Czech Republic – Partner for Foreign Entrepreneurs
The first step to doing business in the Czech Republic is the incorporation of a Czech legal entity. A business entity in the Czech Republic may, in addition to other ways, be established in the form of: (a) a joint stock company, or (b) a limited liability company. In addition, a foreign business entity may conduct their business in the Czech Republic through a branch office registered in the Czech Republic. As of 1 January 2002, a foreign company – a legal entity with a business or branch office in the Czech Republic – may also acquire title to real estate in the Czech Republic, except for land classified as agricultural or forest land.

Commencing with the accession of the Czech Republic into the European Union, a business entity in the Czech Republic may also be established in the form of a European company and a European Economic Interest Association. A public entity with its registered seat in the Czech Republic may move its registered seat abroad and vice versa, while a public entity established under the laws of a foreign state and having its registered seat abroad may move its registered seat to the Czech Republic if an international treaty so permits.

There are other types of companies, such as an unlimited partnership (in Czech ‘vefiejná obchodní společnost’), a limited partnership (in Czech ‘komanditní společnost’), or a state enterprise. These, however, are not often used in the CR and are governed by different rules from the aforementioned companies. It should be pointed out that the partners’ liability is unlimited in an unlimited partnership, while it is limited to a certain group of partners in the case of a limited partnership.

**J O I N T S T O C K C O M P A N Y A N D L I M I T E D L I A B I L I T Y C O M P A N Y**

The joint stock company and the limited liability company are the corporate forms most commonly used for the operations of foreign companies in the CR. The two corporate entities share some similarities, but have a few key distinctions.

1. **Similarities**

Shareholders in both types of company are protected from the company’s creditors by a corporate veil. A shareholder in a joint stock company is not liable for the company’s liabilities; a member of a limited liability company is liable jointly and severally with the other members of the limited liability company up to the sum of the unpaid contributions of all members as recorded in the Commercial Register. However, if the contributions of all members of the limited liability company have been paid up in full, the members are no longer liable for the company’s liabilities.

In both cases, a company may be established by a single person. However, in the case of a joint stock company, that person must be a legal entity (rather than an individual). Furthermore, a limited liability company with a sole member may not be the sole founder or sole member of another limited liability company. An individual may only be the sole member in a maximum of three limited liability companies.

In order for each form of company to be registered in the Commercial Register, a trade license must be obtained. Both forms must also maintain a reserve fund (which is principally a bookkeeping entry) to cover losses. A joint stock company is required to contribute 5 per cent of its net profit annually to the reserve fund (20 per cent of its net profit in the first year of generating profit, but not in excess of 10 per cent of the value of its registered capital) until it reaches the equivalent of 20 per cent of the company’s registered capital. A limited liability company is required to contribute 5 per cent of its net profits annually to the reserve fund (10 per cent in the first year of generating a profit, but not in excess of 5 per cent of the value of its registered capital) until it reaches the equivalent of 10 per cent of the company’s registered capital. A reserve fund can only be used to settle a company’s loss if such loss does not exceed 10 per cent of the registered capital in the case of a limited liability company, or 20 per cent of the registered capital in the case of a joint stock company.
2. Differences
A joint stock company issues share certificates, while the shares (‘ownership interests’) of a limited liability company are not represented by share certificates. The shares of a joint stock company may be listed on the Prague Stock Exchange under the rules stipulated by the Securities Act and other relevant laws. Those laws also set out the framework for share transfers. The ownership interests of a limited liability company may be transferred under the terms and conditions of the Commercial Code and the company’s Memorandum of Association.

The minimum capital requirement for the establishment of a joint stock company is CZK 2 000 000 (approx. EUR 67 155) when founding a company without a public offering of shares, and CZK 20 000 000 (approx. EUR 671 547) when founding a company through a public offering of shares. The minimum capital requirement for the establishment of a limited liability company is CZK 200 000 (approx. EUR 6 715).

A joint stock company must have both a board of directors and a supervisory board. The company’s employees elect one-third of the supervisory board members if there are more than fifty full-time employees at the time of election. Certain approval rights may be delegated to the supervisory board but it generally only supervises the operations of the company. Members of the board of directors and supervisory board are, in principle, elected by the shareholders’ general meeting. A limited liability company’s decision-making powers are normally delegated to one or several ‘Executives’ appointed by the general meeting as the body representing the members; it does not have a board of directors but may form a supervisory board.

BRANCH OFFICE
A branch office of a foreign company is not treated as a Czech legal entity. It functions as a representative of a foreign company and incurs obligations on the foreign company’s behalf. The requirements for establishing a branch office in the Czech Republic are similar to those for establishing a limited liability company, stressing the role of the Founder. A branch office’s authorization to carry out business activities in the Czech Republic comes into existence as of the date of its entry into the Commercial Register. The head of a branch office entered into the Commercial Register is entitled to undertake all acts concerning the branch office on behalf of its Founder.

DOCUMENTS
Detailed information regarding the required documents for incorporation of a joint stock company, a limited liability company, and a branch office are given in Appendices A, B, and C.

COMPARISON OF CZECH AND EU LAW
The harmonization of commercial law is essential for the creation of a Single Market for Financial Services and Products. Czech commercial law is currently in line with these essential regulations effective in the European Union. In spite of that, currently the amendment to the Commercial Code that relates to the Commercial Register, electronic applications and signatures is subject to governmental discussion. At the same time, an amendment to the Commercial Code is being prepared that will be of significant benefit to entrepreneurs by allowing them to file petitions for the registration of a company and its changes via a form system. If this amendment is adopted, the registration will definitely become much simpler, and thus the whole process will be accelerated. Unfortunately, the time frame for the second amendment has not been clearly set, and according to my personal view we should not expect it any sooner than in 2007.

INTERNET LINKS
www.mpo.cz - The Czech Ministry of Industry and Business (in English)
www.obchodni-rejstrik.cz - The Commercial Register (only in Czech)
www.justice.cz - search engine for the business entities (only in Czech)
www.form.cz - application forms of offices such as tax authorities or trade license offices
Trade License Offices – on the web sites of the individual municipal authorities

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Establishing a joint stock company in the Czech Republic involves three steps. First, the company has to be founded, the applicable trade license or certificate obtained, and then an application for the company’s entry into the Commercial Register filed. The company comes into existence upon its registration in the Commercial Register.

A. The parent company (the “Parent”) establishing a Czech subsidiary in the form of a joint stock company (the “a.s.”) and becoming its shareholder must provide the following documents:

1. Parent Corporate Documentation
   a. originals of the certificate of incorporation of the Parent, issued by the relevant public authority of the Parent’s home jurisdiction;
   b. originals of the Parent’s by-laws; and
   c. original certified copies of corporate resolutions on the establishment of the a.s. and indicating the entity empowered to act on behalf of the Parent.

   All documents must be issued and superlegalized or apostilled— if required—within three months prior to the day of their submission to the Czech authorities.

2. Powers of Attorney/Corporate Authorization
   Original notarized powers of attorney of the Parent naming and authorizing the individuals to act on its behalf in executing and filing documents required by the Czech authorities relating to the establishment of the a.s. in the Czech Republic.

   Powers of attorney must be signed by persons authorized to act on behalf of the Parent. The names of such persons must conform to names stated in the original certificates of the Parent’s incorporation, issued by the relevant public body in the country where the Parent is domiciled.

   Please note that all documents issued by non-Czech authorities or notarized by non-Czech persons must be superlegalized or apostilled, unless stipulated otherwise by an international treaty. Also, an official translation into Czech produced and authenticated by the Czech Embassy or by a Czech court-appointed translator must be filed with all foreign language documents provided to Czech authorities.

B. Obtaining the trade license or certificate and registering in the Commercial Register:

1. Joint Stock Company Foundation
   A Joint Stock Company must be founded by virtue of a notarial deed.

2. Trade License(s)/Certificate(s)
   Before it can be registered in the Commercial Register, the a.s. must obtain a trade license or trade certificate authorizing the a.s. to engage in each line of business which it plans to pursue. Whether the a.s. needs to obtain a trade license and/or a trade certificate depends upon the nature of each of the businesses to be carried out. The application is filed at the Trade License Office for the geographic area within which the a.s. will have its registered office.

   The trade license/certificate is issued to the legal entity, which legal entity, however, must have a responsible person bound by contract and supervising proper conduct of the trade. The application for business authorization may be filed by the Founder or a person authorized by the Founder to act on behalf of the newly founded a.s.

   Such Responsible Person must be at least 18 years old. He/she must be a resident of or have a residence permit for the Czech Republic, have the requisite legal capacity, a clean criminal record, and be engaged in a contractual relationship with the a.s.

   To receive a trade license or trade certificate, the following specific documents must be presented to the Trade License Office:
   a. (i) in the case of a trade license, a completed trade license application signed by all the directors of the a.s. (available at the Trade License Office); (ii) in the case of a trade certificate, a completed trade notification signed by all the directors of the a.s. (available at the Trade License Office);
   b. the founding documentation of the a.s.;
   c. a notarized power of attorney authorizing the person to file the trade license application or make the trade notification;
   d. a confirmation of clean criminal record of the Responsible Person, not older than three months. Clean criminal record is confirmed by an extract from the Criminal Register and can be obtained in approximately one or two days after:
   (i) completing the application form;
   (ii) paying the fee (CZK 50/approx. EUR 1.7);
   (iii) submitting the birth certificate of the applicant.

   If the Responsible Person is a foreigner, an extract from the Criminal Register of his/her home country and any country where he/she resided for more than three months in the last three years needs to be submitted;
e. if necessary, documents regarding the qualifications of the Responsible Person;
f. a contract between the Responsible Person and the a.s.;
g. payment of the fee (CZK 1,000 per trade license, CZK 2,000 per trade certificate) (approx. EUR 30 and EUR 60, respectively);
h. affidavit of the Responsible Person; and
j. a lease agreement and extract from the Cadastral Register pertaining to the premises to serve as the registered seat of the a.s.

3. Registration of the a.s.
To be officially established, the a.s. must be entered into the Commercial Register. The Board of Directors must apply for the registration and attach the following documents to the application filed with the Commercial Court within 90 days:

a. an application requesting entry in the Commercial Register containing notarized signatures of all members of the Board of Directors of the a.s.;
b. trade license(s) or certificate(s) issued by the Trade License Office;
c. a residency permit for each member of the Board of Directors who is not a Czech or EU citizen;
d. an administrative fee (up to CZK 5,000/approx. EUR 150);
e. the founding deed or memorandum of association, the Parent's constitutive documents, and the Parent's power of attorney (see A. above);
f. the Articles of Association;
g. a notarized copy of the lease agreement and the extract from the Cadastral Register, relating to the premises to serve as the a.s.'s registered office;
h. evidence of an initial capital deposit of CZK 2,000,000 (approx. EUR 60,000) with a bank or
i. notarized specimen signatures of all directors;
j. a confirmation of clean criminal record for each member of the Board of Directors and Supervisory Board issued by the Czech Criminal Register not earlier than three months prior to its presentation to the Commercial Court and similar confirmations of clean criminal records of the above mentioned persons from their home country and all countries where such persons have been residing for more than three months during the last three years;
k. an affidavit of each member of the Board of Directors and the Supervisory Board stating in particular that such person has not been subject to bankruptcy during the past three years and that no ban on business activities related to the intended activities of the a.s. is currently imposed by any court or any administrative body upon such person; and
l. other documents certifying the facts to be entered into the Commercial Register.

APPENDIX B
Required Documentation and Steps to be Taken for the Creation and Registration of a Limited Liability Company (S.R.O.) in the Czech Republic

Establishing a limited liability company in the Czech Republic involves three steps. First, the company has to be founded, and the applicable trade license or certificate obtained. This is followed by registering the company in the Commercial Register.

A. The Parent establishing a limited liability company (the “S.R.O.”) must provide the following documents:

1. Parent's Corporate Documentation:
a. original certified copies of the certificate of incorporation of the Parent, issued by the relevant public authority of the Parent's home jurisdiction;
b. original certified copies of the Parent's by-laws; and
c. original certified copies of corporate resolutions indicating the establishment of the S.R.O. and pointing out the entity empowered to act on behalf of the Parent.

All documents must have been issued and - if required - superlegalized or apostilled within three months prior to the day they are presented to the Czech authorities.

2. Powers of Attorney/Corporate Authorization
Original notarized powers of attorney of the Parent naming and authorizing the individuals who will act on its behalf in executing and filing documents required by the Czech authorities relating to the establishment of the S.R.O. in the Czech Republic.

This authorized individual may also serve as the “Responsible Person” (see below).

Please note that all documents issued by non-Czech authorities or notarized by non-Czech persons must be superlegalized or apostilled, unless stipulated otherwise by an international treaty. Further, an official translation into Czech produced and authenticated by the Czech Embassy or a Czech court-appointed translator must be filed with all foreign language documents provided to Czech authorities.

Powers of attorney must be signed by persons authorized to act on behalf of the Parent. The names of such persons must conform to names stated in the original certificates of the Parent’s incorporation, issued by the relevant public body in the country where the Parent is domiciled.
B. Obtaining the trade license or certificate and registering in the Commercial Register:

1. Limited Liability Company Foundation
A limited liability company must be founded by virtue of a notarial deed.

2. Trade License(s)/Certificate(s)
Before it can be registered in the Commercial Register, the S.R.O. must obtain a trade license or trade certificate authorizing it to engage in line of business, which it plans to pursue. Whether the S.R.O. needs to obtain a trade license and/or a trade certificate depends upon the nature of each of the businesses to be carried out. The application is filed in the Trade License Office for the geographic area within which the S.R.O. will have registered office.

The trade license/certificate is issued to the legal entity, which legal entity, however, must have a responsible person bound by contract and supervising proper conduct of the trade. The application for business authorization may be filed by the Founder or a person authorized by the Founder to act on behalf of the newly founded S.R.O. Such Responsible Person must be at least 18 years of age. He/she must be a resident of or have a residence permit for the Czech Republic, have the requisite legal capacity, a clean criminal record, and be engaged in a contractual relationship with the S.R.O.

To receive a trade license or trade certificate, the following specific documents must be presented to the Trade License Office:

a. (i) in the case of a trade license, a completed trade license application signed by the Executive of the S.R.O. (available at the Trade License Office); (ii) in the case of a trade certificate, a completed trade notification signed by the Executive of the S.R.O. (available at the Trade License Office);
b. the founding documentation of the S.R.O.;
c. a notarized power of attorney authorizing the person to file the trade license application or make the trade notification;
d. a confirmation of clean criminal record of the Responsible Person, not older than three months. Clean criminal record is confirmed by an extract from the Criminal Register and can be obtained in approximately one or two days after:
   (i) completing the application form;
   (ii) paying the fee (CZK 50/approx. EUR 1.7);
   (iii) submitting the birth certificate of the applicant.
In case of a foreigner, an extract from the Criminal Register of his/her home country and any country where he/she resided for more than three months in the last three years needs to be submitted;
e. if necessary, documents regarding the qualifications of the Responsible Person;
f. a contract between the Responsible Person and the S.R.O.;
g. payment of the fee (CZK 1 000 per trade license, CZK 2 000 per trade certificate) (approx. EUR 30 and EUR 60, respectively);
h. affidavit of the Responsible Person; and
j. a lease agreement and extract from the Cadastral Register pertaining to the premises to serve as the registered seat of the S.R.O.

3. Registration of the Limited Liability Company
When the S.R.O. receives its trade license or certificate, it must apply for registration in the Commercial Register within 90 days. The following documents are required as schedules to the application filed with the Commercial Court for registration into the Commercial Register:

a. an application requesting entry into the Commercial Register and containing a notarized signature of the Executive of the S.R.O.;
b. trade license(s) or certificate(s) issued by the Trade License Office;
c. a residency permit of the Executive of the S.R.O. if he/she is not a Czech or EU citizen;
d. a notarized specimen signature of the Executive;
e. an administrative fee (up to CZK 5 000/approx. EUR 150);
f. founding documents of the Parent and power of attorney issued by the Parent (see A. above);
g. the Memorandum of Association;
h. a notarized copy of the lease agreement and an extract from the Cadastral Register relating to the premises to serve as the S.R.O.’s registered office;
i. evidence of an initial capital deposit of CZK 200 000 (approx. EUR 6 000) with a bank or a written declaration by a member who has been appointed as agent for contributions that the initial capital has been paid up;
j. a confirmation of clean criminal record of the Executive issued by the Criminal Register of the Czech Republic and not older than six months, and similar confirmations of clean criminal record from the Executive’s home country and any country where he/she resided for more than three months in the last three years;
k. an affidavit of the Executive stating in particular that he/she has not been the subject of bankruptcy within the past three years and that no ban on business activities related to the intended activities of the S.R.O. is currently imposed by any court or any administrative body upon him/her;
Establishing a branch office in the Czech Republic generally involves three steps. First, the branch office needs to be founded and the applicable trade license or certificate obtained. This is followed by registering the company in the Commercial Register. The Founder plays a key role in the whole process of the establishment of a branch and, in fact, throughout the existence of the branch.

A. The Founder establishing a branch must provide the following documents:

1. Founder Corporate Documentation:
   a. original certified copies of the certificate of incorporation of the Founder, issued by the relevant public authority of the Founder's home jurisdiction;
   b. original certified copies of the Founder's by-laws; and
   c. original certified copies of corporate resolutions indicating the establishment of the Branch Office and pointing out the entity empowered to act on behalf of the Founder.

   All documentation must have been issued and – if required – superlegalized or apostilled within three months prior to the day it is presented to the Czech authorities.

2. Powers of Attorney/Corporate Authorization

   Original or notarized powers of attorney of the Founder naming and authorizing the individuals who will act on behalf of the Founder in executing and filing documents required by the Czech authorities relating to the establishment of the Branch Office in the Czech Republic.

   This authorized individual can also serve as the "Responsible Person" (see below).

   Please note that all documents issued by non-Czech authorities or notarized by non-Czech persons must be superlegalized or apostilled," unless stipulated otherwise by an international treaty. Further, an official translation into Czech produced and authenticated by the Czech Embassy or a Czech court-appointed translator must be filed with all foreign language documents provided to Czech authorities.

   Powers of attorney must be signed by persons authorized to act on behalf of the Parent. The names of such persons must conform to names stated in the original certificates of the Parent's incorporation, issued by the relevant public body in the country where the Parent is domiciled.

B. Obtaining the trade license or certificate and registering in the Commercial Register:

1. Branch Office Foundation

   A Branch Office must be founded by virtue of a notarial deed.

2. Trade License(s)/Certificate(s)

   Before it can be registered in the Commercial Register, the Branch Office must obtain a trade license or trade certificate authorizing it to engage in each line of business, which it plans to pursue. Whether the Branch Office needs to obtain a trade license and/or a trade certificate depends upon the nature of each of the businesses to be carried out. The application is filed in the Trade License Office for the geographic area within which the Branch Office will have its registered office.

   The trade license/certificate is issued to the Branch Office, which Branch Office, however, must have a responsible person bound by contract and supervising proper conduct of the trade. The application for business authorization may be filed by the Founder or a person authorized by the Founder to act on behalf of the newly founded Branch Office. Such Responsible Person must be at least 18 years of age. He/she must be a resident of or have a residence permit for the CR, have the requisite legal capacity, a clean criminal record, and be engaged in a contractual relationship with the Branch Office.

   To receive a trade license or trade certificate, the following specific documents must be presented to the Trade License Office:

   a. (i) in the case of a trade license, a completed trade license application signed by the Founder's representative (available at the Trade License Office);
   (ii) in the case of a trade certificate, a completed trade notification signed by the Founder's representative (available at the Trade License Office);
   b. the founding documentation of the Branch Office;
   c. a notarized power of attorney authorizing the person to file the trade license application or make the trade notification;
   d. a confirmation of clean criminal record of the Responsible Person, not older than three months. Clean criminal record is confirmed by an extract from the Criminal Register and can be obtained in approximately one or two days after:
(i) completing the application form;
(ii) paying the fee (CZK 50/approx. EUR 1.7);
(iii) submitting the birth certificate of the applicant.

In case of a foreigner, an extract from the Criminal Register of his/her home country and any country where he/she resided for more than three months in the last three years needs to be submitted;

e. if necessary, documents regarding the qualifications of the Responsible Person;

f. a contract between the Responsible Person and the Founder;

g. payment of the fee (CZK 1 000 per trade license, CZK 2 000 per trade certificate) (approx. EUR 30 and EUR 60, respectively);

h. affidavit of the Reponsible Person; and

ej. a lease agreement and extract from the Cadastral Register pertaining to the premises to serve as the registered seat of the Branch Office.

3. Registration of the Branch Office

When the Branch Office receives its trade license or certificate, the Founder must apply for registration in the Commercial Register within 90 days. The following documents are required as schedules to the application filed with the Commercial Court for registration into the Commercial Register:

a. an application requesting entry into the Commercial Register and containing a notarized signature of the authorized representative(s) of the Founder;

b. trade license(s) or certificate(s) issued by the Trade License Office;

c. a residency permit of the head of the Branch Office if he/she is not a Czech or EU citizen;

d. a notarized specimen signature of the head of the Branch Office;

e. the administrative fee (up to CZK 5 000/approx. EUR 150);

f. a notarized copy of the Founder’s constitutive documentation;

g. a notarized copy of the lease agreement and an extract from the Cadastral Register relating to the premises to serve as the Branch Office’s registered office;

h. a confirmation of clean criminal record of the head of the Branch Office issued by the Criminal Register of the Czech Republic and not older than six months, and similar confirmations of clean criminal record from the head of the Branch Office’s home country and any country where he/she resided for more than three months in the last three years;

i. an affidavit of the head of the Branch Office stating in particular that he/she has not been the subject of bankruptcy within the past three years and that no ban on business activities related to the intended activities of the Branch Office is currently imposed by any court or any administrative body upon him/her;

j. notarial deed evidencing the foundation of the Branch Office; and

k. other documents certifying facts to be entered into the Commercial Register.

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Status and Development of Investment Incentives in the Czech Republic

Investment projects in the Czech Republic can be financed from various public sources including local sources – Czech investment incentive programmes, EU structural funds (distributed locally) and EU central funds. This article focuses only on the first category – investment incentives.

Until 31 December 2004, over 322 companies had been awarded investment incentives packages, representing direct foreign investment of over EUR 8 billion and the creation of more than 83,400 new jobs in the CR. Local investment incentives are provided to manufacturers according to the Investment Incentives
Act and to strategic service providers and technology centres according to a governmental decree.

THE MANUFACTURING INDUSTRY

To qualify for incentives, a manufacturer has to fulfil the general criteria set out in the Investment Incentives Act and the specific conditions set out in the Income Taxes Act.

Main General Conditions

- A minimum investment of CZK 200 million (approx. EUR 6.7 mil.)* into new fixed assets (within three years), at least CZK 100 million (approx. EUR 3.3 mil.) of which should be covered by the investor’s equity.
- In regions with an unemployment rate 25 per cent or 50 per cent higher than the national average, the minimum investment is further decreased to CZK 150 million (approx. EUR 5.0 mil.) or CZK 100 million, respectively. At least half of this investment amount should be covered by the investor’s own equity.
- The given scale and structure of the investment should be retained throughout the period in which tax relief is claimed, and for a minimum of five years from fulfilment of all general conditions.
- At least 40 per cent of the investment is in the form of machinery.
- The project must be environmentally friendly.
- The work on the investment project can start after filing the application for investment incentives.

Main Specific Conditions (influencing utilization of tax incentive)

- The investor may utilize tax incentives only after all general conditions have been fulfilled.
- The investor should use all provisions of the Income Taxes Act to reduce its tax base.
- The investor must be the first owner of the fixed assets in the CR (with the exception of real estate or assets acquired from a seller in bankruptcy).
- The investor must not be dissolved, be subject to bankruptcy proceedings, or allow another entity to merge with it.
- The investor must abide by all Czech transfer pricing rules.

Available Incentives:

- Corporate income tax relief (full or partial) for a period of up to ten years,
- Training and retraining subsidies,
- Job creation grants, and
- Transfer of state-owned land.

The sum of the granted incentives is limited by the maximum amount of public support allowed by law. For each project, the Ministry of Industry and Trade approves the maximum amount of public support as a percentage of the invested amount (maximum 50 per cent) and as an absolute amount. The percentage depends on the locality and other features of the investment.

STRATEGIC SERVICES AND TECHNOLOGY CENTRES

Strategic Services

Strategic services represent high value-added activities employing highly qualified experts. Such activities include shared service centres, customer contact centres, call centres, software development centres, expert and IT solution centres, or regional headquarters (lower investment criteria apply to the last three strategic services centres, see below).

To be eligible for incentives, an investor must meet the following main conditions:

- A New Programme, which became effective on 17 February 2004, reduced minimum investment to CZK 30 million (approx. EUR 1 mil.). The minimum equity requirement is set at fixed amounts of CZK 15 million (approx. EUR 500 650).
- Creation of at least 50 new jobs

Technology Centres

Technology centres are characterized by innovative activities that bring improvements to products, technologies, and services used in production.

To be eligible for incentives, an investor must meet the following main conditions (the same investment conditions apply also to the regional headquarters, software development, and expert solution centres):

- A minimum investment of CZK 15 million, the New Programme (see above) sets a fixed amount of CZK 7.5 million (approx. EUR 250 325) for the equity requirement.
- Creation of at least 15 new jobs
- The results of the technology centre should be for use in series production.

Furthermore, the following conditions apply to both strategic services and technology centres:

- International orientation of the project (i.e. at least 50 per cent of revenues shall be derived from exports).
- The investment as well as the supported activity must be retained for a five-year period.

Available Incentives for Strategic Services and Technology Centres

- A subsidy for entrepreneurial activity, which can be
claimed every year, for a maximum 10-year period. The subsidy can be claimed up to the maximum ceiling which is calculated as a percentage (20 per cent - 50 per cent depending on the location of the investment) of the eligible investment costs, i.e.:

1. Expenses on tangible and intangible fixed assets acquired within 5 years, or
2. 2-year gross wages actually paid to employees in the newly created jobs employed within 3 years

The purpose of the subsidy is to cover expenses related to the business activity, e.g. for payment of payroll costs and to purchase services from Czech business entities.

A subsidy for training and retraining, which is distributed over a three-year or five-year period, (at the levels of 35 per cent [30 per cent in Prague] of the general training costs and 60 per cent [55 per cent in Prague] of the special training costs). Maximum subsidy amount to CZK 100 000 (approx. EUR 3 338) or CZK 150 000 (approx. EUR 5 007) for one job position depending on the whole number of job positions created.

Special training: Acquiring knowledge and skills that are not generally transferable between companies can be used only within the company, respectively company group, or industry sector.

General training: Knowledge and skills acquired during training do not necessarily have to be related to a particular field of work in the company and can be used for other employers as well.

According to the New Programme, higher levels of support and subsidies than those identified above may be available for small and medium sized companies.

Investment incentives offered by the Czech Republic have received approval from the European Union and have been lauded for their transparency and effectiveness. Besides the investment incentives there are other public financing sources available for financing of company’s projects in the Czech Republic. When planning to make an investment, it is important for an investor to consider all possible options for public funding and select the one that is the most suitable for the specific investment project. Therefore, an investor should monitor reliable information sources on a regular basis and consult a specific investment project with advisers in order to tailor potential sources of financing efficiently.

* Average monthly exchange rate as of 2005= 1EUR/29.782 CZK (source CNB, March 2005)

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http://www.pwc.com/cz

The Czech Republic is an open economy that welcomes foreign direct investment (FDI) in all sectors. Its stable economic environment, skilled workforce, and central position within the single European market make it an attractive place for investment. It is one of the most successful countries in the region in attracting foreign direct investment, whose flow into the country since 1993 has exceeded EUR 40 billion.

In 2002, in connection with large privatization projects, EUR 9.012 billion worth of FDI poured into the country, which is the highest amount since the launching of economic and political transformation. This marked the peak of the main privatization wave, which was followed by a relatively massive decline the following year. More successful was last year, when the flow of FDI exceeded the EUR 3.5 billion mark (Czech National Bank estimate). About 50 per cent of the FDI that flowed into the CR in 2004 are reinvested profits; the proportion of investments with higher added value is growing as well. Recognized international institutions estimate that the rising trend could continue. One big project expected to materialize soon is, for example, the privatization of the largest telecommunication company Český Telecom. The Viennese Institute for International Economic Comparisons (WIIW) estimates that investments flowing into the country in 2005 will amount to some EUR 4 billion. Our agency estimates that up until 2010 an average of EUR 2-4 billion worth of FDI will be flowing into the CR each year.

SELECTED RECENT INVESTMENTS AIDED BY CZECHINVEST

- DHL, the world’s largest logistics company, has opened its IT Operations Centre for all Europe in...
the CR. The company will move most of its IT activities from Great Britain and Switzerland to Prague, where it will create more than 1000 jobs. Prague will thus become the largest technology centre in the DHL network.

- Toyota Motor Corporation of Japan and PSA Peugeot Citroën of France have built a new plant for a new class of automobiles in Kolín, Czech Republic. The total investment is expected to reach USD 850 million (about EUR 609 million) and to create 2000 new jobs.

- Honeywell Automation and Control Solutions – after expanding its development facilities in Prague and setting up a global development centre in Brno, the Honeywell Corporation is planning to also expand its aerospace-related production.

- The enlargement of the plant in Plzeň of Panasonic AVC Networks Czech, which cost CZK 1.4 billion (EUR 43.89 mil.), has resulted in the creation of more than 550 new jobs. As part of the massive expansion of its activities in the CR, this Japanese company located a completely new line of production in west Bohemia: the manufacture of TV sets with plasma display panels (PDP) and liquid crystal displays (LCD).

- Olympus, the world’s leading manufacturer of cameras and medical and scientific equipment, opened in the Czech Republic a high-tech repair centre for its cameras. The company has already invested nearly CZK 80 million (EUR 2.5 mil.) in the construction of the centre and the purchase of equipment. Total investment is expected to reach CZK 100 million (approx. EUR 3.13 mil.).

- Switzerland’s Lonza Company opened a new plant in Central Bohemia. Its investment in the manufacture of biotechnological products for the food and the pharmaceutical industries in this region has exceeded CZK 3.8 billion (EUR 119.1 mil.).

- ExxonMobil, number one among oil companies, opened its strategic service centre in Prague. In the first phase it will create 300 new jobs, mainly for university graduates. In future, the number of jobs may increase several times.

- The Ingersoll-Rand multinational engineering company started a new wave of expansion in the CR, where it has already invested CZK two billion (EUR 62.69 mil.) and has created more than 1700 new job opportunities. Now, after more than ten years of engineering production, it will also increase its research and development capacity and will invest more than CZK 400 million (EUR 12.5 mil.) in the construction of a technology centre in the Central Bohemian Region.

- The Fire Protection and Safety Equipment Division of Tyco International Group, wishing to enlarge its worldwide research and development programme, will open a new centre in the CR. It will be developing mechanical and electronic equipment in Brno for fire-protection systems and electronic devices for wireless communication.

- Germany’s Robert Bosch, one of the largest foreign investors in the Czech Republic, will build a new development and innovation centre in České Budějovice. It will invest nearly CZK 130 million (approx. EUR 4 mil.) in the construction of a new building and its IT equipment.

- The Symbol Technologies Company in Brno launched a new shared service and financial centre for Europe, the Middle East, and Africa (EMEA). Symbol Technologies has already invested more than seventy million CZK (EUR 2.2 mil.) in technological equipment, and in the next three years it is planning to spend another half-a-billion CZK (EUR 15.7 mil.) on operations, wages, training, and other investments.

- Hewlett-Packard (HP) is opening its regional...
central office in the Czech Republic to manage its computer technology supplier chain for Europe, the Middle East, and Africa (EMEA). It will create 75 new highly qualified jobs and will invest CZK 22 million (EUR 700,000) there.

German Lufthansa, the world’s largest airline, has decided to build a new shared services centre in the CR. The new call centre in the Lufthansa family, its tenth, will be located in Brno and from 1 June of this year will serve clients in Central and Eastern Europe. Some 100 people will find work there.

### Table 1: Survey of selected major investors in the Czech Republic

<table>
<thead>
<tr>
<th>Sector</th>
<th>Investor</th>
<th>Country of origin</th>
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<tbody>
<tr>
<td>Technology centres</td>
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<td></td>
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<td></td>
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<td></td>
<td>Procter &amp; Gamble</td>
<td>USA</td>
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<td>Robert Bosch</td>
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<td>TRW Automotive</td>
<td>USA</td>
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<td></td>
<td>DaimlerChrysler</td>
<td>Germany/USA</td>
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</tbody>
</table>


**FOREIGN MANUFACTURERS TRANSFORM THE CZECH ECONOMY**

It is estimated that:
- firms with foreign capital make over 70 per cent of manufactured products intended for export;
- firms with foreign capital employing more than 100 people employ nearly one-third of the Czech workforce in companies of such size.

Foreign companies operating facilities in the CR use domestic components, which are of very good quality and are relatively cheap, take advantage of excellent access to foreign markets, a well-educated and skilled workforce, and advantageous labour costs. Apart from these natural and cultural advantages, the Czech Government offers a comprehensive system of tax and business incentives that are available to both new and existing investors.

**CZECH NATIONAL INVESTMENT INCENTIVES SCHEME**

**Manufacturing Sector**

To raise the competitiveness of Czech industry, in 1998 the Government of the CR introduced an investment incentives system available to foreign and domestic investors. The legal framework to grant investment incentives is primarily the Investment Incentives Act (Act No. 72/2000 Coll., as later amended), which became effective on 1 May 2000. The Act was accepted by the European Commission (and is therefore in compliance with European state aid rules). This has created a transparent and credible environment for foreign investors.

The latest Amendment to the Investment Incentives Act, which came into force on 1 May 2004, offers the following possibilities:

<table>
<thead>
<tr>
<th>Tax incentive</th>
<th>Corporate tax relief for up to 10 years for new companies</th>
<th>Partial tax relief for up to 10 years for existing companies</th>
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</thead>
<tbody>
<tr>
<td>Job-creation grants</td>
<td>Financial support for creation of new jobs</td>
<td></td>
</tr>
<tr>
<td>Training and retraining grants</td>
<td>Financial support for training and retraining of new employees</td>
<td></td>
</tr>
<tr>
<td>Site support</td>
<td>Provision of low-cost land and/or infrastructure</td>
<td></td>
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</tbody>
</table>

Investors in the manufacturing industry, investing at least CZK 200 million (EUR 6.27 million*) mainly in high-tech machinery and meeting all the conditions laid down by the Act may apply for all or some of the above-mentioned types of aid. For regions with high unemployment the limit has been reduced to CZK
150 million (EUR 4.7 mil.) and CZK 100 million (EUR 3.13 mil.), depending on the region in which the investment will be made. The specific amount of aid for the project is calculated as a percentage of the total amount of the actual investment.

198 firms altogether were granted investment incentives between April 1998 and the end of February 2005. The companies pledged to invest CZK 290 050 million (EUR 9091.3 bn) and to create nearly 58 000 new jobs.

**TECHNOLOGY CENTRES AND BUSINESS SUPPORT SERVICES**

In order to strengthen the position of the CR as an information and technological hub in the Central European region, the Czech Government also supports investment in business support services and development activities (especially customer support centres, shared services centres, including regional headquarters of multinational companies, software development centres, expert solutions centres for information and telecommunication technologies and high-tech repair centres), and technology centres (innovation activity centres closely linked to production).

The Framework Programme to Support Technology Centres and Centres of Business Support Services, effective 17 February 2004, which governs investment incentives in these areas, offers the following subsidies:

<table>
<thead>
<tr>
<th>Subsidy for business activity</th>
<th>Up to 50 per cent (65 per cent for small- and medium-sized enterprises) of investment in assets purchased during the first five years, or the same percentage of the cost of gross wages of employees paid during the period of three years.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Subsidy for training and re-training</td>
<td>Up to 35 per cent (30 per cent in Prague) of the cost of special training and 60 per cent (55 per cent in Prague) of the cost of general training for a period of up to three or five years (depending on total number of new jobs created.)</td>
</tr>
</tbody>
</table>

However, the maximum amount of training subsidy is CZK 100 000 (EUR 3 134.4) and CZK 150 000 (EUR 4 701.6) per employee (also depending on total number of new jobs created).

