honeywell, Olympus, Mercedes, Panasonic, etc.

These types of investment are by far the most advanced, demanding and appreciated sphere of any economy. Generally, it can be said that the more advanced the economy, the more strategic service centres and developmental centres it has, and the Czech Republic has huge potential in this sphere, partly because of its industrial background, and partly thanks to the quality of its university education. Cooperation between universities and the private sector on concrete projects is also needed.

For companies planning to invest in research and development the proximity of a university is an important criterion when deciding where to situate the project. Investors are already factoring in use of their capacities. The Czech government also drew attention to the necessity of improving conditions in this area, when in February this year it approved a set of measures aimed at improving the business environment in the CR.

Research and development centres tend naturally to initiate cooperation between the academic and the commercial spheres. Students of technical colleges acquire the requisite experience and graduates have a wider range of job opportunities.

There are genuinely many opportunities for co-operation, from joint research, publication and lectures, to full employment or sponsoring. Companies in their role as significant employees should have the opportunity to mould their potential employees as early as the study stage. The students themselves would then not have to wrestle with the problem of insufficient practice and, in some cases, with unemployment.

Most software projects do not place great demands on the quantity but rather on the quality of the workforce, and represent a unique offer of new workplaces for university graduates and school leavers. It is crucial that as qualification requirements increase, the risk drops of a subsequent shift of production to cheaper countries.

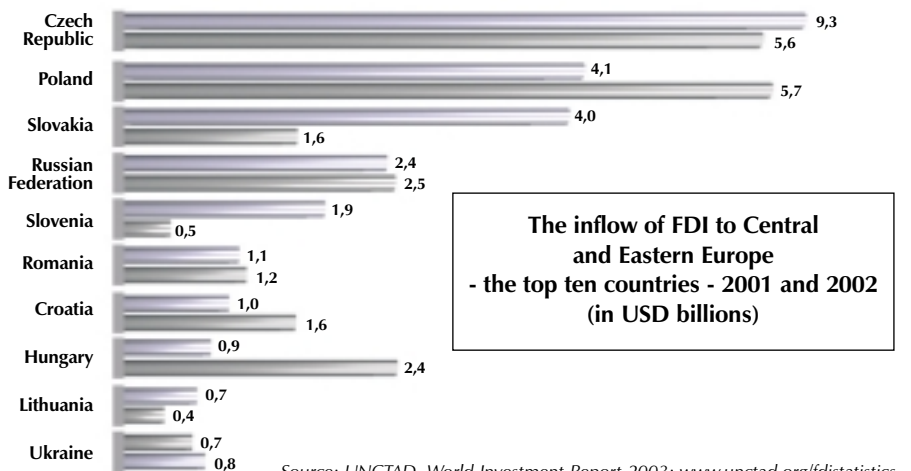
The growing demands on the level of education and qualifications naturally show up in an increase in wages. Productivity levels also rise and in the case of new investment projects are considerably in advance of the Czech average. For instance, the new TPCA car factory in Kolín will be the most effective plant of its kind in the whole of Europe, producing 300,000 cars per year and directly

employing only 3,000 people, i.e. an average of 100 cars per worker per year.

The priority sectors for CzechInvest in the forthcoming period are micro-electronics, bio-technology and pharmacy, and of course the level of investment support provided by means of programmes for technology centres and strategic services. We shall continue to concentrate on projects in the sphere of electronics, electro-technics, aeronautics, medicine, the car sector and specially targeted machine-tool engineering.

