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TRADE POLICY REVIEW

CZECH REPUBLIC

Minutes of Meeting

Addendum

Chairperson: H.E. Mr. Pekka Huhtaniemi (Finland)

This document contains the advance written questions and replies provided by the Czech delegation to these questions and to other questions raised during the meeting.

**ADVANCE WRITTEN QUESTIONS AND REPLIES PROVIDED BY THE
CZECH DELEGATION TO THESE QUESTIONS AND TO OTHER QUESTIONS RAISED
DURING THE MEETING**

I. ECONOMIC ENVIRONMENT

I.1. Macroeconomic situation

Question (Discussant): It would be very useful for the members if the Czech delegation could shed further light on the root-causes of this recession (between 1997-99)?

The recession had its roots in a combination of a number of internal and external factors on macroeconomic and microeconomic levels. On the domestic front, it has to be noted not always efficient ownership and management structures, a slowdown in restructuring and privatization (in particular of large enterprises and state-owned banks) and imperfections of capital and financial markets. The Czech currency was appreciated due to unchanged nominal exchange rate for a number of years and inflation differential between the Czech Republic and other market economies. Together with increasing labour costs in manufacturing and agriculture, these factors weakened a competitive stance of domestic companies, led to stagnation of exports and excessively high imports and brought about external financial disturbances. Finally, internal financial imbalances appeared (budgetary deficits) and started growing rapidly.

Question (United States): The Secretariat's report notes that the fiscal situation may deteriorate even further. The reliance on uncertain financing sources (i.e. privatization receipts) in a weakening global external environment could pose a threat to macroeconomic stability. In this regard, the authorities' efforts in the area of public finance transparency are important measures to address the fiscal situation. What is the Czech Government doing to improve the transparency of the fiscal situation?

One of the most important steps to improve the transparency in fiscal policy was the adoption of new Act No. 218/2000 Coll., on Budgetary Rules which entered into force in January 2001. The Act brings several substantial changes in comparison with previous budgetary regulations and recodifies budgetary rules governing the budget performance within the State Administration as well as the creation of a comprehensive financial control framework. The new regulations are aimed at the improvement of budgetary discipline at all levels and, at the same time, they are called to ensure the consolidation of all off-budgetary funds. The Act also introduces medium-term decision-making instruments in the public finance system. The new budgetary rules represent a major cornerstone of future fiscal reforms.

Another significant contribution to the transparency of public finance is the adoption of the Act on Česká Konsolidací Agentura, a specialised agency for the centralised management of non-performing assets. The newly established Česká Konsolidací will manage more effectively the accumulated bad assets through the combination of all available methods of debt liquidation, e.g. restructuring, judicial proceedings, sales, including internet sales, and write-offs. In doing so, it will be laying down the groundwork for selling off all debts in four to five years period ahead. The Agency was established on 1 September 2001 for a period of ten years (all activities are supposed to be completed till 2011). The status of the Agency gives the Government better possibility of controlling it.

I. 2. Investment regime and incentives

Question (Switzerland): With interest we have taken note of the new foreign investment regime adopted in May 2000 offering a package of incentives to foreign investors. How do you evaluate so far the impact of the incentive package on the investment volume? How are your first experiences with regard to the costs and the benefits of the incentive package? Do you have plans for additional measures to promote foreign investment, for example with regard to the facilitation of temporary entry for key personnel and/or the acceleration of administrative procedures?

The promotion of investment has been increasingly recognised as an important policy objective. An attractive package of investment incentives, which was approved in May 2000 and is applicable to foreign and domestic investors alike, testifies to that recognition. The package was adopted to complement the necessary legal investment conditions entailing predictability and transparency. Its objective is to boost investment activities, in particular inflow of foreign direct investment, and thus to promote structural adjustments, enhance restructuring of the economy and speed up the privatization.

The Czech experience with regard to the impact of the package is predominantly positive. Its benefits substantially outweigh the costs. 44, vastly foreign investors have received incentives. Their foreign direct investments bring capital, that is lacking, and modern corporate governance. They enhance access to new technologies and know-how, have positive impact on employment and channel production into certain sectors or regions. Investor's companies generate substantial multiplication effect for other economic operators and hereby enhance the performance and competitiveness of subcontractor companies. Last but not least, FDI help to finance the deficit of the current account.

Question (United States): Are the investment incentives available equally in all regions or areas in the Czech Republic? Or are some investment incentives only to specific regions. If so, what are these regions?

Generally, investment incentives are available in all regions of the Czech Republic. It contains two employment-related elements: job-creation grants ranging from CZK 80 thousand to CZK 200 thousand and re-training grants covering up to 35% of training costs per employee. The purpose of both categories of grants is to offer investors the maximum benefits in area of relatively high unemployment.

Question (Discussant): It would also be interesting to hear what makes the Czech Republic so attractive for FDI?

We believe that it is a combination of factors the most important among which pertain to political and macroeconomic stability, appropriate legal framework and favourable business environment. Investment incentives have proved to be very helpful, not to forget about certain comparative advantages in the form of lower wages and skilled labour force.

I.3. Privatization, public enterprise restructuring, State aid and competition

Question (United States): The Secretariat's report notes that other reforms, which are crucial for the success of Czech companies to compete on the European market, include enterprise restructuring and privatization. What is the Czech Government doing to move forward on restructuring and privatization?

The Government is taking a wide range of bold measures aimed at promoting enterprise restructuring and privatization. It concentrates its efforts on cultivation of sound business environment, enhancing structural changes and entrepreneurship and entailing transparency and predictability.

Privatization is of the cornerstones of this effort. It has been re-launched with a new vigour and with the objective of reducing the Government involvement in strategic enterprises. The banking sector and the telecommunications sector belong to those segments in which the concerted effort started bearing fruit. In banking sector, the basic restructuring and privatization have been completed by sell off the state-owned share in the remaining large commercial bank - Komerční banka. In telecommunications sector, the Government and the minority foreign owner have agreed to sell their shares in Český Telecom by offering the majority stake to a strategic investor. In September 2001, the Government brought to a successful end the sale of the majority share in České Radiokomunikace to TeleDanmark and Deutsche Bank.

The restructuring and privatization in the field of energy and chemical industry is progressing rapidly. Recently, the National Property Fund invited potential investors to take part in privatization of Energy, Gas and Petrochemical companies. A special intergovernmental commission has already disclosed a "short list" of potential buyers that have just started due diligence in the respective companies.

The Government has also approved the restructuralization of the Czech steel industry and is in process of preparing public tender. Restructuring is under way also in manufacturing industry under the Government Sectoral Operational Program for the years 2001 and 2002. The primary objective here is to restructure and streamline the companies concerned for subsequent privatization.

