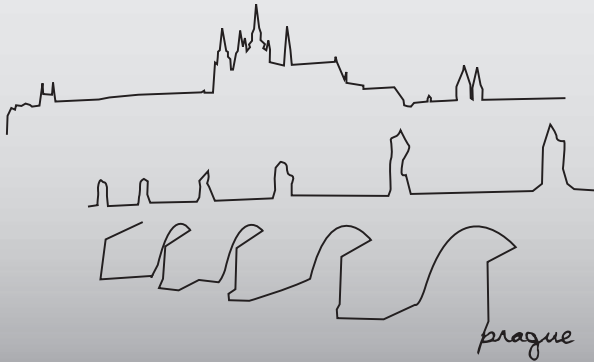


CZECH BUSINESS *today*

2/2003



- ▶ Czech Entrepreneurs and their Interest in the EU
- ▶ Improvements to the Enterprise and Investment Environment
- ▶ New Czech Pro-Export Policy
- ▶ Readiness of the Czech Companies for Single Market

THE ROLE OF BUSINESS INSTITUTIONS IS IRREPLACEABLE,

says *Ing. Václava Horáková* of the Council of the Czech Mission to the European Community in an interview for the journal *Podnikatelské lobby (Entrepreneurial Lobby)* and *Czech Business Today*.

With the accession of the Czech Republic into the European Union drawing closer, the significance is growing of business institutions, which will play a crucial role in the preparation of Czech businesses for entry. What is the specific contribution the Mission of the CR to the EC can make to preparing Czech businessmen for the integrated market of the EU?

In this respect the activities of the Mission are multi-layered. First of all, it will help ensure that community law is introduced and implemented correctly and promptly in the Czech Republic. In the sphere of EC legislation governing the principles of the international market of the EU, the *acquis*, the Czech Republic has notched up excellent results and is up there with the best of the candidate countries. The timely introduction

of the *acquis* in the Czech Republic allows the business sphere sufficient time to prepare itself for entry into the EU. A concrete example is the free movement of goods and the concluding of an agreement on mutual recognition with the EU (PECA), by which the CR was incorporated into the internal market of the EU in the case of a wide range of goods a good 4 years prior to actual entry.

As well as these activities, which represent our basic tasks, the Mission organises presentational events focusing on business in the CR and allowing Czech businessmen to make contacts in Brussels. The ambassador, together with other diplomats, regularly participates in discussions on the EU with businessmen on fact-finding trips to Brussels organised by CEBRE. We are active in ensuring the participation of representatives of

EU institutions at events organised for businessmen in the CR. We monitor forms of support for business in EU member states and provide information on them both to bodies of the state administration and business organisations in the Czech Republic. We monitor the preparation of documents in European organisations (including business organisations) on the topic of the expansion of the EU and business, and make absolutely sure that they contain no non-objective and negative evaluations of business conditions in the Czech Republic.

What role can business institutions play in cultivating a European-style business culture and customs? What is and will be the role of the Economic Chamber of the Czech Republic in this respect?

(see page 8)

Czech Entrepreneurs are Becoming More and More Curious about What is Happening in Brussels

At the end of March the Czech Business Representation (CEBRE) again welcomed a delegation of 25 Czech entrepreneurs and managers to Brussels. Members of the delegation were in Brussels to familiarise themselves with how European institutions function and learn more about what the EU does for businesses. This time the delegation was represented mainly by medium-sized and larger companies from various sectors of industry and services.

Participants had the opportunity to meet officials from the Commission (e.g. DG Enterprise, DG Transport and Energy) as well as representatives of the European Parliament and to ask

He pointed out that business organisations have to act on behalf of businesses and play an important role as a buffer between national public authorities and Brussels.

them personally about their initiatives to improve the business environment in Europe. They also visited the European Economic and Social Committee, a consultative body.

A key meeting was that with the Czech Ambassador to the EU and the former Czech chief negotiator, Pavel Telička, who again proved to be an effective and open-minded speaker (it was not for nothing that he was retained in Brussels to draw upon his experience acquired there), answering tricky questions without any hesitation. The delegation also had the pleasure of meeting and holding personal discussions with the chief negotiator for the CR, Rutger Wissels. He pointed out that business organisations have to act on behalf of businesses and play an important role as a buffer between national public authorities and Brussels. The more active they are in defending business the more they will be listened to by their governments and Brussels. Having discussed the importance of having representatives in Brussels and defending the business interests here, he mentioned that there are more people doing the lobbying than those being lobbied. It was quite interesting to compare the self-presentation and personal qualities of both chief negotiators and how they view the entire process of negotiation between the CR and the EU. In my personal opinion, both men must have been tough negotiators but ready to reach reasonable agreement on compromises.

The business delegation also received a lecture from CEBRE on how to prepare for the EU

Internal Market in the lead up to accession and were informed by Martin Nedelka, an experienced lawyer with the German law firm Gleiss

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Lutz, of the legal impacts of accession to the EU on enterprises and the legislative changes they will face.

On the last day of the fact-finding trip members of the delegation paid a visit to the Delegation of Prague to the EU, based in beautiful premises in a lovely area of Ambiorix. The representative of the Prague House explained the importance of representing the regions in Brussels, in particular the capital city Prague with its long cultural heritage and businesses, and defending their interests.

