U.S. DEPARTMENT OF STATE
DIPLOMACY IN ACTION

Executive Summary

The Czech Republic is a medium, open, export-driven economy. 81% of its GDP is comprised of exports – mostly from the automotive and engineering industry. Its strong dependence on foreign demand, especially from the euro zone, was highlighted in the global financial crisis of the late 2000s. However, the Czech banking sector remained relatively healthy. After recession of two years of economic contraction, estimates predict more growth in 2014, as the Czech economy begins its recovery.

In November 2012, the Czech National Bank (CNB) lowered the two-week repurchase rate – to a record low of 0.05% to address deflationary pressures. A year later, the CNB launched a foreign exchange intervention to mitigate the risk of continued deflation. Since then, the exchange rate has remained steady at about 27 Czech crowns/1 euro (as of April 2014). The Czech crown is fully convertible and all international transfers of investment-related profits and royalties can be carried out freely without delay. There is no set date for euro adoption, but the current government under Prime Minister Sobotka has demonstrated a more positive approach to EU integration than any past government.

The Czech Republic fully complies with EU law and OECD standards for the equal treatment of foreign and domestic investors. Labor laws are comparable with most developed nations, but a gap still exists between wages of Czech individuals and their neighbors in Western Europe. The U.S.-Czech Bilateral Investment Treaty provides for international arbitration of investor–state disputes. Great strides have been taken since the fall of communism to open the market to competition and privatize, but the prosecution of anti-trust violations is still less than adequate. Corruption remains a problem. The Czech Intellectual Property Rights (IPR) protections are still not optimal, but the legal framework for IPR protection has been tested and proven successful in punishing infringers. Other western concepts such as entrepreneurship and corporate social responsibility (CSR) are growing trends in the Czech business and NGO communities.

There are no general restrictions on foreign investment, although limits exist within certain sectors, for example in airport services. The Czech Republic attracts a great deal of FDI for its size, and has taken strides to diversify its traditional investments in engineering into new fields of research, development and innovative technology. In fact, EU structural funding has enabled them to open a number of world-class scientific and hi-tech centers. EU member states are the chief foreign investors in the Czech economy, but the government has signaled a desire to seek more export and investment opportunities from other non-European regions, to include the United States. The Czech Republic is a success story among former communist countries, often out-performing its fellow central and eastern European states.

1. Openness To, and Restrictions Upon, Foreign Investment

The Czech Republic is a recipient of substantial foreign direct investment (FDI). As a medium, open, export-driven economy, the Czech Republic is strongly dependent on foreign demand, especially from the euro zone. More than 80% of Czech exports go to fellow EU states, with about 60% going to the euro zone, and more than 30% to the Czech Republic's largest trading partner, Germany.   The recent global economic crisis pulled the Czech Republic into its longest historical recession and highlighted its sensitivity to economic developments in the eurozone. The 2012 Czech per capita GDP was 81 percent of the EU average. The trade balance has been positive every year since 2005, and in 2012, it achieved a surplus of about USD 7.5 billion. Exports comprise nearly 80% of the country's GDP. The main export commodities are automobiles, machinery, and computer technology.

Over the past ten years, the Czech Republic has maintained a wait-and-see approach regarding the country's entry into the eurozone. Recent economic difficulties in the eurozone have undermined public support for the Czech Republic's adoption of the euro, and previous governments have opposed setting a target date for eliminating the Czech crown and embracing the common currency. The recently appointed new center-right/center-left cabinet – led by Prime Minister Bohuslav Sobotka (CSSD) – has expressed its readiness to adopt the Fiscal Compact, a treaty committing signatories to limit their state budget deficits to 0.5% of the GDP, and subsequently to adopt the euro. This policy is fully supported by President Milos Zeman who was elected as president in the first direct election in history, in January 2013.

Some unfinished elements in the economic transition, such as the slow pace of legislative and judicial reforms, have posed obstacles to investment, competitiveness, and company restructuring. The Czech government has harmonized its laws with EU legislation and the "acquis communautaire." This effort involved positive reforms of the judicial system, civil administration, financial markets regulation, intellectual property rights protection, and many other areas important to investors.

While there have been many success stories involving American and other foreign investors, a handful have experienced problems, mainly in heavily regulated sectors of the economy, such as in the media sector. The slow pace of the courts is often compounded by judges' lack of familiarity with commercial or intellectual property cases. In the 2013 World Bank's "Ease of Doing Business" ranking, the Czech Republic ranks 75th out of 189 economies, and 98th in "Protecting Investors."

Both foreign and domestic businesses voice concerns about corruption. Other long term economic challenges include dealing with a rapidly aging population and diversifying the economy away from an over-reliance on manufacturing toward a more high-tech, services-based, knowledge economy.

Attitude Toward FDI

Since 1990, the Czech Republic has become one of the leading countries in the Central and Eastern European (CEE) region attracting most of incoming FDI. Though Poland was the leader by total volume of FDI gained, the Czech Republic and Hungary managed to achieve the highest FDI per capita ratio. While in the early years massive volumes of FDI flowed primarily into the Czech automotive, real estate, and alternative energy sectors, in 2010, the Czech Republic, together with its fellow "Visegrad Four" countries (Slovakia, Hungary, Poland) attracted 70% of all FDI headed towards development of services and R&D projects in the CEE region. FDI inflow tripled in 2012 after a sharp drop-off during the economic crisis. Though the 2013 FDI inflow data is less optimistic, recording a year-on-year decrease of about 37%, the Czech Republic has maintained a ranking in the group of the twenty most attractive targets for FDI.

Investment Trends
Originally, the Czech Republic attracted FDI mainly in the engineering industry. New, large automotive greenfield projects emerged in the northeast and central part of the country. These investments benefited especially from lower labor costs (relative to Western countries), the strong tradition of Czech engineering, as well as the convenient location in CEE.

