

CZECH BUSINESS today

volume 3

Association Maison Tchèque

CEBRE

CZECH BUSINESS REPRESENTATION

4/2004



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"I WILL ATTEMPT TO USE MY POSITION TO BRING THE PARLIAMENT CLOSER TO THE VOTERS. PARTICIPATION IN THE LAST EUROPEAN ELECTIONS WAS A CLEAR WARNING", SAYS CZECH VICE-CHAIRMAN OF THE EUROPEAN PARLIAMENT, MIROSLAV OUZKÝ

You have been appointed vice-chairman of the European Parliament which means you have greater authority than many other MEPs. What will you try to achieve in this position?

Firstly let me make something clear. Greater authority in this case is more symbolic: from a practical point of view the vice-chairman chairs meetings of the EP and participates at management meetings, but this is not a politically important function. For instance, the chairperson of a committee or political group has more political importance. As far as answering your question goes, I will attempt to use my position to bring the EP closer to the voters. Participation in the last European elections was a clear warning.

What experience do you have of the workings of the EP? Have you been surprised, either negatively or positively, by anything you have found here?

There have been many surprises, both positive and negative. If we take the positive first, then I would mention the conduct of civil servants. The EP is an unbelievably huge bureaucratic machine and we come up against various regulations, rules and bureaucratic procedures every step we take. But it has to be said that all the civil servants are friendly and willing to attempt to explain everything necessary to newcomers. On the negative side there is a clear democratic deficit in this institution. You can't help but notice the constant effort

to discuss and decide on everything beforehand. The result is that a lot of voting is simply formal.

The Czech Republic has 24 representatives at the EP. How do you communicate? How would you evaluate cooperation within the framework of the Czech delegation?

I must admit that all 24 of us have met only once, and that on the initiative of the Czech president, Václav Klaus. We met him at the Prague Castle, where he appealed to us for mutual cooperation. I have to say that nobody expressed any reservations across the parties, we promised that Czech MEPs would meet, not regularly but more on an ad hoc basis, regarding important issues. Everyone present agreed on the necessity to

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Access to Finance for SMEs

SME Ratings Help When It Comes to Loans, Customers, and Winning Orders

The Economic Chamber of the Czech Republic, as a body federating mainly small and medium enterprises, is well aware of the importance of the access of SMEs to financial capital. Proof of this claim is the organisation of a conference at the chamber entitled "Basel II. and SMEs: The future of access to finance for SMEs". The conference was held on 16.11. 2004 as part of the project "Basel II. for SMEs", the organiser of which, as delegated by the European Commission, is a consortium led by the European Savings Banks Group (ESBG) along with UEAPME and Lloyds TSB Bank. Representatives of small and medium enterprises learned at the conference how banks assess and would in the future assess credit risk, what information they should offer banks as part of the new system of Basel II., and how to prepare for this new system. A helping hand was given by the Economic Chamber itself by its regional network, which is connected to the Prague Economic Chamber's project entitled "SME ratings". The impetus behind implementation of this project, as representatives of the Prague chamber said, was a situation in which, although most banks were interested in providing loans to small and medium enterprises, the risk which banks would expose themselves to, given the lack of information on this segment, meant that such loans were not being provided. For a long time this has been one of the barriers to the expansion of businesses in the CR.

"The original reason why the Prague Economic Chamber began to take an interest in the idea of SME ratings was the ever-growing number of requests from the ranks of SMEs themselves for the mediation of better access to credit. Now, after one year of the project, it is clear that it offers significantly expanded possibilities," said Petr Kužel, chairman of the Board of Directors of the Prague Economic Chamber.

SME Ratings Project: the Elimination of Risk

The risk is proportionate to the economic situation in which the debtor finds themselves. It is therefore important to specify the financial health of the company and also the risk of insolvency. It is these two factors which characterise the rating level.

Specialist companies assess the ratings of large companies (for a price of dozens up to hundreds of thousands of crowns). It is mainly financial institutions which are equipped to evaluate companies from the category of SMEs. However, these institutions do not provide their debtors with their evaluations, nor do they publish them. The results is a somewhat inscrutable market and a higher risk involved in transactions.

The project organised by the Prague Economic Chamber, in conjunction with the Czech Credit Bureau in the role of technical guarantor since 2003, when the project was launched, represents a method for stipulating and utilising SME ratings. A small or medium-sized company buys, for much less than a traditional rating, an impartial professional analysis of its financing which is harmonised with that of the banking sector. In the event of a good rating (a higher rating level) it may avail itself of the advantages offered by partner organisations.

If it receives a low rating level, the company has a chance to act on the recommendations given it and start remedying its weak areas. It will not, in such a case, publish its rating.

The status of companies with good SME ratings can be considerably increased in the case of many organisations (a swifter sorting out of loan formalities and lower bank charges, lower deposits to energy suppliers, a better position in public tenders, shorter payment deadlines with large customers, etc.). Another of the objectives is the access of Czech SMEs to European databases, which, amongst other things, facilitate the search for export opportunities.

"SME rating facilities provide access to Czech businesspeople to sources of credit, and thus make for more transparent and equal business relations," says Petr Kužel.

The processing of an SME rating is carried out by the Prague Economic Chamber in cooperation with other chambers spread around the country. The result acquired under the SME rating system is an objective assessment of the financial health of a company for the requirements of a businessperson. As well as making communication easier with institutions it also provides confirmation to the company owner of the correctness of their business strategy up to now.

