

## Foreign trade after Entry into the EU

A NEW ELEMENT IN THE EXPORT STRATEGY IS THE FACT THAT IT FOCUSES ON THE ENTIRE SPECTRUM OF BUSINESS RELATIONS, NOT SIMPLY ON EXPORT OF GOODS, BUT ALSO ON THE INVESTMENT OF CZECH COMPANIES ABROAD AND EXPORT OF SERVICES.



AN INTERVIEW WITH IVAN JUKL, MANAGING DIRECTOR OF CZECHTRADE  
THE EXPORT STRATEGY OF THE CZECH REPUBLIC FOR 2006-2010  
COAL AS A STRATEGICAL RAW MATERIAL

# Consultancy plays a key role, says Ivan Jukl, Managing Director of CzechTrade, in an interview for Komora.cz



WE AT CZECHTRADE WANT TO GET INTO THE MAJOR LEAGUE – ONE OF THE CREDOS OF IVAN JU KL, THE NEW DIRECTOR OF TRADE PROMOTION AGENCY CZECHTRADE.

**What are your priorities and goals as managing director of the CzechTrade agency?**

I have been working at CzechTrade for four months now, and before that I worked at the Czech Embassy in Denmark. In order for one to meet difficult goals, one must have the corresponding ambitions. It is our goal at CzechTrade to get into the league of masters – this means providing services of such scope and quality that are provided by similar top state agencies across the globe. I do realise that we are not starting off from scratch, CzechTrade has already achieved excellent results. I could mention, for example, the success of the Alliance programme, where our agency supported 18 associations of small and medium-sized enterprises which contributed to increasing our exports by EUR 69 million (two billion crowns), while the costs stood at EUR 265 million (7 695 million crowns). Alliance is the direction which companies will be taking and our agency is able to provide them with the necessary know-how and to support them.

**How should a company proceed if it wants to export to a foreign market?**

From the outset consulting plays a key role, which is a service which companies do not make much use of. It is important that a company has a fully worked out export plan in order that the company adapt the internal processes, standards and products with which it will be

entering the market accordingly. This is the most difficult part, as one must start from scratch. It is said that chance favours the prepared mind and our analyses confirm this, as does the experience of our CzechTrade representatives across the globe. We want to focus on comprehensive consulting in order that Czech companies, when entering foreign countries, be equal players on the world markets. We are planning to offer consulting services to more than a thousand companies, each of which could obtain subsidies of around one million crowns, where these companies would cover only 30% of the total costs and the remainder would be paid from European funds.

**How many foreign offices do you currently have? How should the term “floating offices” be understood?**

We have 32 offices in 29 countries. In some countries we have more than one office, for example in Russia, where we have three fully occupied offices – in Ekaterinburg, St. Petersburg and in Moscow. The entire system of foreign offices will be more flexible. It is our aim to regroup our strengths in order to manage the European market, but at the same time to face the challenges of other non-European markets. We will be closing offices in territories which hold no potential for our entrepreneurs and, on the other hand, we will be concentrating on offices which our entrepreneurs request. It is important to improve the comfort of client services both in

the Czech Republic and abroad, and to emphasise the quality of services rendered. For example, in May the agency opened up a new foreign office in Mexico, its second in Latin America after Brazil, and another new office is the branch office in Romania. We have also increased our personnel at our Bulgaria office. We are planning on setting up positions in Vietnam, China and India and we are also contemplating the opening of offices in an Arab country.

**CzechTrade is the implementation agency for the Marketing Programme, which is one of the most successful in terms of drawing on structural funds. Do companies still have the chance to utilise this programme?**

They certainly do, but they must act quickly. In this programme, we can help companies with, for example, a marketing survey, in creating a business database, with searching for opportunities on foreign markets, with the production of promotional material, with presentations on the Internet, or with participation at exhibitions or fairs abroad. In this area success is relatively high, for example the number of applications which were rejected can be counted on one hand. Thanks to the Marketing Programme, the exports of more than three hundred companies will be supported through financing from EU structural funds in the form of subsidies exceeding EUR 7 million in total.

**What experience does the CzechTrade Helpdesk have for EU development cooperation? Are Czech entrepreneurs interested in projects in this area?**

We set up the CzechTrade Helpdesk last year, as part of a workplace devoted to making tenders more public in general. In this way, we would like to contribute to the successful involvement of Czech companies in competitive bidding procedures as part of the programmes for EU development cooperation.

I don't think we should deny the fact that participation in competitive bidding procedures is very complicated for applicants. A limiting factor is the demands made on companies by the terms of individual bidding procedures, by which I mean, for example, the required annual turnovers in comparable projects, the provision of tender guarantees, and often also the price of tender conditions. This means that participation in these tenders will never be a mass phenomenon.

On the other hand, I must however say that, thanks to the consulting and seminars we provide, the number of Czech companies taking part in these procedures has increased and successes in this area have also been recorded. As part of the CzechTrade Helpdesk activities, our staff handle 30–40 queries on this subject posed by companies each month. So in answer to the question, Czech entrepreneurs are interested in projects in this area and I would say that this interest is on the rise, also thanks to the CzechTrade Helpdesk.

**It's well known that the participation of Czech companies in EU programmes is not exactly extensive. As part of your consulting services, are you preparing new services for entrepreneurs in this area too?**

Yes, we are planning on launching a new programme, which we have given the working name "International Business Consulting", in 2007. In this regard, the utilisation of finances from structural funds of the European Union, specifically from the European Social Fund, is being offered. If this programme is approved, it will be used primarily by small and medium-sized companies, as our services are aimed particularly at them. Between 2007 and 2013 we are planning on offering these services to approximately 1 200 companies, which will cover only 30% of the total costs and where the remaining costs would be covered by the European funds I have mentioned. For each participating company, we are able to obtain approximately EUR 34 500, i.e. approximately EUR 5 million annually. And this is already a considerable amount.

Thank you very much for speaking to us.