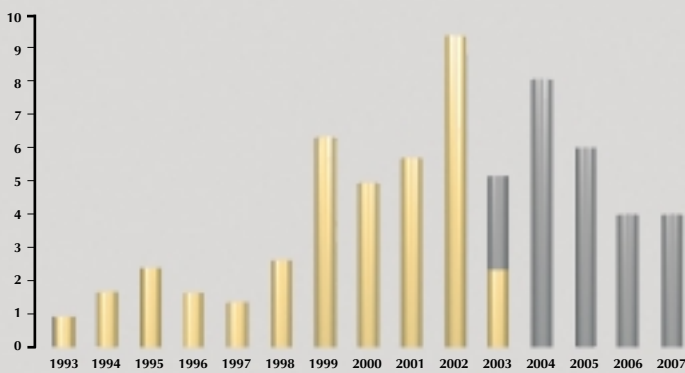
CzechInvest, an agency operating under the aegis of the Ministry of Trade and Industry for the support of foreign direct investment, attracted a total of 243 investment projects to the Czech Republic in the period from 1992 to the first half of 2003, with a total value of USD 7.5 billion. Thanks to these projects at least 67,941 direct workplaces were created. The largest investments were made by Japan (25 %) and Germany (22 %) by companies operating in the car industry (52 %) and electronics - electro-technics (20 %).

Jana Studničková  
Public Relations Executive, CzechInvest



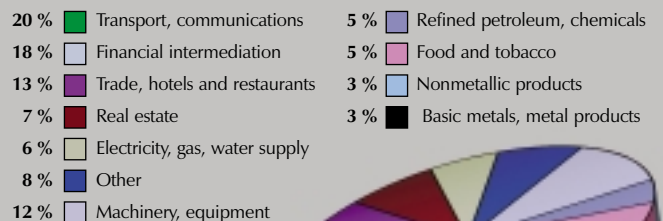
Source: UNCTAD, World Investment Report 2003; www.unctad.org/fdistatistics.

INFLOW OF FOREIGN DIRECT INVESTMENT  
1993 - 2002 → USD 36,787 BILLION



Q1-Q2 2003: USD 2.4 BILLION

CUMULATIVE FDI INFLOW BY SECTOR 1993 - 2002



Source: Czech National Bank, March 2003

## Czech Civil Society en route for the European Union

The memorandum of March 2001 sent by representatives of economic and social lobby groups in the Czech Republic on the establishment of a Joint Consultative Committee with the European Commission (EU-Czech Republic JCC) to the Council of Associates was a step in the right direction. Since the middle of 1997 social dialogue in the Czech Republic has improved immensely. The course and results of negotiations with the EU and a national study on the economic and social impacts of entering the EU show, however, that this involves such a profound change for the CR and its population that the whole of civil society must be involved in it. As well as this the reforms being prepared to the EU and its institutions set as their target ever closer links between Europe and its citizens, greater transparency, openness, and intelligibility of internal processes. The European Economic and Social Committee, as the institutional spokesperson for civil society in the EU, supported these aims from the start and made every effort to amend the Convention to the benefit of Europe and its citizens.

On the domestic scene the EU-Czech Republic Joint Consultative Committee (JCC) has begun operations approved by the Council of Associates in July 2002, and in May 2003 the second meeting of the JCC was held in order to support the positive results of the referendum on the entry of the CR into the EU and initiate discussions on the economic and social impacts of the expansion of Europe and, more specifically, the entry of the CR into the EU.

The Treaty on Accession signed on 16 April 2003 was a significant moment for the Czech Republic and its citizens. The state administration began constructing an institutional structure for implementa-

tion of the tasks ensuing from membership of the CR in the EU, social partners began involving themselves in the European social dialogue, and representatives of the CR were nominated to the Regional Committees as observers.

The EESC is also making every effort to prepare for the accession of the ten new member states to the EU and acceptance of their representatives. According to the statute of the EESC the invitation for nominations is expected 4 months prior to the accession of the CR, i.e. in January 2004.

Members of the Czech JCC were well aware of their key role in this process and decided to establish a platform which would ensure that conditions were created for the complete transparency and regularity of the processes of nomination of the Czech representatives to all three groups of the EESC. The nomination process took place on the basis of non-discrimination, though laid emphasis on all the organisations involved being represented and the fulfilment of jointly stipulated criteria for the selection and appointment of individual representatives and their proxies. The JCC especially targeted representatives of civil organisations, since the process of their establishment and institutionalisation is far from complete in the CR. On 7 October 2003 an expanded meeting of the Czech section of the JCC was held, to which representatives of 9 non-government organisations from various spheres (consumer groups, organisations representing the handicapped, professional federations, environmental groups, etc) were invited. The representatives of NGOs were acquainted with the activities of representatives of the EESC. In November there were round-table discussions involving all three

