

## V. DEVELOPMENTS IN SELECTED SECTORS

### (1) FINANCIAL SERVICES

#### (i) Banking services

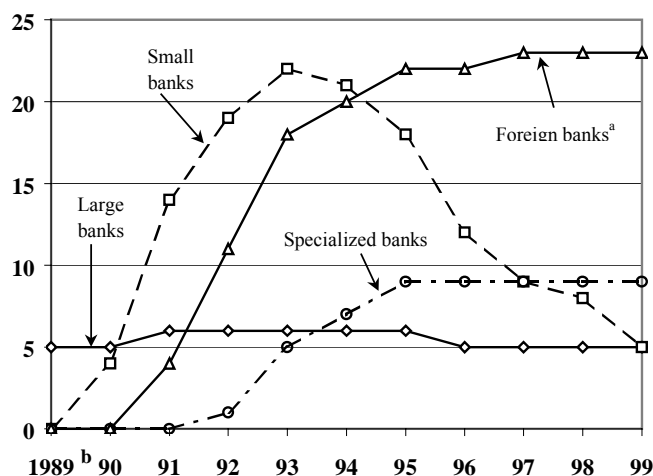
##### *The structure*

1. Competition in the Czech banking sector has increased in recent years. The number of foreign banks and branches has expanded progressively since the first foreign bank was established in 1992, with foreign banks and branches accounting for one quarter of total assets at the end of 1998 (Chart V.1). According to the authorities, foreign-controlled banks account for around 70% of total assets of the banking sector following the privatization of three large Czech banks in 1998-00.<sup>1</sup> As of 31 December 2000, there were 40 banks and foreign bank branches. The group of small banks is characterized by a high share of Czech private capital and relatively small amounts of assets. The marked rise, and subsequent fall, in the number of small banks reflects the initial relatively soft rules on bank licensing during the early transition years, followed by a significant tightening of the supervisory framework.<sup>2</sup>

**Chart V.1**

### **The Czech banking system, 1989-99**

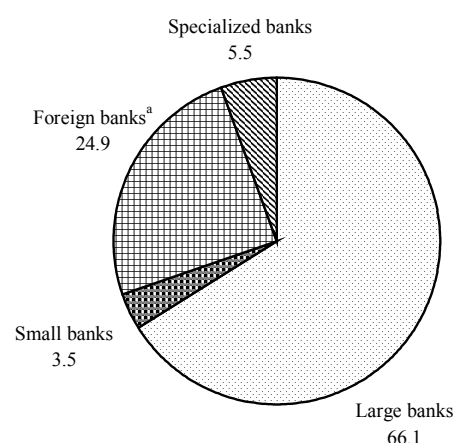
(a) Number of banks (end of year)



a Including foreign branches.

b As of 1 January 1990.

(b) Assets by type of bank, end 1998 (per cent)



Source: WTO Secretariat, based on information provided by Czech authorities; and IMF(1999), IMF Staff Country Report No.99/90.

2. The banking sector has increased over the past years. Total bank assets in 1999 amounted to the equivalent of about 140% of GDP, and bank credits to the private sector accounted for the

<sup>1</sup> The privatized banks are: Investicni A Postovni Banka (IPB), which focused on larger companies, Ceskoslovenska Obchodni Banka (CSOB), which focused on services related to foreign operations, and the savings bank Česká Spořitelna (CS).

<sup>2</sup> IMF (1999).

equivalent of around 60% of GDP. This reflects the already high level of financial intermediation at the outset of the transition, relative monetary stability since then, and absence of significant alternative financial institutions.<sup>3</sup> Nevertheless, it has been noted that the banking sector suffers from major weaknesses in the areas of asset quality (high share of classified credits) and profitability. Sources of weaknesses are said to include poor corporate governance, poor ability to assess risk, and the belief that the Czech authorities would not let the banks fail, creating an environment of moral hazard.<sup>4</sup>

*Recent efforts to strengthen the regulatory framework*

3. Bank activities in the Czech Republic are governed by Act No. 21/1992 Coll. on Banks, which contains, *inter alia*, the basic principles for granting a banking licence and provides for the structure of the bank's governing bodies, the procedure for acquiring holdings in banks, the operational requirements for banks, the basic procedures of banking supervision (including conservatorship and banking licence revocation) and the system of insurance deposits.<sup>5</sup> The Czech National Bank is in charge of banking supervision.