Parties interested in the SME rating apply to the appropriate regional or municipal economic chamber, which will be their contact place until the moment they receive their rating.

Rating Tools

The methodology with which the project is being implemented is known as a rating tool. It was constructed using experiences gleaned from the banking sector. It designates an objective rating level with the minimum of human factor input. The input data passes through a verification net. The analysis uses the optimum scale of financial and non-financial criteria. Each deviation is automatically noted. The resulting rating takes place on seven levels. The basis for configuring the system was extensive data on the SME group.

On 6 October the SME rating project entered the second year of its existence. At present businesspeople can request a rating of their company at 71 places spread around the country. So far more than 400 small and medium-sized companies have availed themselves of this possibility. Over the last few months the project has acquired two important partners - Komerční banka and T-Mobile. ČSOB, which was present in the scheme as far back as the pilot project, remains a partner and has not altered the advantages on offer.

"ČSOB offers its clients from the SME segment a wide range of products," said the director of the SME section. "At the same time we welcomed the opportunity to participate in the project being organised by the Prague Economic Chamber, which allows businesspeople to obtain an assessment of their company from a prestigious institution."

Now businesspeople whose companies receive a higher rating can avail themselves of the advantages provided by three parties.

"Komerční banka (KB) very much appreciates any activities aimed at increasing the transparency

of the business environment in the Czech Republic. The SME rating project is one of these activities and has therefore received the support of KB, which enjoys a significant standing in this client segment," said the chairman of the Board of Directors and managing director of Komerční banka.

Clients who have a rating performed have the bank charges on the processing of loan application reduced by the sum they spend on the rating. Participation in the project will also influence the commercial approach of Komerční banka. The bank will actively contact all successful businesspeople which make available to it information regarding their ratings in the Economic Chamber's database. Permanent access to this information on the part of the bank will allow for an increase in credit activities and improve the quality of services in order to reflect the needs of clients.

SME Rating and Entrepreneur of the Year

The project's first year of existence prompted great interest on the part of small and medium enterprises, even from those which could not receive a rating because they did not fall into the originally specified category of SMEs with an annual turnover of between CZK 10 to 300 million (EURO 300 thousand to 10 million). For this reason the system has been reconfigured to include a wider circle of interested parties. Now all companies keeping accounts in accordance with Act 563/1991 Coll. and which have an annual turnover of between CZK 6 million to 500 million (EURO 200 thousand - 16 million)



can receive a rating. In the future this will be further expanded to take in businesspeople holding tax files. On the other hand the upper limit of annual turnover will be remain at CZK 500 million mark (EURO 16 million), since companies earning more than this can use the services of rating agencies.

"I believe that SME rating has the same future as payment cards," says Petr Kužel. "A while ago nobody had them, and now almost everyone uses them, you almost can't go anywhere without them."

Following on from the SME rating project the Prague Economic Chamber has become a partner of this year's Entrepreneur of the Year competition. The rating given to competitors for this prestigious title has become one of the important guides for the evaluation commission.

Hana Janišová
Prague Economic Chamber

Access to Finance for SMEs

Banks Get Together on Implementation of BASEL II in the CR

Introduction

In July of this year the European Commission published an unofficial final draft amendment of the "Capital Adequacy Directive" (93/6/EEC) and "Consolidated Banking Directive" (2000/12/EC), setting out the new rules of capital adequacy (Basel II). The EC based its work on the principles of the New Basel Capital Accord (NBCA) issued by the Basel Committee on Banking Supervision (BCBS) via the Bank for International Settlements (BIS). The NBCA is building on the existing concept of capital adequacy (Basel I) in accordance with the original Basel Capital Accord (BCA) of 1988. After being passed the amended directives will be applied to credit institutions and investment firms in the EU on an individual, consolidated and, in certain cases, a sub-consolidated basis. It is anticipated that a decision will be reached on the validity of Basel II within the framework of the EU on the level of ECOFIN by the end of 2004 (this date could be the end of 2007).

The new concept of capital adequacy is built on three pillars: (1) minimum capital requirements, (2) supervisory review process, and (3) market discipline.

Anticipated Impacts of Basel II

As part of the project sponsored by the EC in April 2004 PricewaterhouseCoopers compiled a final report on the financial and macroeconomic impacts of Basel II. On the basis of the study of the quantitative impacts it is anticipated that the volume of capital in the financial system will remain basically unchanged, but that there will be a redistribution of regulatory capital between banks and the banking systems of various countries. The report indicates that the impact on individual institutions will depend on their commercial profile and the approach they take to calculating capital in accordance with Pillar 1. Banks which provide credit facilities to small and medium enterprises and work in the sphere of retail banking may, for example, record a reduction of capital requirements for credit risk. However, this reduction may be partially compensated for by additional capital requirements for operating risks. Generally it is expected that the introduction of Basel II will put strong pressure on banks to improve their practices in the sphere of risk management.

In the case of SMEs, the report finds no reason for thinking that the introduction of Basel II will have a significant impact on prices or the volume of resources provided by banks, with the exception of temporary negative results on bank margins. However, the requirements of banks for good quality, punctual information regarding the financial position of those of their clients who are existing or potential debtors, will in any case increase.