Helena Jilková, Ilona Sánchezová  
 Photo: CzechTrade  
 www.czechtrade.cz

## Forum on promotion for Czech exports

IN JULY A DISCUSSION FORUM WAS HELD AT THE MINISTRY OF TRADE AND INDUSTRY ON THE MOST EFFECTIVE SUPPORT FOR EXPORTERS – MILESTONES AND VISIONS OF STATE SERVICES AND EXPORT STRATEGIES OF THE CZECH REPUBLIC.

The forum was attended by 101 guests from 71 companies or company associations and by several state administration institutions. From questionnaires returned it ensues that over the past two years the majority of attending companies made use of the assistance services offered by the commercial and economic sections of our embassies. Many entrepreneurs also made use of the services offered by the foreign offices of CzechTrade, the official participation of the Czech Republic in exhibitions and fairs abroad, and also the information services provided by the internet portal BusinessInfo.cz.

Ninety-two percent of those present believe that state services have improved in the past two years and almost 84 percent of respondents think that export support services should not be reduced only to the pre-

sentation of the Czech Republic abroad. In conclusion, 92% of entrepreneurs agreed that the coordination and management of the commercial and economic interests of the Czech Republic and services to companies be centralised at the Ministry of Trade and Industry and not at the Ministry of Foreign Affairs.

### Proposals for change

It emerged from discussions that Czech companies would welcome a larger number of staff abroad who would pursue their needs. Furthermore, entrepreneurs need the more active approach of the state in the search for investment opportunities abroad for Czech companies, linked possibly also with financial support in these investments. Another suggestion was the simpli-

fication of the administration of support which is financed from structural and state funds. Last but not least, companies would welcome the organisation of similar conferences in the regions, where activities already underway would be introduced.

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# Czech Foreign Trade after Entry into EU

SINCE THE BEGINNING OF THE NINETIES THERE HAS BEEN A CONSTANT INCREASE IN IMPORTS AND EXPORTS, WITH THE ENTRY OF THE CZECH REPUBLIC INTO THE EUROPEAN UNION HAVING A SIGNIFICANT EFFECT ON THE DYNAMIC OF THIS GROWTH. THIS SAW A SIGNIFICANT IMPROVEMENT OF THE BALANCE OF TRADE RESULTING IN POSITIVE FIGURES AND A RAPID INCREASE IN THE TURNOVER OF FOREIGN TRADE, ESPECIALLY THE IMPORTATION OF GOODS.

At the same time the dynamic of the turnover of foreign trade was the highest in the first six months after entry into the EU (with an increase of more than 30% in exports and almost 26% in imports), when, as well as continuing positive changes on the supply side, increased foreign demand and favourable expectations regarding ongoing global economic growth had a positive effect. The removal of the remaining customs barriers to trade with the EU also had an impact on the realisation of postponed transactions. On the other hand, a more vigorous year-on-year improvement to the balance of trade was clear in the first half of 2005, when it was up by EUR 1.9 billion. The development of the balance of trade in the first months after entry into the EU was to a certain extent favourably influenced by advance stocking immediately prior to entry as a result of the anticipated tightening up of customs measures affecting imports of certain commodities from third countries. However, this improvement in the year-on-year balance of trade was not apparent in all groups of commodities and this was mainly linked with a significant increase in the surplus of machines and transport equipment. In this group the improvement in the balance of trade was helped by the development of three sub-groups – highway vehicles, electrical equipment, instruments and appliances, and machines and equipment generally used in industry, the balance of which improved over the first half of 2005 by nearly EUR 2.4 billion. On the other hand, the increased deficit in the group of mineral fuels as a result of increased prices of oil and natural gas mitigated the improvements in the overall balance. Year-on-year changes to the balances of the remaining eight Standard International Trade Classification (SITC)-groups were less significant (in the order of billions of euros). The total balance of these groups in the first half of 2005 improved by just under EUR 207 million, and

their total balance ended with a deficit of EUR 2.7 billion. At the same time these groups contributed almost a half of the total turnover of foreign trade in the period under consideration. There was no more significant year-on-year change to the balance even in the group of affiliated agricultural and food commodities, the balance of which was affected most by the changes to customs measures after entry into the EU.

#### **The Czech Republic the only country to report a positive balance**

The year 2005 was accompanied by an increase in turnover of 6.6%, i.e. by EUR 8 billion. Every month of this year saw a significantly faster dynamic of exports against imports. The development of foreign trade can also be evaluated positively in comparison with its development in EU countries as a whole. The balance of trade of the EU 25 ended in January to October 2005 with a deficit of EUR 7.0 billion (with a surplus in the EU 15 of EUR 14.0 billion and a deficit of EUR 21.0 billion in the 10 new member states). The Czech Republic was the only one of the new member states of the EU to report a positive balance of foreign trade in the period in question. Last year also saw an improvement of the balance of trade by EUR 2.4 billion. Territorially the amelioration was concentrated on the countries of the EU 25 (EUR 1.9 billion), and in terms of goods was concentrated on machinery and transport equipment (EUR 2.8 billion). According to the latest preliminary information exports were up by 13.4% year-on-year in ordinary prices while imports were up by 17.1%. The balance of trade ended with a surplus of EUR 21 million, which was positively influenced by an increase in trading with machinery and transport equipment of EUR 79.3 million. On the other hand, the balance of trade was down mainly in

the sphere of mineral fuels, by EUR 151.7 million, and consumer goods, by EUR 69 million.

#### **Direct foreign investment is effective**

The developments referred to show that the direct impact of the entry of the CR into the EU (the changes made to customs rules, the simplification of cross-border administrative procedures) was not fundamental in terms of improvements to the balance of trade. The decisive factor remained the positive effect of the influx of direct foreign investments. The indirect impact of the entry of the CR into the EU was probably more significant, since it meant the CR was included in the community of advanced market economies of Europe. It is this fact, as well as the main requirement to minimise costs, that accounts for the significant shift of production from Western Europe to the CR, which then significantly contributed to the improvement in the balance of foreign trade. Overall it can be concluded that the dynamic of Czech foreign trade is one of the most vigorous in the whole of the EU. The CR is taking advantage of the increased exports of cars and consumer goods. A negative factor is the increase of the Czech crown against the euro, while a dampening factor is its increase against the dollar, which is manifest in the importation of raw materials to the CR.