4. The regulatory framework for the banking sector has improved considerably during the period under review. According to the authorities, the basic direction of the reforms has been to harmonize Czech laws and regulations with those of the EU. Considerable progress has been made in the harmonization efforts. The Czech National Bank provisions are based on the international regulatory standards included in EU Directives and on the recommendations of the Basle Committee on Banking Supervision. Reforms in the period under review include, *inter alia*<sup>6</sup>:

- establishment of a framework for closer co-operation between financial-sector supervisors (Czech National Bank for banks, Ministry of Finance for insurance companies and pension funds, and the Securities Commission for the Stock Exchange and for investment funds);
- abolition of economic need test under the licensing procedure and introduction of national treatment for investors buying the shares of existing banks;
- introduction of limits on bank's ownership of investment funds and industrial companies;
- introduction of new provisioning requirements for loan losses (no longer allowed to net out the value of real estate collateral in calculating the loan loss provisions for loans that were overdue by more than 360 days). The measures were phased in over a three-year period, beginning at the end of 1998;
- as from January 2000, the Central Bank performs banking supervision on a consolidated basis (applies only to groups headed by a bank and comprising their subsidiaries and companies in which they have participating interest). The prudential rules in force until then applied only to banks and did not regulate the overall position of a bank within the framework of its group; and
- enactment of legislation bringing anti-money-laundering policy more into line with EU requirements.

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<sup>3</sup> IMF (1999).

<sup>4</sup> World Bank (1999a), Vol. 1.

<sup>5</sup> Czech National Bank (undated).

<sup>6</sup> This paragraph is based on EBRD (1999); and IMF (1999).

*Foreign investment – granting of licences*

5. The Czech banking system is generally open to foreign investment. The Central Bank began issuing licences in 1990, but it took another two years until licences for branches of foreign banks were issued. Under Act No. 21/1992 Coll. on Banks, the entry of foreign capital is allowed in the form of wholly or majority foreign owned banks and foreign bank branches. Domestic and foreign banks need an authorization from the Central Bank to establish a commercial presence in the Czech Republic. Prior approval of the Central Bank is required for foreign persons to purchase shares of existing banks in the Czech Republic.

6. The Czech Republic applies a universal banking model where banks and branches of foreign banks may carry on both commercial and investment banking activities. Banks are allowed to internalize, through their subsidiaries, the businesses in the area of insurance, investment funds, and pension funds. On the other hand, a bank may not perform control (defined in accordance with EU Directive 89/646/EEC) over a legal entity other than banks, financial institutions or enterprises of auxiliary services. Banks are also allowed to invest in non-financial companies as long as a bank's qualifying holding (defined in accordance with EU Directive 89/646/EEC) in such a legal entity does not exceed 15% of the bank's capital in a single legal entity, or a total of 60% of the bank's capital in the sum of all legal entities.<sup>7</sup> In the WTO negotiations on financial services the Czech Republic committed to relax foreign exchange licensing requirements, and to remove restrictions on deposit of foreign exchange assets. As of 1 January 2001, all foreign exchange operations are free, except those concerning the acquisition of real estate by foreigners.

*Bank restructuring - recent reforms and challenges ahead*

7. Progress has been made in improving the health of the small banks as well as privatizing some large state-owned banks, but the cost of bank assistance has been substantial. In response to poor asset quality in the small banking sector, the central bank implemented in 1996-97 a programme of supervisory actions designed to encourage the banks to improve their situation (Consolidation Program II).<sup>8</sup> As a result, several small banks were liquidated, merged or went into bankruptcy.<sup>9</sup> To further address weaknesses in small banks, the Government approved in October 1996 a large-scale restructuring programme (Stabilization Program). As part of the programme, a government institution bought poor quality assets of the banks at book value. Liquidity crisis in the banks were also solved through loans as well as an increased coverage of the deposit insurance scheme. The cost of bank assistance during the period 1991-98 was estimated at the equivalent of 10.5% of GDP.

8. Bank privatization has accelerated significantly in recent years. Three large state-owned banks (IPB in 1998, CSOB in 1999 and CS in 2000) have been successfully privatized to strategic foreign investors, increasing foreign share of total banking assets to 70%. The last remaining state-owned commercial bank, KB, is to be privatized in the second half of 2001.