Michaela Šenarová, CEBRE

Getting Ready for the Referendum on the Accession of the Czech Republic to the EU

This was the main topic of the EU Information Seminar organised by Friedrich-Ebert-Stiftung and the Delegation of the EC to the Czech Republic for local journalists from the Czech Republic in the week beginning 15 March 2003 in Brussels. The media delegation visited a number of EU institutions, the relevant Directorates General of the European Commission, and non-EU bodies and think-tanks based in Brussels.

The day before the end of seminar the media delegation paid a visit to the offices of the Czech

However, the fact that over 40 Czech companies requested advice and assistance and that Czech managers and company euro-correspondents spent 11 weeks on short-term attachments at the CEBRE office can be considered a great success.

Business Representation (CEBRE). What a coincidence to receive a visit by representatives of the

Czech media in the month that CEBRE celebrates one year of its existence in Brussels!

The CEBRE team played host to a group of 10 journalists from the regional editorial offices of the main national press agencies and newspapers and from local radio stations in their premises on the 20th floor of the Bastion Tower. After admiring the gorgeous view over sunny Brussels and listening to an official presentation of the activities of CEBRE and the services it provides to Czech companies and entrepreneurs, the journalists began their questioning. An informal and very friendly discussion evolved. The regional press representatives were intrigued by how difficult it is to establish a firm position in Brussels amongst so many representative offices of regions, public bodies, private companies, and consultation agencies.

It is true that CEBRE cannot share its extensive experience in lobbying and persuade EU officials to change the draft EC directive in favour of Czech businesses. However, the fact that over 40 Czech companies requested advice and assistance (individually conducted analyses and studies, the monitoring of the development of EU legislation, studies of impact) and that Czech managers and company euro-correspondents spent 11 weeks on short-term attachments at the CEBRE office can be considered a great success. CEBRE has also created its own quarterly entitled

Czech Business Today in English and updates its website with fresh information from Brussels. CEBRE recently published a brochure on how small and medium-sized enterprises should prepare for the requirements of the internal market.

The regional press representatives were intrigued by how difficult it is to establish a firm position in Brussels amongst so many representative offices of regions, public bodies, private companies, and consultation agencies.

The brochure suggests measures that companies should take in order to receive the benefits and avoid the risks and losses the internal market may bring with it.

The three-member CEBRE team is fully committed to assisting Czech businesses as they prepare for entry into the EU with its knowledge and capabilities.

Michaela Šenarová, CEBRE

The Standpoint of the Economic Chamber of the Czech Republic vis à vis the Updating of the State Conception of the Economy

The need to cultivate conditions under which business will thrive

In the second half of February the Czech government debated the contents of the long-expected document of intent entitled **Proposals for Improvements to the Business and Investment Environment**. The document, comprising two relatively independent parts, was drawn up by Ministry of Trade and Industry as well as several independent business organisations, including the Economic Chamber of the Czech Republic. In Resolution 172, passed on 17 February 2003, the government took due note of the document of intent and adjured the appropriate members of the government to implement the measures recommended in it.

The part of the document devoted to the improvement of the overall business environment incorporated the suggestions of selected organisations representing the wider business public. In its preparations of the part of the material devoted to improvements to the investment environment the Ministry of Trade and Industry availed itself of the long-awaited analysis entitled "Evaluation of the System of Investment Incentives", as well as suggestions put forward by business federations mainly representing the interests of foreign investors. The Economic Chamber of the Czech Republic also contributed to this part of the document.

Proposals for improvements to the business environment

Processing of the analyses for evaluation of the quality of the business environment began in summer 2002. In its contribution the Economic Chamber drew attention to the following barriers to the effective development of business activities:

insufficient financial resources of companies for realisation of development plans. This is especially so in the case of small and medium-sized businesses. It is exacerbated by the increased caution shown by the banks when offering loans to this category of companies, as well as by the relatively low and still falling extent of state support for loans within the framework of the programmes realised by the Českomoravská záruční a rozvojové banka (Czech Guarantee and Development Bank);

the **restricted access** of Czech companies, above all SMEs without foreign capital, **to domestic and foreign markets.** This especially applies both to the sales and supply networks of large international companies and their subsidiaries, which use the advantages of investment incentives, and commercial chains, which prefer to import goods from their traditional foreign suppliers;

restricted access to the results of research and development (the result, as much as anything, of the lack of cooperation between business companies, including SMEs, and the research departments of universities and other such institutions), which places a restriction on the innovation activities of companies and thus threatens their competitiveness on foreign markets as well as the domestic market;

the **non-transparency of business legislation**, resulting in part from amendments to legal regulations and in part from so-called indirect amendments, i.e. inconsistent and non-binding interpretations of the law on the part of civil servants, above all in the extremely sensitive area of tax legislation. This is the result of insufficient access to the official, complete working of the relevant regulations and pressures of time;

the **low level of legal security in commercial relations** characterised by inadequate protection of the rights of creditors. The results is economic instability, especially as regards SMEs with the status of suppliers, the inflexibility of the courts and in some cases the difficulty of enforcing their verdicts, lapses in the Commercial Registers and the lack of a tie-up with the records of the Trade Office, and the obscurity surrounding the system of awarding public contracts.

