



czech. **business & trade**

economic magazine

**NEW BUSINESS
RELIEFS IN THE
CZECH REPUBLIC**

**CZECH ENGINEERING
INDUSTRY EXPECTED
TO GROW**

**FUTURE
DEVELOPMENT
OF THE ENERGY
SECTOR**

**FASTEST-GROWING
ECONOMY**

WITHIN THE EU

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Issued by PP AGENCY s.r.o. in cooperation with

- Ministry of Industry and Trade of the Czech Republic
- Ministry of Foreign Affairs of the Czech Republic
- Ministry for Regional Development of the Czech Republic
- Confederation of Industry of the Czech Republic
- Confederation of Employers' and Entrepreneurs' Associations of the Czech Republic
- Czech Chamber of Commerce
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Press run: 10 000 copies. It is not allowed to reproduce any part of the contents of this journal without prior consent from the Editor. Attitudes expressed by the authors of articles carried by CBT need not necessarily be consistent with the standpoint of the Publisher. MK ČR E 6379, ISSN 1211-2208 „Podávání novinových zásilek povoleno Českou poštou, s. p., odštěpný závod Přeprava, č. j. 3468/95, ze dne 24/10/1995“

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■ PRESENTATION OF FIRMS

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Questions for Dagmar Kuchtová, General Director of the Confederation of Industry of the Czech Republic

You are at the head of the Confederation of Industry, the largest employer association to have been assisting Czech and other exporters for 25 years now. Can you sum up the history of the Confederation for us from its inception to the present day?

The main idea which prompted our efforts at the inception of our modern history in 1990 was to confirm and strengthen the position of industrial representation in democratic society, to participate in carrying through reforms in creating a civic society, and to become an important partner to the Government and a strong player in the dialogue with trade unions. Step by step, we worked to find a place for ourselves in the international environment. In 1992 we became a member of the International Employers' Organisation, in 1993 a member of UNICE (currently known as BUSINESSEUROPE – Confederation of European Business) and, since 1996, we have been representing Czech employers and businessmen in BIAC – the Business and Industry Advisory Committee to the OECD. We have signed 110 cooperation contracts with foreign partner unions and chambers. In 2002, together with the Confederation of Employers' and Entrepreneurs' Associations of the Czech Republic and the Czech Chamber of Commerce and with the support of the Ministry of Industry and Trade, we opened an office of the Czech Business Representation to the EU in Brussels (CEBRE).

With the growing membership base, which at the beginning had 153 foundation members, we focused increasingly on pushing through members' legitimate interests and on services for them. With their assistance, we are attempting to build a team of professionals focusing on areas such as the labour market and education, the energy sector, research, development and innovation, Information and Communications technology, transport and transport infrastructure and, last but not least, the efficient support of exports. Since 1993, the Confederation has organised more than 140 business missions to foreign countries. We have mediated in hundreds of meetings with foreign partners in the Czech Republic, their participation in numerous trade fairs abroad and their presentation there. We have significantly participated in efforts to improve state support to exports and the functioning of the economic diplomacy of the Czech Republic.



We pay great attention to the strengthening of our work in the European Union, the participation of our members in drafting EU legislation to seek efficient partnerships within the framework of the member countries.

With the aid of projects supported by EU funds, we have been able to create a network of regional representations and consequently to improve the service for our members in the regions, and to improve the functioning of social dialogue at the regional level. Currently, our expert sections are busy commenting on new acts and amendments to existing legislation concerning labour law relationships, energy issues and the environment, taxes, public procurement, the Insolvency Act Amendment, etc. Our primary interest is to improve the business environment, reduce the administrative burden and of course to support the interests of our members. Thanks to the full integration of members of the Association of Small and Medium Enterprises, our membership base has broadened and now comprises some 10 500 members, associated mainly in 28 branch and professional unions and associations.

This year, you have become an umbrella organisation for the national campaign "Year of Industry and Technical Education" (YITE), the aim of which is to establish collaborative relationships between firms and educational institutions. What, in your opinion, is the standard of technical education in the Czech Republic and what are its prospects?