The new methods and procedures for the measurement of risk should generally have a positive effect on the conduct of credit institutions and investment firms and increase financial stability and effective capital allocation in the economy.

A second project has been running during the second half of 2004 sponsored by the EU (DG-ENTR). The project is being undertaken by the consortium McKinsey and System Consulting Network, and is examining the effect of Basel II on

small and medium enterprises. The objective is to prepare a guide for the needs of SMEs regarding the new method of cooperating with banks and the new rating culture ensuing from Basel II. The preliminary results of research carried out as part of the project by the Czech Banking Association with the aid of banks around the country shows that the introduction of Basel II may have an impact on the credit policy of certain banks towards SMEs. The banks contacted agreed that, if SMEs were fully acquainted with the models used by banks within the framework of Basel II, this would help them improve company management and obtain loans at acceptable rates.

Joint Project for the Implementation of Basel II in the Czech Republic

The implementation of the new concept of Basel II under the conditions specific to the Czech Republic is a demanding process both for banks and securities traders, as well as for the regulators, who have to prepare themselves for a fundamental change, compile new procedures, work them into statutory or sub-statutory norms, and enforce them in practice. Banks and securities traders must also be able to adapt themselves to the approaches taken by the regulators sufficiently in advance. In order that cooperation on the preparation and introduction of the new concept be systematic, the Czech Bank Association (CBA) has come up with the idea of a Basel II implementation project, which would also be participated in by the Czech National bank (ČNB) and the Czech Chamber of Auditors.

The BASEL II project was inaugurated in autumn 2002 and will continue until the main tasks involved in implementing the amended European directives in the Czech Republic have been completed. The Ministry of Finance and the Securities Commission were also invited to participate in the project. The main project body is the Steering Committee. As well as representatives of the three main sponsors - the chief executive of the ČNB, the president of ČBA, and the president of the Czech Chamber of Auditors - representatives of the other participating institutions will also sit on the committee. The BASEL II has its own project manager. The internal organisational structure of the project changes according to what stage the project is at and the character of the tasks being carried out. During the first half of 2004 the bulk of the activity was concentrated in ten work teams and three specialist sections. A specification of the tasks and forms of cooperation, including a timetable, is drawn up in annual work plans, which are regularly updated.

The main objectives of the BASEL II project are as follows:

- putting forward opinions regarding the final versions of the NBCA and the European directives, as well as implementation of Basel II in the Czech Republic
- ensuring an integrated understanding of the rules and requirements stipulated in the NBCA and the European directives on the part of participants and other interested parties
- ensuring the mutual provision of information between participants and other interested parties regarding the course of implementation

- ensuring the mutual cooperation of participants and other interested parties so as to attain an agreement which will allow them to meet their duties within the framework of their respective roles

- ensuring the greatest possible harmonisation of Czech legislation with that of the EU

Proof of the success of the preparatory phase of the BASEL II project is the positive feedback which has been received during the compilation of standpoints regarding the consultative materials of the BCBS and EC, as well as the preparations made by individual banks for the introduction of the new concept. **In spring of 2004 the ČNB charted the state of readiness of approximately one tenth of banks and found that preparations for the introduction of Basel II are being given systematic attention.** Individual banks, especially larger banks, have established their own project manager, usually on the level of the foreign parent bank, with local project teams in the Czech Republic integrated into this broader structure.

At present the BASEL II project is entering the legislative phase. The next task is to initiate the requisite changes in national legislation in order that the legal framework for the procedures of bank supervision comply with the requirements of the European directives on capital adequacy. **Above all this will require an amendment to the Banking Act in the form of a regulation stipulating the rules of provident business activities undertaken by holding parties on a consolidated basis and measures on capital adequacy on an individual basis.** The ČNB anticipates that the first draft of the amended Banking Act could be



ready by the middle of 2005. This will depend to an extent on the deadlines for debating and approving the statutory norms in the Legislative Council of the Czech government in Parliament.

The results of the BASEL II project attained so far show that the coordinated efforts of the participants are meeting the expectations of its sponsors. The successful implementation of a new concept of capital adequacy, especially given the application of more advanced methods IRB (Internal Rating Based) and AMA (Advanced Measurement Approach) might bring the banking sector both savings on capital requirements and an improved risk management system.

Ivan Rejzek
Director of COLLEGIUM Financial Management,
manager of the BASEL II joint project

The entire text of the draft amendment of the directives is available at the following address:

http://europa.eu.int/comm/internal_market/regcapital/index_en.htm

PricewaterhouseCoopers: Study on the financial and macroeconomic consequences of the draft proposed new capital requirements for banks and investment firms in the EU, Final Report - 8 April 2004

CEBRE in the Year 2004: Accession to the EU as an Opportunity

This was the year in which the representations of the newly acceding member countries of the EU had to confirm their right to existence within the environment of Brussels. For them the year 2004 brought many excellent opportunities to fulfil, if not to exceed, the stated objectives of their existence. It is not important what these objectives were, whether lobbying, presentational events or other activities. What was important was the fact that another such situation would not occur again, never would such attention be focussed on the representations of the 10 new member states as was in connection with their entry into Europe. The extent to which they made the most of this opportunity would be an indicator of their future fortunes.

