

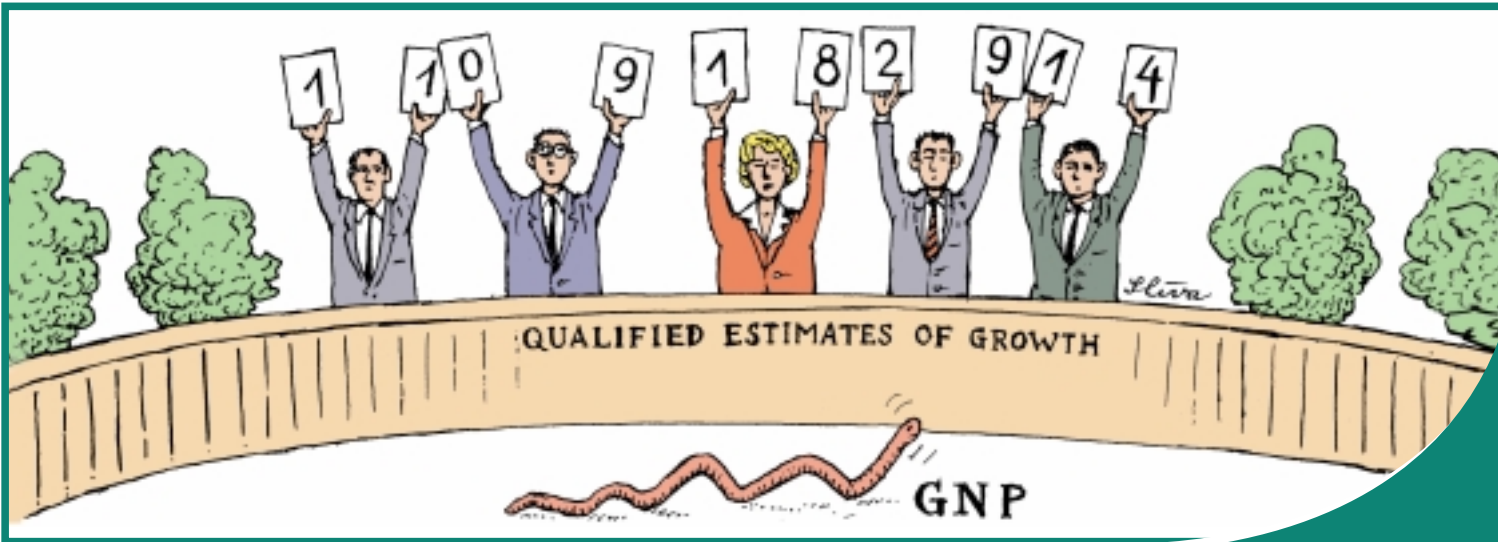
CZECH BUSINESS *today*

Association Maison Tchèque

CEBRE

CZECH BUSINESS REPRESENTATION

1/2003



- ▶ The Czech Business Environment
- ▶ Proposals for an Economic Policy
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**PRIME
MINISTER
VLADIMÍR
ŠPIDLA**



DEVELOPMENTS IN THE REALM OF TAX POLICY

“... a permanent exception was negotiated for the lowering of the level of turnover for the obligatory registration of persons subject to VAT from the present level of CZK 3 million (EURO 95,000) to approximately 1.1 million (EURO 35,000) per year. “

Tax policy is created first and foremost according to the requirements of the development of the Czech economy and for the purpose of balancing public budgets. Harmonisation of tax legislation with the European Union is linked to this process. However, even leaving aside membership of the EU, many measures are needed and desirable. All analyses up until now have shown that the removal of the egregious deficits of public finances is not possible without an intervention on the revenue side of the budget. A conception of tax reforms is gradually being created and the first proposals are ready for discussion.

The reforms of public finance being prepared are based on the principles of the government's Declaration of Intent, especially as it applies to not increasing the overall tax burden and stabi-

lising the tax quota at the level of 2000 in order that its possible autonomous fall be prevented. The narrower tax quota (i.e. tax without insurance) in 2000 was 21.9 % of GDP, i.e. 4.5 percentage points less than in 1993. Last year this quota fell to some 21.6 %. However, it must be realised that, given the slowdown in economic growth against original estimates, maintaining the tax quota in future years will not bring such absolute tax benefits (in CZK billions) as had been originally expected. The tax quota depends both on the development of tax and on the development of GDP. If the growth in GDP is slower than the authors of the reform anticipated (2.7 % GDP in 2002 and 3.3 %, 3.8 % and 4.2 % respectively in subsequent years), the tax quota will grow without the need for an increase in income tax.

Stabilisation of the tax quota will be attained by lowering the income tax rate of legal entities, which was also one of the obligations of the Declaration of Intent. In the proposals of the Ministry of Finance up until now it has been anticipated that, starting in 2004, tax will be gradually lowered from today's 31 % to 28 %. (Within the context of OECD countries this rate is average, candidate countries tend to have lower rates.) Harmonisation with the EU in this sphere relates only to certain details, such as the common system of taxing parent and subsidiary companies operating in various member countries, and an integrated system of taxation of mergers, transfers of assets, and the exchange of shares in relation to companies operating in various member countries. It has not yet been possible to find

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Better in than out

At last! We are finally entering the European Union!