groups and their nominations were sent to the joint-chair of the Czech section of the JCC. On 24 November 2003 the ordinary meeting of the Czech section of the JCC took place at which the nomination of all three groups was discussed and approved. On 30 November 2003 an official letter was sent for the attention of the Minister of Foreign Affairs containing a list of 12 representatives and 12 proxies from the many Czech economic and social lobbies to the EESC. During the course of December 2003 approval of the list is expected on the part of the government. It will then be sent to the European Commission through the good offices of the Czech Mission to the EU. The entire process was the subject of consultations with the Ministry of Foreign Affairs and the Council of the Government for Non-governmental Organisations, which is at present playing the role of a joint platform for NGOs in the Czech Republic.

The EU-Czech Republic Committee performed its task with distinction. The resulting team of experts sent on 1 May 2003 to Brussels provides not only a guarantee of top-class expertise, overall coordination, and the collective preservation of the interests of the CR within the EESC, but also the optimum connectivity of the social and civil dialogue, which is essential if the current and future challenges of an expanded Europe are to be met.

Vladimíra Drbalová  
The Confederation of Industry  
of the Czech Republic  
Section of International Organisations  
and European Affairs

## Internet Users amongst the Czech Population - a Basic Overview

This text is based on two surveys, the Media Project and the On-line Shopping Survey, carried out by the GfK Praha agency.

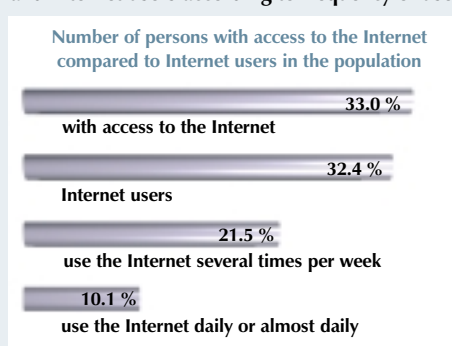
From the last available results of the Media Project for the 3rd quarter of 2003 it ensues that 2,877,000 persons aged 12 to 79 years have access to the Internet in the Czech Republic, i.e. 33.0 % of the entire population.

The frequency with which the Internet is used is categorised as follows: daily, almost every day, several times per week, several times per month, and less frequently. These persons are defined as Internet users. Frequent Internet users are persons using the Internet at least several times a week. Other users are occasional. Of the total number of 2,877,000 persons with access to the Internet in the CR 2,822,000 are Internet users, i.e. 32.4% of the total population. The following analysis is of this group of persons.

The first graph compares the number of persons with Internet access and Internet users according to frequency of use of the Internet.

The largest share of Internet users is within the age range 19 to 29 years, where more than 70% are users. The commonest means of connection is using access provided at school (84 % of users).

**Graph 1 - Persons with access to the Internet and Internet users according to frequency of use**



Connection at home is comparable on average with the population aged 12 to 29 years (30 % of all person aged 16-19 against 26 % in the group of 12-15-year olds and 20% in the group of 20-29 year olds). Of the youngest age range, i.e. 12-15 years old, 57% use the Internet, again mainly at school (78 % of users).

The share of connections from work increases with the age of still economically active persons,

from 42 % of users in the age range 20-29 years (in this group there is still a relatively high level of connection at educational institutions, i.e. 25 %) up to 64-76 % of users aged from 30 to 59 years.

The commonest place for connection to the Internet is becoming the home, followed by connection from work. The number of connections from school is lower.

Use of the Internet is differentiated according to the frequency of its use and the reasons why it is used. Just under a third of Internet users use it daily or almost daily, another 35% at least several times per week, and one third less frequently.

The most frequent reasons for using the Internet are: to search for information for personal requirements, to send messages, to look for information on products and services, and to look up information related to work and leisure.