The analysis of the quality of the business environment looked at the status of the small and medium-sized company in the Czech economy from the point of view of

public (especially financial) support for business business legislation
the state's economic conception
the jobs market (including training).

The conclusion reached was that **public, especially financial support for business** is of considerable significance for the development and stabilisation of small and medium-sized companies. The proposal was thus accepted to ensure **improved access on the part of small and medium-sized companies to capital.** In this regard increased attention must be devoted to the opportunities for drawing down EU funds and encouraging further use of private, including banking resources for financing the developmental needs of this particular business sector. Appropriate support programmes aimed at opening up the access of SMEs to capital should also be included in the strategic development plans on a regional level. Support programmes should be revised on the basis of an analysis of all the grants provided to companies and their effectiveness. The results of economic research focusing on the specific needs of financing of SMEs proposals ensuing from discussion between the subjects in question, and other outputs acquired from the analyses of the status of the creditor and the effectiveness of the debt recovery system should also be taken into account.

The analysis of the business environment revealed **inadequacies relating to current business legislation.** These included economic practices which are not suitable for instances of bankruptcy and their resolution, inappropriate regulations governing entries in the Commercial Register resulting in unduly long waiting times, and the already obsolete conception of the Labour Code and the law as it applies to sickness benefit. The analysis reveals a need for a broad complex of amendments aimed at reinforcing the legal security of businesses, including increasing the transparency of legislation. This should include measures specifying the status of business companies and cooperatives in the form of an amendment to the

Trade Act, **reinforcement of the status of business** entities qua creditors, improvements to the enforceability of the law, a review of the Bankruptcy Act and the implementation of reforms of the judiciary. Special attention should be paid to **improving the functioning of the Commercial Register**, the gradual interconnection of the various registers of public administration, and the development of electronic commerce in accordance with EU standards. Unresolved issues in the sphere of environmental legislation need to be addressed, support for the introduction of more economical technology and products, the protection of consumer rights, and the protection of the domestic market against unfair imports. A re-codification of the areas in question should respect the justified need for implementation of the appropriate regulations of the EU and also aim to restrict the application of illegal norms.

Updating of the state's economic conception should involve the state bodies, together with employers' and business federations, analysing the results and putting forward measures leading to an active economic policy and swifter economic development: this is the way to close the gap between the Czech Republic and the rest of Europe. Economic policy is lacking a "National Innovation Strategy of the Czech Republic", part of which should be a **conception for the support of innovation processes.**

The qualitative analysis of the business environment also contains an **evaluation of the development of and situation on the jobs market.** The most serious problem in this sphere is the inadequate **qualification structure of the workforce**, above all the lack of technical personnel, the **restricted mobility of the workforce**, the structure of unemployment, the regulations of labour law, the legislation governing health and safety at work, the demotivating relationship between income and social benefits, and unfavourable tendencies manifest in the development of sickness pay and absenteeism. Lawgivers should address themselves to the resolution of these problems as soon as possible.

Measures aimed at improving the business environment

Subsequent to discussions of the Proposals for Improvements to the Business and Investment Environment, in Resolution 172 of 17 February 2003 the government adjured its members to implement **Measures Pertaining to the Proposed Improvements of the Business environment.** These measures focus on the most serious problems of the business environment. Even though the wording reflects the opinions and proposals of representatives of the business organisations, the measures also express the views of the bodies of the state administration. It is clear that the opinions and interests of the business public must continue to be taken on board, including the possible acceptance of additional measures addressing factors negatively impacting on business activities which were not included in the wording of the measures as it stands.

Ing. Jan Přib, Economic Chamber of the Czech Republic (first published in Podnikatelské lobby 4/2003)

Suggestions for Improvements to the Enterprise and Investment Environment

In February of this year the government approved a document containing a series of measures aimed at improving the enterprise and investment environment. This material offers a detailed evaluation of the main barriers facing entrepreneurs and investors in the Czech Republic, as well as putting forward draft measures for the elimination of these problems. This is one of the first steps in the preparation of a more extensive document which will designate the priorities for the development of Czech trade and industry within the context of the government's overall economic policy, paying due obedience to the principle of reform of the public budget. Federations and chambers of employers and entrepreneurs were closely involved in the preparation of the material and suggestions were incorporated from the so-called "white book" of the Federation of Trade and Industry entitled "Proposals for an Economic Policy".

Measures Proposed by the Document:

- To update the policy of support for small and medium-sized business and in collaboration with the Ministry of Finance to increase the levels of this support and its availability and to specify the aims and structure of the agencies providing support for business activities.

- To create conditions encouraging the maximum utilisation of EU resources for the co-financing of programmes aimed at supporting the development of business activities in the Czech Republic.

- To turn the heat up on the fight against the illegal practices of market-stall vendors, to intensify controls of goods which contravene technical requirements and safety norms, or copyright and registered trademarks.

- To conduct an ongoing analysis of the impact of environmental regulations on the conditions under which business takes place with the cooperation of representatives of employers and entrepreneurs.

