

CZECH FOCUS

Magazine of the Association for Foreign Investment



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Association for Foreign Investment



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SERVICE OFFICE

With the aim of providing a comprehensive package of essential services to the investors that have qualified as a project and are handled by CzechInvest, the AFI opened its Service Office offering free-of-charge use of a furnished meeting room/office with internet access. The office is located at the AFI premises next door to CzechInvest thus enabling both investors and CzechInvest representatives to cooperate on a continuous basis.

WHO WE ARE

The Association for Foreign Investment represents a group of service companies with local experience that support the entry of foreign investors to the Czech Republic and offer a wide range of professional services to foreign investors entering the local market.

Thanks to direct and long-term experience with local conditions followed by proven successful performance, AFI members are entitled to be the helping hand to foreign investors.



Vaclav Petricek, Deputy Minister of Industry and Trade, Milan Urban, Minister of Industry and Trade and Martin Jahn, former Deputy Prime Minister talking to representatives of AFI members and Partners



Francis Uytendaele, ExxonMobil and Arnaud de la Hossaye, Komerční pojišťovna

WHAT WE DO

The chief aim of the AFI is to ensure that foreign investors' entry into the Czech market is as smooth and easy as possible. Consultants from the AFI group are experts in the field of advisory services, consultancy, project services, inspection and studies with specific specializations.

They provide information in this field so both potential as well as existing investors have the best conditions for their objectives.

AFI & CZECHINVEST

The common aim of both organizations is to create awareness of the Czech Republic as a good location for investment and to participate in cultivation of the investment environment. CzechInvest conducts a host of marketing and PR activities thanks to the support of the AFI. Besides this support, AFI members offer investors further relevant services that go beyond the framework of CzechInvest's assistance.

AFI MEMBERS:

- ABB Lummus Global
- ABL
- Accord Group
- ADECCO
- Advokátní kancelář Pokorný, Wagner & spol.
- Allen & Overy, Praha Advokátní kancelář
- ALPHA MANAGEMENT CONSULTANTS
- American Appraisal
- ARCADIS Project Management
- ASB Prague
- ATELIER TSUNAMI
- AYS Placement & Workshops
- B.I.G.
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- SOPHIA, tlumočnické a překladatelské služby
- TACOMA Consulting
- Tebodin Czech Republic
- Technoprojekt
- TMF Czech
- Trenkwalder KAPPA people
- Weinhold Legal
- WHITE & CASE

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INVESTOR'S CALENDAR

May - June 2006

May

- 3. - 5. 5. 2006** EBACE 2006, Trade Fair, Geneva, Switzerland
- 3. - 7. 5. 2006** Metaltech Malaysia, Trade Fair, Kuala Lumpur, Malaysia
- 4. - 5. 5. 2006** ICT Expo 2006, Trade Fair, Dublin, Ireland
- 9. 5. 2006** Doing Business in the Czech Republic, Investment Seminar, Antwerp, Belgium
- 9. - 10. 5. 2006** Shared Services Week, Conference, Amsterdam, the Netherlands
- 9. - 10. 5. 2006** Automobilforum, Conference, Stuttgart, Germany
- 9. - 11. 5. 2006** Semicon Singapore, Trade Fair, Singapore
- 15. - 16. 5. 2006** Outsourcing and Shared Services, Conference, Frankfurt, Germany
- 15. - 17. 5. 2006** Czech Science and Technology Days, Conference, Prague, Czech Republic
- 15. - 19. 5. 2006** MACH & Subcon, Trade Fair, Birmingham, UK
- 22. 5. 2006** WSF Investment Seminar, Frankfurt, Germany

June

- 7. - 9. 6. 2006** La Baule, Conference, France
- 14. - 16. 6. 2006** IDC IT Forum & Expo 2006, Trade Fair, Boston, MA, USA
- 19. - 22. 6. 2006** BioLogic Europe, Conference, Amsterdam, the Netherlands
- 20. - 24. 6. 2006** METAV Dusseldorf, Trade Fair, Dusseldorf, Germany
- 28. 6. 2006** Investment Seminar, Dusseldorf, Germany



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of the Ministry of Industry and Trade.

Dear readers,

The AFI was established ten years ago with the mission of supporting the entry of foreign investors into the Czech Republic and providing them with professional services at a level comparable with the quality to which they were and are accustomed in their home countries.

When the AFI was established in 1996, the Czech Republic, unlike Hungary and Poland, did not have any complete incentives system and in that year CzechInvest registered only six investors that took on the role of real pioneers by deciding to build their production plants on greenfields in our country. In 1999, upon launch of the incentives system, the number of projects rose to 24, in 2003 to 64 and finally last year it reached a record 154 projects.

Certainly, this success is not only due to the incentives. We can also list the country's qualified and relatively inexpensive labour supply, geographical location, and stable democracy among the main advantages of the Czech Republic, although precise analysis of the importance of these individual factors is impossible. I believe the availability of timely and reliable support in service lines represented by the AFI has many times contributed to the decision of investors to put down roots in our country.