# Direct foreign investment in the Czech Republic in 2004 and 2005



DIRECT FOREIGN INVESTMENT IN THE CZECH REPUBLIC IN 2004 WAS UP AGAINST 2003 BY EUR 4.1 BILLION, REACHING EUR 44.2 BILLION. IN CONTRAST TO PREVIOUS YEARS THERE WAS NO SINGLE LARGE INVESTMENT MADE IN 2004, BUT THE INCREASE IN INVESTMENT RESOURCES WAS DISTRIBUTED AMONGST A LARGER NUMBER OF ECONOMIC SPHERES.

In terms of individual direct foreign investment components, the largest increase was in reinvested profits, up by EUR 2.7 billion year-on-year. This sum represents the profit left in the accounts of companies in the Czech Republic which has not yet been paid by foreign owners in the form of a dividend or shares in profits. However, the volume of dividends paid abroad rose to EUR 2.5 billion, proof of the substantial increase in total profits attained. The increase in dividends (up year-on-year by more than EUR 724 million) was apparent above all in the spheres of banking and insurance and the distribution of electricity, gas and water; though the volume of dividends paid rose in the vast majority of branches. The development of reinvested profits and dividends illustrates the significant increase in the profitability of direct foreign investments in all sectors of the economy.

## Banking and insurance take the lead

Investment in the registered capital of Czech companies rose by almost EUR 1.2 billion, while in the case of other (credit) capital there was a total increase of only EUR 207 million. The development of credit relations in groups accompanied by capital participation in this year illustrates the relatively stable internal financing of companies with foreign capital participation.

The branches of the economy showing the largest volume of direct foreign investment retained an almost unchanged sequence: the largest share of foreign investment with 16.5% and a value of EUR 7.3 billion was, as in the previous year, banking and insurance.

Next were the branches of trade and repairs and investments in real estate and services for businesses.

In terms of countries, the Netherlands continued to take the largest share of the volume of direct foreign investment with 33%, after which came Germany with 20% of capital invested. The third most important investor remained Austria with an 11% share. The countries of the European Union contributed 88% of the influx of investment into the CR, with 85% arriving from the founding members countries of the EU. Only 8% of direct invest-

ment in the Czech Republic came from outside the EU. However, several foreign investors from the USA, Japan and other countries invested (and continue to invest) via third countries (especially via subsidiaries based in the Netherlands, Luxembourg and Cyprus).

In terms of economic sectors services took a fifty per cent share of the total influx of foreign investments, while the processing industry took a 40% share.

Another sector with a significant share was the production and distribution of electricity, gas and water, which represented almost 7% of direct investment in the Czech economy.

In 2005 direct foreign investment reached EUR 8.8 billion, above all thanks to the privatisation of Czech Telecom, which was bought by the Spanish Telefónica (for EUR 2.9 billion) and the privatisation of Unipetrol, which was bought by the Polish company PKZ Orlen for EUR 507 million. EUR 2.8 billion of this influx comprised reinvestments made by Czech companies under foreign control.

Traian Urban  
Economic Chamber of the Czech Republic

Influx of investment in 2005	
Geographic and economic zones	Total in EUR thousands
<b>WORLD TOTAL</b>	<b>8 837 168,2</b>
Belgium	148 346,9
France	176 787,5
Germany	896 189,0
Netherlands	1 595 918,0
Austria	369 422,5
Spain	3 949 435,9
Sweden	233 831,0
Great Britain	185 826,4
Poland	565 108,5
Switzerland	207 126,5
United States of America	85 856,8
Japan	111 036,9

# The export strategy of the Czech Republic for 2006-2010: clear objectives, new competences

THE CZECH REPUBLIC IS ACHIEVING RELATIVELY GOOD RESULTS IN THE SPHERE OF EXPORTS, WHICH HAVE INCREASED MORE THAN THREEFOLD OVER THE LAST TEN YEARS. IN 2004 THE COUNTRY WAS DEEMED THE MOST DYNAMIC WITHIN THE EU, AND IN MAY OF THIS YEAR EXPORTS WERE UP YEAR-ON-YEAR BY 13.4 %. HOWEVER, THESE FIGURES DO NOT MEAN THAT MORE CANNOT BE ACHIEVED.

According to the document entitled The Export Strategy of the Czech Republic for 2006–2010, compiled last year by the Ministry of Industry and Trade of the Czech Republic, the indicators of the performance of exports should increase by almost a third by the end of 2010. The share taken by the CR of world exports should thus rise from 0.72 to 0.9 percent, and in the sphere of services this increase should be from 0.43 to 0.6 percent.

A change to the management of a pro-export policy is intended to contribute to a relatively significant increased in exports. This comprises a greater coordination of the institutions whose job descriptions include support for exports. A client-based approach will also be introduced.

The reasons for the changes are clear. The results attained so far somewhat pale in comparison with similar economies of the EU. Czech exports are being driven upwards by a single branch, the automotive industry. In terms of total exports per capita of the population the Czech Republic is roughly two to three times worse off than its European counterparts. For instance, according to the exports per capita indicator, the less industrial Austria exports almost 2.5 times more, Belgium, with its large industrial capacity, exports 5.5 times more, and Ireland, more technological than industrial, exports as much as six times more than the Czech Republic.

In addition, the current increase in exports is more extensive in character, and avails itself of comparative advantages, such as the lower price of inputs or the cheaper workforce. However, these advantages will disappear in time. According to information published by the OECD the Czech Republic lags behind the countries of the EU-15 in terms of work productivity. The effectiveness of work in the CR is half of that of Austria, Germany or Great Britain, and a third of Luxembourg or France.