To become eligible for a subsidy, investors in customer support centres, high-tech repair centres, and shared services centres must invest at least CZK 30 million (EUR 940 000), create at least 50 new jobs (within three years) and invest a minimum of CZK 15 million (EUR 470 000) from its own sources. For investments in technology centres, software development centres, expert solutions centres and multinational firm headquarters the minimum amount of investment required is reduced to CZK 15 million (EUR 470 000), and the number of jobs created to 15 (also within three years); at the same time, investment from one’s own sources must amount to at least CZK 7.5 million (EUR 235 000). For technology centres, an important factor is their link to production, which means that the results of its work must find application in production.

The decision to support a project has been conferred upon 12 investors in the business support services sector, whose investments are expected to amount to CZK 6 644 million (EUR 208.25 mil.), as a result of which more than 5 500 new jobs will be created. In technology centres, at least 25 projects involving investment worth 1 861 million crowns (EUR 58.3 mil.) and generating 1 652 new jobs, mainly for university graduates, will be subsidised.

**PROGRAMME TO SUPPORT NEW JOB CREATION IN REGIONS WORST AFFECTED BY UNEMPLOYMENT**

For investment projects carried out in regions with high unemployment, investors in the industrial manufacturing sector and customer support and shared services centres may apply for subsidies under the Programme to Support New Job Creation in Regions Worst Affected by Unemployment, approved by the Czech Government by Resolution No. 566/2004 of 2 June 2004. The project must be situated in a region where unemployment in the previous two six-month periods exceeded 14 per cent, and must meet other conditions. In addition to the minimum investment of CZK 10 million (EUR 313 400), other conditions are the obligation to create 10 new jobs within two years and to finance at least CZK 5 million (EUR 156 700) worth of assets from one’s own sources. State aid has the form of a financial contribution for creating new jobs within two years (up to CZK 200 000 – approx. EUR 6 269) and for training and retraining employees (also for a period of two years).

Thirteen investors who joined this programme have already been issued a Decision to grant aid for their projects. Taken together, their investments are expected to amount to approx. CZK 456 million (EUR 14 292) and to create nearly 900 new jobs.

All subsidised investments must meet several other conditions, such as maintaining the investment...
and the subsidised jobs for a period of five and three years, respectively, starting work on the project only after having filed an application, and ensuring environmentally friendly operation of the project.

CzechInvest is the sole body where the investor can apply for the above incentives. You can receive further details on incentives from our investment incentives specialists or from the “Manual on Investment Incentives” available at CzechInvest in printed and electronic format.

The World Competitiveness Yearbook, a yearbook on the competitiveness of 60 selected world economies published by the Institute for Management Development (IMD), appreciated the attractiveness of the Czech investment incentives scheme by awarding it 8.10 points out of a maximum of 10.

MAIN STRENGTHS OF THE CZECH REPUBLIC

Geographical position
The Czech Republic has a strategic position in the centre of Europe with very good access to both established western markets and developing markets in the eastern part of the continent. The most important market for domestic firms is the EU; since the CR’s accession to the European Union, foreign investors have been serving the world’s most populated consumer market straight from their manufacturing bases in the CR without any obstacles. Foreign firms in the CR are taking advantage of the already existing good contacts of Czech managers and businessmen with partners in the countries of the former Soviet Union, as well as their long-term experience in dealing with these rapidly growing markets.

Well-developed infrastructure
The extensive transport infrastructure and geographical position of the CR highlights its role as a crossroads of major European transit corridors. Several rail modernization projects are currently underway with the aim to link the Czech Republic with the pan-European network of high-speed trains. The motorway network is planned to double.

Highly-developed domestic supply base
The Czech Republic has a long industrial heritage. Czech-produced machinery such as weaving looms, metal-working, and rubber-processing machines are famous in many developed and developing countries alike, as is Czech-made equipment for power generation and minerals processing.

Well-educated and Cost-competitive Workforce
Average wage costs in the CR are still much lower than in the western OECD countries, and are lower or comparable with many fast-developing Asian countries. The high standard of skilled labour makes it possible for manufacturers to attain a high productivity of labour. According to a 2004 OECD study, the CR is among countries with the highest world proportion of university graduates in scientific and technical branches.

CR possesses a long-established system of vocational training based on a wide range of specialized three- and four-year vocational schools. The ready availability of highly-technically educated graduates from these schools, at a fraction of the cost of western labour, create an outstanding environment for manufacturing companies, especially for those which need to generate higher value-added products.

High Credit Rating
The CR enjoys one of the highest long-term sovereign debt ratings in Central and Eastern Europe by renowned international risk-rating institutions. Moody’s current debt rating stands at A1, while Standard and Poor’s give the CR an “A-” rating. An excellent rating combined with relatively low inflation (by Central and East European standards) – average inflation rate in 2004 was 2.8 per cent – and stable macroeconomic performance mitigate the risks associated with investing in the CR.

CzechInvest
http://www.czechinvest.org

* Average monthly exchange rate as of 2005 = 1EUR/29.782 CZK (source CNB, March 2005)
Most agreements which bind the Czech Republic in this area were concluded in accordance with the "European model" based on the model discussed within the OECD in the 1960s. This model covers three main issues: admission and treatment, expropriation, and dispute settlement.

The model includes "all kinds of assets" in the term investment, and provisions relating to the treatment of investors are applied when the investments are made.

The accession of the Czech Republic to the European Union brought no major change in the system of agreements on the promotion and protection of foreign investments. But since this area is under the joint competence of the EU and the different member countries, the Czech Republic must alter some parts of its agreements with countries that are not EU members to put them in full harmony with aquis communautaire.

The bilateral agreements on the promotion and the reciprocal protection of investment concluded by the Czech Republic contain the following principles and commitments:

- a commitment to support investment, and create favourable conditions for investors from other countries to invest in the particular country, and commitment to admit such investment in accordance with the relevant laws and regulations of that particular country;
- the principle of full safety and protection to the same extent as that accorded to investments by domestic investors, or investments by investors from any third country provided they are more advantageous to the investor concerned;
- a commitment not to adopt measures depriving investors from the other party of their investment with the exception of these measures, which are adopted in the public interest, are in accordance with the law, and are accompanied by the payment of prompt, fair, and effective compensation;
- a commitment to guarantee the transfer of payments connected with the investment in a freely convertible currency without undesirable limitations or delays;
- means of settling disputes between an investor and a receiving party to the agreement, or between the

### Agreements on promotion and protection of investments (18.3.2005)

<table>
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<tr>
<th>Country</th>
<th>Valid since</th>
<th>Act No.</th>
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</tr>
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</table>
parties mutually concerning the interpretation and application of the agreement;

The validity of agreements is generally set for a period of 10 to 15 years; when this expires, the relevant provisions of the agreement relating to the investment already made usually remain in place for the next ten years.

The guarantees and principles contained in the agreements and the rights stemming from them usually concern investments which are to be made by investors coming from one party to the agreement in the territory of the other party, and investments already existing in keeping with the laws of the parties on the day the agreement became valid.

Václav Rombald
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Ministry of Finance
http://www.mfcr.cz

<table>
<thead>
<tr>
<th>Country</th>
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<td>Yugoslavia</td>
<td>29.01.2001</td>
<td>23/2001</td>
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Protection of Economic Competition

Supervision of compliance with competition rules is entrusted to the Office for the Protection of Competition ("Office") in the Czech Republic. The authority of the Office comprises supervision of concentrations of undertakings, abuse of a dominant position, cartels, and also the supervision of public procurement. Before Czech accession to the EU, the Office also had deciding powers in the area of state aid (now the European Commission ("Commission") solely rules in this area). The Office oversees conduct of undertakings both with national and Community impact, and is obliged to apply national and Community competition law. As of 1 May 2004, the Commission decides only the most serious cases of distortion of competition and assesses concentrations of undertakings with Community dimension.

In practice, Community competition law applies to conduct of undertakings that may affect trade between Member States, i.e., to conduct with a Community dimension; national competition law applies to conduct of undertakings relating to the local Czech market only. Thus, undertakings in the Czech Republic must comply with both Community and national competition law.

BASIC COMPETITION RULES IN THE EU

Fundamental competition rules in the EU are stipulated in Articles 81 and 82 of the Treaty establishing the European Community ("EC Treaty"). Detailed rules are stipulated in implementing regulations and recommendations of the Council of the EU and the Commission. The basic acts of Community law include Council Regulation (EC) No. 1/2003 of 16 December 2002 on the implementation of the rules on competition laid down in Articles 81 and 82 of the Treaty, which contains detailed regulations implementing the rules on prohibited agreements (Article 81 of the EC Treaty), abuse of a dominant position (Article 82 of the EC Treaty),...

COMPETITION LAW IN THE CZECH REPUBLIC

Competition law in the Czech Republic is set out especially in Act No. 143/2001 Coll., on the Protection of Competition (the "Act on Protection of Competition"), which contains rules concerning cartels, abuse of a dominant position, concentration of undertakings, and also procedure rules on the basis of which, together with Act No. 71/1967 Coll., on administrative procedure (Administrative Code), the proceedings are conducted before the Office. National competition law is based on the same principles as Community competition law, and therefore the basics of both laws are the same.

Current legal regulation shifts the responsibility for assessment of compliance of their conduct to undertakings themselves (e.g., by abolishing negative clearances and introducing the possibility for undertakings to propose commitments to remedy their infringement of competition rules).

All agreements between undertakings, decisions by associations of undertakings, and concerted practices that result or may result in the distortion of competition, are prohibited and absolutely void under the effective legal regulation. The Office may grant a block exception from this prohibition by a decree. Since the amendment of the Act on Protection of Competition came into force on 2 June 2004, the Office may no longer grant individual exemptions. Prohibited agreements include, in particular, agreements fixing prices; dividing markets or sources of supply; limiting production, sale, or investments; concluding contracts subject to further performance; applying dissimilar conditions to identical transactions, termination or limitation of production or sales, or consistent offer and sale of goods at unfairly low prices.

PROHIBITIONS

The prohibition does not apply to horizontal agreements (concluded between undertakings operating at the same market level) in which the combined share in the relevant market of the parties to the agreement does not exceed 10 per cent, or to vertical agreements (concluded between undertakings operating at different market levels) in which the combined share in the relevant market of the parties to the agreement does not exceed 15 per cent, or to agreements of sales organizations and associations of agricultural producers on sale of unprocessed agricultural commodities (this new statutory exemption came into effect as of 7 September 2004). However, if an agreement contains a provision fixing prices, dividing markets, or dividing sources of supply, it is prohibited regardless of the share of the contractual parties in the relevant market (so called "hard-core" provisions).

Abuse of a dominant position of an undertaking to the detriment of other undertakings or consumers is also prohibited. An undertaking is deemed to have a dominant position on the relevant market if its market power enables it to behave to a significant extent independently of other undertakings or consumers. An example of an abuse of a dominant position is an imposition of disproportionate contract terms, conclusion of a contract subject to further performance, application of dissimilar conditions to identical transactions, termination or limitation of production or sales, or consistent offer and sale of goods at unfairly low prices.

CONCENTRATIONS OF UNDERTAKINGS

Concentrations of undertakings (merger, acquisition, control of another undertaking) are subject to approval by the Office or the Commission. As of 2 June 2004, new notification criteria were introduced according to which the approval of the Office is required for far fewer concentrations [1]. Undertakings whose concentration is subject to notification may notify their concentration before conclusion of the contract constituting the concentration, or after its conclusion; however, they may not realize the concentration without the approval of the Office. Council Regulation No. 139/2004 regulates concentrations with Community dimension, which are subject to the approval of the Commission. The aim of the regulation is to enable undertakings to obtain approval from a single authority instead of notifying a concentration with individual national competition authorities in different Member States. To ensure that the "best placed" office decides on approval of a concentration, Council Regulation No. 139/2004 regulates conditions under which a concentration with a Community dimension may be approved also by a national competition authority, and vice versa, when a concentration without a Community dimension may be approved also by the Commission.

If conclusion of a prohibited agreement, abuse of a dominant position, or realization of a concentration of undertakings subject to notification without the
necessary approval is proved, an undertaking may be subject to a penalty of up to CZK 10 million (approx. EUR 335 773) or 10 per cent of net turnover in the preceding calendar year.

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Public Procurement

Subjects managing public funds must comply with rules stipulated in Act No. 40/2004 Coll., on Public Procurement (“Act on Public Procurement”) effective as of 1 May 2004 in the Czech Republic, when using such funds. This regulation of public procurement is based on Community law, and its aim is to ensure that public funds are used economically, effectively, transparently, and without discrimination. Compliance of the Czech regulation of public procurement with Community law, contained in particular in the public procurement Directives¹, is a precondition for drawing on EU structural funds.

PUBLIC CONTRACTING AUTHORITIES

The Act on Public Procurement must be observed by public contracting authorities stated in the Act (e.g., the Czech Republic, autonomous municipalities or regions, the National Property Fund of the Czech Republic, Czech National Bank, Czech Television, health insurance companies, and other subjects established by law for the purpose of accommodating needs of public interest and financed primarily from public funds). The Act must also be observed by legal and natural persons awarding a public contract of which more than 50 per cent is financed by a public contracting authority, and undertakings controlled by public contracting authorities. Any contracting authority, not only public contracting authorities, must comply with the Act on Public Procurement when awarding above-the-threshold public contracts listed in the Act in the water, energy, transport, and telecommunications sectors.

A public contract is a contract for supply, service, or works, in which the contracting authority is a person stated in the Act and where the estimated value of the contract exceeds CZK 2 million (approx. EUR 67 155)³. By the object of a public contract, the Act distinguishes public supply contracts, public service contracts, and public works contracts. The Act further distinguishes between above-the-threshold public contracts, which fall under the scope of the public procurement Directives, and below-the-threshold public contracts, which fall under the scope of the Act on Public Procurement. Above-the-threshold public contracts are contracts in which the estimated value of the object of the contract equals or exceeds the financial limits set in the Act, which range from EUR 130 000 to EUR 5 million, based on the object of the contract and nature of the contracting authority. Below-the-threshold public contracts are those that exceed CZK 2 million but do not reach the financial limits set for the above-the-threshold public contracts.

FOUR TYPES OF AWARD PROCEDURES

The Act on Public Procurement sets forth four types of award procedures: open procedure, where all interested tenderers may submit tenders; restricted procedure, where only those tenderers invited by the contracting authority may submit tenders (at least five tenderers and at most 20); negotiated procedure with publication of a notice, where only invited tenderers may submit tenders and these tenderers are then invited to negotiations with the contracting authority (at least three tenderers); and negotiated procedure without publication of a notice, where the contracting authority directly invites one or more tenderers to bid on a project. The Act on Public Procurement stipulates a range of public contracts that can be awarded in individual types of award procedure, and also the

¹ A concentration is subject to approval of the Office if the combined net turnover in the CR of all the undertakings concerned for the last accounting period exceeds CZK 1.5 billion (approx. EUR 50.4 mil.), and each of at least two of the undertakings concerned achieved net turnover in the CR of at least CZK 250 million (approx. EUR 8.4 mil.) during the last accounting period, or if the net turnover in the Czech Republic of any of the undertakings concerned, the undertaking that is being acquired, over which the control is being acquired, or of the undertakings establishing a joint venture, exceeds CZK 1.5 billion, and at the same time the worldwide net turnover for the last accounting period achieved by another undertaking concerned exceeds CZK 1.5 billion.

² Average monthly exchange rate as of 2005= 1EUR/29.782 CZK (source CNB, March 2005)
conditions and method of use of the award procedure in question.

The award procedure is commenced by publication of a public contract by means of an information system for award of public contracts (www.centralniadresa.cz). Above-the-threshold public contracts are also published in the Official Journal of the EU, as it is necessary to ensure the opportunity to participate for all interested tenderers in the EU.

CONTRACTORS' DUTIES

At the beginning of a year, or at the latest within 30 days of approval of the budget from which the public contracts will be paid, the contracting authorities are further obliged tentatively to announce public contracts that they intend to award in the given calendar year if the total estimated value of all these public contracts amounts to at least EUR 750 000 for public supply contracts and public service contracts, or at least EUR 5 million for public works contracts. For the tentative announcement the contracting authority must use the form attached as Appendix No. 1 to Decree No. 240/2004 Coll., on the information system on award of public contracts and methods for evaluation of tenders according to their economic advantage.

COURSE OF INDIVIDUAL TYPES OF AWARD PROCEDURES

The Act on Public Procurement regulates in detail the course of individual types of award procedures, e.g., the content and provision of contract documentation, provision of tender security, time limits for submission of tenders and their content, electronic submission of tenders, and in general also evaluation of tenders based on selected criteria. A basic criterion for the award of a public contract is the economic advantage of a tender or the lowest tender price. In the notice of open or restricted procedure, the contracting authority has to publish the basic criterion and any additional criteria, and the weight that will be attributed to individual criteria. The Act further regulates assignment of a public contract and conclusion of the contract or cancellation of an award procedure.

CANDIDATES OR TENDERERS FOR A PUBLIC CONTRACT

Suppliers, i.e., candidates or tenderers for a public contract, must meet qualification requirements stipulated by the Act on Public Procurement. Tenderers may apply for registration in the list of qualified suppliers kept by the Ministry for Regional Development. Suppliers registered in this list no longer need to provide the contracting authorities with documentation proving the fulfilment of qualification criteria.

BREACH

Breach of the obligatory award procedure for a public contract is subject to a penalty of up to 5 per cent of the tender price or up to CZK 10 million (according to the type of breach). In the case of a repeated breach of the obligatory award procedure, the penalty may be doubled.

Surveillance over compliance with rules on award of public contracts was entrusted to the Office for the Protection of Competition.

In case of disputes concerning the above-the-threshold public contracts in the water, energy, transport, and telecommunications sectors, the European Commission has the authority to conduct conciliation procedures under Council Directive No. 92/13/EEC of 25 February 1992 upon the request of a tenderer.

* Average monthly exchange rate as of 2005 = 1EUR/29.782 CZK (source CNB, March 2005)

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As of 31 January 2006, the above stated directives will be replaced by the Directive 2004/18/EC of the European Parliament and of the Council of 31 March 2004 on the coordination of procedures for the award of public works contracts, public supply contracts, and public service contracts.
As of the moment of accession to the EU, the CR adopted within the framework of the EU common commercial policy all the regulations of EU legislation in the area of trade defence measures, which are mandatory and directly applicable for the country as a member state.

I. ANTI-DUMPING – PROTECTION AGAINST DUMPED IMPORTS
The CR’s adoption of the common commercial policy upon the country’s entry into the EU brought a basic change to the process of applying anti-dumping legislation, until then implemented by the Ministry of Industry and Trade. The body authorized to carry out anti-dumping investigations in the EU is the European Commission, which abides by the Community legislation, namely Council Regulation (EC) No 384/96 of 22 December 1995 on protection against dumped imports from countries outside the European Community, as later amended:


The investigation covers both dumping and injury to the Community industry caused by dumped imports, as well as the Community interest represented e.g. by the positions of users or consumers.

EU member states become involved in the decision-making process at the lowest level through their representatives in the Advisory Anti-dumping and Anti-subsidy Committee of the European Commission. In consultations with the European Commission, member states’ representatives defend the justified interests of their businesses – producers, importers, merchants, and consumers. They announce their national positions – their approval or rejection (or abstention) of the European Commission proposals – e.g. for the imposition of provisional or definitive anti-dumping duties, their suspension, etc. Only after sufficient support of member states has been verified shall the European Commission submit its proposal for anti-dumping measures for approval to the EU Council. An anti-dumping investigation consists of the following steps:

I INITIATION OF ANTI-DUMPING PROCEEDINGS
The complaint shall be submitted to the European Commission (not to a member state’s office), and must be submitted in the name of the Community industry (not by a member state’s industry); in practice, this is done especially by EU sector confederations and associations. The Commission has 45 days to examine the accuracy and adequacy of the evidence. If it finds them both formally and materially justified, it initiates an investigation, otherwise the complaint is rejected.

Detailed instructions for submitting a complaint are at: http://europa.eu.int/comm/trade/policy/traderegul/compl.htm

COMMENCEMENT OF INVESTIGATION
The notice of the commencement of the investigation shall be published in the Official Journal of the EU. The investigation shall not exceed a period of 15 months, after 60 days (and not later then 9 months from the commencement of the investigation) a provisional anti-dumping measure may be adopted. It shall be published as a regulation of the European Commission in the EU Official Journal.

TERMINATION OF INVESTIGATION
If an investigation is not terminated without measures (injurious dumping is not proved), it is terminated by the imposition of a definitive anti-dumping duty or by the acceptance of an undertaking – both usually in force for a period of 5 years. The Council (Commission) regulation on their adoption shall be published in the EU Official Journal. This shall be preceded by a consultation of the case in the Advisory Anti-dumping Committee and by the endorsement procedure in EU Council bodies.

WHILE A DEFINITIVE MEASURE IS IN FORCE, A REVIEW MAY BE CARRIED OUT:
- interim review – upon request by a party concerned,
- newcomer review – upon request by a new party concerned,
- expiry review – sunset review – before expiry of the five-year period for which the measure has been in force in order to further extend it,
- anti-absorption review – to reassess whether the imposed anti-dumping duty has been reflected in the price of the product, i.e. whether it has not been "absorbed" by the producer or exporter,
- anti-circumvention review – to adopt measures to prevent circumvention of the adopted anti-dumping measures.

The Advisory Anti-dumping Committee debates
proposals to initiate these reviews or adopt anti-dumping measures on their basis. The European Commission regulations on their commencement are published in the EU Official Journal, as are regulations of the EU Council and adoption of relevant measures. The duty may be suspended – similar procedures apply to the decision-making process.

If the definitive anti-dumping measure is not extended after 5 (or more) years, the anti-dumping duty ceases to be collected.

II. Similar procedures apply to anti-subsidy investigations – they are governed by Council Regulation (EC) No 2026/97 of 6 October 1997 on protection against subsidized imports from countries not members of the European Community:
http://europa.eu.int/comm/trade/issues/respectrules/ant_i_subsidy/legis/index_en.htm

Proposals for measures are consulted by the Advisory Anti-Subsidy Committee (meeting as the joint Advisory Anti-dumping and Anti-subsidy Committee).

III. OVERVIEW OF EU ANTI-DUMPING AND ANTI-SUBSIDY MEASURES IN RELATION TO IMPORTS FROM THIRD COUNTRIES

By entering the EU, the Czech Republic also adopted the EU anti-dumping and anti-subsidy measures in force in relation to imports from third countries. Comprehensive detailed information on the cases is on the web site of the Czech Ministry of Industry and Trade:
http://www.mpo.cz/xqw/webdav/UTF8-/dms_mpo/getFileInternet/11491/10286/prehled_AD.htm

in the regularly updated document “Overview of EU Anti-dumping Measures in Relation to Imports from Third Countries”. A similar database of the European Commission is available at:
http://europa.eu.int/comm/trade/issues/respectrules/anti_dumping/stats.htm

IV. TRADE POLICY DEFENSE MEASURES OF THIRD COUNTRIES AGAINST IMPORTS FROM THE EU

Trade defense instruments are also used by third countries in relation to Community producers and exporters. Information on current cases is available on the web site of the Czech Republic’s Ministry of Industry and Trade:
http://www.mpo.cz/xqw/webdav/UTF8-/dms_mpo/getFileInternet/11493/12464/prehled_ad_treti_zeme_vuci_CRaEU.htm

A similar database of the European Commission is available at:

V. THE SYSTEM OF TRADE DEFENCE INSTRUMENTS also includes protective measures according to WTO rules, protective measures in relation to states which are not WTO members, the specific mechanism of adopting protective measures in relation to China, quantitative restrictions and double checking of imports of steel products from some states, and quantitative restrictions, monitoring and double control of imports of textile products originating from non-WTO member states and from China.

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<tr>
<th>SAFEGUARDS AGAINST INCREASED IMPORTS</th>
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<td>The basic regulation for the adoption of safeguards against increased imports of products, in harmony with the Agreement on Safeguards of the World Trade Organization, is Council Regulation (EC) No 3285/94 of 22 December 1994 on the common rules for imports. It deals with the adoption of safeguards in cases where products are imported in such quantities, and on such terms, as to cause, or threaten to cause, injury to a domestic industry, and a causal link is proved between the increased imports and the injury. This regulation also lays down the procedures for the adoption of surveillance measures for the imports of products which are imported, or threaten to be imported, in greatly increased quantities.</td>
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-- Rules for the adoption of safeguards and introduction of import surveillance in relation to some countries with non-market economies, which are not WTO members, are laid down by Council Regulation (EC) No 519/94 of 7 March 1994 on common rules for imports from certain third countries. According to this Regulation measures can be adopted in relation to imports from Armenia, Azerbaijan, Belarus, Kazakhstan, the Democratic People’s Republic of Korea, the Russian Federation, Tajikistan, Turkmenistan, Ukraine, Uzbekistan, and Vietnam. |

The rules and procedures of investigations are similar to those under Regulation No 3285/94, but they take into account the specific features in the economic management of those countries.

In compliance with these regulations, the following measures have been introduced and are in force in 2005:

| Safeguards applied to imports of tinned citrus fruit, |
| Safeguards applied to imports of farmed salmon, |
| Prior surveillance for imports of some steel products from all third countries (until 31 March 2005), |
| Surveillance of imports of some footwear originating from China |

The Protocol on the Accession of China to the WTO contains certain specific provisions, for a period of
transition until 11 December 2013, on procedures in adopting safeguards applied to imports, and these mechanisms are then contained in Council Regulation (EC) No 427/03 of 3 March 2003 on the mechanism of adopting safeguard measures on imports of products originating in the People’s Republic of China.

The specific mechanism stipulates that the Chinese side shall be notified before an investigation is initiated, and bilateral consultations may take place. If the consultations do not produce a mutually satisfactory solution, an investigation is commenced to assess a link between increased imports of products originating from the People’s Republic of China and a possible injury to the Community industry, and also the threat of a possible trade diversion.

**MEASURES IN IMPORTS OF STEEL PRODUCTS**

With regard to the fact that trade in steel products is a very sensitive area, the EU, seeking to protect EU producers, applies quantitative restrictions and import surveillance in the double control regime on which it has agreed in bilateral relations with some countries.

The EU has agreements on trade in some steel products with Russia, the Ukraine, and Kazakhstan, under which imports of these products are subject to quantitative restrictions and specific licensing procedures.

In a bid to monitor the imports of certain sensitive steel products, the EU has concluded bilateral agreements which introduce a double control system for imports from the Former Yugoslav Republic of Macedonia, Romania, and Moldova.

Imports of steel products, which are subject to these trade regimes, to the EU customs territory can be carried out only on the basis of import authorizations. These authorizations are issued by the competent authorities of the European Union countries; in the Czech Republic this authority is the Licensing Administration of the Ministry of Industry and Trade.

**MEASURES IN IMPORTS OF TEXTILE PRODUCTS AND CLOTHING**


According to this regulation, measures can be applied in relation to countries with which the EU has concluded bilateral agreements (Belarus, the Russian Federation, the Ukraine, Uzbekistan, and Vietnam), and in relation to China in accordance with the specific conditions given by the Protocol on the Accession of China to the WTO.

As of 1 January 2005 the following measures have been in force:

- the system of double control of imports from Uzbekistan and Vietnam,
- quantitative limits for direct imports from Belarus and Vietnam,
- quantitative limits for re-exports in outward processing trade from Belarus and Vietnam.

An import authorization issued by member states’ authorities is required for products which are subject to these measures, to be released for free circulation in the EU. The application for an import licence must be accompanied by the original of an export licence, and by the certificate of the origin of goods, which is issued by the respective authorities of the supplier country for each category of products. The competent Czech authority which issues automatic licences is the Licensing Administration of the Ministry of Industry and Trade.

In an effort to monitor trade flows of textile and clothing products originating from China, monitoring of imports by issuing automatic licences without quantitative restrictions was introduced as of 1 January 2005. The competent Czech authority issuing automatic licences is the Licensing Administration of the Ministry of Industry and Trade.

A separate legal regulation for the application of measures in the imports of textile and clothing products is Council Regulation (EC) No 517/94 of 7 March 1994 on common rules for imports of textile products from certain third countries not covered by bilateral agreements, protocols or other arrangements, or by other specific Community import rules.

In compliance with this regulation, quantitative limits shall be applied to imports of textile and clothing products originating from Serbia and Montenegro, and from the Democratic People’s Republic of Korea, for direct imports and imports in outward processing trade.

**PROTECTION AGAINST OBSTACLES TO TRADE**

Community enterprises can defend themselves against obstacles to trade that have an adverse effect on their access to the markets of third countries, or an adverse effect on the EU market. They can do so under the TBR (Trade Barriers Regulation) - Council Regulation (EC) No 3286/94 of 22 December 1994 laying down Community procedures in the field of the common commercial policy in order to ensure the exercise of the Community’s rights under international trade rules,
in particular those established under the auspices of the World Trade Organization):
http://europa.eu.int/comm/trade/policy/traderegul/legisl.htm

The purpose of the TBR is to eliminate obstacles to trade adopted by third countries, where an obstacle to trade "shall be any trade practice adopted or maintained by a third country in respect of which international trade rules establish a right of action." The TBR shall apply not only to trade in goods, but also to services and intellectual property rights.

Entrepreneurs in the EU may defend themselves against obstacles to trade by lodging a complaint with the European Commission. Details of what a submitted complaint should contain are at:
http://europa.eu.int/comm/trade/policy/traderegul/compl.htm

The European Commission must decide on the acceptance of the complaint within 45 days of its submission. In its decision-making procedure it relies on the positions of EU member states to which the complaint is sent for comment. If the European Commission decides to accept a complaint, it shall initiate an examination which shall be announced in the EU Official Journal. The examination should not last longer than 5 months. In complex cases it can be extended to 7 months. When the examination has been concluded, the final report on the course and results of the examination is submitted to EU member states.

The ultimate aim of the TBR is to eliminate the particular obstacle to trade, which can be attained by:

■ The third country taking satisfactory measures to remove the obstacle to trade. In this case the examination shall be terminated or suspended. The European Commission shall monitor whether the third country respects its undertakings.
■ An agreement being concluded with the third country. The examination shall be suspended to allow negotiations to be commenced on the conclusion of a bilateral agreement with the third country. If an agreement removing the obstacle is concluded, the examination shall be terminated.
■ International dispute settlement procedures being initiated. If the parties do not agree on an amicable settlement, the case may be brought under the WTO Understanding on Rules and Procedures Governing the Settlement of Disputes or another international mechanism for dispute settlement.

The Ministry of Industry and Trade is an advisory and consultative body for Czech business entities which request information on the use of Community trade defence instruments, or have become a party concerned in similar examinations by the authorities of a third country.

OTHER IMPORTANT INTERNET ADDRESSES

Topical information on the mechanisms of implementation of EU measures and summaries of the contents of the relevant EU legislation, full text links, and other information are published on the Ministry of Industry and Trade web sites
http://www.mpo.cz/CZ/Obchod/Antidumpingova_opatreni/default.htm
http://www.mpo.cz/CZ/Obchod/Mimoradna_obchodne-politicka_opatreni/default.htm
http://www.mpo.cz/CZ/Obchod/Ochrana_protì_prekazkam_obchodu/default.htm

and on the web sites of the European Commission
http://europa.eu.int/comm/trade/issues/respectrules/tpi_en.htm

EU Official Journal http://europa.eu.int/eur-lex/lex/JOPIndex.do?
Market Access Database http://mkaccdb.eu.int/

Ladislava Votavová
Svatopluk Leitgeb
Ministry of Industry and Trade
http://www.mpo.cz

1) The system of double control is a form of surveillance regime in which the imports of selected products are merely monitored. It requires an export licence in the exporter's country, on the basis of which the EU issues an import licence. The quantity of imported goods is not limited.

2) The regime of outward processing trade (OPT), applicable to certain textile and clothing products re-imported to the EU after manufacture or processing in third countries, is governed by Council Regulation (EC) No 3036/94. Agreements on outward processing trade are possible only with producers who are established in the Community and who aim at promoting industrial activity within the EU. The producer must first obtain an authorization which is granted if specified conditions are fulfilled. Import licences up to the equivalent of 50 per cent of EU production may be granted annually within OPT.
Small and medium-sized enterprises are an important part of the Czech economy. They account for 62 per cent of the country’s employment and for 52 per cent of the total amount of added value, and at the same time they stimulate competitiveness, while inciting large enterprises to raise their efficiency and innovation.

A competitive sector of small and medium-sized enterprises (SME) is an indispensable condition of the full integration of the Czech economy in the European economic area. The SME sector is, at the same time, an important factor in surmounting social tension brought about by globalization trends linked with the rapid transfer of certain industrial programmes to countries having lower wage costs, and with the high intensity of world economic competition.

SME’s are extremely important for the development of the national economy, for the creation of new jobs, the development of small communities, towns, and regions. They help generate a sound entrepreneurial environment and raise the dynamism of the market. The development of SME’s is generally considered the main factor of economic development, regardless of the economic standard of the country concerned.

The support of small and medium-sized enterprises provided in accordance with the rules of economic competition is a justified contribution towards creating more favourable conditions for the development of the business activities of natural and corporate persons in the Czech Republic.

**Programmes of Support to Small and Medium-Sized Enterprises in 2005 and 2006**

The Ministry of Industry and Trade announced programmes of support to small and medium-sized businesses for the years 2005 and 2006. They are the programmes GUARANTEE, MARKET, PROGRESS, CONSULTING, DESIGN, and ALLIANCE.

Under these programmes, in support of their business plans, SME’s can get a guarantee for bank loans and leasing, a guarantee for capital investment, a guarantee for entering a public competition of tenders, grants for ISO 9001 and ISO 14001 certification and for the introduction of the EMAS programme, soft-term credits for small enterprises on the territory of the capital Prague, soft subordinated credits, grants for the education of businessmen and for consulting services, for the creation of copyright works, grants for the preparation of marketing studies, for studies of entry on a specific foreign market and grants for presentation at trade fairs and exhibitions.

The realization of the GUARANTEE, MARKET, and PROGRESS programmes has been entrusted to Česká moravská záruční a rozvojová banka, a.s. (Czech-Moravian Guarantee and Development Bank Ltd. http://www.cmzrb.cz).

The organizational backing of the ALLIANCE programme is provided by the Czech Trade Promotion Agency/CzechTrade (http://www.czechtrade.cz), while the realization of the CONSULTING programme has been entrusted to the Investment and Business Development Agency CzechInvest (http://www.czechinvest.org) and the DESIGN programme to the Design Centre of the Czech Republic (http://www.designcentrum.cz).


**Basic Characteristics of the Programmes**

The GUARANTEE programme is designed for small and medium-sized enterprises to which it helps obtain the following guarantees for the realization of their business plans:
- Guarantees for bank credits (investment, operating) and leasing,
- Guarantees for capital investment;
- Guarantees for entering public commercial competitions;

The MARKET programme is designed for small and medium-sized enterprises, which may obtain:
- Certification grants
- Soft-term credits for small enterprises payable within 6 years
- Soft-term subordinated credits with a 3 per cent p.a. interest rate up to 50 per cent of the total costs of the project. The credits are due within 8 years, with
a deferment of the instalments of up to 5 years. The credits are designed for businessmen with at least two consecutive closed tax periods immediately preceding the application date.

- Interest-free credit for beginning small businessmen of up to 90 per cent of the total cost of the project payable within 6 years.