9. A looming problem for the sector is the large share of non-performing loans in the total volume of credits, which has been fluctuating around 20% since 1997. The problem is concentrated in large banks. Since its establishment in 1991, the KOB (Konsolidační banka) has acted as an institution for the management of assumed and purchased assets. It has undertaken several restructuring operations and, more recently, facilitated the privatization of large state banks as it took over a major portion of their bad debts. The volume of KOB's bad assets represented some 15% of

<sup>7</sup> World Bank (1999a), Vol. 2.

<sup>8</sup> Consolidation Program I, implemented in 1991-93, was aimed at cleaning up the portfolios of former state-owned banks/organizations.

<sup>9</sup> World Bank (1999a), Vol. 1.

GDP by end-1999, a figure that could increase to about 20%.<sup>10</sup> The situation may be aggravated by the fact that the KOB is also a development bank with commercial banking and deposit-taking functions. The authorities' efforts to dispose of the non-performing loans include sales, bankruptcy proceedings, court settlements, and claim capitalization.<sup>11</sup>

10. A related area of reform is the legal framework for bankruptcy. Weaknesses in the bankruptcy legal framework (such as delays in the bankruptcy process) have discouraged banks from implementing bankruptcy proceedings against many insolvent enterprises (Chapter IV(6)).

**(ii) Insurance services**

11. The insurance sector is characterized by increasing competition as a result of the continued reforms. In May 2001, 40 companies were active in the Czech insurance market (17 general insurance companies offering a wide range of products, four life insurance companies, and 19 companies offering one or more kinds of non-life insurance). Eighteen of the joint-stock companies were 100% owned by Czech capital, while 13 were owned exclusively by foreign capital. The Czech insurance company (Ceská pojišťovna a.s), in which the State has a 30.25% share, still retains a large, though declining, share (around 39%) of the insurance market. Insurance penetration – ratio of insurance premiums to GDP unadjusted for inflation – reached 3.7% in 2000.<sup>12</sup>

12. The new Act on Insurance (No. 363/1999 Coll.) substantially harmonizes Czech law with EU directives and brings the sector under more effective supervision. The law, which took effect in April 2000, includes:

- tighter restrictions on insurance company board members and their activities (including conflict of interest);
- a requirement to split life and non-life business into separate companies within ten years<sup>13</sup>; and
- measures to strengthen the Insurance Supervisory Authority, which was given considerable powers and new resources.<sup>14</sup>

13. The insurance market is open to national and foreign investors. Under current law, foreign financial suppliers may establish an insurance company in the form of a joint-stock company or provide services through branches. Establishment requires the authorization of the Insurance Supervisory Authority.<sup>15</sup> The new Act on Insurance, contrary to the previous law, does not contain any restrictions for purchasing insurance services abroad.

14. However, certain business activities were reserved until recently, thereby limiting competition and development of the market. Competition remains limited only for compulsory health insurance, which is provided by nine licensed Czech-owned suppliers, and for mandatory liability insurance for employers against injury or occupational diseases, which is provided by two licensed companies. In

<sup>10</sup> KOB (2000).

<sup>11</sup> IMF (2000b).

<sup>12</sup> In comparison with EU countries and other advanced countries, the Czech Republic's penetration figure is roughly half. Czech Insurance Association (1999).

<sup>13</sup> World Markets Research Centre online information. Available at: <http://www.impactglobal.com/subscribers/HOMETEST.CFM> [24 November 2000].

<sup>14</sup> European Commission (2000).

<sup>15</sup> WTO (1996).

January 2000, the Czech Insurance Company's monopoly right on the supply of compulsory third-party motor liability insurance was ended.<sup>16</sup> Twelve insurance companies have received licences to provide this type of service. Moreover, as part of its commitments undertaken during the WTO negotiation on financial services, the Czech Republic removed monopoly rights for compulsory air transport insurance in April 1997.

15. Premiums for compulsory health insurance and mandatory liability insurance for employers against injury or occupational diseases are set by the authorities; companies are free to set premium rates in all other areas.