This was the feeling shared by millions of readers and television viewers in the Czech Republic on 14 December 2002, the day that newspapers and television stations gave top priority to information from the Copenhagen Summit of the European Union, the day that readers and viewers learned that, after almost four years, the government had completed negotiations and the Czech Republic had been invited to become a member.

Only now did the long-anticipated entry into the European Union become a reality. Then things really started to move.

For the first time the opposition openly and vociferously criticised the approach taken by the government during negotiations. For its part, the government announced the date of the referendum aimed at ratifying entry into the EU. Euro-sceptics complained that they were not getting their fair share of the resources being allocated to the campaign. The new leader of the opposition Civil Democratic Party (ODS), Mirek Topolánek, announced that he would be recommending that voters cast a "yes" vote in the referendum, thus quashing rumours that the party under the chairmanship of the departing leader Vacláv Klaus might launch an anti-European campaign.

The dramatic conclusion to the Copenhagen Summit also ended months of acrimony and scepticism. The protracted negotiations had provoked a negative reaction - when they had provoked any reaction at all.

The section on the free movement of persons is a case in point. Restrictions governing mobility on the labour market for several years after entry meant only one thing to many Czechs - second-class membership.

What is more, the complex discussions concerning the financial aspects of expansion strengthened the feeling of the Czech public that the European Union did not have much respect for the newcomers and that it was attempting to defer expansion.

The news that the Czech Republic would in fact be entering the EU in May 2004 buried the doubters' demurrals. Supporters of entry - some 60 percent of the population, according to opinion polls - realised what is most important for them: the Czech Republic has a huge amount to gain on the European market, not least guarantees of economic stability and prosperity.

In the end, even Czech opponents of state and European regulations and critics of the bureaucratic and socialist elements of the European Union

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know that, when decisions are being made in Brussels which affect them, it is better to be present, with full rights of membership, including the right of veto.

Petr Zavadil

Deputy-editor of Lidové Noviny

The European Union is an Inspiration for Me



During late October, early November 2002, Petra Hončíková, the first ever trainee with CEBRE, travelled to Brussels on a short-term attachment. She spoke about this attachment with Pavlína Jandlová of the Centre for European Integration of the Economic Chamber of the Czech Republic.

How do you perceive the situation at present regarding entry into the EU and the readiness of companies?

I am concerned that some companies still have not realised that we are actually entering the Union. Although entry into the EU should not be perceived as a threat, I am worried that this is precisely what it will represent for those who are unprepared. Business people will see their costs rise since there will be no wriggling out of investment in environmental and other standards. There will also be an increase in wage costs and Czech business will thus lose their competitive edge, i.e. a cheap labour force allowing for competitive prices. I think that the so-called European Survival Package being put together by CEBRE could offer enormous help to companies as they attempt to accommodate themselves to the changing situation, as well as improving their knowledge of the opportunities and risks of the integrated European market. If they co-ordinate their itinerary in Brussels with a view to visiting the conferences taking place on themes which are of special interest to them, I believe they will be as satisfied as I am.

I think that the so-called European Survival Package being put together by CEBRE could offer enormous help to companies as they attempt to accommodate themselves to the changing situation, as well as improving their knowledge of the opportunities and risks of the integrated European market.

What should be improved in respect of our approach to companies?

I believe that both companies and the population as a whole should be better informed. I am sure that the ministries are receiving plenty of up-to-the-minute information from the Mission of the CR to the European communities, but it is very difficult to get hold of this information from them.

Why did you go to Brussels?

Well for one thing I am a business person running their own company. But as well as that I have founded a non-profit organisation called SaD, which aims to help children and young people make constructive use of their free time. On my course I wanted to put flesh and blood on the skeleton of a project which I have been preparing, acquire more detailed information regarding changes taking place in the sphere of IT and education, and acquaint myself in general with the European environment.

How was the course made up?

The course was based around my personal wishes and ideas. I attended important conferences which were being held during the time I was in Brussels, e.g. the Conference on the Occasion of the Inauguration of the 6th Framework Programme, or the Conference on Edu-

The main benefit of the course for me was unquestionably the contacts and information I acquired.

cation. I visited the Czech Mission to the EU, the Prague Building - the representation of the Municipality of Prague, the Economic and Social Committee and the European Council, and had work meetings at the EU Commission. I was given a taste of work in a CEBRE office, which gave me the opportunity of finding out how and where to look for information regarding the EU.

How would you evaluate the course and what did it offer you in concrete terms?

The main benefit of the course for me was unquestionably the contacts and information I acquired. Being able to customise the course programme to suit individual needs is a huge bonus, and I now know who I should turn to with a particular problem. At both the conferences and the work meetings I met with the people overseeing the issue of education in the EU, including representatives of the Czech Republic. Another advantage is the fact that you can devote yourself fully to the issue in hand without being constantly hassled by day-to-day duties. The information I acquired regarding the possibilities of drawing on resources from community programmes and structural funds is invaluable. I must say that the approach taken by the EU to education really inspired me and from now on I am going to attempt to ensure that my employees have more room for growth. I would like to say a big thank you to the experts of CEBRE. They were constantly on hand for me during the entire period I was in Brussels and offered me genuinely professional support and guidance.