One such body is the Czech Business Representation at the EU (CEBRE). Let's see to what extent it availed itself of this opportunity. Statistics regarding the services provided, the number of programmes organised for business delegations or short-term attachments found for managers, are simply dull indicators and belong to annual reports. So let's instead look at the interesting activities which CEBRE organised this year or in which it was involved in a significant way. This is also a chance to catch up on the individual objectives of CEBRE.



May's seminar on EU programmes and funds (from right to left): J. Euzen (DG Research); M. Jahn (Czech Deputy Prime Minister); P. Boijmans (DG Regio)

Objective 1:

To protect the interests of Czech businessmen before the institutions of the European Union

To organise a meeting with the commissioner designate of the European Commission, a meeting with twenty MEPs, a presentation of our aims to the ambassadors to the EU, all this in one day, along with other meetings, sounds demanding, but is not impossible. In autumn CEBRE organised such a programme for a delegation of the Association of Chemical Industry of the Czech Republic, led by its president Ing. Pavel Švarc, CSc., managing director of UNIPETROL, a.s. The most important topic at all the meetings was the REACH initiative, i.e. the new draft EU chemical policy. "We were pleasantly surprised by the interest shown by Czech MEPs in the problems of the Czech chemical industry, which makes an important contribution to gross domestic product," said Ladislav Novák, director of the association, after the meeting.

Objective 2: To inform of the initiatives and legislation of the EU

A popular theme this year in the Czech Republic is the programmes and funds of the EU. The objective of May's seminar, which CEBRE prepared in Brussels for more than 130 representatives of Czech companies, was to acquaint companies operating in the sphere of information and communications technology with the possibility of financing their projects from the structural funds and other auxiliary tools of the EU. The seminar took place the very day prior to the announcement of the Industry and Enterprise Operational Programme. It was participated in by, amongst others, Martin Jahn, former CEO of CzechInvest and at present Deputy Prime Minister, and a representative of DG Research, who was concerned with the sub-programmes of the 6th framework programme targeted on development of the ICT sector.

A meeting in October organised by CEBRE and the Delegation of Prague to the EU focussed on the draft regulations on structural funds for the time period of 2007 - 2013. Several Czech regional governors and members of the EP were invited to this meeting.

Objective 3:

The representation of Czech business organisations at European business associations

This year more and more Czech business associations availed themselves of the services of CEBRE, especially in respect of active involvement in the activities of the Eurochambers, UEAPME or Euratex. The last on that list, a European umbrella organisation, is this year overseeing the results of the impending unprecedented cancellation of import quotas on textiles within the framework of the WTO, which means that, thanks to CEBRE, Czech textile manufacturers were able to receive information regarding

the latest decisions being taken in Brussels and to adapt their own plans accordingly. CEBRE also participated at meetings of Eurocommerce and UNICE work groups.

Objective 4:

The training of Czech businessmen and managers in Brussels, the very headquarters of the EU

One of the most extensive services provided by CEBRE is the preparation and organisation of short-term study visits for company managers. The last such was organised for managers of two of the most important companies in the sphere of air transport in the Czech Republic: Czech

Airlines (ČSA) and Air Navigation Services (ŘLP). Over the space of a week these met with representatives of European institutions (the European Commission, EIB, AEA, Eurocontrol, EP etc.), in order to discuss specific European themes relating to the future development of their companies (e.g. Single European Sky, the implementation of European safety rules in air transport, etc.). Richard Klíma, who is responsible at ŘLP for external relations and international coordination, said of the event, "The week-long study



Czech MEPs listening to the captains of the Czech chemical industry (from right to left): I. Strejček, J. Zahradil, M. Cabrnach (all EPP-ED)

visit, filled by work meetings with specialists responsible for the problematic in question on a European level, was so intensive that the amount of information obtained exceeded many times over the time which a person would need to acquire it in any other way. More importantly, during several meetings we touched on themes which it would not be possible to find anything about by any other means."

Prospects for 2005

2004 came and went quickly. It saw many new ideas emerge for improving the added value of CEBRE to the benefit of the Czech business environment, which will only be implemented next year. The success of these ideas will to a

This year more and more Czech business associations availed themselves of the services of CEBRE, especially in respect of active involvement in the activities of the Eurochambers, UEAPME or Euratex.

considerable extent depend on the level of cooperation with other, not only Czech, representations, the receptiveness of employees of European institutions, and communication with our founding business organisations. We regard our relations hitherto with these bodies as very successful partnerships. For this reason we would like to take this opportunity to offer our warm thanks to our partners for the way they have cooperated with us. We are convinced that the quality of the cooperation will continue to be this good, if not better.

Martin Duda
CEBRE - Czech Business Representation

Harmonization of Income Tax?

At their meeting in September in Scheveningen, Holland, European Ministers of Finance decided that they would continue to consider possible means of harmonising corporate income tax. This agreement is based on an initiative of France and Germany, i.e. countries which are worried, in the light of increased unemployment, about the relocation of companies into mainly

A lower tax burden is one of the possible instruments by which the Czech economy could be made to attain the level of the advanced countries of Europe more quickly

new EU member countries, where the level of corporate tax is significantly lower or even zero. The French minister of finance, **Nicolas Sarkozy**, for the moment remain isolated in his opinion that it is necessary to restrict access to resources from the structural funds to those countries which have low taxes. Given that the harmonisation of taxes would have to receive unanimous approval and Great Britain, for example, would probably veto such a measure, it is possible that closer cooperation on the part of those countries prepared to integrate corporate tax will take place. Although Czech politicians reject Sarkozy's proposal in its original form, they are open to a discussion on the harmonisation of the tax base in order that it would be easier to compare tax levels in individual EU countries.