"To draw up a legislative framework for the issue of bankruptcy ..."

- To draw up a legislative framework for the issue of bankruptcy incorporating the recommendations of the European Commission and the World Bank, which would remove procedural sluggishness, cut down on formalities and offer more help in the effort to preserve the healthy parts of businesses facing bankruptcy.

- To compile an analysis of the operations of the commercial courts and to reform commercial law with the aim of stabilising it.

- To increase the cross-border protection of the internal market against illegal imports by reinforcing the competence and organisational structure of customs bodies and improving their technical equipment.

- To prevent the further spread of the abuse of the sickness benefits system on the part of several income groups.

- To complete the legislatively integrated departmental coordination of health and safety at work. To unify inspections and to amend the system of accident insurance in order to prod employees into action on the issue of health and safety.

- To modernise the education system paying regard to the needs of the country's economy in order that specialist education and training better correspond to the needs of the jobs market and the development of research and technology in the Czech Republic and the world at large. To

To create conditions encouraging the maximum utilisation of EU resources for the co-financing of programmes aimed at supporting the development of business activities in the Czech Republic.

create conditions which will stipulate the interest of students in studying technical subjects at all types of schools and to promote deeper cooperation between schools and industry. To make stipends for study trips abroad available to as many students as possible.

- To coordinate preparation of a "National Innovation Strategy of the Czech Republic" and an Act on Innovations on the basis thereof in cooperation with representatives of the economic and research spheres, the Ministry of Trade and Industry, and other economic departments and universities.

- To draw up a programme for the financing of research and development up until 2010 implementing the recommendations of the so-called Barcelona Declaration. To devise an effective system of indirect support for applied research and development in the business sphere as part of this programme.

- To prepare the overall framework of an Act on the Basic Registers of Public Administration.

- To devise measures leading to the removal of barriers to the development of electronic commerce.

- To continue to expand and improve the system of support for strategic services and technology centres, including possible modifications of the tax system so that companies are motivated to make investments increasing the sophistication of production activities. One method under consideration involves shortening the period of depreciation of state-of-the-art technology.

- To achieve full compatibility between investment incentives and the legal regulations of the EU in the form of an amendment to the Act on Investment Incentives (above all as it relates to the sphere of public support).

- To intensify the preparations of Czech suppliers for cooperation with supra-national companies by expanding the Support for Subcontractors Programme into other industrial branches.

- To improve the recoverability of obligations and the protection of employees' rights in companies supported by investment incentives (the necessity of compliance with labour law regulations will be written into the Decision on the Promise of Investment Incentives, issued by the Ministry of Trade and Industry).

- To rationalise the technology of despatching processes (amongst other things to increase the information received by a company from the customs administration, to establish a direct despatching site for the requirements of strategic investors).

- To prevent complications arising during the purchase of land for the requirements of strategic industrial zones and to optimise the process of land and planning procedures in the form of an amendment to the Construction Act (consideration will be given to the possibility that strategic industrial zones be incorporated into the definition of constructions which may be utilised for the public good under the Constructions Act).

- To introduce a new act aimed at optimising the process of tendering for and evaluating public contracts.

To modernise the education system paying regard to the needs of the country's economy in order that specialist education and training better correspond to the needs of the jobs market and the development of research and technology in the Czech Republic and the world at large.

- To simplify and speed up the process of making entries in the Commercial Registers.

- To improve the system by which visas are awarded to applicants (foreign investors).

- To increase the flexibility and quality of the workforce with a view to meeting the recommendations of the Lisbon Declaration (e.g. by means of a new legislative framework for the sphere of interim employment).

- To improve and speed up the process of EIA.

- To bring the construction of the transport infrastructure into line with the requirements of the construction of industrial zones.

Aleš Fischer,
Confederation of Employers and
Entrepreneurs Associations of the CR

Support for Exports is Concentrated on Small and Medium-sized Companies

The Czech Republic is a small, very open economy. Exports are crucial for the CR, both in relation to the potential growth of the economy as expressed by gross domestic product, and also in view of the possibility of catching up with the standard of living of countries of the European Union and the extent of participation in international trade.

The share of GDP enjoyed by exports in the CR is something under the barrier of 60 percent, while imports are approximately 65 percent of GDP: both these figures are gradually on the increase. We can appreciate the enormity of the current chasm between the economic level of the CR and countries of the European Union by the following facts: GDP at present is just over three fifths of the EU average, the price level continues to be around 43 percent of that of EU countries, and the productivity of the Czech workforce is roughly a half of that of the EU. According to last year's study by Eurostat, if we assume a 3.5 percent growth in the domestic product of the CR per annum and a corresponding growth of GDP in the European Union of 2.5 percent, we in the CR shall achieve only 69 percent of the European level.

Having said this, the roadmap would be significantly straighter if export activities were greater on the part of Czech companies. Export growth has a beneficial effect, not only in respect of swifter economic parity, but also on growth of productivity, employment, revenues and wages. The high technological requirements of foreign partners results in a structural shift over to more complex, capital-intensive production methods and thus to production with significantly higher added value.