The new pro-export strategy relies on the initiative of the business sector. The state should assist this with a sufficient offer of services aimed at supporting exports. In order to achieve this the state is opting for a selective approach aimed at key priority groups in the country. It is thus giving consideration to the dissolution or merger of several government departments. "The representation

of the state only makes sense in countries where there exists a chance of attaining positive effects. We shall be mainly interested in the evaluation of the satisfaction of users with our services. At the same time it is important not to change objectives and resources. Metaphorically speaking, it is not enough to "open the doors" and "organise official participation": we have to be concerned with "who is behind these doors" and how many opportunities exhibitors attain, as well as with what the results of negotiations are," claims the document put out by the Ministry of Industry and Trade.

## New measures to improve services

A new element in the export strategy is the fact that it focuses on the entire spectrum of business relations, not simply on exports of goods, but also on the investment of Czech companies abroad and the export of services. There is also a visible attempt being made to simplify the current system and to remove bureaucracy. Institutions such as the Ministry for Industry and Trade, the agency for trade promotion CzechTrade, the Czech Export Bank (CEB) or the Export and Guarantee Insurance Company (EGAP) are currently preparing a joint offer of pro-export services in order that exports can find their way around them better.

For instance, EGAP is beginning to provide loans at the risk of regional banks, project finance, the insurance of sales from subsidiaries, the financing of investment for expanding production, and the insurance of guarantees. The CEB is offering financing of investments for joint ventures abroad, the financing of long-term production programmes, and the financing of production capacities. CzechTrade wants to concentrate on building the trademark of the Czech Republic, supporting the export of investments and services, the expansion of alliances, and on export education.

The export strategy anticipates that the next measures will improve coordination and cooperation, especially in the sphere of state projects and services. Coordination will be ensured by of by a new body – the Czech Council for the Support of Trade and Investment. The Council will be created within the framework of the cooperati-



on of the ministries (the Ministry of Industry and Trade, the Ministry of Finance, the Ministry of Foreign Affairs, the Ministry of Agriculture, and the Ministry for Regional Development and Transport) and will collaborate with business federations and chambers.

## The need for clear competences

The Confederation of Industry of the Czech Republic, which, as the largest employers' organisation in the CR, represents more than 1600 subjects, both companies and entrepreneurs, has requested a more clear-cut delineation of competences. It continues to warn of the unfavourable consequences of the two-track management of government departments (the Ministry of Foreign Affairs and the Ministry of Industry and Trade). This results in a very complex and bureaucratic selection of diplomats and a very inflexible and complicated decision-making process regarding what the priority is for trade and foreign policy.

Meeting the objectives of the export strategy should mean increasing the value of Czech exports of goods per capita (to USD 10,400/citizen in 2010), increasing the value of the Czech export of services per capita (USD 1,140/citizen in 2010), increasing the share of the CR of world exports of goods and services, improving the allocation of sources of assistance for project management, the creation of a stronger country brand, the improvement of the coordination of activities and the removal of duplication, increasing the comfort of client services, and increasing the quality and effectiveness of state services.

Exports to EU countries will be crucial in this respect. These represent 85.9 percent of total exports and for this reason it is important for the Czech Republic that it maintains them and maximises its opportunities on European markets. EU countries are conceived of as a whole and designated as countries of special significance. A prerequisite for meeting the vision of the export strategy is also an increase in exports to new and dynamic markets.

Blanka Růžičková  
Confederation of Industry of the Czech Republic

# The state of the Czech economy: positive, but not without reservations

ON 8 JUNE IN PRAGUE THE ORGANISATION FOR ECONOMIC COOPERATION AND DEVELOPMENT (OECD) PUBLISHED ITS REGULAR REPORT ON THE STATE OF THE CZECH ECONOMY.

The report came out less than a week after the elections, which resulted in a stalemate unprecedented on the Czech political scene. Had the assessment by the OECD appeared in the run-up to the elections it would undoubtedly have figured in the pre-election battle. The governing parties would have selected the praise contained in it for economic growth. The right-wing opposition would have pointed to the rare correspondence of its pre-election programme with what top economists are advising the CR. It is a pity that the results of the elections, in which the right and left attained same number of seats in the decisive lawmaking body – the Chamber of Deputies – do not provide fertile ground for this advice. In its report the OECD praises the CR for its increase in GDP per capita (from under two percent in 2002 to six percent last year), but warns that these figures are not without problems and that there is no guarantee they will continue over the long term. The Czech Republic did not attain a lower deficit of public finances by cuts in expenditure, but rather by unexpected income from better tax returns and deferred expenses. For this reason the new government will have to face up to significant challenges of fiscal sustainability. In addition, it must continue improving the conditions on the jobs market and support for the business environment. The report states that the Czech economy is “gradually reaching a state in which it could smoothly accept the euro”. The introduction of the euro in 2010 is not so far at risk, according to foreign experts. “This is a realistic horizon as long as fiscal policy continues to be cautious,”

said Andreas Woergoetter, director of the department of economic analyses of the OECD, during his visit to Prague in June. However, budgetary discipline might be threatened in the future by excessively autonomous decision-making on the municipal level. “In the Czech Republic you have more than six thousand municipalities, and many of them are too small to manage public resources effectively. It would be good if these municipalities merged or at least cooperated in terms of their spending,” he said. “At present the use of cost and performance indicators is not extensive, and so the general public does not have a tool at its disposal on a local level by means of which it could monitor the handling of the resources of municipal budgets,” the report says.

## Pensions and healthcare are a priority

As well as public expenditure and budgetary reforms the Czech Republic urgently needs to reform the pension and healthcare system, which came in for the harshest criticism. The report warns that this is simply not happening. “Although individual ministers of health have attempted to compile plans for reforms, none have yet been realised,” the report states, adding that the previous recommendations by the OECD have not been acted upon.

This year’s report recommends that reform of both the pensions and healthcare systems should be a priority for the new government. While Czech politicians have attempted to find a consensus in respect of the pen-

sions systems, as far as healthcare is concerned the left and right wings are at odds with each other, a sign of how difficult it will be to enforce anything at all after these elections.