CzechInvest has undergone fundamental development in the last ten years. After the intentionally narrow initial focus on foreign investments, today the task of the agency is to support entrepreneurial activities in the Czech Republic as a whole, which also includes supporting small and medium-sized enterprises under programs financed from the structural funds of the European Union. More recently, CzechInvest began developing programs for the support of industrial research & development.

However, the extension of the operating range of the agency does not mean any withdrawal from the support of foreign investments. For regions with high unemployment rates, besides information technologies, software development and research & development activities, the Czech Republic will still need additional "ordinary" factories such as the Hyundai plant.

Our association clearly comprehends that the era of ever-increasing inflow of FDIs and inconsistent incentives once will have been a thing of the past. The order of the day is long-term stabilisation of investors in the Czech Republic. A simple, competitive tax system, clear legislation, productive educational system and support for science and research certainly rank among the economy's cornerstones. If we do not actively assert these principles, the AFI will one day lose its *raison d'être*, because not many foreign investors will remain here.

I wish, not only personally but also for all the others that have in the past ten years set to work in the AFI, that the association will, even in coming years, continue to have a clear mission and attain satisfaction from meaningful and well-done work.

Martin Slaby
Chairman of the Steering
Committee of the AFI



Czech aerospace: Locked on target

Returning to the vanguard of competitive innovation, the Czech aerospace industry is being successfully integrated into global value chains. Both traditional Czech manufacturers and Czech-based international investors are currently participating in numerous multinational joint-projects.



EV-55 Outback is the new-generation aeroplane developed in the Czech Republic

At present, pressure from the global business environment not only increases the necessity of improving useful parameters of final products in the aerospace industry, but it also heightens demand for a shorter and more effective development cycle for new components and systems. Demand is also growing for additional capacity for the production of precisely defined series of parts or sets according to the design documentation, and also for independently designed “work packages” according to the customers’ requirements. Aerospace companies seeking to better serve customers while optimizing cost-effectiveness find that their needs related to production, sourcing, MRO and R&D can be more competitively satisfied in the Czech Republic than elsewhere.

International cooperative programs

The country’s deep-rooted aerospace tradition is evident in the fact that thousands of Czech fighter jets, commuter passenger aircraft and sport airplanes have been designed, developed, manufactured and marketed around the world over the past decades. The main competitive advantage of the Czech Republic’s aerospace industry is currently its well-established position and positive evaluation from existing customers, especially with regard to high-quality and timely deliveries for competitive prices. Substantial resources in most Czech companies are allocated for international cooperation, especially in terms of the implementation of individual subprojects (work packages) for foreign customers. Cooperative programs are proving successful for numerous Czech companies, as they employ the advantages of having a clear focus on key know-how by concentrating the resources on one central purpose while satisfying all customer requirements.

The most significant role in the area of cooperative production in the Czech Republic is played by Aero Vodochody, Letov and other, primarily engineering, firms such as Walter, PBS, Jihlavan, Strojcar, Frencken, SEKOedm, and Fimes. Great potential for Czech suppliers is represented by the expansion of activities especially in the supply chain of the EADS concern. Deliveries have also been realized or planned for Honeywell, S.A.B.C.A, Israel Aircraft Industries, Cyclone, Turkish Aircraft Industries, Vought Aircraft Industries, BAE Systems, Boeing, Piaggio Aero, SAAB, Rolls-Royce and others.

Cutting-edge aerospace engineering

Among the most significant and, by their volume, the largest programs in the medium-term view are the following joint-projects: the production program for the Sikorsky S-76C+ helicopter airframe which is partially equipped with systems produced by Aero Vodochody for the American company Sikorsky Aircraft Corporation; production of doors for Airbus, Eurocopter and Embraer aircraft by the company Letov (part of the Latécoère group); and design work performed by InterInformatics for Airbus Hamburg and Labinal.

Trends of change in the Czech aerospace industry are especially apparent in the case of the company InterInformatics. The company got its start at the beginning of the 1990s as a distributor of CAD/CAM systems and a partner of the American company Computervision. Its first large order in the aerospace industry was realized in 1996 for the Ukrainian design office Antonov. After establishing a German subsidiary in 2000, InterInformatics began cooperation with the company AirCabin, which at that time had secured orders from Airbus in the area of aircraft interiors and was later taken over directly by Airbus. Today, InterInformatics is a top-level supplier to Airbus and has become an integral part of the Airbus design office in Hamburg.

At the beginning, InterInformatics ensured for Airbus the transformation of existing 2D documentation to complex 3D digital models of its aircraft. The aim was to increase Airbus’s flexibility towards customers and their requirements for additional changes to the interiors and equipment of the aircraft. Upon negotiating and approving the technical feasibility study, the relevant detailed design documentation must be processed within the shortest possible time, which is currently the main subject of contracts between InterInformatics and Airbus. InterInformatics is currently involved in the A380, A340, and A330 programs and is preparing cooperation in the A320 program. Airbus currently outsources its engineering services to the Czech Republic in the value of approximately EUR 14 million per year, while demand for these services is experiencing year-on-year growth. Among Czech companies, InterInformatics is the dominant player in this area.