The PROGRESS programme allows small and medium-sized enterprises to obtain:
A subordinated credit with a firm 3 per cent interest rate p.a., to a level of up to 50 per cent of estimated recognizable costs of the project. The maturity of the credit may be fixed at up to 8 years, with a deferment of the instalments by up to 5 years.

The CONSULTING programme is a grant programme allowing persons preparing to start a business and SME’s in the CR to obtain low-priced education and consulting services provided by external consultants.

The DESIGN programme is a grant programme supporting the incorporation of design into the SME’s business strategy aimed at raising their competitiveness.

The ALLIANCE programme is a grant programme to support the competitiveness of SME’s on foreign markets and the international marketing activities of the alliance – a group of not less than 3 and not more than 25 SME’s.

Support to Small and Medium-sized Businesses under the Industry and Enterprise Operating Programme

The Industry and Enterprise Operating Programme (IEOP) of the Ministry of Industry and Trade spreads over the years 2004-2006. Under this programme, financial aid is granted for business projects from the European Regional Development Fund and the State Budget.

The aim of the aid under IEOP is to maintain and promote a competitive and efficient industrial potential, to help effectively towards raising the economic performance of the production base and to support the required structural changes in industry so that at the end of the next programme period the Czech Republic as a whole no longer ranks among the less developed EU regions. The aid is focused on the development of the entire entrepreneurial potential, the support of innovating activities in industry, the productive, technical, and economic transformation of enterprises, sectors, and branches by way of raising the effectivity of energy consumption, i.e. by reducing the energy intensiveness of enterprises.

IEOP has two concrete priorities:

Priority 1 – Development of the entrepreneurial environment, which is the principal priority of IEOP, covering measures concerning the development of new and the modernization of existing industrial localities, and the development of entrepreneurial incubators, technological parks, the infrastructure in the area of applied research and development, technology transfer and the modernization of the institutional structure to support enterprise.

Priority 2 – Raising competitiveness, with special emphasis on programmes of support focusing on direct investment support and consulting services aimed at raising the competitiveness of enterprises, especially small and medium-sized ones.

Eleven programmes have been announced under IEOP for 2004-2006, the full text of which, comprising the conditions for the beneficiaries, the terms of the programmes, and the essentials to be completed in applications for the granting of aid, can be found on the web site of the Ministry of Industry and Trade, http://www.mpo.cz.

The programmes announced under Priority 1 – Development of the entrepreneurial environment are PROSPERITY, REALITY, TRAINING CENTRES, and CLUSTERS.

Brief Description of Programmes under IEOP Priority 2

The MARKETING programme supports small and medium-sized businesses to raise their competitiveness on foreign markets by helping them to get access to marketing information, create advertising materials, participate in exhibitions and trade fairs in foreign countries, etc.

The beneficiaries are enterprises which have already been engaged in export trade. The support is provided in the form of grants.

The START programme supports natural and corporate persons who have just started up a business, or have resumed business activities after a certain period of time, to realize their business plans. The support has the form of preferential-term credits, which may be used for the purchase of tangible and intangible assets, and to a lesser extent for inventory and operating cost financing.

The CREDIT programme supports the realization of development projects of small enterprises with a short history. The beneficiaries may use the aid,
which has the form of preferential-term credits, for the purchase of tangible and intangible assets, and to a lesser extent for inventory and operating cost financing.

The DEVELOPMENT programme grants aid to businessmen for projects aimed at raising the competitiveness of small and medium-sized enterprises in the phase of growth and at raising their technological standard. The aid has the form of grants.

The INNOVATION programme is aimed at supporting projects to raise the technical and utility value of products and services that will raise the efficiency of production processes and the provision of services, or at introducing advanced methods of management, carrying out important changes in the enterprise organizational structure and changes in the strategic orientation of the entrepreneur, and other non-technical innovations. The beneficiaries may be businessmen, and the support has the form of grants; in the case of small and medium-sized enterprises it may also have the form of preferential-term credits.

The ENERGY SAVING programme supports projects leading to the reduction of energy intensiveness in industrial enterprises by reducing the energy intensiveness of processes connected with production, energy transformation and distribution, new technologies for energy raw material processing, the introduction of combined electricity and heat generation, etc. The aid is intended for small and medium-sized enterprises in the area of the manufacturing industry. The aid has the form of grants.

The RENEWABLE ENERGY SOURCES programme supports projects concerned with the starting of electricity or heat generation from renewable energy sources, such as projects of building, renewal or reconstruction of facilities using renewable energy sources, projects of combined electricity and heat generation using renewable energy sources in production, etc.

The applicants may be small and medium-sized enterprises in the area of the manufacturing industry, or entrepreneurs engaged, or intending to become engaged, in electricity or heat generation from renewable sources on the territory of the CR. The aid has the form of grants.

COMMON REGIONAL OPERATING PROGRAMME

Under the Common Regional Operating Programme of the Ministry for Regional Development, small and medium-sized businesses are supported in the framework of the Regional Support to Business priority. It is a facility providing support to small and medium-sized businesses in selected regions.

REGIONAL SUPPORT TO BUSINESS

This support applies exclusively to existing small and medium-sized businesses having their accounts closed for at least the previous three accounting years. To be eligible, the small or medium-sized business must meet the conditions stipulated in Annex I of Commission Regulation (EC) No 70/2001, as later amended.

The support may cover a wide range of economic activities carried out by small and medium-sized enterprises. The structure of the measures will make it possible to support investment development plans of enterprises linked with the creation of new jobs or the maintenance of existing ones, including the financing of the purchase of consulting services.

Priority is given to projects creating new jobs, planned on a long-term basis, projects guaranteeing equal opportunities for men and women, focusing on the activities of the manufacturing industry with a high level of added value, strengthening co-operation between enterprises and stimulating the export of local products.

The support is intended for small and medium-sized enterprises in selected regions.

The support is provided in the framework of regional grant programmes. There are altogether 23 programmes, in which the regional authorities are the final beneficiaries and the entrepreneurs the final users of the support drawn from the European Regional Development Fund and the regional budgets.

A) Grant programmes of regions supporting small businesses

The programmes cover a wide range of small businesses employing less than 10 persons.

B) Grant programmes of regions supporting small and medium-sized businesses

The programmes cover small and medium-sized businesses employing from 10 to 249 persons.

A condition of participating in the grant programme is the commitment of the beneficiary to raise the total number of employees.

Public support has been fixed at 46-50 per cent of the total recognizable investment costs of the project. Public support for the purchase of services linked with the development of the business can amount to 50 per cent of the recognizable costs of such services.

Information about the Common Regional Operating Programme can be found on the Internet site of the Ministry for Regional Development, http://www.mmr.cz, and on http://www.strukturalni-fondy.cz
CONCEPT OF SUPPORT FOR SMALL AND MEDIUM-SIZED BUSINESSES IN 2005 AND 2006


The Concept sets out the aims and the priorities of support for small and medium-sized businesses, which are realized with the help of direct and indirect aid.

Direct aid comprises instruments ensuring easier availability of capital, based especially on the principle of the full or partial returnability of the financial means granted and the principle of risk spreading. The funds from the state budget in support of enterprise will derive from the medium-term prospective budget and from EU structural funds.

Indirect instruments of aid are focused on the improvement of the entrepreneurial environment, the simplification of administration procedures at the start and in the course of business activities, on expert training, and consulting and information services for businessmen.

The years 2005 and 2006 will verify the ability of small and medium-sized businessmen to adjust to the demanding environment of the EU single internal market and at the same time their ability to use the financial means of the structural funds, which are an important factor in their further development.

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The Amount of Money Drawn from the Structural Funds is Encouraging

When the Industry and Enterprise Operational Programme, one of the five Czech operational programmes of using the structural funds of the European Union, was announced on 12 May 2004, only a few people could imagine how quickly and if at all Czech entrepreneurs and the agencies of the Ministry of Industry and Trade would be capable of coping with the new system of allocations from European funds designed to boost the economic and social cohesion of the enlarged Europe.

But Czech entrepreneurs were capable of rapid response to the changing conditions of public support, which was also apparent from the number of submitted projects – more than 100 were presented in the first 10 workdays of their acceptance (as of 1 July 2004), and more than 1 000 came in before the end of the year. The requested support exceeded CZK 7 billion (approx. EUR 235 mil.)*. This was due to regular information about new programmes provided to entrepreneurs from the initial stage of their preparation, and to the suitable transfer of some successful national programmes of support to the Business and Industry Operational Programme (such as MARKETING in subsidies, and START in credits), which were then supplemented with new programmes (such as INNOVATION and TRAINING CENTRES).

GREATES INTEREST WAS IN THE DEVELOPMENT PROGRAMME

The rapid beginning was recorded in the realization of projects submitted within the programmes of credits to small and new business (START), and development programmes for small enterprises with a short history (CREDIT). As of August 2004, they had been granted very advantageous credits from the Českomoravská záruční a rozvojová banka, and became the first entities in the Czech Republic to reach for European money from the structural funds. The greatest interest was in the DEVELOPMENT Programme for small and medium-sized enterprises focused on the purchase of modern technologies. Interest in this type of subsidy exceeded all expectations, so that this programme had to be suspended less than three months after the beginning of the acceptance of applications. The money earmarked for the entire 2004–2006 period had been more than doubled, and even so an amount four-fold lower than had been requested could be divided between the best of the 504 submitted projects. Many projects were being realized during the assessment of applications, and so the implementation agency CzechInvest is receiving the first requests for payment. The DEVELOPMENT Programme will be continued in 2005 by a single round of invitations to submit projects for the distribution of the remaining EUR 10 million (approx. EUR 335 773). Following
the decision of the European Commission to award the EDIS accreditation to the Czech Republic, another EUR 17.4 million (approx. from the suspended TECHNOLOGY Programme, which uses the resources of the last pre-accession fund PHARE 2003 could be divided concurrently with the distribution of money for projects focused on the purchase of modern technologies within the DEVELOPMENT Programme. Despite the concurrence of the two forms of support, there is evidence of the ability of Czech entrepreneurs to submit viable projects for subsidy. But this ability has been influenced to some extent by the easier fulfilment of the terms and conditions of acquiring subsidies from these programmes.

FIRMS ARE ALSO DRAWING MONEY FROM THE INNOVATION AND MARKETING PROGRAMMES

There also is great interest in the MARKETING programme within which Czech exporters can gain financial support for their participation in international exhibitions and fairs, and help with marketing, publicity materials, and professional creation of their websites. The first subsidy of this programme was granted to a successful applicant in November 2004, and their number has been on the rise since then. Interest is also recorded in the INNOVATION programme, which is designed to support firms in the realization of projects to increase the technical and utility values of products and services, and in the introduction of progressive methods of management, which yield a high value added adequate to real innovation. Due to the so far lower interest in the ENERGY SAVING and RENEWABLE SOURCES OF ENERGY programmes, the Ministry of Industry and Trade, and the Monitoring Committee of the Operation Programme have partly revised their parameters. They have negotiated with bodies of the European Commission the deviation of these programmes from the rules of public support based on the European Environmental Directive to the terms of regional support, which are more familiar to entrepreneurs. This will give Czech entrepreneurs better access to European funds for this specific area intended to reduce energy consumption in production, and replace traditional sources with renewable sources of energy, which is very important to the Czech economy.

The first subsidies are now being granted to expensive projects focused on the development of the business environment, which will not benefit only successful individual applicants, but also several other entities, as they are oriented towards the infrastructure. Assessed and approved are projects to renovate and reconstruct buildings (within the REAL ESTATE programme) to make them suitable for new kinds of manufacture and services. In addition to developers, a subsidy has been granted to the town of Dobřany, which runs the local industrial zone. Projects underway in Brno support the co-operation of local entrepreneurs with institutions of tertiary education within the PROSPERITY programme. The first two technology transfer centres have been awarded subsidies. There also is interest in financial support to the construction and reconstruction of facilities of branches and enterprise within the TRAINING CENTRES programme of providing education to industry workers in areas, which are insufficiently covered by the system of schools. Entrepreneurs are showing interest in a new form of support in the Czech Republic as yet, i.e. the grouping of research and development entrepreneurs and institutions within the CLUSTERS programme. The first studies of the possibilities of establishing specialized clusters are being prepared. A clear advantage of this programme is the possibility of direct involvement of foreign entities in clusters, which are taking shape in the border areas.

Of the total of 1 449 applications (as of 22 March 2005), an affirmative answer has been given to 207 applications for subsidies, and 402 applications for advantageous credits, to a total value exceeding CZK 1.3 billion (EUR 42 million). The websites of the Ministry of Industry and Trade (www.mpo.cz) and its CzechInvest agency (www.czechinvest.org) give the updated number of applications and granted subsidies according to programmes and regions, and the constantly lengthening list of firms, which had their subsidies confirmed also by the formal decision of the Ministry.

STRUCTURAL FUNDS CAN ALSO BE USED BY FOREIGN ENTITIES

Although available statistics do not provide precise information about the share of applicants backed by foreign entities, the names of some of the successful companies (such as Zambelli-technik, Wijdeven Power Electronics, AppecAstro, Tatsuno-Benč Europe, Solwe Coom, and Lasselsberger) indicate the presence of foreign capital and the fact that besides money foreign investors bring to the CR new technologies and know-how. Until recently, applications for money from the EU structural funds
were accepted only from foreign entities with subsidiaries based in the Czech Republic. According to a new decision of the Monitoring Committee, headquarters or permanent residence in the CR are not prerequisites for application for subsidy or advantageous credit, and decisive is a business permit, and performance of a supported business in Czech territory (except Prague, which is not included in the so-called Objective 1 of the rules of structural funds use), and registration as income tax payer in the CR. These and other terms and conditions are included in the Supplement to the Business and Industry Operational Programme, which is available also in English at www.mpo.cz (which also carries detailed information about the different programmes of support). This is in keeping with the status of the Czech Republic as a full member of the EU.

The management and implementation agency of the Industry and Enterprise Operational Programme has been given an affirmative statement by the internationally renowned auditor Pricewaterhouse-Coopers, and the Ministry of Industry and Trade has thus embarked on the road to effective use of the EU structural funds for the further development of the competitiveness of Czech entrepreneurs.

* Average monthly exchange rate as of 2005 = 1EUR/29.782 CZK (source CNB, March 2005)

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Mergers and Acquisitions

In the 1990s, mergers and acquisitions became part of the Czech legal framework enabling businessmen and entrepreneurs to expand or restructure their business activities in the Czech Republic. This provision assumed importance especially after accession to the European Union, when the CR was bound to implement EU laws and regulations, including legislation allowing so-called cross-border mergers. The actual merger and acquisition procedures are regulated primarily by the Commercial Code, by accounting and tax laws, antimonopoly regulations and special regulations applying to certain sectors, such as banking, insurance and other financial services.

Foreign private and corporate persons are not restricted in the Czech Republic from holding shares in companies and they may acquire and sell up to 100 per cent of the registered capital of both limited liability and joint stock companies. They can operate also in companies having another legal status. The transfer of a share in a limited liability company is liable to registration in the Company Register. The acquisition of shares in joint stock companies is not restricted, but the shares of certain joint stock companies are registered in the Securities Centre, or the Central Securities Registry (register of shares which do not exist physically, and their existence and their holders are only recorded in the accounts). Such shares change hands only by movements in the particular accounts. In the case of shares traded on the official securities market (the Stock Exchange or a regulated off-Exchange market) in the Czech Republic or in another EU member state, the acquirer is liable to notify the company (issuer) and the Securities Commission (regulatory body) if a specified limit of the share in the company’s voting rights has been exceeded; in the event the buyer has acquired a controlling stake in the company, he is liable to make a buy-out offer to the remaining shareholders.

TAKE-OVER BIDS
In the case of joint stock companies, the investor can make a take-over bid to the shareholders, and if he is suspected of intending to take control of the company, the bid must be public. The bid must be binding for not less than 4 weeks and for not more than 10 weeks. All shareholders must get equal treatment. During the period of validity of the bid, another person may make a rival bid which, however, must be at least 2 per cent higher. If the first bidder wants to outbid the rival bid, his price must be 2 per cent higher than that of the rival bid. The bid to take over a company whose shares are listed on the official securities market may be published only with the prior consent of the Securities Commission.

PURCHASE OF A BUSINESS
Acquisitions can be made by purchasing a business or
any of its parts, in which the buyer acquires all rights, relations, assets, and liabilities relating to the running of the business. The procedure in purchasing a business or any of its parts is, by analogy, governed by certain rules as those applying to mergers, especially the need for the General Meeting to approve the draft contract of purchase prior to its signing, the obligation to inform the investors, the obligation to have obtained the opinion of independent experts on the proposed price and the prior consent of regulatory bodies, if such a consent is required by law.

**CONTRIBUTION TO A TRADING COMPANY**

A way of obtaining an interest in a trading company or a share in a joint stock company is making a capital or non-capital contribution, the subscription of which must be decided by the company’s General Meeting. The registration of such an increase is done by the Commercial Court, and in the case of non-capital contributions an independent valuation by a court-appointed person must be submitted.

**TRANSFORMATION OF COMPANIES (MERGERS, TRANSFER OF ASSETS TO A PARTNER, DIVISION, CHANGE OF LEGAL STATUS)**

In Czech legislation, mergers fall within the category of transformation of trading companies, which also includes the division of a company, the transfer of assets to a partner and the change of the company’s legal status. The transformation of a company is also admissible if the company is in liquidation or under bankruptcy proceedings. In the case of the new legal status, the so-called European company (Societas Europea), transformation is also possible if the participation involves foreign trading companies.

Perhaps the most frequent form of transformation is merger, which may take the form of actual merger, when one of the companies carries on its activities, while the others become extinct and their assets and liabilities are transferred to the continuing successor company, or the form of consolidation, with all the companies becoming extinct and their assets and liabilities being transferred to a new successor company.

From the economic point of view an important aspect is the untransferability of potential cumulated tax losses of companies, which have been wound up, to the successor company. Such a transfer is only possible in the case of losses assessed for the first time for the tax period, in which the Treaty of Accession of the Czech Republic to the EU came into force (i.e. for the tax period, in which 1 May 2004 and the subsequent periods fall). Losses assessed for the previous tax periods continue to be untransferable.

Mergers take place on the basis of merger contracts, which must be approved by the companies’ General Meetings in advance. Their key point is determining the exchange ratios of the shares and possibly other aspects of the property arrangements after the merger. Mergers become legally effective on the day of their entry in the Company Register, but from the tax and accounting points of view the companies appear as a single entity from the specified day (“merger date”), which precedes all steps and decisions on the fusion. In certain cases, on the basis of the agreement of all shareholders or partners, the merger procedure can be simplified significantly.

Mergers are also possible between companies having a different legal status and they may involve more than two companies.

The transfer of assets to a partner is a legal form of company transformation, where the shareholder or partner, who must be a Czech juristic person and who owns more than 90 per cent of the company’s registered capital, may transfer the assets of that company to himself, provided he has obtained the consent of the General Meeting, and must compensate equitably all other minority shareholders or partners.

Under Czech legislation, companies which have not become extinct, but have only changed their legal position and structure, also may change their legal status.

**REGULATION**

In the case of mergers and acquisitions, the interests of minority shareholders are protected by the timely information duty of companies and by the requirement applying to most such transactions, that the opinion of an independent expert is presented saying whether the parameters of the transaction, in particular the price, are equitable towards them.

Mergers and acquisitions in the CR are also regulated by certain special measures. For example, in the banking and insurance sectors the prior consent of the appropriate bodies (the Czech National Bank, www.cnb.cz, the Ministry of Finance, www.mfcr.cz) are required for a merger or an acquisition contract of a bank or an insurance company to be effective.

Mergers and acquisitions also come under the jurisdiction of the Antimonopoly Office, www.compet.cz). Its permission is required if the total net turnover of the participants in the
transaction for the past accounting period realized on the market in the Czech Republic was more than CZK 1.5 billion (about EUR 50.4 mil.)* and if at least two of the merging participants in the same period each realized a net turnover on the market of the CR in excess of CZK 250 mil. (about EUR 11 mil.), or
- if the total net turnover realized on the market of the Czech Republic by at least one participant in the transaction in the past accounting period surpassed 1.5 billion CZK and if the aggregate world net turnover realized by another participant also surpassed 1.5 billion CZK.

* Average monthly exchange rate as of 2005 = 1EUR/29.782 CZK (source CNB, March 2005)

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The Banking Sector in the Czech Republic in 2004

The infrastructure of commercial banking in the Czech Republic was comprised of thirty-five banks and branches of foreign banks at the end of 2004 – as it had been in the previous year. Majority shares in nine of them are Czech-owned, foreign owners have majority shares in seventeen banks, and nine are branches of foreign banks. The number includes six building societies. A thirty-sixth banking entity - PRIVAT BANK AG der Raiffeisenlandesbank Oberösterreich – ČR branch – commenced operations on 1 January 2005.

SEVERAL CHANGES AT THE LIST OF BANKS
A look at the list of banks reveals several changes – new owners appeared in several banks, and several banks altered their names. New in 2004 were BAWAG BANK CZ a.s. (which acquired Interbanka a.s.), BAWAG International Bank CZ a.s. (instead of Dresdner Bank CZ), CALYON BANK CZECH REPUBLIC a.s. (formerly Credit Lyonnais Bank Prague), PPF banka a.s. (formerly První městská banka a.s.) and Oberbank AG, branch (formerly Sparkasse Mühlviertel-West bank, branch). Several other changes came at the beginning of 2005 (see the list of banks and branches of foreign banks with highlighted changes).

The number of foreign bank representations, which are registered by the Czech National Bank, but may not conduct bank trading, and are only authorized to mediate contacts and the like, has increased to 35.

However, when the Czech Republic became a full member of the European Union on 1 May 2004, foreign banks from the EU can provide their services in this country without establishing a branch. They can do so within the framework of free movement of services under Article 21 of the European Parliament and Council Directive 2000/12/EC. The list of entities, which intend to make use of this possibility includes 62 banks at present.

PERIOD OF STABLE AND FAVOURABLE PROFITABILITY
The year 2004 was a period of stable and favourable profitability for the banking sector in the Czech Republic. The total balance sum of the banking sector (i.e. the sum of assets or liabilities) increased during the year from CZK 2 529 billion (EUR 85 bln.)* to (an estimated) CZK 2 700 billion (approx. EUR 90 mil.). An extraordinary rise was recorded in banking operations not included in the balance sheet – i.e. those which create profit mainly from fees and commissions. A role in this was also played by the increasing number of credit transfers, and the use of credit cards. There was an enormous growth in mortgages and consumer credits, and charges for application settlement and account management increase the profit from operations not included in the balance sheet. Profits from balance-sheet operations, i.e. those stemming from the difference between interest on deposits and credits, had a less dynamic development.

The profitability of the banking sector increased and had a good effect on the capability of banks to absorb higher credit risks. The profit of the banking sector ranged around CZK 30 billion (approx. EUR 1.007 mil.) at the end of 2002 and 2003, and could be somewhere between CZK 34 and 35 billion (approx. EUR 1.1 bln.) at the end of 2004. Profit was at a favourable level in both assets and equity capital, and this is a boon to stability, and attracts investors.
Banks could use their net profit to increase their capital and as a whole are well equipped with funds. The capital adequacy of the banking sector was almost 14 per cent, whereas EU directives require a minimum of 8 per cent. The total capital of banks in the CR exceeded CZK 150 billion (approx. EUR 5.036 mil.), and the quality of the credit portfolio continued to improve.

The share of classified credits (i.e. the aggregate of five categories with differently delayed instalments up to non-returnable principal) in the total credits granted by banks decreased from 15.8 per cent at the end of 2002, to 11.1 per cent at the end of 2003, and approximately 10 per cent at the end of 2004. The share of non-performing loans (i.e. the two worst categories of classified credits) dropped even more distinctly – from more than 8 per cent at the end of 2002 to (an estimated) 4 per cent at the of 2004. In this respect, the banking sector in the CR is at the average level of the new EU member countries. Possible losses of the banking sector from the extent of classified credits are covered to some 150 per cent by reserves, corrective items, and securities.

The most dynamically growing segment of banking operations was credits granted to the population. Although banks focused on them more noticeably in the late 1990s, they amounted to CZK 240 billion (approx. EUR 8 059 mil.) in mid-2004, and (an estimated) more than CZK 300 billion (approx. EUR 10 073 mil.) at the end of the year. These debts showed a year-on-year rise of more than 40 per cent. The increase in credits granted to the population by far exceeds the increase in wages and salaries, and so the indebtedness of the population is soaring, but it has not yet reached the degree in a number of West European Countries. The most rapid growth was recorded in housing credits – mortgages, and credits from building societies. Consumer credits were increasing at a slower rate, but retained the interest of both banks and clients. Taken by proper repayment, the quality of mortgages is highest, and the quality of consumer credits is much lower. In all, however, the repayment of credits granted to households is better than the repayment of credits granted to entrepreneurs, but these developed was much less dynamically, and their volume ranged around CZK 460 billion (approx. EUR 15 446 mil.) throughout 2004.

ACCESSION OF THE CR TO THE EUROPEAN UNION
Besides adjustments brought by the accession of the CR to the EU, fundamental changes were made in the legal framework of commercial banking in 2004 – such as the possibility of cross-border operations of banks, the unified banking licence, and forms of cross-border banking supervision. In addition to a number of “traditional” matters concerning the banking sector for which a better arrangement has been sought repeatedly, such as personal data management (the use of birth numbers in the data bases of clients), the integration of financial market supervision, and the co-operation of banks with execution authorities, attention was focused on a major amendment to the law on bankruptcy and composition, which would eliminate the weak spots of bankruptcy proceedings. Many legislative activities concern the regime of the Deposit Insurance Fund.

Endeavour is exerted on a regulating measure, which requires constant adaptation of the banking environment in the Czech Republic to international standards. This applies mainly to the introduction of the new concept of capital adequacy (Basle 2), supplementary supervision in the framework of financial conglomerates, and Fair Value Accounting (FVA), which allows better comparison of banking sectors in different countries.

On the whole, the banking sector in the CR appeared as stable and efficient in the year of the country’s accession to the European Union. It is more developed than banking in the other new EU members. It has strong international links – foreign shareholders account for 85 per cent of bank capital in the CR, and more than 95 per cent of the aggregate balance of banks is under foreign control. Banking is naturally entering a phase of increased international competition – the operations of banks from other EU countries on the Czech market are being facilitated in many respects. The national economic weight of the sector is yet to grow – its share in the Gross Domestic Product is still much lower than in the “old” countries of the EU.

The list of banks operating in the Czech Republic is available at the websites of the Czech National Bank http://www.cnb.cz

* Average monthly exchange rate as of 2005 = 1EUR/29.782 CZK (source CNB, March 2005)

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Insurance in the Czech Republic has been gradually approximating the system of the European Union. The process was commenced more than a decade ago further to the political and social changes in this country. Major changes came together with the accession of the Czech Republic to the EU, and the “single licence”, which allows insurance companies to offer their services in all EU countries, and to establish their branches in other member countries of the European Union.

A look at the development of insurance in the CR, specifically between 1990 and the present, shows a gradual stabilization of the insurance market. In the last eight years, the number of insurance companies which hold a Ministry of Finance permit to operate in the sector has been ranging between 40 and 43.

Table 1 shows the development on the insurance market in the Czech Republic in the last eight years, in which there have been no extraordinary changes.

Comparison makes it evident that the share of foreign capital has been exceeding domestic capital in domestic insurance companies. This is clear from Table 2, which shows this predominance as of 2001. The number of the branches of foreign insurance companies has remained almost the same throughout the monitored period.

The total of prescribed premiums has been on
a steady rise, and insurance is a significant sector of the national economy. This growth and the position of the insurance market are documented in Table 3, which presents the development of the prescribed premiums and their share in the Gross Domestic Product.

**Table 2: Insurance companies according to the origin of capital, and the average basic capital**

<table>
<thead>
<tr>
<th>Year</th>
<th>Total number of insurance companies</th>
<th>Of which: branches</th>
<th>Domestic insurance companies</th>
<th>Of which: domestic companies with predominance of foreign capital</th>
<th>Domestic companies with predominance of domestic capital</th>
<th>Average basic capital in CZK/EUR million</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997</td>
<td>40</td>
<td>7</td>
<td>33</td>
<td>13</td>
<td>20</td>
<td>312/10.5</td>
</tr>
<tr>
<td>1998</td>
<td>41</td>
<td>7</td>
<td>34</td>
<td>15</td>
<td>19</td>
<td>337/11.3</td>
</tr>
<tr>
<td>1999</td>
<td>42</td>
<td>7</td>
<td>35</td>
<td>15</td>
<td>20</td>
<td>374/12.6</td>
</tr>
<tr>
<td>2000</td>
<td>41</td>
<td>6</td>
<td>35</td>
<td>16</td>
<td>19</td>
<td>381/12.8</td>
</tr>
<tr>
<td>2001</td>
<td>43</td>
<td>8</td>
<td>35</td>
<td>19</td>
<td>18</td>
<td>381/12.8</td>
</tr>
<tr>
<td>2002</td>
<td>42</td>
<td>7</td>
<td>35</td>
<td>19</td>
<td>16</td>
<td>406/13.6</td>
</tr>
<tr>
<td>2003</td>
<td>42</td>
<td>7</td>
<td>34</td>
<td>19</td>
<td>17</td>
<td>412/13.8</td>
</tr>
<tr>
<td>2004</td>
<td>40</td>
<td>7</td>
<td>33</td>
<td>19</td>
<td>17</td>
<td>445/14.9</td>
</tr>
</tbody>
</table>

**LEGISLATION**

Major changes have been made in insurance-related legislation in the last few years.

At the end of 2003, the Parliament of the Czech Republic passed the following laws and amendments:

- Amendment to Act No. 363/1999 Coll., on insurance; the amendment was passed by Act No. 39/2004 Coll., most provisions became valid on 1 May 2004;
- Act No. 37/2004 Coll., on insurance policy, and amendments to relevant laws (law on insurance policy) with full effect as of 1 January 2005;
- Act No. 38/2004 Coll., on insurance agents and independent claim adjusters (law on insurance agents and independent claim adjusters), which became valid on 1 January 2005.


Very positive is the passage of a separate law on private insurance in this country, as the amendment to the law on insurance in particular opened the Czech insurance market for the common European market. Insurance companies of the EU member countries are free to provide services in the CR, and Czech insurance companies are free to operate in the EU.

**INSURANCE SUPERVISION**

Insurance supervision in the Czech Republic is performed by the Office of State Supervision of Insurance and the Contributory Pension Scheme, which is attached to the Ministry of Finance. Major changes in this system were made after the CR had acceded to the EU. The Office became a member of the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS) and is participating in the activities of this Committee and its working groups dealing with co-operation in different areas of supervision.

The Office is involved in European structures of regulation by participating in the activities of the European Insurance and Occupational Pensions Committee (EIOPC – "Insurance Committee" as of...
In April 2004, the Prague Stock Exchange entered the twelfth year of activity in its modern history. The Czech Republic’s accession to the EU was accompanied by an increased interest of investors, especially foreign ones, in the Czech market. This was reflected in record volumes of trading on the shares market and contributed to an unprecedented rise in the market’s cross-section indices.

2004 was also a landmark year for the area of legislation. New laws of the capital market came into effect as of May – the collective investing act, the act on bonds, and the capital market undertaking act which, among others, created conditions for the establishment of a Central Depository of Securities.

The central depository project is a major development project for the Exchange. The establishment of the new entity will unify the process of registration and settlement of securities while making it more effective, in order to reduce transaction costs for market participants and increase the competitiveness of the Czech capital market. The establishment of a central depository should also make it possible to offer additional services and strengthen the influence of the market participants on its further development.

In compliance with the new laws, the Stock Exchange amended in 2004 its internal Exchange regulations and completed after several years the standardization of Exchange legislation and Exchange operations in harmonization with the European Union standards.

**THE YEAR 2004 IN FIGURES**
The year 2004 was the most successful one in the history of the Stock Exchange, which reported not only record volumes, but also the historical maximum of the official Stock Exchange index PX 50. As early as 30 July 2004, the total volume of trades on the shares market since the beginning of the year exceeded the former record annual volume of trades from 2000, and the final annual volume value of CZK 479.7 billion (approx. EUR 16.1)* was 81.6 per cent higher.

Monthly volumes set records as well. The November volume of trades on the shares market exceeded the 50 billion mark for the first time ever, reaching the value of CZK 53.6 billion (approx. EUR 1.8 bln.), and also the November average daily volume of CZK 2.554 billion (approx. EUR 85.8 bln.) in trades on the shares and units market was the highest in the history of the Stock Exchange.

The three most liquid share issues were the same as in 2003. The first position was retained by KOMERČNÍ BANKA (149.3 billion CZK, EUR 5 bln.), followed by the issues ČESKÝ TELECOM (121.0 billion CZK, EUR 4.1 bln.) and ČEZ (108.1 billion CZK, EUR 3.6 bln.).

The substantial upsurge in the prices of share issues in 2004 was reflected in the development of the PX 50 index. The index grew the most in the first quarter, by 25 per cent. On 3 February 2004 the index returned above 700 points after nine years. Its initial 1 000 point level of 5 April 1994 was exceeded on 19 November and on 24 November the index climbed above the former historical maximum of 7 April 1994, rising to 1 012.9 points. The PX 50 index concluded the year 2004 at the historical maximum of 1 032 points, with a record 56.6 per cent year-on-year increase. The growth of the index was mainly due to the ČEZ issue, the price of which went up by 133.8 per cent in 2004.
The 2004 total volume of trades (shares and bonds) amounted to CZK 1,172.1 billion (approx. EUR 39.4 bln.), which is a 14.3 per cent drop in comparison with 2003, the third annual decline in the trading volume in a row. Not even the record increase in the shares market trading could make up for the fall in the volume of trading in bonds, lasting for several years, the total volume of these trades amounting in 2004 to CZK 692.5 billion (approx. EUR 23.3 bln.), or a year-on-year decline of 37.6 per cent. However, it is a positive fact that the structure of the market has been gradually changing in favour of trade in shares, whose proportion rose from 6.5 per cent in 2001 to 40.9 per cent in 2004.

During 2004, no major changes occurred in the structure of the Stock Exchange members. As of 1 January 2005, the Exchange had 24 members and three other entities authorized to conclude Exchange trades (CNB - Czech National Bank, Česká konsolidační agentura, and the Czech Republic through the Czech Ministry of Finance).

**KEY EVENTS AT THE STOCK EXCHANGE IN 2004**
- On 1 May, the Stock Exchange automatically became a full member of the Federation of the European Securities Exchanges (FESE).
- In May, the US Securities and Exchange Commission (US SEC) granted the Prague Stock Exchange the status of a designated offshore securities market, which has thus been included in the list of non-American stock exchanges which are safe for American investors.
- On 28 June, the Stock Exchange opened trading in the first primary share issue ZENTIVA, which was admitted for trading on the Main Market of the Stock Exchange. As of 1 July, the issue was included in the base of the PX 50 and PX-D indices.

**Legislation**
- The extraordinary General Meeting of Shareholders in October approved extensive amendments to the Articles of Association of the Stock Exchange which, just as the amendments to the Exchange Rules effective as from 1 January 2005, respond to the new capital market undertaking act.
- Amendments to the Rules Governing the Exchange Fees and to the Tariff of Exchange Fees permanently reduce from 2005 the fees for trading, especially for members of the Exchange. The fees were temporarily reduced by 80 per cent from 1 October to 31 December 2004.

**Listing and trading**
- During the year, four bond programmes were approved of the companies Raiffeisenbank, a.s., Česká konsolidační agentura, Wüstenrot hypoteční banka a.s., and ZS Brno, a.s.

**DEVELOPMENT STRATEGY OF THE EXCHANGE FOR THE COMING PERIOD**
The Exchange has been heading more resolutely towards implementing the needs of its active shareholders and members in the changing European capital market.