At present, the structure of FDI is changing. FDI has begun to shift from manufacturing into other sectors, such as research and development (for example, the new ELI Beamlines laser center), strategic services, and investment projects. The Czech Republic aims to become a destination for investments with high value added, requiring less invested capital. Therefore, the Czech Republic focuses on negotiations with investors from the areas of R&D and services, to which it can offer an optimal combination of favorable investment factors, such as strategic location of the country, and highly qualified and innovative work force presenting long-term experience in numerous industrial sectors.

Other Investment Policy Reviews
The Czech Republic has had two trade policy reviews by the World Trade Organization (WTO) in March 1996 and October 2001. No trade policy review has been conducted since the Czech Republic´s entry into the EU in May 2004.

Laws/Regulations of FDI
In 2012, the Czech Parliament passed a major recodification of private law. This included the new Civil Code (effective January 1, 2014), modifications to the existing civil law, and a new regulation for business corporations – an Act on Corporations (also effective January 1, 2014).

Liability
Failure to comply with lawful standards can cause both criminal and administrative liability.

Criminal liability – related offences are included in the new Criminal Code, Act No. 40/2009 Coll., which has been in effect since January 1, 2010. The penalties include imprisonment, a ban on the activity, forfeiture, or other asset or fine.

Administrative liability covers administrative offenses committed by both individuals and legal entities (or individuals as entrepreneurs). Act No. 200/1990 Coll. on minor offenses particularly handles the regulation of individual offenses. Administrative offenses committed by legal entities are not included under one law, and the procedure is not uniformly regulated.

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.

National Treatment

Legally, foreign and domestic investors are treated identically. Both are subject to the same tax codes and laws. The government does not differentiate between foreign investors from different countries, and does not screen foreign investment projects other than in the banking, insurance and defense sectors. Upon 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 limitations on special investment incentives. The U.S.-Czech Bilateral Investment Treaty contains specific guarantees of national treatment and Most Favored Nation treatment for U.S. investors in all areas of the economy other than insurance and real estate. (See the section on the Bilateral Investment Treaty below).

Industrial Strategy

Industrial production, a key export component, has recovered from the economic downturn of the late 2000s. After a significant decline in 2009 and 2010, industrial production started to grow moderately in 2011, though only until 2012 when it dropped by 0.8%. In response to unfavorable economic conditions, the Czech government developed a new export strategy to address the damaging impact of an excessive, single-track geographical orientation of trade orientation towards Western Europe, as well as a significant dependence on the engineering industry, including automotive, and heavy and general industrial equipment. While the export strategy still includes traditional export destinations in Western Europe, it focuses on twelve additional so-called priority countries, namely Brazil, China, India, Iraq, Kazakhstan, Mexico, Russia, Serbia, Turkey, Ukraine, the United States, and Vietnam, in addition to another 25 so-called countries of interest. The strategy characterizes chemicals or chemical-technological products as new, promising export commodities.

Limits on Foreign Control

There are no general restrictions on foreign investment. Foreign individuals or entities can operate a business under the same conditions and in the same extent as Czech persons. Some sectors, such as banking, financial services, insurance, media, or trading in military equipment have certain limitations or registration requirements, and foreign entities need to register their permanent branches in the Czech Commercial Register. Some professions, such as architects, physicians, lawyers and tax advisors require membership in the appropriate professional chamber. These licensing and membership requirements apply equally to foreign and domestic investors.

Sector specific restrictions apply to potential foreign investment into the most important international airport in the Czech Republic – the International Václav Havel Prague Airport. According to the act No 69/2010 on Ownership of the Prague – Ruzyně Airport, the airport and all estates belonging to it must be owned only by the Czech state, or by legal entities registered in the Czech Republic, and fully controlled by the Czech state. Not only does the act prevent foreign investment in the airport, it prevents its privatization.

Privatization Program

According to the Ministry of Finance, as a result of several waves of privatization of formerly state-owned companies since 1989, almost 90 percent of the Czech economy is now in private hands. Privatization programs have been generally open to foreign investors. In fact, most major state-owned companies have been privatized with foreign participation. The government evaluates all investment offers for state enterprises. Many complainants have alleged non-transparent or unfair practices in connection with past or planned privatizations.

In early 2013, the Czech government approved the sale of a 44% stake in the national airline, Czech Airlines (CSA), to Korean Air. The Czech government sought a strong, non-European investor who would help CSA to further develop, and to expand the number of CSA flights to overseas destinations. The tender process met EU rules, and the final purchase conditions were subject to approval by the European Commission. The government attempted, unsuccessfully, to privatize the airline in 2009. A local private carrier, Travel Service, acquired an additional 34%stake in CSA. Czech Aeroholding, an umbrella company which includes a national group of companies operating in air transport and related services, holds a minority stake of 19.74%.

Competition Law

The Antimonopoly Office (*Urad pro ochranu hospodarske souteze*) reviews both domestic and international transactions for competition-related concerns, including fair competition, public procurement, and concessions.An Act on the Protection of Economic Competition took effect in 2001, adopting antitrust rules consistent with EU competition policy related to restrictive agreements, abuse of a dominant market position, practices disotring competition, and merger control.

TABLE 1

Measure	**Year**	**Rank or value**	**Website Address**
TI Corruption Perceptions index	2013	(57 of 177)	http://cpi.transparency.org/cpi2013/results/
Heritage Foundation’s Economic Freedom index	2014	(26 of 178)	http://www.heritage.org/index/ranking
World Bank’s Doing Business Report “Ease of Doing Business”	2013	(75 of 189)	http//doingbusiness.org/rankings
Global Innovation Index	2013	(28 of 142)	http://www.globalinnovationindex.org/content.aspx?page=gii-full-report-2013#pdfopener
World Bank GNI per capita	2012	USD 18,120	http://data.worldbank.org/indicator/NY.GNP.PCAP.CD

2. Conversion and Transfer Policies

Foreign Exchange

The Czech crown is fully convertible. Imports or exports equal to or exceeding 10,000 euros (approximately USD 13,000) in cash, travelers' checks, money orders, securities or commodities of high value (such as precious metals or stones) must be declared at the border.