The aim of the YITE campaign is not only to improve collaboration between firms and schools, but also to change the public perception of industry and the technical sectors and especially to change the Czech educational system, which should turn out a well-educated and vocationally prepared

labour force that will find working opportunities in the labour market. We place emphasis especially on technical and natural science skills at all levels of education. Our experts believe that therein lies the future, without debasing the importance of Humanities education. We realise the need to improve the general competences of pupils and students. It is very difficult to evaluate the standard of technical education at the general level. There are top standard secondary schools; we have excellent technical universities. In general, the quality of education depends on the quality of the teachers and on finance, in addition to legislation. There is a lot to improve in both areas. Another important task in the efforts is to motivate would-be students and apprentices and their parents to change their decisions. They must become convinced that they will have the opportunity of procuring interesting and well-paid jobs. Many of our members are now already active in this respect, and are successful. This, too, is the aim of the Year of Industry and Technical Education – to share information and positive experiences.

What, in your opinion, is the position of the Czech manufacturing industry in the world? And what are the prospects of the Czech engineering industry?

In Europe, the Czech Republic is at the top of the list of countries where industry takes the largest share in the creation of gross domestic product. Worldwide, we are generally recognised as a country with a highly developed engineering industry as a key sector. Here our position is very good, whether concerning the manufacture of cars and machine tools or power generating technologies. However, we also have a good name in the chemical industry, environmental technologies, electrical engineering, medical equipment and instruments, and a number of other sectors.

I would like to play my part in the strengthening of the Confederation's position as a leader in employer and entrepreneurial organisations in the Czech Republic, by raising the competitiveness of Czech industry, providing an ever better service for members, gaining new members and strengthening our position and representation in Brussels. For this I need a reliable and efficient team, which I am trying to build and strengthen, provided that I have the confidence of the Confederation's Managing Board.

Fastest-Growing Economy within the EU

At the beginning of this year, the Czech economy was doing unexpectedly well. Its growth surpassed the 4% margin, unemployment was declining rapidly, inflation was negligible, the currency relatively stable and loans the cheapest and the most easily available in history. Strong results were shown by industry, construction and a number of services, including retail trade. The foreign trade surplus is aiming at a new historical high, the same as car manufacture. It is very likely, however, that the 4% growth is just a positive deviation, rather than the start of a new economic trend. Nevertheless, it is most likely that we'll also be seeing very good results in the remaining months of this year.

As in 2014, this year, too, industry is the main driving force of the Czech economy, with the manufacturing industry, specifically car manufacture, being most responsible for the faster growth of GDP. The role of the automotive industry, the largest manufacturing sector, accounting for more than one-quarter of the output of the entire manufacturing industry, is growing, partly due to foreign demand and the firms' innovations. The manufacture of electrical and electronic products and plastic goods is undergoing expansion, and even the food industry is back on the way up. As industry is pulling the economy up, its share of the entire GDP is growing. The Czech Republic is already now actually the most industrialised country in the EU, as industry accounts for nearly 33% of the country's GDP in current prices.

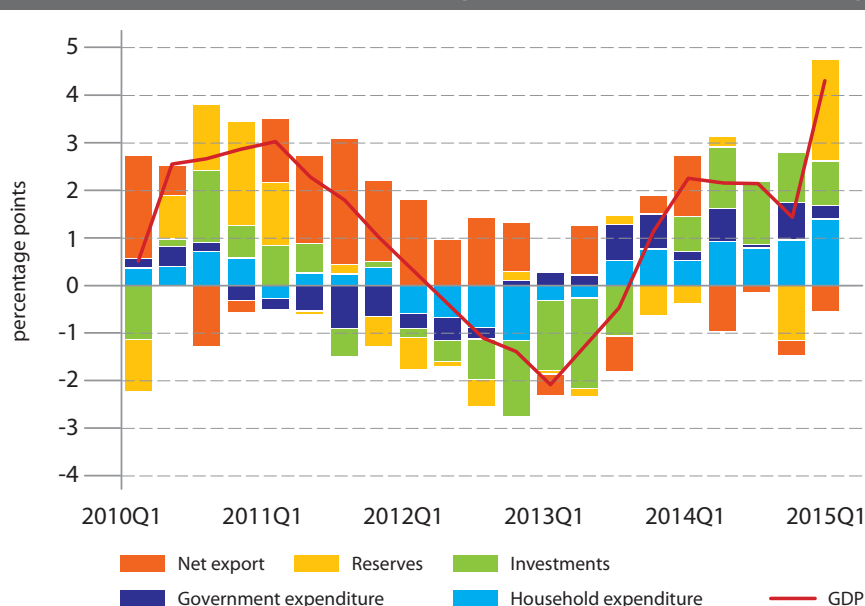
This country's economic growth naturally also relies on other sectors, in particular construction, and certain market services, such as trade, transport, and IT services. The demand side of the economy is elevated particularly by household consumption and investments. The positive mood of consumers, supported by declining unemployment and the growth of wages, makes people more willing to buy consumer goods, including cars, and to invest in housing. In addition, the investment activity of firms financed primarily with accumulated own resources has accelerated and public con-