Thank you very much for the interview.

The Czech Business Environment through Businessmen's Eyes

As the date of Czech entry to the European Union draws nearer, pressure from Czech managers and entrepreneurs for improvements to the country's general business environment is growing. According to the last European Commission report for 2002 (published on 9 October), the Czech Republic has a functioning market economy able to deal with the expected competitive pressures of the common market, although there is still a long way to go in many areas. In this respect the conclusions of the Commission's report agree with the results of the latest research into the country's business environment, which, seen through the eyes of entrepreneurs and managers, is not only not improving, but, with regard to expectations and needs, is deteriorating in certain areas. Czech businesses want the adoption of new measures as soon as possible, prior to the expected EU entry date in 2004.

A research project called "Do We Have A Quality Business Environment in the Czech Republic?", conducted by the Economic Chamber of the Czech Republic in the third quarter of 2002, is the second such project that tries to answer this question. The first was conducted by the Chamber in autumn 2001 and this enables

would seem to indicate that loan availability is low. Roughly half the entrepreneurs and managers questioned think that banks are not willing to provide loans to small- and medium-sized enterprises, a fact which hampers their activities. We can find the same opinion expressed in the Commission's 2002 Report, which says that "The financial conditions for starting a domestic business are still difficult, as banks apply harsh criteria to business plans and strict rules to loans. The prudent lending practices of banks are the consequence of unsatisfactory legislation on bankruptcy, which has not been amended since May 2000." Half of the respondents believe that state support programmes, loans and guarantees are too small. In contrast, the majority of managers and entrepreneurs have a mostly positive view of leasing, which the research looked at for the first time this year. As many as 78% of respondents take advantage of some form of leasing and approximately 50% regard it as an alternative on a par with loans. 91% of respondents regard the extent and quality of services provided by leasing companies as fully satisfactory or satisfactory.

The section **Business and Tax**, in which the research concentrated on assessing the overall tax burden, the transparency of tax administra-

tions, forcing companies to hire tax advisors. Satisfaction with revenue authorities fell by 18% in comparison with last year.

In the **Business and Law** section, 57.9% of respondents regard the laws and legal standards that regulate business as "relatively non-transparent".

Half of the respondents believe that state support programmes, loans and guarantees are too small.

The main problem in their opinion is that they do not have the opportunity to participate in the preparation of legal standards for business. Half the respondents think that sufficient regard is not paid to the interests of small- and medium-sized enterprises, which generate 41% of GDP, during the preparation of such laws. Respondents state that the most problematic legal matters vis à vis business activities are the work done by courts and, in particular, legislation on creditors' rights. We should add that there is agreement on this point between the results of the research and the conclusions of the Commission's 2002 report, which acknowledges that certain progress has been made in reforming Czech courts, but adds that the changes have only had a minimal effect as yet. Court proceedings have not been speeded up, in particular those involving business matters - last year they took an average of 627 days, against only 303 days in 1997. According to the Commission's report, the Bankruptcy and Composition Act, which does not afford sufficient protection to creditors' interests, is an intractable problem. The Ministry of Justice is supposedly drafting a new bankruptcy bill which increases the role of the creditor when dealing with a debtor's insolvency. The bill is reputed to deal with insolvency in the form of reorganisation. Such a solution would enable a company to continue operating and provide it with a protected period, giving it time to prepare a revitalisation plan and reach agreement with creditors.

Dušan Provazník

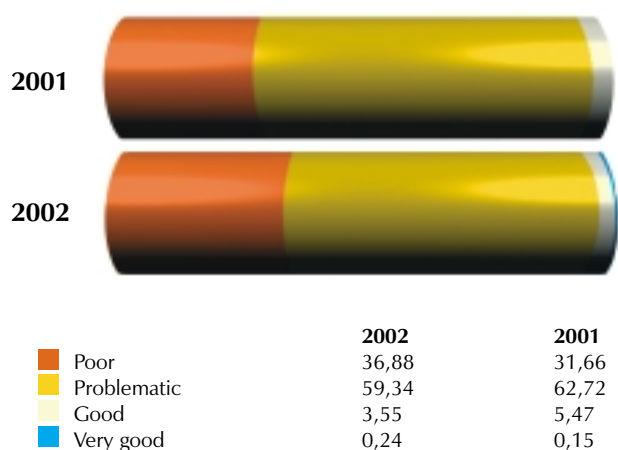
In this respect the conclusions of the Commission's report agree with the results of the latest research into the country's business environment, which, seen through the eyes of entrepreneurs and managers, is not only not improving, but, with regard to expectations and needs, is deteriorating in certain areas.

a comparison to be made and trends to be observed. The research was designed in such a manner that it reflected the composition of Czech businesses.