The Ministry of Finance, Czech National Bank (CNB), regional and local authorities, and state funds administer the foreign exchange market. Foreign exchange authorities, the Ministry of Finance, and the CNB supervise compliance with foreign exchange regulations.

Remittance Policies
All international transfers of investment-related profits and royalties can be carried out freely and without delay.

The U.S.-Czech Bilateral Investment Treaty guarantees repatriation of earnings from U.S. investments. A 15% withholding tax is charged on repatriation of profits from the Czech Republic. This tax is reduced under the terms of applicable double taxation treaties. For instance, under the U.S. treaty, the rate is 5 percent if the U.S. qualifying shareholder is a company controlling more than 10 percent of the Czech entity, and 15 percent in other cases. There are no administrative obstacles for removing capital. The law permits conversion into any currency. The average delay for remitting investment returns meets the international standard of three working days.

Currency Manipulation
Similar to the central banks in most other developed economies, the CNB uses the managed floating exchange rate of the national currency, the Czech crown, and uses monetary policy for other purposes, such as stabilizing employment and prices. In November 2012, the CNB lowered its key interest rate – the two-week repurchase rate – to a record low of 0.05% to address deflationary pressures. After a series of verbal interventions and warnings regarding its readiness to intervene to weaken the Czech crown if inflation dipped below the 1% floor of the inflation target range, the CNB launched a foreign exchange intervention in November 2013. With interest rates at the technical zero point and excess liquidity in the banking sector, the CNB employed the only policy tool left at its disposal to prevent a slide into deflation. The CNB intervened through monetary expansion, placing a large volume of Czech crowns on the open market to weaken the crown´s value to the target exchange rate floor of 27 Czech crowns per 1 euro. The intervention is expected to last until early 2015. The CNB, however, clearly expressed its commitment to strengthen the intervention at any time to prevent the Czech crown from appreciating until inflation is closer to the 3% ceiling of the target band.

3. Expropriation and Compensation

The Embassy is unaware of any expropriation of foreign investment since 1989. Government acquisition of property is done only for public purposes in a non-discriminatory manner, and in full compliance with international law. It is unlikely that any investor losing property due to a governmental action would not receive full compensation.

In 1990 and 1991, the federal government of Czechoslovakia enacted various laws aimed at restitution and compensation to those people whose property was confiscated by the communist regime during the period of 1948-1989. Under the restitution laws, individuals have the right to claim compensation for property taken from them by the communist government. Most claims for restitution of non-agricultural property were due by October 31, 1991, and agricultural property by December 1992. There was an additional open season for claims in 1998, when the condition for permanent residency of claimants was abolished but the deadline for filing these claims was July 8, 1999. In 1994, a law was approved which allowed for restitution or compensation of Jewish private property confiscated by the Nazis in 1939-1945. The deadline for filing claims was January 1, 1995. In 2000, another law to alleviate some of the property damages suffered during the Holocaust entered into force. It amended the restitution laws allowing the state to return to entitled Jewish communities and individuals, subject to certain conditions, communal Jewish property, private works of art and land illegally seized by the Nazis. While the claims deadline for land expired in 2001, claims for art can be filed indefinitely. The Act on Church Restitution adopted in November 2012 is the final stage of the restitution process in the Czech Republic. According to the law, about 273,000 hectares of arable land and forests confiscated by the Communist regime in 1948-1989 that are in state possession shall be returned to churches. While the deadline for filing claims was December 31, 2013 and the official timeline for processing claims is 6 months, it will take much longer before all claims are settled. Many institutions are not willing to return property claimed by churches so churches will have to turn to the courts to prove their claim.

Potential investors should first ensure they have clear title to all land and property associated with potential projects. The process of tracing the history of property and land acquisition can be complex and time-consuming, but it is necessary to ensure clear title. Title insurance is still a relatively new concept in the Czech Republic. Investors participating in privatization of state-owned companies are protected from restitution claims through a binding contract signed with the government.

4. Dispute Settlement

Legal System, Specialized Courts, Judicial Independence, Judgments of Foreign Courts

The Czech commercial code and civil code are largely based on the German legal 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 contractual relationships among parties. When the Czech Republic was formed in 1993, the new Czech government maintained the previous commercial and civil codes. The laws have been extensively amended since then, but gray areas remain. The judiciary is independent, but decisions may vary from court to court.

Bankruptcy The 2007 bankruptcy law addressed important structural impediments such as the slow and uneven performance of the courts, weakness of creditors' legal standing, and the lack of provisions for corporate restructuring. According to local legal experts, the law shortened court proceedings and made them much more transparent, gave a stronger position to creditors, and incorporated some elements designed to increase efficiency.

Investment Disputes

The Czech Republic in 1993 ratified the Convention on the Settlement of Investment Disputes between States and Nationals of Other States. The U.S.-Czech Bilateral Investment Treaty provides for international arbitration of investment disputes with the state.

International Arbitration

The Czech Republic has ratified the New York Convention on the Recognition and Enforcement of Arbitral Awards. As a signatory to the latter convention, it is required to uphold binding 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. Applications for enforcement of foreign judgments can be made to the Czech courts and are determined in accordance with a bilateral recognition treaty or, if such a treaty does not exist, in a manner otherwise consistent with Czech law. Judgments rendered in other EU countries are enforceable in accordance with applicable EU regulations.

Duration of Dispute Resolution

Legal proceedings for commercial disputes can last six years or longer for the most complex cases involving multiple appeals. However, many cases reportedly are resolved within one to three years.

