U.S. Department of State
FY 2001 Country Commercial Guide: Czech Republic

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CHAPTER I: EXECUTIVE SUMMARY

The Country Commercial Guide (CCG) represents a comprehensive look at the Czech Republic's commercial environment, using economic, political, and market analysis. The Country Commercial Guides were established by recommendation of the Trade Promotion Coordinating Committee (TPCC), a multi-agency task force, to consolidate various reporting documents prepared for the U.S. business community.

The economy in the Czech Republic has been recovering from recession since mid-1999. After five quarters of economic decline, real growth began to show in statistics in the second half of 1999. The economy is expected to grow by 1-2 percent for the year 2000 and to achieve even higher growth levels in 2001. Continued strong exports will contribute to this trend, as the major trading partners accelerate growth.

EU accession requirements and direct pressure from foreign companies will push the Czech government to privatize the remaining government owned industries and liberalize many of the markets. However, there are still some clouds on the horizon. The Czech government has postponed initial planning for energy privatization five times. There are no plans for the privatization of the transportation systems and it is not clear whether the government will delay privatization of the telecommunications industry. Once privatization has been firmly put in place, the opportunities for exports and investments in these as well as other sectors will increase appreciably for U.S. firms. Completion of pending judicial reform will also be key to securing sustainable economic growth.

Trade between the United States and the Czech Republic has seen a steady rise despite the recent recession. In 1999, direct trade stood at $1.8 billion, a 7.5 percent growth from the previous year, with roughly a two to one advantage for U.S. firms. This growth is attributed to Czech companies that continue to import machine tools, raw materials, transportation equipment, (including end use equipment) information technology and in the service sectors. Also, restructuring continues to drive many companies to retool, which requires them to purchase new technology.

In terms of geography, the Czech Republic is a prime location. Physically located in the center of Europe, the Czech Republic is an attractive place to work and live or use as a hub for other commercial expansion. The Czech Republic has already been designated to be the crossroads for the new European high-speed rail and highway systems, as well as the oil and gas line connection for east and west. This creates new demands for communications systems and engineering service lines on these connections. The international business community is well established with Prague as a center for Central Europe, which also boasts a highly rated international school, excellent public transportation, and one of the most modern airports in all of Europe.

CHAPTER II: ECONOMIC TRENDS AND OUTLOOK

A. Major Trends and Outlook

More than 10 years after the Velvet Revolution, the Czech Republic has transformed itself into a western-oriented market economy with more than 80 percent of enterprises in private hands. During the past two years, the economy suffered a severe recession -- contracting by 2.8 percent in 1998 and 0.3 percent in 1999, only recently returning to a path of economic growth. Inflation levels have remained low, finishing at 2.5 percent in 1999. These levels are expected to rise somewhat in 2000. As long delayed industrial restructuring began in 1999, levels of unemployment approached double-digit levels, finishing the year at 9.4 percent. These levels are widely expected to top 10 percent by the end of 2000.

The roots of recent economic difficulties stem from unfinished structural reforms. These include privatization of strategic industries (principally the largest state-owned commercial bank, energy and telecommunications companies) judicial reform, enforceable bankruptcy laws, improved capital markets regulation and increased transparency in transactions and decision-making. The current Social Democratic government appears to understand the importance of addressing these issues. In the past twelve months, the government has made steady progress in the privatization of banks, has presented a plan for judicial reform (which has admittedly encountered obstacles in the Parliamentary approval process) and has greatly accelerated adoption of EU norms and amended the bankruptcy law and commercial code.

Integrating the Czech economy into the West, specifically into the EU, remains a top government priority. The Czech Republic began negotiations on EU accession in 1998, and has set itself a target date of 2003 to be prepared for EU entry. In the meantime, the Czech Republic benefits from access to EU markets under an Association Agreement with the EU. Harmonization of Czech laws and standards with those of the EU continues as the country works toward eventual EU membership.

B. Principal Growth Sectors

Foreign investment has played a major role in the development of the Czech economy by providing both management experience and capital needed to restructure Czech firms. While foreign capital flows from European Union countries are considerable, the United States, as of July 2000, has been the fourth largest investor in the Czech Republic, and U.S. firms stand to profit from the Czech Republic's continued economic transformation.

Chief imports include telecommunications equipment, specialized metalworking machinery, non-ferrous metals, plastics, chemicals and transport equipment. However, primary business opportunities are still related to the redevelopment of basic infrastructure and restructuring of privatized firms. In addition, major upgrades of pollution control equipment, telecommunications equipment and services, energy production and distribution, housing/municipal infrastructure and medical services have been underway for several years. In June 1998, the interim government announced plans to privatize the energy sector. However, by the summer of 2000, plans for privatization had been postponed five times.

However, new investments in other sectors have increased substantially, particularly as restructuring gets underway in more companies. A thriving services sector, built up from almost nothing, has emerged as the structure of the economy has shifted from industry toward services.

C. Government Role in the Economy

More than 77 percent of output is produced by the private sector. The government, however, through the National Property Fund (NPF) holds majority or significant stakes in several large Czech enterprises, notably banks and firms in the energy, transportation and communications sectors.

The government budget measures 33 percent of GDP, with non-discretionary expenditures constituting nearly 60 percent of the overall budget. Until 1999, fiscal policy remained conservative, with budget deficits rising gradually in recent years. The 1999 and 2000 budgets broke with past fiscal conservatism, with the latter including a planned budget deficit of just under 2 percent of GDP. The wider general government budget, which includes local government budgets, the National Property Fund, and other off-budget institutions, is expected to be 3 percent of GDP in 2000.

The government's role is still evolving from owner to regulator of major sectors of the economy. The government has established a Securities and Exchange Commission to regulate capital markets. In addition, independent regulatory agencies in the telecommunications and energy sectors will be established with the adoption of new laws governing these sectors.

D. Balance of Payments

Balance of payments continued its recent steady improvement, as the current account deficit fell by 20 percent, measuring US$1.1 billion or 2 percent of GDP in 1999. The capital account deteriorated slightly in 1999, with a US$2.1 million deficit. The trade account also improved, ending the year with a $2.1 billion deficit or 3.9 percent of GDP, compared to a deficit of US$2.6 billion in 1998. Exports increased slightly faster than imports. The surplus of trade in services, while still in positive territory, declined slightly. Foreign investment increased significantly, reaching US$5.1 billion or 10 percent of GDP, an 88 percent increase over the previous year and the highest level per capita in Central Europe in 1999. Government officials anticipate an even higher level of foreign direct investment in 2000.

E. Infrastructure

Upgrading the nation's infrastructure, specifically telecommunications and transportation, is critical for continued economic growth and development. Although recognized as a priority, the massive nature of the rebuilding effort will require capital as well as time. Resources to finance the country's extensive development plan for the telecommunications industry include major loans provided by the European Bank for Reconstruction and Development (EBRD), European Investment Bank and both large local banks and foreign banks. The Dutch-Swiss consortium Telsource holds a 34.5 percent stake of the Czech telecommunications monopoly, Cesky Telecom, which is upgrading and expanding the telephone system. Cellular rates have fallen in the past year as a third GSM standard cellular telephone network license has been granted (March 2000) and will stiffen competition. In some under-served areas, private telephone companies have been allowed to provide basic telephone service, and a U.S. cable television joint venture has offered telephone connections along with TV service. Many of these ventures are positioning themselves for the lifting of the Cesky Telecom monopoly on basic telecommunications. The Czech Republic is committed to lifting this monopoly by Jan 1, 2001 as part of the World Trade Organization (WTO) basic telecommunications agreement.

The need to overhaul the nation's transportation system is also recognized as a major priority. Unfortunately, state budget allocations have been inadequate, and the quality of Czech transport networks and systems, as well as rolling stock and vehicles, is generally below the standards of advanced European nations. All transport sectors, including railway, highway, inland waterway and air, have been targeted for infrastructure upgrade. Projects currently include a $3.5 billion modernization of the rail system, with priority on the Czech section of the important Berlin-Prague-Vienna Line; a plan to modernize and extend the country's highway network; and plans to develop the river transport system for intensive usage by the container hauling industry. With U.S. government assistance, the civilian air traffic control system is being integrated with military systems to provide more advanced methods of air traffic control. This will not only allow better utilization of airspace, but also improve the safety of air traffic. A new terminal at Prague's International Airport has opened, another is scheduled in 2003,and plans are in the works for privatization and overhaul of Moznov airport in Ostrava.

CHAPTER III: POLITICAL ENVIRONMENT

A. Nature of the Political Relationship with the United States

U.S.-Czech relations are excellent and reflect strong historical ties. The U.S. and the Czech Republic cooperate on a wide range of issues including the United Nations. The Czech Republic became a NATO ally in March 1999. The U.S. supports Czech participation in Western economic and political institutions and has played a major role in facilitating the Czech Republic's transition to a market economy.

B. Major Political Issues Affecting the Business Climate

The Czech government is strongly supportive of foreign investment and further integration with Western economic and political institutions remains a fundamental tenet of major political parties on both sides of the political spectrum. Overall, the current government has voiced support for further economic reforms, but internal division and its position as a minority government have limited its ability to tackle underlying structural issues affecting the economy.

Some European companies have sought to use the Czech Republic's interest in EU membership to gain advantage in commercial competition. Although Czech interest in EU accession is clear, the Czechs also desire a strong U.S. presence in the country.

American and other foreign business people often cite a convoluted -- or in some cases corrupt -- system at both national and local levels as impeding market access. Potential investors often must spend considerable time and effort to finalize a deal, or to enforce the terms of a contract, and the Embassy is sometimes asked to intercede on an American investor's behalf.

C. Synopsis of Political System, Schedule for Elections and Orientation of Major Political Parties

The Czech Republic is a parliamentary democracy. President Vaclav Havel, the head of state, is an internationally recognized advocate of human rights and social justice. The Prime Minister is Milos Zeman, chairman of the left-of-center Social Democratic Party (CSSD). He heads a minority government. The main opposition party is the right-of-center Civic Democratic Party (ODS), headed by former Prime Minister Vaclav Klaus. Other opposition parties are the right-of-center Freedom Union (US)(which split from ODS in 1998), the centrist Christian Democratic Union (KDU-CSL) and the leftist Communist Party. The U.S. and KDU-CSL, together with two other small right-of-center parties, have formed the "quad coalition." Senate and the first-ever regional elections will be held in the fall of 2000. The next scheduled elections for the powerful Chamber of Deputies are in 2002.

CHAPTER IV: MARKETING U.S. PRODUCTS AND SERVICES

A. Distribution and Sales Channels

Distribution channels in the Czech Republic are similar to the type of private systems common in other European countries. In recent years, privatization and major improvements in infrastructure have resulted in enormous growth in transportation and distribution services, particularly in the trucking sector. Consumers now have more products to choose from as a result of increased competition in the market. This competition also has improved efficiency and economies of scale in the marketplace.

The retail sector, which is nearly all privatized, historically has consisted mainly of small shops such as grocery stores, pharmacies, music stores, clothing stores and bookstores. These small shops have limited selection, indifferent customer service, and limited opening hours. Recent years have produced a boom in western-style supermarkets, do-it-yourself hardware centers, “hypermarkets” and the emergence of shopping malls. Czechs are finding they like the ease in shopping, low prices, customer service, broad selection, and extended evening and weekend hours of these large western-style chain stores. As a result, market share is eroding from traditional small shops, which tend to close at 5 or 6 p.m. on weekdays and on noon on Saturdays (if they are even open).

There is a strong market presence of many international (but not U.S) chains in the Czech Republic, including Swedish IKEA, British TESCO, and German OBI and Baumax. The greatest concentration of these stores is in Prague, followed by Brno.

Internet sales in the Czech Republic are skyrocketing. They were valued at US$1.1 million in 1998, US$6 million in 1999, and are expected to hit US$70 million in 2000. This is still a relatively small fraction of the Czech total retail sales of US$14 billion. Factors limiting the growth of internet sales include the historic Czech distrust of direct marketing and the relatively high calling rates charged by the state monopoly phone service Cesky Telecom for Internet use. There is also a lack of credit card usage as it is still a relatively new concept for Czech consumers.

There are several effective ways to develop a local distribution system in the Czech Republic. One way is to persuade a local partner to build and develop a local distribution system from the ground up. Providing support for a local partner to find and build a warehousing system, as well as providing assistance in inventory management, is a strategy that has been successful for some companies currently in the market. Another strategy is to find a distributor with an existing network already in place, who has the ability to take on an additional product line, or who may be interested in replacing a current line with something new.

B. Use of Agents/Distributors; Finding a Partner

The most common way to introduce a new product into the market is through a private distributor. The number of private distributors has grown rapidly over the past few years, giving U.S. companies many potential candidates from which to choose. The most efficient distributors are those who work closely with their foreign suppliers to develop strategies tailored to the nuances of the local market. This illustrates the distributor’s experience and knowledge of local pricing strategies, level of advertising/promotion required and the competition. In most cases, one distributor can provide coverage throughout the entire country for a related line of products.

If local servicing or warehousing is required, a sub-distributor may be required in certain parts of the country.

Wholesalers do not "sell" the product for the manufacturer. It is still the job of the manufacturer to ensure that the product is marketed properly so that it succeeds once it reaches the retailer. Most large American companies with manufacturing facilities or subsidiaries in the Czech Republic (Procter & Gamble, Colgate Palmolive, Wrigley and others) now have a network of regional sales managers and field sales personnel who oversee product marketing, distribution and retailing. Another common way to distribute products is to invest in a local retail operation or to sell door-to-door.

Margins for distributors are similar to those prevalent in Western European countries. With respect to salaries, field sales representatives usually earn a base salary (anywhere from 5,000 to 10,000 crowns per month, ($1 = app. 37 Czech crowns as of July 2000) plus commission (anywhere from 2 to 10 percent depending on the product), and travel benefits (company car, travel allowance).

Support for the distributor by the U.S. exporter is crucial to developing sales in the market. One example of this support is for the U.S. Company to assist in the financing of the product into the distribution chain. The U.S. exporter may make the product available on a consignment basis to allow the distributor to develop local cash flow. The distributor can also sell products to retail stores on a consignment basis, although this could cause problems for smaller distributors, given their lack of working capital and the difficulties they experience in obtaining credit.

It is also quite common for distributors to use a form of "cash and carry" to get products into the retail marketplace. Instead of the distributor going to the retailer, the retailer goes to the distributor to buy as many products as can be afforded at one time.

One other example of support by the U.S. firm is assistance with local advertising. In many cases, foreign companies with local distributors provide the entire local advertising support for the product, while the Czech partner provides the physical facilities and equipment.

In general, U.S. exporters of consumer goods must have reasonable expectations when entering the Czech market. They must realize that it takes time to find the right distributor and create market demand before they are able to ship more than a container load of goods. Commitment and patience are required in order to succeed.

U.S. firms seeking qualified contacts in the Czech Republic should consider using the U.S. Commercial Service's Agent/Distributor Service and Gold Key Service. For a fee of $250, the Commercial Service in Prague (via requests from U.S. Department of Commerce Export Assistance Centers) will conduct an Agent/Distributor Search (ADS). This service provides U.S. companies with a short list of pre-screened contacts who have expressed an interest in representing the U.S. Company after having seen the company's product literature.

The Gold Key Service takes this process a step further by offering face-to-face appointments with Czech contacts when the U.S. company representative is visiting the Czech Republic. Essentially it is a personalized trade mission organized on behalf of the participating U.S. firm. The fee is $500 for the first day of appointments (8 maximum) and $50 for each additional appointment ($250 maximum per extra day). In addition to arrangement of the pre-screened appointments, this fee includes use of an interpreter, meeting room space and follow-up support.

For more information, U.S. firms may contact their local U.S. Department of Commerce Export Assistance Center or the Commercial Section at the U.S. Embassy in Prague for details on using these and a variety of other market entry services.

C. Franchising

Franchising in the Czech Republic is a contractual cooperation between two independent entities. Franchising agreements are subject to the laws that govern commercial contracts in general and to those that govern sales or trademark licensing agreements. Business practices are regulated by the Commercial Code, but changes would be needed to create a legal environment specific to franchising activities.