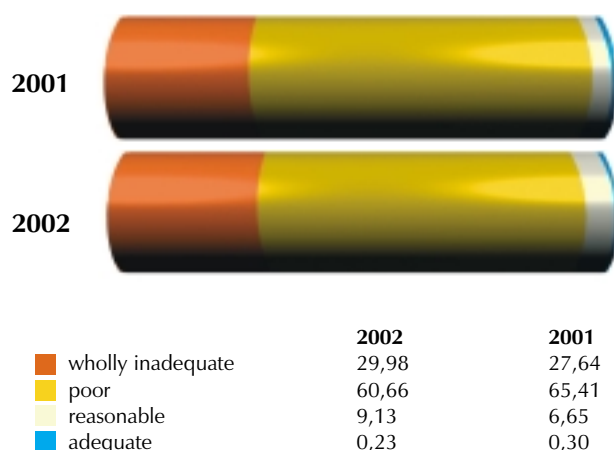
The respondents' answers in the section **Business and Finance**, which deals with the availability of loans for businesses and the effectiveness of state support programmes and guarantees for small- and medium-sized enterprises,

and the work done by revenue authorities, takes a very critical tone. As many as 95% of respondents regard the overall tax burden (including insurance premiums) as relatively or extremely high and 22% believe that the situation has worsened in the last year. Tax regulations are viewed in a similar light and more than half of the respondents regard them as being not very transparent and including too many exemp-

Evaluation of the work of the courts



Respect for the interests of SMEs during the preparation of legislation



Reform of Public Finances

The Minister of Finance, Bohuslav Sobotka, has submitted a scheme to the Czech government aimed at reviving the management of public finances in the Czech Republic.

The aim is to lower the growing indebtedness of the country in order than it be able to meet the criteria for acceptance of the common European currency in future. This is a long-term and demanding objective, since many other countries in the European Union are wrestling with similar problems. The Minister's consultative group for the reform of public finances brings together economists from governmental, academic and private spheres. In December 2002 the group submitted two variants of fiscal reform. Adoption of the first variant would save the state 60 billion Czech crowns (1,9 billion Euro) by the year 2006, while in the case of the second variant this figure would be as high as 80 billion Czech crowns (2,5 billion Euro).

The government debated the proposal for the first time at the beginning of January. Another working group was set up, this time comprising economic ministers and economic specialists from the coalition parties. The discussions on reform take in trade unions, as well as business and employees' federations. The Minister of Finance wants to push through a more ambitious variant of reform.

He believes reform to be essential since the growth in the deficit is of a structural character. Expenditure is rising along with a trend for an autonomous fall in the tax quota deposited. The rate of growth of public debt has increased to an extent which is insupportable and which is putting at risk the attainment of a sustainable level of economic growth.

Mandatory and similar forms of expenditure are on the up and up: in 1995 they were 65.7 % of expenditure from the state budget, in 1999 they were 73.6 % and in 2002 this figure had crept as high as 82.4 % of total expenditure from the state budget. In a situation like this the government is hamstrung and unable to realise its budgetary priorities.

Last year the public debt was 20.3 % of GDP. In 2003 it is expected to be 24 %, in 2004 more than 30 %, and in 2006 the figure will be as high as 41.7 % of GDP. Given a swifter pace of fiscal reform the curve would start to even out in 2004 (28.6 %), though the debt would continue to rise to 31.8 % and later to 34.5 %. While not exactly a miracle, this would at least represent a reverse of the current, unfavourable trend.

Systemic measures will have to be taken, e.g. the application of a binding, medium-term expenditure framework from 2004, the introduction of performance-based budgeting procedures beginning with an audit of all expenditure, the rigorous observance of the principle of subsidiarity, and the completion of public administration reforms. A committee for public finance should be created which would regularly publish a Report on the Development of the Reform of Public Budgets. Pensions and the health service are in bad need of an overhaul.

If public finances are not reformed, the country's public account deficit in 2005 will be as high as 5.5 percent of GDP. Without a tighten-

ing up of fiscal discipline inflationary pressures will increase. Financing the deficits in the form of bonds will crowd out private investment.

Concrete scenarios include measures being taken in many areas. One method is to stipulate expenditure ceilings and to stipulate a target public account deficit of 4.9 % of GDP, or even 3.7 % of GDP under the terms of the more radical variant, in 2006. Tax reform is necessary (stabilisation of the tax quota) and modifications made to institutions - the institutionalisation of medium-term expenditure frameworks, an audit of public expenditure, elements of performance-based budgeting procedures introduced, and a restriction placed on the number of off-budget funds.

As far as tax is concerned, changes are anticipated to value added tax, e.g. a higher basic rate and a lowering of the registration threshold.

Adoption of the first variant would save the state 60 billion Czech crowns (1,9 billion Euro) by the year 2006, while in the case of the second variant this figure would be as high as 80 billion Czech crowns (2,5 billion Euro).

Lower rates of income tax should be applied to legal entities, though the extent of special relief will be reduced. Consideration is being given to a minimum tax or lump-sum taxation. The principle of value should be introduced into real-estate tax rates. Local charges will be transformed into a general tax. Assets should be declared in the tax return and an obligatory registration treasury should be introduced. An ecological tax is being spoken of involving the taxation of electricity and a tax on non-renewable, natural resources.

A controversial aim is that of increasing the health and social insurance assessment base in the case of independent wage-earners. Employers should contribute to payments of sickness benefit.

Individual changes can be made to mandatory social expenditure and general life insurance, state support for mortgages and the state budget expenditure on wages.