5. Performance Requirements and Investment Incentives

Investment Protection

The Czech Republic is a member of the Multilateral Investment Guarantee Agency (MIGA), an international organization for protection of investments, which is part of the World Bank-IMF group. The Czech Republic has signed a number of bilateral treaties supporting and protecting foreign investments, including treaties with the United States, Germany, the United Kingdom, France, Austria, Switzerland, Italy, Belgium, Luxembourg, the Netherlands, Finland, Norway, Denmark, and China. The Czech Republic has also signed numerous bilateral agreements to avoid double taxation.

Investment Incentives

The Czech Republic provides several aid programs targeting various areas of business. These programs, available to both Czech and foreign investors, are financed from EU structural funds – the operational program Enterprise and Innovation and the operational program Human Resources and Employment, in addition to the Czech Republic’s national sources provided by way of investment incentives.

Legislation effective from July 2012 expanded the group of sectors supported by incentives. The Czech Republic now offers incentives to foreign and domestic firms that invest in the manufacturing sector , technology and strategic service centers (including research and development centers), and business support service centers in software development, shared services and high-tech repairs. Standard incentive package includes relief from corporate income taxes for up to ten years, job-creation grants, re-training grants, and opportunities to obtain low-cost land. Financial grants for job-creation and/or re-training are provided to those firms operating in regions where the annual unemployment rate exceeds the national average by at least 50 percent. Strategic investments in the manufacturing or technology sectors, are eligible for potential cash grants on capital investment for up to 5% of declared cost, with a maximum of 75 million dollars (for investments in the manufacturing sector), or USD 25 million (for technology center-related investments).

For more information contact CzechInvest, at incentives@czechinvest.org, or www.czechinvest.org.

Research and Development

Over the past fifteen years, the Czech Republic's expenditure on R&D has increased from 0.95% of GDP to 1.86% (2011), making the Czech Republic a regional R&D leader. After the entry of the Czech Republic into the EU, the inflow of structural funds into the R&D sector accelerated the development of new science and technology parks. These include the **Central European** Institute of Technology in Brno, focusing on life sciences and advanced materials and technologies; the International Clinic Research Centre in Brno which is focused on cardiovascular and neurological diseases; the IT4Innovations in Ostrava, a super computer facility combining IT research and applications; and two science parks located close to the capital of Prague – the Biotechnology and Biomedicine Centre and the Extreme Light Infrastructure (ELI) Beamlines. ELI Beamlines is a high-powered laser system which will support cutting-edge research and innovations in medicine, biology, physics, and material sciences. The Lawrence Livermore National Laboratory in California will provide the Czech Academy of Sciences (Institute of Physics) with the initial laser for about $46 million, but the total project cost is listed at $340 million.

6. Right to Private Ownership and Establishment

As of early 2012, U.S. and other non-EU nationals can purchase real property, including agricultural land, in the Czech Republic without restrictions. Czech legal entities, including 100 % foreign-owned subsidiaries, may own real estate without any limitations. 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 previously noted limitations in some sensitive sectors. Laws on auditing, accounting and bankruptcy are in force. These laws include the use of international accounting standards (IAS) for consolidated corporate groups.

7. Protection of Property Rights

Existing legislation guarantees protection of all forms of property rights, both intellectual and physical. Secured interests in land (mortgages) and in personal property are permitted. Government subsidy programs are making mortgage financing more accessible, and consumers are becoming more accustomed to using both secured and unsecured forms of credit.

Real estate (land and buildings) located in the Czech Republic must be registered in the Cadastral Register, which is maintained by the Cadastral Office. The Cadastral Register is the primary source of information on real estate (including related encumbrances, easements or liens). The Cadastral Register, containing information on plots of land and buildings, housing units and non-residential premises, is publicly available and information on a particular real estate can be obtained in the form of written extract from the Cadastral Register. Transfer of an ownership title to real estate (e.g., sale and purchase agreement) is effective from a date of an execution of a written agreement and registration of the transfer of the ownership title in the Cadastral Register. The Czech Republic is ranked 37 for ease of "registering property" in the 2013 World Bank´s Doing Business Report.

Real Property

As of January 2014, the Czech Republic adopted a new Civil Code reestablishing existing principles of civil law, and introducing completely new legal concepts, especially with respect to real estate. The Commercial Code, a key piece of legislation covering commercial and business issues, was abolished on December 31, 2013. Its agenda is newly covered by two independent laws, a newly introduced Act on Commercial Corporations (covering the agenda of an operation of business entities and co-operative groups), and by updated Civil Code. Detailed provisions for mergers and time limits on decisions by the authorities on registering of companies are covered, as well as protection of creditors and minority shareholders.

About 3.5% of the total area of arable land and forests is subject to the November 2012 Act on Church Restitution. Several churches filed restitution claims until the Dec 31, 2013 deadline, and many of these claims will lead to clear title for this property in the near future.

Intellectual Property Rights

The Czech Republic is a signatory to the Bern, Paris, and Universal Copyright Conventions. In 2001, the government ratified the World Intellectual Property Organization (WIPO) Copyright Treaty and the WIPO Treaty on Performances and Phonograms. Domestic legislation protects all intellectual property rights, including patents, copyrights, trademarks, industrial designs, and utility models. Amendments to the trademark law and the copyright law have brought Czech law into compliance with relevant EU directives and WTO Trade-Related Aspects of Intellectual Property Rights (TRIPS) requirements. The civil procedure code provides for *ex parte* search and seizure in enforcement actions. Literary works enjoy copyright protection for from 50 to 70 years. The customs service and the Czech Commercial Inspection have legal authority to seize counterfeit goods. A 2006 amendment to the Law on Civil Procedure made ex-parte search more accurate, clearer and easier to apply and enforce. The amendment also made it easier to define and recover losses caused to owners by piracy. The Criminal Code which came into effect January 1, 2010, increased maximum penalties for trademark, industrial rights and copyright violations from two to eight years.