**Its key development tasks for 2005 include:**
- establishment of the Central Depository of Securities, with the aim of simplifying the registration and settlement of trades and reduce the cost of these operations
- a campaign aimed at enhancing the role of the Exchange in the privatization of state shares in joint stock companies by means of the capital market
- communication with potential domestic and foreign issuers of new issues at the Prague Stock Exchange
- gradual approximation and simplifying of the existing trade modules
- simplifying and reducing the cost of members’ access to the trading and communication system
- maintaining compatibility with developed capital markets, especially in the area of legislative and trading procedures
- monitoring and assessing the possible benefits of co-operation among European markets for shareholders and members of the Exchange.

Petr Koblic
Chairman of the Exchange Chamber and Director General

* Average monthly exchange rate as of 2005 = 1EUR/29.782 CZK (source CNB, March 2005)

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After EU accession, the Czech Republic became part of the single customs territory of the European Community. Within this territory, uniform customs, regulations and policies are exercised in respect of non-EU countries. The EU legislation regulating customs procedures is effective in the Czech Republic. In particular, this means EEC Decree No. 2913/1992 issuing the customs codex of the EU, and EEC Decree No. 2454/1993 implementing the customs codex of the EU. Areas not treated by these fundamental regulations (e.g., jurisdiction of customs authorities, subsequent customs inspections, and customs debt assessment) remain under the regulations of the Customs Act No. 13/1993 and its implementation decree. Customs tariffs and valid customs rates for imported goods from non-EU countries are available in the tariff rates of the EU, which is called TARIC.

The customs procedure will then be done only upon import and export of goods delivered by air, or in cases when goods are imported directly from non-EU countries to the Czech Republic or exported to non-EU countries. It is necessary to take into account that when importing goods from these countries, the customs procedure can in all cases be done anywhere on the way to the Czech Republic, as the conditions for the release of goods into the proposed regime and the method of customs assessment will be the same throughout the whole EU. Since 1 January 2005, when importing goods VAT payers are allowed to assess VAT themselves and provided they fulfil legal conditions they can claim the VAT back for the relevant period. This procedure can be used if the goods are released into "free circulation" and "inward processing in drawback system" regimes. The amount of funds incurred on the repayment of the customs duty thus decreases significantly.

After one year’s experience with customs procedure within the EU, we can conclude that the most complicated areas for Czech traders are trading with agricultural products, licence procedure and anti-dumping duties. Our recommendation to traders involved in such businesses is to pay close attention to these areas and to monitor all available information.

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In its main features, the Czech Republic’s tax system is similar to the systems of developed countries, especially European ones. The tax quota, defined as the ratio of tax revenue (excluding mandatory social and health insurance) to gross domestic product, was 22.6 per cent in 2003 (according to OECD methodology). The tax revenue originates from indirect and direct taxes roughly in equal proportions (ratio of 52.7 to 47.3 in 2003).

**DIRECT TAXES**

*Personal income tax* has progressive rates of 15–32 per cent in four brackets. The tax is levied on incomes of employees and the self-employed. The employees’ tax is withheld by the employers, the self-employed make advance payments and each year submit tax returns with the settlement of the income tax. Each taxpayer is allowed to reduce the tax base by deductible items, such as the basic untaxable part, or untaxable amounts for a spouse and child. Dividends and interest income are taxed at a 15 per cent withholding tax rate.

In 2005, a joint taxation of married couples with children was introduced, and so were tax reliefs especially in support of low-income households with children.

*Corporate income tax* is 26 per cent. Investment funds and investment companies are liable to pay a lower tax rate. Legal persons make advance tax payments and in the following year submit tax returns with a settlement of the income tax. Each taxpayer may choose between the straight line and accelerated depreciation methods,
with depreciation periods ranging from three to fifty years, depending on the type of property. Up to ten year tax holidays may be obtained in case of extensive new investment.

In 2005, the tax rate was reduced from 28 per cent to 26 per cent, and a further reduction to 24 per cent is scheduled for 2006. Depreciation periods for movable property were shortened simultaneously. The special deductible item allowing the deduction of 10 per cent of the value of an investment was abolished and a new deductible item equal to 100 per cent of expenditure on science and research was introduced.

Real estate tax is levied on land and buildings. In the case of land, the tax is based either on the area or the price of the land. The rate depends on the quality of the land, its location, and its use. In the case of buildings, the basis is the built-up area, and the rate depends on the use of the building. The taxation period is one calendar year.

Road tax is imposed only on vehicles which are used or designed for business purposes. Vehicles used exclusively for personal purposes are exempt from tax. The tax rates are determined as fixed annual amounts. For passenger cars, the tax amount depends on cylinder capacity, and for trucks, on the number of axles and total weight. The law also lays down a special fee for the use of highways. All vehicles using the highways, regardless of their purpose (i.e. vehicles used for business purposes as well as vehicles used for personal purposes) are required to pay the fee.

The rates of inheritance and gift tax range from 0.5 to 40 per cent and their amount depends on the relationship between the deceased/donor and the successor (heir or donee). No tax is charged on inheritance between children and parents.

The laws also lay down a number of administrative and local fees.

**INDIRECT TAXES**

Value added tax is harmonized with the relevant regulations of the European Union. The tax is levied on most taxable supplies in the Czech Republic, as well as on imported goods. The standard rate is 19 per cent, and the reduced rate is 5 per cent. Most goods and services are subject to the standard tax rate. The reduced rate is payable e.g. on foodstuffs, medicines, newspapers and books, regular public transport, funeral services, water supply and sewerage, cultural activities, accommodation services, building work for housing purposes and construction of social housing, and heat supply.

Persons whose annual turnover has exceeded CZK 1 million (approx. EUR 33 577) are bound to register for VAT. The tax is payable monthly or quarterly, depending on the taxpayer’s turnover. Financial services are exempt from the tax. Exported goods are exempt from VAT, exporters can reclaim input VAT. As from 2005, the tax on imported goods is not collected by the customs administration within 10 days of import, but it is included in tax returns which are submitted on the 25th day after the end of the taxation period. This measure has significantly reduced the financial costs incurred in exports to the Czech Republic.

Excise taxes are also harmonized with the relevant directives. Excise taxes are levied on hydrocarbon fuels and lubricants, spirits, beer, wine, and tobacco products. There are fixed rates for the taxes (with the exception of cigarettes, where the rate is computed as a combination of the fixed rate and a percentage of the final retail price). The taxation period is one calendar month. The tax is payable when the goods are put into free tax circulation, i.e. when they leave the registered tax warehouse. Tax payment is due within 40 days after the end of the respective taxation period. Excise tax on tobacco products is payable by means of tobacco stamps. Payment is due within 60 days from the purchase of the tobacco stamps.

Duties are regulated by the EU Customs Code, the rates are set by a common Customs Tariff.

The rate of real estate transfer tax is 3 per cent. The tax base is either the officially assessed value, or the real selling price, whichever of the two is higher. The tax is payable by the transferor (seller).

Other indirect taxes include for example air and water pollution charges, and charges on waste.

**Martin Jareš**

Ministry of Finance

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Corporate Income Tax

Income tax is an important revenue of public budgets in the present system of taxation in the Czech Republic. Act No. 586/1992 Coll., on Income Tax has been in place since the introduction of a major tax reform in 1993, and has been amended a number of times since then. This Act applies to the incomes of both natural persons and corporate bodies.

**Corporate income tax** is levied on all entities which are not natural persons. Those, which are based or have a place of management in the CR, are liable to tax on income derived from sources both in the CR and foreign countries.

**The tax applies** to incomes derived from all activities and the management of all property. Exempt from the tax are some incomes, such as those acquired by inheritance or donation. A selected part of incomes liable to taxation can be exempt. Specific taxation is applied to some forms of corporate bodies, such as "non-profit" organizations.

Income tax is determined from the tax base. The tax base is the difference by which the incomes exceed expenses with respect for their material and temporal connection in the particular period of taxation. Tax-related expenses are expenses incurred in generating, assuring, and maintaining incomes. The tax base of corporate bodies is derived from the economic result ascertained from their books, and as of 2005 excluding the influence of international accounting standards. This determined economic result is adapted in keeping with the provisions of the law.

**The taxation period is the calendar year**, or according to accountancy the economic year or the period of accountancy. The corporate body draws up tax returns according to these periods. The payer is duty-bound to calculate the amount of the tax and pay it to the locally competent tax administrator – the revenue authority in the stipulated term. From a certain level of the assessed tax the payer is required to pay six- or three-month advances on the tax. Following changes made in 2004, the income tax rate for the 2005 taxation period has been set at 26 per cent. In addition to investment funds and share funds, the rate of 5 per cent also applies to pension funds as of 2005. A special tax rate (withholding tax), in most cases 15 per cent and exceptionally 25 per cent, applies to certain types of income defined by the law.

**The law comprehensively defines** a number of expenses, both recognizable and ineffective. The most important recognizable tax-deductible expense is depreciation. Changes in the property depreciation periods became valid on 1 January 2005. The depreciation period of tangible assets, i.e. the first three depreciation groups, was shortened as follows: for the 1st depreciation group, from 4 to 3 years (with the exception of cars and trucks), for the 2nd depreciation group, from 6 to 5 years, and for the 3rd depreciation group, from 12 to 10 years. The depreciation period remains at 20 years for the 4th depreciation group, and 30 years for the 5th depreciation group. A modification made for the 6th depreciation group, which has a depreciation period of 50 years, allows selected buildings (newly included in the 6th group – primarily department stores, large administration buildings, and hotels) registered before 31 December 2004 to be depreciated as in the 5th depreciation group. The law includes a separate provision for the depreciation of intangible assets. For tax purposes, the limit of a recognizable tax deduction for the purchase of cars has been newly set at CZK 1.5 million (approx. EUR 50 366)* as of 1 January 2005.

A **new instrument, incorporated** into the law as of 2005, is designed to support development and research. It rests in the possibility to deduct from the tax base amounts corresponding with 100 per cent of expenditures on the realization of research and development projects in the particular taxation period. The possibility of asserting expenditures as tax effective remains. These include the possibility to deduct from the tax base 30 per cent of expenditures (tax effective) on the training of apprentices. Tax losses can be deducted from the tax base for a period of five years. Losses dating from the period before 31 December 2003 can be deducted for seven years.

Rebate on income tax, as an element of the investment incentives system, can be asserted by domestic and foreign corporate bodies and natural persons if they meet the requirements set by law. The rules for granting a tax rebate are defined separately for investment into new manufacturing facilities, where the rebate can be asserted for ten subsequent taxation periods, and for investment to enlarge existing manufacturing facilities, where a rebate can also be asserted for ten subsequent taxation periods.
Since the amount of the rebate is derived from the tax liability the final amount of which can to a great extent be influenced by the taxpayer’s decision, the law lays down the duty to apply all provisions of the income tax act to reduce the tax base.

Four Council Directives concerning direct taxation, especially of corporate bodies, were transposed into the Income Tax Act, and became effective on the day of the Accession of the Czech Republic to the European Union, i.e. on 1 May 2004. They were Council Directive No. 90/434/EEC on the common system of taxation applicable to merger, division, transfer of assets, and exchange of shares; Council Directive No. 90/435/EEC on the common system of taxation of parent companies and subsidiaries; Council Directive No. 2003/49/EEC on the common system of taxation of licence fees and interest; and Council Directive No. 2003/48/EEC on the taxation of interest on savings. An exception is the exemption from "licence fees", as in this case the Czech Republic has negotiated a transition period until the end of 2010. The Directive on the taxation of interest on savings, which applies to corporate bodies only with regard to the collection and transfer of information, is not yet valid, and is expected to take effect on 1 July 2005.

* Average monthly exchange rate as of 2005 = EUR1/CZK 29.782 (source CNB, March 2005)

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**Income Tax of Natural Persons**

The income tax of natural persons applies to the income derived from dependent activities and to the emoluments of functionaries, to income derived from business and other independent gainful activities, income derived from capital, income from leasing, and other income specified separately.

This tax does not apply to income from inheritance or donations, which are subject to a special tax.

The act contains detailed provisions specifying income, which is not liable to tax, such as the reimbursement of travelling expenses to an amount set by a special law, old-age and disability pensions of up to CZK 162 000 (approx. EUR 5 440)* a year, sickness and unemployment benefits, and several other kinds of income.

The tax base is the amount by which the taxpayer’s income in the calendar year (the taxation period) exceeds the expenses demonstrably incurred to generate, assure, and maintain the income concerned.

Before taxation, the tax base is reduced by the non-taxable amount, which is CZK 38 040 (approx. EUR 1 277)* per payer, and several other items. Also deductible from the tax base are donations for the purposes of public benefit of up to 10 per cent of the tax base, and to a limited extent interest paid on loans for housing and contributions to additional old-age insurance, and contributions to a trade union organization. As of taxation for the year 2005, the non-taxable amount per dependent child in the household will be replaced with a deduction of CZK 6 000 (approx. EUR 201) per dependent child from the tax. In case the calculated tax is lower than this deduction per child (children), the difference will be paid to the taxpayer. At the end of 2005, married couples who support a child (children) in their household will be entitled to joint taxation, which is designed to cushion the progressive tax when the level of their incomes differs.

Exemptions exist for certain incomes. A tax of 15

| The rates for tax bases reduced by the amount of non-taxable items (in CZK/EUR*): |
|-----------------------------------|-------------------|-------------------|-------------------|-------------------|
| from the tax base | tax |
| from CZK | from EUR | to CZK | to EUR | CZK/EUR |
| 0 | 0 | 109 200 | 3 667 | 15% |
| 109 200 | 3 667 | 218 400 | 7 333 | 16 380/550 + 20 % of the base exceeding 109 200/3 667 |
| 218 400 | 7 333 | 331 200 | 11 121 | 38 220/1 283 + 25 % of the base exceeding 218 400/7 333 |
| 331 200 | 11 121 | and more | and more | 66 420/2 230 + 32 % of the base exceeding 331 200/11 121 |
per cent is levied on income from interest on deposits of natural persons, and income from dividends regardless of the amount of the income.

At the end of the calendar year, the taxpayer is required to calculate the amount of the tax and pay it to the revenue authority. In the following taxation period, the taxpayer pays advances according to the amount of the tax. Domestic employers withhold tax advances from the monthly earnings of their employees, and in specified cases make an annual clearance of these tax advances.

* Average monthly exchange rate as of 2005 = 1EUR/CZK 29.782 (source CNB, March 2005)

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VALUE ADDED TAX 2005

Value added tax ("VAT") has existed in the Czech Republic for more than 10 years. While modifications had been made to the law prior to accession to the EU, these had been generally considered fine-tuning to modernize the law, to align it with that of the European Union, or to implement rate changes for various goods and services to reflect government policy or prevent tax fraud. However, the new VAT Act effective since 1 May 2004 has substantially changed VAT law in this country. This commentary takes into consideration amendments to the VAT Act effective from 1 January 2005.

The new amendment further specifies and develops the principles of the European VAT legislation first adopted on 1 May 2004, such as the reverse-charge process; new place of supply rules for goods (especially for gas and electricity) and services, intra-community supply rules, acquisition VAT, triangulation, VAT-only registration, new documentary requirements, and so on.

With any amendment to the law, and particularly one dealing with a subject such as VAT, which has a major impact on the everyday affairs of taxpayers, there can often be uncertainty as to how the new law will apply in practice. With the EU bringing its own interpretations to these laws through a body of case law that now also affects the Czech Republic, the business community will face substantial pressure over 2005, as it has since May 2004, in continuing to implement the new VAT system and to be compliant with it in the most efficient way.

The Czech Republic was granted three VAT exceptions, which still remain in place. A lower VAT rate is applied to heating and residential housing supplies and the registration threshold is set at the equivalent of EUR 35 000 for a 12-month period.

OVERVIEW OF MAIN PRINCIPLES

The new principles of the Czech VAT Act have increased the scope of who is required to register for VAT. A large number of entities that were not considered taxpayers, or whose VAT activities were narrowly defined, have had a greater registration risk since 1 May 2004. Such entities include local authorities, educational establishments, hospitals, and non-profit organizations. Entities acquiring goods from abroad with a total value exceeding CZK 326 000 (EUR 10 000) in a 12-month period are required to register for VAT regardless of their own turnover. If an entity acquires services of any value from abroad, VAT registration is compulsory.

A taxpayer may also voluntarily register for VAT in the appropriate circumstances. A person, including a joint venture, is required to be registered when his turnover from VAT-taxable operations exceeds approximately EUR 35 000 in a 12-month period. Therefore, since enlargement, a substantially greater number of VAT payers have been created in the Czech Republic, and this trend is likely to continue.

Taxpayers are required to calculate their net VAT position according to a taxable period and to file a return with the tax authorities within 25 days of the end of the taxable period. A taxable period is either a calendar month or calendar quarter, depending upon the annual turnover of the taxpayer. If the VAT taxpayer owes tax to the authorities, payment must be made by the due date for the return filing period. If the taxpayer is due a refund of tax, the taxpayer is entitled to the refund automatically and within 30 days of the assessment of the tax, which is normally the deadline for filing the return.

As is common with other VAT systems, a taxpayer who makes supplies subject to VAT (charges output tax) is entitled to recover VAT levied on purchases
(input tax), and it is the net of these two sums that determines the taxpayer’s position each return period. If a taxpayer is not registered or does not make supplies subject to VAT (exempt supplies), the related input tax is not recoverable by the taxpayer and is a cost to that taxpayer.

The exception here is when the supply is an exempt supply, giving the right to input tax recovery (sometimes called a zero-rated supply). Supplies in this category are typically exports of supplies from the Czech Republic outside the EU or within the EU to other VAT payers in the other Member States. The taxpayer in this position recovers input tax, but having no output tax, is in a net recovery position from the authorities. The sum due to the taxpayer is normally refunded within the stipulated 30-day period. It is not uncommon for taxpayers to make supplies subject to output tax, exempt with credit, exempt without credit, and outside the scope of VAT. In such cases, the correct recognition of input tax is paramount to ensure that only qualifying input tax is recovered.

The place, time, and value of supplies are important in determining whether VAT must be paid and the amount of the output tax. In general, VAT is added to the price for which supplies are made and the liability falls due at the time that the supply is made. For goods, this is normally when the goods are delivered or payment made, whichever occurs earlier. Similarly, for services, the tax point is normally when the service is rendered or payment made, whichever is earlier. However, as with all taxes, the tax point (time of supply) can be altered by contract terms or by law in any number of circumstances.

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VAT Rates
There are two positive rates of VAT in the Czech Republic: a rate of 19 per cent, referred to as the basic rate, and a lower rate of 5 per cent. Most supplies of goods and services attract the basic rate as of 1 May 2004. The lower VAT rate applies to a range of limited goods and services (e.g., foodstuffs, pharmaceuticals, healthcare products, newspapers, books and some environmentally-friendly products, supplies related to cultural events, construction and renovation of housing, hotel accommodation, supplies by welfare charities, public services, and medical care services).

Exemption
Exemption essentially falls into two categories: exemption with credit and exemption without credit. Exemption with credit results in supplies not attracting output tax, but at the same time, the taxpayer can recover any related input tax. Exemption without credit also results in supplies not attracting output tax, but there is no recovery of related input tax, i.e. input tax is a part of the real cost of doing business.

Exemption with Credit
Supplies that are exempt with credit are essentially exports and intra-community movements of goods and services. With goods exported outside the EU, this is a relatively easy process to determine, as customs documents exist. Since 1 May 2004, the purchaser may also be the exporter of record (either in relation to intra-community movement or export from the EU), but the supplier is still required to treat the supply as exempt from VAT with credit. However, as the supplier is dependent on the purchaser processing the correct documentation to prove the movement of goods and then returning those documents to the supplier, the supplier must cover its exposure. How this risk is managed, depends on the particular commercial practice of the parties.

In some cases, the supplier may need to take a deposit to cover the VAT at risk should the appropriate export or movement documents not be received. This currently occurs in the EU. However, if the supplier is not in a strong position to enforce such a process, it will need to try to protect its position contractually, which is the case for some companies.

Exemption with credit for services has proved to be substantially more complex under EU rules. This has brought changes to the place-of-supply rules, the introduction of “use and enjoyment” provisions, intra-community supply rules, and administrative processes. In this case, it is important to correctly classify the type of service being provided, the status and location of the counterparty, and their VAT registration status in the country where the service is deemed to be provided. These new rules have tested
taxpayers’ accounting and management systems, as complex tax (VAT) coding has been implemented for recording and reporting purposes. In addition, the case history of the EU in interpreting appropriate provisions must be taken into account more carefully. Such decisions have direct effect in the Czech Republic.

**EXEMPTION WITHOUT CREDIT**

The range of services that fall within this category includes social and financial services as follows:

<table>
<thead>
<tr>
<th>Postal services</th>
<th>Radio and television (limited)</th>
<th>Insurance</th>
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<tbody>
<tr>
<td>Financial services</td>
<td>Education and training</td>
<td>Health services</td>
</tr>
<tr>
<td>Social assistance</td>
<td>Lotteries and similar games</td>
<td>Some non-profit activities</td>
</tr>
</tbody>
</table>

Land and buildings have an unusual position being potentially taxable and exempt supplies. The transfer of land is exempt (except building sites, i.e. land with relevant planning permission), but where a building on the land is transferred within three years of acquisition or approbation, the transfer will be subject to VAT. Transfers after this date are exempt, but input tax recovery is retained.

The lease of land and buildings (commercial or residential) is VAT-exempt with no right of input tax recovery. However, when supplied to another VAT registered person for use in the course of that person’s business, the supplier can treat the supplies as subject to VAT at the basic rate of 19 per cent and, therefore, input tax is recoverable.

Some exempt services, including radio and television services, lost their exemption upon accession, or the conditions for exemption have been tightened. With services provided by government and local authorities, the range of exemptions have also diminished, as such bodies will be judged more on whether their activities are competing with those undertaken in the private sector. The same applies to training services.

**REFUNDS TO FOREIGN BUSINESS AND TRAVELLERS**

In accordance with EU rules, travellers taking goods out of the EU from the Czech Republic can obtain a refund of VAT on those goods through a regulated process. Refund to foreign businesses is available, although several restrictions apply that are in line with general provisions within the EU. How quickly the Czech Tax Authorities will refund the VAT to foreign businesses has not yet been determined.

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**Information about Current Legislation Governing Excise Duties**

The new Act No. 353/2003 Coll. on Excise Duties came into force on 1 January 2004. Compared to former tax laws regulating excise duties, it brought several major changes.

The most important change contained in the new Excise Duties Act was the introduction of the **regime of conditional exemption from duty**, in compliance with Directive 92/12/EEC. This method of excise duty administration allows the movement of goods in the territories of European Union member states without charging excise duty until the day the goods which are subject to excise duty are put into free taxed movement. This means that manufacturers, importers, and traders, having been granted, at their request, a special permit by the customs authority, the excise duty administrator, are not bound to pay the excise duty until the goods are released for final consumption. However, in order to prevent tax evasion, it is necessary to assure administrative surveillance of the manufacture and movement of untaxed goods which are subject to excise duties. Such products may thus find themselves in the regime of conditional tax exemption if placed in a **tax warehouse** or if transported in this regime.

Except for exemptions set by law, products which are subject to excise duty shall thus be manufactured solely in a tax warehouse. This means that persons wishing to be involved in such activities must be **tax warehousekeepers**.

Legal or natural persons can become tax warehousekeepers only on the basis of permits issued by the Customs Directorate. The proposal for
the issue of a permit to keep a tax warehouse shall be submitted to the appropriate local customs office. The proposal must contain data set by law, such as the technical documents of the tax warehouse, description of the system of securing the selected products against unauthorized use, description of the technology of manufacture of products subject to excise duty, proof of whether the person submitting the proposal is in tax arrears, etc.

An essential condition for the issue of a permit to keep a tax warehouse is the provision of tax security, by depositing or transferring financial amounts to the account of the customs office, by a bank guarantee, or by warranty if the customs authority permits a personal guarantor. The amount of security is determined by a procedure set out by law. In case no doubts exist about the tax reliability of the proposer, the provision of security may be waived or its amount may be reduced. In compliance with Directive 92/12/EEC, the Excise Duties Act has also established the institution of an **authorized recipient.** It is a legal or natural person authorized to receive untaxed selected products from another member state of the European Union in the regime of conditional exemption from tax, but this person is not allowed to hold or dispatch goods in this regime. Permits are issued by the Customs Directorate on the basis of a submitted proposal. The proposal must again contain the listed data of a similar extent as in the case of a tax warehousekeeper.

The new Excise Duties Act allows natural or legal persons to acquire **selected products exempt from duty,** provided these products shall be used for purposes set out by law. Persons who purchase goods exempt from excise duty for their manufacture or consumption, are designated by the act as **users.** In most cases, acquiring the status of user also requires the submission of a written proposal for the issue of a special permit to receive and use selected products exempt from duty. The method of submitting the proposal and its processing is similar as in the case of a tax warehousekeeper.

The Excise Duties Act was amended in 2004. The modifications contained in the amendment harmonized the particular provisions of the Act with the regulations of the European Union which came into force as of 1 January 2004 (Directive 2003/96/EC).

At present, a draft amendment is in the process of legislative approval, to come into effect in the middle of 2005. The changes contained in the draft amendment are of dual character. They consist in a number of technical and legislative modifications called forth by feedback and experience to date from the practical application of the new law.

**FUTURE DEVELOPMENT IN EXCISE DUTIES**

Besides technical amendments, the proposal also provides for changes in excise duty rates on tobacco products, where the CR is implementing a timetable agreed with the European Union. It stipulates that gradual steps each year are to bring the rates by 2007 to the minimum amounts in effect in the EU. The draft amendment proposes that the excise duty rates be set in two gradual steps. This means that the draft contains a change in excise duty rates on tobacco products as of the date on which the draft comes into force, as well as their change as of 1 January 2006. It also proposes the two-tier tax rate to apply only to cigarettes.

In compliance with Directive 92/12/EEC, the amendment proposes that the Excise Duties Act adopt the institution of a **tax representative and a tax representative for the sending of selected products.**

The tax representative is a legal or natural person, with the seat or residence in the territory of the CR, who represents a tax warehousekeeper based in another member state of the European Union. Essentially it can be said that the tax representative’s position in relation to the tax administrator is similar to that of the above mentioned authorized recipient.

Unlike the tax representative, the tax representative for the sending of selected products represents a natural or legal person from another member state who sends products subject to excise duty and already taxed to a natural person in the tax territory of the Czech Republic.

In compliance with Article 29 of Directive 92/12/EEC, the draft amendment also introduces the institution of **small wine producers** which shall allow producers of still wine the output of which does not exceed 1000 hl annually, to produce and transport this wine outside the regime of conditional exemption from tax.

For information, below is a list of selected rates on products subject to excise duty in force in the first half of 2005 (EUR 1 = **CZK** 31):

- unleaded petrol EUR 382/1000 l
- gas oil EUR 321/1000 l
- LPG for engine operation EUR 127/1000 kg
- alcohol EUR 855/hl
beers EUR 0.774/hl/°Plato
still wine* EUR 0/hl
sparkling wine and semi-finished products 75 EUR/hl

cigarettes specific Excise EUR 15.48/1000 pcs,
Ad Valorem Excise 23%
but not less than EUR 30.30/1000 pcs

For further details concerning the Excise Duties Act, see the General Customs Directorate web site (www.cs.mfcr.cz).

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Road Tax

The legal regulations concerning the road tax contained in Act No. 16/1993 Coll. on road tax, as later amended, are fully compatible with EU laws, after the adoption of Act No. 102/2004 Coll. by the Czech Parliament.

Road vehicles, with the exception of vehicles with the highest permitted weight of at least 12 tonnes designated exclusively for the transport of loads, become, or cease to be, liable to tax according to the real commercial use of the road vehicle, or its use directly connected with business, or its use for activities which generate incomes that are subject to income tax payable by entities not established for business purposes.

Separately, the law lays down road tax liability for road vehicles with the highest permitted weight of at least 12 tonnes, provided these vehicles are designated exclusively for the transport of loads and registered in the Czech Republic. These vehicles are subject to road tax without regard to their actual use for commercial or private purposes. The vehicles are subject to taxation and the law does not require the fulfilment of any other condition but registration with a Czech number. This provision has been included in the legal regulation of the road tax, because it is a binding rule of European Parliament and Council Directive No. 1999/62/EC of 17 June 1999. In accordance with this EU Directive, and with similar legal regulations in EU member states, the Ministry of Finance may grant an exemption, or reduce the tax, if the vehicles are used on public roads occasionally or not at all, or if they are used by entities which do not operate in the business of goods transport for someone else’s needs. The Ministry of Finance steps must not represent aid in the sense of Council Regulation (EC) No. 659/1999 of 22 March 1999. In accordance with Article 92 of the above mentioned Regulation, and the Treaty Establishing the European Community, aid is always connected with the distortion of economic competition by giving certain entities favoured treatment and thus affecting trade between EU member states.

By 31 December 2005 the road tax payer shall apply for a 60 per cent reduction in the respective annual tax rate if the road vehicles comply with the EURO 2 standards. The reduction is not applicable to passenger cars.

Taxpayers operating in agricultural production may apply for a 25 per cent reduction in the respective annual tax rate if the vehicles concerned are designated for production-related activities in crop production, or for a reduction in the annual tax rates if the vehicles comply with the EURO 2 standards. However, both reductions cannot be applied simultaneously.

In the case of vehicles which comply with the EURO 3 standards and higher, taxpayers shall apply for the 66 per cent reduction of the respective annual tax rates by 31 December 2006. This reduction does not apply to passenger cars. Neither in this case is it possible to apply this reduction and simultaneously the reduction for vehicles designated for production-related operations in crop production.

The above mentioned reductions of annual tax rates are also applicable to the number of semi-trailers (as to date) or trailers (new) which correspond to the number of tractors or lorries complying with the EURO 2 or EURO 3 standards and higher.

A trailer is a towed vehicle with a central axle; it is equipped with towing gear which cannot move vertically because it does not have a fifth wheel. A trailer is designated for configurations especially with N category vehicles.
**The tax reductions** for vehicles used in combined transport are set out in such a way as to fully comply with European Union Council Directive No. 92/106/EEC of 7 December 1992 on the establishment of common rules for certain types of combined transport of goods between member states.

An important condition for the application of a road tax reduction for a vehicle used in combined transport of goods is that the load is not manipulated in transhipment (change in the mode of transport), but only the road vehicle or transport unit in which the goods are loaded can be manipulated. To apply the reduction, there is still the condition that part of the transport shall be by rail and/or inland waterway, and only the initial and final sections are by road. The points where the goods are loaded or unloaded, as well as the points of transhipment between transport by road and transport by rail and/or waterway shall be in the territory of the Czech Republic. The section of the transport of goods by rail or inland waterway must be more than 100 km as the crow flies, with the initial or final section by road from or to a port in Czech territory set in accordance with the EU Directive at the maximum of 150 km as the crow flies. The distance for goods transport by road preceding or following transport by rail is not limited.

For the purposes of combined transport according to the above mentioned EU Directive, a transport unit means a container complying with ISO type 1 standard of 10 to 45 ft in length, a swap body or container, or a lorry, trailer, semi-trailer, with or without tractor, if it is transported partly by rail and/or inland waterway.

The taxpayer shall apply for the road tax reduction for combined transport with the tax administrator. The taxpayer shall prove combined transport with transport documents, in which the transhipment terminal confirms the loading or unloading at a railway station or port. For the purposes of applying tax reduction, the distance of transport by rail on Czech territory in excess of over 250 kilometres is considered as 2 operations carried out in combined transport.

Topical information on legal regulations concerning the road tax are available on the Ministry of Finance web site: http://www.mfcr.cz/static/dansprava/danprizn2000/metodpokyn.htm.

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### Property Taxes

The Czech system of taxation includes the following property taxes: the real estate tax, the proceeds of which go into the budgets of municipalities, and the property transfer tax the proceeds of which go into the state budget. Property taxes are administered according to the location of the real estate by financial offices in the first instance, and financial head offices in the second instance. Information about property taxes is available at http://cds.mfcr.cz/.

#### THE REAL ESTATE TAX

The real estate tax, which is comprised of the tax on land and the tax on buildings, was introduced on 1 January 1993 to replace the house and land taxes.

Since the real estate market was limited at the time when the tax was introduced, the information necessary to determine the tax base was not available, and so, with some exceptions, the tax rate is not derived from the value of the real estate.

#### THE LAND TAX

The land tax is levied on land in the territory of the Czech Republic, which is entered in the land register. The tax does not apply to a plot under a building on which tax is levied, namely the area of the ground plan of the building. This area is subject to the tax on buildings. The land tax is not levied on some kinds of forests, water surfaces, and land designed for national defence.

The **Exemption from the land tax** applies to land owned by the state and by municipalities, plots that form an entity with buildings of churches or other religious societies, buildings that serve as schools, museums, galleries, libraries, state archives, medical facilities, and social care establishments and foundations. Also exempt from the tax are the plots of buildings which serve exclusively for the improvement of the environment, parks, and playgrounds.
The taxpayer is the owner of the land. The law on the real estate tax defines cases in which the payer is a person other than the owner (tenant, the Land Fund of the Czech Republic, the National Property Fund of the Czech Republic, the State Material Reserves Administration, and the user). Legislation valid from 1 January 2005 contains the new provision that the payer of the land tax levied on leased land is the tenant only if the land is entered in the land register in the simplified manner.

The Tax Base of the Land Tax for farmland is the price of the land determined by multiplying the area of the land by the average price of the land in the cadastral area; average prices of farmland are included in the list of cadastral areas. The list is a rider to Decree No. 463/2002 Coll., as amended by Decree No. 570/2004 Coll. The tax rate is 0.75 per cent for arable land, hop-fields, vineyards, gardens and orchards, and 0.25 per cent for permanent grass vegetation (meadows and pastures).

- for agricultural woods and ponds with intensive and industrial fish farming, the price is set in accordance with Act No. 151/1997 Coll., and Decree No. 540/2002 Coll., as amended. The base can also be set simply by using the average price of CZK 3.80 per square metre. The tax rate is 0.25 per cent.

- for other land the tax base is derived from the area of the land. The tax rate is CZK 1 per square metre for building sites, and CZK 0.10 per square meter for other land. The basic rate for building sites (sites for which building permission has been granted) is multiplied by the coefficient set by the law, which is based on the number of inhabitants according to the last population census. Municipalities can modify this coefficient for their different parts by 1 to 3 coefficients down or 1 category up. The lower coefficient is assumed in locations with unfavourable environment, and the higher one in city centres and prestigious districts.

**THE TAX ON BUILDINGS**

The tax on buildings is levied on immovable structures in the territory of the Czech Republic, which are in accordance with the description of real estate contained in the Civil Code, i.e. they must be fixed to the ground by fixed foundations, must have been inspected and passed fit for occupancy or are subject to the approval procedure, or are old buildings qualified for use according to former legal regulations. The tax is also levied on apartments and non-residential premises, which are entered in the land register. Waterworks, structures for public transport, and structures for energy distribution are not subject to the tax.

The law allows for extensive exemptions from the tax on buildings. This applies to buildings owned by the state, municipalities, and churches, buildings serving as schools, museums, galleries, libraries, state archives, medical and social care facilities and foundations, and buildings serving associations of disabled people. Temporary exemptions apply to buildings damaged by natural catastrophes, restituted residential houses, newly built residential houses and apartments, cultural monuments, and buildings in which heating systems were changed so as to be environmentally friendly.

The owner of the building, apartment, or non-residential premises is usually the taxpayer, but the tenant can be the taxpayer in certain cases.

The tax base is the ground plan of the built-up area of the surface part of the building in square metres. The basic rates of the tax range between CZK 1 and CZK 10 per square metre, depending on the type of building and the number of storeys above the ground level. As in the case of building sites, the rates are multiplied by coefficients according to the number of inhabitants, and possibly lowered or increased by municipalities. The coefficient 1.5 by which the municipality increases the tax rate can be used for some buildings, such as buildings for individual recreation, garages, and buildings for business activities. The tax base for apartments and non-residential premises is the floor space multiplied by the coefficient 1.2. The basic rate for apartments is CZK 1 per square metre, which is multiplied by the coefficient derived from the number of inhabitants in the municipality. The municipality can increase or lower this coefficient. The basic rate for non-residential premises ranges between CZK 1 and CZK 10 per square metre, and municipalities can use the coefficient 1.5 to increase the tax rate for certain non-residential premises (garages and business premises).