There is no reason for the uncoupling of government priorities from the state budget. The proposal recommends terminating the activities of the National Property Fund as of 31 December 2006 in order to standardise the activities of other funds in accordance with budgetary rules and to include them in the medium-term expenditure framework. As of 31 December 2007 the activities of the Czech Consolidation Agency should have been wound up and two years prior to this no further activities will be allocated to it. In the case of state guarantees it is necessary to promote the principle of the division of risk between the state and the recipient of the guarantee, and not to provide guarantees where there is room for private sector involvement.

Milena Geussová

In August of last year the Confederation of Industry of the Czech Republic made available to the government, parliament and social partners the document "Proposals for an Economic Policy". The document was a summary



from the point of view of employers and the business sphere of the steps which should be taken by the executive and legislative branches to ensure that the Czech economy is sufficiently strong and competitive by the time the country enters the EU.

Following a period of stagnation in 1997-1998, industrial output resumed its dynamic course. Structural changes continue to be made among and within sectors aimed at strengthening the more technologically demanding branches. In spite of these positive developments Czech industry is still not sufficiently competitive on the international markets, in particular in the high-technology sphere. Structural changes are not sufficiently accompanied by changes within individual industries in the direction of a higher share of value added output and the delivery of final products.

In spite of positive developments in labour productivity over the last two years, present levels are still substantially lower than in EU countries. This is, of course, a basic benchmark for competitiveness. Factors contributing to the present unsatisfactory situation include the following: low innovation activity at an enterprise level, lack of resources for investment, low export prices of all products of Czech origin, and general problems related to access to marketing and sales chains. Competitiveness is also adversely affected by problems on the labour market, while the recent appreciation of Czech crowns against the main world currencies has not helped either.

On the whole, investment activity in manufacturing industries has increased and there has been a favourable structural development in the direction of investment into machines and equipment.

On the other hand, domestic industry can still rely on a certain comparative advantage. For the time being wage levels are relatively low, though in the longer run this advantage could backfire as industrial development is directed towards labour intensive branches. Another advantage is the relatively low price of, for instance, land and energy.

Investment Activity

On the whole, investment activity in manufacturing industries has increased and there has

Proposals for an Economic Policy

been a favourable structural development in the direction of investment into machines and equipment. However, the main vehicles for these investment activities were foreign companies, which took full advantage of the existing system of investment incentives. Czech investors, on the other hand, still lack the resources necessary for expansion, and have been experiencing increased difficulties in access to borrowing resulting from the acquisition of major Czech banks by foreign investors. However, the main

The new Labour Code under preparation should provide more room for both employers and employees to negotiate the specific arrangement of labour relations.

problems seem to be related to the slow creation of investment resources in companies. Preparatory work on full utilisation of EU pre-accession and structural funds is going very slowly, accompanied by inadequate use of the capital market. It will be necessary to make an analysis of foreign capital flows in the Czech Republic with a view to the long-term development of the economy.

Investment Incentives

In order to provide additional incentives to investment activities it will be necessary to make changes in the system of taxes with a view to promoting innovation and constructive investment. Bank policies should be more directed towards loans provided to enterprises. At present, banks seem to give preference to a relatively safe investment in state securities. Preparations aimed at taking full advantage of EU funds should be promoted, mainly in the areas of institutional development and co-financing. The development of projects at company and regional levels should also be encouraged. We strongly recommend modification of the present system of investment incentives in order to reinforce long-term and knock-on effects. These changes should be based on an analysis of the behaviour of foreign investors in the Czech Republic.

Export Promotion

In order to provide effective export promotion it is necessary to increase the capital endowment of the Czech Export Bank and the Export Guarantee Insurance Company to enable them to provide sufficient support and services, even for large export contracts. Another tool which remains unused is government-backed soft loans. In addition, co-ordination should be improved between the existing institutions dealing with export promotion. Attention should also be paid to regional priorities, in particular to helping our exporters renew their previous contacts with the Russian and Chinese markets.

Law and Regulations

Frequent changes to laws and regulations, little coherence among them, and inadequate attention to proposals submitted by employers have contributed to a lack of authority on the part of the law in general. Major changes proposed by MPs during debates on laws in the Parliament should be subjected to a new round of suggestions in order to guarantee cohesion of the legal system. Laws should be unambiguous, transparent and stable. Furthermore, it is necessary to reduce the number of implementation regulations.

Labour Market

In order to improve the functioning of the labour market it is necessary to lay more emphasis on training and retraining and to reassess the present system of social benefits and allowances. The new Labour Code under preparation should provide more room for both employers and employees to negotiate the specific arrangement of labour relations. The education system has to be more related to the needs of the labour market and support should be given to apprenticeships and technical education. The system of sickness insurance needs an overhaul. Sickness benefit should be more closely related to contributions. Another task facing us is the creation of a uniform and coherent health and safety policy, governed by a single Act and subordinated to and implemented by one ministry. Reform of the pension system should give full support to supplementary pension insurance in order to create sufficient levels of retirement income.

Research and Development

It is necessary to bring a halt to the long-term tendency to underrate research and development, both at state and company levels. There is an urgent need to develop a national innovation strategy, to increase state support for research and development and to create a system of indirect support for research and development. The prerequisites must be created for the full integration of Czech research facilities with international programmes, in particular within the EU.