Another priority which the OECD report states the new government will have to give attention to is a more effective fight against unemployment. “Reforms to the Labour Code have been restricted,” warns the report, underlining the necessity of ensuring better access to higher education. How? Amongst other things by introducing tuition fees for universities. The right are all for this, the left refuses to countenance such a move.

“The business sector must enjoy conditions which allow it to play a key role in the attempt to increase GDP per capita,” say the experts at the OECD. Although in respect of this indicator the Czech Republic attains 75 percentage of the EU average, in comparison with other advanced countries, e.g. the USA, it is barely a half. At the same time financial resources for doing business in the CR are relatively good, with low inflation and the price of loans.

“Improvements to the administrative process, the eradication of weakness in certain spheres of business legislation, and the fight against corruption remain and will remain a challenge for economic policy,” says this year’s OECD report.

Blanka Růžicková,

Confederation of Industry of the Czech Republic

## Consultations on Export Promotion were attended by more than 300 Companies



THERE IS ALREADY A TRADITIONALLY LARGE INTEREST IN CONSULTATIONS WITH EMBASSY REPRESENTATIVES

For several years now, Czech companies have been able to explore the opportunities for export and for doing business in various countries through informal meetings with the trade counsellors of Czech embassies abroad. These meetings take place in Prague and are organised for Czech entrepreneurs by the Confederation of Industry of the Czech Republic (SPČR).

Despite these meetings being short, usually fifteen-minute sessions, there is now great interest in them. For many years, the Confederation has been organising these meetings for the week when the heads of the commercial and economic sections of the embassies of the Czech Republic gather in Prague for their regular meetings, organised for them by the Ministry of Industry and Trade and the Ministry of Foreign Affairs. This year’s gathering was attended by over 300 companies. Besides the approximately 150 representatives of the

commercial and economic sections of Czech embassies, interested parties were able also to hold talks with managers of CzechTrade’s foreign offices, with representatives of CEBRE and with the Swiss delegacy of Tschechischer Industrieverband.

It can be concluded from the consultations ordered that the companies often discussed specific, developed projects with their counterparts. Over and above this, however, Czech entrepreneurs were also interested in further opportunities and trade conditions in selected countries. China ranked first on this list of countries and the leading European states are Bulgaria, Romania and Poland, Russia, and the Baltic states.

Miroslava Trublová

Confederation of Industry of the Czech Republic

Photo: SP ČR Archive

# How many stripes make up Adidas

## THE PROTECTION OF INTELLECTUAL PROPERTY RIGHTS IN THE TEXTILE AND CLOTHING INDUSTRY AND ITS POSSIBILITIES

The protection of what is internationally known as IPR – Intellectual Property Rights poses a major problem for textile manufacturers. I would separate the problem into two parts.

The first involves the practices encountered by a range of manufacturers in other fields and branches. This involves the “generous” approach of some states towards things dreamt up by someone else. Like the majority of European manufacturers, our wildest experiences are with China and Vietnam. We are all aware of the admission of a Vietnamese shoe dealer saying “The more stripes, the more Adidas”, which was covered by Czech Television recently. This speaks for itself. Imitating everything that would make a product more salable has gone so far that even imitation packaging is no longer an exception. It is based on very simple reasoning – if the customer has good experience with a product packaged in a known way, we will trick him by packaging our often incomparable worse product in the same manner. When the customer discovers that he has purchased something completely different, he more than likely won't run around goodness knows where because of a couple hundred crowns, and if he does, he will no longer find the cunning dealer or this dealer won't know how to speak Czech. However, before the company which manufactured the original discovers such practices, their good name could be – and usually is – lost, because the customer does not have the opportunity to verify whether what he is receiving is authentic or a fake. Furthermore, not even the speedy discovery of such practices would help the majority of Czech manufacturers, because:

- there is no-one who would step in fast enough
- and there is not even anything to intervene in, as packaging is not usually the subject of a patent, nor an industrial design, and therefore is not really protected against counterfeiting. Logically, the question occurs to us as to why it is not protected.

### Mechanisms for protection

And now we arrive at the second part of the problem,

which involves the real possibilities of protection. The textiles and clothing industry is paying the price for the current legislation of the Czech Republic and the EU. However, this is not a complaint that legislators are not doing anything, rather a complaint as to how the historical protection of intellectual property arose and what it is based on. The biggest problem faced by textile manufacturers is the fact that they find it difficult to apply those instruments to their products that are holders of protection (patents, industrial design, etc.). If it doesn't involve special products, the basis of which is the result of research and development (usually summarised under the term “technical textiles”), it almost always broadly involves design. And this is the core of the problem. It is very difficult to protect products of this type. At the most prestigious world exhibitions we can see renowned law companies specialising in intellectual property rights with empty stands. This is because even they are not able to find a quick and effective weapon and thus their product has a pitiful price/output ratio. Discussing the reasons as to why this is so would exceed the size of an article and I will therefore limit myself to the following three statements:

- a) it is difficult to find elements in products that could be the subject of protection,
- b) and if we do happen to find such elements, it is relatively easy to put the required number of distinguishing factors on the imitated product that would not change the general appearance of the product, but which would distinguish it enough to defy protection rights, and
- c) should neither a) or b) apply, achieving rectification or obtaining compensation would take years, if it even reaches this stage.

### Trademark

And so the trademark appears to be the most effective tool of the textile and clothing industry in current practice. However, if we take into consideration the experiences of large transnational companies (the problem of Adidas mentioned above), even here the results are piti-

ful. Perhaps what contributes to this is also the fact that the speed of resolving disputes including counterfeit products, is also a matter for discussion. Our consumer protection law offers a somewhat rough procedure for such cases. Instead of a representative of the company affected merely being invited over, who either confirms that it is the company's product and thus authentic, in which case everything is in order, or says that it is not the company's product, it is a counterfeit, in which case there would be nothing to investigate and the goods should be seized. The only risk to such a procedure is the possibility of the representative making a mistake and labelling the counterfeit as their own, original, product. But I would then see that as their problem.