The **Economic Chamber of the Czech Republic** remains of the opinion that whatever harmonisation of direct income tax on legal entities is possible should be regarded as appropriate and effective. However, since such measures could under certain circumstances result in a higher tax burden for Czech companies than at present, it does not support the measure. "A lower tax burden is one of the possible instruments by which the Czech economy could be made to attain the level of the advanced countries of Europe more quickly," said Jaromír Drábek, president of the chamber.

The Economic Chamber has also expressed its opinion regarding the project entitled **Home State Taxation**. Given that members of the chamber are mainly small and medium enterprises which are not usually subsidiaries of foreign companies, the introduction of the HST would not directly affect them. However, the legislative basis of such a means of taxation could mean further complications resulting from very unintelligible regulations on income tax. This would be in direct opposition to the trend aimed at simplifying tax legislation which the Economic Chamber has long supported. For this reason the Economic Chamber does not regard the incorporation of the CR into this project as appropriate.

The **Confederation of Industry of the Czech Republic** is similarly critical of attempts to harmonise tax, especially as they relate to income tax rates. This involves giving up the opportunity of reacting to specific elements of national economies by means of taxes.

Both company tax and the total tax quota are amongst the highest of the new members of the EU. We can expect the process of integrating the economies of the EU to continue and this will involve the sphere of tax as well as that of foreign currency. Already budget management is being harmonised, along with VAT and consumer taxes, c.f. this year's changes to said taxes in the CR.

Business tax represents a more complex question in comparison with other taxes. There exist not only different rates, but tax bases, and the impacts of changes are not only fiscal, but affect the competitiveness of companies. For this reason complex discussions can be expected simply regarding harmonisation of the tax base, something to which the EC is giving consideration, let alone the stipulation of, for instance, a minimum rate. Both approaches have their advantages and risks. Lowering the rate of tax is appropriate for companies reporting profits, and generally is a method leading to a simplification of tax legislation. It squeezes the space for the optimisation of tax. The second procedure, i.e. harmonisation of the tax base, can regulate the activities of companies by means of tax incentives, especially as relate to investment and modernisation activities, employment, research and development, etc. The Confederation of Industry regards a combination of both methods as appropriate with the aim of reducing the tax burden on companies.

*Rober Mulač
Economic Chamber of the Czech Republic*

Flexible Working Hours are a Must for Businesspeople

The main objectives of the Lisbon strategy are to increase the competitiveness of European businesses and to create jobs. With all due respect to the fundamental values and principles of the European Union, it is businesspeople above all who bear the greatest risk for the joint European and national ambitions and visions, since they create the value and the jobs. If they are to employ everyone, everywhere and on an ongoing basis, they need a free hand when organizing production and working hours.

After agreement could not be reached by the European social partners in May of this year, in September the European Commission submitted its own proposal for a review of Regulation 2003/88/EC on working hours, with the aim of making more flexible the current arrangements. A battle ensued in the labour bodies of the EU over so-called opt-outs (exemptions from the average weekly working hours), the length of the reference period, and the definition of an inactive period of on-call duty. The meetings were accompanied in Europe by storms in the headquarters of trades unions and the Commission was accused of being in cahoots with businesspeople.

One of the most controversial points is the institution of opt-outs. The Czech Republic has so far not had recourse to this method, though the Czech delegation in Brussels, since discussions began, has very logically been on the side of member states supporting the more progressive proposals of the European Commission that ensure that clear rules for the conferral of such exemptions were stipulated. The intro-

duction of opt-outs is not generally proposed as a duty which must be satisfied by member states. If they choose to, the final safety fuse in every case is the individual assent of the employee, which may not be signed when the employment contract is being concluded nor during the probationary period, must be in writing, can be renewed, but is also revocable. For businesspeople all this represents no small barrier, risk and potential damage, not to speak of the extra administrative burden.

At the beginning of November, under the pressure of the unions, the government faltered and began to move in the opposite direction. Employers braced themselves for another blow to competitiveness and the flexibility of work relations in the Czech Republic. However, common sense prevailed and after thorough consideration of the opt-out the government inclined to the original proposal put by the European Commission. The Dutch chair is attempt-

"A curtailment of the flexibility of working hours would simply be another blow to the competitiveness of companies in the Czech Republic"

ing to shift the debate on the review of Regulation 2003/88/EC forward and to achieve a working compromise. However, this requires the will of all interested parties, government and social partners. We do not live under the conditions of early capitalism, but neither do we operate under a planned economy. The endeavour on all parts is to attain what is called "flexsecurity", i.e. a process leading from flexibility to greater security.

*Vladimíra Drbalová
The Confederation of Industry of the Czech Republic*

Good Results of Czech Foreign Trade - An Interview with Jitka Hanzlíčková, Director of CzechTrade



Jitka Hanzlickova was appointed as new managing director of nation trade promotion agency CzechTrade at the beginning of October 2004.

Apart from this there is a lot to celebrate when one looks at the results of Czech foreign trade.