tracts, especially in construction, have also followed an upward trend. The boom witnessed by this sector, which started last year after nearly six years of depression, is gaining momentum. The construction of new apartments has also rebounded from the bottom, stimulated by the renewed growth of demand for new apartments and family houses financed by record-cheap and easily available mortgages. At the same time, the growing interest in housing is not accompanied by excessively rising property prices, and can therefore be considered a sound and sustainable trend.

The solid growth of exports last and this year has resulted in a higher surplus of the Czech Republic's balance of trade. This, together with the favourable trade balance of the services sector and the strong flow of money from EU funds, compensates for the outflow of investment profits (dividends and interest rates) to foreign countries. In 2014, the balance of payments' current account for the first time showed a moderate surplus, which, thanks to the positive economic trends, is expected to grow further this year. Some credit for this development will be due to cheaper oil, on the purchase of which the Czech Republic will be able to spend about EUR 1.2 billion less than last year. As a result, the current account surplus may come close to up to 2% of gross domestic product.

The economic growth of the Czech Republic is based on domestic and foreign demand, and it can therefore be expected that the Czech economy will maintain the solid growth rate this and next year, even though the result of the first quarter of 2015 is minimal in relation to the comparative base, and the extraordinary influence of reserves and taxes is unrepeatable. Indeed, certain indicators in industry are already now showing that at least the next six months will be very favourable for this sector, which is the most important for the country's economy. This concerns in particular the steadily growing new orders received by industrial enterprises, especially in the case of car manufacturers and engineering firms. The expectations of the enterprises themselves, too, are favourable, forecasting further growth, based on both the economic boom indicators of the statistical office and the Purchasing Managers' Indexes. Worth mentioning in this connection are the more favourable economic outlooks of the EU, in particular

CONTRIBUTION TO GDP GROWTH (SEASONALLY ADJUSTED DATA)



Source: ČSOB

Germany, where household and investment demand is growing, and which is the outlet for the largest proportion of Czech exports.

■ ECONOMIC GROWTH WITHOUT INFLATION SO FAR

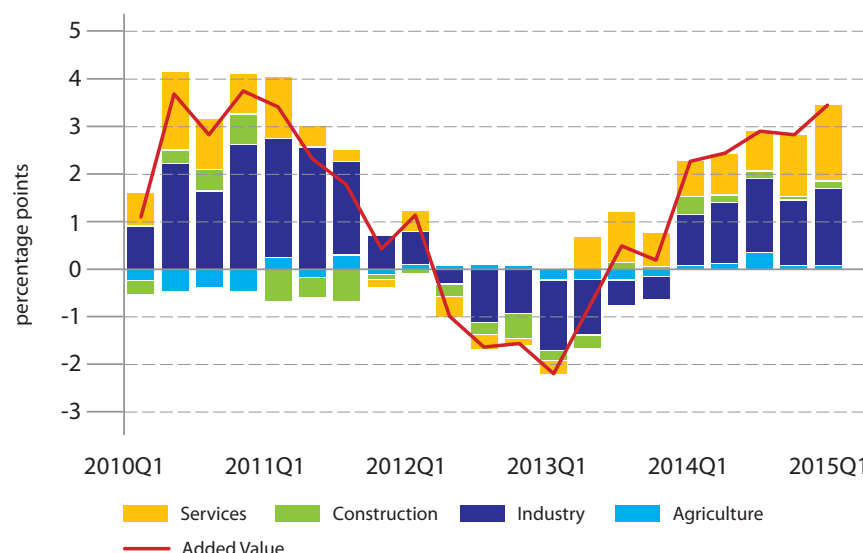
Despite the artificial weakening of the Czech crown at the end of 2013, inflation is still far below the Central Bank's target. Since the beginning of the year, the year-on-year inflation rate has been fluctuating between 0.1 % and 0.7%, while its growth is prevented by cheaper energies, fuel, the cancellation of regulation fees in the health service and the steadily declining prices of imported electronics. Inflation is expected to increase only very slowly and is likely to reach the CNB target later than the Central Bank was planning (i.e. not during 2016). Limited possibilities are seen especially in demand inflation which, despite the strong economic growth, does not manifest itself because of the slow growth of wages throughout the economy. It is therefore very likely that the departure from the cur-