Question (Discussant): On the other hand, a package called "Big Bang" plan, has been proposed with a view to direct spending to economically depressed regions through construction of infrastructure as well as housing and the restructuring of state-owned mining and metallurgy enterprises and heavily indebted industrial firms. We learned that this plan relies heavily on privatization receipts as its ultimate funding source. I hope this plan works effectively and would like to have more information about this interesting plan and its progress.

The "Strategy to enhance Economic Growth" of the Czech Republic (sometimes called as "Big Bang" plan), which is an economic and political document, was discussed by the Government on 2 April 2001 and further elaborated on 9 July 2001, when the Government endorsed the Timing, Content and Funding Schedule for Implementing the Strategy.

The Strategy puts under one umbrella programs and actions the preparation of which has been going on in various sectors of the economy, according to the rules and schemes implemented by respective bodies of state administration. This also goes for the rules for granting a state aid in keeping with Act No. 59/2000 on public support.

The basic pillar of the Strategy is to enhance the performance of the economy through a series of measures consisting of the ongoing programs to support investors, like investment incentives and development of industrial zones, through export promotion, removal of administrative obstacles to trade and its facilitation and through support for enterprise restructuring and innovation and in selected industrial sectors. The Strategy builds on links, synergies and multiplication effects that exist among various policy objectives in areas of development of industry, small and middle-sized enterprises, in particular in socially and economically handicapped regions, regional development, support for employment and housing and infrastructure development.

Due to the fact that the entire Strategy was adopted only in July 2001, it is still premature to evaluate its impact on the development of the Czech economy.

Question (United States): We note that the last subsidies notification provided by the Czech Republic was G/SCM/N/25, dated July 7, 1999. As indicated by the Czech Republic in its TPR documents, it maintains several subsidy and state aid programs. Please indicate when an updated subsidies notification will be provided to the WTO Subsidies Committee which will include these subsidy and state aids programs.

Question (United States): Can you please notify, as appropriate, the following programs which were noted in the table and which did not seem to be included in your last subsidies notification:

Investment Incentive Package

1. Tax holiday
2. Job-creation subsidy
3. Training and re-training subsidy
4. Property/infrastructure support
5. Duty & VAT exemptions

Export Promotion

1. International trade fairs by the Ministry of industry and Trade
2. International trade fairs by Czech Trade
3. Export financing
4. Export promotion and marketing assistance
5. Export subsidies

Small and Medium-Sized Enterprises Programs

1. Guarantee
2. Credit
3. Market
4. Capital
5. Mobile shop
6. Co-operation
7. Region
8. Community
9. Preference
10. Operation
11. Border
12. Regeneration
13. Special

Agriculture

1. Operation
2. Farmer
3. Processor
4. Sales organization
5. Young farmers
6. Exports
7. Support of sale of diesel for farmers
8. Irrigation of arable land
9. Genetic sources
10. Old Kladruby horse breeding
11. Production of potato starch
12. Donation of milk to primary schools
13. Vineyards, hop gardens and fruit orchards

14. Bee keeping
15. Support for dairy cows
16. Aid to sheep breeders
17. Growing of flax
18. Maintenance of agricultural land
19. Beef-cattle farming
20. Support for ecological agriculture
21. Calcification with the help of limestone powder
22. Crop-production restructuring through afforestation
23. Pest and disease control services
24. Consultation
25. Support to the foundation and activity of producer marketing organisation

Cinematography

1. Cinematography

Tourism

1. Fund for support of development of tourism in the Czech Republic

Other

1. Corporate tax discounts
2. Real estate tax relief
3. Insurance
4. Regional employment programs

Question (United States): Can you please provide updates to the following programs which were listed in the table and it appears were notified in your last subsidies notification:

Export Promotion

1. Export credit insurance

State Guarantees

1. State loan guarantee program

Research and Development

1. Research and development grant

Environment

1. Environment support

Mining Industry

1. Mining

Transport

1. Transport

Agriculture

1. Support and guarantee fund for farmers and forestry

Updated notifications under Article 25 of the Agreement on Subsidies and Countervailing Measures are being finalised and will reach the Committee on Subsidies very soon. All notifiable subsidies falling within the perimeter of Article 25 will be included. Regarding agricultural-related subsidies, all programmes that were in place till 1999, have been duly notified. Notification for the year 2000 is just about to be forwarded to the Committee on Agriculture.

Question (Discussant): It could be interesting to receive comments on positive effects of competition rules on the Czech economy.

Since the very beginning of its economic transformation, the Czech Republic has been deepening its awareness of the importance of an efficient competition legal framework. The first Act on the

Protection of Economic Competition was adopted in 1991 and a new Office for the Protection of Economic Competition, as an enforcement authority independent in its decision making, was established.

The strict enforcement of competition rules in the last ten years contributed significantly to the creation of a functioning market economy based on the fair competition of market players, not distorted by illegal practices.

The Czech Republic has shared its positive experience regarding the role of a sound competition regime through an active participation in the Working Group on Interaction between Trade and Competition Policies. Based on this positive experience, we have been supporting the inclusion of the interface between trade and competition on the agenda of a new round of trade negotiations.

Question (United States): The Secretariat's report notes that although the Czech Republic's privatization program improved the firms' management and profitability, the needed restructuring of enterprises has not been forthcoming. The normal entry and exit of firms seen in a functioning market economy was not taking place to the same extent in the Czech Republic. What is the Czech Government doing to improve privatization and public enterprise restructuring?

I.4. Bankruptcy law and practice, dispute resolution system

Question (United States): The Secretariat's report notes that weaknesses in the dispute resolution system continue to be a factor impeding the business environment. What is the Czech Government doing to strengthen the dispute resolution system?

Question (United States): The Secretariat's report notes that while the legal environment is good on paper, it appears that weaknesses in the dispute resolution system continue to be a problem. The slow functioning of the overburdened commercial courts and weak enforcement have been identified as factors hampering the business environment. What is the Czech Government doing to improve the commercial courts and improve enforcement?

Question (United States): The Secretariat's report notes that weaknesses in the bankruptcy legal framework (such as delays in the bankruptcy process) have discouraged banks from implementing bankruptcy proceedings against many insolvent enterprises. What is the Czech Government doing to improve the bankruptcy process?

Question (Switzerland): Notwithstanding the improvement of the bankruptcy law, the report of the Secretariat states that the present law suffers from some weaknesses. Do you have plans to strengthen creditors rights and in particular to speed up the court procedures?

Questions regarding steps to improve the court system have also been asked by the Discussant and India.