Since May of this year the results of foreign trade in the CR have been getting better every month. Both imports and exports have been recording impressive rates of growth. Year-on-year growth is around 30 %. The foreign trade balance is also showing positive signs: in September, for instance, it ended with a surplus of CZK 3.2 billion (EURO 100 million). How do you read these statistics?

September's trade balance results are the best for the last decade. This is all the more impressive given that the growth in the price of oil on world markets has shown up negatively in the trade balance: year-on-year the growth in the cost of importing oil has been approximately 90 %. The total deficit since the beginning of the year is only CZK 14.8 billion (EURO 480 million), the lowest since 1993. The increased surplus with EU countries is mainly because of trade involving machines and means of transport, the exports of which have increased year-on-year by 25 % and the surplus of which is nearly CZK 15.8 billion (EURO 510 million). But it is also important that growth continues of the share of exports to the EU of technology and products with high added value, even though the growth in Western European demand is slow.

Do you believe that this positive development of foreign trade is a long-term trend? After all, there are many factors which are not conducive to its continuation, e.g. a strong crown.

The good condition of our companies, the value for money they offer, and the growing commercial productivity is a long-term factor in the growth of Czech exports. Czech exporters take no pleasure from the weak dollar, which makes exporting to the USA more difficult, but as far as the overall balance of trade is concerned an inhibiting factor is the increase in the prices of imported oil and gas. Along with entry into the EU (the removal of barriers, customs tariffs), over the long term Czech exports can exploit several preferential agreements which apply after the entry of the CR. There is increased interest in the new members of Europe being shown by Mexico, Chile and Brazil.

A factor which played a part in these good results is the expansion of the support of Czech exporters on the part of the Ministry of Trade and Industry and CzechTrade Agency. As the example of Czech glassmakers in the USA shows, winning improved conditions for Czech companies to do their business, a policy which the Ministry has been pursuing around the world, is playing a more and more important role. Next year we at CzechTrade will be offering new programmes orientated on support for Czech company offices abroad and the creation of new export clusters, plus the requisite marketing abroad, all this in addition to a wide range of exports services and implementation of the programme MARKETING which is co-financed from structural funds.

The traditional business partners of the CR are mainly the surrounding countries. With the expansion of the EU the CR has become approximately 80% dependent on EU countries. Does this not concern you somewhat?

It is true that the growth in the actives of mutual trading with the European Union is and in the near future will be the main source of improvements to Czech foreign trade. Since the beginning of the year to the end of September the surplus with EU member countries has reached CZK 20.7 billion (EURO 670 million), and is in contrast to the deficit to third countries of CZK 17.5 billion (EURO 560 million). The fast tempo of exports to the EU is the result of the removal of trade barriers and lowered export-related costs.

If we look more closely at trade with third countries we see that the result of the balance of trade is mainly due to the import of strategic commodities. Exports are growing. For instance, Czech exports to the Commonwealth of Independent States, especially Russia, are on the up and up, and if we take a year-on-year comparison (1-3/2004 against 1-3/2003), have risen by 41.4 %, while imports from Russia, above all strategic raw materials, have grown by 7.4 %. More investment is taking place. An example is the membership export alliances of Czech mining technology, which, in collaboration with CzechTrade, has won contracts for the refurbishment of mines worth hundreds of millions of crowns.

Thank you very much for the interview.

Ondřej Hradil

CEBRE - Czech Business Representation

TOP 10 EXPORTERS (2003)	
1. ŠKODA Auto, a. s.	automobile industry
2. FOXCONN CZ, s. r. o.	information technology
3. MATSUSHITA COMMUNICATION	electronics
4. FIC CZ, s. r. o.	information technology
5. BARUM CONTINENTAL s. r. o.	rubber industry
6. BOSCH DIESEL, s. r. o.	automobile industry
7. MORAVIA STEEL, a. s.	steel industry
8. ISPAT NOVÁ HUŤ, a. s.	steel industry
9. CELESTICA RÁJEČKO, s. r. o.	electronics
10. ČEZ, a. s.	energy industry

TOP 10 EXPORT COMMODITIES (SITC2 Clas.)	
1. Highway vehicles	
2. Electrical appliances and equipment	
3. General industrial machines and equipment	
4. Metal products	
5. Offices equipment and automatic data processing equipment	
6. Telecommunication equipment and sound recording and reproduction equip.	
7. Iron and steel	
8. Machine tools for specific branches of industry	
9. Machines and equipment for the production of energy	
10. Textiles, fabrics, and market products made from them	

Economic Indicators

Balance of Payments

The deficit of the current account balance of payments fell as of 30 September to CZK 6.3 billion (EURO 200 million), from August's CZK 18.2 billion (EURO 600 million). This resulted in a lower deficit in the balance of revenues, which includes payment of dividends and reinvested profits. The balance of trade ended with a surplus of CZK 3.2 billion (EURO 100 million) after August's deficit of CZK 2.4 billion (EURO 77 million), and the surplus of the balance of services rose from CZK 73.4 million (EURO 2.4 million) to CZK 1.9 billion (EURO 60 million). The balance of current transfers includes net transfers from the CR to the budget of the EU of CZK 300 million (EURO 9.7 million). The capital flow in the financial

account using the methodology of the European Central Bank fell in September to CZK 9.5 billion (EURO 300 million) from August's CZK 22.3 billion (EURO 600 million). The total balance of direct investments was CZK 15.6 billion (EURO 500 million), of which the anticipated reinvested profit was approximately CZK 6.1 billion (EURO 197 million). Foreign investment in this country was lower in September by three billion crowns, at CZK 15.7 billion (EURO 510 million).