There has been an increase in the number of person with access to the Internet over the course of the last four years from 19.9% at the beginning of 2000 to 33.8% in the 1st - 3rd quarters of 2003.

Martina Jůdtová, GfK Prague, [www.gfk.cz](http://www.gfk.cz)



### Public Tender Bill Passed

On 4 November 2003 the Czech parliament passed the long awaited Public Tender Bill, so getting rid of the last barrier en route to receiving financial resources from the structural funds to which the CR will have a right after its entry into the EU. Members of the opposition Civil Democratic Party decided to insert a paragraph into the bill favouring Czech companies in public tenders.

Of course, nothing came of this attempt, mainly thanks to a warning from the European Commission that such favouritism of domestic companies was not in accordance with EC legislation.

Under the terms of the newly passed Act a public tender must be announced for any contract exceeding euro 130,000 (CZK 4.16 million). A Ministry of Local Development spokesperson said the Act complied with all EU requirements. The Act will come into force in March 2004.

### Investment Incentives in the CR after entry into the EU

The current system of investment incentives under which only projects whose investment costs are at least CZK 350 million (euro 11 million) can receive support will be amended after the CR enters the EU so that smaller investors have a slice of the cake and in order that they correspond to EU standards. The new system of investment incentives lowers the level of investment costs to CZK 200 million (euro 6.2 million). It is anticipated that this marked reduction will allow medium-sized companies from the CR and Europe to receive incentives. If an investor builds a plant in regions with high unemployment, the minimum level of investment is reduced still further, to CZK 150 million (euro 4.7 million) in regions where unemployment is a quarter higher than the national average, and to CZK 100 million (euro 3.1 million) in regions where unemployment is a half as high again as the national average.

### The Liquidation of Wrecked Cars

Anything between 500 – 2,000 CZK (euro 16 – 65), or completely free of charge: this is how broad the scale of fees for liquidation of car wrecks is in the suggestions made to the draft Waste Act, a debate on which parliament has postponed until January. The Act, which amongst other things stipulates how the country is to dispose of disused cars, should come into force on the same day the country enters the European Union. According to related regulations of the European Commission, the owner of a car handed over for liquidation should not have to pay anything. Up until now it has been possible in the CR to sell an old car to a breaker's yard for sometimes as much as a few thousand crowns. If the owner wants to behave in an ecologically sound fashion and recycle the car, they will pay from 300 to 1,800 CZK (euro 9 – 58). However, owners are not at present under any statutory obligation and so people sometimes leave their old cars to rust in the street or in courtyards.

### Foreign Capital Controls Czech industry

Figures from the Czech Statistical Office show that half of industrial revenue is being generated by companies controlled by foreign capital. Six years ago the figure was only 14 percent, meaning that companies with foreign owners are asserting themselves more and more. International owners squeeze greater productivity out of a company. While new technology is coming our way, this brings higher unemployment in its wake by replacing the human workforce. Eleven percent fewer people work in the industrial sector than in 1997. In companies with foreign participation wages are rising slower than usual as these companies attempt to save on costs.

### The Energy Concept of the Czech Republic

The Czech Republic still has no clearly stipulated energy strategy taking it up to 2030. However, a significant growth in the share of renewable sources, such as wind power stations or the combustion of biomass, is anticipated in the future. In its final version of the draft state energy conception up to 2030 the Ministry of Trade and Industry forecasts the construction of new nuclear sources (the construction of new blocks in the Temelín power plant), the relaxation of regional restrictions on the mining of brown coal, and an easing of the limits on the importation of brown coal. The Ministry sent the final version of the material to the Ministry of the Environment, which has 30 days in which to draw up an assessment. The government should receive the material by the end of the year.

### The End of Food-Processing Companies

Estimates put out by the Ministry of Agriculture show that by the end of 2003 some four hundred food-processing companies will have gone bankrupt, i.e. roughly every fifth company in the country will have shut down. This is confirming the forecasts of specialists that many domestic food-processing companies would not meet the strict rules of the EU governing hygiene and would cease trading by the end of 2003. Their employees are losing work and farmers in the afflicted regions are losing the security of knowing where to sell their goods. Despite this neither the authorities nor the food-processing chamber is worried that the customer will feel the effects. Production capacity is still something like a third higher than it needs to be.