It is necessary to bring a halt to the long-term tendency to underrate research and development, both at state and company levels.

We consider it expedient to establish a specialised agency to deal with new technology and to provide support for applied research.

Environmental Protection

During the transition period Czech industry expended a substantial part of available resources on environmental protection. This resulted in a major reduction of the pollution of water and air. However, a substantial part of this investment was directed at clearing waste and the installation of end-point equipment, rather than at improving technology. Further advances in the sphere of environmental policy should be based on an

analysis of the impact of environmental legislation on enterprise activities, and excessive enthusiasm should be avoided. At present, certain of the requirements of Czech regulations tend to exceed what is required by EU legislation to the detriment of the competitive capacity of Czech enterprises.

Energy Policy

The state energy policy is mostly about achieving short-term objectives and long-term objectives, and the development of substantive parameters is conceived of only in general terms. We invite the Government to review its policy in the sector of power generation and distribution so as to encompass long-term development with a horizon of at least 30 years. Such a policy should not be dependent on the terms of office of successive governments. It should guarantee independence and the safety of power supplies. In addition, it is necessary to develop a stability programme for the brown coal market for the 2002-2005 period and to review the programme aimed at reducing the volume of bituminous coal mining. It is also necessary to reach a final decision concerning the patterns of supplies of electrical energy and to adopt measures aimed at supporting the combined production of power and heat.

Transport Policy

The Government's transport policy should be consistently enforced and gradually updated. The remaining aspects of Chapter 9 related to EU accession should be urgently negotiated. Compliance with laws and regulations should be effectively enforced and conditions should be created for the participation of employers in the development and implementation of rules and regulations influencing the operation of transport companies.

SMEs

It is important to update the present policy aimed at the promotion of small- and medium-sized enterprises. Existing programmes should be reviewed on the basis of a thorough analysis, and clear rules should be established governing the participation of businesses in such programmes.

Similarly, the number of institutions concerned with the provision of support to these enterprises should be reduced and the protection of the internal market should be effectively enforced. Small- and medium-sized enterprises should enjoy easy access to loans and should not be subjected to an excessive administrative burden. It would also be appropriate to improve their opportunities to participate in the subcontracting arrangements of large companies, especially those which take advantage of investment incentives.

*Ing. Stanislav Kázecký, President
Confederation of Industry
of the Czech Republic*

State Aid in the Czech Republic and its Compatibility with Community Law

Concerns have been expressed in connection with the impending entry of the Czech Republic into the European Union regarding what kind of view the European Commission will take of several cases of state aid being made available to business in the lead-up to accession. The question is whether the Commission will adjudge such cases as being compatible with the common market. The problem is that their potential incompatibility would not affect only those public institutions which provided the state help and, by extension, the Czech Republic as a body bound by obligations ensuing from the Association Agreement. The recipients of such aid, the businesses themselves, would be affected, and would not only be exposed to tougher business conditions after the accession of the Czech Republic to the EU as a result of the possible termination of questionable government assistance (intensified by the competitive pressures exerted by the current fifteen countries at the instant of entry onto the internal market), but in extreme cases might be obliged to return the resources they had already received.

Commission Reports

Over the last two years regular reports by the Commission have been nothing but positive in their evaluation of the position of the Czech Republic in respect of regulation of the provision of state aid. With acceptance of the Public Support Act (valid from 1 May 2000) a legal framework was created on the basis of community law, while responsibility for authorisation and monitoring activities passed to the Office for the Protection of Competition, independent from the government and transparent in its activities. In October last year negotiations on membership managed to bring the chapter on economic competition to a tentative conclusion.

Revision of State Aid

However, all this does not mean the automatic authorisation of all individual measures taken in the past constituting state aid under the terms of community law. At present, in accordance with the "common approach to economic competition" (passed in November 2001), the Commission is carrying out a review of all concrete instances of state aid with their roots in the past and which are supposed to continue after the entry of the Czech Republic into the European Union. Measures which do not fall foul of the Commission will be included on a list of existing aid which will be attached to the accession agreement. Within the framework of the so-called interim procedure the Commission is also gradually investigating all the decisions permitting state aid taken by the Office for the Protection of Competition between 1 January 2003 and the date of entry.

While the decisions reached by the Office for the Protection of Competition are regarded as sufficiently well-founded and in close accordance with the European Union's policy on competition, what might prove a problem are the investment incentives provided in the so-

called pre-statutory regime. From 1998 to April 2000 state aid in the form of a special-purpose grant to the income tax of legal persons, or, as the case may be, grants to thirty three investors for the creation of new employment places and for requalification purposes was awarded simply on the basis of a Declaration on Common Aims concluded between the investor and the

vidual cases of investment incentives, the Commission will most probably require a change to the conditions under which the investment incentives were provided before giving its assent to their continuation. This will typically involve supplementing the conditions with an obligation on the part of the investor, missing in the Declaration, to maintain the investment

So do these investors now have just cause for concern over the loss of rights to the five or ten year tax holiday contractually guaranteed by the Czech government, and might they have to begin rummaging through their financial resources to find ways of returning the help already received? Neither experience gained from earlier waves of expansion nor the opinions of specialists would seem to bear out these concerns.

guaranteeing ministry, without an impartial and detailed investigation being made into the compatibility of these measures with the proper functioning of the Association Agreement.