Currently, there is worldwide growth in the demand for development and production of composite components. To a large extent, this trend can be attributed to the current activities of Boeing and Airbus, which are developing new-generation aircraft that make maximum use of composites. A pronounced shift away from classic riveted construction can be expected in the future. However, Czech companies are already prepared for these changes, which can be seen in Letov’s expansion into composite components (B787 program), as well as in the activities of companies such as LA Composite, Aero Vodochody and InterInformatics in this area.

Another group of aviation manufacturers that take benefit from cooperation with Czech engineering companies is composed of top-level suppliers for leading aerospace producers, as well as manufacturers of light and mid-size aircraft facing a lack of internal design capacities. In this area, Czech companies such as Evector apply their key know-how in the field of design and construction of aircraft. They are capable of providing structural analyses and processing of the results thereof, performance of aerodynamic analyses, geometric design and design of aircraft systems from the perspective of performance, stability and maneuverability, airframe design and optimization, as well as design of individual systems.

The industry’s “ground support”

In order to continuously improve the competitiveness of Czech aerospace suppliers, CzechInvest, the Investment and Business Development Agency of the Czech Republic, has been implementing a Supplier Development Program over the past five years. The program is designed to facilitate skills development of Czech suppliers to unlock their full potential by benchmarking them against world-class performance standards. Investment incentives for manufacturing, service, repair, design and R&D centers are also in place to complement the local investment climate, which is already conducive to profitability.

What sets the Czech aerospace industry apart from others is that numerous Czech companies are able to offer comprehensive services within the overall framework of the supply chain: from design work, to prototype testing, series production and sales support. A range of Czech firms have EASA Production Organization Approval for production of civilian aerospace technology, and Design Organization Approval, which allows them to operate in the area of designing civilian aviation technology and which enhances their opportunities to participate in international production programs. It should be emphasized that there is also a very strong element of cooperation within the Czech aerospace



Aircraft monitoring system of Czech firm Speel PRAHA, s.r.o.

cluster, in which well-established and respected producers of aerospace technology, in cooperation with new, engineering-oriented firms (InterInformatics, Evektoř, Unis), are able to not only perform modernization of existing products, but can also implement completely new and complex projects for leading global companies.

Many small charter operators, especially in the United States, are still using piston-driven twin-engine airplanes. Though excellent planes in their day, most of these are already technically obsolete and can no longer satisfy the ever-increasing demands for the comfort and safety of passengers, not to mention the fact that their production ended in the first half of the 1980s. Currently, there are no modern twin-engine airplanes on the market in the price range of up to USD 2 million which would meet the needs of operators without cutting corners.

New commercial airplane being developed in the Czech Republic

An opportunity like this shouldn't be missed, which is the reason why Evektoř, with support from the Association of Aviation Manufacturers of the Czech Republic, has decided to introduce the EV-55 Outback, a new-generation multi-purpose airplane that combines the reliability and safety of a twin-engine plane with a high level of operational efficiency. The basic technical parameters are the result of an extensive marketing study conducted by Evektoř in markets around the world with emphasis on the American market.

A closer look

From the very beginning, the EV-55 Outback was conceived as a replacement for aging twin-engine planes such as the Cessna 402, Cessna 404, and Piper Navajo/Chieftain, and as a safer and higher-performance alternative to current single-engine turboprop planes. With a maximum payload of 1,824 kg and the ability to carry 9-14 passengers a distance of up to 2,200 km at a cruising speed of 408 km/h, the Outback greatly outperforms its older and even current competition. Thanks to the use of the most modern software applications and the experience of the developers, the result is a very light yet sufficiently sturdy and durable airframe that allows operation under the most adverse conditions. A large amount of composite materials are used in the airplane's construction, resulting in the lowest possible weight. The EV-55 Outback is able to operate from short airstrips and unpaved runways, as well as in extreme "hot & high" conditions. This great versatility is already being expanded with a float-seaplane version, making it possible to operate the Outback from the water. Another important criterion in the plane's design is the ergonomics of the interior space. The cockpit is equipped with a modern integrated avionics system which, together with the ergonomic placement of the control elements, decreases the workload of the pilot and thus contributes to increased safety when in flight.

Born of cooperation

The scope of the project required the involvement of almost every Czech aerospace producer from the very beginning of the Outback's development. Evektoř, the main developer and producer, was joined by, among others, Aero Vodochody (preparation of ground and flight trials, development support, design and production of assembly jigs), Avia Propeller (development and production of propellers), Jihlavan Jihlava (development and delivery of hydraulic

components), Mesit Instruments (fuel-gauge system, de-icing system, regulation of ventilation and air conditioning), and Technometra Radotín (development and delivery of the undercarriage). Research laboratories also took an active part in development – the Institute of Aerospace Engineering at the Technical University in Brno, SVUM (National Research Institute for Materials), Nuclear Research Institute Rez and the Aeronautical Research and Test Institute in Prague. The cooperation between the individual members of the consortium is a key factor in the success of the project. The EV-55 Outback project's scope and significance place it among the most important projects in the modern history of the Czech aviation industry.