16. A large amount of business – especially in large industrial and commercial risks – is reinsured with large international reinsurance companies.<sup>17</sup> While there is no local re-insurance company, the largest three domestic companies are authorized to act as active re-insurers.

**(iii) Other financial services**

17. Capital market legislation is under the responsibility of the Ministry of Finance; the Securities Commission is responsible for the enforcement of laws.<sup>18</sup> Certain activities are closed to foreign investors by law, including mortgage banking, some operations in securities on capital markets, operations in collective investment securities, and operations in foreign exchange activities (Table II.3). The establishment of securities dealers, stockbrokers (of the stock exchange or organizers of an over-the-counter market), investment companies, and investment funds are subject to authorization by the Securities Commission.

*The Czech Securities Commission*

18. Important measures have been taken to increase the transparency and regulation of capital markets by creating a Securities Commission (SEC), established in April 1998 under Act No. 15/1998 Coll. on the Czech Securities Commission. The objectives of the SEC are to improve investors' protection and transparency by attaining a higher level of information openness, to check compliance with legal standards, and to participate in the creation of legal provisions and laws to regulate the capital market.<sup>19</sup> The activities of investment companies, banks (their investment services), and pension funds (investment instruments) are subject to supervision by the SEC. The SEC has undertaken a clean-up operation, withdrawing the licences of many brokerages and de-listing several firms for non-compliance with existing rules.<sup>20</sup> The SEC must submit proposals for secondary legislation governing the capital markets through the Ministry of Finance.<sup>21</sup> According to the authorities, from the beginning of 2000, the Czech legislation related to capital markets is largely harmonized with that of the EU.

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<sup>16</sup> Regulated by Act No. 168/1999 Coll. on Liability Insurance for Damage Caused by Operation of a Vehicle and on Amendment to Some Related Acts (Motor Third-Party Liability Insurance Act) (WTO document S/C/N/125, 3 August 2000).

<sup>17</sup> World Bank (1999b).

<sup>18</sup> The legislation governing the capital market includes: the Securities Act, the Act on Bonds, the Stock Exchange Act, the Act on Investment Companies and Investment Funds, and the Act on Securities Commission.

<sup>19</sup> EBRD (1999).

<sup>20</sup> OECD (2000a).

<sup>21</sup> Government of the Czech Republic and the European Commission (1999).

*The Prague Stock Exchange*

19. The operation of the Prague Stock Exchange (PSE) is governed by the laws relating to the Czech capital markets, and Stock Exchange Rules and Regulations. It is supervised by the Security Exchange Commission. The PSE is a joint-stock company authorized to organize trading in securities, i.e. shares, bonds, unit certificates, etc.<sup>22</sup> The trading system on the PSE is both order-driven and price-driven. There is also another organizer of equities trade, the RM system. It appears that with the two systems operating in tandem, there is no mechanism to ensure a single price for shares.<sup>23</sup>

*Investment funds*

20. The majority of the investment funds in the Czech Republic were formed during the period of voucher privatization (Box IV.1). In the voucher system, individuals could either bid directly for company shares in the auctions or place the vouchers with an investment fund. The investment fund would then use the vouchers to bid for the company. The investment funds attracted most vouchers (70% and 65% of the vouchers issued in the first and second waves, respectively). The investment funds were all set up as closed-end funds in the first wave of the privatization, while in the second wave, open and unit trusts were also allowed.<sup>24</sup>

21. Several weaknesses with the investment funds became apparent. Corporate governance by the funds was considered to be weak. It is also thought that several of the funds were used as instruments of asset stripping by the managers. Causes for such performance include liberal licensing criteria, lax supervision, limited disclosure rules, and the weak incentives related to the closed-end structures of most funds.<sup>25</sup>

22. The poor performance of investment funds led the authorities to introduce important changes to the legal framework (Act No. 248/1992 on Investment Companies and Investment Funds) in 1998. The closed-end funds are now required to convert into open funds at the latest by the end of 2002, which will result in a substantial outflow of assets from those funds. Under the law, authorization for new closed-end mutual funds, formed as unit trusts, can only be issued for a period not exceeding ten years. Another important change is the reduction in the IPFs holdings in any company from 20% to not more than 11%. Other changes to the law designed to reduce portfolio risk include the prohibition to invest in silent partnerships. In addition, the law was also amended to include, *inter alia*, the following provisions: (i) acquisition of more than 10% of the shares of registered capital of an investment company or investment fund requires the prior approval by the SEC; (ii) the portfolio of investment funds or mutual funds may not consist of the shares of joint-stock companies whose share of registered capital of a management investment company or investment fund exceeds 10%; and (iii) the control functions of a depository were strengthened.<sup>26</sup>