rent currency mode will not happen before the second half of 2016, as the latest CNB prediction indicates. Consequently, we do not expect any alteration of the exchange rate in 2015 and at least during most of 2016. As regards interest rates, no change is expected before the end of 2017. This naturally does not mean that from time to time the market will not "speculate" over any "devaluation" or the breaking of the current fixing of the crown, as we could see at the end of the first quarter of this year.

■ ECONOMIC GROWTH RAPIDLY REDUCES UNEMPLOYMENT

Thanks to economic recovery in the past two years, the situation in the labour market is rapidly improving. The unemployment rate dropped under 6% and is one of the lowest in the whole of the EU. This is accompanied by the offer of new jobs, the highest for the past six years. Most jobs are offered by the manufacturing industry, which creates new workplaces especially in car making and electrical engineering. Employment is also growing in the services sector, which has only slowly been recovering from the last two recessions. The development of wages is less favourable. Their growth is lagging behind the Central Bank predictions. Wages are expected to increase this and next year, especially in the public sector. Even so, there will only be a moderate increase in wages and, because of the weaker exchange rate of the crown, total hourly wage costs will not exceed EUR 10 and will remain at less than one-third of German wages. This will support the competitive position of the Czech Republic, but, on the other hand, as stated by the Central Bank, wages will remain an anti-inflation risk.

CONTRIBUTION TO GDP GROWTH (YEAR-ON-YEAR REVIEW)



Source: ČSOB

■ THE CZECH REPUBLIC IS GROWING AT THE FASTEST RATE WITHIN THE EU

The strong and practically unrepeatable result as regards GDP for the first quarter of this year has put the Czech Republic (besides Romania) in the position of the fastest-growing economy within the entire EU. After some time, the convergence process, interrupted by the second recession in 2012–2013, has begun to accelerate and the Czech Republic once again has the opportunity of coming closer to the economic level of the advanced West European countries. On the GDP scale, in terms of the purchasing power parity, the Czech Republic has already surpassed Slovenia within the EU and its economic level has reached 84% of the EU average, which means 16th position on the ladder of the 28 member states. In the next two years, the Czech Republic will have the chance of reaching 85% of the EU average, which will at least confirm its lead over two old member states – Portugal and Greece.

The outlook of the Czech economy for this and next year remains positive. On the supply side, the economy will be boosted by industry and construction and, on the demand side, by consumption and investments. Inflation will increase only slowly and is not likely to reach the Central Bank's target sooner than in 2017. That is why we are expecting no major movements within this time limit at the shorter end of the revenue curve nor any change of the exchange rate mode. Oil prices remain a risk factor (also in the positive direction), the same as foreign demand, and, on the domestic side, a risk factor will be the slow – still anti-inflationary – increase of wages.

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Time for New Investment Incentives

As of 1 May 2015, an amendment to the Czech Investment Incentive Act (the "Act") came into force. Its aim is to make investment incentives more attractive for investors even despite reduced maximum level of state aid (25% from the previous up to 40%), which in July 2014 was introduced by the European Commission's General Block Exemption Regulation (the "Regulation") regulating the conditions and rules for state aid.