Important changes of the Civil Procedure Code aimed to speed up and simplify the civil judicial proceedings (including commercial disputes) have been put in place through Act No. 30/2000 Coll., which entered into force on 1 January 2001. The Act strengthens the principle of concentration of the procedure and modifies the institutes which previously allowed to delay the proceedings. One of the most striking changes is that the appellate courts cannot rehear the case as to the facts. The rules related to the Commercial Register were simplified and clarified. As preliminary statistics show up to now, the length of the procedure seems to be effectively reduced.

Additional steps are being taken in the area of training of judges whose skills and professional ability are necessary to be successful in genuine efforts aimed at improving dispute settlement system in the Czech Republic. Another track, which is followed, has to do with specialization of judges in areas such as corporate law, bankruptcy law etc. In these days, the Czech Parliament deals with a governmental draft of the Courts and Judges Act. The draft contains completely new system of the lifelong education of judges to increase their professional skills.

The judicial reform and especially the reform of judicial education should bring the required improvements in the dispute resolution system in the Czech Republic.

The above mentioned changes in the Civil Procedure Code have also contributed to strengthening of the bankruptcy law.

On 3 October 2001, the Government adopted a draft of the Substantive Aims of an Act on Insolvency and Procedures for Addressing Insolvency (the Insolvency Act). The concept of the new Act is based on American and German bankruptcy law as well as on the principles of bankruptcy law worked out by the World Bank.

The draft's aim is to strengthen the position of creditors and to simplify and shorten the insolvency proceedings in many directions. It is worth mentioning that according to the draft:

- 1) insolvency proceeding will be initiated on the basis of a petition that will be common to all procedures for addressing a debtor's insolvency;
- 2) basically, it will be possible to deal with insolvency through a) bankruptcy, b) reorganization or c) settlement;
- 3) creditors will have the final word in the process of selection of the administrator;
- 4) the value that can be recovered by secured (separate) creditors should be 100% of realized assets;
- 5) procedural rules related to insolvency proceedings allow for courts to continue proceedings without delay and administrative barriers and
- 6) there will be a "Central Electronic Record" containing information on insolvency proceedings. It could be permitted to use such Record as a means of communication between the court and creditors and other parties participating in the insolvency proceedings.

The position of creditors before the commencement of bankruptcy proceedings has been already reinforced by the changes which have been in force since 1 January 2001 and the changes adopted this year.

In the judicial execution procedures, the most important modification consists in the introduction of liable's party statement of property (under criminal sanction) and the new method of execution - a sale of enterprise. On 1 September 2001, Act No. 120/2001 Coll., on Execution Procedure Code, entered into force. This Act enables executing an enforceable decision through a private executor. The enforcement of the secured claims was reinforced through the establishment of the "Register of Collaterals" under Act No. 317/2001 Coll., (entry into force on 1 January 2002). The pledges of the immovable (which are not registered in the Land Register), of collective assets, of collection of things

and of movable assets, will be inscribed in this register in the case that the pledge will not be transmitted to a secured creditor or a third person.

I.5. Transparency of the legal framework

Question (United States): The Secretariat's report notes the principle of transparency was reinforced in 1999 by providing the right of access to administrative documents. Moreover, the Czech authorities increasingly use the Internet to publish draft regulations or decrees. An electronic gateway, providing a common access to all sources of information, was introduced in 2001. How is this electronic gateway working?

In terms of improvement of transparency and streamlining administrative procedures, an electronic gateway - so called Portal of state administration, has been introduced in 2001. The gateway should serve as an integrated contact point where anyone can obtain necessary information from government authorities and take advantage of services granted by these authorities as well.

The Portal is divided into the following sections: Central Address, Entrepreneurship and Business, Employment, Transport, Travel, Housing and Regional Development, Family, Science and Education, Health, Culture, Legislation, Authorities, Regional Information, European Integration.

There are two sections of major importance for detailed information:

- (i) Section Entrepreneurship and Business contains detailed list of relevant government authorities, Register of Small Businesses, Commercial Register, Administrative Register of Entrepreneurship and Business, File on Bankrupts, Trade Marks, Forms, Economic Chamber of the CR, Enterprise Support, Business Support, Statistical Data and Analyses, Information System on Government Procurement and Auctions, Phare in the CR;
- (ii) Section Legislation contains list of relevant government authorities, information registers within the competence of Ministry of Justice, Copyright, Collection of Laws of the CR (provides with connection to all relevant servers enabling access to regulations), Constitution of the CR and Constitutional Court of the CR.

The address is www.centralniadresa.cz.

I.6. Multilateral and regional issues: participation in the WTO, position with regard to the 4th Ministerial, regional and bilateral trade agreements and negotiations, particularly with the EU

Question (the European Union): The European Community shares with the Czech Republic the need to negotiate a multilateral agreement on transparency in public procurement. Paragraph 71 seems to restrict the scope of this agreement "depending on types of trade, administrative levels of management and other factors". Could the Czech Republic please confirm that they are in favour of obtaining a broad mandate to negotiate an agreement on transparency in government procurement?

Yes. The Czech Republic confirms that it has been seeking a broad mandate to negotiate an agreement on transparency in government procurement.

Question (Korea): As para 17.18 (page 17-18) of the Secretariat's Report indicates that the Czech Republic is concerned by a number of measures maintained by importing countries.

What is the Czech Republic's position on the amendment of the Anti-Dumping Agreement in relation to the upcoming new round?

The Czech Republic recognises that the inclusion of anti-dumping on the agenda of a new round is very sensitive and we do appreciate all concerns that are at stake. On our part, we stand ready to negotiate on anti-dumping agreement on condition that the objective will be to clarify and strengthen the existing rules.

Question (Discussant): The Czech Republic has provisionally closed 19 of 29 negotiating chapters, and is considered to be among the front-runners toward EU accession. What is the latest status in this accession process? I understand that the progress report of 2001 is in the offing.

First of all, the authorities should like to reiterate that the Czech Republic continues to stick to the objective of completing negotiations on terms of accession to the European Union in the course of 2002. It is her firm belief that accession will be beneficial to countries directly involved and will also contribute to strengthening the multilateral trading system.

The negotiations are well under way. They reached a point when 19 chapters of the *acquis communautaire* have been preliminary closed. Six of them were set aside during the Swedish Presidency in the first half of 2001 – Free movement of services, Corporate law, Free movement of capital, Social policy and Employment, Environment and Culture and Audiovision. For the second half of this year (during the Presidency of Belgium), the authorities remain equally ambitious. We shall continue to negotiate eight chapters with a view to closing maximum of them. We stand ready to present our negotiation position as to the chapter regarding "Institutions" in order to be able to start the negotiations next year during Spanish Presidency.