A look at Czech space activities

Surprisingly rich and successful are terms that best describe the Czech contribution to space exploration. This small country in the heart of Europe has achieved a long line of space firsts and today it is reaching for more.

Small nation, large contribution

The first instruments with the "Made in Czechoslovakia" label were put to use in Earth orbit in 1969 aboard the Interkosmos-1 international scientific satellite, followed by more than two dozen Czech devices and systems launched into space in subsequent projects during the following decades. The country's first own independent satellite – MAGION (short for MAGnetosphere and IONosphere) reached its orbit in October 1978. Until 1996, measurements carried out onboard four other Magion satellites contributed to a better understanding of the sun's effect on the Earth's climate and the propagation of electromagnetic waves. In 1978, the first non-Soviet and non-American citizen to enter space was a Czech astronaut.

The number of successful Czech space activities grew with the automatically stabilized platforms on the Vega-1 and Vega-2 probes allowing accurate aiming to the studied object, which were key parts of the highly successful international robotic expeditions to Halley's comet. The platforms were later adapted to carry Earth observation equipment on the Mir space station. Proven hardware was also the basis of the Czech MIMOSA satellite (2003) with the unique MACEK micro-accelerometer (previously flown onboard the American Space Shuttle Atlantis STS-79 in 1996) and the new-generation TITUS furnace for solid material preparation in a weightless environment.



International Space Station

Czechs still onboard

Modern space research in the Czech Republic continues the long tradition. The country's relationship with the European Space Agency (ESA) entered a new phase in 2003 when the Czech Republic became the second European Cooperating State (ECS) of ESA. The related agreement allows Czech research and industry organizations to actively participate in ESA projects under the Plan for ECS (PECS) program.

At this time, eleven projects have been selected and are running with Czech partners contributing either hardware and software development or satellite data processing to the ESA projects. PECS activities are currently managed on the Czech side by the Czech Space Office.

At present, the Czech Republic is participating in the Galileo navigation satellite project and in several European scientific projects (Cluster II plasma monitoring mission, Demeter, SWARM, etc.). Innovative Czech-made solutions are also sought after overseas. In a NASA-funded project, the Gerstner Lab of the Czech Technical University in cooperation with the Institute for Human and Machine Cognition of the University of West Florida developed an algorithm for high-speed root-cause failure detection in hydrogen production equipment, applying the latest agent-based decision-making technology. Czech space-related activities may not be driven by the space race of the titans, yet they are highly acknowledged by the international scientific community for their cutting-edge, creative contributions to the human cosmic endeavor.

Robert Pilous,
Investment Development Manager, CzechInvest

(Sources: AAM, CSO, mentioned companies)



Tigers in the snow

There are many similarities between Ireland and the Czech Republic. Leaving aside both countries' shared passion for their national drinks, we share a similar history in many regards in that we have both struggled to free ourselves from the shadow of large and potentially dominating neighbours. Those who have spent some time in both countries also see a lot of similarity in the mentality of the people, particularly in their sense for humour.

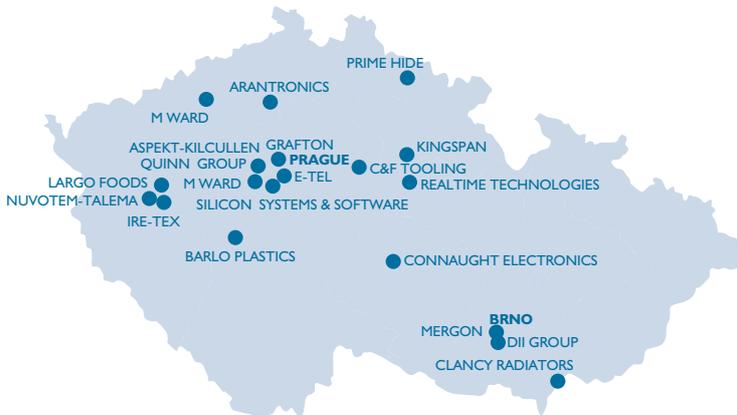
Another similarity is in the economic transformation of the countries. Ireland focused on foreign investment in the 1980s and early 1990s as a tool to help restructure its economy based on old industries (textiles, coal, steel) and agriculture. Thanks to the positive effects of foreign investment, Ireland has transformed itself from the country with the lowest GDP per capita in Europe to the one with the highest GDP per capita, in the process earning the nickname "Celtic tiger" for the rapid growth of its economy. The Czech Republic has also successfully used foreign investment to stimulate rapid and far-reaching restructuring of its economy.