More than 70 percent of Czech exports find their way into the economic area of the EU, two thirds of which end up in neighbouring Germany. Dependence on the German market is the first problem. Too few export destinations translates into too few export commodities and thus into too few main exporters. More than 41,000 companies export their products from the CR, yet only 190 of these account for more than 50 percent of the total volume of exports, while 34,000 companies enjoy a slice of only 3.5 of the cake.

Proof of the importance which the government accords exports and their support is to be found in its declaration of intent in which the cabinet promised better conditions for the entry of Czech manufacturers onto foreign markets and the preparation of a new conception of support for Czech exports. This is embodied in a document setting out the government's pro-export policy for the years 2003 to 2006, which was presented by the Ministry of Trade and Commerce, Ing. Milan Urban, at a meeting of the Export Club CzechTrade on 10 April 2003 in Brno.

The basic strategic aims of the new pro-export policy are concentrated on three spheres: the volume, structure and "creators" of Czech exports. With due account taken of the imminent accession of the CR to the EU and the problems referred to above, priority is given to increasing the value of exports per capita and raising them to a level comparable with that of the large countries of the EU. In the Czech Republic exports come to USD 2,815 (Euro 2,425) per person per annum. Within the union Portugal and Greece are the only countries which remain below the barrier of three thousand

dollars (Euro 2 584). For comparison: Holland and Norway export products worth 11,000 USD (Euro 9 475) per capita. Belgium manages some 15,000 USD (Euro 12 920) and Ireland exports more than 20,000 USD (Euro 17 226) per capita per annum. In order to increase the total volume of Czech exports, emphasis must be laid on production with high added value, since as well as an increase in the quality of the products exported, this has a greater chance of impacting positively on the results of our balance of payments. It is not in our interests to export materials and raw products, but precisely processed and high-technology products in both traditional (machine-tool) and modern spheres (computers, telecommunications, software, modern production equipment). The third strategic aim, based on the current structure of Czech exporters, is to provide special support for small and medium-sized companies, whose share of exports, as shown above, is still below average in comparison with EU countries. While in the EU more than 50 percent of SMEs are exporters, in the CR this figure is something around 37 percent.

In an effort to achieve a better territorial distribution of our exports the authors of the pro-exports policy have compiled groups of territorial priorities from the point of view of exports. This was preceded by a thorough investigation into the individual export territories and a comparison of the results with the possibilities of companies. Only after this were the pro-export conditions created for the territory in question. The provision of high quality, comprehensive information regarding the possibilities of foreign markets is a task for the agency CzechTrade, the territorial section of the Ministries of Trade and Industry and Foreign Affairs, representative offices or the Czech Centres.

Four groups of countries have been delimited in accordance with export priorities in the future. The first group comprises countries with which the CR has a significantly negative balance of trade. These are China, the USA, the Russian Federation, Italy and France. If we look at Czech exports from a global perspective, at present 3.6 percent of our exports goes to the USA, and only 4 percent to the whole of Asia. At the same time, the Chinese economy, with a long-term growth in GDP of 6 percent, is aspiring to be the most powerful economy in the world within a timeframe of 10 to 15 years.

A separate group is formed by countries which offer a real possibility of tying commercial supplies to earlier development aid focussed on the development of their economics. These countries include Vietnam, Yugoslavia and other countries acceding to the EU.

The third group of countries takes as a premise the possibility of a significant expansion of cross-border trade and includes the neighbouring countries of the CR, above all Poland, Slovakia and Austria. The continuation of the Free Trade Agreement with Slovakia has been confirmed, though with the provision that it will be terminated in the event of the accession of one or both countries to the European Union.

The last group comprises various countries where more extensive supplies can be assumed which will make a significant contribution to the health of our exports. These are India, Brazil, Egypt, Nigeria and the Ukraine. All of these countries are on a lower level of economic development than

the CR and extensive investment can be expected in the near future into production units, the infrastructure, the environment and residential units.

The strategic aims of the pro-export policy will be met by means of five basic spheres of activities. The first is the elimination of tariff and non-tariff barriers to our exports. The second sphere is the financing and insurance of exports with state support. As it did in the past so in the future the Exportní garanční a pojišťovací společnosti (Export Guarantee and Insurance Company EGAP) will play an important role in the selection of payment risks of foreign buyers and the risks taken by Czech exporters. The goal of Česká Exportní Banka (ČEB) is the support and the financing of prepared export projects. It is a specialised banking institution for the support of export.

Cooperation is taking place, above all between the Ministry of Trade and Industry, the Ministry of Foreign Affairs and the government agency for the support of exports, CzechTrade, in the sphere of information technology, consultation, assistance and specialist training. Emphasis will be placed on direct commercial representation of the CR abroad by means of representative offices. A unique contribution to exporters are the services of the 25 foreign offices of CzechTrade spread around 22 different countries.

The fourth pillar of the Czech pro-export policy is the promotion and presentation of Czech products and companies abroad. Many of Czech companies still lack specialists in marketing, exports and international trade with sufficient professional and linguistic credentials. Limited financial resources deprive SMEs of the possibilities of direct promotion and presentation of their products abroad. For this reason one of the basic instruments of the Czech pro-export policy is cheap publicity for Czech products and exporters in the form of official participation at international trade fairs and exhibitions abroad. The programme is supervised by the Ministry of Trade and Industry, CzechTrade, the Administration of Czech Centres, and the Ministry of Agriculture also participate in its organisation.