One of the first and still fastest growing franchise industries in the Czech Republic is fast food. This is the result of a prosperous tourist industry and an increase in the country's standard of living. Although there are successful American franchises operating here (such as McDonald's, KFC and Dunkin Donuts), the lack of local capital has not allowed for typical master franchiser networks to develop. In the Czech Republic, all of the companies that have introduced their franchises have done so by initially investing their own experience and financial resources. This is necessary because there is still a lack of people who possess the type of capital and/or experience required for owning and operating a franchise.

With rising standards of living in the Czech Republic, consumers now have more income but much less time. Franchised products and services that save time have special appeal for Czech consumers. According to the Czech Franchise Association, other best prospects for franchising include consumer and business services, hotels/travel/tourism and real estate agencies.

D. Direct Marketing

Direct marketing has become a common way to distribute products in the Czech Republic. Individuals registered as entrepreneurs work door-to-door selling consumer products ranging from cosmetics and detergents to weight-loss aids and vacuum cleaners. Since direct marketing appeared about eight years ago, an estimated 100,000 people have become involved, mainly working for companies based outside of the Czech Republic. Of this figure, it is the main source of income for roughly 40,000 people in this market. The Czech National Association of Direct Marketing was established to bring awareness of the international rules of direct marketing, such as the length of guarantees and the consumer's right to return a product. Direct marketing firms active in the Czech market include Avon, Amway, Mary Kay Cosmetics, Oriflame, Herbalife and Lux.

Direct marketing as a sales technique seems to satisfy the need of many Czechs today to express their individuality and entrepreneurial spirit in an activity which requires little in the way of start-up costs. For direct marketing firms, this technique offers a better way of reaching consumers who may be under served by retail outlets, such as in the countryside or in small towns. Both multi-level (e.g. Amway) and one-level (e.g. Lux) marketing have proved successful in the Czech Republic. Network marketing has also gained a considerable number of customers in the last year, as four “membership” style stores are currently operating in Prague, Brno, Plzen and Ostrava.

E. Joint Ventures/Licensing

With the development of a regional market economy in the heart of Europe, the Czech Republic has become increasingly attractive as a destination for foreign investment. Given the emergence of market economies in neighboring countries as well, the potential of the Czech Republic as a base of operations for the entire Central European region is very promising. In addition to offering a growing consumer market, the Czech Republic’s competitive wage rates and productive labor force make it an attractive location for manufacturing and assembly operations. Now that many large firms have been privatized or are undergoing privatization, greenfield operations and joint ventures are more common.

Although the law allows 100 percent foreign ownership, foreign companies are sometimes not willing to acquire a Czech firm outright because of environmental or other long-term liabilities. In general, joint ventures are viewed as an opportunity to increase cooperation and develop a longer-term relationship in country.

F. Establishing an Office

To do business in the Czech Republic a company must be registered at the district office at the place of residence (for a physical person/sole proprietor) or at the district office of the region where the company has a permanent place for doing business.

Some of the documents required include: a statement of the type of company that will be formed; a formation agreement (articles of incorporation); a trade license (if necessary); bank account information and proof that the company's basic capital is on deposit; description of business activity; and a copy of the firm’s U.S. incorporation documents (if the firm is a subsidiary). The fact that there is a set procedure should not lead potential business people to think that the process is simple.

Obtaining all the green lights can be a lengthy, complex and often baffling process. Many foreigners choose to work through a service provider who is well acquainted with the procedures and pitfalls. American accounting and law firms operating in the Czech Republic provide total market entry strategies, including assistance in establishing an office. For those having the time and patience to accept the cross-cultural challenge, the Commercial Service-Prague library has materials on how to get a business license, obtain a green card, and get a residency permit. Whatever route is chosen, the advice of a local lawyer is always strongly recommended.

G. Selling Factors/Techniques

Disposable income in the Czech Republic remains low in relation to Western European countries, and most Czech consumers still buy mainly on the basis of price. However, the increase in the amount of competing name brands on the market has started to shift consumer tastes towards quality over price when making certain purchases. Czech firms mainly buy equipment based on quality, price, and after-sales service and financing. U.S. companies should be aware that the ability to offer flexible financing and payment terms plays a key role in achieving successful sales results in the Czech market.

H. Advertising and Trade Promotion

Advertising has become a powerful tool in the Czech market, as both consumers and companies generally place a high value on its effectiveness as a means for marketing products. Relative to this, both U.S. and Western European firms selling new-to-market products or seeking company name recognition use advertising quite frequently in the Czech Republic. All forms of media are used, including television, radio, print, public transit advertising and outdoor billboards. Following is a list of widely circulated newspapers and business journals in the Czech Republic that may be considered as potential advertising tools:

- Mlada Fronta Dnes (largest national daily newspaper), tel.: (+420 2) 2206 2111, fax: (+420 2) 2206 2229.
- Hospodarske noviny (daily business newspaper), tel.: (+420 2) 3307 1111, fax: (+420 2) 3307 2033.
- Profit (weekly business newspaper), tel.: (+420 2) 2421-3671; fax: (+420 2) 2421-3670
- Ekonom (weekly business magazine), tel.: (+420 2) 3307 1301; fax: (+420 2) 3307 2002.
- Obchodnik (weekly business magazine), tel.: (+420 2) 3307 1117, fax: (+420 2) 3307 2009.
- The Prague Post (weekly English-language newspaper), tel.: (+420 2) 9633-4400, fax: (+420 2) 9633-4450.
- The Prague Tribune (bilingual bimonthly magazine, English/ Czech), tel.: (+420 2) 548 190, fax: (+420 2) 542 289.
- Prague Business Journal (weekly English-language business paper), tel.: (+420 2) 2426 1360, fax: (+420 2) 2426 1361.
- Metro (daily free newspaper distributed in public transportation stations), tel.: (+420 2) 2173-2030, fax: (+420 2) 2422-9775, 2421- 5228.
- Euro ekonomicky tydenik (economic weekly), tel.: (420-2) 5102 6107, fax: (420-2) 5732-5905.

- Tyden (weekly business magazine), tel.: (420-2) 684 6435, fax: (420-2)684 6436.
- Lidove Noviny (daily newspaper), tel.: (420-2)6709 8111, fax: (420-2) 670 98 199.

I. Product Pricing

Czech consumers are very price sensitive and consistently seek value in their purchases. Compared to Western standards, wage levels are low but are slowly rising. In relative terms, disposable income has grown considerably over the past few years among the professional workforce leading to an increase in demand for a diverse base of both essential and non-essential consumer goods. Transportation costs, import duties, advertising and competition all must be considered when pricing products for the Czech market. Prospects for selling products improve when the products can be manufactured at a lower cost with some local value-added production. In general, imported consumer products and industrial equipment will have to compete against equivalent European products (German products in particular).

J. Sales Service/Customer Support

Almost all imported products and services sold in the Czech Republic are supported by either a U.S. subsidiary or a local representative. Customer support and after-sales services have become key components in the marketing mix of successful companies in the Czech Republic. This is the result of maturing consumer behavior in a market comprised of customers who are learning to expect knowledgeable sales people and reliable service. The industrial market also expects a high level of service, especially when dealing with U.S. companies who have a general reputation of providing quality support in a timely manner.

K. Selling to the Government

The Czech government is required by law to hold public tenders for major procurements. Several amendments to the public procurement law, the latest in force since June 1, 2000, have helped clarify and simplify procedures for public tenders. Newly placed emphasis on the total value rather than low costs minimized the disadvantages for American companies whose services and products enjoy a reputation for high quality, low maintenance and top management expertise but are often priced higher than those of competing domestic and European firms. American companies have been major suppliers of radio and telecommunications equipment, computers and software. Lack of transparency throughout the procurement process, however, may still remain an obstacle for some companies, until a completely new law, currently being prepared by the government, harmonizes domestic regulations fully with EU requirements.

Tenders are publicized in the local daily press (e.g., Hospodarske noviny and Mlada Fronta Dnes), as well as in the Obchodni vestnik (Trade Gazette), which is published by the Czech government. Major manufacturers of a particular product are usually notified directly.

Under the current Procurement Law, a public tender must be carried out any time procurement is ordered by a state/municipal organization or when the source of financing is the state budget, state funds, municipal budget or a grant or loan from an international organization. A procedural change that may be of interest to U.S. firms is that the period of time between calling and closing tenders has been extended to 180 days when procurement is financed by international funds. An unchanged portion of the law specifies that Czech firms will enjoy a 10 percent preference when competing in the bidding process. Joint ventures between foreign and Czech firms are considered "foreign" for procurement purposes. EU accession requires that this law be amended within the next few years.

All products offered by tender must be approved for the Czech market. Certificates of confirmation that a product meets Czech standards are issued by the Office for Standards and Meteorology according to results of testing in an appropriate testing institute, such as the Electrotechnical Testing Institute, Research Institute for Motor Vehicles, or the Czech Telecommunications Office.

Defense Procurement: After President Clinton unveiled the "Partnership for Peace" program in 1994, the number of U.S. defense and electronics firms visiting the region increased dramatically. The Czech Government continues to upgrade its defense capabilities as required by NATO membership, presenting significant export opportunities for U.S. firms. American companies that have successfully participated in defense procurement tenders include Boeing, Honeywell/Allied Signal and EDS. Overall, however, procurement in the defense sector has proved difficult and frustrating largely due to the following problems:

1. Lack of familiarity with local language, contacts and business practices;
2. Lack of experienced personnel within MOD and Armed Forces staff;
3. Lack of a stable planning and programming system for defense procurement; and
4. Lack of transparency and accountability in the defense acquisition process.

L. Protecting Your Product from IPR Infringement

The Czech Republic is a party to the Berne, Paris, and Universal Copyright Conventions. Please refer to Section VII.K., Protection of Property Rights, for additional information.

M. Need for a Local Attorney

Lawyers are instrumental in reviewing contracts, setting up a legal entity and advising on taxes and other issues. A good accountant can help with the structuring of the company and its operations to minimize corporate taxes, which are considered high by U.S. standards. U.S. companies exporting to the Czech Republic from offshore should experience minimal legal difficulties as long as they adhere to prudent business practices and common sense.

N. Performing Due Diligence/Checking Bona Fides of Banks, Agents and Customers

Corporate profile information on Czech firms is available for a fee from a number of different companies operating in the Czech Republic. Among those that CS Prague is familiar with that provide such information are Dun & Bradstreet (tel.: +420 2 2490 9235, fax: +420 2 2491 1834) and VVV Most, spol. s.r.o. (tel./fax: +420 35 610 5888). Both offer a variety of profiles and should be contacted directly for pricing and turn-around time information.

CHAPTER V: LEADING SECTORS FOR U.S. EXPORTS AND INVESTMENTS

A. Best Prospects for Non-Agricultural Goods and Services

1. Telecommunication Services
2. E-Commerce
3. Internet Infrastructure and Services
4. Energy Services - transportation, transmission, distribution
5. Leasing
6. Private Pension Funds
7. Specialized retailing - fashion, drugstore, hardware/home improvement
8. Cleaner Production/Integrated Prevention and Pollution Control
9. Travel and Tourism Services
10. Aerospace Industry
11. Electronics

All figures given are in millions USD, unless otherwise indicated; 1998 and 1999 figures are actual amounts, 2000 figures are estimates; exchange rates for 1998: $1 = 33 CZK, 1999: $1 = 35 CZK, 2000: $1 = 37CZK

Sector Rank 1 - Telecommunications Services (TES)

	1998	1999	2000
US$ million	(actual)	(actual)	(est.)
Total sales	1,750	2,100	2,550
Sales by local firms	1,330	1,580	1,700
Sales by foreign owned firms	420	520	850
Sales by U.S. owned firms	90	210	320

The rapid development of telecommunications services in the Czech Republic has followed the fast development of the telecommunications infrastructure. There has been massive investment into telecommunications since 1994. The number of main telephone lines has reached 4 million and penetration has grown from 20 percent to 37 percent. Further growth, of up to 44 percent, is expected by 2005. The quality of networks have increased considerably, allowing implementation of new services.

Growth of services has been particularly fast in the mobile telecommunications sector. As of

May 2000, two GSM operators and one new DCS operator provide mobile phone services to 25 percent of the population, with revenues of more than US$1.6 billion. Mobile operators offer a wide range of attractive services, including Internet access and low-cost Internet telecommunications, GSM banking and GSM shopping.

As of March 30, 2000, the established GSM mobile companies Eurotel and Paegas had 2.4 million users (Eurotel 1.25 million, Paegas 1.15 million users) The new DCS Oskar just began enrolling subscribers this spring, but will not release figures on its number of subscribers. By comparison, Cesky Telecom, the State-owned fixed line operator, has 3.8 million fixed lines. Some experts project that because of the ease and convenience of mobile phones, penetration will surpass fixed lines by the end of 2000. In addition, pre-paid calling cards allow customers to walk into a retail outlet and walk out with a mobile phone, versus long waits for fixed line installation.

The most significant growth has been noted in data services. Three current trends are forcing service development. First, the share of data services is growing very fast and according to experts, data communication will account for most telecommunication traffic in the near future. Second, rapid development of IP networks is being sped up by the Internet as well as growth of managed IP networks. Third, development of technologies enables high-speed transfer of large volumes of data.

Sector development has been accelerated by market liberalization. The market has been fully open since 1994 to competition in the following sectors: leased lines, public and private data networks, value-added services, private networks including microwave, optical and metallic circuits and VSATs (VSAT without interconnection to the public switched network), in cable TV, and in regional trunking networks.

In August 1999, the market opened for Voice over IP service. Though the State monopoly of the country's major operator, Czech Telecom, for international and long-distance telephone services expires in January 1, 2001, the VoIP service allows ISPs to also offer voice services. Many ISPs are already providing this service and have become strong competitors against Czech Telecom.

A new telecommunication law that opens the market for new operators came into effect July 1, 2000. According to the law, licensing processes and interconnection rules must become transparent and will be handled by the newly established independent regulatory body. The law has been widely criticized by the EU and others for postponing dates for full liberalization by delaying fully implemented carrier pre-selection and number portability functions. However, a number of new operators, including U.S. firms, have established their businesses in the CR in anticipation of full liberalization.

Further communication network development will bring about an increased range of new services. In July 2000, the regulator for fixed wireless access will call a tender for three countrywide licenses. The UMTS license process is planned to take place in 2001, but discussion on the license process has already started.

The telecommunication services sector development has meant an increase in opportunities for U.S. firms. Services already dominated by U.S. firms include messaging solution and billing systems for mobile, wire and wireless technologies.

Contacts:

American Embassy
The Commercial Service
Hana Jelinkova, Senior Commercial Specialist
T: 420-2-5753 1162, 63
F: 420-2-5753 1165
e-mail: Hana.Jelinkova@mail.doc.gov

Ministry of Transportation and Communications
Nabrezi Ludvika Svobody 12, 110 15 Praha 1
Jiri Domansky, Director of the Telecommunication Department
T: 420-2-514 31 308
F: 420-2-514 31 321
e-mail: domansky@mdcr.cz

Czech Telecommunications Office
Klimentska 27, 225 02 Praha 1
David Stadnik, Director
T: 420-2-24004 111
F: 420-2-2422 5890

Testcom, Testing and Technical Center of Telecommunications
Hvozdanska 3, 148 01 Praha 4
Radko Hochman, Director
T: 420-2-7936 782, 799 2120
F: 420-2-799 2318
e-mail: hochman@tescom.cz

Association of the Public Telecommunications Network Operators
Jenseniova 52, 130 00 Praha 3
Svatoslav Novak, Chairman
T: 420-2-697 2880
F: 420-2-697 5278
e-mail: apvts@apvts.cz

Sector Rank 2 - E-Commerce

	1998	1999	2000
US$ million	(actual)	(actual)	(est.)
Total revenues – Internet shopping	0.5	1.3	3.5

E-commerce in the Czech Republic has grown exponentially in recent years, bringing with it high potential for U.S. export of technologies, equipment and services, as well as investment opportunities in the country. Particular e-commerce segments show the fastest growth, including Internet based business-to-business (B2B), Internet-based business-to-customer (B2C), Internet banking and information systems development including training and education.

An electronic signature law has been signed by President Havel making it the first of its kind to be introduced in Central and Eastern Europe. It fully complies with current EU law and promotes e-trade and transactions by accepting electronic verification of signatures and signing of contracts and documents. Legislation for e-commerce taxation and customs legislation is also being developed in harmonization with the EU, OECD and WTO.