**(2) TELECOMMUNICATIONS SERVICES**

23. The Czech Republic has brought competition into the telecommunications sector by gradually opening up its markets to national and foreign investors. The telecom monopoly company (Český Telecom) has been partly privatized; additional operators have been allowed in the provision of

<sup>22</sup> In June 2001, the PSE became an Associate Member of the Federation of European Securities Exchanges.

<sup>23</sup> EIU (1999).

<sup>24</sup> World Bank (1999b).

<sup>25</sup> World Bank (1999b).

<sup>26</sup> WTO document S/C/N/92, 15 January 1999.

public fixed telephone services in "local telecom areas", local voice services, and the provision of cellular communications; and Internet services and cable television is now characterized by strong competition (Chart V.2). The authorities have attained their goal of fully liberalizing the telecommunications sector with no limitations for entry of foreign capital by 1 January 2001, a date set already in 1994, by allowing additional operators in the provision of international, long-distance services, and local telephone services via fixed networks.<sup>27</sup> Following general global trends in telecommunications, the Czech Republic has, along with liberalization, experienced strong growth in both size and quality of services, and prices of some services have fallen. Nationwide transmission of TV and radio signal is ensured mainly by a single joint-stock company controlled by the State (České radiokomunikace, CR). Looking ahead, the authorities are planning to privatize the remaining 51% of shares in the Český Telecom and the CR during 2001.

**Chart V.2****Evolution of selected telecommunication services, 1994-2001**

	1994	1995	1996	2000	2001
<b>International and long-distance services</b>	- SPT Telecom				- Český Telecom <sup>a</sup> - about 20 additional operators
<b>Local services</b>	- SPT Telecom	- SPT Telecom - eight additional operators			- Český Telecom <sup>a</sup> - about 20 additional operators
<b>Mobile communication</b>	- one operator		- two operators	- three operators	- three operators
<b>Third-generation mobile phone services</b>	- no operator				- four licences expected
<b>Internet services</b>	- information not available (liberalized in 1998)			- 18 major ISPs and 300 small ISPs	- 20 major ISPs and many hundreds of small ISPs

a Previously SPT Telecom.

Source: WTO Secretariat, based on information provided by the Czech authorities.

*Enhanced regulatory framework*

24. The Czech Telecommunication Office (CTO) is the regulatory body for the telecommunications sector. Under Act No. 151/2000 (on Telecommunications and on Amendments to Other Acts) the CTO was re-established in July 2000, as a separate body with full independence from the Ministry of Transport and Communications. Areas of responsibility given to the CTO as a result of the new law include administration of interconnections and price regulation. Previous responsibilities retained by the CTO include, *inter alia*, to approve telecommunication equipment,

<sup>27</sup> It appears that some problems remain in the area of interconnection agreements and freedom of choice of operator.

administration of the frequency spectrum system; fines; granting licences and the withdrawal of authorizations of licences. Under the law, the Ministry of Transport and Communications remains responsible for telecommunications policy and for establishing the principles and main regulations of the sector; it also approves the plan for assignment of frequency bands.

25. A licence is required for establishing and operating a public telecommunications network (except networks intended solely for one-way dissemination of television or radio signals down wires), and providing public telephone services via a fixed or mobile telecommunication network. The CTO will issue a licence as long as it does not jeopardize the security of the State or human life, health or safety, and given that the necessary frequencies are available. If sufficient frequencies are not available, the CTO is obliged to announce its selection proceedings for the licences. For all applications, the CTO decides on awarding licences within 40 days from the delivery of the application. To provide all other types of telecommunications services (such as internet services, operate radio transmitters via VSAT), providers must simply register with CTO.

26. One or more of the licence holders in the areas of public telephone services is required to provide universal service via a fixed telecommunication network, such that accessibility is secured throughout the whole country. Universal service providers have the right to compensation for "demonstrable" loss (expenditures which would not have arisen if the provider had not had this obligation).