Last but not least, the fifth pillar of the pro-export policy of the CR is support for the export of medium-sized companies. Small and medium-sized businesses represent the largest single group of businessmen in the Czech Republic. Amongst them the companies most at threat at present are those which do not have the capital backing of strong owners and construct their long-term strategy on the basis of low entry costs. A priority will be to ensure that government support for Czech exports and competitiveness is aimed directly at such companies. This support must not be squandered on rescuing poorly functioning companies. The prerequisite of an exporter's success is obviously a competitive product, highly trained personnel, and top-quality backup facilities.

A whole range of programmes will be involved, including information services, assistance, the co-operation of organisations in the support of exports, programmes supporting projects under preparation from the resources of the EU, and direct support for programmes involving technological innovation in the form of subsidies. CzechTrade is responsible for the MARKETING programme aimed at the financial support of small and medium-sized companies. This programme allows medium-sized companies to obtain a range of services provided by the foreign offices of CzechTrade with state grants.

Michaela Tučková, CzechTrade



Results of the CAPE Survey 2003 for the Czech Republic

In February 2003 the third round of the enquiry into the state of readiness for the Single market of the EU, which is taking place within the context of the CAPE programme, was held in the ten candidate countries. The programme is organised by the European Association of Commercial and Industrial Chambers, Eurochambers, and financed from the European Union Phare programme.

The greatest concern on the part of Czech companies is compliance with legislation governing the rules of competition.

Business people were asked to reply to 20 questions divided into the following four thematic spheres:

- what they know of EU legislation,
- compliance with EU law (the *acquis communautaire*)
- the strategic entry of companies into the Single market,
- representation and lobbying in Brussels.

Phase of preparations	Frequency	% share
Fully informed	18	14.0
Partially informed	81	62.8
Business on domestic market	9	7.0
Uninformed	20	15.5
Don't know	1	0.8

Level of Information Regarding the *Acquis*

Czech companies are well informed about EU legislation in comparison with businesses in the other candidate countries (14% of companies know all about the *acquis* and 63% have some knowledge of it). The share of companies with no information whatsoever regarding the legislation is 16%, which is the second lowest figure amongst the 10 candidate countries. The enquiry revealed that 34% of businesses make sufficient use of the available means of getting up-to-date information regarding the EU and the *acquis*. In contrast to other candidate countries, companies in the CR rate the Economic Chamber top, both for quality and importance of information, with Internet sources coming second. Czech companies also have taken a different approach to publications on the theme of the EU, rating them more highly than companies in other countries. On the other hand Czech business people have less faith in domestic business partners and universities as sources of information regarding the *acquis*.

Compliance with the *Acquis* and Business Prospects

Czech companies are second only to Slovenia in terms of their own assessment of compliance with the *acquis*, awarding themselves 2.3 for general compliance with its terms (4.0 - full harmony). They are also amongst the most successful companies in respect of having begun preparations for acceptance of ES legislation, with a total of 19% of companies anticipating complete and successful acceptance of the legislation by the date of entry into the EU (1 May 2004). Only 24% of companies have still not begun preparations. This is the best result of all the candidate countries, where overall a far larger percentage of companies have still not begun their preparations. The greatest concern on the part of Czech companies is compliance with legislation governing the rules of competition. Only 21% Czech companies have an esti-

ness practices on the domestic market). Of all the candidate countries Czech companies lay most emphasis on simplified entry to EU markets and more transparent business practices. Only a tenth of those questioned expect serious difficulties in respect of financial, commercial and human resources, while most companies expect minor difficulties. Only 10% of businesses are intending to look for a strategic partner when adapting to the integrated market of the European Union.

Lobbying and Attitudes toward Accession

Approximately two thirds of companies feel the need to be represented in Brussels, either through the good offices of the Economic Chamber or an association operating in their branch. A large number of businesses are either unaware of or pay no heed to the need to have a representation in Brussels (31%).

Only a tenth of those questioned expect serious difficulties in respect of financial, commercial and human resources, while most companies expect minor difficulties.

mate of costs worked out for adaptation to ES legislation, of which figure 64% of companies believe that costs for adaptation to the demands of the *acquis* will not exceed EURO 0.5 million.

In the third sphere, i.e. the strategy of companies for entry to the single market, Czech business overall are very optimistic as regards their commercial potential. The number of optimistic and very optimistic opinions - 63% in all - is higher in the Czech Republic than the average in other countries of Central and East Europe. There is no real difference of opinion between the candidate countries as far as the expected effects on business activities are concerned (tougher competition of European companies on the domestic market, simplified access to EU markets, more transparent busi-

Czech business people feel extremely positive about entry into the EU, with a total of 91% respondents supporting it. They hold differing opinions regarding negotiations of the terms and conditions of entry. Some 61% of companies are satisfied with the conditions agreed on, but almost 1/3 of companies are dissatisfied with the results.