To illustrate the situation in some of the areas under negotiations, we can mention the chapter on "Energy", which is in principle ready for closure containing two transitional periods on the Czech side for strategic stocks of crude oil and on the full liberalization of the gas market. The only remaining issue to be solved is the attitude of one EU member state concerning the Czech nuclear power plant, which is now in the pre-launch texting stage. In the field of "Taxes", we are negotiating five transitional periods, including lower rate of consumer tax for cigarettes and tobacco. We are in a final stage of negotiations on a sensitive chapter dealing free movement of persons. Most of the above-mentioned periods are linked to the specific domestic conditions, with a certain social or political relevance for Czech citizens and are not likely to have a substantive impact on the cohesion of the common market.

Question (United States): Do the regulations coordinated with the Slovak Republic regarding state aid, and agricultural policies, including export subsidies, prices, and domestic support, differ from regulations that pertain to trade relations with the other countries? That is, do the regulations coordinated with regard to the above mentioned categories create a common external position for the Czech and Slovak Republics?

The Czech Republic and the Slovak Republic have established mechanisms providing for mutual exchange of information, consultations and agreed procedures in the categories mentioned in the question. Both countries also coordinate their participation in international negotiations pertaining to these issues. However, this cooperation does not necessarily imply common external positions. Regulations regarding trade relations between the Czech and Slovak Republics differ in certain areas, like agricultural policies and export subsidies, from those applied in relations with third countries.

Question (European Union): With regard to the application of Czech Republic for EU membership and the effective implementation of the acquis of the EC a PECA agreement (Protocol to the Europe Agreement on Conformity Assessment and Acceptance of Industrial Products) has been successfully concluded between the parties. The purpose of the PECA agreement is to facilitate the elimination of technical barriers to trade in respect of industrial products between the EU and the Czech Republic. Furthermore, it provides for a progressive adoption and implementation by the Czech Republic of national law equivalent to Community law. The Agreement is not only a very positive step towards EU membership by the Czech Republic but also towards enhanced market access by other WTO members. The Agreement was notified to the WTO on the 1st week of October this year.

Question (Hong Kong, China): It is noted that Czech Republic is negotiating free trade agreements with the economies having similar agreements with the European Union. Would like to know if the coverage of these agreements has to be the same as those concluded by the EU. Is it a prerequisite for accession to the EU?

I.7. Technical assistance, experiences in the context of transition

Question (United States): We therefore would welcome the views of the Czech Republic on how to best use technical assistance to help developing countries and transitional economies implement WTO obligations to support structural changes, strengthen their economies, improve competitiveness and increase living standards.

The Czech Republic appreciates all the work that has been undertaken by the United States to assist developing countries and transitional economies in their strive for fuller integration into the multilateral trading system. Technical assistance is not only about compliance with respective obligations but also about enhancing the ability to take effective advantage of new market openings.

To preserve its credibility, technical assistance should remain available to all who need it, with special focus on interests and concerns of developing countries and in particular least developed ones. Technical assistance must be well targeted, have its roots in specific and well identified needs of beneficiary countries and must be a result oriented.

The Czech Republic stands ready to work closely with the United States with a view to promoting WTO functions in the area of technical assistance and capacity building.

II. TRADE POLICIES AND MEASURES

II.1. Tariffs : concessions and exemptions, difference between MFN and preferential rates, elimination of tariff on ITA products

Question (Japan): In the future, EU membership is likely to raise the level of protection in agriculture, as the current overall MFN tariff on agricultural goods is higher in the EU than in the Czech Republic. What does the Czech Republic think about the effects of EU membership on its agricultural imports?

Question (United States): The Secretariat's report notes that EU membership is likely to raise the level of protection in agriculture as the current overall MFN tariff on agricultural goods is higher in the EU than in the Czech Republic. What is the Czech Government doing to reduce this?

Question (Uruguay): Associated with the statement contained in the Report of the Secretariat, according to which EU membership is most likely to raise the level of protection in agriculture as the current overall MFN tariff on agriculture products is higher in the EU than in the Czech Republic.

In case of joining the European Union tomorrow, the Czech Republic would be able to respond in detail the question. However, under present circumstances it is premature, already at this point in time, to make any reliable judgements about the likely effect of accession of the Czech Republic to the EU on its total agricultural imports. There are too many variables that are likely to play a role. Since most of agricultural imports originate in free-trade partners, it will depend very much on the breadth of EU enlargement, i.e. which other countries will be acceding to the EU together with the Czech Republic. We are just about to change the gear in the ongoing WTO negotiations on agriculture the results of which will undoubtedly be a crucial factor.

Given the high share of European partners in total imports, we do not expect any major negative consequences on agricultural trade with third countries. On the contrary, we believe that the accession will benefit not only the EU and the Czech Republic, but also their partners, in particular due to extension of the Common Agriculture Policy implementation across an enlarged EU that will facilitate trading within Europe.

Question (Japan): During the ongoing transitional period to accede to the EU, the tariff rate on televisions produced in Japan has dramatically increased (i.e. from 2.2 % to 13.2 %). Japan considers that the Czech Republic has to invoke a procedure under Article 28 of the GATT. Please provide the Czech Republic's view on this point.

There must be some misunderstanding regarding this issue. The Czech Republic has not increased its M.F.N. rates on televisions. On the contrary, the Czech Republic implemented, as a result of the Uruguay Round, all required tariff commitments on schedule and reduced its tariffs on televisions from 16.5 per cent to 13.2 per cent in 2000. We do not, therefore, see any need for invocation of Article 28 of the GATT.

Question (Japan): Concerning import duties, there exists a wide gap between those imposed on products from EU countries and those from the other countries. In particular, as the import duties on almost all products imported from the EU have been abolished since January, the rift appears greater. Is the Czech Republic considering some measures to reduce such a gap? Please comment on the situation.

We beg to disagree with the statement referring to a wide gap between tariffs imposed on the EU and other countries, the reasons being a very low average MFN rate and the overall openness of the Czech market that make it possible to non-preferential partners to compete and create favourable trading opportunities for all. Bilateral trade figures bear witness to the ability of the Japanese companies to benefit from those promising market opportunities.

As regards tariff cuts of January 2001, it needs to be explained that these reductions had been made in the context of the Europe Agreement, the aim of which is to create a free trade area. Since the Agreement is in full compliance with Article XXIV of the GATT 1994, it does not require to take any measures to compensate for higher MFN duties applied to third countries.

The above also explains why the Czech Republic has no intention to take any autonomous liberalization measures. However, it remains committed to contribute, through a new round of sufficiently broad-based negotiations and within the parameters of effective reciprocity, to further tariff reductions on a multilateral level.