Although the Czech lands can boast a longer and richer industrial tradition, much of that lead was lost during the forty years of the command economy and massive investments and know-how – both technological and managerial – were needed, a situation not dissimilar to that of Ireland in the early 1980s. A massive surge of inflow of foreign investment followed, first in the manufacturing industry and later in high-tech services – again much like in Ireland a decade earlier. When considering these similarities, it is no wonder that the Czech Republic has been a leading recipient of Irish investment in Central and Eastern Europe.

Irish investment in the Czech Republic

Considering the size of Ireland, Irish investment in the Czech Republic is surprisingly strong. While it is true Ireland does not appear on the list of top ten major investors in the Czech Republic, statistical data do not tell the whole story. More than 60 Irish companies currently have manufacturing or other facilities in the Czech Republic. Compare this with approximately 70 Swiss investors active in the country, or the estimated 450 British companies active in the Czech Republic, taking into account Britain's population of 60 million.

Selected Irish companies in the Czech Republic



One of the first-comers was the Irish entrepreneur Enda O' Coineen, whose company **Kilcullen Kapital Partners** operates nine businesses in the Czech Republic today, ranging from real estate to software development. Other investments of the 1990s include **Prime Hide**, **Barlo Plastics**, and **IRE-TEX**.

Another wave of Irish manufacturing investments started in 2000. **C&F Tooling** from County Galway set up manufacturing operations in the Czech Republic in 2001 and employs nearly 100 in the production of metal cabinets and similar products in Velim.

Mergon International established a facility in Brno in 2002 to produce technical blow-moulded components for the automotive, business equipment and power tool sectors.



New Prague offices of Silicon & Software Systems

Connaught Electronics, a manufacturer of sophisticated electronic components for the automotive industry, recently completed its first foreign manufacturing branch near Humpolec. This investment will bring the Vysočina region some 300 new jobs, mainly for college-educated technicians and operators.

Clancy Radiators is currently building a production hall in Veseli nad Moravou. Once completed, the plant will employ 50-100 in the manufacture and repair of radiators and radiator cores for tractors, buses and other motor vehicles.

OMC Scientific is planning to open a facility for repair of semiconductor production equipment in Louny this year. The facility will employ 30-50 technicians. (note: the Irish company OMC was recently acquired by Williams Advanced Materials of the USA).

Both Ireland and the Czech Republic are countries where potatoes are widely grown and consumed. It is thus not surprising that **Largo Foods**, which is perhaps better known under the brand names Perri Crisps and Hunky Dorry's, chose the Czech Republic for their first investment abroad. The plant in Tremosna near Plzen has been successful and an expansion is being planned.

The largest Irish manufacturing investor in the Czech Republic is **Kingspan**, one of the world's largest manufacturers of insulation products and building components, which has had a manufacturing plant in Hradec Kralove since 1998.

The largest Irish employer in the Czech Republic, however, must be the **M. Ward Group**, which employs more than 400 Czechs in contract manufacturing and logistics. The M. Ward Group brought a unique concept to the Czech Republic – so-called Sheltered Accommodation, a solution that offers companies a manufacturing presence in the Czech Republic without the need to invest. The companies can place their production machinery on the premises of the M. Ward Group near Most and the M. Ward Group will provide staff and take responsibility for production and delivery to customers. This concept allows companies to get started in the Czech Republic very quickly as well as to start on a small scale before they have won more contracts from Czech-based customers.

Irish companies are not just manufacturing in the Czech Republic – many are engaged in research and development here. **Silicon & Software Systems**, the leading Irish integrated-circuit design house, has been in the Czech Republic since 1998, designing chips for electronics producers based all over Europe.

Realtime Technologies, a provider of electronic manufacturing services including prototyping, inspection, testing rework and certified training to the electronics industry, has added its site in Pardubice to existing facilities in Dublin and Sunnyvale, California. **Alltracell Pharmaceuticals** outsources the development of active pharmaceutical ingredients to several teams of Czech scientists.

Several Irish companies are engaged in software development in the Czech Republic. The list of such companies includes **EuroCommerce**, **Key 6 Solutions** and **CR2** among others.

Many Irish investors are engaged in other services. The alternative operator **E-Tel** provides telecommunications and data services in the Czech Republic and five other Central European countries. Many Czechs listen to **Radio Kiss 98 FM**, owned by an Irish investor.

Prague was the site of the first overseas office of **Grafton Recruitment**, which today provides recruitment services in nearly 20 countries. Another Irish HR company, **Sigmar Recruitment**, took the same approach in 2005 and opened its first office outside of Ireland in Prague.



Given the amount of real estate development in Ireland in the past decade, it is not surprising that the Irish are very active on the Czech real estate market. Important commercial buildings including the Hilton Atrium Hotel, the Four Seasons Hotel, the Prague Stock Exchange building, Charles Square Centre and others are under Irish ownership. Ballymore Properties is undertaking a major residential development in the suburbs of Prague. Other Irish companies active on the Czech residential real estate market include the Quinn Group, the Red Group, Lexus, Simply Mortgages and M&M Developments.