The taxation period for the real estate tax is one calendar year. The deadline for submitting tax returns is 31 January of the taxation period. All the relevant tax returns forms, including instructions, are available at http://www.mfcr.cz or at http://cds.mfcr.cz. The tax returns can also be filed electronically, with or without a guaranteed electronic signature. Instructions are available in the document Instruction of the Ministry of Finance No. 252/2003. The electronic form includes detailed instructions,
automatic calculation, correction of mistakes, and data numbers. The form can also be printed and used as documentary tax returns.

Under amended provisions, which took effect on 1 January 2005, sanctions for late submission of tax returns are not imposed on payers of the real estate tax who could not do so before the deadline stipulated by the law due to the continuation of proceedings for permission of entry into the land register. This concerns cases when application for the entry of ownership rights into the land register has not been decided before 31 January of the taxation period. In this case, the payer is duty-bound to submit tax returns no later than the end of the third month following the month in which ownership rights were entered into the land register. The payer makes out the tax returns for the taxation period following the year in which the legal effects of the entry arose.

TRANSFER OF PROPERTY TAXES
The inheritance tax, the gift tax, and the real estate transfer taxes are treated by Act No. 357/1992 Coll., as amended. The full text was issued as Act No. 58/2004 Coll. The legal arrangement of the inheritance tax, the gift tax, and the real estate transfer tax is in harmony with the laws valid in the EU countries, with the exception of tax rates.

THE INHERITANCE TAX
The inheritance tax is levied on property acquired gratuitously by testamentary succession, by virtue of the law, or for both of these legal reasons on the basis of the final decision of the competent body, which finalized the inheritance proceedings. The term property means real estate, apartments, non-residential premises, and movable items such as securities, money, claims, property rights, and other property values. The taxpayers are the heirs who acquired the property. The tax base is the price of the property acquired by the heir, reduced by the testator’s debts that pass to the heir, exempt property, burial costs, notary’s fees etc. The next of kin and spouses are exempt from this tax.

THE GIFT TAX
The gift tax is levied on gratuitous acquisition of property on the basis of a legal action, but not the death of a testator. The term “property” means the same as in the case of the inheritance tax. The tax does not apply to property acquired on the basis of obligations stipulated by legal regulations, subsidies, contributions and grants from the state budget, from the budgets of self-governing entities, and from state or other funds. The legatee is the taxpayer. The tax levied on a gift going abroad is paid by the donor. The tax base is the price of the property determined in accordance with price regulations defined in Act No. 151/1997 Coll. on property appreciation, and its Implementation Decree No. 540/2002 Coll., as amended. This price is reduced by proved debts and the value of other obligations, the price of exempt property, customs duty, and by tax paid on import.

THE REAL ESTATE TRANSFER TAX
The real estate transfer tax is levied on valued real estate transfers. The taxpayer is the transferor, and the successor is the guarantor. The tax base is the price determined in accordance with the same price regulations (see above), provided that the price agreed is lower (exceptions are transfers from municipalities – the tax base is the agreed price, public auctions – the tax base is the price reached in the auction, and contributions to limited liability companies and joint-stock companies – the value of non-capital contributions is determined on the basis of the opinion of an expert in accordance with the Commercial Code). If the agreed price is higher than the price determined according to the appraisal regulations, the agreed price is the tax base.

The rates for inheritance and gift taxes are progressively sliding in dependence on the value of the property and on the degree of kin between the heir or beneficiary, and the testator or donor. The tax rates range from 1 per cent to 40 per cent in the case of the gift tax, and the tax rates of the inheritance tax are further multiplied by the coefficient 0.5. Compared with the gratuitous acquisition of property by donation, the inheritance tax is 50 per cent lower than gift tax. The extremely low rates of the inheritance tax are in contrast with the rates of inheritance taxes in the EU countries. Moreover, the law provides many exemptions for inheritance and donation in dependence on the degree of kin between the heirs or beneficiaries and the testators or donors. For example, persons in the first degree of kin are fully exempt from the inheritance tax. Exemptions also apply, for example, to changes of ownership by restitution, privatization, and new buildings not yet in use. The rate of the real estate transfer tax is 3 per cent.

Inheritance and gift tax returns must be submitted within 30 days from the day the inheritance proceedings are closed, or from the receipt of a contract with a clause on permission for entry in the land register, or any other document certifying
ownership, acquisition of movables, etc. Both taxes are payable within 30 days of the receipt of the tax assessment.

The real estate transfer tax returns must be submitted, under regulations valid from 1 January 2004, before the end of the third month following the month in which the ownership rights were entered in the land register, following the month in which a contract that is not subject to registration in the land registry came into force, or following the month in which the certificate of acquisition of property in a public auction was issued, and the like. The deadline for the payment of the tax is the same as the deadline for submission of the tax returns.

The tax returns forms, including instructions, are available at http://www.mfcr.cz, and http://www.cds.mfcr.cz.

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Double Taxation Avoidance Treaties and the Czech Republic

One of the principal aims of Czech foreign policy, even after the country’s joining the EU, has been the promotion of mutually advantageous economic relations with other states the world over. Making international contracts contributing to such a development has been one of the most important areas of the foreign policy of the Czech Republic. The avoidance of international double taxation of income, possibly property, is, among other things, part of international economic relations. Its effective elimination is only possible on the basis of the existence of an international double taxation avoidance treaty.

In the context of existing international treaties, international double taxation can be generally defined as a situation where the same object of tax (i.e. concrete income or property) of the same person is subject to taxation both in the state where that person is a tax resident (state of residence, state of the beneficial owner), and the state of the source of the income or property, i.e. the state from which the sources of the specific income derives or the state where the property concerned is located.

With the continuous development of trade and economic and cultural relations on the global scale, these treaties are assuming increasing importance, as international double taxation is undeniably an undesirable phenomenon for taxpayers cutting down their real world income.

INTERNATIONAL DOUBLE TAXATION

International double taxation may affect, for example, income from business, from construction and assembly work, from research and other activities, from the use of patents and other industrial rights, technical knowledge and experience, production and technical know-how, from credits and loans, property sharing, from production and technical co-operation, from the provision of services, business, technical and other consulting, income from the use of copyright to literary works, works of art and scientific works, income deriving from dependent activities (employment), and also income of students, artists, sportsmen, etc.

The international tax treaties by which the Czech Republic is bound deal with all these types of income, while stipulating the state in which the particular income may be taxed and giving the level of the taxation, and which method of avoidance of the double taxation of income is applicable to the particular income in the state where the beneficial owner of the income is a tax resident (some of the forms of the method of exemption or set-off).

In connection with international tax treaties it has to be pointed out that double taxation avoidance treaties in no case make it possible for taxpayers to choose the country in which their income or property will be taxed.

The comprehensive international double taxation avoidance treaties which the Czech Republic concludes are always based on the national tax laws of the particular contracting states. On principle, those treaties never impose new liabilities on the taxpayers that are not contained in their national legislation.

That means that if the national tax legislation does not recognize a certain tax institute, e.g. a certain form of tax, tax rate, etc., it cannot be applied, even if
such an institute is explicitly mentioned in the international treaty.

Obviously, international double taxation is definitely an obstacle to the promotion of economic relations between countries. The undesirable and harmful impact of such international double taxation on the exchange of goods and services, the movement of capital, technology, and naturally persons is evident.

**INTERNATIONAL TAX TREATIES**

The Czech Republic has nearly 70 such international tax treaties (see survey). In this connection it has to be noted that the CR also applies tax treaties concluded by former Czechoslovakia.

By character, they are always comprehensive tax treaties regulating the taxation of all types of income or property. The treaties which the CR concludes comply with international standards set out in OECD and UN model double taxation avoidance treaties.

**AIMS OF INTERNATIONAL TREATIES**

Double taxation avoidance treaties concluded by the Czech Republic always ensure tax non-discrimination and enable taxpayers to lodge an objection, if they believe that the action taken against them is not in keeping with the provisions of the treaties.

Another point worth mentioning is that these international tax treaties help towards the promotion of mutual relations between states in the economic and commercial spheres, as they increase the legal certainty of the taxpayers in both states regarding the existence and extent of their tax liability, while making it possible for them to calculate the return of their business plans more accurately.

Furthermore, these international treaties ensure the objective division of the tax yield between the two states concerned.

At the same time, however, it has to be pointed out that one of the aims which the Czech Republic, the same as other states, pursues by making these comprehensive treaties on the avoidance of double taxation of income, possibly property, is to prevent any tax evasion and fraud.

By enabling an exchange of information between the authorities concerned of the contracting states, while regulating the taxation of associated companies and stipulating the customary market price principle, and by observing the principle of the beneficial owner of income, etc., these treaties prevent what may be termed as international double non-taxation.

Another aim of these international treaties is to enable direct co-operation between the appropriate

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<td>339/1991</td>
</tr>
<tr>
<td>Norway</td>
<td>35/1980</td>
</tr>
<tr>
<td>Philippines</td>
<td>132/2003</td>
</tr>
<tr>
<td>Poland</td>
<td>31/1994</td>
</tr>
<tr>
<td>Portugal</td>
<td>275/1997</td>
</tr>
<tr>
<td>Rumania</td>
<td>180/1994</td>
</tr>
<tr>
<td>Russia</td>
<td>278/1997</td>
</tr>
<tr>
<td>SFRJ</td>
<td>99/1983</td>
</tr>
</tbody>
</table>
bodies of the contracting parties, not only as regards the exchange of information and the prevention of tax evasion and fraud, but also in solving problems which may arise between the two states in the tax area.

**TAX EXEMPTION OR REDUCTION**

In the Czech Republic, tax exemption or reduction based on effective double taxation avoidance treaties is applied automatically, and no reimbursement system is therefore in place.

In the CR, the exclusion of international double taxation is only possible in relation to countries with which the CR has concluded an international double taxation avoidance treated, exclusively in accordance with the provisions of those treaties. The application of set-off or even exemption in relation to the income of Czech tax residents drawn in non-contracting states is out of the question.

**LIMITED TAX LIABILITY**

As regards income tax, foreign tax residents have only limited tax liability towards the CR, which applies exclusively to income having its source on the territory of the Czech Republic. This type of income is explicitly mentioned in the Czech Income Tax Act (Section 22).

The main sources of this country’s legislative regulation (apart from the international double taxation avoidance treaties themselves) laying down the tax liabilities of foreign tax residents in relation to the CR are mainly Act No. 586/1992 Coll., on Income Taxes, as amended, and Act No. 337/1992 Coll., on the Administration of Taxes and Fees, as amended.

More detailed information on international tax relations in the Czech Republic is available at the Department of international tax relations and modernization of the tax administration system of the Ministry of Finance of the CR, and on the Ministry’s web site http://www.mfcr.cz, where the list of double taxation avoidance treaties currently in force is regularly updated and where the latest information concerning taxes can be found.

<table>
<thead>
<tr>
<th>Country</th>
<th>Valid since</th>
<th>Act No.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Slovakia</td>
<td>14.07.2003</td>
<td>100/2003</td>
</tr>
<tr>
<td>Spain</td>
<td>05.06.1981</td>
<td>23/1982</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>19.06.1979</td>
<td>132/1979</td>
</tr>
<tr>
<td>Sweden</td>
<td>08.10.1980</td>
<td>9/1981</td>
</tr>
<tr>
<td>Switzerland</td>
<td>23.10.1996</td>
<td>281/1996</td>
</tr>
<tr>
<td>Thailand</td>
<td>14.08.1995</td>
<td>229/1995</td>
</tr>
<tr>
<td>Tunisia</td>
<td>25.10.1991</td>
<td>419/1992</td>
</tr>
<tr>
<td>Ukraine</td>
<td>20.04.1999</td>
<td>103/1999</td>
</tr>
<tr>
<td>United Arab Emirates</td>
<td>09.08.1997</td>
<td>276/1997</td>
</tr>
<tr>
<td>Uzbekistan</td>
<td>15.01.2001</td>
<td>28/2001</td>
</tr>
<tr>
<td>Vietnam</td>
<td>03.02.1998</td>
<td>108/1998</td>
</tr>
</tbody>
</table>

* The treaty relates to the territory of Serbia, Montenegro, Bosnia and Herzegovina

**ACCESSION OF THE CR TO THE EU**

The accession of the Czech Republic to the EU in no way affects the existence of the concluded double taxation avoidance treaties, by which the CR was bound on 1 May 2004. Certain changes did occur after that date in relation to EU member states. These changes, however, resulted directly from the internal legal regulations of the CR, into which certain EU directives concerning direct taxation (e.g. Council Directive No. 90/435/EEC on the common system of taxation applicable in the case of parent companies and subsidiaries of different Member States, which concerns the taxation of dividends and shares of profit) have been integrated.

Concluding double taxation avoidance treaties continues to be the absolute competence of each EU member state.

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Ministry of Finance  
http://www.mfcr.cz
Act on the Organization and Implementation of the Social Security System


The Czech Social Security Administration is in charge of social security for the civilian population and the armed units of the Ministries of the Interior, Defence, and Justice.

THE SOCIAL SECURITY PREMIUM AND THE STATE EMPLOYMENT POLICY CONTRIBUTION ACT

Social security premiums and state employment policy contributions are regulated by Act No. 589/1992 Coll. as later amended. Under this act, the premium is paid on social security, which comprises contributions to pension insurance (old-age, disability, and survivor’s pensions), health insurance and contributions to the state employment policy.

SOCIAL SECURITY PREMIUM PAYERS

The payment of social security premiums is mandatory for the following groups of payers:

- Organizations which, for the purpose of this act, are corporate or individual persons employing more than 25 people, or have fewer employees, but their wage records are kept by another individual or corporate person employing more than 25 people.
- Small organizations which, for the purpose of this act, are corporate or individual persons having at least one employee and which do not meet the requirements stipulated in the previous subparagraph.
- Employees who, for the purpose of this act, are employees working under a work contract, including persons carrying out work having the character of employment, but not having an employer-employee relationship, as they do not meet the conditions laid down by labour regulations for such a relationship to arise; judges, parliamentary deputies and senators, members of the Government, the President, judges of the Supreme court and other persons defined by the law.
- Persons participating voluntarily in the social insurance scheme. The assessment basis of a person voluntarily participating in the pension insurance scheme for assessing the amount of the premium to be paid each month in pension insurance is the amount that the person will himself/herself assess; this amount, however, may not be less than the amount used as a basis for the calculation of the pension. This provision becomes applicable on 1 January of the calendar year in which the pension insurance premium is paid. (For 2005, that amount is fixed at 8 400 CZK a month.)
- Self-employed persons subscribed to the pension insurance scheme according to pension insurance regulations are liable to pay the pension insurance premium and a contribution to the state policy of employment. Health insurance is not compulsory for self-employed persons, and those persons must themselves subscribe to it if they want to be covered.

As from 1 January 2004, under the provisions of Act No. 155/1995 Coll., amended by Act No. 425/2003 Coll., self-employed persons, including co-operating persons (hereinafter self-employed persons) are divided into two categories: **persons whose work is their main gainful activity**, and persons, whose work is their subsidiary gainful activity.

In 2005, for the purpose of advances to be paid on pension insurance, a self-employed person carrying out **subsidiary gainful activities** is a person who has notified and proved that:

a) in 2004 he/she participated in the health insurance scheme of employees and that the sum of incomes from employment, on which the social security premium is paid, and the sum of health insurance contributions paid by the employee in that calendar year is at least twelve times the amount of minimum wages, i.e. at least CZK 80 400 (approx. EUR 2 700)*.

b) he/she was awarded an old-age pension or that he/she is entitled to a full or partial disability pension (supporting documents are required only if the payer of the pension is a body other than the Czech Social Security Administration – CSSZ).

c) he/she was an unprovided child,
d) he/she was carrying out military or communal service,
e) he/she was awarded a contribution for caring for a related person or was drawing a parent’s contribution,
f) was in detention or in prison for a whole calendar month.

A person shall assume the status of a self-employed person carrying out subsidiary gainful activities in the month, in which he/she made a notification to this effect and supported it with the required documents. In the case listed under letter a), the person will have that status until he/she has submitted (was to submit) a statement of his/her incomes and expenses for the year 2005. If that person was accorded an old-age pension, he/she will be considered, for the purpose of paying advances, a self-employed person carrying out subsidiary activities permanently; in other cases that status will be valid only in those calendar months, in which the said reasons lasted for the duration of a whole calendar month.

A person whose employment is his/her main gainful activity, is obliged to pay advances for all the months in which that activity was performed for at least a part of a month.

SOCIAL SECURITY PREMIUM RATES

The premium rates are defined as percentage rates of the assessed basis for the relevant period. The percentage rates are determined as follows:

**The assessment base for the computation** of social insurance premiums and contributions to the state employment policy of employees is the sum of their gross income (before tax) paid out by an organization or a small organization in connection with their employment, from which their participation in the health insurance scheme derives. The law defines incomes which may not be included in the sum total.

The assessment base of self-employed persons for the computation of their pension insurance premiums and the contributions to the state policy of employment is a sum, which those persons themselves assess. In 2005 this sum may not be less than 45 per cent of income from independent gainful activity after the deduction of expenses incurred in generating, assuring, and maintaining that income.

The maximum assessment base is CZK 486 000 (approx. EUR 16 319) a year; this sum is proportionately reduced for the calendar months in which the self-employed person was not gainfully active, or for months in which that person was entitled to draw sickness benefits, etc.

The assessment base for calculating the amount of the premium to be paid by a self-employed person into the pension insurance scheme and the state employment policy programme may not be less than:

- CZK 4 024 (approx. EUR 135) for a self-employed person whose work is his/her main gainful activity (i.e. 45 per cent of half the general assessment base for the year preceding by two years the year for which it was assessed, multiplied by the conversion coefficient for the purpose of pension insurance). The minimum monthly pension insurance and state employment policy premium is CZK 1 192 (approx. EUR 40) (CZK 14 294/EUR 480 a year), provided the uninterrupted insurance period was a whole year);
- CZK 1 789 (approx. EUR 60) for a self-employed person whose work is his/her subsidiary gainful activity (i.e. 10 per cent of the general assessment basis for the year preceding by two years the year for which it was assessed, multiplied by the pension insurance conversion coefficient). The minimum monthly pension insurance and state employment policy premium for self-employed persons whose work is their subsidiary gainful activity, is CZK 530 (approx. EUR 18) (CZK 6 355/EUR 213 a year), provided the uninterrupted insurance period was a whole year).

In the case of employees, the relevant period for calculating the social insurance assessment basis is the calendar month for which the premium is paid. In the case of a self-employed person, the relevant period from which the basis for the assessment of the pension

<table>
<thead>
<tr>
<th>Premium payers</th>
<th>Total amount of premium</th>
<th>Insurance premiums</th>
<th>Contributions to the state employment policy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employers</td>
<td>26.0</td>
<td>21.5</td>
<td>3.3</td>
</tr>
<tr>
<td>Employees</td>
<td>8.0</td>
<td>6.5</td>
<td>1.1</td>
</tr>
<tr>
<td>Self-employed persons</td>
<td>29.6</td>
<td>28.0</td>
<td>(4.4)</td>
</tr>
<tr>
<td>Persons participating voluntarily in the pension insurance scheme</td>
<td></td>
<td>28.0</td>
<td>1.6</td>
</tr>
</tbody>
</table>

Table 1: Percentage insurance rates
PAYMENT OF CONTRIBUTIONS

Organizations and small organizations are required to compute themselves the amount of the premium they are liable to return. They are also liable to return the amount of the premium which the employee is obliged to pay. From that premium the organizations shall withdraw the sickness benefits which they have paid out to their employees for the particular calendar month.

* Average monthly exchange rate as of 2005 = 1EUR/29.782 CZK (source CNB, March 2005)


Health Insurance – Health Insurance Legislation

Primarily, health insurance is regulated by Act No. 48/1997 Coll. on public health insurance (which regulates the categories of insured persons and the insurance conditions), and Act No. 592/1992 Coll. on general health insurance premiums (which regulates premium payment). These acts, which supplement each other, have been amended many times. Act No. 48/1997 Coll. regulates public health insurance and the extent and conditions under which health care is provided under this act. Covered by health insurance are persons having their permanent residence on the territory of the Czech Republic and persons not having their permanent residence there, but being employed by an employer having his registered offices in the CR. For the purpose of health insurance, an employee is a juristic person or an individual person having employees and being based or having his/her headquarters or permanent residence on the territory of the Czech Republic.

Health insurance payers are employees covered by health insurance, persons serving in the armed forces and other services, company partners and executives, judges, members of Parliament, the Government, etc. This category of insurance payers also includes self-employed persons carrying out a trade in the sense of the Trades Licensing Act (Act No. 455/1991 Coll.), persons employed in agriculture, persons doing business under special regulations (Bar Act, Notarial Act, Auditors’ Act), persons carrying out artistic or other creative activities on the basis of copyright rules, and other persons stipulated by law. The state is the payer of premiums through the state budget for a specified group of persons (e.g. pensioners under the Czech pension insurance scheme, women on maternity leave, social insurance beneficiaries, conscript soldiers, job seekers, etc.). Persons not having taxable income are also premium payers.

EMPLOYERS AS PREMIUM PAYERS

The liability to pay premiums rests not only with the employees themselves, but also with the employers, who must pay a part of the premiums for their employees.

Premiums are paid to the health insurance company with which the insured person is registered. The liability to pay premiums arises for an insured person, who is an employee on the first day of his/her employment, for the self-employed person on the day on which he/she started his/her gainful activity or the day on which he/she registered with the particular health insurance company on his/her return to the CR. The insured person is not liable to pay the premium for the duration of his/her long-term stay (at least 6 months) in a foreign country, provided he/she is registered for health insurance there.

The amount of the health insurance premium, under Act No. 592/1992 Coll. on general health insurance, is 13.5 per cent of the assessment basis for the relevant period.

For employees, the basis for the assessment of the health insurance premium is their aggregate earnings from employment entitling them to participation in the health insurance system, except for income not counting for health insurance. The assessment basis for employees is at least the minimum assessment basis, which is the same as the amount of minimum wages determined by law (CZK 7 185/EUR 241* a month for the year 2005). The assessment basis for the employee, for whom the premium in the relevant period is paid by the state (from the assessment basis of EUR 4 024/EUR
The health insurance assessment basis for a self-employed person in 2005 is 45 per cent of the income from his/her business and other independent gainful activities after the deduction of expenses needed to generate, assure, and maintain that income. The list of allowable income and expenses is specified by Act No. 586/1992 Coll. on income tax. Self-employed persons are liable to pay premiums calculated from an assessment basis the maximum amount of which is CZK 486 000/EUR 16 319 a year. If the real amount of the assessment basis is less than the minimum assessment basis, the self-employed person must pay a premium calculated from the minimum assessment basis. The minimum annual assessment basis is twelve times the amount of 50 per cent of average wages in the national economy, provided the self-employed person carried out his/her business activities for the whole year and the premium was not paid for him/her by the state.

The relevant period for the calculation of the assessment basis of employees is the calendar month for which the premium is paid. In the case of a self-employed person, the relevant period is the calendar year for which the premium is paid.

* Average monthly exchange rate as of 2005 = 1EUR/29.782 CZK (source CNB, March 2005)

More information on health insurance premiums is available from the Ministry of Health, at http://www.mzcr.cz.

**Supplementary Pension Insurance with State Contribution**


Supplementary insurance with state contribution is a contribution-defined system, based on the civic society principle. Participation in it is voluntary and is established by a contract between the citizen, who must be more than 18 years old, and a pension fund.

Pension funds are joint stock companies governed by stricter rules as regards their founding, operation, and liquidation than is the case of ordinary joint stock companies.

The activities of pension funds and depositories are subject to government control carried out by the Ministry of Finance and the Securities Commission. The state does not guarantee the solvency of the system or that of the different funds. As from 1 January 2005, supplementary pension insurance is provided by 11 pension funds registering some 2.9 million insured persons.

The participant’s payment is augmented by a contribution from the state budget. The maximum amount a participant is entitled to obtain in state contributions is CZK 1 800/EUR 60* a year. Pension funds are entitled to tax allowances on the yields on their business activities, so that most pension funds pay no or minimum corporate income tax.

Tax allowances for the participants and for employers paying the contributions for them came into effect on 1 January 2000.

The contributions to supplementary pension insurance with state contribution paid by the employer to the pension fund to the employer’s account shall not be included in the assessment basis for the calculation of mandatory social and health insurance premiums.

The supplementary insurance system with state contribution is rare in the world and can hardly be compared with the systems in European states based on the employee principle.

* Average monthly exchange rate as of 2005 = 1EUR/29.782 CZK (source CNB, March 2005)

More information about pension insurance with state contribution is available from the Ministry of Finance (http://www.mfcr.cz) and from the Pension Funds Association of the CR (http://www.apfcr.cz).
The system of valuation in the Czech Republic still shows certain specific features that need not necessarily correspond to world rules. One of the basic differences is the coexistence of market valuation, and valuation according to a special legal regulation issued by the Czech Republic’s Ministry of Finance (decree-based, or administrative appraisal).

For the CR, it is thus a priority to implement changes in valuation that would comply above all with European rules. That is to create a system that would assure and allow relations with the other European countries without problems. Indeed, the harmonized European rules for valuation are identical with the world rules, and therefore the Czech system should incorporate the unified world principles of appraisal as soon as possible.

**HARMONIZING THE RULES FOR VALUATION IN THE WORLD AND IN THE CZECH REPUBLIC**

Convergence of the systems of valuation in the world, and especially in the European territory, should ensure an easy and smooth course of all transactions, operations, and phenomena based on real value, and should remove barriers that might be in the way of these processes in the present-day globalized world.

An intentional harmonization of rules for valuation has been under way in the world for about three decades, although it started in different ways in the various regions. Institutionally, the process is being implemented through a number of organizations of different levels, impacts, and competences. The former system of communication has changed lately, and especially the European Valuation Standards are marked by efforts to rapidly incorporate new findings and observations into the different parts of the standards. At the same time this is supported by the tendency to resist the convergent forces on the part of the different countries, by circumspection amid the exaggerated openness of the national systems and the dissemination of information on their own rules, and by effort to gain advantages in the international competitive environment.

The harmonization of rules is of decisive importance to the CR, especially those of the international organizations IVSC (the International Valuation Standards Committee) and TEGoVA (the European Group of Valuers’ Associations). The Czech Republic cooperates and communicates with them through the Czech Chamber of Appraisers, as the only participant from the country.

The existence of a number of associations of valuers and certified appraisers, or valuers and certified appraisers together, make the structure of institutions in the CR too complicated and confusing, and encourage some of the organizations to attempt to gain an exclusive position in the real estate market.

A specific feature in the CR is the operation of two types of appraisal experts – certified appraisers and valuers (due to a specific development in the country). The activity of certified appraisers who operate in compliance with the Act on Certified Appraisers and Interpreters has a different legal basis in the Czech Republic than the activity of valuers. In addition, the activity of certified appraisers is not considered a profession in the CR, while the activity of valuers is clearly a profession with a licensed trade. The Trades Licensing Act regulates valuers’ entry into the profession by various requirements for the different specializations. The harmonized rules regard valuation as a very important profession that decides about property values, and in most countries in the world valuers are ranked among professionals such as lawyers, notaries, and auditors.

As mentioned earlier in this article, two methods of real estate valuation are used in the Czech Republic – market valuation, and valuation according to a special legal regulation – decree-based valuation, and this is often so for one and the same property transaction.

In contrast to the decree-based price assessment, market valuation rests in the appraisal, and/or proposal, of market value. The IVS definition of market value is identical with the definition of market value in the EVS. This is due to the fact that TEGoVA has adopted the definition of market value from the International Valuation Standards Committee into its EVS.

The concept of market value in both international and European standards is thus identical. However, none of the valuation bases other than market value corresponds in the IVS and EVS to the decree-based price assessed in the CR. Only the concept of residual reproduction value, applied mainly to specific
properties, is partly similar, but this is not primarily a market approach.

If a valuation is carried out on the basis of market value, then it is a market valuation according to both the IVS and EVS. It is required that a market valuation be based consistently on the reflection of the market environment at the particular location, because the real estate market has an especially distinctly regional character.

The meaning of the definition of market value in both the IVS and EVS can be compared to the definition of usual price, which is set out in Act No. 151/1997 Coll. on Property Valuation in the CR.

In market valuation, Czech appraisers are thus compelled to work on the basis of the Property Valuation Act, and their reports thus state in conclusion: the proposed market value (usual price - as a kind of synonym). On the assumption that the meaning of usual price and market value in the standards is identical, Czech market valuation is based on the same principle of appraisal which is laid down in the standards. In market valuation, appraisers should always refer to market data and information and put them into harmony with the respective standards.

Valuation according to a special legal regulation (decree-based valuation) is used when it is required by a certain legal regulation – especially as the basis for calculating tax liability. The requirement for decree-based valuation does not exclude a simultaneous appraisal by the market method, which the parties concerned may find equally essential, though not required by law.

The Standards admit that property can be assessed for various purposes, and the valuation result may naturally be different property values, but the Standards neither deal with nor allow a situation (with one exception – valuation for the purpose of guarantees and mortgages) that would make it necessary to valuate by more than one method for a single type of real estate transaction.

In order to minimize risks, it is useful for the valuation of bank guarantees and mortgages according to the Standards to assess not only market value, but also another value (e.g. long-term sustainable property value), that would better express the value of property on a medium-term basis, namely with regard to the duration of loan payments. Under current Czech legislation (law on bonds) the assessment of the so-called mortgage value is already required for the purposes of mortgage banks. The IVS, too, allow the application of market value and the requirements of financial institutions for eventual property appraisal for the purposes of guarantees and mortgages. The IVS also provide for the possibility of appraisal on a basis other than market value. Nevertheless, in such a case the IVS also make it necessary to simultaneously assess the market value of the property and to make an analysis of the differences between the two values.

This requirement is being increasingly applied in the CR. The basic aspects of mortgage value are set out in the law on bonds.

It is customary that appraisers value property on the basis of adjusted methodology created in coordination with a bank.

Details are available on the web site www.ckom.cz

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The accounting and financial reporting framework in the Czech Republic is regulated by the state. The Act on Accounting defines the fundamental rules applied in financial reporting. The Act on Accounting also refers to the Provisions of the Ministry of Finance and to the more detailed Czech Accounting Standards prepared and published by the Ministry of Finance, which regulate financial reporting procedures in more detail for individual types of entities (banks and financial institutions, entrepreneurs, insurance companies, organizations financed by the state, foundations, non-profit organizations, and political parties).

THE ACT ON ACCOUNTING
The Act on Accounting also sets basic requirements for the preparation and publication of annual reports and defines thresholds for the obligatory statutory audit of financial statements. Companies with equity or debt instruments traded on public markets are
subject to more demanding rules in terms of publishing financial information, mainly in annual reports and through filings with the Czech Securities Commission. Extended requirements for these organizations are defined in the Act on Capital Trading. The Prague Stock Exchange ("PSE") also has its own public filing terms for companies traded on individual markets organized by the PSE.

INTERNATIONAL FINANCIAL REPORTING STANDARDS

Financial reporting regulation is based on the Fourth and Seventh EU Directives. Some important concepts and principles are adopted from IFRS (International Financial Reporting Standards), the most important being the true and fair view. Other fundamental financial reporting principles, such as the accruals concept, prudence concept, and the going concern concept, are also consistent with internationally recognized financial reporting frameworks. This is mainly relevant for banks, financial institutions, and entrepreneurs. Other types of organizations have different accounting rules that deviate less from the relevant tax rules and the state’s needs.

Despite a convergence of Czech accounting and financial reporting rules to IFRS, the whole accounting and financial reporting framework in the Czech Republic is still significantly influenced by a focus on taxes. However, more notable differences between recognition and measurements of assets and liabilities for accounting and tax purposes are expected in the near future.

REGULATOR OF THE FINANCIAL REPORTING ENVIRONMENT

Although the state is still the regulator of the financial reporting environment, several professional bodies actively participate in developing the framework. These are mainly the Chamber of Auditors, the Union of Accountants, and perhaps, most importantly, the umbrella professional association – the National Accounting Board. The National Accounting Board comments on draft regulating documents, provides interpretations, and lobbies the relevant institutions. All the bodies mentioned above are actively participating in bringing the local financial reporting principles closer to IFRS.

With the accession of the Czech Republic to the European Union on 1 May 2004 the relevance of IFRS to Czech enterprises has increased significantly. Companies with their securities traded on regulated markets in member states of the European Union must prepare and file their annual financial statements in accordance with IFRS instead of Czech accounting rules. Enterprises in the Czech Republic are also allowed to adopt IFRS for the preparation of their consolidated financial statements. What this means is that it is becoming vital for Czech enterprises to understand and be able to apply the underlying principles which are the basis for the IFRS framework. For investors, these undergoing changes result in a better chance to understand financial statements prepared by Czech companies and an increased overall transparency in the financial reporting.

The aforementioned duty to prepare financial statements under IFRS has no effect on the income tax liability. As Czech statutory accounting serves as the basis for the tax laws, the companies must be in possession of Czech statutory accounting for the calculation of the Czech statutory profit as well. In practice, the accounting based on IFRS is usually adjusted to Czech statutory accounting outside the accounting system, with a subsequent reconciliation of the profits and its own capital. Where technically possible, accounting can be maintained under both IFRS and Czech accounting rules, simultaneously in the accounting system.

MAIN DEPARTURES FROM IFRS IN THE CZECH FINANCIAL REPORTING FRAMEWORK

In spite of the harmonization of Czech accounting legislation with IFRS over the last several years, there are some types of transactions and situations for which the differences between IFRS and Czech financial reporting are still considerable. The main example of this is financial leasing, an area that is often debated. Many experts believe that the harmonization of financial leasing with IFRS is inevitable in the near future. Other areas with differences are provisions, the concept of extraordinary items, accounting for revenues, including long-term contracts (as it is not permitted to apply a percentage of the completion method for recognition of revenue from long-term contracts) and the guidance for the measurement of the impairment of assets. Czech financial reporting rules also require less extensive disclosures in financial statements than IFRS.

PUBLICATION AND FILING OBLIGATIONS

All entities must file audited financial statements annually with the Commercial Register of the corresponding law court. Entities that must have their financial statements audited by statutory auditors must also prepare annual reports. Annual
reports must include audited financial statements, including the auditor’s report with the audit opinion and information on the past and expected economic development of the entity. Business entities controlled by another party must include in their annual reports a report on intra-group relationships drawn up in accordance with paragraph 66a of the Commercial Code. This report is also subject to a review by the company’s auditors.

Issuers of publicly traded securities are required to file an interim semi-annual report with the Stock Exchange Commission, which includes a balance sheet and income statement and some other additional financial information. This report does not need to be audited.

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Useful addresses:
- Union of Accountants http://www.svaz-ucetnich.cz
- Prague Stock Exchange http://www.pse.cz
- Chamber of Auditors http://www.kacr.cz
- Union of Accountants http://www.svaz-ucetnich.cz

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**Tax Write-Offs**

In the Czech Republic, a long-term asset can be written off from its historical cost. The income tax base allows for accounting depreciation, however, excluding long-term assets. These assets are included in the categories of tangible and intangible assets directly specified in the Income Tax Act. For several tangible and intangible assets, depreciation time periods are reduced as of 2005.

**Tangible assets** mainly include movable property with an acquisition cost of over CZK 40 000 (approx. EUR 1 343)*, as well as buildings and constructions with several exceptions.

Rules for writing off taxes for tangible assets are not only regulated by the depreciation base, but also by the depreciation method.