B2B and B2C have very high potential for rapid growth in the Czech Republic. According to a survey conducted monthly over a two-year period, first quarter 2000 revenues generated by Internet-based shopping grew six times 1999 levels for the same period. There are currently 1,900 stores on line, a 1,000 percent increase from the previous year, and approximately ten new virtual stores open on the Net each day.

Internet Banking

Internet banking has also been developing rapidly in the last two years. The online bank Expandia began operations two years ago and now boasts 27,000 clients. Several other banks offer online services for small and medium sized enterprises. Rapid development is now expected to take place in Internet banking transactions via mobile phones. GSM operators implemented the new services in May 2000. Mobile phone penetration has been growing very fast and reached 24 percent of the population in May 2000.

Contacts:

Hana Jelinkova
The Commercial Service, U.S. Embassy Prague
Trziste 15, 118 01 Praha 1
T: 420-2-5753 1162, 63
F: 420-2-5753 1165
e-mail: Hana.Jelinkova@mail.doc.gov

Czech Telecommunication Office

Klimetska 27
225 02 Praha 2
David Stadnik, Director
Tel: 420-2-24004 111
Fax: 420-2-2422 5890

Sector Rank 3 - Internet Infrastructure and Services

	1998	1999	2000
US$ million	(actual)	(actual)	(est.)
Total market size	1.0	6.0	70

Although a relatively small percentage of the population is connected to the Internet, Internet sales are increasing rapidly as interest among investors, business and consumers grows. The market is changing with incredible rapidity, as indicated by the figures above. Currently, there are between 0.5 to 1.3 million Internet users in the Czech Republic, out of an estimated 10 million total population. When Dattelkabel, a cable TV company, offered high-speed Internet access service this spring to its 40,000 customers for a flat monthly fee of $14, it quickly had 2,000 subscribers and had to stop taking orders due to limited capacity. Kabel Plus, another cable TV company, plans to offer broadband internet access in 2000 to 100,000 Prague households and another 50,000 in Brno, the Czech Republic's second largest city.

This growth will continue despite the fact that Internet use in the Czech Republic is hampered by a number of factors, both of which concern cost – the cost of a computer, and the cost of on-line access. The average income in the Czech Republic is still less than US$400 per month, making the cost of a home computer prohibitive. A Deloitte & Touche study released in June 2000 found that only 15 percent of Czech Internet users connect from home.

Second, most users must connect through the fixed lines controlled by State monopoly Cesky Telecom, paying per minute telephone charges for use. Internet use has been lucrative for Cesky Telecom, which saw its profits from Internet use rise 189 percent in 1999. Despite the advent of "free" Internet services, the high cost of telephone calls, particularly during business hours, limits web surfing. In an attempt to keep up with current trends and demand, Cesky Telecom recently launched Internet OnLine, and then cut its prices for leased lines by an average of 13 percent. Cesky Telecom also plans to decide by the end of the year whether to offer a flat fee for Internet connections as part of pricing packages.

Despite this, experts expect Internet use to increase from 7.8 percent in 1999 to 36 percent by 2002. The dollar value of the market is expected to increase tenfold by 2002.

The Czech cabinet has budgeted US$180 million over the next five years to connect all schools to the Internet and to train teachers. Of this amount, US$30 million will be spent on computers and Internet connection for regional schools. According to a CS First Boston study, the Internet market will grow in value to US$3 billion by 2005, with the biggest growth expected between 2001-2.

Implementation of the Internet infrastructure will bring opportunities for U.S. business. There will be a high demand for wire and wireless communication systems that would enable Internet service providers to offer a wide range of services. Three large ISPs that hold 64 percent of the market share plan to invest almost US$300 million during 2000-2001 for network upgrade and new technologies implementation.

There will also be opportunities for U.S. venture capital firms, which have recently taken a strong interest in the Czech market by investing US$30-35 million in six Czech Internet companies since January 2000.

Internet shopping, a relatively small market in the Czech Republic due to lack of credit card penetration, is expected to grow this year with the introduction of the new Maxim VISA card, newly available without the traditional deposit of several months' salary.

Contacts:

American Embassy
The Commercial Service
Hana Jelinkova, Senior Commercial Specialist
T: 420-2-5753 1162, 63
F: 420-2-5753 1165
e-mail: Hana.Jelinkova@mail.doc.gov

Ministry of Transport and Communications
Nabrezi Ludvika Svobody 12, 110 15 Praha 1
Marcela Gurlichova, Deputy Minister
T: 420-2-514 31 052
F: 420-2-514 31 030
e-mail: gurlicho@mdcr.cz

Sector Rank 4 - Energy Services - transportation, transmission, distribution

	1998	1999	2000
US$ million	(actual)	(actual)	(est.)
Total market size	2,440	2,550	2,620
Total local production	2,400	2,700	2,800
Total exports	40	150	180
Total imports	640	680	710
Imports from the U.S.	120	130	160

Opportunities in the Czech energy sector in coming years will originate from market liberalization, sector privatization and from building new energy sources utilizing gas and renewable sources.

The Czech government approved a new energy policy in January 2000. The information is important for U.S. companies because it outlines the main principles of the energy market in the coming years:

Key points of the document are:

1. Removal of subsidized energy prices for households
2. The plan for privatization of distribution companies will be prepared by the end of the year 2000
3. A new energy law will be approved by 2001
4. An independent regulatory agency will be established by 2001
5. Uranium ore mining will be shut down by 2001
6. Privatization of the monopoly Czech Energy Works (CEZ) will be carried out in 2002
7. Renewable sources will have a 6 percent energy market share by 2010
8. Brown coal mining will be completely shut down by 2030
9. Increasing importance of nuclear energy: construction of a third nuclear plant is anticipated after 2015

The policy statement also projects that natural gas imports will rise from 19 percent to 25 percent of total energy usage.

The electrical power sector continues to be one of the most important, with total sector growth projected to reach approximately 2-3 percent annually. Almost 50 percent of planned investment by Czech Energy Works (CEZ), the monopoly electric energy producer, is aimed at nuclear modernization. This includes reconstruction of older plant blocks, upgrade of control and safety systems, completion of in-process storage with capacity of 600 tons of burnt fuel, and design works for central burnt fuel storage in the Dukovany nuclear power plant. Total investments into nuclear power are projected at US$400 million in 2000, US$300 million of which will be spent in completing Temelin which is the second Czech nuclear power plant.

Electricity Distribution Sector

The country’s eight utility distribution companies have been modernizing their distribution networks during the past several years, including implementation of control systems. In recent years, the average yearly investment of distribution companies has been about US$400 million. Modernization projects concentrate mainly on grid expansion to provide services to a higher number of end users, and on grid upgrades. Grid upgrades include replacement of obsolete transformers and implementation of modern control systems.

Best prospects for U.S. exports include control and safety systems for power plants and distribution companies.

Gas Industry

Approximately 90 percent of total gas consumption is imported from Russia, about 7 percent from Norway, and 3 percent from Germany. Import and transmission services are provided by the state-owned company TRANSGAS, and distribution and sale is provided by eight regional distribution companies that are partially (47 percent) owned by the state.

There are many opportunities for U.S. exports related to pipeline construction and reconstruction, control systems implementation, and building underground storage. Storage capacity is planned to increase from 1.5 billion cubic meters to 3 billion cubic meters by 2010. Companies are also positioning themselves for the privatization of Transgas, widely anticipated to take place within the next few years.

Renewable Energy

The Czech Government is unsatisfied with the market share of renewable energy sources, and is preparing a program to support development of this sub-sector in the 2000-2007 period. Total investment into the program is planned to reach almost US$500 million. The program should generate savings of about 3 percent of total current energy consumption.

American Embassy
Commercial Service
Hana Obrusnikova, Commercial Specialist
T: 420-2-5753-1162, 63
F: 420-2-5753-1165
e-mail: Hana.Obrusnikova@mail.doc.gov

Ministry of Industry and Trade
Na Frantisku 32
110 15 Prague 1
contact: Jan Poucek, Energy Section Chief Director
T: 420-2-2481-0974
F: 420-2-2485-2532
CEZ, a.s. (Czech Energy Works)
Jungmannova 29
111 48 Prague 1
contact: Jiri Richter, Executive Director of Development
T: 420-2-2408-2340
F: 420-2-2408-3073
e-mail: richtj2.hsp@mail.cez.cz

Central Dispatch Center
Seifertova 55

130 00 Prague 3
contact: Miroslav Marvan, Director
T: 420-2-2408-6743
F: 420-2-627-9806
e-mail: ued@-net.cz

Sector Rank 5 - Leasing

	1998	1999	2000
US$ billion	(actual)	(actual)	(est.)
Total market size	1.7	2.0	2.4
Total local production	0.2	0.3	0.4
Total imports	1.5	1.7	2.0
Imports from the U.S.	0.5	0.6	0.6

Although leasing was only introduced in the Czech Republic 10 years ago, it has been experiencing growth rates of over 100 percent a year since then. Leasing represents one of the very few sectors of the Czech economy that has never seen a decline in volume of business. The market continued to grow even in 1999 despite the economic recession, decline in investment and decrease of GDP.

Czech leasing accounts for 2 percent of the European leasing market. The Czech Republic is the 12th largest leasing market in Europe, ahead of all other emerging Central and Eastern European countries. Leasing companies reported a 1999 gross profit of US$47 million, compared to US$6 million in 1998. Total assets of leasing firms rose from US$48 million in 1998 to US$113 million in 1999. Commodity and customer structure of the Czech leasing market follows European trends although leasing of passenger vehicles is still higher in the Czech Republic compared to other European countries due to difficulties in obtaining consumer credit for vehicle purchases.

The Czech leasing market has always been open to foreign competition. Many foreign firms, often daughter companies of well-known foreign leasing or banking institutions, have entered the market, leading to development of a highly advanced and mature leasing market. A liberal market environment without excessive regulation and with free competition of private-owned entities encourages leasing companies to improve operations, introduce new customer services and increase labor productivity.

The volume of leased assets rose 18 percent in 1999 to US$2 billion. Growth was especially accelerated in the second half of 1999 and in early 2000. Leasing companies were helped by an increase in the services they offer and the unwillingness of banks to lend money, forcing purchasers to lease rather than buy.

Movables form 93 percent of the Czech leasing market, with vehicles, machinery and equipment being leased most often. The volume of leased movable assets rose 18 percent in 1999 to US$1.9

billion. A major market segment, although decreasing, remains the leasing of passenger cars, which represented 50 percent of the movable leasing market in 1999. This is a leading sector also in quality and range of products and services offered. A significant tendency towards savings decreased the average price of cars purchased in 1999. Leasing of used cars experienced the highest growth in 1999, representing 17 percent of passenger car leasing. The share of machinery and equipment remained stable at 18 percent while the leasing of trucks and buses was at 25 percent of the movable leasing market in 1999.

Although new-vehicle leasing is already considered a saturated market, leasing of used cars, machinery, consumer goods and services are expected to further grow which means good leasing prospects for U.S. exporters. Another underdeveloped area with good potential is the leasing of intangible goods such as software.

One of the most dramatic growth areas has been real estate leasing, which in 1999 saw a 30 percent growth to US$140 million. Still only 7 percent of the entire leasing market, this shows room for much greater growth, especially as Czech real estate leasing is still far below national averages in other countries. The real estate share of the leasing market has potential to grow to 15 percent, according to leasing company representatives. The most suitable and frequently requested properties for real estate leasing are production and storage halls, office buildings and retail outlets. As real estate leasing requires long-term financial resources, it is and will likely continue to be the domain of leasing companies with strong financial backing, like daughter companies of large banks.

Leasing by the private service sector continues to dominate and reached 42 percent of the movable leasing market in 1999. Leasing has become very popular with small and medium-sized enterprises as a way to finance their development. The share of leasing by industrial and building firms reached 25 percent and by public services, 9 percent in 1999. The importance of consumer goods leasing is rising and accounted for approximately 18 percent of the market in 1999. Leasing still plays a negligible role in agriculture, representing only three percent of the movable leasing market. Municipalities still use leasing very little. Most contracts for leasing of movable items are for less than five-year periods.

Approximately 300 leasing companies currently operate in the Czech Republic, but the market has been undergoing a process of concentration. The number of companies providing leasing services slightly declined in 1999, with the strongest attrition among companies that are unable to rely on the cooperation of a strong bank or an economically sound manufacturer. As the competition increases, the market is expected to further contract. Most leasing firms in the market are foreign-owned. In 1999, three major leasing firms accounted for 40 percent of all leasing transactions and 10 major firms represented 60 percent of leasing market volume.

In 1999, competition brought more favorable conditions to leasing customers, including lower rates; supplementary services and incentives such as consulting, repair and maintenance; administrative services; minimizing initial payments for leased objects; discounts; free insurance; and gifts and incentives.

The ranking of leasing companies changed in 1999, as Czech-Austrian-owned CAC Leasing, with revenues of US$297 million, pulled ahead of the traditionally first, German-owned SkoFIN, (revenues of US$253 million). Belgian-owned OB Leasing, with revenues of US$204 million, ranked third, followed by U.S.-owned GE Capital Leasing (US$165 million), and Austrian-owned Corfina (US$92 million). The years 1998 and 1999 saw a proliferation of leasing firms owned by manufacturers such as SkoFIN selling Skoda cars, Renault Leasing, Opel Leasing, and Ford Leasing.

Last year's results show that leasing has become an integral part of the Czech market economy and a stabilized segment of the Czech financial market. The trend is towards further consolidation, specialization, and targeting specific customer groups, such as individuals and municipalities where there is still space for growth. An economic rebound, which appeared early this year, is expected to further support private consumption and boost the leasing market.

Contacts:

American Embassy
Commercial Service
Trziste 15
118 01 Prague 1
Jana Ruckerova, Commercial Specialist
T: 420-2-5753-1162, 63
F: 420-2-5753-1165
e-mail: Jana.Ruckerova@mail.doc.gov

Association of Leasing Companies of the Czech Republic
(associace leasingovych spolecnosti v CR)
(122 members with domestic leasing market share of more than 95 percent)
Strelnicna 8/1680
182 00 Praha 8
Tel.: 420-2-6885-675
Fax: 420-2-6885-675
E-mail: asociace@traveller.cz
http://www.infos.eunet.cz/leasoc

Sector Rank 6 - Private Pension Funds

	1998	1999	2000
Total assets, million US$:	(actual)	(actual)	(est.)
Total market size	740	925	1156
Total local production	290	360	450

Total imports	450	565	706
Imports from the U.S.	0	0	0

In 2000, supplementary pension insurance in the Czech Republic completed the first five years of its existence. During this short time, it has proven its importance and become a prominent component of Czech financial markets. Private pension funds offer one of the most profitable ways of savings. Supplementary pension schemes are playing an increasingly significant part in the diversification of the pension system in the Czech Republic.

The number of persons actively participating in pension funds exceeded 2 million at the end of 1999, up from 1.74 million in 1998, while in late 1994 the number was just 183,000. Pension fund participation jumped in the fourth quarter of 1999 and continued into the first quarter of 2000, boosted by passage of the amendment to the private pension scheme law, which brought significant and long-awaited legislative changes. The amendment came into effect on August 3, 1999, and introduced many new elements.

The most important contribution of the amendment for insured persons is a greater motivation to participate in the system through a permanent 25 percent increase in the State contribution for those who meet the new requirements of long-term participation, and through tax relief for both clients and employers. For the first time, the legislation allows tax deductions for private pension contributors, effective January 1, 2000. The amendment permits employers to deduct pension contributions valued up to 3 percent of an employee’s gross wages. Individuals can deduct up to Kc12, 000 (US$300) a year. The law effectively increases the monthly State contribution by 25 percent, to Kc150 (US$3.75) on a maximum of up to Kc500 (US$12.5) saved. Previously, the State contribution dropped to Kc120 (US$3) after two years.

The second area of modifications emphasizes long-term participation in the system, to induce clients to save the necessary capital for lifelong old-age pensions. The amendment increases the holding period for money left in a private pension fund from the previous one-year minimum to five years. In addition, the eligible age for drawing private pensions will be raised from the current 50 to 60 years of age, or the age at which a client can legally, whichever is younger. The maximum length of insured time has been extended to 120 months.

The amendment also increases the stability of pension funds, mainly through capital hikes or by the duty to cut share capital or reserve funds by the amount of a loss posted. The legislation mandates a fund’s base capital more than double from the current Kc20 million to Kc50 million. Also, newly defined obligations of pension funds on provision of information to insured persons and enhancement of State supervision should contribute to the safety of the system and enhance general public confidence in pension funds.