Intellectual property rights (IPR) violations at markets on the borders of Germany and Austria were once an issue of greater concern, but since 2008, Czech authorities have made substantial efforts against physical markets and have adopted an acceptable legal framework for IPR protection. In recognition of this fact, USTR removed the Czech Republic from the Special 301 Watch List in 2011. While online piracy is a growing concern, the legal framework for IPR protection has been tested and proven successful in punishing infringers. The Embassy will continue to work with U.S. industry and Czech government officials to strengthen enforcement of intellectual property rights.

For additional information about treaty obligations and points of contact at local IP offices, please see WIPO's country profiles at http://www.wipo.int/directory/en/**.**

Resources for Rights Holders:

The Embassy POC covering the IPR issues in the Czech Republic:

- **Steven R. Butler (after July 1 – Marko Velikonja)**
- **Senior Economic Officer**
- **+420 257 022 000**

Country/Economy resources:

American Chamber of Commerce (**AmCham**), address: Dušní 10, Prague 1, Postal Code: 110 00, phone: +420 222 329 430, fax: +420 222 329 433, http://www.amcham.cz/

Association for Foreign Investment, address: Stepanska 11, Prague 2, Postal Code: 120 00, phone: +420 224 911 750-1, http://afi.cz/

CzechInvest, the Investment and Business Development Agency, address: Štěpánská 15, Prague 2, Postal Code: 120 00, phone: +420 296 342 500, fax: +420 296 342 502, www.czechinvest.org

Czech Chamber of Commerce, address: Freyova 27, Prague 9, Postal Code: 190 00, phone: +420 266 721 300, fax: +420 266 721 532, http://www.komoracz.eu/

Ministry of Industry and Trade of the Czech Republic, address: Na Františku 32, Prague 1, Postal Code: 110 15, phone: +420 224 851 111, fax: +420 224 811 089, www.mpo.cz

Commercial Register, address: Vyšehradská 16, Prague 2, Postal Code: 128 10, phone: +420 221 997 111, fax: +420 224 919 927, www.justice.cz

Trade Register, www.rzp.cz

Ministry of Finance of the Czech Republic, address: Letenská 15, Prague 1, Postal Code: 118 10, phone: +420 257 041 111, www.mfcr.cz

Czech National Bank, postal address: Na Příkopě 28, Prague 1, Postal Code: 115 03, phone: +420 224 411 111, fax: +420 412 404, filing room address: Senovážná 3, Prague 1, Postal Code: 115 03, www.cnb.cz

Ministry of Foreign Affairs of the Czech Republic, Doing Business Guide including contact information for investors: https://www.mzv.cz/beijing/cz/obchod_a_ekonomika/kdo_jsme_a_kde_nas_najdete/all_you_have_to_know_about_doing/index.html

8. Transparency of the Regulatory System

Tax, labor, environment, health and safety, and other laws generally do not distort or impede investment. Policy frameworks are consistent with a market economy. All laws and regulations are published before they enter into force. Opportunities for prior consultation on pending regulations exist, and all interested parties, including foreign entities, can participate. A biannual governmental plan of legislative and non-legislative work is available on the Internet, along with information on draft laws and regulations (often only in the Czech language). Business associations, consumer groups and other non-governmental organizations, including the American Chamber of Commerce, can submit comments on laws and regulations.
A 2014 OECD Country Economic Survey notes that, since joining the EU, the Czech Republic has made progress in improving its inconsistent competition policy and removing bureaucratic barriers that inhibit competition. The competition framework is on par with OECD best practices, but successful prosecution of cartels has rarely happened. The OECD survey is available at: http://www.oecd.org/czech/economic-survey-czech-republic.htm.

9. Efficient Capital Markets and Portfolio Investment

Money and Banking System, Hostile Takeovers
All large domestic banks belong to major European banking groups. Most operate conservatively and concentrate almost exclusively on the domestic Czech market. As a result, Czech banks remained relatively healthy throughout recent global financial crises. Results of regular banking sector stress tests repeatedly confirm outstanding form of the Czech banking sector, presenting a capital adequacy ratio exceeding 17%, and its sufficient resistance to potential shocks. As of February 28, 2014, the total assets of commercial banks stood at Czech crowns (CZK) 5.26 trillion (approximately USD 268 billion) according to the Czech National Bank (CNB). Foreign investors have access to bank credit on the local market, and credit is generally allocated on market terms. Domestic household borrowing in foreign currencies is negligible. In 2002, banks established a mechanism for sharing credit histories of borrowers.

The issue of hostile takeovers is covered by the EU Directive 2004/25/EC on Takeover Bids. The copy of this document is available at:
http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2004:142:0012:0023:EN:PDF

The Prague Stock Exchange (PSE) is small, with only 14 companies listed. The overall trade volume of stocks dropped from CZK 250.6 billion (USD 12.8 billion) in 2012 to CZK 174.7 billion (USD 8.9 billion) in 2013, with an average daily trading volume of CZK 699 million (USD 35.7 million). The PSE index (PX) weakened by 4.78 percent in 2013, contrary to index movements recorded on the European and world stock markets. The PX development trend reflected lower activity on the PSE which weakened by 0.6 percent in 2013, regardless the record high dividend per share paid (5.2%), significantly exceeding dividend yields gained on competing western stock markets.

In March 2007, the PSE created the Prague Energy Exchange (PXE) to trade electricity in the Czech Republic and Slovakia and, later, Hungary. (The Exchange's official name now is "Power Exchange Central Europe.") PXE's goal is to increase liquidity in the electricity market and create a standardized platform for trading energy.