Commission Attitude

So do these investors now have just cause for concern over the loss of rights to the five or ten year tax holiday contractually guaranteed by the Czech government, and might they have to begin rummaging through their financial resources to find ways of returning the help already received? Neither experience gained from earlier waves of expansion nor the opinions of specialists would seem to bear out these concerns. If it has reservations regarding indi-

vidual cases of investment incentives, the Commission will most probably require a change to the conditions under which the investment incentives were provided before giving its assent to their continuation. This will typically involve supplementing the conditions with an obligation on the part of the investor, missing in the Declaration, to maintain the investment

Ing. Jana Svobodová

The Czech Trade and Catering Industry within an International Context

In view of the impending entry of the Czech Republic into the EU, a look at the status and development of trade and catering industry in comparison with the situation in the other candidate (partner) countries is timely. The situation regarding trade and catering industry is shown below from the point of view of GDP and employment in the CEFTA countries.

Ladislav Šípek, Confederation of Commerce of the Czech Republic

Position of Trade and Catering Industry in CEFTA Countries 2001					
Indicator	Branch	CZ	HU	PL	SK
Share of GDP (%)	Trade	14.8	11.0	21.9	15.2
	Catering	2.2	1.8	1.4	-
Share of employment (%)	Trade	12.9	14.2	14.1	12.1
	Catering	3.4	3.7	1.8	3.4

Source: Confederation of Commerce of the Czech Republic

GDP in 2002

The Czech economy continued to grow in 2002, though at a slower rate because of developments world-wide and in Europe in particular. The catastrophic flooding of the 3rd quarter of the year took a heavy toll on the population and the economy. Current estimates (after revision of the information given by the Czech Statistical Authority) indicate that the pace of economic growth (GDP) may reach 2.5% in 2002, i.e. a higher tempo than the EU despite a year-on-year deceleration (in 2000 and 2001 GDP in the Czech Republic grew at a rate of 3.3% in both years). The latest prediction suggests that in the year 2003 GDP in the region of the former Czechoslovakia will grow at a faster rate (over 3 %) than in the Euro-zone. The downside of 2002 in the Czech Republic was the increase in the unemployment rate

Economic Indicators

In 2002 economic growth in the CR was driven to a significant extent by consumption, including household consumption, and thus the internal retail market relied mainly on a favourable development of demand (the income of the population grew in real terms), which grew by approximately three percent on the year 2001. A positive indication was the very low rate of inflation (the lowest since liberalisation of the market) of 1.8 % (in the Euro-zone the figure was 2.2% according to Eurostat). Prices of food and consumer goods were positively influenced by business competition, especially between the large retailers. The quality of what is being offered is rapidly becoming comparable with that of the neighbouring countries of the EU. Household consumption basically corresponds to the development of GDP: according to Eurostat, GDP per capita in the CR was 59% of the EU average while consumption per capita was 58% of consumption in the EU. The current outlook as regards the development of consumption in 2003 looks favourable given the expected growth in real wages and the relatively low rate of inflation.

Foreign Trade

The development of foreign trade expressed in Czech crowns slowed down in 2002 under the influence of weaker external demand and a significantly stronger Czech crowns (exports and imports expressed in EURO and USD grew). However, the lowest balance of trade deficit of the last three years was achieved in 2002. This fell from CZK 117 billion (3,7 billion Euro) in 2001 to CZK 74 billion (2,3 billion Euro) in 2002. A crucial share of Czech foreign trade was taken by EU countries (more than 60 % of imports and over 68 % of exports). A consequence of the world-wide downturn (caused not only by economic developments but also the terrorist attacks) was that foreign tourism in the CR in 2002 dropped. Approximately 5% fewer foreign visitors came to the Czech Republic and some 5% fewer Czechs travelled abroad. The fall in tourism and the direct impact of summer's floods had an appreciably negative impact on the results recorded by the catering industry and accommodation services.

Trade and Catering Industry

The growth of gross value added in the Czech Republic is dominated by the manufacturing industry. Trade and catering industry are holding their position on a level comparable with European results; trade, including catering services, in 2001 enjoyed a share of GDP of 16 - 17 %, in the creation of gross fixed capital 10 - 11 %, in employment in the economy of 16 - 17 %, in the employment of women more than 20 %, in the number of business units in the economy more than 1/3, while wages reached 95% of average wages in the economy as a whole.

Telička is Ambassador in Brussels

While one important stage in the process of the integration of the Czech Republic into the EU was being completed and the conditions of our accession stipulated, the State Secretary for European Affairs and Deputy Minister of Foreign Affairs, Pavel Telička, was being appointed Czech Ambassador to the EU. As head of the Mission of the Czech Republic to the European Community he will have ample opportunity to use the experience and contacts he acquired while working in the post of main negotiator representing the interests of the Czech Republic.

In our next edition we shall be carrying an interview with Pavel Telička on the current themes and problems linked with the accession of the CR to the EU.