27. Interconnection policy is regulated by the CTO. According to the law, operators of public telecommunications networks and providers of public telecommunications services, who are in control of at least one terminal point of a network, are obliged to provide interconnection to the networks they operate. The operators of public telecommunications networks and providers of public telecommunications services can reject a proposal for an agreement on interconnection of networks when the requested interconnection does not comply with the technical specifications at their disposal. In such a case, they are obliged to request the CTO's approval for the rejection of the proposal. The prices for interconnection are negotiated by the parties. If the parties do not reach an agreement on price for interconnection, they have to use a price-calculation method set by the CTO.

28. Until 1 July 2000, when the new telecommunications law came into force, the Ministry of Finance regulated the tariffs of the main public telephone services over the fixed networks (including public telex and telegraph services) using the price-cap method.<sup>28</sup> Under the new telecommunications law, the CTO became the responsible regulatory body for tariffs and prices. The CTO uses a similar price-cap methodology for setting prices for the main services (public telex and telegraph services). Other tariffs and prices for telecommunications services remain unregulated.

#### *Progressive opening of markets to competition*

29. In line with the Czech Republic's commitments under the GATS, the state-owned Český Telecom's (former SPT Telecom) monopoly on the provision of long-distance and international telephony has been abolished as of 1 January 2001, as a result of the enactment of Act No. 151/2000.<sup>29</sup> Český Telecom is obliged to ensure the implementation of call-by-call selection of operator by a dialled prefix until July 2002, and pre-selection of operator as well as number portability until January 2003. The Český Telecom has been the exclusive operator in 144 out of 160 local areas, covering about 93% of the population. Under the new law, potential competitors in the fixed line telephone market could apply for licences and begin building networks in preparation for 1 January 2001 when they were allowed to start operation. There are no limitations on the number of

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<sup>28</sup> Hruby, Zdenek (1999).

<sup>29</sup> See WTO (1996), Annex V.1 on the Czech Republic's Specific Commitments under the GATS.



companies that will be awarded a licence.<sup>30</sup> Nor are there any limitations on the areas of operation. Foreign participation in the provision of long-distance and international telephony services is not limited. So far, Contactel (a Czech joint-venture between Ceske Radiokomunikace and TeleDanmark) and Aliatel and more than 20 other companies have been granted licences for public voice services.<sup>31</sup>

30. Prior to the date of the full liberalization of the telecommunications market, competition in local public fixed telephone services had been experimentally allowed in 16 of the country's 160 "local telecom areas". It has been noted that only limited success was achieved due to some strict conditions that operators had to fulfil.<sup>32</sup> By June 2000 only four companies were offering local services in competition with Český Telecom.

31. In most other areas of telecom services, the market structure is competitive. Cellular communications along with the provision of internet services and cable television are perhaps the most competitive markets; and there is competition in leased lines, data, fixed satellite, and digital cellular services. In the area of telex, telegraphs and facsimile, competition is allowed, but, according to the authorities, there is no interest from companies (other than Český Telecom) to provide such services. According to the new law, Český Telecom has to provide these services under the framework of universal services until 2005. There are no limitations for market entry in packet-switched data transmission services, circuit-switched data services, and leased lines services.

### (3) TRANSPORT SERVICES

32. Progress has been made in liberalizing the transport services sector during the period under review. As in 1996, the sector portrays a mixed picture. While the Czech Republic has a relatively competitive trucking industry and a non-subsidized airline company, passenger railway services and, to a lesser extent, bus services require large amounts of transfers to cover their losses. Full harmonization of the Czech Republic's transport laws and legislation with the EU's *acquis communautaire* is planned for the end of 2002. Road transportation remained by far the most important mode of freight traffic transportation throughout the 1990s, accounting for at least 80% of the total in recent years. In 1999, 42% of imports were transported by road while 56% were transported by rail.

#### *Rail transport*

33. Within the framework of Act No. 9/1993 Coll. on Czech Railways, freight and passenger railways are owned and operated by the State through Czech Railways (ČD). Large amounts of funds (grants and subsidies) are transferred to ČD to cover losses from passenger transport. In early 2001, ČD's accumulated losses amounted to CZK 40 billion. The losses originate from passenger services. Passenger fares are regulated by the Government and subsidized in accordance with social obligations to provide mobility for the public. Subsidies on railway freights were abolished in January 1995. Fares for freight are now determined through negotiations with shippers.<sup>33</sup> The Government allows in some instances access to tracks for companies wishing to provide their own rail transportation. Prices for access to tracks are set by the Ministry of Finance based on cost information supplied by ČD.