### 17th November

On 17 November the Czech Republic remembered the 14th anniversary of events on Národní třída in Prague, which eventually led to the fall of the communist regime in the former Czechoslovakia. Politicians and witnesses remembered the student protests of both 1989 and 1939. The president, Václav Klaus, and his predecessor, Václav Havel, both attended the event. The prime minister, Vladimír Špidla, also paid tribute to the students who 64 years ago protested against the German occupation. Dozens of people lit candles at the monument on Národní třída which marks the place where the communist police intervened in the student march through Prague on 17 November 1989.

### GM corn

The Ministry of the Environment has issued a groundbreaking resolution allowing the cultivation, importation and exportation of genetically modified corn. The ecological organisation Greenpeace has appealed against the decision. The American company which so far grows genetically modified corn on a trial basis over an area of two and a half hectares, can now plant corn over a larger area. This is the first step towards registration and the possibility of using cultivated corn for industrial purposes. The Federation of Ecological Agriculturalists is worried that genetically modified crops may threaten eco-farming. They are required by law to ensure that their crops do not come into contact with genetically modified crops, but experts are now saying that such a transfer from a field planted with modified corn would be possible.

### Recognition of Qualifications

Despite its reservations the senate will at last pass the Act allowing foreigners to pursue their professions in the CR in accordance with EU requirements. This is the result of a meeting of the senate Committee for European Integration, which unanimously recommended acceptance of the bill. The bill is based on EU regulations according to which the principle of the mutual recognition of qualifications should apply amongst member countries in order to free up the movement of employees around the Union. According to the EU it is not possible to restrict a person who performs a certain activity in one member country from performing the same activity in a different member country. The draft bill should bring the CR into line with this principle, and will affect some 470 professions and specialist activities in this country.

### Economic Indicators

October saw the fall in consumer prices come to an end. The month-on-month level of inflation on goods and services was 0.1 percent and prices rose against last October by 0.4% (the year-on-year level of inflation). The unemployment level in October fell against September by two tenths of a percentage point to 9.9 percent, leaving 522,355 people looking for work. Last October the unemployment rate was 9.3%. The number of job applicants was higher this time round by 35,674 people.

Year-on-year construction production rose in September in real terms by 14.5 percent. The marked growth of previous months thus continues, though the pace slackened off slightly against August's 18.7 percent. Growth continued in all spheres of construction production, mainly in engineering construction repair work. The average net monthly income of Czech households was CZK 19,563 (euro 631) in the first half of this year, 5 percent or CZK 924 (euro 30) higher than during the same period last year. A rise in earnings, increased social benefits, and other income all played a part in the increase. Gross wages rose year-on-year by 7.2 percent. This increase was 7.2 % in the business sphere and 11.4% in the non-business sphere.

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

**(interview with Martin John from page 1)**

By the end of the year new draft programmes for the support of business activities in the CR financed from the state budget and EU structural funds should have been approved. The draft proposals are based on priorities drawn up by the EU: improvement of the business environment, consultation, construction and regeneration of business premises, the development of human resources, the internationalisation of investments in advanced technology, and innovation. We anticipate that companies will be able to begin applying for support in the first quarter of 2004. The resources will only be made available after the CR joins the EU, i.e. from May 2004 onwards.

**What are the most serious problems you have encountered so far?**

The success of the merger process surpassed expectations. Of course, the technical side is just one aspect; the feelings of people something completely different. As in every expanding organisation change-related problems cannot be entirely ruled out. I believe that in all three agencies we have overcome initial misgivings and share a belief that this is a good thing which will bring us together. So far we have resolved all problems arising.

We are grateful to the support of the Ministry of Trade and Industry and European institutions for enabling us to concentrate on work and the merger process. An important aspect of the merger was the transfer of work on EDIS accred-

itation from CzechIndustry to the new CzechInvest. This process has several stages and it was important that we managed to leap onto an already moving train. We had to convince representatives of the European Commission that we could manage matters. And we really did keep to the timetable agreed on.