### So, how should one protect oneself?

Firstly, by filing for a trademark, which at least offers a chance of protection. As this is a very expensive measure for companies, the Association of the Textile, Clothing and Leather Industry (ATOK) is working on a project whereby it aims to enable Czech textile and clothing manufacturers to establish a common trademark.

Secondly, a partial solution could also be the finalisation of the “MADE IN” project, which should be the holder of information on who actually manufactured the product. I see the resolving of effective checks as being problematic here, as it is clear from what has been said above that copying this ‘protection’ would be child's play.

Thirdly, I think that the entire European textile and clothing industry needs intellectual property rights experts to think about an overall protection strategy and concept and to seek an entirely new approach to this topic. The ATOK intends to propose such a task in the National Development Plan programme for 2007–2013. It is essential that solving such problems becomes a Europe-wide topic, as I am convinced that it does not only involve textile manufacturers.

Jiří Kohoutek  
Vice-president of the Association of Textile,  
Clothing and Leather Industry (ATOK)

## Examples of counterfeits

The Czech company Brisk had first-hand experience of the faking of its products by Chinese entrepreneurs when the company's employees discovered imitations of spark plugs that it manufactures at a trade fair in Brno. The counterfeits were seized by the Czech Commercial Inspection. The lawyers of the Czech manufacturer subsequently filed a report against the Chinese exhibitor.

Blata is another of a host of Czech companies which have encountered problems with their products being imitated. Blata estimates that Chinese plagiarists of its mini-motors caused it damages exceeding EUR 6 million just last year alone. The company is trying to prevent further counterfeiting of its products by applying for an industrial design certificate in China.

Aleš Fischer  
Confederation of Employers' and Entrepreneurs' Associations of the Czech Republic

# On the Track: An information portal monitoring the development and current state of selected EU legislation

AS OF JUNE, IT IS POSSIBLE TO MONITOR THE LATEST DEVELOPMENTS IN SELECTED AREAS OF EUROPEAN LEGISLATION IN CZECH LANGUAGE USING THE “ON THE TRACK” PORTAL WHICH HAS BEEN PREPARED BY CEBRE, THE CZECH BUSINESS REPRESENTATION AT THE EU. THIS SITE CAN BE FOUND AT [WWW.CEBRE.CZ/NASTOPE](http://WWW.CEBRE.CZ/NASTOPE). INFORMATION AVAILABLE ON THE PORTAL IS INTENDED MAINLY FOR COMPANIES, PROFESSIONAL ORGANISATIONS AND ENTREPRENEURIAL ASSOCIATIONS. HOWEVER, THE SITE CAN ALSO BE USED BY ANYONE INTERESTED IN EU DECISIONS THAT HAVE AN IMPACT ON BUSINESS REGULATIONS.

## European legislation plays first fiddle

The majority of Czech laws in the economic and social sphere originate on a European level. However, the passing of final decisions, which the Czech Republic is subsequently to conform to, is usually a drawn-out process. It is important for the Czech business community to learn to enter into this process and to defend its interests.

The aim of the portal is to provide an overview of the process of changes being planned for specific European legislation. The portal also provides information on the standpoints of Czech and European business organisations and serves as a guide in the search for allies in the lobbying for Czech business interests in Brussels.

The portal links events that are taking place on a European level and those in the Czech Republic. It also explains the connection between the decision-making process on a European level and its impact on the Czech business environment, above all by what means the European legislation is received into Czech legislation. The relevant documents are given in chronological order for each topic, particularly the official acts of

executive and lawmaking bodies of the European Union and the Czech Republic as well as business organisations.

Which areas of European legislation does the portal monitor?

- European Law of Contract – consumer aspects – Revisions of consumer directives
- Economic competition – articles 81 and 82 of the contract and the ensuing economic competition regulations
- Chemical policy – the new chemical policy of the EU - REACH
- Waste – thematic strategies for avoiding the creation of waste and for the recycling of waste
- Consumer protection – selected areas – Consumer Credit, the Rome II Regulation
- Labour Law – directives on working hours
- Company law – modernisation of European Company Law
- Industrial emissions – the European system for emissions trading

- State support – modernisation of state support regulations
- Free movement of services – directives on services in the internal market

## Who is behind the portal

The On the Track portal was set up with the financial support of the Department of Information on European Affairs of the Office of the Government of the Czech Republic as part of its Concept for Informing on European Affairs in the Czech Republic. The site is the outcome of the project realised by CEBRE – the Czech Business Representation at the EU, which operates the site, and by the Confederation of Employers' and Entrepreneurs' Associations in the Czech Republic. The Economic Chamber of the Czech Republic, the Confederation of Industry, the Czech Confederation of Commerce and Tourism, and the Association of the Chemical Industry of the Czech Republic are project partners.

Ondřej Hradil,  
CEBRE – Czech Business Representation at the EU

# Regulation of the REACH

THE OPINION OF THE CONFEDERATION OF THE CHEMICAL INDUSTRY OF THE CZECH REPUBLIC REGARDING THE JOINT STANDPOINT OF THE EUROPEAN COMMISSION ACCEPTED ON 27 JUNE 2006 REGARDING THE DRAFT REACH DIRECTIVE

The Association of the Chemical Industry of the Czech Republic (SCHP CR) respects the common position of the Council of the European Union regarding the draft of REACH Regulation approved on 27 June 2006. The position represents a possible compromise between the necessity to protect human health and the environment and the efficiency and competitiveness of European industry.

The SCHP CR takes the common position of the Council regarding authorisation as effective in minimising the impacts of chemical substances on humans and the environment while also supporting the innovatory creation of new and healthier chemical substances.

The wording of this joint position is more effective than the text approved during the first reading by the European Parliament.