Adéla Vychodilová,
Centre for European Integration, ECCR



Phase of preparations	2001		2002		2003	
	Frequency	% share	Frequency	% share	Frequency	% share
Organised preparations have not yet started	43	22.1	114	43.2	31	24.0
Preparation of a draft programme now underway	63	32.3	85	32.2	50	38.8
Programme adopted, but implementation is unsatisfactory	5	2.6	12	4.5	9	7.0
Programme is being implemented, but deadline is too short	1	0.5	5	1.9	4	3.1
Programme will be accomplished by May 2004	43	22.1	27	10.2	25	19.4
Don't know	40	20.5	21	8.0	10	7.8
No answer	12		3		0	

Source: www.eurochambres.be/cape

Public Opinion and the EU

The results of an opinion poll conducted in March indicate that there will be an 80% turnout for the referendum on the entry of the CR into the EU, the date of which has been announced by the president for 13 and 14 June 2003. Of this figure 59% said they would be voting in favour of joining. A poll carried out in April shows that 56% of Czechs believe the information at their disposal to be insufficient, with only 40% satisfied. The clarity of the information comes off significantly better (55% satisfied, 39% dissatisfied). Interest in entry into the EU and the favourable rating of the quality of information is markedly higher than it had been. And what expectations do Czechs have of life within the EU? They believe that there will be a sharp rise in the cost of groceries (82% of respondents), the price of land (76%) and energy prices (72%). Almost two thirds also expect higher public transport costs (63%). Some half of those questioned (48%) believe that unemployment will increase considerably and 12% have hopes that it will fall. People also expect the opening of borders and the free movement of citizens from the union.

Czech Companies and the Post-war Renewal of Iraq

The Ministry of Trade and Industry, together with the government agency for the support of trade, CzechTrade, has launched an information system for business people looking to participate in the rebuilding of Iraq. Information about companies which are interested in being part of this project is being submitted to representatives offices in Washington and Kuwait, from where it is entered into the database of the American Agency for International Development (USAID) and to the Organisation for Reconstruction and Humanitarian Aid (ORHA).

Key spheres of the rebuilding process will be reconstruction of the infrastructure and transformation of the government. The best chance lies with companies offering reconstruction and modernisation of the infrastructure, including the energy industry, engineering equipment and petrochemical units. Czech companies may have an edge because of their knowledge of Iraqi industry, the sophistication of Czech suppliers of technological units or their components, the possible competitive advantages of lower costs and prices, a knowledge of the environment and human relations, and the felicitous location of the CR as a halfway house for American companies which will have to set up logistics and completion bases for their deliveries in relatively close proximity to Iraq.

Above all Czech companies could be successful as subcontractors servicing American companies. It is almost impossible for them to operate on their own. Czech companies will attempt to acquire orders for the export of weapons and ammunition of a non-military character for the needs of arming the new Iraqi militia, since contracts for the arming of the Iraqi army will most probably go to the USA and Great Britain.

The Czech government has earmarked CZK 20 million (EURO 645 000) for immediate humanitarian aid to Iraq. The same amount has been released for twenty Czech experts to remain in Iraq helping the local authorities and inhabitants and advising Czech business people interested in being a part of the post-war renewal of the country.

Merger of Government Agencies

The new Minister of Trade and Industry, Milan Urban, has decided to merge the government development agencies CzechInvest (Agency for the Support of Foreign Investment), CzechIndustry (which looks after the development of industry) and ARP (Agency for Enterprise Development) into one institution called the Czech Agency for the Support of Enterprise and Investments. The job of this new body will be to acquire financial resources from the structural funds of the EU for the development of business in the Czech Republic. The main aim of the new agency will be to increase the competitiveness of the Czech economy. The merger of the three development agencies is intended to increase the effectiveness of support for business in the CR and to make the entire system more open to inspection on the part of the end recipient of the support. A leading role in the new agency will be played by CzechInvest, which in the past has twice been declared the best investment agency in Europe and most recently the best investment agency in Eastern Europe. Last year it attracted direct investment of CZK 31 billion (Euro 1 billion) to the Czech Republic. The Agency for Enterprise Development (ARP) is a consultant to medium-sized companies and the agency CzechIndustry (the agency for the development of industry), which was established at the end of 2000, provided forty domestic businesses aid with their industrial programmes in the form of almost CZK 95 million (3 million Euro) in 2002.

Reform of Public Finances

The government of the Czech Republic has decided on the basic outline of the reform of public finances. The proposal anticipates a lowering of the public finance deficit in 2006 to a maximum of four percent of GDP, a freeze on the number of people employed in government quangos at the current level of 19,200, an adjustment of pensions will pay regard to inflation as well as the rise in wages. Other changes are expected to relate to the pension system as a whole and building society savings. The age of retirements will be raised to 63. The reform will also affect the system of state benefits with the aim of making life on the dole less attractive. A new benefit is to be created, the so-called existence minimum. The amount involved will be less than the level of the current life minimum. The long-term unemployed would not receive the life but the existence minimum. The aim of the measure is to increase the motivation of the unemployed to look for new work.