Comment (Korea): The discrimination against products from non-European member states is affecting third countries in a negative way. In this regard, we request the Czech Republic to reduce the MFN tariff rates soon.

Please refer to the response to the question posed by Japan. In addition, we would like to confirm our readiness to contribute, through a new round of sufficiently broad-based negotiations and within the parameters of effective reciprocity, to further tariff reductions on a multilateral level.

Question (United States): We are pleased that in 1997 the Czech Republic became a participant to the WTO Declaration on Trade in Information Technology Products (commonly referred to as the Information Technology Agreement (ITA)). In this context, it agreed to eliminate tariffs by 2002 on a range of imported information technology products covering 359 (eight-digit) tariff lines, including computers, telecommunications equipment, semiconductors, software, and scientific instruments. When will the Czech Government be eliminating these tariffs?

As committed, the final bound rates will be introduced as of 1 January 2002.

Question (United States): Under the end-use provision scheme, who decides whether relief should be granted on the grounds of their interest for public use? How is this decided? Can you please more fully describe the term "public interest"?

The end use scheme is not implemented in the Czech Republic.

Question (United States): Can you please more fully explain how the benefits provided by inward processing suspension system differ from benefits provided by the customs-free zone? Do benefits granted under the inward processing suspension system depend on whether Czech goods have been incorporated into the product? Are all products available for benefits under this program?

There are no differences between benefits concerning goods imported to the inward processing suspension system and benefits provided by the customs-free zone. Benefits granted under the inward processing suspension system does not depend on whether Czech goods have been incorporated into the product. All products are eligible for the purposes of this program.

Question (United States): Under the outward processing scheme do benefits depend on whether the product, which has been temporarily exported for the purposes of undergoing processing operations, will be re-exported after processing is complete?

Benefits under outward processing scheme depends on whether the product, which has been temporarily exported for the purposes of undergoing processing operations, will be re-imported after processing is complete.

Question (United States): Can you please clarify why exported products and services are zero-rated for the VAT? Does this essentially mean that the exported products and services are exempted from the VAT?

Exported products and services are relieved from the VAT according to the Act No. 588/1992 Coll. on VAT. The reason for such relief is the fact that the foreign importers pay the respective VAT or similar tax according to regulations of the importing country.

II.2. Customs procedures : regulations, valuations, and appeals provisions,

Question (Japan): It seems that a unified interpretation of the customs regulations is lacking (for example, the judgement of a same case sometimes differs among regional Customs Offices). In order to avoid such a situation, in the case of Japan, for example, the government will issue a notification covering the necessary interpretation of the regulations concerned. Japan considers that such a system would also be useful in the Czech Republic. Please comment on this.

The Czech Republic follows the same practice. It is the Ministry of Finance - the General Directorate of Customs, which instructs Customs Directorates and Customs Offices on the relevant interpretation of customs regulations.

Question (Japan): According to the Report, although the Customs Act contains a right of appeal against the decision of the Customs Office, there are no provisions whereby a higher administrative body could address the appeal. Due to the lack of such provisions, one cannot avoid following the decision by the Customs Office, even if it is considered to be wrong. Japan considers that the Czech Republic should take some measures in order to resolve such a situation. Please provide the Czech Republic's view on this point.

The right to appeal is guaranteed. The procedure clearly stems from paragraph 6 of Article 104 of the Customs Act, according to which a declarant may appeal a decision (of a Customs office) within one month of the day following the day of its receipt. The declarant submits his appeal through the Customs office (to a higher body) which may revoke its original decision. If not granted in full or rejected, the contested decision goes for the final decision to a higher body, which is a Customs directorate.

Question (Japan): Japan considers that the Czech Republic should take some measures to resolve the following situations. Please comment.

- (1) No correction to a customs declaration shall be permitted if requested after the arrival in the country of the imported goods.**

Upon request made by a declarant, the Customs office may amend the data presented in an already accepted customs declaration before release of the goods. Even in situations, when the goods have been released, a declarant may request for the invalidation of the original declaration by a Customs office. This request is granted if the goods in question were released into a customs procedure involving an import duty payment instead of another procedure by mistake and provided that the request to invalidate the customs declaration is submitted within 3 months of the date of the receipt of the original customs declaration.

- (2) Currently, no established system of pre-consultation exists.**

Any person may request the customs authorities for information on customs regulations applicable in a particular case. Information on goods of commercial nature is provided if properly documented.

On the basis of a written request, the customs authorities shall issue a decision pertaining to tariff classification of goods or the origin of goods - so called "Binding information". Binding tariff information preserves its validity for a period of six years. Binding origin information is valid for a period of three years.

(3) Much time is necessary to carry out customs procedures.

In order to shorten the length of customs proceedings, the Czech Customs authorities have introduced the electronic clearance and simplified customs procedures available to authorized declarants (for further details, please refer to information submitted in the document G/C/W/247 on national experience in the area of trade facilitation). Some other measures have also been taken, including simplified access to Customs offices through their location outside large conglomerations (usually on highways in proximity of these conglomerations).

(4) The Administration of Taxes Act No. 337/1992 Coll. is sometimes applied to customs procedures if the description of the provisions in the Customs Act is not sufficient. Such a system makes customs procedures opaque and unpredictable.

The Act No. 337/1992 Coll., on administration of taxes and fees applies only in instance when the Customs authorities decide on pecuniary fulfilment (e.g. collecting of duties, taxes, fees, fines and storage charges). In relation to other matters, proceedings are governed by the general provisions of Administrative Procedure Code.

Question (India): We have been told by our concerned authority that the Czech authorities are levying import duties on the "unit price" of certain textile and garment categories. This acts as a barrier for Indian export of textiles of the Czech Republic. We should request the Czech delegation to let us know the details of the levy of the import duty under the "unit price" method. Further, we would request the Czech authorities to review this method of levy of import duty.

The Czech Republic would like to clarify that this method is based on Article 5 of the Agreement in Customs Valuation. Customs value of the imported textile and garment categories is determined under this method only if the previous ones as stipulated by the Agreement cannot be used in a sequential order of application.

Question (Hong Kong, China): It is mentioned that although the Customs Act contains the right of appeal, there are no provisions whereby a higher administrative body could address the appeal. Could the Czech authority clarify the structure and operation of the appeal mechanism?

II.3. Import licensing regime

Question (Hong Kong/China): It is mentioned that certain non-automatic licenses are granted on a first-come-first-served basis. Would like to know the products that are subject to this arrangement and whether measures have been put in place to ensure that it will not become a de facto restriction.