The law is a significant boost to the industry’s customer base. According to analysts, higher income individuals are the most likely new candidates for private pension funds as the new incentives are especially for people with middle and higher incomes. Along with the new regulations has come an increased emphasis on marketing pension funds directly to firms, not to individual employees, a byproduct of the new tax breaks for corporate contributions. Company owners have become much involved in selecting and promoting pension fund options to their employees. The typical client is 48-54 years old. Approximately 1 million new customers are expected to sign up within the next three years.

The industry has been undergoing a high degree of consolidation. As of May 2000, 22 pension funds were operating in the market, down from 46 five years ago. The market is expected to further concentrate this year, as seven of the 22 pension funds operating in the country must raise their basic capital before the August 3, 2000, deadline, according to the new legislation. Funds have three options: increase their original investment, merge with a separate fund or bring in a strategic investor. The Ministry of Finance expects the number of funds to fall to 15 by the end of 2000.

Of the two million participants in supplementary pension plans, 65 percent (1.3 million) are in the five largest funds. The top nine funds have a combined 95 percent (1.9 million) participation rate. Approximately half of the pension funds are foreign-owned. Behind most top ten pension funds is a financial group or bank.

Assets controlled by pension funds totaled US$925 million at the end of 1999, up from US$740 in 1998. Pension funds in 1999 generated profits of US$42.5 million, down from 1998's US$43.8. Pension funds assets are expected to appreciate by a record 5-6 percent, with an average inflation of 2.1 percent for 1999. In 1998, the assets were appreciated by 8.8 percent, with inflation reaching 10.7 percent.

Combined individual and State contributions to pension funds were US$233 million in 1999, up from US$220 million in the previous year. The average monthly client contribution totaled Kc339 (US$8.5), while in the two previous years it was Kc333 (US$8.3).
Contacts:

American Embassy
Commercial Service
Trziste 15
118 01 Prague 1
Jana Ruckerova, Commercial Specialist, e-mail: Jana.Ruckerova@mail.doc.gov
T: 420-2-5753-1162, 63
F: 420-2-5753-1165

Ministry of Finance of the Czech Republic
Department of Insurance and Pension Funds
Mr. Vaclav Krivohlavek, Director General
Letenska 15
118 10 Praha 1
Tel: 420-2-5704 2132
Fax: 420-2-5704 3049

Association of Pension Funds of the Czech Republic
Mr. Petr Illetsko, President
Rumunska 1
120 00 Praha 2
Tel.: 420-2-2426 6561
Fax: 420-2-9618 1414
E-mail: apfcr@praha.czcom.cz
www.czcom.cz/apfcr

Sector Rank 7 - Specialized retailing - fashion, drugstore, hardware/home improvement

	1998	1999	2000
Total assets, billion US$:	(actual)	(actual)	(est.)
Total market size	22.4	22.5	24
Total local production	13.0	10.4	10
Total imports	9.4	12.1	14
Imports from United States	0.2	0.2	0.3

Czechs are increasingly embracing western-style supermarkets, hypermarkets, and discount chain stores. The retail structure inherited from the communist era, consisting mainly of relatively small outlets that sell a narrow range of standardized products, is on the retreat in the face of foreign competition. Many European retail chains have invested heavily in the Czech retail market. In the last few years, the retail sector has become more concentrated especially with the proliferation of supermarkets and hypermarkets.

At the end of 1999, hypermarkets already held 54 percent of the domestic market, a 14 percent increase against 1998. In 2000, hypermarkets represent a place to buy a wide variety of food and basic goods used by more than 16 percent of all Czech households, compared to only 4 percent in 1998. The extension of hypermarkets is taking place at the cost of smaller shopping centers and supermarkets. Market share of supermarkets dropped to 32 percent from 52 percent in 1998. On the other hand, discount chain stores strengthened their position.

The Czech retail market is still far less concentrated than western European sectors, with the top ten retail stores controlling one-quarter of the market, compared with typically two-thirds in developed EU markets. The expansion of transnational commercial concerns will continue in the coming years and the market will further concentrate. A space for entrance of new international retail chains exists mainly for discount chain stores, and also chain stores specialized in clothing and apparel, do-it-yourself, drugstore and pharmacy, footwear, furniture, etc.

The clothing and apparel market represents the best opportunity for entry of newly specialized retail chains. The value of the Czech clothing and apparel market is US$1.5 billion a year, more than double the market of consumer electronics. With the economy on the rebound and higher disposable income, Czechs are expected to spend more on clothing, apparel and fashion in coming years.

The clothing and apparel market is still not well concentrated. Ten major retail chains account for only for 12 percent of the market, which is very low, compared to western standards of 20 – 35 percent. Tesco Stores, a British chain of hypermarkets and department stores ranked first with sales of US$40 million, followed by Quelle, a German mail-order business with sales of US$19 million, and by Makro, a German chain of cash-and-carry stores with sales of US$16 million in 1999. Another three hypermarkets, two department stores and two over-the-counter stores made it to the top ten sellers.

The majority of customers (31 percent) buy clothing and apparel in small over-the-counter shops and 22 percent of customers buy in the market places. Second hand shops are also popular. Eight percent of customers shop in large specialized stores, which are preferred mainly by younger and more affluent people. Brand name products are important for the younger generation, while older people are influenced more by the location of the store.

Development of the clothing and apparel retail market demonstrates the low concentration of this sector. Since 1989, the number of clothing and apparel stores increased four times, while the selling space only doubled. The retail network is spread to a large number of small stores. Possibilities of clothing and apparel sales in hypermarkets are limited and the number of small department stores is decreasing. Several specialized retail chains recently appeared in the market and their share is expected to grow together with the share of newcomers. There is a space for entrance of strong clothing and apparel retail chains, which may help to restructure the market in a similar way as it has already occurred in food retailing.

The “do-it-yourself” market has been undergoing significant changes during the last several years, represented by dynamic expansion of hobbymarkets, large-scale stores selling equipment for household and gardening uses, including tools, building materials, gardening appliances and home accessories. Although the market is already concentrated, the share of hobbymarket chains will continue to rise and there is still a space for new comers.

There are 43 classical hobbymarkets in operation including the Mountfield chain which specializes in gardening products. Hobbymarkets represent only 1 percent of all outlets in the segment but they account for about a third of overall market sales. In 1999, total turnover of hobbymarkets reached US$325 million, up 50 percent from 1998, and selling space totaled 300, 000 square meters.

The retail market of do-it-yourself outlets is quite concentrated. Two major chains, OBI and BauMax, control nearly 60 percent of the market. Mountfield has the largest number of outlets (42), while the leaders among standard hobbymarkets include Baumax (16 outlets) and Obi (12 outlets).

Due to the proliferation of hobbymarkets, Czech customers’ behavior and preferences have changed. Most do-it-yourselfers still prefer specialized shops, however, outlets with a wide range of products, a large sale area, competitive prices and qualified personnel have been attracting more and more interest. Twenty-six percent of people prefer to buy tools in hobbymarkets, 13 percent in smaller outlets with a wide range of selections, 32 percent in specialized shops and 14 percent in hypermarkets. The number of outlets offering goods to do-it-yourselfers totaled 11,500 in 1999 with a sale area exceeding 1.2 million square meters.

Opportunities for market entry by specialized retail chains also exist in the area of drugstores, possibly combined with pharmacies as they are in the U.S., Britain, and other Western countries. The drugstore market is not well concentrated. Only a few foreign retail chains entered the market and still represent little market share. However, buying in large outlets is becoming very popular and entrance of new specialized retail chains is highly desirable.

Contacts:

US Embassy
Commercial Service
Jana Ruckerova, Commercial Specialist
Trziste 15
118 01 Praha 1
Tel: 420-2-5753-1162
Fax: 420-2-5753-1165
E-mail: Jana.Ruckerova@mail.doc.gov

Incoma Praha Consultancy & Development
Regional & Retail Research
Provides comprehensive analyses and research studies of the Czech retail market, hypermarkets, textile market, do-it-yourself market and others
Mr. Zdenek Skala, Project Manager
Benesovska 21
101 00 Praha 10
Tel.: 420-2-6731-1300
Fax: 420-2-6731-1401
E-mail: skala@incoma.cz
http://www.incoma.cz

Sector Rank 8 - Cleaner Production/Integrated Prevention and Pollution Control

	1998	1999	2000
US$ million	(actual)	(actual)	(est.)
Total market size	750	840	900

Total local production	400	420	450
Total exports	10	20	25
Total imports	350	420	450
Imports from the U.S.	100	150	170

According to expert estimates in a study for the Czech Ministry of the Environment (MoE), the immediately potential for cleaner production in Czech industry is about US$1.25 billion. Costs of IPPC implementation are projected at US$700 million in coming years.

The Czech Republic endorsed the International Declaration on Cleaner Production in 1999 and subsequently launched the official National Cleaner Production Program (NCPP). Under this program, the MoE organized an inter-sector working group to prepare manuals that individual sectors could utilize to support cleaner production in their jurisdictions. The NCPP is a voluntary activity financed from the resources of participating enterprises and offers soft loans and grants to support concrete projects.

The NCPP is based on the premise that the generation of waste and pollution must be limited by changing technology and procedures employed to apply the best available technologies. Although this program is new, efforts to upgrade technology have been present in the long term.

Major ongoing projects that utilize best available U.S. technologies include the modernization of Nova Hut, a Czech steel company. The total project cost has been US$650 million, with US$260 million invested in U.S. technology. Also ongoing is the purchase of U.S. licenses by the State-owned Chemopetrol for high-density polyethylene and polypropylene production. License costs were US$60 million in total, and an additional purchase of services was valued at US$80 million, which included 40 percent U.S. services content. A third project close to completion is ECKG Kladno's co-generation unit. Of the total project cost of US$401 million, US$50 million was spent on U.S. technology.
Not only are the best available technologies in demand in the Czech environmental market but also the best available procedures. Services, primarily the ability to decrease waste production through organizational and less expensive investment measures, offer the greatest potential for U.S. firms today.

State assistance through grants and loans is available mainly for small and medium-sized companies but is restricted in that it must not unfairly distort the market environment. Regional and national programs for EU harmonization are eligible for financial assistance from EU funds.

Contacts:

American Embassy
Commercial Service
Trziste 15
118 01 Prague 1
Zdenek Svoboda, EcoLinks Tech Representative

T: 420-2-5753-1162, 63
F: 420-2-5753-1165
e-mail: zdenek.svoboda@mail.doc.gov

Anna Christianova
Director
Czech Cleaner Production Center
Boticska 4
CZ - 128 00 Prague 2, Czech Republic
Tel: (420-2) 2491 9148
Fax: (420-2) 2492 0128
e-mail: christianova@cpc.cz

Sector Rank 9 - Travel and Tourism Services

	1998	1999	2000
US $ million	(actual)	(actual)	(est.)
Total sales	3,720	3,030	3,800
Total Sales by local firms	3,100	2,500	3,100
Total sales by foreign-owned firms	620	530	700
Total sales by U.S.-owned firms	40	35	45

Tourism has undergone rapid expansion since 1989, contributing US$3.03 billion in net foreign-currency earnings in 1999. This is still small by international standards, but it was equivalent to 14 percent of visible export earnings (the third position among export commodities), and 9 percent of GDP.

The total number of incoming visitors in 1999 was 100.8 million people, a 2 percent decline compared to the 1998 number. Preliminary numbers for January-March 2000 indicate an increase of 9.1 percent. An average length of stay has prolonged from 3.4 days up to 4.1 days. Average spending is US$38 per day, but this is only one third of that spent by travelers visiting Western Europe.

The large increase in tourism over the last 11 years has called for an increase in accommodation capacity. As the capital, Prague's share of foreign tourists accounts for 75 percent of the total hotel capacity in the Czech Republic which is primarily focused on upper range hotels. Strong future prospects lie in middle-range hotels, where the market is far from saturated. Sixty-five percent of incoming travelers seek this level of accommodation.

In addition to its status as a favorite tourist destination, Prague is becoming a major convention site. The whole country is attracting more business visitors who find inadequate availability of hotel facilities with conference centers. As a result, the available facilities book up months (or in some cases, a year or more) in advance.

According to the Czech Office of Statistics, the main tourist activities are sightseeing and leisure activities, such as sports, concerts and gambling. Offerings in these areas are still underdeveloped.

An important issue in the tourist industry is brand name recognition, a prime factor in the ability of U.S. brand names to successfully launch in the Czech Republic.

The Czech Republic, with its location in the heart of Europe, its history and culture, places of interest in Prague and other cities, has a growing potential for entrepreneurial activities in the tourism sector. Best prospects are:

1. "Brand name" mid-range hotels
2. Hotel management, ticketing and reservation services, support services and systems
3. Package tours focused on activities: sports, gambling and concerts
4. Convention services – planning, catering, auxiliary activities such as organized sightseeing tours, concerts
5. Restaurants

Contacts:

American Embassy
Commercial Service
Trziste 15
118 01 Prague 1
Hana Obrusníková, Commercial Specialist
T: 420-2-5753-1162, 63
F: 420-2-5753-1165
e-mail: Hana.Obrusnikova@mail.doc.gov

Ministry for Regional Development
Section for Tourism
Staromestske namesti 6
110 15 Prague 1
Marie Vitakova, Director
T: 420-2-2486-1251
F: 420-2-231-4227
e-mail: vitmar@mmr.cz

Sector Rank 10 - Aircraft and Parts

	1998	1999	2000
US$ million	(actual)	(actual)	(est.)
Total market size	90	205	225
Total local production	70	185	205
Total exports	92	184	185

Total imports	112	204	205
Imports from the U.S.	94	195	195

The overall view of the aerospace industry can be divided into two parts, military and civilian.

Military:

The consortium of Boeing-Aero Vodochody (Boeing, along with partner Czech Airlines, acquired 35 percent of Aero for about US$30 million in 1998) has orders from the Czech Air Force for 72 L-159 aircraft. The sub-sonic L-159, a product of Czech engineering and labor, is equipped to NATO standards, carrying the latest electronics and weaponry. Over 70 percent of the L-159 are of U.S. content, including the Allied Signal/ITECF124-GA-100 turbofan engine, avionics components from Honeywell, and Rockwell Collins' communications equipment. This year, the first three L-159 aircraft were delivered to the Czech Army.

The most likely export markets for Aero Vodochody are those operating former Soviet equipment, such as Hungary, Poland, Latvia and Slovakia, and new markets such as Greece, Israeli, and South American countries. Company officials have predicted Aero Vodochody is on track to begin making a profit next year.

The Czech Ministry of Defense is expected to call a tender for purchasing 36 new supersonic fighters in September 2000. Offsets are expected to be involved. The cost of new fighters is estimated at approximately two billion dollars. Potential bidders include the Boeing F/A-18, Lockheed Martin F-16, British Aerospace/Saab JAS-39 Grippen, French Mirage 2000-5, and the Eurofighter Consortium with the Typhoon.

Civilian:

A 79 percent stake in the company Walter Jinonice, a premiere turboprop engine manufacturer, was sold to U.S. firm Novus Corp. in September 1999.

Another U.S. firm, Ayres Corp., owner of Let Kunovice, is, according to local media, facing major financial problems. Ayres has a contract to produce the Loadmaster, a main cargo carrier for FEDEX, which has already placed orders for 75 planes with an option for an additional 200 more in coming years. The biggest creditor to the company, Konsolidacni banka, is currently negotiating with potential partners, including foreign and domestic banks, to save the program.

In 1999, the official Czech air carrier (CSA) transported more than 2 million passengers, a 12.7 percent increase over 1998, and 12,300 tons of cargo. In 1996, CSA contracted to acquire ten Boeing B737 aircraft, with deliveries beginning in 1997. The last two aircraft were delivered to the Czech Republic in late February 2000. CSA's fleet currently consists of 17 Boeing B737s, 2

Airbuses, and 4 ATRs.

CSA is now looking at a new five-year plan, with the next aircraft purchase to be driven by immediate needs and requirements. According to officials at CSA, this means short haul aircraft, with options for intermediate routes after five years. This strategy is also based on CSA's decision to join the SkyTeam air alliance with Delta and Air France in late July. Prague will become a Central and Eastern European hub for the alliance's members.