Czech Manufacturers Expand onto EU Markets

Czech exporters are managing to sell more and more goods on the markets of the European Union. Information released by the Czech

Statistical Office shows that EU member countries accounted for 86.4% of total domestic exports: the same figure last year was 69%. Foreign trade in August ended with a deficit of 2.4 billions (EURO 77 million), down year-on-year by CZK 4.6 billion (EURO 150 million). This is the lowest deficit for August since 1995. Car manufacturers and telecommunications companies were especially successful. Imports from EU countries in August were at CZK 92.3 billion (EURO 3 billion), up year-on-year by 24.5%. On the other hand, Czech exports to the EU rose in comparison with last August by 30.3% to CZK 109.4 billion (EURO 3.5 billion). The CR thus recorded a surplus of CZK 17 billion (EURO 550 million), in relation to EU countries.

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

Czechs Exceed EU Work Average

Czechs have the longest working week in the European Union. They spend more than 42 hours a week at work, which is almost five hours in excess of the Union average. Czech people rarely avail themselves of the possibility of part-time work, and not even employment for a specified period is extensive, according to a study put out by Eurostat. The high rate of long-term unemployment is another minus in the CR. Men work more than women in all EU countries. But in most new EU member countries the working week is in excess of 40 hours. In contrast to the countries of Western Europe these new members have not taken steps to regulate working hours, which the deputy premier for the economy, Martin Jahn, says is a good thing. He believes that a liberal approach helps reduce unemployment. The proof of this, in Jahn's opinion, is to be seen in Great Britain, where for several years unemployment has hovered around the 5% mark.

Monopoly on Electricity and Gas?

From the beginning of next year large companies will be able to decide who is to supply them with electricity or natural gas. MPs have approved an amendment to the Energy Bill which has taken a year to prepare. Under the terms of the Bill owners of transmission systems and gas mains will have to allow third parties to supply electricity and gas to their networks for a fee, in accordance with the European model. The measure is intended to weaken monopolies and beef-up competition. In the case of electricity this means that small consumers will be able to disentangle themselves from dependence on regional suppliers by the beginning of 2006, and in the case of gas a year later. If they do not choose a supplier themselves, they will receive energy for the regulated price and without having to obtain new meters.

Prague - a Favourite Place for Doing Business

A study carried out by Cushman&Wakefield Healey&Baker (C&W/H&B) shows that Prague is favourable business location in Europe. London, Paris and Frankfurt remain in top places and Prague closely behind them on 13th place. The list, which the company has regularly been compiling since 1990, is based on a survey of 500 managers of European companies. Since last year Prague has recorded the greatest movement, up four positions. The list includes 30 cities and the Czech capital comes out on top of Vienna (25), Warsaw (20), Rome (25) and Budapest. Bratislava does not appear on the list of the top thirty cities. "Prague has improved its results in respect of all the criteria monitored. These days it is better known by businesspeople than Stockholm, for instance. Its popularity is on the up and up thanks to the prices of office premises and the language skills of the workforce," ČTK reported the chief executive of C&W/H&B as saying. Amongst companies which are planning to move production to other localities over the next few years, a large number are looking to Central and Eastern Europe. Key factors for a company when selecting a new locality are ease of access to the market, a sufficiently large, good quality workforce, and good transport links.

Future of Structural Policy

The Czech government is recommending to the EU that it focus on supporting poor regions and financing science and research in the years 2007 to 2013. It is also requesting that the Union increase the financing of projects to as much as 85% of their costs. The state hopes to save part of the public resources, which it would otherwise have to spend on co-financing. The cabinet has approved the priorities for discussions regarding the form of the future Union budget. From 2007 to 2013 the Czech Republic will remain a net recipient of resources. The aim of the government is to acquire the maximum amount of money, theoretically as much as CZK 140 billion (EURO 4.5 billion) per annum. However, since Brussels finances a maximum of 75 % of project costs, the government would have to find up to CZK 47 billion (EURO 1.5 billion) for the purposes of co-financing, apart from the more than CZK 50 billion (EURO 1.6 billion) which it sends to the joint budget every year.

Bankruptcy Law

The amendment being drawn up to the Bankruptcy Act will help banks rather than entrepreneurs threatened with liquidation. Entrepreneurs will have to wait for a completely new Bankruptcy Act, which should enter the committee stage at the beginning of next year. Crucial regulations on the reorganisation of a company have been lacking in Czech legislation since 1993, when the Bankruptcy Act was approved. Although this Act could be approved by parliament by the middle of next year, it will not begin to take effect until 2007. Specialists must have sufficient time to study its clauses in detail. However, the deputy premier of the government, Martin Jahn, believes that the Act could be effective a year earlier.