First-come, first-served is one of the methods envisaged by the national legislation to administer non-automatic licensing with volume limits. At present, this arrangement is not applied to any of a few products subject to quantitative restrictions.

Question (European Union): Table A III.3 (page 98) contains a surprising statement. Under C it reads that certain listed products from the EU are subject to non-automatic licensing, with volume limits, and that the reason is for monitoring purpose. From our point of view, there appears to be a contradiction. We would be grateful to receive some clarifications.

The contradiction highlighted in the question is a printing error. Apparently, automatic licensing cannot be administered in such a manner as to have restricting effects. The Czech Republic does not

apply any volume limits on imports of products in question (common metals, iron and steel products listed under C in table AIII.3) originating in the European Union. These products should, therefore, have been included in list B - Export subject to automatic licensing, without volume limits., as they are subject to a "double-checking" system agreed between the European Union and the Czech Republic for the monitoring purposes.

Question (Discussant): However, at this point I would like to ask the Czech authorities how they use non-automatic licence system with volume limits for the monitoring purposes.

We are confident that it is apparent from the answer to the question raised by the European Union that the Czech Republic does not use non-automatic licensing with volume limits for the monitoring purposes.

II.4. Contingency measures

Comment (Discussant): However, it is yet to be seen if the Czech Republic will be an active user of contingency measures.

We would prefer to refrain from speculating on what is going to happen in the future. The Czech Republic's performance up to now clearly testifies to a sufficient restraint in resorting to contingency measures and the authorities will spare no effort to promote the country's national trade policy tradition and objectives based on free, rules-based trade.

II.5. TBTs/SPS : recent legislative changes to harmonize with EU requirements

Question (United States): The United States has raised its concerns with the Protocols to the Europe Agreement (PECAs) on the Conformity Assessment and Acceptance of Industrial Products in the TBT Committee (see, e.g., G/TBT/W/152). Specifically we have raised questions regarding the inclusive of provisions on rules of origin which will discriminate between like products from non-PECA parties on the basis of their origin. Could the Czech Republic please explain the rationale and justification for such discrimination.

We dare to differ with the statement according to which the PECA discriminates against third parties. The purpose of this Protocol is to facilitate mutual trade through elimination of technical barriers. It has been concluded to implement the Europe Agreement and to enhance the process of harmonization of the Czech national legislation with the aquis communautaire in this area. We believe that not only countries concerned but also third countries will benefit from high-quality harmonized technical regulations and their effective implementation.

Comment (Malaysia): Expressed belief that....“conformity and other testing procedures will no be more onerous than before. It is noted that SPS measures in the form of import bans may also be introduced. We hope that any measures taken will be based on scientific criteria”.

The process of alignment of technical regulations with those of the European Union have already simplified dealings of third parties within the Czech market. We believe that this process will continue delivering benefits and we do not expect that the Czech Republic's joining the European Union will result in any new obstacles in the area of technical barriers to trade. On the contrary.

Regarding SPS measures, we confirm that, subject to the right to act with precaution as provided in the Agreement on Sanitary and Phytosanitary Measures, any import bans will be based on scientific criteria.

II.6. Government procurement: remaining preferences for domestic tenders, participation in the WTO plurilateral agreement and in the negotiations on transparency

Question (Hong Kong/China): Understand that the contracting authority may stipulate a price advantage for domestic tenderers of up to 10%. Specifically, we would like to know whether and how the preferences for domestic tenderers will be treated in the new draft law on public procurement, which is expected to be in force by January 2002.

The contracting authority may stipulate the aforesaid advantage. The stipulation is fully at the authority's discretion. So far, this option has been used in about 5 per cent of all contracts. The draft law envisages that the price advantage will cease to be applicable either by accession of the Czech Republic to the European Union or on 31 January 2005, at the latest.

Question (Korea): As para 15 (page 16-17) of the Secretariat's Report points out, at the time of the previous review, the Czech Republic had indicated that it was considering the possibility of joining the Agreement on Government Procurement (GPA). However, this did not materialize. What are the intentions of the Czech Republic with respect to joining the GPA?

Question (United States): We are pleased that the Czech Republic intends to accede to the Government Procurement and the Agreement in Trade in Civil Aircraft. When does the Czech Government plan to join these plurilateral agreements?

Question (United States): We were pleased that a draft law on public procurement, was approved by the Government in January 2001. When is it likely to be approved by Parliament?

Question (Norway): Norway notes with satisfaction that the Czech Republic became an observer to the WTO Agreement on Government Procurement in August 2000. We particularly welcome the new draft law on public procurement which was approved by the Czech Government in January this year and is now submitted to Parliament and expected to be enforced as of 1 January 2002. Can the representative of the Czech Republic give an update on Parliament consideration of this draft law? And further, when the new law is enforced, does the Czech Government have the intention of becoming a signatory to the WTO Agreement on Government Procurement? If so, could you indicate the timing of such a move, which from Norway perspective would be very welcome?

The Czech Republic has initiated the process of becoming closer to the Agreement on Government Procurement by requesting for an observer status in the Committee on Government Procurement. An ultimate objective is to join the GPA by the time of accession of the Czech Republic to the European Union, at the latest. The same goes for the Agreement on Trade in Civil Aircraft.

Regarding the new draft law, its passage has been influenced by new administrative rules, giving the right to district officers to become affiliated with the process and to comment on the draft. Since a deadline for their comments is bound to expire these days, there is a fair chance for the Parliament to read the draft without any delay during the next session.

II.7. Export policy and export assistance measures

Question (United States): Is it expected that the new export policy adopted by the Czech Republic will affect future outlays by the Czech Republic for products for export (including export promotion, export subsidies, export insurance guarantees etc...)?

Additional outlays, if any, will not go beyond what is provided by other comparable economies and will be in strict compliance with the established practice and commitments of the Czech Republic. The major objective of the new export policy is to improve cooperation of institutions involved in this area, ensure their concerted action, and more effective use of available financial resources.

Question (United States): *How is it determined on what terms export credit financing will be granted? If export insurance from the EGAP is not obtained, are there circumstances under which export credits from the Czech Export Bank will still be offered?*

II.8. Customs free zones,

Question (United States): Can you please identify the nine custom free zones? What are the eligibility requirements to locate facilities in a custom free zone? What incentives are specifically offered in each of the custom free zones?