Cooperation, not competition

There has been discussion as to whether the admission of countries such as the Czech Republic into the European Union will mean competition for Irish businesses. The reality is that Ireland's situation as an island located on the very western edge of the EU makes it difficult for some Irish businesses to compete with their continental rivals. The Czech Republic offers Irish companies the possibility to set up subsidiaries in the centre of continental Europe in order to supply customers who cannot be supplied efficiently directly from Ireland due to transport costs and/or time requirements.

Rapidly expanding markets in Central and Eastern Europe offer Irish companies numerous opportunities. Travel is more convenient than ever before as there are direct flights to Prague from Dublin, Cork and Belfast and there are no barriers to trade, investment and movement of labour. With the experience gained in their fast-growing home market, Irish companies hold an advantage in the Czech Republic, which in many ways resembles Ireland of only a few years ago.

*Rene Samek, Director
Investment and Applied Research Division
CzechInvest*

Irish investors in the Czech Republic

company	sector
Manufacturing	
Kingspan Group	Building materials
M Ward Manufacturing	Electronics/plastics/assembly
Nuvotem-Talema	Toroidal transformers
Barlo Plastics	Plastics
Connaught Electronics	Electronics
C&F Tooling	Metal cabinets for telecoms
Mergon	Plastics
Largo Foods/Perri Crisps	Food – potato crisps
IRE-TEX	Textiles
Arantronics TEO	Cable assembly
Prime Hide	Leather
Realtime Technologies	Electronics
ELC Laser	Precision engineering
Services *	
E-Tel	Telecommunications
Grafton Recruitment	Recruitment
Radio Kiss	Radio
Silicon & Software Systems	Design of chips for electronics
Aspekt Kilcullen	Information services
EuroCommerce	Software development

* retail, leisure, consulting services and real estate not included

Czech-Irish connections – did you know that

- Irish Franciscan monks set up a monastery in Prague in the 17th century. The street on which the monastery was situated is still called Hybernaska to this day, which comes from Hibernia, the Latin name for Ireland.
- Legend has it that the Irish Franciscans also introduced the potato to the Czech lands. The potato has been a staple food in both countries ever since.
- The Czechs introduced modern production methods into the sugar-processing industry in Carlow, Tuam, Mallow and Thurles in the 1920s and 1930s.
- After World War II, Czech craftsmen trained apprentices in the Waterford glassworks. Miroslav Havel of the Czech Republic was one such master craftsman who, during his 41 years of dedicated service with Waterford Crystal, created such famous cuts as Lismore, Colleen and Kildare.

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Czech–Irish Business Association

www.ciba.cz

The New Labour Code

and what it means for companies and investors

The draft of the new Labour Code, which would come into force on 1 January 2007, is being discussed in the Czech Parliament. Its approval would end the long-running debate about its form. The current legislation has been valid for nearly 40 years and has been amended 47 times, as a result of which its level of transparency has suffered.



illustrative photo

The new Labour Code will henceforth be a reflection of the market economy and will create conditions for limiting the inherent equalitarianism among employees, which is a feature of the previous legislation.

The new Labour Code is the most radical single change in 40 years and is part of a “package” covering not only employment legislation but also health and safety needs (both at work and outside the work environment) and various changes to other laws which are themselves linked to the Labour Code. It was originally intended to be linked to a major revision of the Civil Code, but the latter is now unlikely to be ready for some time, so the new Labour Code therefore makes reference to the existing Civil Code.

One of the most important changes is the change of the principle of the Labour Code. Until now, the following held true: “what is not permitted is forbidden”. The new Labour Code reflects the opposite, more flexible principle, which

is common in other areas of work: “what is not forbidden is permitted.” Though this seems to be a mere splitting of hairs, it has far-reaching impact. It will enable greater liberalisation of labour relations and greater scope for employees and employers to establish specific contractual conditions.

Another new feature of the Labour Code is the introduction of the “work-time accounts” principle, which enables companies to flexibly react to changing requirements for labour corresponding to their production output. Work-time accounts can be instituted in organizations on the basis of internal regulations, or on the basis of collective agreements, which means that this principle can be established by employers where no trade unions are active. In practice, this means that if the employer has excess labour capacity in the course of a year, that employer can pay a constant wage so that in “work peaks” the working time will be longer and in the subsequent periods of lighter workloads, the employees will have more free time.

The Labour Code also introduces a general termination-notice period of two months. In cases when notice is given by the employer for specific reasons stated in Article 52 a), b) and c) – for example, relocation or shutting down of the employer’s business – there is a two-month notice period and the employee is entitled to three months’ severance pay. The current Labour Code regulates this as a three-month notice period plus two month’s severance pay in these cases. The elimination of the so-called offer obligation can be considered a positive aspect of the new Labour Code. This refers to the obligation of the employer to offer a different position to the employee who is being given notice of termination.