The Czech Government is expected to privatize CSA within the next year. The privatization plan is to sell a 38 percent stake in CSA, valued at US$300 million. According to the Czech law, at least 51 percent of the Airline must be held by Czech residents or by the Czech state.

The second carrier, Fischer Air, a private company, operates three Boeing 737s. A third, operator, Travel Service, specializing in charter flights, has leased four Boeing 737s and will add to its fleet three more Boeings in 2001 and 2002.

In 1999, the Ministry of Interior called a tender for purchase of eight emergency service helicopters. Due to shortage of funds, the tender was cancelled. It is expected, though, that the tender will be re-announced next year, as soon as a new law on emergency service operators is approved and implemented.

CS Prague, together with the U.S. Embassy's Political and Economic section, has cooperated with CSA, Fischer Air, Travel Service and Czech Aerospace (representative of CESSNA) to negotiate with the Ministries of Industry and Trade, Finance, and Transport, to urge them to issue tariff waivers on imports of large civil aircraft.

In addition, CS Prague has encouraged the Ostrava Airport management and the Regional Development Agency to draft a proposal for modernizing its airport and to submit it for USTDA funding. USTDA has recently approved a grant in the amount of US$400,000 to finance the cost of an in-depth feasibility study of the airport and airspace systems modernization and rehabilitation at the Ostrava Airport. Even at modest levels of development of the aviation sector, the potential for export of U.S. equipment and services could be of the order of US$40-50 million. The proposed project and the related developments will have a positive impact on U.S. employment.

Contact

American Embassy
Commercial Service
Hana Obrusnikova, Commercial Specialist
T: 420-2-5753-1162, 63
F: 420-2-5753-1165
e-mail: Hana.Obrusnikova@mail.doc.gov

Sector Rank 11 - Electronics

	1998	1999	2000
US $ million	(actual)	(actual)	(est.)
Total market value	4,572	5,182	6,150
Local production	2,930	3,252	3,740
Total exports	1,145	1,270	1,460
Total imports	2,787	3,200	3,870

The electronic industry sector has grown rapidly since 1997. Certain segments such as information and telecommunication technologies are oriented mainly into assembly and import of parts and components, and play a very dominate, important role. U.S. firms hold a very strong position in the importation of these products due to their leading role in the industry. The significant amounts of foreign investment have flown into this market, and reflect the strong participation of U.S. capital as well as U.S. interest.

The overall market is expected to grow in the upcoming years. As the Czech Republic is expected to join the EU, perhaps by the year 2003, increased needs for modernization of infrastructure (transportation, telecommunications, energy systems) will take place during 2000-2005. In telecommunications, the CR will have to increase the current telecom density of 37 percent to 47-50 percent, the density common in the EU. The transportation system requires complete modernization, including control and communication systems. The energy sector's needs for modernization of control systems is very high. Energy market liberalization will require implementation of a modern network control system.

Investments into the electronic industry sector account for 30 percent of total investment in the Czech Republic. During the last four years, a direct total investment of over US$1 billion has gone into the sector, of which 31 percent was foreign investment (FDI). The main investors are in the area of manufactured parts and components for control systems and communication systems. Among the largest investors are German, Japanese and U.S. firms (i.e. Siemens, AVX Kyocera Group, Motorola, Flextronix Group, and Phillips), and many international groups with a U.S. presence.

The sector's growth is being enhanced by the legislation, including a new investment incentive package passed by parliament this spring. Approximately 90 percent of EU standards related to the electronic industry have already been implemented (legislative enactment under EU harmonization) into the Czech system. The EU directives on technical requirements for products, product compliance, labeling and testing procedures have already been included into the Czech legislation. Also legislation concerning consumer protection, authors' rights, investment incentives, new telecommunication law, law on electronic signature and environmental laws are fully harmonized with the EU laws. A recently approved amendment of the law on investment incentives is expected to speed up investment activities in the future.

Contacts

Hana Jelinkova
The Commercial Service, U.S. Embassy Prague
Trziste 15, 118 01 Praha 1
T: 420-2-5753 1162, 63
F: 420-2-5753 1165
e-mail: Hana.Jelinkova@mail.doc.gov

Czech-Moravian Electrotechnics Association
Daciskeho 10, 140 00 Praha 4
Josef Hybs, President
T: 420-2-6121 3623, 24
F: 420-2-6121 3626
e-mail: ela@ncip.cz

Ministry of Industry and Trade
Na Frantisku 32, 110 00 Praha 1
Frantisek Malik, Director, Electrical Engineering Department
T: 420-2-2485 2479
F: 420-2-2485 1252

B. Best Prospects for Agricultural Products
1. Soybean Meal
2. Rice
3. Pulses (Peas, Chickpeas, Beans, Lentils)
4. Almonds

Sector Rank 1 - Soybean Meal
(HTS Number 230400)

	1998		1999		2000	
US$ thousand	TMT	1000$	TMT	1000$	TMT	1000$
Total market size	440	98,120	390	70,200	400	75,300
Total local production	0	0	0	0	0	0
Total exports	1	422	0	0	0	0
Total imports	441	98,343	390	70,200	400	75,300

Imports from the U.S.	22	6,473	45	8,100	50	8,600

The Czech Republic produces very little soybean meal due to unfavorable climatic conditions. Soybean meal, as an important part of feed mixtures, must be imported. Most meal comes in through either Germany or Holland via barge or rail, which distorts statistical origin data. Major U.S. competitors are Argentina and Brazil and it can be expected that U.S. soymeal will become more attractive in the future for a number of reasons including changes in South American production policies and enhanced relationships between U.S. and Czech traders.

Sector Rank 2 - Rice
(HTS Number 100610-100640)

	1998		1999		2000	
	TMT	1000$	TMT	1000$	TMT	1000$
A. Total market size	46	17,020	55	18,700	56	19,200
B. Total local production	0	0	0	0	0	0
C. Total exports	16	6,491	10	3,400	12	4,500
D. Total imports	62	20,578	65	22,100	68	23,700
E. Imports from the U.S.	2.7	978	3	1,020	4	1,500

Imports by origin on rice into the Czech Republic are difficult to track because of transshipments and re-packaging. Imports have grown steadily over the past few years, but will most likely continue to strengthen in the future due to rising incomes. Per capita consumption of rice in the Czech Republic has been growing during the last several years and is expected to go up even this year. Czech companies import bulk quantities and pack rice here, including a bigger variety of rice products packed domestically (wild rice, rice mixes etc.). Major suppliers of rice are India, Vietnam, Thailand, United States and Egypt.

Sector Rank 3 - Pulses (Peas, Chickpeas, Beans, Lentils)
(HTS Number 071310-40)

	1998		1999		2000	
	TMT	1000$	TMT	1000$	TMT	1000$
Total market size	36	3,472	41	4,950	40	5,320
Total local production	81	8,055	78	7,759	80	8,030

Total exports	61	11,505	55	9,340	57	9,690
Total imports	16	6,822	18	7,275	17	7,055
Imports from the U.S.	0.1	105	0.2	115	0.2	110

Imports by origin of dry beans peas and lentils into the Czech Republic are difficult to track because of transshipments and re-packaging. Imports have grown steadily over the past few years, but will most likely continue to strengthen in the future due to higher consumption in the Czech Republic. However, more attention from the U.S. Dry Bean and Lentils Association and the National Dry Bean Council will be required to promote the high quality and standards of U.S. pulses in face of stiff competition from other origins.

Sector Rank 4 - Almonds
(HTS Number 080211, 080212)

	1998		1999		2000	
	TMT	1000$	TMT	1000$	TMT	1000$
Total market size	0.91	4,188	0.93	3,323	0.92	3,520
Total local production	0	0	0	0	0	0
Total exports	0.09	415	0.09	352	0.08	370
Total imports	1	4,603	1	3,675	1	3.890
Imports from the U.S.	0.8	4.035	0.9	3,450	0.95	3,695

Almonds are mostly imported from California and due to lower world prices this year, higher imports of this commodity from the U.S. can be expected.

CHAPTER VI: TRADE REGULATIONS AND STANDARDS

A. Trade Barriers

The Czech Republic is committed to a free market and maintains a generally open economy, with few barriers to trade and investment. However, some technical barriers continue to hamper imports of certain agricultural and food products.

American business people also often cite a convoluted, or in some cases, corrupt, bureaucratic system, at both national and local levels, which can act as an impediment to market access. European companies have sought on occasion to use the Czech Republic’s interest in EU membership to gain advantage in commercial competition. Additionally, some changes to standards and other regulations are adopted in the guise of EU harmonization but act to protect Czech interest. Efforts to improve transparency in economic decision-making will improve these potential trade irritants.

A lack of consistency in the application of customs norms can also act as a non-tariff barrier. These problems are primarily due to the newness of recent regulatory changes and recent expansion of customs personnel. Training efforts are underway to correct the situation and address these concerns. All of the above should be eliminated or eased as the Czech Republic continues to harmonize its regulations with EU norms.

B. Customs Regulations/Tariff Rates

The Czech Republic is a member of the World Trade Organization (WTO) and has adopted a tariff code with an average tariff rate of 4.7 percent. Specific duty rates are published in the Czech tariff schedule based on the Harmonized System of Classification. As part of the free trade organization CEFTA (Central European Free Trade Agreement), which also includes Slovakia, Poland, Bulgaria, Hungary, Romania, and Slovenia, the Czech Republic offers more favorable customs duty rates on products originating in these member countries. In addition, the Czech Republic has an association agreement with the European Union as part of its EU accession process, and is lowering and or eliminating tariffs on an increasing number of industrial products under the agreement. Both scenarios mean that some U.S. products can face higher rates as compared to European competitors.

The Czech Republic adheres to WTO rules on customs valuation and therefore applies the same rules of customs valuation used by U.S. Customs for imports into the United States. Customs valuation is based on information provided by the exporter on the commercial invoice. Duties and taxes are levied on an ad valorem basis, that is, on the basis of the declared value of the goods sold. In view of its status as a member of the WTO, the Czech Republic applies no special import provisions.

C. Import Taxes

The value-added tax (VAT) applies to all goods, both domestic and foreign, sold within the Czech Republic. The VAT rate is generally 22 percent, although a lower VAT of 5 percent is charged for selected goods, such as food and pharmaceuticals.

Excise taxes are imposed on the following goods produced or imported into the Czech Republic: Fuels and lubricants, tobacco products, beer, wine and liquor. The rate is determined by the type and quantity of the product and must be paid within ten days after being notified by the Customs Office of the tax amount due.

D. Import License Requirements

The Czech Ministry of Industry and Trade issues import licenses to those seeking to import selected goods into the Czech Republic. While most products and services are exempt from the licensing process, oil, natural gas, pyro-technical products, sporting guns and ammunition require a license.

E. Temporary Goods Entry Requirements

The following are the most relevant temporary entry rules for U.S. exporters:

1. Temporary exemptions from duty are allowed for certain items, such as merchandise samples and items for display at trade shows or exhibitions. The Czech Republic also accepts ATA carnets as a way of facilitating temporary admission through customs. For more information about obtaining a carnet for clearance of goods, samples or equipment intended for temporary entry only, contact your local U.S. Department of Commerce Export Assistance Center.

2. Companies exporting goods to the Czech Republic for the purpose of temporary use may do so as long as the period does not exceed 24 months (in some cases it is possible to extend this). The exact time period must be agreed upon with Czech Customs. When the goods are re-exported, three percent of the duty value per month that the goods resided in the Czech Republic must be paid if the goods were used (maximum will not exceed full duty amount). Exports to the Czech Republic of raw materials and certain semi-finished products that are processed before their re-export enter duty-free. This is contingent upon the approval by Czech Customs on the conditions of processing and the handling of any waste caused through transformation of the goods.

F. Import/Export Requirements and Certifications

U.S. companies are required to include a commercial invoice, a bill of lading and a shipper's export declaration (needed for items requiring an export license or valued above $2,500) when exporting to the Czech Republic. In addition, the importer must issue a declaration of conformity for each product introduced to the market. Czech law specifies products that need to be certified by an accredited person before the declaration can be issued. Depending on the nature of the goods, a veterinary health certificate and/or a certificate of origin (for concessionaire customs rates, if applicable) can also be required.

G. Labeling and Marking Requirements

Labeling and marking requirements for products depend on the type of product and the intended use. In general, however, labels must be in the Czech language and can be affixed to the product or on a leaflet attached to the product. Information must include the name of the product, name of producer, country of origin, and in some cases, instructions for use. Labels for some products, such as foods, beverages, food supplements, and textiles, must also provide content/composition. In addition, international norms for warning labels on consumer products apply. Czech labeling requirements are in the process of harmonizing with EU norms; the process should be finished in

2002. Czech importers and distributors are responsible for the correct labeling of products that are put on the Czech market and can typically advise the U.S. exporter of specific requirements regarding labeling and marking.

H. Prohibited Imports

The list of prohibited imports includes certain veterinary and plant materials, freon, non-registered pharmaceuticals and chemical, biological, and nuclear weapons.

I. Export Controls

The Czech Republic adheres to international export controls and works in close cooperation with the United States and other Western countries in implementing export controls on certain sensitive technologies. U.S. export controls on items exported from the United States to the Czech Republic are generally similar to those in effect on items exported to other Western European destinations. Contact the U.S. Department of Commerce, Bureau of Export Administration, Washington, D.C. (tel.: (202) 482-2547, fax: (202) 482-3617) for details on U.S. export controls.

J. Standards

The Czech Republic has begun accession negotiations with the European Union and is in the process of harmonizing its standards based on European norms. In this regard, ISO 9000 standards are being used increasingly in the Czech Republic as evidence of high product quality. Domestically, the “Czech Made” mark is the award given to products that are judged to be of outstanding quality, environmentally friendly, and favorable to energy consumption. This award is given to Czech products that are produced by a company or entrepreneur registered in the Czech Republic, with at least 60 percent Czech content in the cost of the final product.

K. Free Trade Zones

There are 11 free trade zones established in several cities throughout the Czech Republic. Materials, components and semi-finished products are exempted from customs duties or VAT if they are exported into a free trade zone. If the goods are then used in the manufacturing or processing of a final product that is then re-exported, it is also exempted from duties or VAT. Duties and VAT are applied on the declared value of the goods if they are cleared for free circulation within the Czech Republic.

L. Membership in Free Trade Arrangements

The Czech Republic is an associate member of the European Union and has recently begun accession negotiations for full membership. The Czech Republic is also a member of the Central European Free Trade Agreement (CEFTA) and has a special customs union agreement with Slovakia.

M. Customs Contact Information

Contact: General Customs Office, Budějovická 7, 140 96 Praha 4, Česká republika; telephone: 420-2-6133-1111; fax: 420-2-6133-3850.

CHAPTER VII: INVESTMENT CLIMATE

A. Openness to Foreign Investment

An open investment climate has been a key element of the Czech Republic's economic transition. While the Czech Republic retains many hallmarks of macroeconomic stability, unfinished elements in the transition have hurt the country's short-term growth prospects, competitiveness, and company restructuring. The Czech government has started to take the steps needed to consolidate the transition to a market economy. Changes in the behavior of the real economy have been slower. The crucial role that foreign investment must play in the transition's next stage - deeper restructuring of Czech firms - should create opportunities for U.S. investors.

The Czech Republic's relatively stable political and economic environment and well-qualified labor force make it an attractive place for foreign direct investment. There have been a number of major U.S. investments since 1990 and many American firms continue to look closely at investing directly into the Czech Republic. An initial reluctance to offer an investment incentive package likely lowered the level of potential FDI inflows in the early 1990's, but in 1998 the government approved a standard package of incentives for manufacturing investments followed by law in 2000.

B. Organizational Structure of Investments

Foreign investors can, as individuals or business entities, establish sole proprietorships, joint ventures, and branch offices in the Czech Republic. In addition, the government recognizes joint-stock companies, limited liability companies, general commercial partnerships, limited commercial partnerships, partnerships limited by shares, and associations. However, in 1995, the Czech Republic imposed a Czech language requirement for trade licenses needed for most forms of business. A Czech partner can fulfill this requirement.

C. National Treatment

Legally, foreign and domestic investors are treated identically and both are subject to the same tax codes and other laws. By law, the government does not differentiate between foreign and domestic investors, or between foreign investors from different countries, and does not screen foreign investment projects other than in the banking, insurance and defense sectors. As part of its accession to the OECD, the Czech government agreed to meet (with a small number of exceptions) the OECD standards for equal treatment of foreign and domestic investors and restrictions on special investment incentives. The government does, however, evaluate all investment offers for those state enterprises still undergoing privatization.