The approach recommended by the Council, while representing a demanding regime, is mindful of the con-

ditions under which chemical substances are produced and used. If the authorisation was time limited as proposed in the text approved during the 1st reading by the European Parliament, this would lead to a restriction of the innovatory production of new chemical substances and their subsequent utilisation, and would prevent the development of new and safer chemicals, which would be in contradiction with one of the original main objectives of the REACH legislation.

A balance of authorisation process is achieved in the common position of the Council by setting up a procedure in which:

- authorisation will be granted if the risk is appropriately managed
- authorisation can be granted if it is economically and socially beneficial
- authorisation is not restricted to a deadline of 5 years: a case-by-case assessment is periodically carried out instead
- applications must be accompanied by an analysis of

alternative substances, which includes the safety and technical and social-economic feasibility of the substitution.

The chemical industry will continue to contribute to the process of implementation by concrete proposals monitoring the attainment of effective legislation allowing for the protection of human life and the environment, and the maintenance of the effectiveness and competitiveness of European industry.

Ed: we shall be examining the issues surrounding the draft REACH regulation in the future.

Prague, 28 June 2006

Ladislav Novák  
Director of the Association of the Chemical Industry  
of the Czech Republic

## As part of the 2nd Spring Fair an open meeting was held of the Euro Club of the Economic Chamber of the Czech Republic on the topic “The Future of Small and Medium-Sized Enterprises in the European Union”

The sector of small and medium-sized enterprises in the Czech Republic is threatened by many and various factors which are slowing down its potential development and an increase in the number of jobs. The Czech Republic also lags behind its neighbouring EU countries in respect of the conditions created for SMEs. SMEs require different conditions for their prosperity than large companies. This relates to the volume of bureaucracy, obligations under labour law, and duties linked with occupational safety and consumer protection. Despite undisputed economic growth it is clear that the drivers of the economy remain the large companies, while SMEs have contributed less to the creation of Czech GDP than our European neighbours. The main reason is the amount of bureaucratic demands and other duties which the state lays upon businesspeople, unclear legislation, the lack of a qualified workforce, high secondary costs for work, the duration of court cases, and last but not least the unequal status of subcontractors in relation to large companies. These were the conclusions of the open meeting of the Euro Club held on 15 June 2006 at the headquarters of the Economic Chamber of the Czech Republic within the framework of the Chamber's 2nd Spring Fair. The meeting was organised with the support of the European Commission and important guests attended. These included a representative of DG Enterprise, Peter Wragg, the president of the Economic Chamber of the Czech Republic, Jaromír Drábek, the managing director of the agency CzechInvest, Tomáš

Hruda, the former European Commissioner, Pavel Telička, who now works as manager of BXL Consulting, representatives of the Ministry of Industry and Trade of the Czech Republic, as well as representatives of the Czech Business Representation in Brussels (CEBRE).

In its new partnership for growth and employment the European Commission is attempting to incorporate the principle that “We think of small and medium-sized enterprises first of all” into all EU policies and member states. This means that it assesses initiatives from the point of view of SMEs and ensures that their requirements are given priority. Another initiative of the European Commission is the “European Charter for Small Enterprises”, within the framework of which the Commission supports the exchange of experience between member states and thus improves the business environment for SMEs throughout Europe. The Economic Chamber welcomed the initiative of the European Commission offering special assistance to SMEs. After the entry of the CR into the EU Czech companies are encountering ever more norms and regulations which the country is accepting as part of the harmonisation of national legislation. “I view the review leading to a reduction of such norms by 25%, as anticipated by the European Commission, as unambiguously positive. What is important is that this ambitious task be approached in a positive frame of mind and that rectification of the current situation take place as soon as possible,” the president of



GUESTS INVITED TO THE DISCUSSION INCLUDED A REPRESENTATIVE FROM DG ENTERPRISE PETER WRAGG (ON THE RIGHT) AND THE FORMER EUROPEAN COMMISSIONER PAVEL TELIČKA, WHO NOW WORKS AS DIRECTOR OF BXL CONSULTING.

the Economic Chamber of the Czech Republic, Jaromír Drábek, told the meeting.

The open meeting was attended by members of the Euro Club of the Economic Chamber of the Czech Republic, an informal association which has been in existence since 1999, as well as representatives of SMEs who actively participated at the Chamber's Spring Fair.

Jana Moravcová  
Centre for European Integration of the Economic Chamber  
of the Czech Republic  
Photograph: the archive of the magazine Komora cz

## Coal as a strategic raw material

IN JUNE REPRESENTATIVES OF THE EUROPEAN COAL INDUSTRY FEDERATED IN EURACOAL (THE EUROPEAN ASSOCIATION FOR COAL AND LIGNITE) GATHERED IN PRAGUE IN ORDER TO SUPPORT THE CREATION OF A JOINT EUROPEAN STRATEGY ON ENERGY.

The EU's discussions are based on the Green Paper on Secure, Competitive and Sustainable Energy for Europe. By 2030 it will be necessary to replace 300 GW electricity power capacities and to build a further 200 GW new ones in Europe. Coal is essential, above all for the production of electricity – approximately one third of the electricity produced in Europe comes from coal. At present the EU mines 170 million tons of black coal and 382 million tons of brown coal and lignite annually, which makes it the third largest coalmining region in the world. Given the growing dependency of the EU on imports of raw materials, the geopolitical risks of imports of oil and gas, and the political protection of the climate, EURACOAL regards it as necessary to reassess the significance of coal as a strategic raw material.

“The Czech Republic is one of the most important European coal producers. The importance of Czech stocks thus extends beyond the borders of the country,” said the president of EURACOAL, Nigel Yaxley, at the association's meeting. For this reason it is in the interests of

both the EU and the Czech Republic that the Czech power industry continues to be able to rely on its domestic sources over the long term. “Coal offers a safe, competitive and sustainable supply of energy in accordance with the EU strategy. At the same time, thanks to new technology it is possible to meet the demands pertaining to protection of the environment. For this reason coal has its place in the policy on power of the EU,” added Yaxley.