The new Labour Code respects the present obligations and regulations of the European Community, which the Czech Republic must fulfil based on international agreements and membership in the European Union. The rights of employee representatives (trade unions, employee committees and representatives for the area of safety and protection of health at work) are preserved. The Labour Code should have approximately the same impact on the business environment of the Czech Republic as the current legislation and should not have any negative social impact.

*Stuart Roberts
Alpha Management Consultants s.r.o.*

It is necessary to add that the association of employers would prefer an even more liberal form of the Labour Code. Employers are not satisfied with the following issues:

- Employers would like to have a greater possibility to react flexibly to market conditions by adjusting the number and structure of employees with a shorter notice period.
- Employers also criticise the preservation of the power of trade unions. If, however, we take into account that only 15.5% of all employees are organized in unions and that union membership has been falling over the longterm, this argument loses its strength.
- The first 14 days of sick leave are paid by employers. Based on the experience of Slovakia, it can be supposed that this change will lower the rate of sickness as employers will have a personal interest in preventing illness among their employees.
- There will be a wage increase for work at night and during weekends, and for stand-by regimes.

These are some of the specific changes in the new Labour Code:

- If an employee receives notice of termination due to long-term incapacitation resulting from illness, that employee shall be legally entitled to severance pay.
- Provisions on discrimination and direct references to equal treatment will be transferred from the Labour Code to a new anti-discrimination law.
- A new Act on Accident Insurance will cover work-related injuries and occupational health issues.
- The administration of travel expenses and other recoverables will now be included in the Labour Code.
- Changes in the definition of delivery of documents related to employment, including the use of e-mail, where previously only printed correspondence was acceptable.

Customs strategy prevents unwanted surprises

It is obvious that investors coming to the Czech Republic concentrate their efforts on getting their business activities started as soon as possible. This task is not easy to handle in an unknown environment and usually requires the full attention of the management. As a consequence, proceedings and costs related to the export and import of goods are not priorities. Customs issues and costs are treated as inevitable obstacles that should be paid, tolerated and “resolved by outsourcing”. This common but unfortunate “solution” often brings serious difficulties that can remain dormant for years and once they become active again may be very unpleasant and costly.

Customs planning saves time and money

To avoid unwanted surprises it is recommended that more attention be devoted to customs planning at the beginning in order to save time, costs and nerves in the future. In most cases it is feasible to outsource the handling of customs formalities to a professional customs agent; however, when doing so the following principles should always be carefully considered. First, the world-wide experience of long-term cooperation with a multinational provider of customs services does not automatically guarantee that its local entity has the expected quality and experience. Verification of references, comparison of offers and an objective selection process should always be performed.

Secondly, when selected, the customs agent should clearly understand his/her obligations and responsibilities. A plain and unambiguous definition of the scope of operations and responsibilities in a well-thought-out contract is a crucial condition for effective outsourcing of handling customs formalities and related liability. Experience shows that customs agents mostly act on behalf of the trading company but the contract leaves all responsibility for the impacts of such acts on the trading company. Companies that engage the services of a customs agent are usually not aware of this important fact and live with the delusion that their liability has been transferred to the customs agent.

The third recommendation is to demand more from customs agents. A professional firm should take responsibility for correct customs declarations, focusing mainly on factors influencing duties, such as classification, value and origin of goods. Furthermore, the customs agent should not only provide compliance procedures, but should also actively



illustrative photo

use his/her expertise and experience for the benefit of the trading company. Proposing and implementing suitable customs procedures with positive economic impact, application of simplified procedures and similar authorisations, use of paperless communication methods whenever possible, searching for possible savings in customs duties and administrative costs, etc., should be commonplace. Unfortunately, this is still a rather rare phenomenon.

How to uncover weak points

“Trust but verify!” is the final but equally important recommendation. Periodic, or at least random, verification of the customs agent’s actions and the outcomes thereof can confirm that everything is running properly, uncover weak points, and also stimulate improvement and eliminate risks.



illustrative photo

A regular customs review can either be provided by the company’s own experts or by third-party specialists. There is no doubt that prevention or timely correction of mistakes is always cheaper than the negative impacts of a post-clearance inspection carried out by customs authorities. Companies that have experienced the latter would certainly prefer to establish a customs strategy ahead of time. Fortunately, there is always time to realise that customs aspects of foreign trade offer a lot of room for improvement and savings opportunities and that such opportunities should be seized as soon as possible.

Ivona Klabouchova
Senior Manager, Tax Department, Deloitte Czech Republic

Ten Years with the AFI

On January 26 of this year roughly two hundred investors, AFI partners and members, CzechInvest managers and other guests celebrated the tenth anniversary of the Association for Foreign Investment (AFI).

For over ten years, the AFI has assisted in the cultivation of the Czech investment environment, providing support to CzechInvest in gaining foreign direct investments. A no less significant part of the AFI's activities is the provision of related services to foreign investors in the Czech Republic, for which purpose are used the services of member companies, thus bringing them the possibility to not only realise their potential, but also opening the door to dialog with other AFI members, government institutions, etc.