<sup>30</sup> Telecoms-Data.com (2000).

<sup>31</sup> Total Telecom (2000) [Online], 11 September, and 4 October. Available at: <http://totaltel.com>. [8 November 2000].

<sup>32</sup> European Commission (1999b); and Telecoms-Data.com (2000).

<sup>33</sup> World Bank (1999b), Vol. 2.

### *Road transport*

34. The main laws related to road transport are Act No. 111/1994 Coll. on Road Transport and Act No. 304/1997 Coll. on Roads. Foreign investment is prohibited in road transport (passenger and freight).<sup>34</sup> Nevertheless, the Czech Republic's trucking industry is relatively competitive. Truck transportation is undertaken by private carriers, with less than 1% of truck transportation undertaken by state-owned companies.<sup>35</sup> Bus transportation is provided by private national companies, but, in contrast to truck transportation, the State compensates the carrier (in case of public interest) for demonstrable loss incurred. Bus transport companies receive about CZK 2 billion annually. Transportation on international and long-distance routes is not subsidized. Fuel taxes on cars, trucks and buses contribute towards the cost of highway maintenance and construction.

### *Internal waterway transport*

35. The main laws related to inland waterway transport and maritime transport are Act No. 144/1995 Coll. on Inland Navigation and Act No. 61/2000 Coll. on Maritime Navigation. The Ministry of Transport and Communications and the State Shipping Administration are the competent authorities for matters related to inland navigation. The Maritime Authority is responsible for matters related to maritime navigation. An amendment to the Act on Inland Navigation was adopted in January 2000, aiming at transposing the EU *acquis communautaire* on access to the occupation of carrier of goods by inland waterways.<sup>36</sup> The legislation on maritime navigation, which entered into force in July 2000, provides for further harmonization with the *acquis communautaire* in areas such as cabotage, the investigation of maritime accidents, and the professional competence of the crews of sea-going ships. As there is no maritime port, the Czech Republic does not have any special regulations on multimodal transport. Nor does it have any national regulation on bulk shipping or liner shipping.

36. Foreign investors are allowed to operate in inland waterway freights, including chartering activities. Licensing criteria include, *inter alia*, the approval by the investor's national authority to operate in its home country. In order to fly the Czech flag, vessels must be owned by a Czech party who must reside in the Czech Republic. Currently, no merchant ship is registered in the Maritime Register of the Czech Republic. There is only one national shipping company in operation (Czech Ocean Shipping). Although Act No. 61/2000 Coll. provides for the possibility of state aid, no such aid has so far been granted.

### *Air transport*

37. Air transportation is regulated by Act No. 49/1997 Coll. on Civil Aviation. Under the law, the Civil Aviation Authority (subordinated to the Ministry of Transport and Communications) is the executive arm of the State in civil aviation matters. Negotiations have started between the EU and the Czech Republic on an agreement to establish a European Common Aviation Area (ECAA), which are resulting in progressive alignment with the *acquis communautaire*. An amendment to the law, which

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<sup>34</sup> The regulation applies to the following for passengers: transit, "closed door" tours, picking up or setting down on an international journey, and transport within the country. It applies to the following for freights: transit, delivery on an international journey, collection on an international journey, return cargo where collection is authorised, return cargo where delivery is authorised, and transport within the country (OECD, 2000b).

<sup>35</sup> World Bank (1999b), Vol. 2.