List of free Customs zones and free Customs warehouses:

1. Free zone Ostrava, Vítkovická 1, 701 93, Moravská Ostrava,
2. Senzo Cheb, Svobody 25, 350 01 Cheb,
3. Graddo Zlín, P.O.BOX 231, 760 01 Zlín,
4. Free zone Pardubice, Perštýnské nám. 1, 530 21 Pardubice,
5. Třinecké železářny, 739 70 Třinec,
6. Čs. management Praha, K šancím 50, 163 00 Praha 6, as a manager of the free customs zone, in the area of the city Vysočany-Bor u Tachova,
7. Merka Spedition, Skladištní oblast 857, 500 03 Hradec Králové,
8. EXCES spol. s r.o., Tiskařská 563/6, 100 00 Praha 10,
9. SPEDQUIC spol. s r.o., Lukášova 7, 130 00 Praha 3, - Free customs warehouse in Františkov nad Ploučnicí.

Eligibility requirements to locate facilities in a customs free zone were:

- a) type of industrial, commercial or service activity,
- b) Customs free zone or Customs free warehouse,
- c) level of employment in the region,
- d) transport and other infrastructure,
- e) available area.

Industrial, commercial or service activities can be performed in a free Customs zone or in a free Customs warehouse only in compliance with conditions stipulated by the Customs Act and other laws. After establishing of any free Customs zone or warehouse, the local Customs office shall be notified of the performance of such activities. According to relevant provisions of the Customs Act on sensitive information, information about activities in each of 9 above mentioned free Customs zones or warehouses can be published only by these free zones or by Customs authorities after a prior consent of a manager of these Customs free zones or warehouses.

II.9. Intellectual property rights: International rules, enforcement

Question (European Union): The report states that the IPO can grant a compulsory licence for a patent if the owner of the patent does not “work” the patent sufficiently or when an important public interest is endangered. Could the Czech Government please explain what is understood under the “non-working” of a patent?

No compulsory licence has been granted so far in the Czech Republic. Conditions for granting a compulsory licence, as set for in Patent Law No. 527/1990 Coll., as amended by Law No. 116/2000 Coll., are in full compliance with Article 31 of the TRIPS Agreement.

According to this legislation non-working of a patent, where subject matter is a product, may not occur when the patentee makes, offers, puts on the market, uses the patented product, or imports or stocks the product for these purposes, or disposes with it by another manner. In case of a patent, where a subject matter is a process, non-working of patent may not occur when the patentee uses or offers the use of the patented process. The patentee can also conclude a licensing contract.

A final decision of the Industrial Property Office to grant a compulsory licence can be reviewed by a court.

Question (European Union): Could the Czech Republic please explain how it has implemented its obligation under Article 39.3 of the TRIPs Agreement to protect against unfair commercial use and disclosure of data required as a condition of approving the marketing of pharmaceutical or of agricultural chemical products which utilize new chemical entities.

The protection of undisclosed information which is required as a condition of approving the marketing of pharmaceuticals and agricultural chemical products, is provided for in Law on medicines No. 79/1997 Coll. (Pharmaceuticals) and by Law on plant medical care No. 147/1996 Coll. (Agricultural Chemical Products). Provisions of Law No. 513/1991 Coll., (Commercial Code) relating trade secrets are also relevant.

Data submitted in the framework of the registration procedure of medicament must not be disclosed to other people without an authorization of an applicant for registration. In the registration procedure of another medicament, these data may be used only when the applicant for registration submits written authorization of the holder of the registration decision with the use of these data, specifying the scope and limitations, if any, for their disposal, or at least six years have expired since the issue of the registration decision.

Data regarding effective substance of product and product submitted by the applicant for the registration, can not be disclosed without the consent of the applicant. It must not be used in the registration procedure in favour another applicant, when at least ten years have not expired since the issue of decision registration of product containing the same active substance, or the applicant for registration does not submit a written authorisation of the holder with the use of these data, specifying the scope and giving all limitations, if any, for their disposal.

Question (Japan): The Report states that the Member States of the European Patent Organization have invited the Czech Republic to accede to the European Patent Convention, with the earliest date of accession of 1 July 2002. Please indicate the current situation and the perspective for such accession.

The Czech Republic has an observer status in the Administrative Council of the European Patent Organization. In May 2001, the Government approved the proposal on the accession of the Czech Republic to the European Patent Convention with effect as of 1 July 2002. This proposal was submitted to the Parliament for an approval.

Question (Japan): When comparing the figures of 1999 and 2000, we note that while the number of apprehensions by the Czech Trade Inspection, as well as the number of cases of goods infringing copyright and trade marks prosecuted by the Directorate General of Customs, has

increased, the number of apprehensions by the Czech police has declined. Please explain the reason for this.

This can be explained by a new legal framework, established in 1999 and 2000, which provides for increased possibilities to act against infringement of IPR's under the civil and administrative procedures. As a result of it, more cases have been apprehended by Customs and Czech Trade Inspection authorities, which closely cooperate with the Police of the Czech Republic. Overall, the number of cases testifies to the positive trend in enforcement of IPR's in the Czech Republic.

Question (United States): The Secretariat's report notes that while the authorities have brought laws for the protection of intellectual property towards international standards, enforcement appears to have lagged. A newly enacted law provides for tough criminal sanctions for infringement, but the Czech courts have not yet imposed such sanctions in practice. What is the Czech Government doing to encourage the Czech courts to impose tough sanctions?

Statistics prove that the provisions of the Czech laws are operational and that sanctions for infringement of IPR's are imposed and the amount of condemned persons for breaching of intellectual and industrial property rights doubled for the period of 1996 – 2000.

To encourage the Czech courts to impose tough criminal sanctions for infringement of IPR's laws, the authorities organize various seminars, workshops and training courses focused on enhancing awareness of various aspects of protection and enforcement of IPR's. Specialised seminars are organized, quite often in co-operation with the EU and the US institutions, for judges and prosecutors.

The judicial practice has been unified through legal opinions and decisions published in the Collection of judicial decisions and opinions issued by the Supreme Court.

III. SECTORAL POLICIES AND MEASURES

III.1. Agriculture : relatively high tariff protection, domestic support, export subsidies, other trade restrictions,

Question (United States): To what degree and in what manner are potato starch export subsidies provided? Can you please include this export subsidy program in your updated subsidies notification?

Potato starch export subsidies have been provided in accordance with and within the limits of the Czech Republic's Uruguay Round Schedule. All relevant data have been notified to the Committee on Agriculture.

III.2. Financial services : recent bank reforms, privatization and degree of competition in the sector, foreign participation, insurance services

Question (United States): The Secretariat's report notes 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. What is the Czech Government doing to improve the structure of the banking sector?

As stated in the Secretariat Report, the major state owned commercial banks have already been privatized recently, and the privatization of the remaining largest bank - Komerční banka - has been

just completed. As a result, almost 95% of the total assets of the banking sector are in foreign hands. The new owners belong to well known top financial institutions of the world.

