

WORLD TRADE ORGANIZATION

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and Countervailing Measures

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SUBSIDIES

Replies to Questions Posed by the UNITED STATES¹ Regarding the New and Full Notification of the CZECH REPUBLIC²

The following communication, dated 15 October 2004, is being circulated at the request of the Delegation of the European Commission.

I. INVESTMENT AID

Aid for Foreign and Domestic Investments

What types of industries benefit under this programme?

II. REGIONAL AID

Aid for Endangered Regions and Regional Aid

- 1. Please explain further the conditions a company must meet to receive aid under this programme.**
- 2. What types of industries benefit under this programme?**

Replies

Investment Aid (Aid for Foreign and Domestic Investments) and **Regional Aid** (Aid for Endangered Regions and Regional Aid) are both covered by Investment Incentives scheme. Since April 1998 incentives were provided under a contract (Memorandum of Understanding) between the state and the investor. The **Investment Incentives Act** came into force in May 2000. This law codified and to some extent simplified the previous scheme. The Act was discussed with European Commission and follows European rules on state aid. Under EU rules, the maximum amount of state support for investment is limited. These provisions, setting out the so-called “maximum admissible level of public and regional support”, were incorporated into Czech legislation in the State Aid Act, which took effect in May 2000. There were two amendments to the Investment Incentives Act, becoming effective in January 2002 and May 2004, respectively. This Investment Incentives scheme is for investment in the **manufacturing sector**.

¹ G/SCM/Q2/CZE/16

² G/SCM/N/95/CZE

The **general conditions** for granting the incentives are:

1. The investor must establish a new manufacturing plant, or expand or modernize an existing plant.
2. The activities must be in the sectors of manufacturing industry, provided that part of the production line consists of machinery specified in a Government Decree, and the cost of this part constitutes at least 50 per cent of the total cost of the production line. In practice this means that most manufacturing activity is capable of qualifying. However, the following are explicitly excluded from the qualifying activities:
 - extraction of minerals
 - electric power generation and distribution
 - gas and water treatment and distribution
 - construction
 - repairs of motor vehicles
 - trading in goods and services.
3. Production machinery must represent at least 40% of the total value of tangible and intangible assets.
4. The project must meet Czech environmental standards.
5. The investment in tangible and intangible assets must normally be at least CZK 200,000,000 of which at least CZK 100,000,000 must be met from equity. The minimum of CZK 200,000,000 is reduced to CZK 150,000,000 if the investment is in a district with an unemployment rate that at the time of the application for incentives is at least 25 per cent above the national average. In this case, CZK 75,000,000 must be met from equity. Similarly, the minimum of CZK 200,000,000 is reduced to CZK 100,000,000 if the investment is in a district with an unemployment rate that at the time of the application for incentives is at least 50 per cent above the national average. In this case, CZK 50,000,000 must be met from equity. The assets, which meet these minimum investment figures, must be purchased—assets subject to finance leases, for example, cannot be included.
6. The first three conditions above must be met within three years of the date of the formal grant of incentives. This is subject to a two-year extension in some cases (e.g. where there have been unexpected delays beyond the control of the investor).
7. Acquisition of assets for the project cannot begin before the initial application for incentives is submitted.

The main **benefits** are:

1. Corporate tax relief for a period of up to ten years for both new companies and for expansion of existing companies.
2. Financial support for creation of new jobs.
3. Financial support for training employees.
4. Transfer of a construction site at an advantageous price.

The maximum level of public support is set for individual investment projects based on so-called **regional map**. This map allows providing higher incentives for the investment projects located

in more endangered regions. The total of the incentives provided for a single investment project must not exceed the “maximum admissible level of public support” under EU rules. Generally, the maximum level of state aid (and thus total amount of investment incentives) will not exceed 50 per cent of the total investment into tangible and intangible assets.