Successive Czech governments have overcome political resistance to foreign investment in certain sensitive sectors. This opposition has come from economic nationalists as well as managers with an interest in the status quo. Examples include the petrochemical, telecommunications and brewery sectors.

D. Exempted Sectors

According to CzechInvest, the Czech agency tasked with attracting FDI, all sectors of the Czech economy are open to foreign investment. Investors in banking, financial services, insurance and broadcast media sectors must meet certain licensing requirements. Some professions, like architects, physicians, lawyers and tax advisors require memberships in their chambers. These requirements apply both to foreign and domestic investors.

E. Complaints of American Investors

Some American companies have complained of difficult conditions in their pursuit of investments in the course of the privatization process while others complain of problems in dealings with private Czech companies. Telecommunications and energy projects are often subject to intense lobbying pressure from foreign governments or domestic interests. Non-transparent or unethical practices are not uncommon at the company level. The government has placed a strong emphasis on rooting out corruption, although practical results have been slow to follow. American investors interested in starting joint ventures with or acquiring Czech firms have also experienced problems with unclear ownership and lack of information on company finances. Investors complain about the difficulty of protecting their rights through legal means such as a secured interest. In particular, investors have been frustrated by the lack of effective recourse to the court system. The slow pace of the courts is often compounded by judges' unfamiliarity with commercial cases.

Other complaints expressed by American firms seeking investment opportunities in the Czech Republic include: high corporate and employment taxes; instances of a lack of a transparent bidding process; general slowness of decision-making in the government; excessive red tape; inadequate enforcement of intellectual property rights, particularly copyrights; long delays in the privatization process, and the maintenance of higher tariffs against certain non-European goods, especially the tariff differential in aircraft, automobiles and related spare parts.

F. Conversion and Transfer Policies

The Czech crown is fully convertible for business purposes, including all trade transactions and investment transactions with two exceptions: foreigners are not allowed to purchase real estate in

the Czech Republic (the ban should be lifted by the end of 2002), and Czech citizens need (until the end of 2000) an authorization by the central bank to open bank accounts abroad.
The U.S.-Czech Bilateral Investment Treaty also guarantees repatriation of earnings from U.S. investments. As of 2000, the former 25percent tax on repatriation of profits from the Czech Republic was lowered to 15percent. This level of withholding is reduced under the terms of applicable double taxation treaties. For instance, under the U.S. treaty it is 5percent if the U.S. qualifying shareholder is a company controlling more than 10percent of the Czech entity, 15 percent otherwise. There are no administrative obstacles for removing the capital. Law permits convertibility into any currency. The average delay period for remitting investment returns meets the international standard of three working days.

G. Expropriation and Compensation

The Embassy is unaware of any expropriation of foreign investment having taken place since the 1989 Velvet Revolution. Any acquisition of property by the government is now done only for public purposes (similar to property condemnation in the United States for public works projects, for example) in a non-discriminatory manner, and in full compliance with international law. It is likely that any investors losing property due to expropriation would receive full compensation. In a recent investment dispute involving the private television station TV Nova and an American investor, the U.S. investor alleged actions taken by the Czech government were tantamount to expropriation. The issue is currently being decided by international arbitration.

Another issue of concern to foreign investors in the Czech Republic is the issue of restitution. In 1990 and 1991, the federal government of Czechoslovakia enacted various laws aimed at compensating those people whose property had been confiscated by the communist regime during the period of 1948-1989. Under the restitution laws, persons have the right to claim compensation for property taken from them by the communist government. Most claims for restitution of non-agricultural property had to be filed by October 31, 1991 and agricultural property by December 1992. There were additional open seasons for claims in 1994 and 1998 respectively but all deadlines for these claims expired on July 8, 1999. In June 2000, however, a new law to alleviate some of the property damages caused by the Holocaust was passed by the Senate. It amends the restitution laws allowing the state, subject to certain conditions, to return communal Jewish property, works of art and land illegally seized by the Nazis to entitled Jewish communities and individuals.

The legal system recognizes preserved interests in property but due to the inexperienced and overburdened courts, these rights are often slow to be enforced in practice. Because of the large number of restitution claims submitted, it is imperative that foreigners seeking to invest in the Czech Republic first ensure that they have clear title to all land and property associated with potential projects. While the process of tracing the history of property and land acquisition can be complex and time-consuming, it is the only way to ensure clear title. Title insurance is not yet offered in the Czech Republic. Investors under the privatization process are protected from restitution through the share purchase agreement, a binding contract signed with the government.

H. Dispute Settlement

The Czech Republic has a commercial code and a civil code that are based largely on the German system. The commercial code details rules pertaining to legal entities and is analogous to corporate law in the United States. The civil code deals primarily with the contractual relationships among parties. Most of these laws were promulgated under the former Czechoslovak government and when the Czech Republic was formed in 1993, the new Czech government maintained the previous commercial and civil codes. Czech law leaves lots of gray areas and due to the youth and inexperience of the Czech court system, judicial decisions may vary from court to court. Commercial disputes, particularly related to bankruptcy proceedings, tend to drag on for years. The judiciary is independent.

The largest private Czech TV station Nova is presently the subject of a high profile investment dispute between the company Central Media Enterprises (CME) and Czech businessman Vladimir Zelezny. The dispute is currently the subject of several international and domestic court cases, international arbitration under the International Chamber of Commerce Court of Arbitration and arbitration under the U.S. – Czech bilateral investment treaty.

An improved bankruptcy law remains an important structural impediment. Most observers believe the slow and uneven courts and weakness of creditors' legal standing has hampered the current bankruptcy law from acting as an effective vehicle for corporate restructuring. Members of Parliament and others have called for a bankruptcy law closer to the U. S. Chapter Eleven provisions or "London Rules" for out-of-court settlements to encourage resuscitation of troubled firms. Several law amendments, the latest in force as of May 1, 2000, have been striving to address these concerns. Presently, there is a three to four-year backlog in the bankruptcy courts and only a small secondary market for the liquidation of seized assets.

The Czech Republic is a member of the New York Convention on the Recognition and Enforcement of Arbitral Awards, and as a member of this convention, it is required to uphold arbitration awards in disputes between Czech and foreign parties. However, arbitration of disputes between two Czech corporations outside the Czech Republic is not permitted, even if the owners are foreign. With respect to U.S. or other foreign courts, the rules are less clear.

I. Performance Requirements/Incentives

In 1998 the Czech government approved a six-point package of incentives to attract investment. The incentives are offered to foreign and domestic firms that make a $10 million manufacturing investment through a newly registered company. The package includes tax breaks for up to ten years offered in two five-year periods and includes the following: duty-free imports of high-tech equipment and a 90-day deferral of value-added tax payments (VAT); potential for the creation of special customs zones; job creation benefits; training grants; opportunities to obtain low-cost land; and the possibility of additional incentives for secondary investments and production expansion. The incentive package was further enhanced by the new Act of Investment Incentives effective as of May 1, 2000, which codifies, simplifies and extends the original national incentive scheme. The investment threshold was lowered to US$5 million in regions with the unemployment rate at least 25 percent higher than the national average and investors in these regions can receive up to 200 thousand crowns (US$5,000) for each newly created job plus 35 percent of their re-qualification costs.

The Czech Republic is in compliance with WTO TRIMs notifications and there are currently no performance requirements imposed on foreign firms for establishing, maintaining, or expanding their investments, except in connection with the incentives package described above. These performance requirements generally relate to the amount of investment or hiring of employees if receiving special job-creation grants associated with the incentive package. For more information contact CzechInvest, Director Mr. Martin Jahn, phone: 420-2-9634 2501, fax: 420-2-9634 2502, address: Stepanska 15, 120 00 Prague 2, Czech Republic.

Worker's rights in foreign firms do not differ from those in other sectors of the economy. Foreign workers in the Czech Republic must obtain permits and visas in advance of their taking up employment and residence. The process of obtaining the required permits has encountered long delays with the introduction of a new foreign residence act in January 2000. The government plans to amend the law to address the problems that have surfaced with its implementation.

J. Right to Private Ownership and Establishment

The right of foreign and domestic private entities to establish and own business enterprises is guaranteed by law in the Czech Republic. Enterprises are permitted to engage in any legal activity with the exceptions noted previously concerning limitations in some sensitive sectors. Personal ownership of real estate by foreign individuals and companies is not permitted. This restriction also applies to Czech branch offices of foreign entities. Czech legal entities, including 100 percent foreign owned subsidiaries, may own real estate.

K. Protection of Property Rights

Existing legislation guarantees protection of all forms of property rights, both intellectual and physical. Mortgages exist but in spite of government subsidy programs remain limited to those with working capital or property. According to U.S. lawyers in the Czech Republic, creating and enforcing security interests remains problematic at best. Investors should be aware that protection of these rights may not be fully assured until there is stricter enforcement and improved legislation.

In the area of intellectual property rights, the Czech Republic is a signatory to the Bern, Paris, and Universal Copyright Conventions. The government has brought laws for the protection of intellectual property close to world standard, but enforcement has lagged. Legislation protects all intellectual property rights, including patents, copyrights, trademarks, and semiconductor chip layout design. Amendments to the trademark law and the copyright law have brought Czech law into broad compliance with relevant EU directives and TRIPS, with the exception of provisions governing ex parte search and seizure. Czech authorities maintain that recent changes to the civil procedure code, effective January 1, 2001, will provide for ex parte search and seizure. Recently, the Czech Republic increased copyright protection for literary works from 50 to 70 years in the law amendment effective December 1, 2000, and boosted the powers of the customs service and the Czech Commercial Inspection to seize counterfeit goods. As a result of problems with enforcement and delays in indictments and prosecutions, and due to concerns over optical media piracy, however, the U.S. Government has placed the Czech Republic on the Special 301 Watch List. The Embassy continues to work with U.S. industry and Czech government officials to improve enforcement of IPR norms.

There have been a few incidents of proprietary information being misused or, allegedly, passed on to competitors in an effort to increase the competitiveness of a tender and thus possibly raise the bids being offered. Existing legislation on general protection of private information is likely to be difficult to enforce in the courts; however, confidentiality agreements are becoming more common.

L. Transparency of the Regulatory System

The Czech Republic has largely created a free and competitive market. The basic body of legislation, which set up the framework for a free market system, is the comprehensive commercial code, which went into effect in January 1992. The new commercial code replaced approximately 80 assorted codes and regulations, and established the legal framework for most business-to-business activities. Its big amendment currently pending in the parliament brings Czech commercial law into further compliance with most European Union commercial norms; harmonization is continuing as EU membership talks proceed. Bureaucratic procedures are not sufficiently streamlined and transparent, sometimes hampering competitiveness.

Beyond the commercial code, the most significant legislation passed since 1991 affecting business practices includes the following:

1. The banking law created a legal framework for the establishment of commercial banks, which moves banking operations towards European Community standards. Two amendments to the banking code were passed in 1998 by Parliament. One amendment mandated the separation of investment and commercial banking, along the lines of the U.S. Glass—Steagal Act. The second amendment further strengthened the Central Bank supervisory authority and tightened the standards for bank management. The government in May 2000 approved a new comprehensive banking law. Among other measures, it increases the limits of insured deposits from 400,000 to 530,000 crowns, which is expected to rise to 700,000 crowns on EU accession. It also introduces insurance of foreign currency accounts and deposit certificates up to the same limit; enables joint accounts e.g. of married couples, and changes the calculation method for bank contributions to the Deposit Insurance Fund. If passed by the parliament it will enter force Jan. 1, 2001, fully harmonizing banking legislation with EU.

2. Czech tax codes are generally in line with European Union tax policies. In 1995, the government started to provide for tax write-offs of bad debts, although with considerably less generous treatment of pre-1995 debts. A key remaining bad debt issue centers on refunds or

deductions for value-added tax (VAT) collected on bad debts. Wholesale companies are especially hard hit by the lack of VAT refunds because these companies collect VAT contributions for the government based on sales. The Czech government has continued its program of income tax reductions, and as of January 1, 2000, the corporate income tax was lowered from 35 percent to 31 percent, and the tax rate for the highest tax bracket for personal income tax from 40 percent to 32 percent. Employers' and employees' social insurance contributions are, respectively, 35 percent and 12.5 percent.

3. The Czech procurement law amendment which entered into force in June 2000 provides a 10 percent price advantage for domestic firms, including the Czech subsidiary or branch office of a foreign company, as well as the exclusion of foreign companies in limited instances. As the new amendment is not in compliance with EU norms, another amendment is required for EU accession.

M. Efficient Capital Markets and Portfolio Investments

Foreign investors have access to credit on the local market, and credit is generally allocated on market terms. In the recent past, however, unhealthy ownership links between investment funds spawned by voucher privatization, banks and companies led to the issuance of non-competitive loans, hurting the financial health of the banking sector. These unhealthy linkages also led to a wide dispersion of ownership patterns, and consequent unclear corporate governance structures and a lack of industrial restructuring. This, combined with the proliferation of securities markets, a lack of regulatory framework for capital markets in general and consequent numerous cases of past financial fraud, led both international and domestic investors to limit their exposure to Czech capital markets. In 1998 the government created a Securities and Exchange Commission to function as capital market watchdog. The Commission has made important strides in establishing a regulatory framework for Czech capital markets and enforcing the new rules, but its curbed authority and internal personnel difficulties have limited its effectiveness. The government has been working on a new accounting law that will harmonize with EU standards and introduce the use of international accounting standards (IAS) for consolidation of bills. Present parliamentary obstacles overcome, the new law should enter into effect in the middle of 2001 at the earliest.

The government retains majority control over the largest Czech bank, Komercni Banka, though it plans to privatize it fully in 2000. The health of the domestic banking sector remains weak as a result of the recent severe economic recession, poor payment discipline of many of the banks' clients and non-competitive loans offered in the early 1990s. The government hopes to improve the health of the sector through stricter bank oversight, privatization and improved bankruptcy laws. To March 31, 2000, the total assets of the Czech commercial banks stood at \$8.4 billion, plus \$12.6 billion of foreign currency reserves of the central bank. Classified loans amounted to 32.1 percent of total credit volume at year-end 1999.

Defenses against hostile takeovers are not designed to exclude foreign investors, nor are cross-shareholding arrangements used to discourage foreign investment through mergers and acquisition. Foreign companies have access to industry standards-setting consortia but access to legislation in the drafting stage is less transparent.

N. Corruption

The OECD anti-bribery convention was ratified in January 2000. Some of the required implementing legislation to help fight corruption more effectively through clearer definitions of “bribery” and “public official”, and increased penalties had already been approved by Parliament. Current law considers both giving and receiving bribes criminal acts, regardless of nationality. Jail sentences increased to up to eight years for officials. Bribes being criminal acts cannot be deducted from taxes. Law enforcement authorities are responsible for combating corruption.

While there has been no lack of public accusations of bribery, few cases have reached the prosecution and conviction stage. Allegations of corruption are most pervasive in connection with privatization and government procurement. An amendment to the procurement law entering into effect on June 1, 2000, and introduction of the OECD Anti-Bribery Convention should help curb illegal activities in this sphere. The Transparency International chapter in the Czech Republic has actively conducted a public information campaign through distribution of posters and engaged in numerous broadcast and print media interviews on corruption and bribery cases.

O. Bilateral Investment Agreements

The former government of Czechoslovakia signed a bilateral investment treaty with the United States, which came into effect in December 1992. This treaty was carried over by the Czech Republic. To date, 58 countries have signed and ratified similar agreements with the Czech Republic include: Australia, Austria, Belgium-Luxembourg, Canada, China, Denmark, Finland, France, Germany, Greece, Hungary, Israel, Indonesia, Italy, Kazakhstan, North and South Korea, Mongolia, Norway, Paraguay, Poland, Russia, Slovakia, South Africa, Spain, Sweden, Switzerland, Thailand and the United Kingdom. In the process of signing or ratification are agreements with Bulgaria, Costa Rica, Indonesia, Jordan, Lebanon, Mauritius, Moldavia, Pakistan, Panama, Paraguay, Salvador, Uruguay and the former Republic of Yugoslavia. A bilateral U.S. – Czech Taxation Treaty has been in force since 1993.