President Havel Departs

After thirteen years the presidential mandate of Václav Havel has come to an end. Before 1989 Václav Havel belonged to very active critics of communist regime and its bureaucracy. He was a cofounder of a human rights organisation



Charter 77. Due to his anticommunist activities and attitudes he was several times subjected to police harassment and arrests. His works and plays were officially banned. However, he continued in his writing and during 80s became a regular contributor of the samizdat newspaper. Following the Velvet Revolution of 1989 he became the first democratically elected president of Czechoslovakia. After the Czech Republic was created on 1 January 1993 Václav Havel stood at its head for two terms of office. Since 3 February 2003 he has been a regular citizen. He bade farewell to the nation in a televised speech in which he thanked viewers for their trust and sympathy.

For his entire tenure as president Václav Havel was regarded as an outstanding politician abroad. Proof of this is the resolution passed by the American House of Representatives on 12 February which recognised Havel for his activities in the fight for democracy and human rights and for his outstanding achievements as statesman and playwright. He thus become the first ever Czech to be honoured as an individual by the American Congress.

Foto: Karel Cudlín

COMMUNICATION STRATEGY

On 22 January 2003 the campaign logo was unveiled which will feature in the lead-up to the referendum on the entry of the Czech Republic into the EU. Cyril Svoboda, Minister of Foreign Affairs, believes the logo incontrovertibly says "YES, we have decided, and YES we should come and vote on the EU". After the Czech government approved the communication strategy submitted by the Ministry on 12 February, the campaign on entry into Europe got started for real. The campaign will reach its climax at the end of April.

The entire campaign will cost some 200 million Czech crowns (approximately EURO 6.5 million), of which 10 to 20 percent will be devoted to a presentation of the CR in the



member countries of the EU. Half of the remaining money will be invested in the purchase of advertising space, broadcasting time on radio and television stations, the financing of regional projects, Freefone information lines, and an Internet server. Some 28 million Czech crowns (EURO 890 thousand) will go on information pamphlets and leaflets. Special information material will be published for business people, farmers, local authority employees, and others, while every single Czech household will receive a "EuroNews" leaflet. The second half of the remaining financial resources will be used to support regional European centres, the non-profit sector, and other one-off projects costing up to two million crowns. A share of the financial resources will go to the campaign to be waged by those opposed to entry into the EU.

The communication strategy will inform the population of both positive and negative aspects to membership of the CR in the EU. The campaign will focus on those citizens who are not themselves in a position to go ferreting out the information, i.e. older people, housewives, and people living in the countryside. There are plans to communicate with them via the church, trade unions and special interest groups. The campaign will also concentrate on the regions. At present there are 17 regional European centres in operation in the CR, though this network should be expanded over the next year and a half so that each district has at least one regional information centre and three municipal European information centres.

The referendum is due to be held on 15 and 16 June 2003, though the precise date will be announced by the new president. Latest opinion polls indicate that, to the question "Do you agree that the CR should become a member country of the EU in accordance with a Contract on the Accession of the CR to the EU?", 47 percent of Czechs will say yes and 19 percent no. These polls put anticipated turnout at 63 percent.

(Vladimír Špidla from page 1)

the room for the kind of more radical lowering of the rates of this tax proposed by the opposition.

The more substantial changes linked with harmonisation of the tax system with that of the EU relate to indirect taxation. Strict EU requirements apply to excise duties (i.e. on fuel, alcohol, tobacco, etc.), where at the very least minimum rates must be introduced on the natural unit valid in the EU during the period of entry into the EU. The business world is sensitively affected in this respect mainly by tax on fuel, where a fundamental adaptation has taken place during the pre-accession period. In view of the overall lower level of prices and costs in the candidate countries, the naturally stipulated tax on fuel derived from the differing price con-

ditions of the members till now is relatively high. With integration of the conditions of entry onto the single market, however, it will not be possible to discuss this adaptation. There will ensue a natural handicap for domains with high demands on the consumption of these commodities, which will be offset only by an increase of the relatively high prices of other goods and services and thus the overall level of prices.

More significant changes will take place to VAT. On the one hand several previously low taxed services will have to be moved during harmonisation to the basic (i.e. higher) rate. On the other hand a permanent exception was negotiated for the lowering of the level of turnover for the obligatory registration of persons subject to VAT from the present level of CZK 3 million

(EURO 95,000) to approximately 1.1 million (EURO 35,000) per year. Within the framework of the negotiations a postponement was agreed on of the shift of several especially sensitive items (such as the supply of construction work and buildings for the purpose of accommodation and the supply of heating) from a lower to a higher rate to the end of 2007. In the long term the principle of the convergence of both rates should be applied, since at present there is a great disparity (5 % and 22 %).

Proposals submitted to the discussion by the Ministry of Finance will require more careful calculations and will need to be updated to take account of new research into the prospects of economic development, as well as giving consideration to the intensity and speed of removing the budget deficits.



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

The Economic Chamber of the Czech Republic is the only entrepreneurial 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 Businessmen 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 of the Czech Republic, the Association of Building Entrepreneurs of the Czech Republic, the Union of the Czech and Moravian Producer Cooperatives.

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**Confederation of Industry
of the Czech Republic**

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

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- Represents the Czech Business Community in Brussels
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