In 1998 the government created a Securities and Exchange Commission to function as a capital market watchdog. The Commission has made important strides in establishing a regulatory framework for Czech capital markets and enforcing new rules. A new securities law was adopted in 2001 to improve regulation of brokers and dealers. In 2006, supervision over banks, capital markets, insurance houses and pension funds were combined under the umbrella of the Czech National Bank http://www.cnb.cz/en/index.html. This subsequently abolished the SEC.

10. Competition from State-Owned Enterprises

In general, SOEs act in accordance with the OECD Guidelines on Corporate Governance for SOEs. Issues of potentially conflicting interests are covered by existing Act No 159/2006 on Conflict of Interests. Proposed legislation on civil service sets measures preventing political influence over public administration, including operation of SOEs.

Private enterprises are generally allowed to compete with public enterprises under the same terms and conditions with respect to access to markets, credit, government contracts and other business operations, although there are frequent accusations that large domestic companies – including both SOEs and private firms – use their political clout and connections to gain unfair advantage. SOEs are subject to the same domestic accounting standards, rules and taxation policies as their private competitors. State-owned or majority state-owned companies are present in several (strategic) fields, including the energy, postal service, information & communication, and transport sectors. The Czech state also owns interests in two small banks, and in an insurance house. One of the banks and the insurance house are specialized in export financing; their services are available to both private sector and SOEs, under equal business conditions.

SOEs are usually structured as joint-stock companies, the corporate form most widely used in the Czech business sector for operation of business involving large investments. SOEs do not report directly to ministries but are managed by a Board of Directors (statutory body) and a Supervisory Board that generally include representatives of both the government and private sector. Like privately owned joint-stock companies, the SOEs are fully responsible for their obligations towards third parties though shareholders are not personally liable for company´s obligations. SOEs are required by law to publish an annual report and provide their accounting books, corresponding to international accounting standards (IAS) that require an independent audit for consolidated corporate groups.

Private enterprises and SOEs carry out procurement in accordance with the Act on Public Procurement No 137/2006 (http://www.portal-vz.cz/getmedia/f93961f9-8ea1-41dc-852f-154e657e791e/137-2012-AJ-KZ-_2) which is fully harmonized with the existing EU Directive No 2004/18 on Public Procurement. In harmony with the long-term efforts to secure single rules for public procurement purposes, the EU has recently adopted a reform of the public procurement policy. This includes a package of three proposals on public procurement directives, approved by the European Parliament on January 15, 2014. If they receive European Council approval, the new directives should take effect in Czech legislation within two years.

A list of state-owned or majority state-owned companies is available at: http://www.mfcr.cz/cs/verejny-sektor/hospodareni/majetek-statu/2014/akciove-spolecnosti-ovladane-cr-mf-16422.

The government does not interfere in control over private companies, nor does it operate any formally private enterprises. Legally, foreign and domestic investors are treated identically. Sector specific restrictions apply to potential foreign investment in the Prague's International Václav Havel Airport. More information is available in Section 1 of this report.

11. Corporate Social Responsibility

Corporate Social Responsibility (CSR) is a burgeoning concept in the Czech Republic. The emphasis on CSR is mainly driven by private companies, especially by international corporations with a local presence in the Czech Republic. These large companies are utilizing their knowledge, skills, and models from abroad, without encouragement from local public administration. In order to keep pace, Czech companies develop their CSR programs as well, generally motivated either by their effort to run a sustainable business or for the public relations dividends.

Public administration is slowly starting to grasp CSR. The Ministry of Industry and Trade is finalizing a National Action Plan for CSR, in coordination with NGOs and private companies with significant CSR programs. Companies are not required to publicly disclose information about their CSR activities; however, they gladly promote their efforts, for example by applying for prestigious CSR awards. Various local NGOs monitor and advise CSR programs, such as the Business Leaders Forum, Business for Society, the CSR Association, and the CSR Committee of the American Chamber of Commerce. Business for Society gives annual CSR awards to the "Top Responsible Company" in order to increase public awareness about CSR, promote and reward excellent CSR achievements, and to encourage entrepreneurship. The private sector competes for prizes in 13 various categories and the event enjoys great media attention.

OECD Guidelines for Multinational Enterprises

The Czech Republic adheres to the OECD Guidelines for Multinational Enterprises, ensured by the Director of Multilateral and Common Trade Policy Department at the Ministry of Industry and Trade.

12. Political Violence

The risk of political violence in the Czech Republic is extremely low. Two historic political changes – the "Velvet Revolution," which ended the communist era in 1989, and the division of Czechoslovakia into the Czech Republic and Slovakia in 1993 – occurred without loss of life or significant violence.

13. Corruption

Current law criminalizes both giving and receiving bribes, regardless of the perpetrator's nationality. Prison sentences for bribery or abuse of power can be as high as twelve years for officials, and police investigate bribery with tools such as wiretapping. Corruption of public officials is prosecuted on the regional level to ensure that prosecutors have specialized knowledge and avoid bias. The special Organized Crime Police Unit (UOOZ) and the Unit for Combating Corruption and Serious Financial Criminality are primarily responsible for investigating high-level corruption cases. Bribes are not tax deductible, and all anti-corruption laws apply equally to Czech and foreign investors. Criminal procedure law allows for the seizure of criminal proceeds paid or transferred to family members of corrupt officials, though their prosecutions depend on evidence.

Although the former government of Petr Necas listed the fight against corruption as its main priority, it made only limited improvements. In 2013, the government canceled the lifetime immunity of politicians, abolished anonymous bearer shares, and abandoned the practice of "losovacka" (lottery), which had allowed the government to limit the number of bidders in public procurements by drawing lots. The Necas government, however, collapsed in the wake of its own corruption scandal in June 2013.