P. OPIC and Other Investment Insurance Programs

Finance programs of the Overseas Private Investment Corporation (OPIC), including investment insurance, have been available in the Czech Republic since 1991. Investors are urged to contact OPIC’s offices in Washington for up-to-date information regarding eligibility. The OPIC Info-Line (202) 336-8799 offers general information 24 hours a day. Application forms and detailed information may be obtained from OPIC, 1100 New York Avenue, NW, Washington D.C. 20527. The Czech Republic is also member of the Multilateral Investment Guarantee Agency (MIGA).

Q. Labor

The wide availability of educated, low-cost labor on the doorstep of the more expensive, Western European labor market is a major attraction for foreign investors, particularly those looking to invest in labor-intensive industries. Wages and benefits, which are only 10—20 percent of those in Germany, are on the rise, but it is estimated that the Czech Republic will still have lower labor costs in the year 2001 than those found in many neighboring industrialized countries. There are currently no shortages of special labor skills, though foreign investors still cite weaknesses in middle-management levels.

By law, all workers have the right to strike once mediation efforts have been exhausted, with the exception of workers in sensitive positions (nuclear power plant operators, military, police, etc.) Significant labor unrest remains rare, particularly in the private sector. Public sector unions have staged strikes, notably the rail workers' and health workers' unions, as the government tried to limit public sector wage increases. Increased labor activity has been noted in mining and steel industries due to current economic problems and steadily rising unemployment. Workers in the Czech Republic have the legal right to form and join unions of their own choosing without prior authorization. Currently, about 30 percent of the total labor force are members of some labor organization. The overall number of union members has fallen since 1991 reflecting the fact that union membership is no longer compulsory.

The Ministry of Labor and Social Affairs sets minimum wage standards. Law recommends a standard workweek of 42.5 hours, but collective bargaining has brought the actual number of hours worked to 40. Caps exist for overtime and workers are assured of at least 30 minutes of paid rest per work day plus annual leave of three to four weeks per year. This year, a new labor code was approved by the parliament to enter into force on January 1, 2001, harmonizing domestic rules with EU.

R. Foreign-Trade Zones and Free Ports

Czech Republic law permits foreign investors involved in joint ventures to take advantage of commercial or industrial customs—free zones into which goods may be imported and later exported without depositing customs duty. This duty need be paid only in the event that the goods brought into the Czech Republic are circulated in the local economy. The investment incentive package also calls for duty-free import of high tech goods and the potential to create additional foreign-trade zones.

Currently authorized foreign trade zones in the Czech Republic are: Cheb, Ostrava, Pardubice, Prague, Zlin, Trinec, Bor u Tachova, Uherske Hradiste and Hradec Kralove. Rules for operations within a commercial or industrial customs-free zone are the same as in the EU.

S. Foreign Direct Investment Statistics

According to preliminary data, provided by the Czech investment promotion agency CzechInvest, in 1990 – 1999 that the Czech Republic has attracted US$19.3 billion in FDI. Germany is the leading foreign investor with investments totaling US$5.0 billion (26.2 percent), followed by the Netherlands with US$4.6 billion (24.0 percent), Austria with US$2.3 billion

(11.8 percent) and the U.S. with US$1.7 billion (9.0 percent). Other major investors include Belgium, the UK, France, Switzerland and Slovakia. In 1999 alone, total FDI amounted to US$4.9 billion or 9.2 percent of GDP, up from US$2.6 billion in 1998 and US$1.3 billion in 1997. The sharp increase of FDI since 1998 is generally attributed to the introduction of investment incentives and currently undervalued prices of some domestic firms due to the recent recession. Government officials anticipate FDI will continue to rise, which the inflow of US$1 billion in the first quarter of 2000 confirms. By sector, in 1990 – 1999 most FDI flowed into financial services (US$3.0 billion or 15.8 percent), wholesale trade (US$2.7 billion or 13.8 percent), manufacture of non-metallic mineral products (US$1.5 billion or 8.0 percent), post and telecommunications (US$1.2 billion or 6.4 percent). Other sectors included manufacture of motor vehicles, food products and beverages, energy and retail sale. FDI stock in 1999 totaled US$16.2 billion, or 30.6 percent of GDP.

Czech direct investment abroad totaled US$878.3 million by December 1999. Principal destinations in 1999 included Slovakia (41.6 percent), followed by the British Virgin Isles (25.0 percent) and Poland (11.8 percent).

Significant foreign investors include:

U.S.

Phillip Morris (US$420 mil)
National Energy Corporation, El Paso Energy, NRG Energy (US$400 mil)
Pepsi-Cola International (US$200 mil)
Konsorcium (US$177.6 mil)
Ford Motor Company (US$115 mil)
E.M. Warburg Pincus & Co. LLC (US$110 mil)
Sensormatic Electronics Corp. (US$100 mil)
Procter & Gamble (US$109 mil)

Other

Telsource, The Netherlands/Switzerland (US$1.46 bn)
Volkswagen AG, Germany (US$900 mil +)
IOC, U.S./Netherlands/Italy (US$629 mil)
Philips, The Netherlands (US$624 mil)
AssiDoman, Sweden (US$499 mil)
Asea Brown Boveri (APP), Sweden/Switzerland (US$450 mil)
Deawoo, Korea/Austria (US$357 mil)
Primus, Belgium (US$250 mil)
Glaverbel, Belgium/Japan (US$232 mil)
Coca-Cola Amati, Australia (US$200 mil)
National Power, U.K. (US$200 mil)

T Mobil, Germany/Italy (US$183 mil)
Siemens, Germany (US$170 mil +)
Dalkia, France (US$160 mil)
Saint Cobain Group, France (US$153 mil)
Toray Industries, Japan (US$150 mil)
Continental AG, Germany, (US$150 mil)
MD Electronic, Germany (US$150 mil)
Linde A.G., Germany (US$150 mil +)
Bass International Brewers, UK (US$143 mil)
Dyckerhoff, Germany (US$104 mil)
First International Computer, Taiwan (US$100 mil)

Official data of the Czech Statistical Office, the Czech National Bank and CzechInvest agency were used as sources of information in this report.

CHAPTER VIII: TRADE AND PROJECT FINANCING

A. Banking System

Forty-two banks are currently operating in the Czech Republic, including 17 foreign banks and ten branches of foreign banks. The largest five locally incorporated banks dominate the market, with 65percent of the banking sector's overall assets.

Over the past few years, the Czech banking system has undergone extensive restructuring and privatization. While the government still retains a majority stake in the largest commercial bank, Komercni Banka, the remainder of the sector is now in private hands. The government has committed to privatizing Komercni Banka by 2001. The banking sector remains weak, with domestic banks burdened by large volumes of delinquent loans. The Czech government is looking to improve the sector's performance through further bank privatization, stricter bank oversight and simplified bankruptcy laws.

The Czech National Bank (CNB) regulates banking operations, and requires banks to meet BIS standards. In response to the weakness of the sector and the financial irregularities which characterized it in the early 1990s, the CNB, in coordination with the government, has tightened prudential requirements, introduced legislation to separate banks' investment and banking operations, and increased bank supervisory staff. Further regulatory changes are expected in the run-up toward EU accession. The national insurance deposit scheme is adequately funded and covers 90 percent of deposits valued at approximately US$12,000 in a single bank, excluding foreign currency deposits.

Regarding specific operations, some Czech commercial banks currently carry out activities in addition to traditional commercial transactions and lending, subject to the issuance of a license by the CNB. This is different from American banking practices, but closely resembles European banking law. The result of universal banking is that clients can obtain brokerage, investment advisory and underwriting services from the same institution that handles their deposits and provides them with loans.

Foreign banks and branch offices of foreign banks have increased their activity over the past several years and continue to increase their share of the total Czech-banking sector. Citibank and GE Capital have banking operations in the Czech Republic. Several U.S. investment banks also have representative offices.

Computerized banking systems are used in the Czech Republic and corporate checking accounts and debit cards are offered by foreign banks as well as by large domestic banks such as Komercni Banka and CSOB. In practice most payments are made by bank transfer, checks are rarely used. Computerized systems have helped to speed payments and transfers of funds that used to take up to a week but now have been reduced to a day for internal bank transfers and about three days for domestic transfers. In addition, transfers between the major Czech banks and large banks in the United States now usually take less than a week.

B. Foreign Exchange Controls Affecting Trade

The Czech crown is fully convertible and there are no foreign exchange controls.

C. General Financing Availability

Generally, smaller Czech firms find it difficult to arrange financing and obtain credit. Although smaller sales of U.S. goods up to about US$50,000 are common and do not present any particular problems, above this threshold many small Czech businesses cannot afford or cannot secure financing. It is hoped that the future development of more medium-sized banks in the Czech Republic will help to remedy this situation.

D. How to Finance Exports/Methods of Payment

Most Czech firms are familiar with the most common methods of international payment such as letters of credit, documentary collections, and wire transfer/cash in advance. Most would prefer not to use a letter of credit due to its high cost, especially in the case of smaller shipments. The most common methods are prepayment or partial prepayment with the balance due upon delivery or net 30-day terms. On very small shipments (under US$2,000) exporters might even consider allowing the buyer to pay by credit card, which is being used more and more frequently in the Czech Republic. To compete with European suppliers, American exporters should be willing to work with their Czech buyers to provide flexible payment terms. In this regard, the export working capital programs provided by the Small Business Administration, as well as export credit insurance offered by the Export-Import Bank, may be helpful in allowing U.S. exporters to offer more generous credit terms to their Czech customers (see below).

E. Types of Export Financing and Insurance

The U.S. Small Business Administration (SBA) has a number of programs targeted toward helping small and medium-sized companies to develop export markets. In particular, SBA offers an export working capital guarantee program, whereby SBA will guarantee up to 75 percent of a bank loan to provide working capital or a line of credit to exporters. This, in turn, can enable exporters to offer more favorable payment terms to their Czech buyers or provide working capital while export orders are being manufactured.

Contact: In Washington,
U.S. Small Business Administration
409 Third Street, SW
Washington, DC 20416
Paul Kirwin, Office of International Trade
tel.: (202) 205-6720, fax: (202) 205-7272; or call 1-800-USA-TRADE for the location of your nearest U.S. Export Assistance Center.

The U.S. Export-Import Bank (EXIM) promotes the export of U.S. goods and services through a variety of loan, guarantee, and insurance programs. All of its programs are available for the Czech Republic. EXIM can guarantee U.S. commercial bank financing for U.S. exporters and provide lines of credit to Czech buyers through major Czech banks. Its export insurance programs provide insurance coverage against the risk of default on foreign receivables.

Contacts:

Export-Import Bank of the United States
811 Vermont Ave., NW
Washington, DC 20871
tel.: (800) 565-EXIM (3946);
International Business Development Division, tel.: (202) 565-3900 fax: (202) 565-3731;
NIS/Eastern Europe, fax: (202) 565-3816; or call 1-800-USA-TRADE for the location of your nearest U.S. Export Assistance Center.

Czech Export Bank
Commercial and Marketing Department
Miroslava Hrncirova, Deputy Manager
Vodickova 34
Prague 1
tel.: (420-2) 2284-3111 fax: (420-2) 2422 6162.

The U.S. Trade and Development Agency (TDA) is an independent U.S. government agency which promotes U.S. exports for major development projects in middle-income and developing countries. TDA funds feasibility studies, consulting projects, training programs, and other planning services related to major projects. Consulting contracts funded by TDA grants must be awarded to U.S. companies. U.S. involvement in project planning helps position potential U.S. suppliers to take advantage of follow-on contracts when these projects are implemented. TDA has been very active in the Czech Republic in the environmental, telecommunications, energy, petrochemical and information management industries. CS Prague works closely with TDA and with Czech and American firms to identify potential projects.

Contact

U.S. Trade and Development Agency
Ned Cabot, Regional Director
1621 North Kent St., Suite 200
Arlington, VA 22209-2131
tel.: (703) 875-4357; fax: (703) 875-4009
e-mail: info@tda.gov.

The Overseas Private Investment Corporation (OPIC) is a self-sustaining, U.S. government agency that supports U.S. business investments in developing countries and emerging market economies. OPIC's key programs are its loan guarantees, direct loans, financing private investment funds that provide equity to businesses overseas, investment insurance against foreign political risk, and advocating the interests of the American business community overseas.

Contact

OPIC
1100 New York Ave. NW
Washington, DC 20527
OPIC Information Line: (202) 336-8799; OPIC Fax: (202) 336-8700. Website: http://www.opic.gov.

The Commodity Credit Corporation (CCC), U.S. Department of Agriculture, administers export credit guarantee programs for commercial financing of U.S. agricultural exports. The programs encourage exports to buyers in countries where credit is necessary to maintain or increase U.S. sales, but where financing may not be available without CCC guarantees. Two programs underwrite credit extended by the private banking sector in the United States to approved foreign banks using dollar-denominated, irrevocable letters of credit to pay for food and agricultural products sold to foreign buyers. The Export Credit Guarantee Program (GSM-102) covers credit terms up to three years. The Intermediate Export Credit Guarantee Program (GSM-103) covers longer credit terms up to 10 years.

Contact

Deputy Administrator, Export Credits
Foreign Agricultural Service
U.S. Department of Agriculture
AG Box 1031
Washington, DC 20250-1031

fax: 202-720-2949
Website: http://www.fas.usda.gov/info/factsheets/gsmprog.htm.
For copies of GSM program regulations, call (202) 720-3224.

F. Available Project Financing

International Finance Corporation (IFC) is a Multilateral Development Bank (part of the World Bank Group) that offers long-term financing on project finance basis. IFC invests in equity and offers loans of up to 12 years to both 100 percent Czech entities and joint ventures with foreign partners. IFC also mobilizes additional financing from commercial banks, export credit agencies and other institutions. The focus of this financing is on energy (and related environmental infrastructure), pulp and paper, telecommunications, wood processing, non-ferrous metal industries, and the steel industry.

Contacts

IFC (Washington, DC)
2121 Pennsylvania Ave. NW
Room No. F-10K-160
Washington DC 20433
Harold Rosen, Director
Central & Southern Europe
tel.: (202) 473-8841
e-mail: hrosen@ifc.org

Esteban Altschul, Senior Investment Officer
tel.: (202) 473-5336, fax: (202) 974-4314

IFC (Prague)
Husova 5
11000 Prague 1
Czech Republic.
Milos Vecera
tel.: (420-2) 2440-1402; fax: (420-2) 2440-1410
e-mail: mvecer@ifc.org.

The Multilateral Investment Guarantee Agency (MIGA) is part of the World Bank group. Its purpose is to encourage foreign direct investment in developing countries by providing investors with political risk insurance. Like its counterpart OPIC, MIGA provides insurance to cover the risk of currency transfer, expropriation, war, and civil disturbance, and breach of contract by the host government. The Czech Republic is a member of MIGA.

Contacts In Washington,
Multilateral Investment Guarantee Agency

1800 G Street, NW
12th Floor
Washington, DC 20433
Mr. Roger Pruneau, Vice President, Guarantees
tel.: (202) 473-6168
Stine Andresen, Manager: Eastern Europe
tel.: (202) 473-6157, fax: (202) 522-2630.

The European Bank for Reconstruction and Development (EBRD) was set up to promote private and entrepreneurial initiatives in the Central and Eastern European countries. EBRD supports private sector development, environmental cleanup, and infrastructure development. Like the IFC, EBRD can either work independently, or arrange co-financing packages in conjunction with other multilateral government and private institutions. U.S. companies are eligible to compete and bid on all EBRD-financed projects. Foreign joint ventures are one of the EBRD's main vehicles for financing.

Contacts: In London,
Office of the U.S. Director
European Bank for Reconstruction and Development
One Exchange Square
London EC2A 2JN
England
Gene R. Harris, Senior Commercial Officer
tel.: (+44-171) 588-4027/28, fax: (+44-171) 588-4026
e-mail: gene.harris@mail.doc.gov
Alain Pilloux, Director, PCSB Team London HQ
tel.: (+44-171) 338-6561, fax: (+44-171) 338-7199.

In Prague,
Karlova 27
110 00 Praha 1
Czech Republic
Jacob Sadilek, Director
tel.: (420-2) 2423-9070, fax: (420-2) 2423-3077.

European Union (EU), PHARE, The EU's PHARE program in the Czech Republic focuses on assisting preparation for European Union membership. PHARE funding is being used to help promote democratic institutions (cca 2 percent); help promote a functioning market economy, including infrastructure (cca 70 percent); and help in adoption and implementation of EC legislation, including strengthening of public administration (cca 28 percent).