Growing Popularity of KLASA Quality Symbol

The list of foodstuffs with the national quality symbol KLASA is growing at a respectable rate, but only small fish such as Viennese frankfurters, German pepper salami, Budapest spread, and English salad feature on it. Who would have thought that such foreign-sounding items might merit the designation "traditional Czech produce" awarded the national quality symbol KLASA. The list of some 600 products also features Debreceen roast meat and Balkan cheese. But you would look in vain for Pilsen Prazdroj beer or Becherovka. Neither of these prestigious manufacturers have so far applied for the quality symbol. The fact that the presence of the country's most prominent producers would undoubtedly enhance the prestige of the KLASA symbol is evident.



Monopoly on Postal Services

The Czech Office for the Protection of Competition (ÚOHS) does not agree with the attempt to return a monopoly status to the Czech Post Office as regards direct mail deliveries. The service is at present also being provided by Mediaservis, which has less than a 10% share of the Czech market. Re-monopolisation acts as an impediment to the budding competitive environment, and is therefore against the principle of the protection of competition, said the head of the Competition Authority. In his opinion the Czech Post Office has what amounts to a monopoly status as far as delivering direct mail is concerned, and competition should ensure acceptable levels of price and quality for consumers.

Emissions Trading Delayed

Trading in permits to emit greenhouse gases will begin operating in the Czech Republic will not commence on 1 January 2005, as originally anticipated by the European Union. Representatives of the Ministry of the Environment implied as much at an energy conference held on 9 - 11 November in Prague. Prior to inaugurating the system the Czech Republic must first pass a Bill and the European Commission must approve the Czech plan for the distribution of permits. The government only recently got round the first step. The Ministry of the Environment said that the Czech Republic could compile the requisite documents and norms and have them approved by the end of February.

Telecommunications Bill

The EU has noted that the CR has not yet passed the Telecommunications Bill of 2002. As well as the CR the European Commission has warned Belgium, Greece, Luxembourg and Estonia that they are exposing themselves to the risk of not receiving investment in this branch in the future. A draft bill on electronic communications, which harmonises Czech law with that of the EU, is at present awaiting the approval of Parliament. The Minister of Informatics, Vladimír Mlýnař, who submitted the bill, originally anticipated its becoming effective from the beginning of 2005, though recently admitted that this was more likely to be some time during the course of next year. The bill expands the rights of the regulatory office and changes its structure, for instance introducing the transferability of mobile telephone numbers.

State Aid

Ten of the new members of the EU in the years immediately subsequent to entry markedly increased state assistance to companies experiencing difficulties. This ensues from a report publicised by the European commissioner for economic competition, Mario Monti. Over recent years and taking account of the size of their economies new member countries have provided on average more than three times the level of grants than existing members. The EU said that in case of the CR the Czech government handed out grants to companies of more than seven times the volume of grants given by existing member countries.

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

(interview with Miroslav Ouzky from page 1)

protect Czech national interests. Although such a meeting has not yet taken place, the so-called Czech delegation, i.e. 14 MPs within the framework of the EPP-ED, meets regularly, almost once a week.

As a member of the Committee for the Environment, Public Health and Safety of Foodstuffs, will you be compiling an opinion for Parliament regarding the draft Registration, Evaluation and Authorisation of Chemicals (REACH) policy. What is your opinion in this respect?

It seems to me that the REACH policy was drawn up in order to defend the interests of only one political group, The Greens or optionally the Northern Green League. This legislation completely fails to take into account the requirements of the chemical industry nor does not allow for its further development. Personally I believe that to accept the policy in its present form would be dangerous for the chemical

industry in the CR and could even lead to its gradual liquidation.

What other important draft legislation is to be discussed in the near future by the parliamentary committee on which you sit, and which legislation affects Czech companies?

An important area will be legislation covering the protection of underground water. Efforts are being made to harmonise legislation throughout the EU. Another example would be the recently processed norms for the liquidation of waste materials, various types of batteries and accumulators. The draft norms are so meaningless as to be impossible to meet. They involve the compulsory withdrawal or repurchase of used batteries. In the CR the result would be that manufacturers would have to collect more than they delivered to the market.

In conclusion, and on a slightly different subject, as an MP in the Czech parliament you sat in the wonderful historical buildings in the most beautiful part of Prague. What is your

impression of the building of the EP in Brussels and Strasbourg, and other buildings housing EU institutions in general?

As your question implies, there is none of the beauty, elegance and historical association which I enjoyed when a Czech MP. When I arrived I compared the EP buildings to Kafka's castle. It is curious that though the EP buildings in Strasbourg are pleasant from the outside, as for as using them and working in their offices and meeting rooms goes they are far less pleasant. If you spend any longer amount of time there, you feel tired. Mind you, this might have to do with the fact that meetings in Strasbourg are long and demanding. The opposite is true of Brussels, where architecturally the exteriors seem cold and uninteresting, though the interior spaces are better to work in.

Thank you very much for the interview

Ondřej Hradil,

CEBRE - Czech Business Representation



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

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

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

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

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**Confederation of Industry
of the Czech Republic**

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

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- Protects the interests of Czech business community vis-a-vis the EU institutions
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Czech Business Today

Quarterly; December 2004 issue, volume 3

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:** Anna Veverková, Robert Mulač, Fischer Aleš, Hradil Ondřej, Voleš Ivan **Editor:** Centre for European Integration, Economic Chamber of the Czech Republic, Robert Mulač, Freyova 27, 190 00 Prague 9, tel.: +420 296 646 356, fax: +420 296 646 221, 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:** 1000 printouts