In October 2013, the caretaker cabinet of Prime Minister Jiri Rusnok approved an anti-corruption program that applies to all governmental departments and offices that went into effect immediately. Government agencies had three months to bring themselves into compliance with the program, which included the introduction of internal codes of conduct. However, the lack of a Civil Service Act makes it difficult to enforce such codes, and impedes protection of whistleblowers and civil servants from political pressure. Many international companies have effective internal controls, ethics, and compliance programs in place to detect and prevent bribery.

Despite the anti-corruption efforts of NGOs and other concerned stakeholders, inadequate legislation on financial disclosure, weak campaign finance rules, and limited funding for investigations continues to limit the ability of authorities to root out corruption.

A law introducing criminal liability for legal entities came into effect on January 1, 2012. The government ratified the OECD anti-bribery convention in January 2000 and the UN Convention Against Corruption (UNCAC) in January 2014. According to Transparency International (TI) reports, there is little or no enforcement of the OECD convention in the Czech Republic. TI cites insufficient definition of foreign bribery offenses, jurisdictional limitations, lack of coordination between investigation and enforcement entities, inadequate whistleblower protection, and lack of awareness as the causes for this lack of enforcement.

The Czech Republic became a member of the Open Government Partnership in 2011, and in 2012 approved an Action Plan including the adoption of an Act on Civil Servants, which was supposed to lead to a system allowing freer access to information and publication of data. Yet due to the 2013 collapse of the Necas Government, none of the goals have been fulfilled.

In 2013 a new anti-corruption initiative called Reconstruction of the State was launched. This platform of 20 locally-renowned anti-corruption organizations, headed by Transparency International, Frank Bold, and Oživení, works towards strong anti-corruption reform in the Czech Republic and at the adoption of eight new pieces of anti-corruption legislation.

Despite widespread concern about corruption, U.S. companies have not been significantly deterred from investing in the Czech Republic. The most common allegations of corruption relate to public procurement and external pressures on the judiciary. An April 2012 procurement reform law lowered the threshold for application of procurement rules to contracts valued at one million Czech crowns ($50,000) for services and three million crowns ($150,000) for construction, though the Senate later amended it by raising the threshold to its previous higher level. The law requires more than one bidder for all procurements and mandates that the tender be published. The law also requires bidders to disclose more of their ownership structure in the bidding process, but it contains some exceptions to that obligation. American businesses have also cited inconsistent competition policies as an investment obstacle.

Resources to report corruption:

Contact at government agency responsible for combating corruption:

Eva Kyzourova
Department for Combating Corruption
Office of the Government
Vladislavova 4
11000 Praha 1
+420 224 002 412
sekretariat.brs@vlada.cz

Contact at "watchdog" organization:

David Ondracka
Director
Transparency International Czech Republic
Sokolovska 260/143
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ondracka@transparency.cz

14. Bilateral Investment Agreements

Several dozen countries have signed and ratified investment agreements with the Czech Republic, and some are in the process of ratification. The Czech Republic has chosen to abrogate several treaties. The full list of agreements, including ratification dates, can be found on the Ministry of Finance website: http://www.mfcr.cz/cs/legislativa/prehled-platnych-dohod/2013/prehled-platnych-dohod-o-podpore-2012-7155

Formal discussions to renegotiate the Bilateral Investment Treaty (BIT) with the United States began in September 2011 at the request of the Czech government, and these negotiations continue. The former government of Czechoslovakia signed the original BIT with the United States in 1992, and the Czech Republic adopted this treaty in 1993, after the split with Slovakia. The Czechs amended the treaty in 2003 following negotiations with the European Commission about conflicts within the EU *acquis communautaire*. A bilateral U.S.-Czech Convention on Avoidance of Double Taxation has been in force since 1993. In 2007 the U.S. and Czech governments signed a bilateral Totalization Agreement that exempts Americans working in the Czech Republic from paying into both the Czech and U.S. social security systems. The agreement entered into force on January 1, 2009. In 2013 the U.S. and Czech governments signed a Supplementary Totalization Agreement amending the original agreement to reflect new Czech legislation on health insurance.

15. 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 directly for up-to-date information regarding availability of services and 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 a member of the Multilateral Investment Guarantee Agency (MIGA).

16. Labor

The wide availability in the Czech Republic of an educated, relatively low-cost labor force on the doorstep of Western Europe has been a major attraction for foreign investors. While the wage gap continues to narrow, the income convergence process was slowed due to the recession. According to the Czech Statistical Office in November 2013, 55.4 % of Czechs from age 15-64 were employed, and the general unemployment rate was 6.7 percent. According to Eurostat, this is the fifth lowest unemployment rate in the EU. However, unemployment rates vary significantly between regions. The unemployment rate was lowest in Prague (5.1 percent) and highest in the northwestern region of Ústí nad Labem (11.5 percent).

Czech law guarantees workers' rights to form and join independent unions of their choice without authorization or excessive requirements. It permits them to conduct their activities without interference. The right to freely associate covers both citizens and foreign workers. The law also provides for collective bargaining. It prohibits anti-union discrimination and does not recognize union activity as a valid reason for dismissal. Workers in most occupations have the legal right to strike if mediation efforts fail, and they generally exercise this right.
Strikes can be restricted or prohibited in essential service sectors such as hospitals, electricity/water supply services, air traffic control, the nuclear energy sector, and oil /natural gas sectors. Members of the armed forces, prosecutors, and judges may not form trade unions or strike. The scope for collective bargaining is limited for civil servants, whose wages are regulated by law. Only trade unions may legally represent workers, including non-members.

The minimum age for employment is 15. Employment of children between the ages of 15 and 18 is subject to strict standards of safety, limitations on hours of work, and the requirement that work not interfere with education. Infringement of child labor rules is subject to fines up $100,000. The State Bureau for Labor Inspections (SBLI) effectively enforced these regulations. The SBLI has not reported any recent cases of child labor law violations.