Within the framework of government discussions on tax reform, experts from the governing coalition have reached agreement on the question of the introduction of a minimum tax for the self-employed. According to the draft proposal the minimum tax would correspond to a tax on half of the average wages in the economy. One of the aims of the measure is to prevent tax evasion, since some 330,000 self-employed people in the CR are not paying income tax according to information of the Ministry of Finance. The introduction of the minimum tax should contribute some CZK 2 billion (Euro 64,5 million) to the state budget. Representatives of the Freedom Union in the governing coalition are willing to support this proposal only if the tax on legal entities is at least reduced to 25 percent from its present level of 31 percent.

The Steel and Engineering Industry in the Czech Republic

Steel companies have recorded signs of revival after three years of stagnation. Economic indicators show productivity on its way up while the number of employees and costs is falling. The situation on the markets has also improved since the second half of last year, where there have been sufficient contracts and a growth in the cost of production. According to the National Programme for the Restructuring of the Czech Steel Industry, the number of employees in hot mining operations should fall by 2007 to nine thousand people from the present figure of more than twelve and a half thousand. Productivity is set to rise twofold to more than 400 tons of steel per worker per year.

Despite the downturn in European economies Czech engineering overall is consolidating its position. Interest predominates in supplies of iron and iron products from the Czech Republic, which last year won more than a fifth of more than seven thousand orders submitted to businesses by the government agency Czechtrade. Almost half of Czech exports in 2002 were of products from engineering companies. Total exports from the engineering branch came to CZK 621.7 billion (Euro 20 billion), almost half of all Czech exports put together. There was great interest shown in machines, tools and components for cars. The most promising countries are those of the European Union, above all Belgium, France and Germany.

Economic Indicators:

The rate of inflation according to the consumer price index showed a year-on-year drop in February 2003 of 0.4%, the same figure as recorded a month earlier. In 2004 an increase in prices is expected of more than 4% since the Czech Republic must harmonise its tax legislation with that of the ES and it will be necessary to increase excise duties (tobacco products, fuel, lubricants) and also apply a higher rate of VAT to several services (telecommunications, drycleaners and cosmetics). The price increased of accommodation, water, electricity, fuel (up by 1.4%), other goods and services (up by 3.1%), health (4.1%), catering and accommodation services (up by 2.2%), alcoholic drinks and tobacco (1.8%), education (4.1%), and also of transport (up by 2.1%), and recreation and culture (1.0%). A drop in prices was recorded on clothes and footwear (down by 4.8%), groceries and non-alcoholic drinks (6.0%) as well as postal and telecommunications services (down by 2.2%), residential fittings, domestic equipment and repair services (down by 0.7%). The rate of those registered as unemployed as of 28 February 2003 was 10.2%, i.e. no change on January, and year-on-year increased by 0.9 of a percentage point. In March the unemployment rate fell by 0.2% to 10%. This drop was due above all to the commencement of seasonal work. The situation is most critical in North Bohemia and Moravia, where there are 66 applicants for each job. The average in the country as a whole is 12.8 candidates for each job.



(interview with Václava Horáková from page 1)

In as much as this relates to business customs as part of the overall business environment, the role of business organisations is irreplaceable. An inestimably significant subsidiary element in this process is monitoring of the environment in member and candidate countries, the mutual communication of information and experience, both positive and negative, and the application of the positive to the national environment. European business organisations, for instance Eurochambers, of which the Economic Chamber is a member, form a unique platform in this respect, specifying the requirements of the European business sphere for improving the legal framework of business activities within the internal market of the EU. A legal framework favourable above all to small and medium-sized business is naturally one of the basic conditions for the successful development of business and an increase in the competitiveness of the European economy, and the orientation of European organisations in this directions is thus to be commended. However, less is heard of improvements to the ethical framework of business activities, culture and customs. Perhaps this is the very issue on which the

Economic Chamber of the CR can provide an initiative in Eurochambers, which is the largest European business representation.

At present CEBRE functions as a centre for the flow of information both to the Czech business public and from the CR to Brussels regarding concrete business conditions in the CR. Which lobby institutions from the Czech Republic are operating in Brussels and to what extent could CEBRE become a lobbyist for Czech businesses? Generally it is assumed that the greatest onslaught of information is only just beginning...

A host of Czech companies, business organisations, and legal companies are already represented in Brussels and the representation of the regions is growing. However, it would be misleading to designate any of them as being exclusively lobby group, although lobbying is usually one of their activities. In Brussels CEBRE represents the horizontal representation of the Czech business sphere and thus has the best credentials to become a centre for lobbying. According to Brussels-speak, lobbying carried out by representations of this type concentrates above all on asserting the interests of national business

organisations in the creation of community legislation and policy. This is very demanding work which requires that a wide spectrum of preparatory regulations be monitored, an extensive network of contacts be forged in the European Commission and Parliament, the individual steps of the approval process be monitored, an assessment be reached of the enforceability of the Czech business position, allies sought and found in similar organisations of other member states, and information submitted to domestic subjects. Another element would involve monitoring the announcement in the EC Bulletin of public tenders (various projects within the framework of community programmes, public contracts) for businesses from member states, submitting them to potential interested parties at home and the provision of adequate support for these parties. The demands on CEBRE and thus its significance and contribution for Czech business people will no doubt increase both qualitatively and quantitatively as the date of entry of the CR into the EU draws closer.

Thank you very much for the interview.

Iлона Sánchezová, Adéla Vychodilová



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

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