■ MOST IMPORTANT CHANGES INTRODUCED BY THE AMENDMENT

All existing forms of investment incentives, such as income tax relief, cash grant for new job creation, and employee training and support for strategic investment activities remain in place. In addition, new incentive in the form of an exemption from real property tax in concessional industrial zones which have been proposed by the Ministry of Industry and Trade has been introduced. Another benefit of the introduction of these concessional industrial zones is expected to be the opportunity to draw cash grant on their territory for creating new jobs in the amount of CZK 300,000 per new job created.

Within the manufacturing projects, three types of supported activities are newly defined, i.e. expansion of production by increasing production capacity, diversification of production, and a fundamental change to the overall production process. Investment incentives can also be newly requested for projects involving construction or expansion of centres for shared services, data centres and customer support centres.

Another positive change is a reduction in the limits for the minimum number of new jobs created in the case of technological centres and strategic service centres from 40 to 20 new jobs and in the case of software development and data centres, there will be a reduction from 100 to 70 new jobs.

Another significant change for manufacturing projects is new general condition stipulating that at least 20 new jobs must be created that are related to the investment project. Moreover, there is an obligation to maintain those jobs for a set period. The general conditions have also been changed in the area of project funding. It is not necessary to provide funding for mandatory part of the investment activity from equity capital and only a description of the method of financing is sufficient.

■ CHANGES IN THE AREA OF STATE AID

There are also several changes in the area of state aid. Stricter rules have been set in general for investment projects and these rules relate to the accumulation of support in three-year period preceding the filling of the investment incentive application. Large investment projects over EUR 100 million need to be granted an individual exemption from the restriction to receive state aid by the European Commission. The process of approving such an investment project will be administratively and time demanding. For strategic investment projects the level of cash grant has been increased to 10-12.5% for the acquisition of fixed assets (from the previous 5-7% of eligible costs). The remaining part of state aid can be claimed via tax relief or other cash grants if available.



As far as support for new job creation and employee training and re-qualification is concerned, which so far has been obtainable only in a limited number of regions where unemployment is higher than 50% of the national average, this number of eligible regions will be increased by reducing the limit to 25% of the national average. Therefore, the number of regions where this support is available is likely to rise significantly. The specific levels and amounts of support that can be obtained will be set by related legislation, which, however, has not yet taken effect.

■ RELATED CHANGES TO SELECT PROVISIONS OF THE INCOME TAX ACT.

Since investment incentives especially involve corporate income tax relief, several changes have also been made to the Income Tax Act.

One of the most positive changes is the modification of the calculation of tax relief through the S2 comparable tax base (tax

base benchmark) in the case of expansion projects. The S2 base will newly equal the arithmetic mean of the tax amount calculated for the three taxable periods immediately preceding the taxable period for which the tax credit may be claimed for the first time (previously S2 = the higher of the tax bases for the past two finished periods).

Important changes have been made to the special conditions and sanctions for their breach. As far as transactions with related parties are concerned, the sanctions imposed in the event of improper setting of transfer prices will be eased. This involves situations when the recipient of an investment incentive in the form of a tax relief increases the tax base through related-party business operations not in line with stand-

ard business relations. A failure to meet the arm's length principle, in this case, will not entail the risk of losing the investment incentive in the form of income tax relief instead will lead to sanction standardly applied if the recipient breaches the condition for minimisation of the tax base.

The condition regarding launch of insolvency proceedings, with which the expiration of entitlement to a tax relief was linked previously, will be limited only to situations when a decision of bankruptcy is issued. In situations when insolvency proceedings are commenced, which a court subsequently halts due to non-fulfilment of legal conditions, there will no longer be a risk that the recipient of the investment incentive will lose entitlement to a tax relief.

In the event of an increase in the tax base through the transfer of assets (or part thereof) owned by related parties whose tax base will decrease or whose tax loss will increase as a result, the investment incentive recipient may not claim tax relief in the subsequent taxable periods commencing as of the tax period in which such circumstances arose. Although the negative consequences of the assets transfers are limited only for future periods, it is necessary to devote increased attention to transfers of assets in a group of related parties.