"The subject of this agreement is the founding of an association which through the effective cooperation of its members aids the development of the inflow of foreign investments into the Czech Republic while supporting the Czech business environment," states the AFI charter, which was signed on January 1, 1996, by the chairpersons of the nine founding companies and organizations: B.I.R.T., s.r.o. (B.I.R.T. Group), CzechInvest, Cheming, a.s., ICT Prague, s.r.o., Polytechna Consulting, a.s., Seddons, Squire, Sanders & Dempsey, Stepp, s.r.o. and Strojexport P.T.A., a.s.



Deputy Minister of Industry and Trade Robert Szurman was among the notable speakers kicking off the celebration of the tenth anniversary of the Association for Foreign Investment. Martin Jahn, the former Deputy Prime Minister for the Economy, gave a toast recalling the Association's past and expressing its hopes for the future.

On the occasion of the AFI's tenth-anniversary celebration, the Association's first chairman, Tomáš Ctibor, looked back on the beginning of the AFI's activities, when Japanese investors travelled to view an overgrown cornfield that was presented to them as a business estate. His successor, J.A. Havelka, who held the post from 1999 to 2005, reminisced that the beginnings were not at all simple, as at that time support for foreign investments was not of great interest in the Czech Republic.

One phase of the AFI's existence has reached its peak, and the Association is well-prepared to face new challenges in the future. Under the leadership of its current chairman, Martin Slabý, the AFI will primarily concentrate on placing uncompromising emphasis on maintaining its high-quality membership base, bringing the AFI and its members into constructive public discussions in order to administratively influence the economic environment of the Czech Republic, and other goals.

Since 2001, a joint project of the AFI and CzechInvest called the Partnership Programme for the Support of Foreign Direct Investments in the Czech Republic has been in place. The partners of this programme are stable companies in the Czech market, which are not indifferent to the level of the local business environment and actively support the competi-



Martin Slabý (holding an auction gavel) has been the AFI's chairman since November 2005. During the auction of premium wines, he was successfully seconded by former CzechInvest spokeswoman Jana Viskova.

tiveness and openness of the Czech economy. All partners deserve thanks for their current cooperation.

For their long-term support, thanks also goes to all current and former members of the AFI, cooperating institutions and everyone who has in any way contributed to the AFI's activities.

*Petr Chadraba
Project Manager of the AFI*

How to join the AFI

Membership in the Association can be obtained by legal entities operating in the CR whose activities mostly consist in the provision of consultancy and other services (financial, legal, economic, information systems, etc.).

Together with the application for admission, applicants for membership are required to present:

- four letters of recommendation from current members of the Association
- a current abstract from the Commercial Register or other register
- an annual report, if the applicant is legally bound to publish one
- bank statement on the applicant's financial situation
- references from two foreign or multinational clients for every main activity of the applicant
- confirmation from the tax authority that the applicant does not have any outstanding tax obligations toward state authorities. The confirmation must not be older than three months.
- abstract from the Register of Criminal Records, not older than three months, of the natural person authorized to act in the name of the company
- a minimum of three years of experience in the field the company states as its main field of activity documented by an abstract from the Commercial Register or an analogous register (for example, the Bar Association) together with a written reference confirming the three years' experience
- document demonstrating ISO certification (if the applicant cites such certification)

The application will be assessed by the AFI's Steering Committee. Upon its approval, it will be presented to the General Assembly, where it will undergo final voting by all members of the Association.

For more information, visit www.afi.cz

Partnership to Support Foreign Direct Investment to the CR



A joint project of the **Association for Foreign Investment (AFI)** and **CzechInvest**, intended for stable companies that offer highly competitive services and products, aimed at supporting a competitive investment climate in the Czech Republic and creating strong awareness about the Czech Republic abroad.



- The main aim of the project is to support the inflow of foreign direct investment to the Czech Republic, mainly by ensuring quality service for foreign investors, and to support the competitiveness of the Czech economy.
- Another aim is to create a space for communication between foreign investors, state administration and Czech companies that will lead to fulfillment of the project's main aim.
- This space is ensured by the project's activities supported by the involved Partners – CzechInvest, AFI and private companies.
- The project's main activities include a series of formal and informal gatherings with investors, award ceremonies such as **Investor of the Year, Industrial Zone of the Year and Supplier of the Year, working breakfasts with cabinet members** and other major representatives of the Czech state administration, **meetings with regional governors, seminars** and **trade fairs with specialized and other activities** in the form of sporting events, etc.



Main Partners



Partners



Supporting Partners



YOUR CZECH E-GUIDE



■ The Official Travel Site of Czech Tourism

www.czechtourism.com



■ Czech Customs Administration

www.cs.mfcr.cz



■ Association of Aviation Manufacturers of the Czech Republic

www.alv-cr.cz



■ Home in the Czech Republic – helping foreigners to find here a second home

www.en.domavcr.cz

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