**Within the framework of preparations of the implementation structures it is anticipated that the implementation agency, i.e. CzechInvest, should be represented in all regions falling under aim 1 of the EU regional policy. How far have you progressed in creating a network of regional offices?**

The proposal for regional offices has been discussed and approved by the Ministry. We are preparing a total of 13 CI regional offices, which will be located in the individual district towns. The headquarters for Prague and Central Bohemia will be one and the same and will be located in the CI head office. This system should be up and running at the beginning of next year. We have to find suitable premises, recruit staff and train them by then.

**What barriers have you encountered so far?**

Given that our regional offices should be functioning at the beginning of next year, time is our worst enemy. Of course we have tried to negotiate on the regional level, but any hold-ups to the approval process is a problem for us.

**Have you any plans for using the existing regional offices of other government agencies?**

We shall attempt to cooperate with regions which themselves are pushing for support for business, as well as with the Economic Chamber. We shall attempt to coordinate the activities of everyone operating in the individual regions so that the system of support be effective and easily accessed.

**What is the aim of the agency CzechInvest as far as support for SMEs is concerned?**

Like the EU we regard SMEs as an important part of the economy and a dynamic force for innovation, employment and the development of new technology. One of the strategic aims of the new CzechInvest, based on the national economic policy, is support for the competitiveness of Czech companies, i.e. above all small and medium enterprises. Our aim is to define the requirements of this segment and draft a support programme corresponding to those needs. As the implementation agency CzechInvest will offer these programmes to SMEs using resources from the state budget as well as EU pre-structural and structural funds. We shall also have to ensure a smooth flow of information to SMEs. In this respect we want to utilise fully our new regional network and cooperate with the Economic Chamber.

**Thank you very much for the interview**

Adéla Vychodilová  
Centre for European Integration  
Economic Chamber of the Czech Republic



**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.

**Contact:**

Economic Chamber of the Czech Republic  
Freyova 27, 190 00 Prague 9, Czech Republic  
tel: +420-224 096 111  
fax: +420-224 096 222  
e-mail: info@komora.cz  
www.komora.cz



**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 Confederation of Commerce and Tourism of the Czech Republic, the Association of Building Entrepreneurs of the Czech Republic, the Union of the Czech and Moravian Producer Cooperatives.

**Contact:**

The Confederation of Employers' and Entrepreneurs' Associations of the Czech Republic  
Škrétova 6, 120 59 Prague 2, Czech Republic  
tel: +420-224 225 693  
fax: +420-224 230 606  
e-mail: konfederace@socr.cz; www.kzps.cz



**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).

**Contact:**

The Confederation of Industry  
of the Czech Republic  
Mikulandská 7, 113 61 Prague 1  
tel.: +420-224 934 088  
fax: +420-224 934 597  
e-mail: spcr@spcr.cz  
www.spcr.cz



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

**CEBRE - Czech Business Representation**  
Bastion Tower, level 20, 5 Place du Champ de Mars, 1050 Brussels;  
Tel.: 0032 2 550 3547/49; Fax: 0032 2 550 3548; e-mail: cebre.europe@mail.be

Czech Business Today  
Quarterly; December 2003 issue

**Publisher:** Economic Chamber of the Czech Republic, Freyova 27, 190 00 Prague 9, IČ : 49279530; in co-operation with Confederation of Employers' and Entrepreneurs' Associations of the Czech Republic and Confederation of Industry of the Czech Republic; **Editorial Board:** Štajfi Ota, Fischer Aleš, Hradil Ondřej; **Editor:** Centre for European Integration, Economic Chamber of the Czech Republic, Adéla Vychodilová, Freyova 27, 190 00 Prague 9, tel.: +420 224 096 356, fax: +420 224 096 227, e-mail: cebre@komora.cz, **Registration:** Ministry of Culture of the Czech Republic - MK ČR E 13767; **Publisher service:** Q-art-s; klenik@q-art.cz **Edition:** 1200 printouts