Standard write-offs are applied, except for minor exceptions. Time depreciation specified in months or days and, exceptionally, also performance depreciation (e.g. for templates, models, and forms) are applied to specific types of tangible assets, such as opening new quarries, technical land reclamations written off separately, or tangible assets whose life is stipulated by a special law.

Standard tax write-offs have two basic features:
a) the depreciation time, which is determined by the inclusion of the tangible assets into a depreciation group, and
b) the depreciation method.

Tax payers can choose one of two depreciation methods, separately for each subject of depreciation. They can either apply a straight-line depreciation, or an accelerated one. Tax write-offs are always used for the entire tax period. A lower write-off is stipulated for the first year of depreciation and only half of a tax write-off can be applied in the year of discarding the asset, as well as in some other cases.

In the straight-line depreciation, the depreciation rates are set to maximum. Nevertheless, tax payers can choose another depreciation schedule with lower depreciation rates.

Accelerated (reducing) depreciation mainly offers

Table 1: Depreciation time in depreciation groups

<table>
<thead>
<tr>
<th>Depreciation group</th>
<th>Assets (examples)</th>
<th>No. of years of depreciation</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>2004</td>
</tr>
<tr>
<td>1</td>
<td>(cars) vans, computers, and office equipment</td>
<td>4</td>
</tr>
<tr>
<td>1a</td>
<td>cars</td>
<td>-</td>
</tr>
<tr>
<td>2</td>
<td>majority of machinery, equipment, trucks</td>
<td>6</td>
</tr>
<tr>
<td>3</td>
<td>steam boilers</td>
<td>12</td>
</tr>
<tr>
<td>4</td>
<td>buildings of light materials</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>buildings of light materials</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>buildings and halls for industrial and agricultural purposes,</td>
<td></td>
</tr>
<tr>
<td></td>
<td>apartments, and non-residential premises</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>public administration buildings, department stores</td>
<td></td>
</tr>
</tbody>
</table>
the possibility of gaining tax savings in the first years after purchasing the asset. In this depreciation method, the highest write-off applies to the second year. The accelerated depreciation uses depreciation coefficients instead of depreciation rates. Except for the first tax period, write-offs are based on double the book value, which is divided by the coefficient reduced by the number of tax periods, in which the write-offs have so far been applied.

Until 2004, tax payers could reduce their tax base by 10 per cent of the input price of the majority of tangible assets belonging to depreciation groups 1 to 3. This option is no longer applicable as of 2005. To a certain extent, it should be substituted by the tax payer's possibility to increase – for similarly defined tangible assets – straight-line or accelerated depreciation by 10 per cent (in exceptional cases by 15 or 20 per cent), which does not violate the rule of writing off maximally up to 100 per cent of the input price.

Intangible assets are defined as assets with an input price of over CZK 60 000 (approx. EUR 2015) and a useful life of over 1 year. Goodwill is not considered an intangible asset. It is the owner or the person authorized to use it that can write it off. It can be written off by time periods, either by the time for which tax payers have the right to use it, or using the number of months determined in Table 2.

Table 2: Depreciation time of intangible assets

<table>
<thead>
<tr>
<th>Type of intangible asset</th>
<th>No. of months of depreciation</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2004</td>
</tr>
<tr>
<td>audiovisual work</td>
<td>18</td>
</tr>
<tr>
<td>software</td>
<td>48</td>
</tr>
<tr>
<td>intangible results of R&amp;D</td>
<td>-</td>
</tr>
<tr>
<td>start-up expenses</td>
<td>60</td>
</tr>
<tr>
<td>other intangible assets</td>
<td>72</td>
</tr>
</tbody>
</table>

* Average monthly exchange rate as of 2005= 1EUR/29.961 CZK (source CNB, February 2005)

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Labour Law

EMPLOYMENT CONTRACTS
An employment relationship in the Czech Republic is established through appointment, election, or through a written employment contract concluded between the employer and the employee in line with the labour code of the CR.

The employment contract must include:
a/ the type of work that the employee will be doing,
b/ the place of work and
c/ the first day of work.

An employment contract without these essential elements is invalid. Other contracts that do not include these essential elements do not qualify as employment contracts. Apart from these provisions, employment contracts also usually include other details such as the amount of salary, vacation, and the obligations of the employee. Further, the employer and the employee may enter into an agreement under which the employee undertakes to refrain from gainful occupation in the employer's line of business (or in a business with a competitive character), i.e., an obligation previously covered by the "non-competition" clause (limited to a period of one year after termination of the employment relationship). However, this kind of agreement can only be concluded with employees who in the course of their employment acquired specific information, insights, or technological procedures.

The employment relationship terminates by:
a/ agreement,
b/ termination – the most common case,
c/ immediate cancellation or
d/ cancellation in the probationary period.

Termination must be in writing and it must be delivered to the second contractual party. An employee can terminate his/her contract for any reason or without a reason. In contrast, the employer can terminate the contract of an employee only for reasons explicitly listed in the labour code.

EMPLOYMENT BENEFITS AND PAYMENTS TO EMPLOYEES
There is a well-developed system of legal regulation that regulates the social security of employees in the Czech Republic.
These regulations include the following:

a/ **Minimum wages.** According to the Czech legal system, employees are entitled to a minimum wage of CZK 6,700/EUR 225* per month or CZK 39.60/EUR 1.33 per hour. This minimum wage can be reduced by 50 per cent in some cases. This applies to employees who receive permanent disability pensions or in the case of fully disabled juvenile employees who do not receive full disability pension.

b/ **Social security and state employment policy.** The employer is obliged to deduct social security and state employment policy contributions from an employee’s wages. This deduction amounts to 8 per cent of the gross salary of an employee. The employer must register new employees with the social security authorities within eight days from commencement of the employment. The employer is obliged to transfer the deducted premium to the account of the competent body of administration of social security. These amounts are tax-deductible items for employees.

The employer is further obliged to deduct premiums of 26 per cent of the employee’s gross salary. These payments represent a tax effective expense/cost for employers.

c/ **Health insurance.** The employer is obliged to deduct premiums for public health insurance of 4.5 per cent of the employee’s gross salary. The employer must register new employees with the respective health insurer within eight days from the commencement of the employment. The employer is obliged to transfer the deducted premiums to the account of the particular health insurance company. These amounts are tax-deductible items for employees.

The employer is further obliged to deduct premiums totaling 9 per cent of the employee’s gross salary. These payments also represent tax effective expenses/costs for the employer.

d/ **Obligatory insurance against industrial accidents or diseases.** Employers are obliged to pay obligatory insurance covering injuries incurred or diseases acquired in consequence of the employment relationship. Payments of premiums differ depending on the type of business of the employer. These premiums are paid quarterly and they correspond to a particular percentage of the gross salary paid to all employees in the previous quarter. Payments or premiums are tax-deductible item for employers.

e/ **Deduction of personal income tax for employees.** The gross salary of employees reduced by social security and state employment policy premiums, by premiums for public health insurance and by some tax-deductible items is subject to personal income tax for individuals. The tax rate is progressive and it varies between 15 per cent and 32 per cent. The employer is obliged to deduct monthly down payments for employees' personal income tax and to transfer this to the accounts of the competent financial office. This can fulfil, the tax obligation of an employee in some cases.

An employer who employs more than 25 people and who does not employ a corresponding number of handicapped persons is obliged to deduct specific fees and pay them to the state budget. An employer that employs more than 25 people is obliged to make sure that at least 4 per cent of his/her employees are handicapped, in accordance with the Employment Act (act No. 435/2004 Coll.).

The employer can comply with this obligation in the following three ways:

a/ by ensuring that at least 4 per cent of his/her employees are handicapped;

b/ by purchasing goods or services from employers whose staff consists of more than 50 per cent handicapped employees, or by purchasing goods from a protected workshop operated by a citizens’ initiative, a state-registered church, or a charitable association, or by placing orders with such entities, or by purchasing goods or services from self-employed handicapped persons who employ no staff, or by placing orders with such persons; or

c/ by deducting fees in favor of the state budget.

The size of this fee is 2.5 times the national average of monthly salaries for the first through third quarter of the given calendar year according to the Czech Bureau of Statistics. The fee is paid for each handicapped employee who the employer does not employ within the obligatory percentage of such employees. The average salary for the first through third quarter of 2004 was CZK 17,418/EUR 585 per month for employees in the business sector.

The payment is paid to the account of the labour office with jurisdiction over the employer’s seat.

www.cssz.cz - Czech Social Security Administration (in Czech, English, French, German)

www.czso.cz - Czech Bureau of Statistics (in Czech and English)

**DISCRIMINATION**

In connection with the Czech Republic’s EU accession – as one aspect among several - the CR adopted the concept based on the agreement that
prohibits discrimination in employment relations. According to the labour code of the CR, there must be no discrimination in employment relations based on race, skin colour, gender, sexual orientation, age, health status, confession, political belief, marital status, or family relations.

PAYMENTS AND BENEFITS FOR SENIOR EXECUTIVES
Persons authorized to act on behalf of a subsidiary or a branch (further referred as "managers") can become involved either on the basis of an innominate contract (such a contract is managed by the provisions concerning mandate contracts in the commercial code) or on the basis of an employment contract concluded in line with the labour code.

The manager has the status of employee in the case of employment on the basis of an employment contract and he is entitled to the payments and benefits mentioned in the above paragraph entitled "Employment Benefit and Payments to Employees". In the case of payments to managers of public limited companies, the executive of these companies is obliged to deduct the same sickness insurance, state pension insurance, and health insurance as in the case of employees, regardless of the whether the manager is employed on the basis of an employment contract or on the basis of an innominate contract. If a manager works for a joint stock company on the basis of the above innominate contract, the member of the board himself is, in accordance with the interpretation of the relevant regulations, obliged to deduct payments for sickness insurance, state pension insurance, health insurance, and personal income tax.

MASS LAYOFF
"Mass layoff" means the termination of the employment relationship by the employer through written termination because of organizational changes in 30 calendar days to at least: 1) 10 employees, if the employer employs between 20 and 100 staff, 2) 10 per cent of employees, if the employer employs between 101-300 people, or 3) 30 employees, if the employer employs more than 300 people. The employer is obliged to notify the competent trade union body or factory committee in writing of its intentions at least 30 days before the termination notices are handed in writing to the employees concerned. The employer is also obliged to notify the competent labour office in writing to inform it of the total number of employees dismissed and their existing employment. The employer has to prove that he/she delivered this written notice on the decision to make mass layoffs and information as the result of negotiations with competent trade union bodies or factory committees to the competent labour office.

TRADE UNIONS
The Czech Republic implements the concept of free establishment and free competition of trade unions. No business person can prohibit their employees from establishing trade unions.

When a trade union is established, the employer is obliged to start collective bargaining with the particular trade union organization if the trade union so demands. Collective bargaining usually results in the conclusion of collective agreement. These agreements usually regulate the salaries of employees and, among others, payment benefits.

In addition to regular collective agreements, it is also possible to conclude "higher" collective agreements. These agreements can be concluded between sector trade unions and associations of employers.

The labour code also provides for trade unions to take a prominent position during negotiations with employers on behalf of employees. The law, however, also recognizes other employee representatives such as employees’ committees or employees’ representatives for health and safety.

Legislation in general stresses the rights of employees to information and negotiations, in written form in some cases.

PERSONAL DATA PROTECTION
The employer is obliged to provide former employees with confirmation of his/her employment and of other personal data included in the employee’s personnel file. New legislation on personal data protection sets additional demands on employee personal data protection by employers.

COMPARISON OF LABOUR LAW OF THE CZECH REPUBLIC AND THE EU; LATEST AND PREPARED AMENDMENTS IN THE AREA OF LABOUR LAW
Labour law in the CR is in compliance with regulations in force in the EU, or more precisely it is not in disagreement with such regulations. The labour law of the CR, and in particular the Labour Code, has been significantly amended in the last year. The amended Labour Code provides for women to hold equal positions in the workplace and it applies the principle of equal opportunities stressed by the European Union. This influences
such matters as remuneration, equal access to employment, equal working conditions, and social security.

As of the day of the Czech Republic’s accession to the EU (1 May 2004), amendments came into force that concern the allocation of employees to work in the European Union, the rights of representatives of employees (European Council of Employees) and the approach to supranational information and discussions. Also as of 1 May 2004, the new Employment Act came into force, which, in particular, regulates the new concept of temporary work, and the possibilities for the employment of EU citizens without the necessity of a work permit.

Currently, a completely revised Labour Code is under way; its adoption is expected by the end of 2006 or later (2007).

**Internet links**
ab.uradprace.cz – Prague Labour Office (only Czech); all forms for employment of foreigners are available for downloads
www.mpsv.cz – The Ministry of Labour and Social Affairs (in Czech and English)
www.cmkos.cz – Czech-Moravian Confederation of Trade Unions (in Czech and English)

* Average monthly exchange rate as of 2005 = 1EUR/29.782 CZK (source CNB, March 2005)

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### Wage Regulations in the Business Sector

The basic legal measure governing the payment of wages in the business sector is Act No. 1/1992 Coll. on wages, remuneration for standby work, and average earnings, as later amended. The provisions of this act define wages as pecuniary remuneration (or remuneration of pecuniary value) paid by an employer to an employee for their work according to the complexity, responsibility, and difficulty of the work and the working conditions, performance at work, and its results. On the contrary, not regarded as wages are other payments, which are made in connection with employment, but do not meet the above mentioned criteria (such as compensation for travel expenses).

The payment of wages to the employees of business entities in the Czech Republic is fully liberal. The act on wages only guarantees the basic entitlement of employees to receive wages for work done, and stipulates the employers’ obligation to remunerate (compensate) the employees for work carried out in extraordinary working conditions (i.e. overtime, work at night, on public holidays, or in strenuous or harmful working conditions). The act also stipulates that employers must respect the principle of equal pay for men and women for the same work or for work of the same value. This rule is based on the constitutional principles of the Czech Republic, and is in full agreement with the European Community law (article 141 of the EC Treaty and Directive No. 75/117/EEC).

On the other hand, the act on wages does not limit employers and employees by determining the form of wage payment, the method of remuneration or the amount of the wage. But government regulations set the compulsory minimum wage, i.e. the lowest remuneration.

The Labour Code § 111 para 3 guarantees all employees without exception that their wages must not be lower than the minimum wage, regardless of their efficiency or other criteria for the assessment of their work. The minimum wage is determined in Government Regulation No. 303/1995 Coll., on the minimum wage, as later amended. As of 1 January 2005, the wage hour rate is CZK 42.50 (EUR 1.43)*, or a monthly salary of CZK 7 185 (EUR 241). The minimum wage regulation protects all employees from the payment of inadequately low remuneration regardless of its system, or the management results of their employer. The minimum wage set by the Government is guaranteed even if the employer decides remuneration unilaterally, and if it is agreed in a collective agreement.

The wages of employees have increased protection even if no collective agreement has been concluded (e.g. because no trade union operates in the company) or remuneration has not been agreed in this agreement (when it contains no provision on wages). This
increased protection rests in the fact that, in addition to the institute of minimum wage, the act on wages stipulates the title of the employee to remuneration at least at the level of the appropriate minimum wage tariff. This means that remuneration must not be lower than the determined minimum wage tariff of the grade which includes the types of work of the same complexity, responsibility, and difficulty as those performed by the employee. The different grades and minimum wage tariffs are stipulated in Government Regulation No. 333/1993 Coll., on minimum wage tariffs and compensation for work in strenuous and harmful working conditions, and for work at night, as later amended. This Government Regulation stipulates the minimum wage tariffs for twelve grades. The minimum wage tariffs are graded with regard to the complexity, responsibility, and difficulty of the work. The minimum wage tariff for the first grade (the easiest work) is equal to the minimum wage (CZK 42.50 per hour, and CZK 7 185 per month). The minimum wage tariff for the 12th grade (the most exacting work) is approximately 2.25-fold (CZK 95.60/EUR 3.21 per hour, and CZK 16 160/EUR 543 per month). The minimum wage tariffs valid in 2005 are published under No. 700/2004 Coll. Detailed information at the following address: (http://web.mvcr.cz/rs_atlantic/ftp/shirka/2004/sb236-04.pdf, or http://www.mpsv.cz/scripts/clanek.asp?lg=1&id=6109).

* Average monthly exchange rate as of 2005 = 1EUR/29.782 CZK (source CNB, March 2005)

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### Social Security and Immigration Issues

It is just over a year since the Czech Republic entered the European Union. Even though it was a turning point in the history of our country, the daily life of most people has not changed. However, the CR has already been bound by EU legislation for one year: one important area is the EU member states’ rules on social security and immigration. Foreigners living and working in the CR have likely felt the effects of these rules.

1. **SOCIAL SECURITY ISSUES**

Czech legislation distinguishes two separate mandatory insurance schemes for individuals: a health insurance scheme, and a social security scheme that covers pension, sickness, and unemployment insurance. Generally, the following individuals are subject to the Czech mandatory health insurance and social security coverage:

- Individuals employed by Czech entities.
- Certain individuals employed by foreign entities (from 1 January 2004).
- Entrepreneurs.

The rules for social security coverage are also influenced by bilateral social security agreements that the Czech Republic has concluded with some countries (e.g., Germany, Austria, France, Switzerland, etc.) Some of these agreements cover both health insurance and social security coverage, while some of them treat only the area of social security.

Czech accession to the EU has not caused any direct changes to Czech health insurance and social security legislation. However, as mentioned above, the Czech Republic has to follow the European regulations on social security, which may modify the

<table>
<thead>
<tr>
<th>Country</th>
<th>Monthly</th>
</tr>
</thead>
<tbody>
<tr>
<td>Belgium</td>
<td>1233.54</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>225.23</td>
</tr>
<tr>
<td>Estonia</td>
<td>158.5</td>
</tr>
<tr>
<td>France</td>
<td>1090.48</td>
</tr>
<tr>
<td>Cyprus</td>
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</tr>
<tr>
<td>Lithuania</td>
<td>130.00</td>
</tr>
<tr>
<td>Latvia</td>
<td>122.00</td>
</tr>
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<td>Luxembourg</td>
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</tr>
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<td>Hungary</td>
<td>211.6</td>
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<td>Malta</td>
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<td>The Netherlands</td>
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<td>Greece</td>
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<tr>
<td>Slovenia</td>
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<td>Spain</td>
<td>460.50</td>
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Czech legislation rules. Czech individuals working and living only in the CR are not affected by EU accession from the social security perspective.

The bilateral social security agreements also remain valid; some have been concluded with countries that are currently EU member states and some of them have been concluded with non-EU countries. When resolving social security issues, it is always necessary to take into account Czech legislation as well as any applicable bilateral agreement or EU legislation.

Individuals migrating within the EU are generally subject to the EU Regulations on Social Security Nos. 1408/71 and 574/72 ("Regulations"), according to which individuals are covered by the health insurance and social security schemes ("social security") of only one EU member state at a time. The periods of the individual’s social security coverage in the various member states are aggregated to determine the individual’s entitlement to future pension and some other benefits.

Under these Regulations, individuals migrating within the EU are subject to the social security system of the country where they perform their working activities. Special rules apply to individuals seconded by their home employer to work for that home employer in a host country for a period not exceeding 12 months. Provided all conditions stipulated by the Regulations for secondment are met, these individuals remain covered by the seconding country’s (usually the home country) social security scheme throughout their secondment. Different rules are stated by the Regulations for individuals who perform working activities in more than one EU member state.

In addition, the Regulations allow individuals to apply together with their employers for exemption from the above-mentioned rules.

The Regulations on social security also apply to Lichtenstein, Norway, and Iceland.

As many facts and circumstances need to be considered when determining the individual’s social security position, it is important that each individual not working or living in his/her home country be reviewed separately considering his/her concrete situation.

2. STATUS OF CZECH IMMIGRATION LAW IN RESPECT OF ACCESSION TO THE EU

Immigration practices and their legal treatment in the Czech Republic were only developed from 1990. The new immigration law, effective since January 2000, brought a revolution in immigration policy. The immigration law has been stabilized and an amendment prepared in accordance with the immigration strategy of the EU countries.

The law has subsequently been amended many times. The new amendment to the Act on Residence of Foreign Nationals in the CR mostly benefits citizens of the EU and of Liechtenstein, Iceland, and Norway. Citizens of Switzerland also receive the same benefits as EU citizens while working and/or residing in the CR.

An important event in 2004 was the adaptation of the new Employment Act. One of the most important intentions of this Act was to consolidate employment legislation in one Act. The Employment Act strictly defines obligations of Czech entities that employ EU and non-EU nationals. It also specifies terms of registration of EU nationals and requirements for work permit applications. The fines for violations have been increased.

The immigration and employment law recognize two principles: residence of EU citizens (including citizens of Liechtenstein, Iceland, Norway, and Switzerland), and residence of foreign nationals (citizens coming from the non-EU countries) in the Czech Republic.

NON-EU NATIONALS

All foreign nationals who intend to work in the Czech Republic are required to obtain a work permit and a visa. Foreign nationals are not allowed to work in the CR until both documents have been granted. The work permit must be obtained first, and then included in the visa application.

The Czech labour authorities have 60 days to issue the work permit. The application for a visa, including all required documents, must be filed in person at a Czech embassy abroad. The Czech Foreigner Police decide whether to grant a short-term visa within 30 days of the date the application was filed; a long-term visa takes 120 days (see the comments on short-term and long-term visas below).

If the foreign national is named as a statutory representative of a Czech entity or if he/she is elected as a member of the board of directors of a Czech entity, a long-term visa for the purpose of doing business must be obtained prior to the individual’s registration in the Czech Commercial Register.

If an expatriate’s non-working spouse or children will also live in the Czech Republic, they are not eligible for work permits. However, they should obtain long-term visas, which in such cases are issued on the basis of birth and marriage certificates.
The work permit and the long-term visa are granted for a period of one year. Prior to their expiration, it is possible to extend them for another year. The extension process is done in the CR. The long-term visa for the purpose of doing business is granted for 180 days. After the registration of the individual in the Commercial Register, the long-term visa can be extended for one year.

The current law recognizes two types of Czech residence permit: temporary and permanent residence. The temporary residence permit is divided into two types: short-term (a maximum stay of 90 days), and long-term (more than 90 days). Permanent residence is only applicable to a foreign national who marries a Czech national or to a foreign national who works in the Czech Republic and has a work permit and a long-term visa for at least 10 years without interruption.

A survey of states with which the Czech Republic has visa-free relations can be found at the website of the Ministry of Foreign Affairs, www.mzv.cz.

CITIZENS OF THE EU AND THEIR RIGHTS TO RESIDE IN THE CZECH REPUBLIC

EU citizens coming to work in the Czech Republic have the same rights as Czech citizens when applying for work in the Czech Republic. While non-EU nationals need a work permit and visa to commence working activities, this does not apply to EU nationals. However, the Czech employer must register the EU national with the local Labour Office. Registration should be done by the date the EU national begins work and is recorded in an “Employer Information” (Informace zaměstnavatele) application form. This registration is of an informative character only and is designed to supply statistical data throughout the EU. The same conditions apply to EU nationals seconded to work in the Czech Republic.

All EU nationals who intend to stay in the Czech Republic longer than 30 days are obliged to announce the place of their stay at the Local Foreigner Police Office.

There is a major change in the area of granting long-term temporary residence permits (i.e., exceeding 90 days): EU citizens no longer need to have visa stickers inserted into their passports. If an EU national intends to stay in the Czech Republic for more than 90 days, he/she is entitled to apply for a residence permit. The "special residence permit issued to EU nationals" also recognizes two regimes – temporary and permanent.

EU nationals working in the Czech Republic are entitled to apply for the temporary residence permit (a violet book) first. The temporary residence permit issued for the purpose of working is valid for five years. To be granted a permanent residence, the EU applicant should have worked and resided in the Czech Republic for three years. The permanent residence permit is valid for 10 years. EU nationals doing business in the Czech Republic are eligible to apply for a permanent residence permit straight away.

Family members of EU citizens who do not possess EU citizenship are also treated preferentially. The system of granting residence permits to family members varies from case to case and the procedure depends on the particular situation.

The regime of issuing ID cards to EU citizens as described in Czech immigration and employment law strictly follows the EU regulations. So as not to obstruct the principles of free movement, the immigration law gives EU citizens the option to apply for a residence permit. The decision is up to the individual.

However, over the past year experience has shown that authorities in the Czech Republic and even outside it require that the residence permit be presented in certain circumstances (e.g., buying a property in the Czech Republic, opening a personal bank account, buying a car, registering a foreign car in the Czech Republic, applying for social security benefits within the EU, etc.) In general, the permit is requested in situations where Czech citizens would have to present their Czech ID card.

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The Ministry of Labour and Social Affairs and the International Organization for Migration (IOM) set up joint websites Doma v ČR (At Home in the CR) – (http://www.domavcr.cz) offering many instructions and information for foreign persons living in the Czech Republic.
1. STRUCTURE OF THE EDUCATIONAL SYSTEM

The Czech educational system has a relatively widely segmented structure. It comprises not only schools of all levels (primary, secondary, and tertiary), including special schools, but also pre-school facilities (nurseries) and facilities pursuing educational activities or looking after the leisure time of pupils, possibly their accommodation, etc. There are also institutions providing the rudiments of art education (special-interest activities) – elementary art schools.

Nurseries and Primary Education

Nurseries are considered an indivisible part of the educational system. Attending them is not compulsory, but their services are used by approx. 87 per cent of children, with attendance in the pre-school year increasing. The basic age group of children attending nurseries is from three to six years. Children usually start going to school at the age of six. Primary education lasting nine years is compulsory, and is divided into the first, five-year, grade, and the second, four-year, grade. After completing the first grade, gifted pupils may go to a secondary grammar school after passing admission examinations; after completing the fifth form, they may go to an eight-year grammar school, and after passing the seventh form, to a six-year grammar school, and carry on their compulsory school attendance there. About 10 per cent of this age group of children take advantage of this possibility. Starting with the third form of primary school, pupils may join a class (school) with enlarged study of a certain subject – languages, mathematics, etc.

Elementary art schools are included in the education system alongside ordinary primary schools. These schools, however, only provide special-interest education in different areas of art, helping pupils to prepare for study at secondary or tertiary art schools (having attended them, however, is not a condition of admission).

Secondary Education

After completing compulsory education in a primary school, most children (95 per cent) carry on their education in a secondary-level school, either a secondary school providing general education, or a secondary school providing vocational training. There are different types of secondary schools:

a) Grammar schools, providing general secondary education and called ‘grammar’ schools according to Central European tradition. They provide secondary general education ending with a secondary school-leaving exam (ISCED 3A) and prepare students especially for university studies; the study may last four years (only comprising the higher secondary level), or six to eight years (also covering a part of compulsory school attendance);

b) Secondary vocational schools, providing secondary vocational education in a four-year course ending with a school-leaving exam (ISCED 3A), entitling students to seek admission to university, and qualifying them to carry out medium-level technical, economic, and other work. A small number of two- to three-year courses provide secondary technical education without a secondary school-leaving certificate.

c) Secondary apprentice-training centres providing education in three-year courses, with a certificate of apprenticeship, qualifying its holder to carry out skilled vocations. A small number of four-year apprentice-training courses ending with a secondary school-leaving exam qualify the certificate holders to perform highly-skilled vocations and functions of operational character, while opening up the way for them to university education. Some programmes provide the possibility of short one- and two-year training for pupils who ended compulsory school attendance without completing the ninth form of primary school. Pupils who have completed a three-year programme with a certificate of apprenticeship may attend a two-year extension course. A condition of admission is being apprenticed in the same or related profession. The two-year extension course ends with a secondary school-leaving exam. The students can either join the labour market, or continue their studies at a tertiary level educational institution.

More than 80 per cent pupils undergo vocational training and less than 20 per cent get general education. The decision to enter a secondary school providing vocational education, however, does not mean that the student no longer raises the level of his general education. Three-year education programmes are conceived so that at least 30 per cent of the time reserved for tuition is devoted to general education, and in the case of 4-year education programmes, at least 45 per cent.

An advantage of vocational training programmes ending with a secondary school-leaving exam is that they are recognized as equal to secondary school general education courses. Those who have completed these programmes have the possibility of continuing their studies on the tertiary level. This raises the attractiveness of vocational training.
Education to regional government bodies and in public education was transferred from the Ministry of administration. The founding and administration capacity which took place in connection with the reform of public education system in the past period is its decentralization, a characteristic feature of the development of the Czech education system is now more open and more flexible. The main trend is to eliminate the segregated education of children requiring special care and to accommodate them into ordinary education. The special schools have been given greater autonomy. Now, nurseries and primary schools are founded by municipalities, and the founders of secondary schools and higher-level vocational schools are regional government bodies, while universities are autonomous.

Another important change which the educational system underwent in the 1990s is the emergence of private and ecclesiastical schools. While before 1989 no private schools existed, their share of the total number of educational institutions in the 2003/04 school-year accounted for 22 per cent of secondary schools and for 33 per cent of higher-level vocational schools. Half of the total number of universities are private institutions, but they are mostly small schools, with an enrolment of only about 5 per cent of university students. In private schools students must pay fees. The amount of fees differs depending on the school, but on an average it is around CZK 18 000 (EUR 600) a year for private secondary and higher-level vocational schools and around CZK 45 000 (EUR 1 500) for universities. Public higher-level vocational schools also may levy fees. Their amount, however, is limited by law and is around CZK 3 000 (EUR 100) a year.

An important change in the area of tertiary education was brought about by the latest school act amendment, by which the education system was enlarged in 1996 with the addition of a new educational grade – higher-level vocational training. It is provided by higher-level vocational schools, which became attached (as an experiment in 1993) most frequently to secondary vocational schools, which became attached (as an experiment in 1993) most frequently to secondary vocational schools, and in most cases are still associated today. Another important change in the area of tertiary education was the passage, in 1998, of a new university act, which provided for the division of higher-learning schools into university and non-university institutions, besides the already existing courses for a master’s degree and for a doctor’s degree introduced shorter courses for a bachelor’s degree, and made it possible to establish private institutions of higher learning. The number of university students has practically doubled since 1989.

3. FUTURE CHALLENGES AND REFORMS

The Czech education system has undergone important changes in recent years, but the main reforms will continue and may be still broadened in the future.

The ministries and regional governments are preparing long-term projects of development of the educational system, in which they specify, every two years, the realization of long-term priorities, namely: i) the reform of the content of education and its bringing closer to the needs of the modern labour market (curricular reform), ii) the reform of the termination of secondary-level studies, iii) quality management, monitoring, and evaluating the
The Czech market with information and communication technologies (ICT) is growing significantly every year. This development, represented by massive investments into most modern technologies, was even more unrestrained than in other industrial sectors in the Czech Republic. It is possible to say that, in general, the majority of Czech subjects in both the public and private spheres have already implemented information systems that are comparable with similar systems used in the EU countries. Several prosperous Czech companies already operate managerial ERP (Enterprise Resource Planning) or CRM (Customer Relationship Management) information systems. Advanced companies also already formulated their e-business strategies and they are determined to allocate significant resources into the realization of projects in this area. Thanks to these massive investments, the annual international fair of information and communication technologies INVEX in Brno became the biggest event of its kind in the countries of central and eastern Europe. No significant world producer can miss this fair. Some 590 exhibitors from 21 countries participated in the 14 year of this fair in 2004 and almost 130 000 visitors attended. For this reason, INVEX ranked among the four biggest sector fairs around the world in terms of visitors.

**PROTECTION OF RIGHTS RESULTING FROM INTELLECTUAL PROPERTY**

The progress the Czech Republic has made in the area or protection, compliance and enforcement of rights resulting from intellectual property places it among the most developed countries around the world. By its intense work in the last few years, the CR built a very solid basis for effective protection of rights resulting from intellectual property that can be used by all domestic and foreign investors. The CR is a contractual party of the following most important international treaties in the area of protection of rights resulting from intellectual property that preceded the conclusion of the WTO TRIPS (Trade-Related Aspects of Intellectual Property Rights) Agreement: the Bern and Rome Convention for the area of copyright and related rights, Paris Convention, Madrid Convention, Nice Convention, Lisbon Convention, Madrid Protocol, Copyright Treaty, Trademark Law Treaty, Patent Cooperation Treaty, Convention on the Grant of European Patents, Budapest Treaty on the International
Recognition of the Deposit of Microorganisms for the Purposes of Patent Procedure, and the Treaty on Intellectual Property in respect of Integrated Circuits. In the period following the conclusion of the TRIPS Agreement, internet agreements of the WIPO (World Intellectual Property Organization) deepening protection in the area of copyright and related rights were concluded as well.

Considering the protection of rights resulting from intellectual property and with the goal of strengthening efforts in this area, the Czech Government ordered all state and government authorities to repeatedly and systematically control all software they use. In December 2003, the Government acknowledged the report of the Ministry of Informatics stating that the results of this control and especially the consequent steps taken to remedy the existing shortages resulted in a fundamental change in compliance with the rights resulting from intellectual property in state administration and set the level also for the private sector.

The statistics of the BSA (Business Software Alliance - http://www.bsa.cz/statistiky.asp) for the year 2003 also show that the CR ranked among the twenty countries with the lowest level of software piracy and that it reached the lowest level in the region (40 per cent). These numbers are not too different than the European average (36 per cent).

THE MARKET WITH ICT IN THE CZECH REPUBLIC

The use of ICT is considered to be a critical factor influencing competitiveness and therefore also efficiency of national economies both at corporate and national economy level. Providing their effective use, these technologies are considered to be an important source of growth of creation of value added per employee that should help Czech companies to become internationally competitive. According to the study of the EITO 2004 (European Information Technology Observatory), the market in the CR belongs to the most developed markets in central and Eastern Europe. The country sustains the second highest level of expenditures in the area of IT compared to GDP in the region (3.3 per cent) after Hungary (3.5 per cent). This indicator is comparable with many countries in Western Europe (average 3.1 per cent). Expenditures in the area of ICT grew to EUR 6.549 billion in 2003, which means a 4.4 per cent growth when compared to 2002. According to IDC, further growth of 8-9 per cent is expected for 2004. With its share reaching 17 per cent, the Czech market with ICT was the second biggest market in the region of central and Eastern Europe in 2003 (without Russia, Poland was first with 38.4 per cent).

The share of costs for software and services related to maintenance of hardware on total expenditures is considered to be a reliable indicator of the maturity of a particular market in IT. According to reports of IDC, expenditures for hardware reached only less than USD 1 billion in 2002, which means approximately 45 per cent of total expenditures in the area of IT. The market with services in the area of IT in the CR recorded a double-digit growth (11.4 per cent to USD 767.89 million) in 2002. These indicators also mean that the Czech market with IT becomes mature in this respect and that the CR is far ahead of its central European neighbors. Services with higher value added like for example system integration, network integration, several types of outsourcing and consultations in the area of IT etc. constitute 68 per cent of total expenditures for services in the area of IT, which is similar to the expenditures in the countries of Western Europe or in the United States.

Czech companies that decided to go in the direction of value added instead of mere distribution of products produced by other subjects were forced to look for customers abroad, but often with admirable results. There are several examples proving the fact that Czech applications are sellable also on global markets.

The European Commission for example nominated the newest product 602XML of the company Software602 (http://www.602.cz/produkty/602xml/reference.htm) for the prestigious European Information Society Technologies Prize for the year 2005. The contest was established for new products that represent the best European innovation products from the area of technologies of information society (http://www.it-prize.org). The solution 602XML succeeded to get into the group of 70 nominated for the main prize.

The company DCIT is developing, applying, and supporting its own software system PROVYS TV office for managing TV stations since 1997. The system was established for the planning of broadcasting, management of programmes and media, management of production and acquisition, financial controlling and financial accounts. Fourteen TV stations in six EU countries recently use this system.

The growing number of Czech companies that are able to get customers abroad can be proved also by the growing interest in participation in specialized overseas actions. The Czech presence at the fair CeBit doubled in the last three years (from 20 companies in 2001 to more than 40 in 2004).