According to the IMF latest FSSA Report (Financial Sector Stability Assessment), the current level of non-performing loans of banks is constantly decreasing and does not pose the systemic threat to the stability of the Czech banking sector.

Question (Canada): The Secretariat Report states that the insurance market is open to national and foreign investors and that establishment requires the authorization of the Insurance Supervisory Authority. Please explain the process for a foreigner to obtain this authorization?

The requirements regarding the authorization for doing business in the insurance sector are stipulated in the Act No. 363/ 1999 Coll., on insurance (paragraph 3-5 and 7-12). As to the licensing process, paragraph 38 of the Act is applied.

The foreign entity, intending to provide insurance activities within the Czech Republic's territory, can either set up an organizational unit or establish a Czech legal person in the form of a joint stock company or a cooperative.

Question (Canada): According to para 17, certain financial services sectors are closed to foreign investment by law including mortgage banking, some operations in securities on capital markets, operations in the collective investment securities, and operations in foreign exchange activities. Given the benefits that the Czech Republic would obtain by opening these sectors to foreign investment, does the Government of the Czech Republic plan to liberalize these sectors in the near future?

Question (Hong Kong/China): It is noted that certain activities are closed to foreign investors by law, like mortgage banking, some operations in securities on capital market and so on. Like to know the rationale for such measures and whether there are any plans to consider relaxing such measures.

Since the first TPR in 1996 the liberalization of financial services has substantially progressed. The Czech Republic has nearly completed the foreign exchange liberalization by the end of 2000 (after the adoption, on 31 May 2000 of the Government Resolution No. 169/2000 Coll., amending the Government Decree No.129/1998 Coll., which came into force on 1 January 2001). All restrictions with respect to the operations of deposit accounts by residents with non-resident financial institutions have been abolished. The remaining restrictions are particularly based on provisions other than those of Foreign Exchange Act. They are mainly focused on monitoring of capital inflow.

In fact the existing rules do not represent a real restriction since foreign persons are allowed to provide the majority of financial services, provided they have received a permission by the Securities Commission. Nevertheless, it should be underlined that the permission of the Securities Commission is required not only for operations provided by foreign entities, but for those provided by domestic subjects as well. These measures are necessary for the financial system stability. It means that the national treatment principle is applied and MFN status is granted in these cases.

There is a special provision regarding foreign mortgage bonds that can be issued only by a licensed bank established under the Czech law (according to the Czech legislation, this bank can be 100 per cent foreign owned). This measure results from the bankruptcy regulations stipulating that in case of bankruptcy of a bank mortgage bonds have preferential treatment (however issue of mortgage bonds does not require Security Commission's permission, they are only registered by the Commission).

Question (Hong Kong/China): Welcome the opening up of the insurance market to both national and foreign investors. However, certain mandatory insurance is reserved for the locally-owned/licensed suppliers. This limits competition and is not in the interest of the consumers. The premiums should be set by the market forces instead of the authorities. The recent third-party insurance case of air transport in the wake of the attack on the US is a good lesson. Would therefore like to know whether the authorities have any plans to follow suit the liberalization of the supply of compulsory third-party motor liability insurance.

The process of liberalisation of mandatory insurance services has been accomplished, with the exception of mandatory liability insurance for employers against injury or occupational diseases and compulsory health insurance.

Mandatory liability insurance for employers against injury or occupational diseases is based on the Act no. 65/1965 Coll., Labor Code, para 205 and on the Decree of the Ministry of Finance No. 125/1993 Coll. In accordance with these regulations the services can be provided by insurance companies disposing of sufficient branch network within the Czech Republic's territory. If a foreign insurance company fulfills this condition, it will be granted the relevant authorization by the Czech authorities as well.

In the health insurance, a distinction has to be made between public health insurance and commercial health insurance. The former is provided through health insurance companies operating on a quasi-tax system when the Government fixes the premium, while the latter provides services on a commercial basis. There are many commercial insurance companies providing health insurance.

III.3. Telecommunications : privatization, competition and remaining FDI restrictions

Question (Canada): According to para 23, the Czech Republic increased competition in the telecommunications sector by gradually opening up its markets to national and foreign investors. We note that the telecom monopoly company, Cesky Telecom, has been partly privatized. Is this a first step leading to total privatization? Are there plans for the Czech state to retain a minority stake in the company, or a controlling interest?

The Government's objective is to privatize the remaining 51% of shares in the Cesky Telecom during 2001 - 2002. Once privatized, the state will not exercise its control over the company which will have to abide by regulatory measures applicable on the market.

Question (United States): We are pleased that the authorities are planning to privatize the remaining 51% of shares in the Cesky Telecom and the CR during 2001. When is this likely to occur?

The sell-off of the state 51% ownership of the fixed line telecommunications operator Cesky Telecom is under way and it is expected to be accomplished during 2001 - 2002. In accordance with the Government Resolution the state-owned share of 51% in Ceske Radiokomunikace has been sold to a chosen company and the Agreement between the National Property Fund (owner of the state shares) and a new owner of the company Ceske Radiokomunikace was signed on October 15, 2001.

Question (Canada): Chart V.2 shows the growth in the number of competitors in different telecommunications market segments (long distance, international, local, mobile, 3G, Internet). Please provide market shares for incumbents and new entrants in these market segments.

As liberalization of the market in the voice telephone services over fixed networks started on 1 January 2001, there is no sufficient reliable data allowing any informative assessment. At present, the

share of the Czech Telecom in fixed telephone lines amounted to 98,7%. Development of the mobile services market increased the penetration of mobile to 58% of telephone market, compared to 38% penetration of fix line services. Market shares in mobile services are as follows: Eurotel (incumbent owns 51% of its shares) take a share in 48,3% of end users, RadioMobil is the second largest with a share amounting to 42,4% and the third one is Cesky Mobil with 9,3%. Shares in the Internet market are difficult to be assessed as the market is fully liberalized. There are some indications stemming from unofficial data that the incumbent company operating at the market has about 40% share in number of users.

III.4 Tourism: fiscal incentives

Question (Canada): According to para 46 under the State Programme for Tourist Support, investors may receive grants up to 50% of investment costs for the development of spa-related activities. Please explain how foreign investors can obtain this grant?

The grant can be obtained by any tourism-related entrepreneurs, both of Czech and foreign origin, provided they run their business in accordance with the Czech law, and within available financial resources. To qualify for the grant, supported project have to comply with certain conditions, including contribution to the improvement of tourism infrastructure and services, creation of new jobs, respect for special needs of certain regions, and have to be environmentally friendly. Technical details, forms etc. are available on the web site: www.mmr.cz.