The law provides for a 40-hour workweek, two days of rest per week, and a break of at least 30 minutes during a standard eight-hour workday. Employees are entitled to at least 20 days of paid annual leave. Employers may require up to eight hours per week of overtime to meet increased demand but not more than 150 hours of overtime in a calendar year. Additional overtime is subject to employee consent. The provisions of the labor code govern premium pay for overtime, which is equal to at least 125 percent of the average earnings.

The Ministry of Labor and Social Affairs establishes and enforces minimum wage standards. During the year the national minimum wage increased from $400 to $430 per month. By comparison, the “minimum subsistence cost,” defined as the minimum amount needed to satisfy the basic needs of a working-age adult for a month, was $110. Enforcement of the minimum wage was one of the primary objectives of SBLI inspections.

The government sets occupational health and safety standards. The labor code obliges an employer to provide safety and health protection in the workplace, maintain a safe and healthy work environment, and prevent health and safety risks.

17. Foreign Trade Zones/Free Ports

Both Czech and EU laws permit 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. Free zone treatment applies to both non-Community and Community goods, and duties need to be paid only in the event that the goods brought into the free zone are introduced into the local economy. However, since the Czech Republic has been part of the single customs territory of the European Community, and offers various exemptions on customs tariffs, the use of these 11 free-trade zones has declined.

18. Foreign Direct Investment and Foreign Portfolio Investment Statistics

TABLE 2: Key Macroeconomic data, U.S. FDI in host country/economy

	Czech Statistical Office		Eurostat		World Bank
Economic Data	Year	Amount	Year	Amount	
Czech Republic Gross Domestic Product (GDP) (***Billions** U.S. Dollars)*	2013	198.5	2013	198.5	2012: 196.4
Foreign Direct Investment	Czech National Bank (CNB)		Eurostat		Bureau of Economic Analysis, U.S. Department of Commerce

U.S. FDI in Czech Republic (*Millions U.S. Dollars, stock positions)*	2012	4,561.6	2012	4,444	2012: 6,389
Czech Republic's FDI in the United States (*Millions U.S. Dollars, stock positions)*	2012	42.9	2012	41.8	2012: 2*
Total inbound stock of FDI as % host GDP	2.51%	2013	5.4%	2012	World Bank, 2012: 5.4%

As a member of the European Union (EU), the Czech Republic is obliged to submit its national statistical data to EU´s central statistical body, Eurostat: http://epp.eurostat.ec.europa.eu/portal/page/portal/eurostat/home/
Statistical data provided by the Czech Statistical Office (the national central statistic body: http://www.czso.cz/eng/redakce.nsf/i/home) and by the Czech National Bank (the national central bank: http://www.cnb.cz/en/index.html) therefore generally match the statistics by Eurostat. Minor discrepancies between the CNB and Eurostat data can be attributed to the exchange rates used. *The Department of Commerce Data likely differs from the host country's data because it takes into account that many Czech parent companies or Czech foreign affiliates of foreign parent companies are in a net liability position toward their U.S. affiliates.

TABLE 3: Sources and Destination of FDI
Czech Republic, 2012

Direct Investment from/in Counterpart Economy Data					
From Top Five Sources/To Top Five Destinations ***(US Dollars, Millions)***					
Inward Direct Investment			**Outward Direct Investment**		
Total Inward	**136,054**	**100%**	**Total Outward**	**16,834**	**100%**
Netherlands	**39,581**	**29%**	**Netherlands**	**8,446**	**50%**
Germany	**19,206**	**14%**	**Slovak Republic**	**2,234**	**13%**
Austria	**17,648**	**13%**	**Cyprus**	**1,886**	**11%**
Luxembourg	**8,045**	**6%**	**Ireland**	**1,176**	**7%**
France	**6,752**	**5%**	**Bulgaria**	**740**	**4%**

"0" reflects amounts rounded to +/- USD 500,000.

Source: http://cdis.imf.org
The FDI statistics by the IMF are consistent with statistics by the Czech National Bank. Minor discrepancies should be attributed to the exchange rates used.

The top five sources and destinations for Czech inward and outward FDI are fellow EU member states that are already closely linked with the Czech Republic in trade relations. The predominant majority of both inward and outward direct investment flows to/from the Netherlands. In the early 1990s, the Netherlands has become a popular seat for domestic and foreign corporate businesses active in the Czech Republic. In earlier times, the main rationale for registering a business in the Netherlands related to the favorable corporate income taxes there, stimulating rapid development of offshore corporate structures in the Czech Republic. While the tax haven effect has dissipated (corporate income tax in the Czech Republic and Netherlands are nearly equal), Netherlands remains a popular country for large corporations because of a traditional and developed business ambiance, and its law enforcement rigor. Luxembourg attracts Czech businesses for the same reason. In 2013, 4,500 out of 12,000 Czech companies registered abroad resided in the Netherlands.

Among the other FDI partner countries, Cyprus offers the lowest level of corporate income tax in the EU (10%), and an exemption from tax on dividends. Nevertheless, all corporations are legally required to submit accounting books for an independent audit.

TABLE 4: Sources of Portfolio Investment
Czech Republic, 2012

Portfolio Investment Assets								
Top Five Partners (Millions, US Dollars)								
Total			**Equity Securities**			**Total Debt Securities**		
World	25,767	100%	World	10,359	100%	World	15,409	100%
Slovak Republic	3,567	14%	Luxembourg	2,735	26%	Slovak Republic	3,290	21%
Luxembourg	3,411	13%	Belgium	1,805	17%	Netherlands	2,147	14%
Austria	3,219	12%	Austria	1,592	15%	Austria	1,628	11%
Netherlands	2,328	9%	United States	905	9%	United States	1,024	7%
Belgium	2,120	8%	Ireland	438	4%	Poland	930	6%

Source: http://cpis.imf.org

19. Contact Point at Post for Public Inquiries

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- **Economic Officer**
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- **+420 257 022 000**
- **KelleyEV@state.gov**