Contacts

In Brussels,

European Commission
200 Rue de la Loi
1049 Bruxelles
Mr. Ruud van Enk, DG IA
tel.: (32-2) 2995 071, fax: (32-2) 2957-502.

In Prague,
Pod Hradbami 17
P.O. Box 292
160 41 Praha 6
Czech Republic
Stephen Collins, Head of Investment Section, Delegation of the European Commission
tel.: (420-2) 2431-2835, fax (420-2) 2431-2850
e-mail: archiv@delcze.cec.eu.int.

G. List of Banks with Correspondent U.S. Banking Arrangements

Ceskoslovenska obchodni banka (CSOB)
Ms. Jana Svabenska, International Financing
Na prikope 14
115 20 Praha 1
Tel.: (420-2) 2411-1111
Fax: (420-2) 2422-5049

Citibank
Mr. William Rocca, Corporate Finance (no personal banking)
Evropska 178
160 00 Praha 6
Tel.: (420-2) 2430-4111
Fax: (420-2) 2430-4613
Komercni banka
Ing. Hana Mitkovova, International Financing
Na prikope 33
114 07 Praha 1
Tel.: (420 2) 2243 2109, 2243 2037,
Fax: (420-2) 2421 8377

Zivnostenska banka
Mr. Petr Merezko, Structured Finance
Na prikope 20
113 80 Praha 1

Tel.: (420-2) 2412-7204
Fax: (420-2) 2412-7273

CHAPTER IX: BUSINESS TRAVEL

A. Business Customs

Standard European business customs apply in the Czech Republic. Czechs dress much the same as U.S. business people, in standard business attire. The business custom is to be punctual – or even early - for appointments and engagements. Many Americans feel that Czech business people are not warm and friendly. This is largely due to two factors: (1) Czechs do not smile as a social signal of greeting, as Americans, Britons, and many other Westerners do, but only when they are amused or pleased. This can create a false impression in the minds of Westerners accustomed to reflex smiling as a sign of goodwill, that Czechs are cold or unfriendly. (2) Czechs are a more formal people than are Americans, and a serious demeanor is regarded as a sign of respect for the visitor and the business being transacted. Unless the Czech businessperson has had experience dealing with Americans, he or she may appear to be unfriendly and overly reserved. Titles are important, in both verbal and written address. Business partners do not usually call each other by their first names, and Czechs may be offended if their foreign visitors address them by their first names without first being invited to do so. It takes several meetings to establish a sense of rapport and a more relaxed attitude.

When scheduling meetings or events to which Czech business guests are invited, it is best to avoid Friday afternoon (and Friday morning, if possible), as many Czechs have country houses to which they travel to as early as possible on Friday. Czechs regard weekends and holidays as near-sacrosanct family time, and they avoid allowing business to intrude on this time. As is the case in much of Europe, it may be more difficult to make business appointments and contacts in the Czech Republic during the month of August and close to major holidays, such as Christmas.

Czechs appreciate being offered basic refreshments at meetings and will typically offer coffee, tea, water, juice, and cookies when they host business visitors. Business luncheons normally are more leisurely than in the United States; even if dining alone with one business contact; do not expect the lunch to be finished in less than two hours.

Working breakfasts are not common in the Czech Republic. Although the Czechs regard the custom as an amusing American oddity, they also are amenable quite often to attending, as the typical Czech working day starts earlier than in America.

B. Travel Advisories and Visas

There are no outstanding travel advisories warning against travel to the Czech Republic. While the U.S. Embassy was closed for two days in February 1999 due to a specific threat to official

U.S. facilities, Americans are not considered to be especially at risk.

In January 2000 the Czech Government implemented new legislation that changed significantly the rules for foreigners travelling to the Czech Republic. The new law affects all foreigners, including Americans. This new law will be amended by January 1, 2001 to rectify problems that have been widely noted. Among the proposed specific changes that may affect American citizens are: relaxation or elimination of some documentary requirements, extension of the period for renewal of residence permits, issuance of residence permits for children born to legal residents, and limited possibilities for change of status. It should be emphasized that until the Czech Parliament acts on the proposals, it will not be known which will receive final approval.

Between now and the implementation of amendments, it appears the Czech authorities are using some flexibility in applying the law as it presently stands. Details on what is now being required and how to apply for a visa are available from the websites of the Czech Embassy in Washington (www.czech.cz/washington), or from the Czech Interior Ministry (at www.mvcr.cz).

However, Americans are reminded that the basic provision of the law will remain. U.S. passport holders (not U.S. resident aliens or refugee document holders) may visit the Czech Republic for tourism or business without a visa for thirty days (extendable to a maximum of 90 days by application to the Foreigners Police). For this purpose, “business” is defined as consultations, negotiations, etc., but not employment reimbursed from an employer located in the Czech Republic. No extension beyond 90 days is allowed.

For stays of longer than 90 days or for purposes other than tourism/business, the new law requires any foreigner to obtain a visa in advance from a Czech Embassy or Consulate. Foreigners are no longer allowed to change their status from tourist to student or worker, or to extend their stay while still in the Czech Republic. Instead, a visa must be obtained from outside the country. The Czech Government expects that visa processing may take two or more months.

Prague and other Czech cities are very safe by U.S. standards, but visitors are encouraged to exercise common sense precautions and be particularly wary of Prague’s famously efficient pickpockets. Special caution in this regard is warranted in and around train stations and when boarding and exiting trams. When taking taxis it is recommended to agree on an estimated price with the driver in advance.

C. Holidays

January 1	New Year's Day

(Varies)	Easter Monday
May 1	Labor Day
May 8	Liberation Day
July 5	Cyril & Methodius Day
July 6	Jan Hus Day
September 28	proposed national holiday*
October 28	Czech national holiday
November 17	proposed national holiday*
December 24	Christmas Eve
December 25	Christmas Day
December 26	St. Stephen's Day

*Two new holidays approved by Czech Parliament but not, as of July 2000, signed into law by President Havel.

As is the case in much of Europe, it may be more difficult to make business appointments and contacts in the Czech Republic during the month of August and close to major holidays such as Christmas. The work - week is the standard 40 hours (Monday through Friday).

E. Business Structure

The Czech Republic's modern infrastructure supports most types of business activities. The country offers an extensive transport system; strategic geographical position; expanded communications options; wide industrial supply base; skilled, educated, cost-competitive workforce; increasing levels of English language proficiency, especially among younger workers; and absence of major health and safety concerns.

U.S. business travelers are encouraged to obtain a copy of the "Key Officers of Foreign Service Posts: A Guide for Business Representatives" available for sale by the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402; tel.: (202) 512-1800; fax: (202) 512-2250. Business travelers to the Czech Republic seeking appointments with U.S. Embassy Prague officials should contact the Commercial Section in advance. The Commercial Section can be reached by telephone at +420 2 5753 0663 or by fax at +420 2 5753 1165.

Weston Stacey, Executive Director
American Chamber of Commerce
Mala Stupartska 7
110 00 Prague 1
Tel.: (420-2) 2482-6551,2
Fax: (420-2) 2482-6082

RnDr. Zdenek Somr, President
Economic Chamber of the Czech Republic

Seifertova 22
130 00 Prague 3
Tel.: (420-2) 2409 6111,2409 6252, 2409 6204
Fax: (420-2) 2409 6221,2409 6257
hrkal@hkcr.cz

Ing. Miloslav Marcan,
Director of Department of Informatics
Ministry of Industry and Trade
Na Frantisku 32
110 15 Prague 1
Tel.: (420-2) 2485 2391, 2485 3424
Fax: (420-2) 2485 2260, 2481 1089
marcan@mpo.cz

Ing. Jiri Roudny, Director
Information Section
Ministry of Finance
Letenska 15
118 00 Prague 1
Tel.: (420-2) 5704-2150
Fax: (420-2) 5704-2449

Ing. Libor Dupal, Director of
International Relations Department
Czech Office for Standards, Metrology and Testing
Biskupsky Dvur 5
110 02 Prague 1
Tel.: (420-2) 2180-2187, 2324-430
fax: (420-2) 2324-373

Rene Samek, Director, Marketing Department
Director, Investment Projects - open
Czechinvest, Czech Agency for Foreign Investment
Stepanska 15
120 00 Prague 2
Tel.: (420-2) 96 342 5000,
Fax: (420-2) 96 342 502

Hana Lasslerova

CzechInvest, U.S. Office
Suite 918A, The Merchandise Mart
200 World Trade Center
Chicago, IL 60654
Tel: (1-312) 245-0180
Fax: (1-312) 245-0183
czechin@ais.net

Useful Internet websites:

- www.usatrade.gov – a new compendium of available market information on virtually all countries worldwide
- National Trade Databank = Market research reports, trade statistics, other trade related information from U.S. government agencies: www.stat-usa.gov.
- Central and Eastern Europe Business Information Center (CEEBIC) = Economic and commercial information, trade leads, and contacts: www.itaiep.doc.gov-eebic-ceebic.html.

CHAPTER X: ECONOMIC AND TRADE STATISTICS

Appendix A: Country Data

Population (1998):	10,289,245
Population growth rate (1998):	-1.1 percent
Religion:	Roman Catholic (39 percent)Protestant (Evangelical Church of Czech Brethren) (2 percent)No religious affiliation (40 percent)
Government system:	Parliamentary Democracy
Languages:	Czech
Sources of data:	Statistical Yearbook of the Czech Republic, Research Institute of Labor and Social Affairs.

Appendix B: Domestic Economy

	1997	1998	1999	2000

	(actual)	(actual)	(actual)	(est.)
GDP ($billions current prices)	40.42	55	53,06	51.04
Real GDP growth rate	1 %	-2.7 %	-0,21 %	2.0 %
GDP per capita ($)	3925	5500	5306	5004
State budget/GDP	29.9 %	29.8 %	32.5 %	32.8
State + municipal budget/GDP	40.4 %	37.1 %	39.9 %	40.1
Inflation	8.5 %	10.7 %	2.15 %	4
Unemployment	5.2 %	7.5 %	9.4 %	10.0
Foreign exchange reserves Czech National Bank	9.8	12.6	12.8	14.0
Average exchange rate (to $1.00)	31.71 CZK	32.27 CZK	34.6 CZK	37.42(1-5/00)
Foreign debt ($billions)	21.4	24	22.9	23.0
Debt service ratio	8.9 %	9 %	5.6 %	6.0

Sources of data: Czech National Bank, Ministry of Finance, Czech Statistical Office

Appendix C: Trade

Imports in the following table are according to country of origin, and exports are according to country of destination, in $millions, f.o.b. basis.

	1997	1998	1999	2000(1-5)
Total country exports	22,775	26,351	26,845	12,142
Total country imports	27,165	28,789	28,864	12,987
Trade deficit	-4,390	-2,438	-2,019	-842
U.S. exports (to Czech Republic)	1,029	1,082	1,178	573
U.S. imports (from Czech Republic)	586	588	655	300
U.S. trade surplus with Czech Republic	443	494	523	273

Source: CzechTrade

Appendix D: Investment Statistics

The Czech Republic has attracted US$19,252.1 million in foreign direct investment (FDI) since 1990. At the start of 1998, some of the world's best-known multinationals (including ABB, AssiDoman, Daewoo, Ford, Motorola, Nestle, Procter & Gamble, Renault, Siemens, Toray and Volkswagen) had set up operations in the Czech Republic. By the end of 1997, there were over 47,000 foreign owned or partly foreign owned companies registered in the Czech Republic. Joint ventures and greenfield investments remain the most common forms of FDI in the manufacturing sector. Major privatizations that remain include key companies in the banking sector and large, strategic industrial companies, including those in the mining sector.

Table 1. Origin of FDI in the Czech Republic: ($millions, preliminary, without reinvestments)

	1997		1998		1999		1990 - 1999	
	$	%	$	%	$	%	$	%
Germany	391.3	30.1	537.6	21.2	781.1	16.0	5,032.8	26.2
Netherlands	133.8	10.3	608.4	24.0	729.4	15.0	4,627.1	24.0
Austria	95.0	7.3	244.7	9.6	630.9	12.9	2,281.2	11.8
USA	99.2	7.6	257.8	10.2	561.5	11.5	1,740.8	9.0
Belgium	NA	NA	NA	NA	1,235.9	25.3	1,389.4	7.2
UK	196.4	15.1	337.4	13.3	168.8	3.5	848.011	4.4
France	101.8	7.8	NA	NA	162.2	3.3	838.9	4.3
Switzerland	NA	NA	NA	NA	305.4	6.3	565.8	2.9
Others	283.0	21.8	553.7	21.8	301.8	6.2	1,928.1	10.2
Total	1,300.5	100.0	2,539.6	100.0	4,877.0	100.0	19,252.1	100.00

Source: CzechInvest (June 2000)

Foreign Direct Investments in CR, 1990-1999, in total, including reinvestments and credits for 1990-1999 = $19,252.1 million (info CzechInvest June 2000).

Table 2. FDI in 1Q 2000 (US$ million) Territorial Structure:

Germany	239.8	(25 %)
Netherlands	199.2	(15 %)
Great Britain	110.6	(12 %)
USA	90.8	(10 %)
Switzerland	79.4	(6 %)
Austria	57.8	(6 %)
Luxembourg	33.3	(3 %)
Sweden	31.2	(3 %)
Others	112.7	(12 %)
TOTAL	954.8	(100.0 %)

Appendix E: U.S. & Country Contacts

Judy Rolph Ebner, Acting Senior Commercial Officer
U.S. Commercial Service
American Embassy Prague
Trziste 15, 118 01 Prague 1
Tel.: (420-2) 5753-1162
Fax: (420-2) 5753-1165

Col. Marc Neifert, Defense and Air Attaché
Defense Attaché Office
American Embassy Prague
Trziste 15, 118 01 Prague 1
Tel.: (420-2) 5753-0663
Fax: (420-2) 5753-2718

Lt. Col. Ray Cancel, Chief
Lt. Col. Jamie Harris
Office of Defense Cooperation
American Embassy Prague
Trziste 15, 118 01 Prague 1
118 01 Prague 1
Tel.: (420-2) 5753-0663
Fax: (420-2) 5753-1175

Judy Garber
Economic Officer
Political-Economic Section
American Embassy Prague
Trziste 15, 118 01 Prague 1
11801 Prague 1
Tel.: (420-2) 5753-0663
Fax: (420-2) 5753-2717

Appendix F: Market Research

Industry Sector Analysis Reports completed in FY 2000:

1. Insurance
2. Oil and Gas Storage and Transmission
3. Waste-to-Energy Equipment and Technology
4. Banking
1. Telecommunications Services
2. Transportation

Industry Sector Analysis Reports projected for FY 2001:

1. Travel and Tourism Services
2. E-Business Development
3. Specialized retailing-fashion, drugstore, DIY stores
4. Internet Services
5. Airport/Ground Support Equipment
6. Private Pension Funds
7. Electronic Components Market Overview
8. Leasing Market
9. Energy Services-Transportation, Transmission, Distributions, Marketing, Consumption incl. Services

A complete list of market research is available at www.usatrade.gov.

Appendix G: Trade Event

IBF - International Building Fair
Dates: April 24-28, 2001
Location: Brno
Industry Theme: Building Products
Contact: Jana Ruckerova

ComNet Prague 2000
Dates: May 23-25, 2001
Location: Prague, Vystaviste
Industry Theme: Telecommunications
Contact: Hana Jelinkova

Autosalonc
Dates: June 7-14, 2001
Location: Brno
Industry Theme: Car and Truck Parts and Workshop Equip.
Contact: Jana Ruckerova

International Engineering Fair
Dates: September 24-28, 2001
Location: Brno
Industry Theme: Engineering
Contact: Hana Jelinkova

ForArch
Dates: September 25-29, 2001
Location: Prague
Industry Theme: Building Products
Contact: Jana Ruckerova

Invex-Computer Fair
Dates: October 15-19, 2001
Location: Brno
Industry Theme: Computers, IT, Telecommunications
Contact: Hana Jelinkova

ENVIBRNO
Dates: October 30-November 2, 2001
Location: Brno
Industry Theme: 9th International Environmental Trade Fair
Contact: Hana Obrusnikova

MEFA
Dates: Nov. 6-9, 2001
Location: Brno
Industry Theme: Medical Equipment
Contact: Jana Ruckerova