As for mobile services, development in the Czech Republic exceeded all expectations. The presence of three networks of mobile operators operated by the
companies Eurotel, T-Mobile (former Radiomobil/ Paegas) and Oskar Mobil (former Český Mobil) sets a highly competitive milieu. The number of active mobile phones in the CR grew by approximately one million in 2004 to 10.7 millions. There is an unbelievable 105 cell phones per 100 Czechs, i.e. the penetration of the market reached 105 per cent at the end of 2004.

Eurotel remained the biggest operator at the end of 2004, with its almost 4.9 million customers, which means a growth by 380 000 clients. T-Mobile increased the number of its clients to 4.3 million, which means a year-on-year growth of almost 12 per cent. Oskar Mobil increased the number of its customers by 280 000 to 1.83 million.

As for the Internet and its availability in the CR, according to the study “4th Report on Monitoring of EU Candidate Countries (Telecommunication Services Sector)” (http://europa.eu.int/information_society/topics/ecomm/all_about/international_aspects/main_areas_work/eu_enlargement/index_en.htm), there are eight Internet services providers (ISP) with nationwide scope of action in the CR and 132 ISP with local scope of action.

It is very difficult to estimate overall penetration of the Internet connection. The European Commission launched a research project SIBIS (Statistical Indicators Benchmarking the Information Society, IST-2000-26276, http://www.czso.cz/csui/redakce.nsf/i/sibis) within the Fifth Framework Programme for Science and Technological Development in 2001. According to this study, almost 40 per cent of respondents in the Czech Republic were using Internet at the end of 2002. According to statistics of iAudit, the number of visitors of domestic Internet servers exceeded the historical record in November 2004 again and approached five million people.

Penetration of the Internet in Czech economic subjects is already quite high. Almost 82 per cent of Czech economic subjects with five and more employees in tracked sectors had Internet connection at the end of 2002. These included approximately 53 000 economic subjects. Compared to the end of 2001, the year-on-year growth reached 11 per cent (http://www.czso.cz/csui/ediciplan.nsf/publ/9602-03-v_roce_2002-only_in_Czech).

Introduction of ADSL connection in March 2003 by the company Český Telecom that was followed by other operators was another impulse for the development of the Internet.

**STATE INFORMATION AND COMMUNICATIONS POLICY**


This strategic document of the Government in the area of development of information society until the year 2006 reflects close cohesion of information society and telecommunications, thus creating a common framework. The main basis for the creation of this document was the Action Plan of the EU eEurope 2005, which is a part of the Lisbon Strategy in the area of information society. The State Information and Communications Policy sets the following four priority areas:

1. Available and safe communication services
2. Information education
3. Modern public services on-line
4. Dynamic milieu for electronic business

Recent steps of the Government in this area

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**The most important websites in the Czech Republic (as on 19 January 2005)**

<table>
<thead>
<tr>
<th>General information on the Czech Republic</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Ministry of Foreign Affairs</strong></td>
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<tr>
<td><strong>BusinessInfo and Export</strong></td>
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<tr>
<td><strong>Doing Business in the Czech Republic</strong></td>
</tr>
<tr>
<td><strong>Czech Info Centre</strong></td>
</tr>
</tbody>
</table>

**Government**

<p>| <strong>The President of the Czech Republic</strong> | <a href="http://www.hrad.cz/">http://www.hrad.cz/</a> |</p>
<table>
<thead>
<tr>
<th><strong>The Parliament – Chamber of Deputies</strong></th>
<th><a href="http://www.psp.cz/cgi-bin/eng/">http://www.psp.cz/cgi-bin/eng/</a></th>
<th>Information includes legislation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ministry of Finance</td>
<td><a href="http://www.mfcr.cz/index_en.php">http://www.mfcr.cz/index_en.php</a></td>
<td>Includes the Czech Company Register</td>
</tr>
<tr>
<td>Ministry of Transport</td>
<td><a href="http://www.mdr.cz/">http://www.mdr.cz/</a></td>
<td>(Only in Czech)</td>
</tr>
<tr>
<td>Ministry of Informatics</td>
<td><a href="http://www.micr.cz/">http://www.micr.cz/</a></td>
<td>(Only in Czech)</td>
</tr>
<tr>
<td>Ministry of Labour and Social Affairs</td>
<td><a href="http://www.mpsv.cz/">http://www.mpsv.cz/</a></td>
<td>(Only in Czech)</td>
</tr>
<tr>
<td>Ministry of Health</td>
<td><a href="http://www.mzcr.cz/">http://www.mzcr.cz/</a></td>
<td>(Only in Czech)</td>
</tr>
</tbody>
</table>

**Trade Promotion**

<table>
<thead>
<tr>
<th>CzechTrade</th>
<th><a href="http://www.czechtradeoffices.com/Global">http://www.czechtradeoffices.com/Global</a></th>
<th>Czech Trade Promotion Agency</th>
</tr>
</thead>
</table>

**Company Contact Information**

<table>
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</thead>
<tbody>
<tr>
<td>The Trade License Register (The Small Business Register)</td>
<td><a href="http://rzp.mpo.cz/">http://rzp.mpo.cz/</a></td>
<td>Official data about all Czech tradesmen resp. small business companies (only in Czech)</td>
</tr>
<tr>
<td>ARES - The Administrative Registers of Economic Subjects</td>
<td><a href="http://www.info.mfcr.cz/ares/ares.html.en">http://www.info.mfcr.cz/ares/ares.html.en</a></td>
<td>ARES enables searching for all economic subjects registered in the CR</td>
</tr>
<tr>
<td>Hoppenstedt Bonnier</td>
<td><a href="http://www.hoppbonn.cz/project/">http://www.hoppbonn.cz/project/</a></td>
<td>Major Companies in the Czech Republic (English versions)</td>
</tr>
<tr>
<td>Kompass</td>
<td><a href="http://www.kompass.cz/">http://www.kompass.cz/</a></td>
<td>Czech Company Catalogue</td>
</tr>
<tr>
<td>Albertina Data</td>
<td><a href="http://www.albertina.cz/">http://www.albertina.cz/</a></td>
<td>Company Monitor</td>
</tr>
</tbody>
</table>

**Producers’ and Entrepreneurs' Unions and Associations**

<table>
<thead>
<tr>
<th>Chamber of Commerce of the Czech Republic</th>
<th><a href="http://www.komora.cz/">http://www.komora.cz/</a></th>
<th>Trade, economic chambers (mostly in Czech)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Confederation of Industry of the Czech Republic</td>
<td><a href="http://www.spcr.cz/">http://www.spcr.cz/</a></td>
<td>Confederation of Industry of the CR</td>
</tr>
<tr>
<td>The Chamber of Tax Advisors</td>
<td><a href="http://www.kdpcr.cz/">http://www.kdpcr.cz/</a></td>
<td>The Chamber of Tax Advisors</td>
</tr>
</tbody>
</table>

**WWW Search Engines and Internet Navigators**

<table>
<thead>
<tr>
<th>Seznam</th>
<th><a href="http://www.seznam.cz/">http://www.seznam.cz/</a></th>
<th>(only in Czech)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Atlas</td>
<td><a href="http://www.atlas.cz/">http://www.atlas.cz/</a></td>
<td>(only in Czech)</td>
</tr>
<tr>
<td>Quick</td>
<td><a href="http://www.quick.cz/">http://www.quick.cz/</a></td>
<td>(only in Czech)</td>
</tr>
<tr>
<td>RedBox</td>
<td><a href="http://www.redbox.cz/">http://www.redbox.cz/</a></td>
<td>(only in Czech)</td>
</tr>
<tr>
<td>Centrum</td>
<td><a href="http://www.centrum.cz/">http://www.centrum.cz/</a></td>
<td>(only in Czech)</td>
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</tbody>
</table>

**Legislation**

<table>
<thead>
<tr>
<th>Iuridica</th>
<th><a href="http://iuridica.eunet.cz/e_index.html">http://iuridica.eunet.cz/e_index.html</a></th>
<th>Legal services in the CR</th>
</tr>
</thead>
<tbody>
<tr>
<td>ASPI</td>
<td><a href="http://www.byil.cz/">http://www.byil.cz/</a></td>
<td>Full texts of laws and regulations (only in Czech).</td>
</tr>
<tr>
<td>Collection of laws</td>
<td><a href="http://www.sbirka.cz/">http://www.sbirka.cz/</a></td>
<td>(only in Czech)</td>
</tr>
</tbody>
</table>
concentrate on creation of electronic services of public administration, continuation of liberalization of the sector of electronic communications, support of high-speed connection to the Internet, continuation of legislative anchorage of information society, increasing of information literacy of citizens, and support of the development of electronic business.

OVERVIEW OF VALID LEGISLATION IN THE AREA OF ELECTRONIC COMMUNICATION AND INFORMATION SOCIETY

The website of the Ministry of Informatics includes an updated and complex overview of valid legislative rules of the European Communities for the area of telecommunications, postal services, electronic signature, electronic communications, and information society (see http://www.micr.cz/images/soubory/prehled_legislativy1.xls).

Following are some of the bills and regulations drafted by the Ministry of Informatics for the area of electronic communications and information society (http://www.micr.cz/legislativa/default_en.htm):

- Act No. 227/2000 Coll., on Electronic Signature
- Regulation No. 496/2004 Coll. on Electronic Filing Rooms
- Act No. 480/2004 Coll., on Some Services of the Information Society
- Act No. 365/2000 Coll., on Information Systems of Public Administration
- Act No. 151/2000 Coll. on Telecommunications
- Act No. 29/2000 Coll. on Postal Services
Regulation No. 286/2004 Coll. on Basic Services of a Postal License Holder

INFORMATION TECHNOLOGIES AS A BASIS FOR INFORMATION MARKET

Similarly as in other countries, the Internet probably became the most extensive source of actual information in both public and private sector in the Czech Republic (see the Table pp. 133-135).

A solid market with information about the business sector developed in the CR. Databases about companies are full of information coming mostly from two sources: one of them is the Czech Statistical Office with data from administrative registers. These data include above all the Register of Trade Licenses that includes data about legal entities doing business in line with the Act No. 455/1991 Coll. on Business Trade that falls within the competence of the Ministry of Industry and Trade (http://rzp.mpo.cz), and the Commercial Registry that includes all legal entities active in business in line with the Act No. 513/1991 Coll., as amended (Commercial Code) and falls within the competence of the Ministry of Justice (http://www.justice.cz). Another source of information includes ARES – Administrative Register of Economic Subjects (http://wwwinfo.mfcr.cz). All these web sites administered by government bodies are reliable and valuable sources of information above all for the whole private sector.

Publicly published information from different data sources, like for example the Commercial Bulletin, the Commercial Registry, the Register of Trade Licenses etc. serve as a basis for commercial products like for example the project Company Monitor implemented by the company Albertina Data Company (http://www.albertina.cz). An imperfection of these databases is the classification of companies, because these databases were created rather for statistical purposes. But on the other hand, the databases are relatively comprehensive, because they include all commercial companies.

Apart from this first group, there are also databases that collect data commercially directly from the companies, meaning that companies that want to be present in these databases have to pay for it. The advantage of these databases is that they include updated information. They are also more detailed and include more detailed data, for example the names of managers, phone, fax, and e-mail contacts, numbers of employees etc. Their disadvantage is the low number of companies included in them, which is a consequence of the fact that the service is paid. The following are some examples of these databases: Inform Katalog of the Brno company Inform Net Partners (http://www.inform.cz), the database Kompass (http://www.kompass.cz) or the database HBI Monitor of the company Hoppenstedt Bonnier (http://www.hoppbonn.com/). All these sources are available on CD-ROM.

Czech capital markets are another source of information. Information concerning shares and their issuers can be found on the web site of Czech Capital Information Agency (http://www.ceokia.cz), of the company ASPEKT Kilcullen (http://www.aspekt.cz), on the web site of the securities dealer the company AliaWeb (http://www.akcie.cz/) and on others.

Apart from information from the business sphere, there is also information about the legal system available in the Czech Republic. This kind of information is represented for example by the Automatic System of Legal Information ASPI of the Prague company Byll Software (http://www.byll.cz/) that includes full wording of all acts and other legal regulations adopted in the Czech Republic after 1945. This information is available only in Czech.

Reliable information can also be found at the web sites administered by state bodies and government authorities of the CR, for example the Ministry of Industry and Trade (http://www.mpo.cz), the Ministry of Foreign Affairs (http://www.mzv.cz) or CzechInvest, an agency established for the support of foreign direct investment that operates as an information source for all activities in the CR related with investments (http://www.czechinvest.org). Information related to support of business and trade are concentrated on the portal BusinessInfo (http://www.businessinfo.cz). Links to information sources of public administration can be found on the Portal of the Public Administration (http://portal.gov.cz/wps/portal).

CONCLUSION

Continuing development of information and communication technologies in the Czech Republic at the beginning of the new millennium brought the CR to a similar situation that was reached thanks to ICT in several countries of western Europe or OECD: it takes only weeks in the case of any bigger innovation before it gets to the local market and before it begins to be used by local subjects. To say it differently, newly coming subjects will find here a competitive market with choosy customers, but also competent local partners with a comparable business culture.

Miloslav Marčan
CIO, Ministry of Industry and Trade (http://www.mpo.cz)
The basic strategic document is the Czech Republic’s State Environmental Policy 2004 – 2010, approved on 17 March 2004. The document reflects the objectives and priorities set out by the EU 6th Environmental Action Programme (Environment 2010: Our Future, Our Choice), and identifies four priority areas:

- protection of nature, landscape, and biological diversity,
- sustainable use of natural resources, material flows, and waste treatment,
- the environment and quality of life,
- protection of the climatic system of the Earth and control of long-range transfers of air pollution.

Priority objectives have been set out for each of the priority areas, and partial goals and measures defined for each priority objective. The full text of the document The Czech Republic’s State Environmental Policy (in Czech and English) can be found on the Ministry of the Environment web site www.env.cz.

THE CZEC REPUBLIC’S EU ACCESSION FROM THE VIEWPOINT OF THE ENVIRONMENT

As on the day of the Czech Republic’s EU accession (1 May 2004) it could be stated that all Czech environmental laws were fully compatible with the existing EC legal regulations, and their further development would be in full accord with the European rules being prepared. Generally, foreign investors can expect a similar environment in the Czech Republic as in traditional EU member states, but some provisions of the laws even surpass the framework of the requirements in EC regulations (e.g. the process of assessing impacts on the environment, a more extensive control of air pollution).

PERMITS IN THE ENVIRONMENTAL AREA

The structure of public administration has changed completely since 1 January 2003. As a result of this change, most permits are issued by the 13 Regional Offices (usually departments of the environment and agriculture), and in the territory of Prague by the City Hall of the Capital City of Prague (Environment Department). Some competences are also in the hands of selected municipalities.

RECOMMENDATIONS FOR NEW INVESTORS

With regard to former experiences increased attention must now be paid to the choice of locality. Starting from 2002, some parts of the CR have been designated areas with a worsened quality of air, which means that the authorities there can be expected to apply a stricter approach in issuing permits, especially in the case of technologies emitting dust or oxides of nitrogen. Further, at the end of 2004, localities included in the European network of nature protection NATURA 2000 have been designated. Investment activities in these localities will be practically ruled out. The list of the areas with an increased level of protection is available at the Ministry of the Environment or at the respective Regional Offices (departments of the environment).

The process of environmental impact assessment (EIA) in the Czech Republic is quite complex, and it is strongly recommended that it should not be underestimated. Recently there have been cases of abortive investment plans, which failed because of an incomplete or poor-quality documentation of environmental impacts.

Investors should communicate with the public

Table 1: Development of basic indicators of the environment

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</thead>
<tbody>
<tr>
<td>Emissions of sulphur dioxide</td>
<td>100</td>
<td>82.0</td>
<td>68.1</td>
<td>50.4</td>
<td>37.4</td>
<td>23.6</td>
<td>13.9</td>
<td>14.0</td>
<td>13.6</td>
<td>12.8</td>
<td>12.2</td>
</tr>
<tr>
<td>Emissions of oxides of nitrogen</td>
<td>100</td>
<td>90.6</td>
<td>68.6</td>
<td>66.4</td>
<td>63.3</td>
<td>58.3</td>
<td>56.8</td>
<td>58.3</td>
<td>60.3</td>
<td>57.7</td>
<td>59.9</td>
</tr>
<tr>
<td>Emissions of particulate matter</td>
<td>100</td>
<td>75.2</td>
<td>45.7</td>
<td>31.5</td>
<td>22.5</td>
<td>14.9</td>
<td>11.7</td>
<td>10.1</td>
<td>12.4</td>
<td>13.4</td>
<td>13.4</td>
</tr>
<tr>
<td>Emissions of carbon dioxide</td>
<td>100</td>
<td>82.2</td>
<td>75.8</td>
<td>78.6</td>
<td>79.9</td>
<td>76.4</td>
<td>72.4</td>
<td>76.4</td>
<td>76.4</td>
<td>73.3</td>
<td>n.a.</td>
</tr>
<tr>
<td>Water pollution – BSK5</td>
<td>100</td>
<td>75.6</td>
<td>46.5</td>
<td>31.1</td>
<td>24.3</td>
<td>17.1</td>
<td>15.1</td>
<td>13.0</td>
<td>11.0</td>
<td>10.8</td>
<td>10.4</td>
</tr>
<tr>
<td>Investment in protection of the environment</td>
<td>100</td>
<td>283</td>
<td>472</td>
<td>617</td>
<td>675</td>
<td>586</td>
<td>433</td>
<td>383</td>
<td>332</td>
<td>248</td>
<td>n.a.</td>
</tr>
</tbody>
</table>

In a resolution approved in 2000, the Czech Government adopted the National Quality Policy (Národní politika podpory jakosti – NPJ). The body in charge of the programme is the Czech Republic Quality Council, which is an advisory, initiation and coordination body of the Czech Government. The Council supports the management and application of all methods and instruments that help to promote quality in all areas of life in the Czech Republic. Represented on the Council are all ministries, business associations and confederations, non-governmental organizations concerned with quality, as well as representatives of consumers. The Council Secretary’s Office, headed by the Council executive vice-president, is attached to the Ministry of Industry and Trade. The executive body of the Council is the National Information Centre for Quality Promotion (NIS-PJ), which operates at the Czech Society for Quality.

**THE CZECH REPUBLIC’S ENVIRONMENT IN 1990–2003**

The development of the basic indicators of the Czech Republic’s environment in the 1990–2003 periods is given in Table 1 (as percentage of the 1990 value).

The above shows that after a dramatic deterioration in the 1990 – 1998 period, the environment in the CR has been stabilized in the last five years.

More information:

**Ministry of the Environment**
http://www.env.cz
(environmental policy, laws on environmental protection, detailed information on the state of the environment, information on EU support funds)

**State Environmental Fund of the CR**
http://www.sfzp.cz
(information on the possibilities of financial support from domestic sources and EU funds)

**Czech Hydrometeorological Institute**
http://www.chmi.cz
(information on the quality of the air in the CR)

**TGM Water Research Institute**
http://www.vuv.cz
(information on waters and waste)

**Czech Environmental Institute**
http://www.ceu.cz
(information on integrated pollution prevention and control – IPPC, EMAS)

**Ministry of Industry and Trade**
http://www.mpo.cz
(industrial policy, energy policy, EU support funds)

**Ministry for Regional Development of the CR**
http://www.mmr.cz
(regional policy, information on EU support funds)

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**NATIONAL POLICY FOR QUALITY PROMOTION**

In a resolution approved in 2000, the Czech Government adopted the National Quality Policy (Národní politika podpory jakosti – NPJ). The body in charge of the programme is the Czech Republic Quality Council, which is an advisory, initiation and coordination body of the Czech Government. The Council supports the management and application of all methods and instruments that help to promote quality in all areas of life in the Czech Republic. Represented on the Council are all ministries, business associations and confederations, non-governmental organizations concerned with quality, as well as representatives of consumers. The Council Secretary’s Office, headed by the Council executive vice-president, is attached to the Ministry of Industry and Trade. The executive body of the Council is the National Information Centre for Quality Promotion (NIS-PJ), which operates at the Czech Society for Quality.

**Key objectives of the National Quality Policy in the Czech Republic**
- strengthening competitiveness in the European and world markets
- promoting economic growth, increasing employment
- protecting the environment and resources
- promoting the development of small and medium-sized enterprises
- increasing the quality of work and services in the public sector (including state bodies and organizations)
- promoting the development of the strategic management of quality and its objectives – satisfying customers, employees, and society by increasing the effectiveness and productivity of work and permanently improving all activities
- building an image of Czech quality, influencing changes in the citizens’ mindset and attitudes regarding quality
- promoting activities leading to the better social
How are these objectives being attained? Each year the Czech Republic Quality Council announces in the “200x National Programme for Quality Promotion” and the key activities in support of quality in the particular year. Besides the Government, participants in the implementation of the programme include also more than a hundred non-governmental organizations working in the areas of education and training, consultancy, accreditation, certification, normalization, metrology and testing, in environmental care, occupational safety and health, and consumer protection. The binding obligations from the position of the state are care of the health, lives and safety of citizens – the area of the public interest.

In the area of the public interest, Czech legislation has been fully harmonized with legislation in force in the EU. All the necessary acts have been passed:
- Act No. 22/1997 Coll., on technical requirements for products, as amended (Act No. 227/2003 Coll.)
- Act No. 258/2000 Coll., on public health, has been in force since 2000.
- Decree No. 137/2004 sets out the sanitary requirements for catering services and the principles of personal and operational hygiene in activities of epidemiological impact. It defines the requirements for safe food.
- Act No. 110/1997 Coll. on foodstuffs and tobacco products has been passed and amended by Act No. 558/2004 Coll. in line with the demands of EU legislation. The amendment extends the duty to introduce the Hazard Analysis and Critical Control Point (HACCP) system from food production also to food distribution (Decree No. 161/2004).
- Act No. 166/1999 Coll. on veterinary care was adopted in 1999.
- Note should also be made of the important Act No. 505/1990 Coll., as amended by Act No. 226/2003 Coll., on metrology.

**ACCREDITATION AND CERTIFICATION**

A system of accreditation and certification has been established in Europe as an instrument to enhance trust between customers and suppliers. Standard European regulations are in force in the CR in this area. The Government has created an independent accreditation body, the Czech Accreditation Institute (CAI), a public service company (Český institut pro akreditaci, o.p.s.), which is a member of the international organizations EA (European Accreditation), International Laboratory Accreditation Cooperation (ILAC), and International Accreditation Forum (IAF), and its procedures are fully compatible with similar European organizations. The CAI has signed multilateral agreements on the European level (EA) and international level (ILAC, IAF) on mutual recognition of the results of accreditation. Within national accreditation, bodies for the certification of products are accredited in line with the EN 45011 standard, certification bodies for quality systems, EMS, HACCP, and C-o-C (consumer chain of wood) are accredited according to the EN 45012 standard. Accreditation of bodies for the certification of systems for the protection of occupational safety and health (OHSAS 18001 standard) is implemented within the national system. Bodies for the certification of personnel are accredited according to the ISO/IEC 17024 standard, the EN 45004 standard is in place for the accreditation of inspection bodies, and testing and calibration laboratories are accredited in compliance with the ISO/IEC 17025 and ISO 15189 standards. EMAS II verifiers are also accredited. A total of more than 600 entities are accredited in the CR for different activities.

**Certification of quality systems and EMS according to the ISO 9000 and ISO 14000 standards** is a standard instrument in the CR today to prove the ability of manufacturers to supply consumers with products of standard quality. As of the end of 2004, over 8 300 organizations in manufacturing and services were certified in the Czech Republic, and certification also made its way to the area of public services (hospitals) and public administration (municipal offices). Environmental Management System (EMS) certification is implemented in more than 300 firms. Certification of occupational health and safety (BOZP) has been launched in compliance with BS 880/OHSAS 18001 standards. More than 60 domestic and foreign certification bodies operate in the CR. The Ministry of Industry and Trade and the Ministry of Agriculture support the certification (especially of small and medium-sized enterprises, in the areas of quality, EMS, HACCP and EMAS II, mostly by contributions to consultancy. Management systems certification in
compliance with ISO 9000 and 14000 requires due preparation, with which many enterprises cannot cope and engage consultants. A client’s certainty of engaging qualified consultants is served by the European EOQ project – the registration of consultants. The National Register of Management Consultants, created according to the principles of the European Project, is available as a service to businessmen on the NIS-PJ site (www.npj.cz).

Worth mentioning is also the “Safe Enterprise” programme, organized by the Ministry of Labour and Social Affairs. Its criteria comply with the requirements for EU countries.

Certification of staff (personnel) has been served by the new ČSN EN ISO/IEC 17024 standard from 2004. In the Czech Republic, training and subsequent personnel certification in the areas of quality, EMS and BOZP are based on the rules of the European Organization for Quality (EOQ). Requirements for obtaining the certificates are listed in the "Harmonized EOQ Schedule", issued by PRU (Personnel Registration Unit) of the EOQ. In the Czech Republic, responsibility for this area rests with the Czech Society for Quality, the national PRU Agent, and Czech representative in the EOQ. A total of more than 1,500 Czech certificates and over 1 200 European certificates have so far been awarded for quality professional, quality manager, EMS manager, BOZP manager, quality auditor, and EMS auditor.

Programmes of the Czech Republic National Quality Award
The Czech Government is aware that the ISO 9001 certificate is not sufficient for business success, and that it is only the first necessary step.

It therefore supports other activities, such as innovation, restructuring, the introduction of new technologies and methods of process management, targeted management, the Six Sigma, Balanced Scorecard, and other programmes which reduce costs and increase productivity and competitiveness.

Programmes which stimulate entrepreneurs to a higher performance are National Quality Awards (the Malcolm Baldrige Award in the USA, the European Award, Canada Award, etc.)

From 1995, this highest quality management award attainable in the Czech Republic - was conferred as the "Quality Award of the Czech Republic" by the non-governmental Association for the CR Quality Award (SCJ), without any particular attention of the Government. Government Resolution No. 806 of 22 August 2001 on the "CR National Quality Award" thus meant a basic change. This award, presented by the Prime Minister each year, is part of the National Quality Policy. The Czech Republic National Quality Award has two schemes. The programme of the National Quality Award proper is fully compatible with the European Quality Award, which is based on the assessment model according to the EFQM (European Foundation for Quality Management, the organizer of the European Quality Award).

The EFQM Excellence Model is based on two pillars, which are self-assessment and benchmarking – comparing oneself with others. All EFQM programmes (training, publications, conferences, etc.) are being implemented in the Czech Republic by the Czech Society for Quality (CSQ), the national partner to the EFQM.

In the 1995-2004 period, the Czech Republic Quality Award (since 2001 the Czech Republic National Quality Award) was won by 21 firms, and 18 firms received prizes as "Competition Finalist". The number of winners is proof of the difficulty of the competition.

Programme for the "Assessment of the Performance of Organizations"
The problem of the ISO standard versus the excellence model is a European one. The EFQM, too, has realized that in order to increase interest in the application of the model it is not sufficient to declare that the model based on self-assessment and benchmarking is "something extra" and will bring the firm to excellence. Practical research has shown that many organizations are discouraged from working with the EFQM model by its complexity and apparent difficulty. In an effort to bring the model closer to the business community (as well as to public sector organizations), and primarily to introduce an element of competition into the application of the model, the EFQM launched at the end of 2001 a new scheme of assessing the performance of organizations called EFQM Levels of Excellence, which fully complies with the European standards and is applicable to organizations or their parts regardless of size, sector or maturity.

The scheme was developed in response to the general requirement to enable organizations to follow a graded path to the highest level of excellence.

In the Czech Republic, the Association for the Czech Republic Quality Award developed a programme compatible with the "Levels of Excellence" scheme, called "Assessment of the Performance of Organizations".
The programme has two parts (levels), open to both EFQM members and non-members.

A. **Committed to Excellence**, appreciating participation, is designed for organizations or their parts which have embarked on the path to excellence. This level requires that participants apply a process of high-level self-assessment.

B. **Recognized for Excellence**, appreciating performance, is proposed for organizations which have good management and have been applying the excellence model for some time.

**Prospects for development of the Czech Republic National Quality Award schemes**

The existence of two relatively independent schemes of the Czech National Quality Award appears to be insufficiently motivating and uninteresting to clients. This is why the Association for Quality Award (SCJ) has been preparing a project for 2006 to unify the requirements of both schemes and merge them into one open even to unprepared organizations, and aimed at creating conditions for entrepreneurs to measure constant improvement, while emphasizing the motivation aspect of the scheme.

**QUALITY IN THE PUBLIC SECTOR**

The Czech Republic Quality Council has been paying great attention to quality in the public sector. In 2001-2003, projects implementing the quality management system and EMS in compliance with the ISO 9000 and 14000 standards were successfully carried out at two municipal offices, and in 2003 the CAF (Common Assessment Framework) model (developed by the European Institute of Public Administration) was implemented at two regional offices. In 2003, a Working Group for Quality in the Public Sector was set up at the Czech Republic Quality Council; the group prepared a project for 2004 to introduce the CAF model at 26 public sector offices (regional and municipal offices), and a number of other projects (benchmarking, etc.) The first National Conference on Quality in the Public Sector took place in December 2004. Prize awards to best organizations are being prepared. The CAF project continues in 2005, and is designed for 25 offices and other public sector organizations (schools, etc.).

**CONSUMER PROTECTION IN THE CZECH REPUBLIC**

The Czech Government also devotes attention to protection of the consumer. It is laid down by Act No. 634/1992, as later amended, most recently by Act No. 217/2004 Coll.

Note should also be made of the law on the Czech Trade Inspection (Act No. 64/1986, as amended, most recently by Act No. 439/2003 Coll.).

The 2001–2005 consumer policy concepts laid down the following objectives:

- to protect the safety, life, health, and economic interests of citizens, to help protect the domestic market from unfair conduct, to promote the activities of non-governmental consumer organizations,
- to improve the provision of information to citizens about their rights relating to the purchase of goods and services, and ways of asserting their economic interests in the market,
- to help achieve the compatibility of the Czech domestic market with the EU internal market by the reference date of the Czech Republic’s accession to the EU,
- to participate in creating confidence in the electronic market and its development,
- to devote special attention to products in view of their influence on the environment, and to inform consumers about measures to reduce ecological burdens,
- to gradually incorporate EU regulations into the Czech law,
- to support the establishment and activities of civic consumer organizations,
- to promote international co-operation.

**CZECH QUALITY PROGRAMME**

In order to improve consumer information, the Government adopted in 2002 the "Czech Quality Programme" (CzQ Programme), which is aimed at providing information about quality products on the Czech market to consumers while supporting small businessmen, who pay attention to the quality of their products but do not have the funds for expensive advertising.

The scheme is not designed merely for promoting the sale of domestic (Czech) products, it is open to all entities which have decided to declare the quality of their products. It does not provide support to one mark, but to all marks keen to inform the consumer that the goods are of a quality that has been verified by an independent third party. The marks are awarded by entities registered in the Czech Republic (mark administrators). The producer must prove the stability of the production process (for example by certification), and must also document that consumers are satisfied with the particular product. Both domestic and foreign products may be labelled with the marks.
Placing Products on the Market (Conformity Assessment) in the Czech Republic after Accession to the European Union

The Czech Republic’s Accession to the European Union changed, to some extent, also the legal framework in the area of conformity assessment, which rests on the European Union’s application of its own laws observing two basic principles:

- this law of the European Union takes precedence over the national law of the CR and, if the relevant regulation of the EU says so, the Czech Republic is thus obliged to transpose the respective provision into its law and logically abolish the former national legal regulations which would thus be founded in conflict with this provision;
- in specified cases, the EU law has direct legal effect, i.e. it directly binds entities in the CR.

As regards technical requirements for products, EC Directives are of key importance, especially those issued in compliance with the New Approach to Technical Harmonization and Standards. On the basis of Act No. 22/1997 Coll. on technical requirements for products, the relevant EC Directives are being transposed into the Czech legal system by the form of Government orders being issued to implement this Act. In harmony with the general principles of Czech law, the Act sets out the general legal duties of entities which put on the market products specified in the different government orders, which also describe in detail the above mentioned general duties. The government orders always make a note of the EC Directive being transposed.

CHANGES AFTER THE CZECH REPUBLIC’S ENTRY INTO THE EUROPEAN UNION

The Czech Republic’s accession to the European Union brought a major change – a product legally placed on the European Union market, if it is to be further sold in the CR, is considered a product which is not subject to any special legal obligations in the Czech Republic. This is due to the fact that in the case of a product covered by a particular EU directive, this directive has been transposed in a fully compatible form by the relevant government order. The result is that such a product placed on the market in any European Union member state, in compliance with the relevant EC directive, essentially meets the requirements of Czech legal regulations and thus cannot be subject to any other obligations. A similar principle is applied to cases when technical requirements for certain products are not laid down by a particular EC directive and are subject to the national law of the manufacturer’s country.

In the Czech Republic, the use of this principle of recognition of equivalence for the cases of government orders which do not transpose the relevant EC directives ensues from section 13b of the above
mentioned Act No. 22/1997 Coll. For other products that fall under the national legal regulations not transposing the relevant EC Directives, this principle is applied on the basis of section 3 para 3 of Act No. 102/2001 Coll. on the general safety of products, which has appeared in full in the Collection of Laws under No. 348/2004 Coll. This Act transposes Directive of the European Parliament and the Council No. 2001/95/EC for General Product Safety.

This means, in sum, that products that have been legally put on the market (in compliance with the national law of the manufacturer’s country) in a member state of the European Union or the European Free Trade Association, which is simultaneously a party to the European Economic Area, are assured a free movement on the market in the Czech Republic, and no duplicate tests, conformity assessment, or specific documentation are required in the Czech Republic. This rule naturally does not apply to products from third countries in the case of which importers have similar obligations as manufacturers in the CR. However, it should be pointed out that the surveillance body - Czech Trade Inspection - is authorized to take measures restricting the access of a product to the market, or ordering its withdrawal from the market, etc., if the product is found to pose hazards. Appropriate regulations, especially a reporting duty, are laid down for the adoption of such measures, in compliance with EC law.

Overview of government orders implementing Act No. 22/1997 Coll., on technical requirements for products, and changes to some laws, as later amended:


Government Order No. 291/2000 Coll., which sets out the graphic appearance of CE marking

Government Order No. 352/2000 Coll., which amends some decrees of ministries and other public offices


Government Order No. 179/2001 Coll., which sets out technical requirements for refrigeration appliances (96/57/EC)

Government Order No. 194/2001 Coll., which sets out technical requirements for aerosol dispensers (75/324/EEC)

Government Order No. 358/2001 Coll., which sets out the technical requirements for explosives for civil use placed on the market, as amended by Government Order No. 416/2003 Coll. (93/15/EEC)


Government Order No. 70/2002 Coll. on technical requirements for installations designed to carry persons (2000/9/EC)

Government Order No. 163/2002 Coll., which sets out the technical requirements for selected construction products


Government Order No. 326/2002 Coll., which sets out the technical requirements for non-automatic weighing instruments (90/384/EEC, as amended by 93/68/EEC)

Government Order No. 339/2002 Coll. on procedures for the provision of information in the area of technical regulations, technical documents, and technical standards, as amended by Government Order No. 178/2004 Coll. (98/34/EC)

Government Order No. 17/2003 Coll., which sets out the technical requirements for low voltage electrical equipment (73/23/EEC)

Government Order No. 18/2003 Coll., which sets out the technical requirements for products regarding electromagnetic compatibility (89/336/EEC)

Government Order No. 19/2003 Coll., which sets out the technical requirements for toys (88/378/EEC)

Government Order No. 20/2003 Coll., which sets out the technical requirements for simple pressure vessels (87/404/EEC)

Government Order No. 21/2003 Coll., which sets out the technical requirements for personal protective equipment (89/686/EEC)

Government Order No. 22/2003 Coll., which sets out the technical requirements for appliances burning gaseous fuels (90/396/EEC)

Government Order No. 23/2003 Coll., which sets out the technical requirements for equipment and protective systems intended for use in potentially explosive atmospheres (94/9/EEC)

Government Order No. 24/2003 Coll., which sets out the technical requirements for machinery (98/37/EC)

Government Order No. 25/2003 Coll., which sets out the technical requirements for the efficiency of new hot water refrigeration appliances (96/57/EC)
Emphasis on the Development of Business Support Services

Offshoring has recently become a global driving force in company development. Companies of all sizes must look for ways of reducing their costs, while at the same time improving their services. That is why the transfer of certain branches to areas where they can function more efficiently is becoming more and more frequent. Business support services are in this respect a typical example. They comprise certain company activities noted for their high level of added value, high proportion of skilled labour, for their commonly close links with technology centres, and their international character. They above all include shared service centres (including regional headquarters), call centres, high-tech repair centres, software development centres, and expert solution centres.