<sup>36</sup> European Commission (2000).

entered into force in June 2000, is expected to implement both the Joint Aviation Requirements (JARs) and the Eurocontrol standards.<sup>37</sup>

38. Commercial air transport (carriage by aircraft of persons, animals, luggage, goods and mail) can be operated on the basis of an air transport licence or on the basis of an authorization for air taxi operators. The licence is issued by the Civil Aviation Department of the Ministry of Transport and Communications; the taxi authorization is given by the Civil Aviation Authority. The criteria for approving Czech carriers include, *inter alia*, national ownership (maximum 49% foreign equity). By February 2001, eight such licences had been issued and no applications had been rejected. Domestic scheduled air transport is limited due to the size of the country. The State still owns shares in the Czech Airlines (ČSA). ČSA does not receive subsidies from the Government. A domestic airline operator who intends to operate international commercial air transport must have an authorization from the foreign State that will be the destination of the transport. A foreign airline operator is permitted to run commercial air transport to and from the Czech Republic pursuant to the bilateral air transport agreement or to a permission issued by the Ministry of Transport and Communications. Domestic fares and services are regulated by the Ministry of Transport and Communications.<sup>38</sup>

39. The Czech Republic currently applies slot restrictions allocated by Eurocontrol.<sup>39</sup> An open skies agreement entered into force between the Czech Republic and the United States in September 1996. The agreement provided for a phased liberalization from September 1996 until 31 October 1999: an open skies agreement for scheduled and charter operations between the Czech Republic and the United States has been applicable since 1 November 1999.

40. The Czech Republic has adopted ad referendum Protocol VI (Transitional arrangements between the European Community and the Czech Republic) to the draft Multilateral Agreement on the Establishment of a European Common Aviation Area (ECAA Agreement) in November 1999. The Czech Republic is also a member of the International Civil Aviation Organization (ICAO), Eurocontrol and Joint Aviation Authorities.

41. Cabotage rights for passengers or cargo are generally not granted to foreign carriers. However, on the basis of reciprocity, they can be obtained from the Civil Aviation Authority. Traffic rights are regulated by bilateral agreements signed by the Czech Republic or through permissions issued by the Civil Aviation Department. Requirements for non-scheduled flights of foreign civil aircraft landing in the Czech Republic for commercial purposes are contained in the Aeronautical Information Publication of the Czech Republic.

42. The state-owned company (Czech Airport Authority) operates four international airports. Air traffic is managed by the state-owned company Air Navigation Services. Other airport services (e.g. ground handling, catering and maintenance) are open to competition.

#### **(4) TOURISM SERVICES**

43. The tourism industry recorded rapid growth during the past decade, except in 1995 and 1997. Tourist arrivals increased from 37 million in 1990 to 104 million in 2000, and receipts increased from US\$0.4 billion (equivalent to 5.6% of GDP) to US\$2.9 billion over the same period. In addition to contributing a significant amount of foreign currency revenues to the balance of payments, the tourism industry represents a major source of income for the national budget. The value-added tax is the most important item in this regard. Its importance is also noted because of the sector's positive

<sup>37</sup> European Commission (2000).

<sup>38</sup> World Bank (1999b), Vol. 2.

<sup>39</sup> World Bank (1999b), Vol. 2.

influence on a number of other industries and services (such as transport, retail, construction, banking, telecommunications, culture and sports).

44. The Ministry for Regional Development is responsible for the supervision of tourism activities. In September 1999, an inter-ministerial tourism commission was established to function as an advisory body to the Ministry.<sup>40</sup> The Czech Tourist Authority, created in 1993, is responsible for coordinating the state-run promotion activities and the operations of the businesses operating in the tourism sector, and for formulating marketing strategies for domestic and international tourist markets. It boosts general awareness about the Czech Republic through participation in fairs and exhibitions, and organizing workshops. It also boosts awareness through a network of 12 representative offices in 11 countries, as well as through publishing activities and cooperation with media outside the Czech Republic.

45. There is no limitation on foreign investment in the tourism sector. The Ministry for Regional Development is responsible for granting licences to tour operators. As set out in Act No. 159/1999 Coll. on Some Conditions of Business Operation in the Tourism Industry, a tour organizer is obliged to conclude an insurance policy for a premium of at least 30% of planned annual sales of packages. Foreign investors have increased their role in the tourism sector since the mid 1990s, and in 1999 trade, hotels and restaurants attracted as much as one quarter of total foreign direct investment inflows (Table I.3).

46. One state-aid programme specifically targets the tourism sector. Under the State Programme for Tourist Support, investors may receive grants up to 50% of investment costs for the development of spa-related activities. In addition, as in all sectors, investors in the tourism sector have access to the incentives offered under the Government's state aid programmes (Chapter IV(3)).

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<sup>40</sup> Government of the Czech Republic (undated (b)).

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