

**North American investment in Central and Eastern Europe
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"US and Canadian Investments in the Czech Republic"

I. Introduction

The Czechs are funny. Having survived forty years under the old communist regime, they have been used to have a "big brother" to be protected by him. In the old times it was the Soviet Union and so everybody was trained to comprehend who this brother was. As the Czechs incline to make jokes about everything, one example might be the following one:

Two friends met and one complained to the other: "It is horrible. I get up at 6 in the morning and when I switch on the radio, they speak about Breshnew. Then I go by tram to work and all people read newspapers, on the front page being Breshnew. When I come to my office, I can see pictures of Breshnew everywhere. Then we have a meeting with our management and they talk about Breshnew, the same happens in the afternoon at the trade union meeting. Thereafter I return home and I must watch Breshnew on TV again. Would you explain me how can I open a can with pork without any risk that there will be Breshnew inside?"

Well, one may ask what is the reason for such examples, while talking about North American investments. There is perhaps one. Since the old big brother has fortunately died, the Czechs have been looking for another one. The new one must be again big and strong, but, in contrast to the previous one, he should be able to help to overcome the previous 40 years of state planned economy. Those who have been in the Czech Republic within the last five years (especially in larger cities) will probably agree with me that the US influence is clearly perceptible. Starting with McDonald's restaurants, 90 % of American pictures including Dallas, Walt Disney etc., it is doubtless which culture is presently preferred by Czechs.

However, as far as the volume of investments of the USA and Canada is concerned, Czechs are still hoping that the volume will be substantially increased, bearing in mind the last development.

II. Major Investments made in the Czech Republic

The following largest US and Canadian investments were made since 1991:

DuPont-Conoco petroleum refineries with a total investment of USD 629 mil. into Česká rafinérská a.s., Rann International Trading Co. in respect of telecoms services with USD 500 mil., Phillip Morris in respect of tobacco business with USD 420 mil., National Energy Corporation in energy business with USD 400 mil., Pepsi-Cola International with USD 200 mil., Ford Motor Company in respect of automotive components with USD 115 mil., Procter & Gamble regarding consumer goods with USD 108,8 mil., Atlantic West in telecommunications with USD 86 mil., as well as other lower investments of Masterfood, Ivax Corporation, McDonald's, Air Products and Chemicals, Boeing McDonnell Douglas etc.

In 1997 the total US investments made 99,2 mil. USD only, while among the Canadian ones the biggest investment in 1993 was that of Canstar in respect of sports equipment with USD 10 mil., but in general the Canadians did not belong to leading investors.

Following some political changes in the Czech Republic, a long-awaited investment incentive package in 1998 was approved by the Czech government. Generally, the package applies to the following investments:

i) greenfield investments and joint-ventures investments into all manufacturing industries pursuant to the "OECD Classification of High-Technology Products and Industries" are eligible. Acquisitions do not fall within that scope.

ii) the total investment amounting to at least 25 mil. USD. The Ministry of Finance, however, has already announced that within approximately 2 months such limit should be decreased to 10 mil. USD only.

iii) investment into environmentally-friendly production.

There are seven incentives which should encourage especially foreign investors to invest in the country:

1. Deferred payment of the corporate income tax for 5 years provided that the targets have been achieved and that a tax credit will equal the remitted amount which shall be

deductible from future tax obligations. Prior to the adoption of the necessary legislation changes a written government guarantee should be provided for case that the changes in legislation are not adopted.

In addition, independent accounting through establishment of a new business for the investment to which the investment incentive relates, losses carried forward must be set off against the first profit and the machinery which must not have been subject to depreciation in the Czech Republic are required

2. Accelerated tax depreciation of machinery and on the modified list by the OECD of 25 % annually and of production buildings of 4 % annually.

The incentive will be provided once the necessary changes in law have been adopted.

3. A new production will be located in an existing customs free zone or a new such zone will be created. In this context the total amount of investment into machinery must be at least 40 % of the total amount of the investment, there must further be a significant long-term economic benefit and the used machinery may not be subject to depreciation in any other country.
4. Remission of duties on machinery and equipment on the modified OECD list. Deferred VAT on machinery and equipment on that list for 90 days so that the payment can be refunded by the Revenue Office before the obligation arises, or it can be transferred directly to cover the customs debt. The total amount must be to at least 40 % of the total amount of the investment in respect of machinery, which may again not be subject to depreciation in any other country.
5. New job creating interest - free loans up to 80.000,- Kč per individual to be converted into a subsidy in less developed regions of the country with further requirement of direct employment for a minimum period of two years. Due to new legislation the interest-free loans will be granted through a government resolution.
6. Interest - free loans for training and re-training of Czech citizens up to 50 % of the total training cost to be converted into a subsidy. According to the region the employer will be required to employ certain number of employees, there is an annual cap in the budget.

7. Provision of sites convenient for investments at extremely low prices. For this reason the municipalities will be granted interest - free loans up to 60 % of the costs related to construction of industrial infrastructure or to the sale of suitable land owned by the Land Fund at the National Property Fund to the municipalities. This incentive is also limited by an annual cap in the budget.

III. Conclusion

The aforesaid incentives are a clear indication that the Czech Republic not only wishes to substantially increase the number of foreign investments but it is also prepared to abandon the previous heavily supported business principle of the same conditions for all entrepreneurs without any exceptions. Whether this will be sufficient for the new "big brother" is still questionable, nonetheless at least the first step has been taken. Since presently a major investment of the company Intel is under negotiation, it can be expected that the government will attempt to convince foreign investors that the Czech Republic is the best place where to spend their money.

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