INVESTMENTS IN BUSINESS SUPPORT SERVICES

Owing to its economic, cultural, and geographical conditions, the Czech Republic aspires to become a European leader as regards the location of business support services on its territory. The development in recent years, which has seen a large number of important foreign investors invest in the services sector in the Czech Republic, speaks in support of this aspiration. The most important investors in this area currently include Accenture Services (shared financial and accounting service centre), DHL (IT operating centre), Symbol Technologies (shared servicing and financial service centre), ExxonMobil (shared financial and accounting service centre), Tesco Stores (shared service centre for IT, finance, and accounting), Siemens (shared financial and accounting service centre), IBM (expert and research centre), Icon Communication Centres (outsourcing contact centre), and Hewlet Packard (EMEA regional headquarters).

LEVEL OF CZECH EDUCATION – A CHIEF ADVANTAGE

The chief advantage of the Czech Republic undoubtedly lies in the high potential of its qualified human resources, especially in the area of finance and information technologies, the centre of focus of most business support service centres. It is worth noting that according to regular OECD studies, the Czech Republic ranks high long-term among countries with the largest share of technical university graduates. In addition, nearly one-third of university students specialize in finance, economy, and IT. Another advantage of the CR is a relatively broad base of people speaking foreign languages. At school, children begin learning foreign languages at the age of...
Accession to the European Union and favourable costs in logistics services make the Czech Republic a territory with good prospects in the sector. The present annual turnover in logistics services is estimated at EUR 1.6 billion, with the possibility of a 15 to 20 per cent annual growth.

In overall ratings prepared by Cushman & Wakefield/Healey & Baker, based on evaluation by market accessibility, quality of infrastructure, availability of labour force, and the structure of costs, the Czech Republic ranks fourth in Europe, behind France, Germany, and Belgium. For example, the leasing of space for logistics centres is one third cheaper on average than in Germany, and labour costs amount only to one-fifth. Among the sixteen countries compared, the CR offers the possibility to achieve the most advantageous costs of logistics operations (it has lower prices of real estate, and lower costs of manpower and logistics services). An increasing number of West European and overseas firms plan to establish their European logistics centres in the CR in the near future. A result is a new wave of interest of the foreign providers of logistics services in entering Czech firms or buying them. Let us recall that the first wave of the inflow of foreign logistics providers, connected with massive investment in logistics centres and with the founding of logistics parks, occurred in the 1990’s, which was the period when the traditional clients of these providers were expanding into Czech territory. At present practically all major transnational providers of logistics services have operations in the Czech Republic, and most of their clientele are foreign companies which have located their manufacturing or distribution facilities here. Before the Czech Republic’s accession to the EU, the shares of foreign direct investment in sales amounted to 100 per cent in the manufacture of tobacco products, 99.5 per cent in the manufacture of office machinery and computers, 91.5 per cent in the manufacture of motor vehicles, 86.1 per cent in the manufacture of radio, television, and communication equipment, 72.8 per cent in the manufacture of electrical machinery and apparatus, 68.8 per cent in the manufacture of medical and

FOCUS ON OTHER REGIONS

Prague’s leading position in the Czech Republic as a locality that attracts by far the most investment projects in the business support services sector is above all attributable to its high quality of life, the city’s attractive cultural and historical environment, its university background, infrastructure, and general high repute. The objective for the future is to focus investment activities on other regions of the Czech Republic. Attention is being turned more frequently to regional centres, such as Brno, Ostrava, Olomouc, and Plzeň, which also have much to offer and which are now becoming partners to Prague. These cities also boast reputed universities, they offer a good supply of labour, the pressure of rival businesses remains very low, the transport and telecommunication infrastructure is of a high quality, and a large share of available office space is not yet utilized to its full capacity.

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Logistics Services after the Czech Republic's EU Accession

nine and great emphasis is placed on their education. While English and German predominate, there is a growing trend towards learning other languages, especially French, Spanish, and Russian. Other Central and East European languages, such as Polish for example, also have their place. Despite the high qualification level of the workforce, labour costs continue to remain relatively low. Wages in the Czech service sector are often 50 or more per cent lower in comparison with West European countries, and although they are expected to rise gradually, labour costs in the CR are likely to remain more than competitive in coming years. The well-developed and reliable telecommunications infrastructure, too, is of key importance for the location of offshore service centres in the Czech Republic. The Czech market is stable and liberalized and offers a wide range of modern telecommunication products, including high-speed internet (ADSL) and wide coverage by landline and mobile phone operators.

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optical instruments, 65.3 per cent in the manufacture of rubber and plastic products, 64.0 per cent in the manufacture of pulp, paper and paperboard, etc. Shortly after joining the EU, the CR became the biggest manufacturer of cars in per capita terms with the annual output of some 800,000 vehicles, 300,000 of which will be made by the new automobile works TPCA (Toyota, Peugeot, Citroën) at Kolín, once production gets into full operation there (in about a year). It is worth noting that 70 to 80 per cent of automobile production relies on supplies of components and accessories from domestic producers. Labour productivity at the manufacturers of motor vehicles exceeds productivity in the old member states of the European Union. The secondary effect of the inflow of foreign direct investment is the development of logistics capacities by domestic suppliers, which is reflected in the above-average location of investment in the state-supported industrial zones.

GEOGRAPHIC POSITION AND MARKET ACCESS
The Czech Republic’s territory is situated in a belt of concentrated urban activities which leads from the area of north German ports to the north of the Balkans – the belt includes the cities of Hamburg, Prague, Vienna, and Zagreb. Similarly as the parallel main European belt (the line England – the Rhine – the Po), this belt, too, develops along the existing chief transport routes. In addition, the CR is situated at the geographic heart of Europe. It thus provides advantageous locations for distribution on the regional scale, with accessibility within 24 or 48 hours, for the Czech, Austrian, Slovak, and partly also German, Polish, and Hungarian markets, and also for distribution on a broader – Central European and European – scale, with accessibility within 3 to 8 days. This is true about road transport. Let us note that the distances from Prague by road are: 309 km to Vienna, 323 km to Bratislava, 365 km to Munich, 502 km to Frankfurt am Main, 623 km to Strasbourg, 639 km to Warsaw, and 673 km to Hamburg. For rail and combined transport accessibility, times are comparable with Austria – for example the transport of containers from Rotterdam to Prague takes 24 hours longer than to Wels. Prague’s accessibility by direct rail transport from Hamburg is below the 24 hour limit. Referring again to the example of Rotterdam, inland water transport navigation to the port of Mělník takes 108 hours at favourable water levels (distance of 1,096 km), while it takes 173 hours to Vienna (1,557 km).

THE SIZE AND QUALITY OF TRANSPORT INFRASTRUCTURE
A characteristic feature in Czech logistics is the dominant position of road transport: it is used by 90 per cent of exporters who have manufacturing operations in this country (cca 7 per cent use rail transport, 2 per cent air transport, and about 1 per cent inland water transport), the services of providers are linked to it in 69 per cent of firms (12 per cent to sea transport, 11 per cent air transport, 5 per cent rail transport, 2.5 per cent combined transport, and 0.5 per cent of providers to inland water transport) – the importance of road transport is increasing while that of, for example, rail and combined transport is declining. The dominance of road transport is also apparent from the fact that about 30,000 hauliers operate in the Czech Republic, 3,500 of them in international transport – their vehicle stock is one of the best in the European Union, and they are highly competitive.

The motorway network in the territory of the CR is 525 km long, which is a density of 6.7 km/1000 sq. km; 49 km are under construction, and 433 km are being prepared – 250 km of motorways are to be put into operation by 2008. Uninterrupted high-capacity communications are to be completed step by step with Germany (D5, D8, expressways R6 and R7), Austria (D3), Slovakia (D1), and Poland. In the longer term, motorway density is thus to increase to 12.8 km/1000 sq. km, and come closer to the 1999 level in the EU-15, which was 15.8 km/1000 sq. km. The traffic burden on the motorway and road network is unevenly distributed, traffic intensity grew throughout the 1990s on the motorway network and on the main routes of class 1 roads. The biggest increases were recorded at large conurbations,
first of all in Prague (by 59 per cent in the city’s communications network already in the first half of the 1990s, and in the West Bohemian (16 per cent), North Moravian (10 per cent), and North Bohemian (8 per cent) Regions. The motorway with the heaviest traffic intensity is the D1, where the volume on the Prague – Mirošovice section is 50 000–70 000 vehicles/24 hours, on the whole D1 the figure is 23 000–28 000 vehicles/24 hours; this is followed by the D5, where the number on the Prague – Beroun section is 26 000 vehicles/24 hours; the most heavily burdened section of the D8 has 20 000 vehicles/24 hours. The Czech Republic’s foreign trade structure by country, and transit across its territory, is evident from traffic intensity on its border crossings: out of the total number of trucks, approximately 47 per cent use crossings with Germany, 16 per cent with Slovakia, 14 per cent with Austria, and 13 per cent with Poland. Let us note that after the Czech Republic’s accession to the European Union all the country’s borders became internal borders of the EU, thus eliminating the former unpredictable delays on border crossings. In connection with electronic toll introduced in Austria and Germany, the CR has temporarily become an advantageous transit territory, and the intensity of truck traffic on the main transit routes has risen by up to 30 per cent as a result.

The current railway network in the Czech Republic is 9 430 kilometres long, and the density of 122 km/1000 sq. km ranks the CR first in the European Union. Approximately 90 per cent of freight is transported on the main routes, which are about 3 000 km long. The railway network is not fully compatible in terms of axle load, line speed, and clearance profile. It has therefore been divided into national and regional railways – the latter accounting for about 30 per cent of the length, but only for approximately 15 per cent of the railway transport operations. Priorities for the railway network development include modernization of the transit corridors included in the programme of key international rail routes, or TEN-T priority projects; they connect Prague with the German network via Dresden and via Nuremberg/Munich, with the Austrian network via Linz and further on via Brno in the direction of Bratislava and Vienna, with Katowice on the Polish network, and with the Slovak network. The modernization of these corridors includes raising the speed up to 160 kph-1 and adapting axle load and clearance profile to standards complying with the AGC and AGTC European Agreements. The principles of the new transport policy for the 2005-2013 period are to be debated by the Czech Government in June 2005 (See www.mdcr.cz).

Out of the total number of rail wagons crossing the Czech Republic’s national borders in freight transport, 33 per cent are accounted for by Slovakia, 25 per cent by Poland, 20 per cent by Austria, and just under 20 per cent by Germany. If the use of railway transport to service the logistics chains in the CR is declining, the same is true about the use of industrial sidings: merely 20 per cent of logistics providers with warehousing space say all their warehouses have a siding, 20 per cent say only some of their warehouses have sidings, with 20 per cent of those having a siding not using railway transport at all; 60 per cent of providers do not have warehouses equipped with sidings.

The transport infrastructure in the Central and Eastern European accession countries is sometimes considered a factor limiting the logistics opportunities, and sometimes it is recommended to locate foreign direct investment, mainly in industry, in areas most advantageous in terms of transport, which is supposed to be close to the former eastern border of the EU-15. However, an analysis newly conducted by the author of this article does not confirm this strategic orientation in the case of the CR. Surveying the locations chosen by foreign direct investors for investment in new manufacturing plants (projects with advantageous investment incentives, as well as others), we find out that only 16 per cent of the projects have been located in close vicinity of the border with Germany, 24 per cent in the entire western part of the Czech Republic’s territory; 22 per cent of

**International forwarding. Capacity for cross-docking, completion, packaging, and consulting in the Czech Republic.**

Source: The publication Logistics for the 21st Century (Supply Chain Management), author Petr Pernica, Prague 2005
projects have been located in central Bohemia, including Prague; on the other hand, 24 per cent of projects have gone to the eastern parts of the territory.

AVAILABILITY OF SUITABLE WAREHOUSING FACILITIES AND LOGISTICS CENTRES AND LOCATION COSTS

According to Cushman & Wakefield/Healey & Baker (the Central European Industrial Market Report) (www.cushman-wakefield.com), there are now 850 000 sq. m of quality area for warehouse or logistics use or for light manufacture in the Czech Republic’s territory. About half of the area can be leased. Most of the new premises have been constructed on the basis of prelease, and this is also why almost 99 per cent of the area for lease is occupied, which is the highest rate in Europe. Additional facilities are under construction: 100 000 sq. m of new space were added in 2004, and 110 000 sq. m are to be in 2005. The construction is concentrated in about 30 industrial and logistics parks. The six chief parks which fully comply with European standards currently offer 434 000 sq. m of area. More are planned, so that another 765 000 sq. m are to be added in the ten biggest parks. Of the existing area, 325 000 sq. m are situated in Prague and its close neighbourhood (mostly on the motorways and main road routes or near the airport). Other parks are in Brno, Ostrava, Plzeň, České Budějovice, Liberec, Mladá Boleslav, and Kolín.

72 per cent of logistics and warehousing providers run suitable facilities for warehousing, cross-docking, and other logistics services; 62 per cent of them have their own facilities. In all, providers operate 820 000 sq. m of space. 54 per cent of the facilities are newer than five years, 25 per cent are 5-10 years old. In 58 per cent of the space, the height for warehousing is 5 – 10 metres, in 33 per cent it is 10 metres and over; pallet racks are installed in 73 per cent of the space. Cart technology is applied in the absolute majority (92 per cent) of the facilities. Out of the total number of the warehouses and logistics centres of logistics and warehousing providers, 43 per cent are located in the territory of Prague or its immediate vicinity, another 32 per cent in central Bohemia – 75 per cent is thus situated in the area of central Bohemia; only 5 per cent is situated west of it, while 20 per cent of them are in the east. The lease of quality area in Prague costs EUR 4.9 – 5.3/sq. m, by the D1 motorway it is EUR 3.6 – 4.4/sq. m, and in other locations EUR 1.4 – 4.5/sq. m. The price of land for the construction of logistics or industrial facilities amounts to EUR 50 – 100/sq. m in Prague, to EUR 60/sq. m in the vicinity of Prague, and EUR 10 – 35/sq. m in other locations.

LOGISTICS AND WAREHOUSING PROVIDERS, SERVICES OFFERED, AND THE PRESENT CLIENTELE

Over 200 major firms operate in the sector. In 2003, the TOP 10 out of the 76 providers monitored by the Czech Trade Office (for update see: www.logistika.cz) were, by turnover: 1. Čechofracht (approximately 15 per cent market share), 2. Danzas (11 per cent), 3. Schenker (4 per cent), 4. C.S. Cargo (4 per cent), 5. ESA (3.5 per cent), 6. Gebrüder Weiss (3 per cent), 7. Hopi (3 per cent), 8. Kühne & Nagel (3 per cent), 9. O.K. Trans (3 per cent), 10. BC Logistik (2 per cent).

Branches of logistics providers (forwarders) are on the whole evenly distributed: in the central Bohemian area there are 37 per cent of the branches, 21 per cent are in Prague, 31 per cent are west of this area, and 32 per cent are east of it.

The services portfolio (listed in the order of percentage of providers offering them): 92 per cent customs declaration, 87 per cent insurance, 85 per cent packing, 80 per cent consolidation of consignments, 80 per cent consultancy, 79 per cent customs guarantee, 78 per cent groupage service, 75 per cent completion, 74 per cent container transport, 70 per cent customs warehouse, 64 per cent dangerous goods transport, 58 per cent cross-docking, 57 per cent electronic data collection, 55 per cent transport of oversized consignments, 55 per cent cash on delivery, 53 per cent EDI, 47 per cent tracking & tracking, 45 per cent JIT, 41 per cent express air goods transport, 38 per cent perishable goods transport, 37 per cent charter air freight transport, 21 per cent purchase, 10 per cent preassembly. 63 per cent of providers focus on distribution services, 20 per cent offer services for supply, production, and distribution, 10 per cent for supply and distribution. 43 per cent of the companies regard themselves as pure forwarders, 21 per cent as 3PL providers, and 18 per cent as 4PL providers. 70 per cent of the providers have ISO 9000 certificates.

Most providers of logistics services have 2 – 5 big customers, whose share in the provider’s turnover is 40–70 per cent, with 5–30 per cent of the orders received from multinational companies. Providers offer their clients services in the following sectoral structure: food and tobacco industry – 39 per cent of providers, chemical and pharmaceutical industry – 39 per cent, paper and printing industry – 35 per cent, rubber and plastics industry – 29 per cent, textile and clothing industry – 26 per cent, woodworking industry – 26 per cent, glass, ceramics, porcelain, and building materials industry – 26 per cent, manufacture of machinery and equipment for further production – 26 per cent, manufacture of electrical and optical
Acquisition of Real Property and the Procedure to Obtain Permission for Capital Construction in the Czech Republic

An important part of realizing most foreign investments in the CR is the acquisition of suitable property and obtaining permission to use the property for investment. The acquisition of ownership rights by foreign juristic persons to property located in the CR is still restricted to a certain extent. Foreign juristic persons are entitled to acquire property (except farmland and forestland) in the CR only if they have a business or an organizational unit of a business located in the CR and are authorized to do business there. More information is available, for example, at http://www.evropska-union.cz or http://www.eurokop.cz.

Today, most investors solve this situation by founding a Czech trading company, which may acquire property in the CR without any restriction.

ACQUISITION OF PROPERTY
Real property in the Czech Republic is transferred by making a written transfer contract, followed by its registration in the Land Register. Among other sources, general information is available at the website of the Czech Geodesic and Cadastral Office, see http://www.cuzko.cz. Another possibility is the establishment of an easement, which is done in a similar way as the transfer, authorizing the person concerned to use the property owned by another person, or to have access to it. Easements may be established to get access to a property or the entrance to it for trade, or to use a property owned by another person for other purposes.

LEGAL CHECKS OF OWNERSHIP RIGHTS
To ascertain the legal status of the property being acquired, the investor is recommended to make a legal check of the ownership rights to the property concerned before its purchase. It is an essential thing to do, as damage incurred as a result of legally defective ownership rights cannot be insured in the Czech Republic. Legal checks comprise a review of all the necessary documents registered by the Cadastral Office (other sources should also be consulted), the ascertainment of the history of the rights of the owner concerned and whether or not the selling party is the exclusive and unlimited owner of the property being sold.

THE LAND REGISTER
The principal source of information about property located in the Czech Republic is the Land Register. Official information from the Land Register may be obtained from an updated copy of the entry in the Land Register of the real property concerned, and unofficial information is available on the Internet, at http://katastr.cuzk.cz/index.jsp. Another source of information about property is the archives of the Land Register. As the current Land Register was only established on 1 January 1993, information about property relating to a previous date must be sought in earlier registers. If the information is incomplete or inaccurate, further information about the property concerned may be requested from other bodies of state administration.

CONTINGENT RESTITUTION CLAIMS
There are many cases of restitution claims for property in the Czech Republic, as a result of which the owner’s right to the property concerned may be unclear. Restitution claims are claims for the return of a particular property to a person or persons unjustly expropriated before 1990. In general it applies that the deadline for making restitution claims has elapsed; nevertheless, in certain circumstances restitution claims may arise. Therefore, in general, for reasons of caution, it is desirable to obtain from the selling party a promise to indemnity in the case of contingent restitution claims.


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property can be obtained from the Land Registry or from the court having local jurisdiction, which would handle possible restitution disputes. The potential acquirer of real property should also pay attention to the specific form of restitution consisting in the right of communities under certain conditions to assume automatically (ex lege) an owner’s rights to property previously owned by the state.

OTHER ESSENTIAL ISSUES CONCERNING THE OWNER’S RIGHTS TO PROPERTY IN THE CR

Other essential legal issues may arise in connection with the specific provisions of Czech legislation regulating an owner’s rights to property. The most important of them are:

Registration of the New Owner in the Land Register. Although a certain person is registered in the Land Register as the owner of the property, that person may have already sold or otherwise transferred the property to a third person, while as a result of delay caused by administration procedures in the process of registration, the new owner’s rights were not yet entered in the Land Register. To prevent such a situation, every contract concerning property must have a clause, in which the selling party will declare that they have not sold or otherwise transferred the said property to a third person.

Recognition of Title. According to Czech law and the judgment of Czech courts, the real owner of property may exact his ownership title in a lawsuit regardless of whether or not he is registered in the Land Register as owner of the property concerned.

Acquisition of Title by Prescription. According to Czech law, the lawful holder of bona fide property may become its owner if the person concerned or his legal predecessor was in uninterrupted possession of the property for a period of ten years.

Acquisition from a "Sham Owner". According to Czech law, property may not be acquired, with legal effect, from a person who, although being registered in the Land Register as its owner, did not acquire the title to that property in a proper way, for example because of the invalidity of the contract of purchase, on the basis of which the "sham owner" acquired that property.

Effects of Withdrawal from Contract. By withdrawing from a contract on the purchase of real property, the title to ownership on the basis of which the purchaser has acquired the title to the property concerned becomes extinct under Czech law, and the title of the previous owner to that property shall be restored, even if the said property was already transferred to a third person.

EXEMPTION OF PLOT FROM AGRICULTURAL LANDS

If a plot purchased for construction purposes is classified as farmland, the issue of a building permit for the realization of a capital construction project is subject to obtaining a decision on the exemption of the plot concerned from the agricultural lands category and having its type changed to a construction plot.

To have a plot exempted from the agricultural land category, the builder must file an application with the competent body of state administration (the competence of the body depends on the area of the plot concerned). The application must contain essentials stipulated by law, such as the purpose and reason for the exemption of the plot from the agricultural lands category and the consent of the owner of the plot to its exemption from the agricultural lands category, etc. More information is available at http://www.mzec.cz.

CONSTRUCTION PERMIT PROCEDURE IN THE CR

The investor wishing to build on the territory of the CR must undergo the following procedures: (i) verification of compliance of the investor’s plan with town and country planning documentation, (ii) application for a planning permit procedure, (iii) construction proceedings, and (iv) application for an occupancy permit procedure.

Town and Country Planning. To make a correct assessment of the construction investment plan in the particular locality, the investor must first of all find out if the locality is designed for construction or the desired use, and under what conditions.

Information concerning town and country planning must be sought in physical plans, at the community or regional level. Information as to the coverage of the area of the Czech Republic by physical plans can be found, for example, at the Ministry for Regional Development (http://www.mmr.cz), which is the central body of state administration in the area of the Building Act. For the capital Prague, the updated physical plan is available at the Prague City Council and at http://www.praha-mesto.cz.

With regard to the flood conditions on the territory of the Czech Republic in recent years, prospective investors are recommended to get an assessment of the plot concerned from the point of view of the flood map, which is available for inspection at local municipal offices.

Planning Permission Procedure. From the investor’s point of view, the essential thing is to have obtained a decision on the location of the structure in the particular location or a decision on the change of the use of the territory concerned. Besides the investor’s interest, public interests are taken into consideration in the town and country planning procedure. At this phase, in addition to the suitability of the plot from the urban planning point of view, the authorities also assess its suitability from the point of view of its connection to the
mains network, availability of transport services, influence on the environment, and hygienic impacts.

On receiving the investor’s petition, the Building Office, usually the municipal office in the community having community powers delegated to it, commences the planning permission procedure. A prerequisite for starting the procedure is the investor’s petition for the issue of a planning permission. The investor’s written petition must be supported by the required documents, especially the opinions, statements, decisions, agreements and other measures of the bodies of state administration concerned with defending public interests under special regulations. The Building Office also examines if the applicant has a possessory title or other rights to the land on which he/she intends to realize the structure. The principal partners to the planning permission procedure are the petitioner (investor), the communal authority, and persons whose possessory titles and other rights to the plot or structures standing on them, including neighbouring plots, may be directly affected by the planning decision; other potential parties to the procedure may be persons mentioned by the law as having that position, such as some civic associations, the Czech Telecommunications Office, and the State Energy Inspection Office. In the case of bigger projects, the number of parties may be rather large. Unlike in some other EU states, in certain cases in the CR there is no integrated issue of opinions of the administration authorities concerned in the framework of the planning permission procedure, so that the opinions and conditions they have set may differ. For example, in assessing larger structures sometimes the opinions and conditions of different sections of the Ministry of the Environment (http://www.env.cz) may vary.

The Building Office will issue a planning permission provided the petition for its issue is in accordance especially with the aims and intentions of town and country planning. According to the Building Act, the permission is valid for two years from the day on which it becomes legally effective, unless the Building Office has fixed another term. Within this term, the builder must start using the land for the stated purpose or have filed a building permit application. Otherwise, after a lapse of time, the planning permission will expire, unless, upon the builder’s request, the Building Office will prolong the term.

Building Permit Procedure. Under the Building Act, buildings, changes thereof and maintenance work on them may be, in most cases, carried out exclusively on the basis of a building permit, or in the case of minor structures, building improvements or maintenance work, after notification of the Building Office concerned.

The building permit procedure can commence after the Building Office has obtained the application of the builder (investor or person authorized by him) for the issue of a building permit and the related documents. Unlike the planning permission procedure, the builder must prove that he/she is entitled to erect on the plot the required structure or to carry out an alteration of the structure or maintenance work on it.

On the basis of the documents received, the Building Office will assess the application and examine if the documents meet the conditions of the planning permission, and will set out in the building permit binding conditions for the erection and use of the structure, and will decide on potential objections of the parties to the proceedings.

Unless the Building Office has decided to the contrary, construction must commence within two years of the coming into force of the building permit; otherwise the building permit will expire. If, before the termination of the structure, it is necessary to change the conditions of the building permit, the builder may apply to the building office for permission to change the conditions.

Occupation Permit Procedure. A completed structure may only be used after obtaining an occupation permit issued by the Building Office which has issued the building permit or a permit to carry out work on the structure. Upon the builder’s application, however, the Building Office may sanction an earlier use of the structure even before an occupation permit has been issued, provided this does not affect the usability of the structure and does not threaten the safety and health of persons. A premature use of the structure may be sanctioned also to enable the beginning of trial operation. The occupation permit procedure commences after the Building Office has obtained the petition of the builder or the future user (operator). By issuing an occupation permit decision, the Building Office permits the use of the structure for the stated purpose, and if necessary lays down conditions for the use of the structure. In the case of business premises, the occupation permit is simultaneously a certificate stating that the premises are fit for operation. A change of the purpose of the use of the structure after the occupation permit has been issued is only admissible on the basis of a decision of the Building Office, and if the change of use is connected with a change of the structure, an occupation permit is needed for the altered structure. Besides authorizing the actual use of the structure, the occupation permit may also serve other purposes, for example the registration of the structure in the Land Register.

ANTICIPATED CHANGES CONCERNING THE BUILDING PERMIT PROCEDURE AND THE AMENDMENT OF THE BUILDING ACT IN THE CZECH REPUBLIC

In connection with the building permit procedure and
the amendment of the Building Act in the CR, it should be pointed out that legislative work is in progress to regulate greatly the current legislation in the area of construction. The new legal regulation of town and country planning is aimed at creating standard conditions for carrying out changes in town and country planning to facilitate the entry of potential investors into the CR, while providing legal certainty for their activities comparable with the conditions in other EU states.

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Green Light for Trade Fairs in the Czech Republic

The accession of the Czech Republic to the EU was conditioned by the creation or modification of many existing legal norms and standards concerning all spheres of life within Czech society. The country’s trade fair industry managed to follow the trends of sector internationalization and globalization and can be evaluated as stable, competitive, and comparable to EU standards.

In the Czech Republic, the Association of Fair and Exhibition Organizers (SOVA CR) is the integrating body and the only professional association operating country-wide. It brings together trade fair complexes and companies that organize fairs and exhibitions both at home and abroad.

The Czech trade fair industry has undergone many changes over the past years. Trade fairs have defended their irreplaceable position in marketing even in times of new information technologies. Big business will continue to be done through personal meetings. And even though signing contracts at fairs is not fashionable anymore, they create the environment in which these contracts are successfully negotiated. For most traditional exhibitions and fairs, the recent period involved the challenge to create specialized profiles. After a certain period of disbelief in the power of this type of marketing communication, even companies that opposed it only a few years ago, have gradually returned to exhibitions and fairs, which is a good sign.

And what about the trends? The number of accompanying programmes keeps growing. After the country’s accession to the EU, greater interest from foreign companies has been noticeable in the events organized in the Czech Republic - and not only from the exhibitors but also the professional visitors.

Summary data: Czech Republic (2004 – 1997)

<table>
<thead>
<tr>
<th>Year</th>
<th>Total CR</th>
<th>Total area in sq. m.</th>
<th>Total No. of exhibitors</th>
<th>Total No. of visitors</th>
<th>No. of accredited journalists</th>
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<td>47 763</td>
<td>3 292 837</td>
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Břetislav Fabián
Director
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www.czechfairs.cz

Contacts to the largest fair organizers
(members of SOVA CR):
Veletury Brno – www.bvv.cz
Incheba Praha – www.incheba.cz
Triumf Praha – www.triumf.cz
Výstavště České Budějovice – www.vcb.cz
ABF Praha – www.abf.cz
Výstavy Litoměřice – www.zahrada.cech.cz

Internet resources for fairs and exhibitions:
www.expocz
www.vystavaveletrhy.cz

Five largest organizers based on the exhibition area size (2004)

<table>
<thead>
<tr>
<th>Event organizer</th>
<th>Area in sq.m.</th>
<th>Exhibitors</th>
<th>Visitors</th>
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<td>441 225</td>
<td>9 631</td>
<td>933 191</td>
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<td>INCHEBA PRAHA + TRIUMF PRAHA</td>
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<td>3 246</td>
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Where is the best place to meet? Surely in the centre of Europe, which is equal distance from everywhere. The ideal location of the CR in the geographic centre of the Old Continent is a great advantage. But this in itself is not enough. Congress participants are discerning clients, and their decision about the place of their next meeting is influenced by a number of aspects. What is the position of the CR in the competition with other prestigious congress destinations? What is its potential, and how is it used?

SECURITY, ACCESSIBILITY, ATTRACTION

The Czech Republic is an attractive destination of congress tourism. It meets all of the most important prerequisites, such as security, accessibility, and attractiveness. High quality of the infrastructure and services is a matter of course. The Czech Republic has a rich offer of hotel and congress capacities fully comparable to the world standard in the number of conference halls and services. The Czech offer includes complete services in Prague and other cities and regions. Every day, 60 international trains come to Prague, and Ruzyně airport serves more than 200 flights. Coach transport links the CR with many places in Europe. The Czech Republic attracts the organization of congresses mainly by historical monuments and reasonable prices, whereas trade contacts and good experience from previous visits have a far larger influence in other countries.

PRAGUE IS NOT THE ONLY VENUE

Prague, which belongs to the most important congress towns in Europe, is the favourite venue of congresses in the Czech Republic. Its great advantage is the efficient integrated transport system, and a rich offer of conference hotels and other facilities. Prague has more than 10 conference facilities with some 500 seats in their main halls. The largest is the Prague Congress Centre, which offers eight halls with a total of 4 500 seats, a congress hall for 3 000 persons, and another 30 lounges with a total of 1 500 seats. Prague hotels have conference rooms for small and medium-sized events. In addition to modern hotels and other facilities, congresses can be held in historical buildings, which have equally good conditions and services. The Municipal House, the Art Nouveau pearl of Prague, with its 2 100 seats belongs to the most splendid and most sought venues. Events with up to 2 400 participants can be arranged at Prague Castle.

Suitable congress facilities are not only in Prague, but also in other towns and cities (Brno, Ostrava, Karlovy Vary, Hradec Králové) or in the pleasant environment of the Czech countryside, in the captivating atmosphere of ancient castles and chateaux (Český Krumlov, Nelahozeves, Sychrov, Mikulov, and many others).

HOW ARE WE DOING BY INTERNATIONAL COMPARISON?

In the last few years, the Czech Republic gained excellent recommendations when it arranged a number of prestigious international congresses and conferences in the Prague Congress Centre: the 6th World Congress of Neuroscience - IBRO 2003, the 16th congress of the European College of Neuropsychopharmacology - ECNP 2003, the 14th European Congress of Clinical Microbiology and Infectious Diseases - ECCMID 2004, the European Gastroenterology Week - EGW 2004, and many others. In 2006, Prague will host the ASTA International Destination Expo, which can be regarded without exaggeration as the “Olympic Games of Tourism”. Events due to be held in Prague in 2007 include the ITA-AITES (International Tunnelling Association – International des Travaux en Souterrain) meeting of the world’s largest companies operating in underground construction. At present, the CR is contending for the organization of several dozens of important congresses.

The CR is ever more clearly profiled as a suitable venue of congress tourism, as proved by its annual rating of the International Congress and Convention Association (ICCA). In ICCA worldwide statistics of the number of participants in congresses of international associations the CR placed 14th, and Prague 6th in 2003. In both cases, the ICCA expects advancement to a higher place in 2004. As to the number of events according to ICCA criteria, the Czech Republic was 15th and Prague 8th in 2003.

The CR hosts congresses on a broad range of themes, but 60 per cent of them are focused on health care, natural sciences, and research.

INTERESTING BUSINESS

Surveys show that conferences rank 5th among reasons for visits to this country, and account for 8 per cent of all tourists. The economic profit from congress tourism is evident. The direct daily personal expenses of a congress tourist in the CR are CZK 3 000. The total daily expenditures include direct personal expenses, and other payments, which are made in advance, most frequently by the employer. The total expenditures during a congress in the Czech Republic amount to approximately CZK 6 000.
a day, and major congresses usually last five days and are attended by more than 3,000 people. Participants in congresses or conferences spend up to twice as much as other tourists. Hotel owners are well aware of the importance of congress tourism, as proved by the new four- and five-star hotels. The CR now has almost 20 five-star and more than 200 four-star hotels with a total of 7,500 and 27,000 beds respectively. Moreover, congresses also ensure the full use of hotels outside of the main tourist season.

ARE WE KNOWN ABROAD?
CzechTourism is a non-profit agency subsidized by the Ministry for Regional Development of the CR. Its task is to give publicity to tourism in the Czech Republic. CzechTourism also gives support to the development of congress tourism. Its activities abroad include thematic presentations and workshops at selected destinations, designed to introduce the providers of congress services in the CR to potential foreign buyers of these services. The Agency also goes to a number of tourism fairs focused on the congress industry. Further to this, CzechTourism arranges trips to the CR for potential foreign clients who are seeking new destinations, areas, and programmes for their business. The clientele include tourism professionals, agencies organizing congresses and incentive programmes, and final clients, such corporations, and professional associations.

In its publicity and marketing activities, CzechTourism closely co-operates with the Ministry for Regional Development of the CR, the Prague City Council, the Prague Association of Congress Tourism, the Prague Information Service, and private providers of services on the market of congress and incentive tourism in Prague and all regions of the CR. It supports their activities formally and financially, and helps with organization and publicity.

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CzechTourism

Useful addresses:
CzechTourism – www.czechtourism.cz (for professionals)
www.czcechtourism.com (for foreign visitors)
Tourist server of the Czech Republic – http://kongres.czecot.com
Prague Convention Bureau – www.pragueconvention.cz
Association of Exhibition Companies – www.avfcr.cz