There are ways of using coal here in the future, according to EURACOAL representatives. At present, despite its high content of CO<sub>2</sub> coal can be consumed in accordance with demands on protection of the climate. The construction of more effective power stations and the development of clean coal technologies will be important in reducing CO<sub>2</sub> emissions. The effectiveness of new coal power stations should reach up to 50% (against the current approximately 34%). EURACOAL is also a member of the Platform for power stations burning solid fuels with zero emissions founded by the European Commission.

“However, coal must not be put at a disadvantage by the system of trading in CO<sub>2</sub> emissions in its present form, which undermines the competitiveness of European industry and increases the price of electricity,” added Yaxley.

EURACOAL is the European Association for Black and Brown Coal, based in Brussels, which at present brings together 23 organisations and companies from 15 European countries. The Czech Republic is represented by means of the Employers' Confederation of the Coal and Oil Industry. Cooperation with bodies of EURACOAL takes place by means of a foreign committee of the confederation comprising representatives of brown coal mining organisations.

The Employers' Confederation of the Coal and Oil Industry

# China is a territorial priority

THE ECONOMIC CHAMBER OF THE CZECH REPUBLIC KNOWS HOW TO HELP BUSINESSPEOPLE DRAW DOWN EUROPEAN FUNDS



The Economic Chamber of the Czech Republic is incorporated into the European Commission ASIA INVEST programme, which organises international corporate contact events in selected Asian countries. Small and medium-sized Czech enterprises can participate at these contact events and obtain important support from the European Commission which is organised for them by the Economic Chamber of the Czech Republic. For business people this is problem-free: the fee for participation at a particular event already includes financial support, and the entire administrative burden linked with accounting for the support is shouldered by the Economic Chamber of the Czech Republic. The level of

financial support differs depending on the type and extent of the project. It can be up to 50% of all costs, including transportation and accommodation. Businesspeople thus have a chance to strike up and expand contacts for a fraction of the costs which they would incur on an individual trip or through participating at a trade fair.

The current territorial priority is China. This swiftly growing economy is very attractive for companies from around the European Union, though Czech companies have up till now not managed to break into China on any great scale. This hesitation might mean China being occupied by more long-sighted companies from EU countries, as well as from the USA, Japan, etc. Although business activities on the Chinese market have their stumbling blocks, such as breaches of copyright and the copying of products and technology, the Chinese authorities are clearly making an effort, under pressure from the EU, to reduce these concerns by drafting changes to the appropriate legislation. Many projects of the ASIA INVEST programme are focussed on educating Chinese companies and putting pressure on the appropriate Chinese authorities.

The current offer contains two projects based around China. The first is this year's largest corporate contact event by the European Commission entitled "EU-CHINA PARTENARIAT 2006", which will take place on 9 and 10 November 2006 in Chengdu, the capital of Sechuan. The event will be attended by 500 carefully selected Chinese host companies and some 400 small

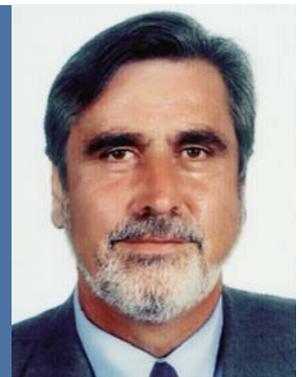
and medium-sized enterprises from the EU. The event covers the following sectors: the machine tool industry, construction and engineering, information and communication technology, electronics and electronic components, healthcare technology and pharmaceuticals, tourism, the environment – technology, products, etc., agriculture, and biotechnology. More information is available at <http://www.euchinapartenariat.com/english/> or on the website of the Economic Chamber of the Czech Republic. Czech companies still have an opportunity to apply to be selected for this event.

The other, recently approved project is "EU-CHINA MACHINERY & CONSTRUCTION INTERPRISE", which will concentrate on the machine tool industry and construction. The dates of this project have not yet been finalised, though it is due to take place in the middle of 2007.

Czech companies might well find the "2006 AUTO BUSINESS EVENT" interesting, which will take place from 17–19 October 2006 in Qingdao. Although the event is not being financed from the ASIA INVEST programme, participation for Czech companies is very advantageous thanks to the support of Chinese institutions and the Economic Chamber of the Czech Republic (in the form of approximately the price of a flight ticket).

Jiří Hansl  
 Economic Chamber of the Czech Republic  
 Foto: Ablestock

## Question for Pavel Prior, Vice-president of the Confederation of Industry of the Czech Republic



**You participated in the International Labour Organization Conference, which took place in June this year. In what way was it a contribution for the Czech Republic?**

I see it as being more significant than the previous years. The government delegate for the Czech Republic, Čestmír Sajda, Deputy Minister of Labour and Social Affairs, was elected to chair the conference. This fact is of further significance when we bear in mind that the last Czech representative to chair this conference, back in 1925, was our former minister of foreign affairs, Edvard Beneš.

This year's conference covered two areas which were focused upon by employers – the Promotional Framework for Occupational Safety and Health as a result of a rise in fatal accidents, and the Employment Relationship for Determining of the Roles of Social Partners in critical situations from the point of view of labour law or commercial law. In both cases, employers were against the acceptance of the Convention put forward by unions and some governments, and recommended a Declaration. The debate will continue next year.

The Confederation of Industry of the Czech Republic also utilised the conference to discuss the issue of the

newly accepted and substantially inconsistent Labour Code, which is to come into force on 1 January 2007 in the Czech Republic, with the respective specialist department of the International Labour Organisation. It welcomed the fact that this important institution is willing to draw up an objective assessment of this standard in the context of regular conventions in Europe.

(is)  
 Photo: SP ČR Archive



## Economic Chamber of the Czech Republic (ECCR)

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

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

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

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## Confederation of Industry of the Czech Republic

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

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- Protects the interests of Czech business community vis-a-vis the EU institutions
- Informs Czech businesses about EU legislation affecting them
- Trains Czech entrepreneurs and managers in Brussels, the heart of the EU
- Represents Czech business associations at European business federations

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

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