Finally, mergers and transfers of assets to a shareholder will not lead to the duty to refund the utilised tax relief and pay sanctions instead, the taxpayer will merely lose "only" the entitlement to the tax relief in the future. When the tax relief has been utilised completely, a merger or a transfer of assets to a shareholder may be carried out without negative consequences for drawing of the tax relief.

The amendment has also clarified the start of the period when it is necessary to begin complying with the tax base minimisation requirement (i.e. claiming tax depreciations, adjustments to receivables and items deductible from the tax base pursuant to Section 34 of the Income Tax Act), expressly beginning with the taxable period in which the general conditions in accordance with the Investment Incentive Act were met.

Another change is that the payer may newly decide not to claim the tax relief in subsequent taxable periods commencing with the taxable period in which the taxpayer announced the decision to the tax authority. However, it will be necessary, among other things, to assess the fulfilment of selected conditions so that the already utilised tax relief is not put at risk.

Most of the above changes will only be effective for projects whose incentive application has been filed since May 2015. However, selected changes, particularly some of the amended provisions of the Income Tax Act, will also relate to applications filed before the amendment came into effect. It is therefore necessary to assess the impacts of the changes on previous recipients of investment incentives as well.

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How can I find out whether I can qualify for incentives for investments in production?

If you plan to invest at least CZK 100 million (in some regions only CZK 50 million) in the establishment of production or in the expansion of current production, and at least half of the investment will be spent on acquisition of new machinery equipment and at least 20 new jobs will be created, all of it within three years, you can obtain investment incentives in the form of a ten-year tax relief.

In selected Czech regions there is also an opportunity to receive cash grant of up to CZK 300,000 per created new job or support for training and re-qualification.

There is a basic condition that all investment projects are environmental friendly.

I don't manufacture, but I am involved in development or strategic services.

How can I receive an investment incentive?

In the case of technology centres, the basic condition for acquisition of an investment incentive is that at least 20 new jobs are created and at least CZK 10 million is invested, of which CZK 5 million must be spent on new machinery equipment.

When the conditions specified above have been fulfilled, it will again be possible to draw a tax relief and in selected regions also cash grant for new job creation and employee training and re-qualification.

How long is it necessary to keep the investment and new jobs?

Long-term assets for which an investment incentive has been drawn and the newly created job positions must remain for the whole period of the tax relief claiming and at least five years from the completion of the investment project or from the establishment of the first employment for each new job position.

Another new important provision of the amendment stipulates that the above stated condition will be fulfilled even in situations when it is necessary to replace supported asset due to its failure or obsolescence, with asset of the same or a greater value if it serves the same purpose.

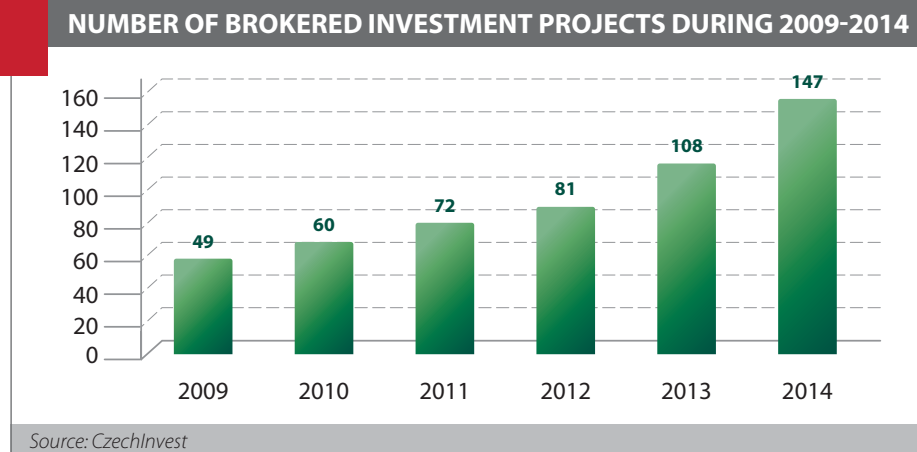
I don't meet the qualification conditions for investment incentives. Can I apply for a different type of support? And can I draw from multiple types of support?

Besides investment incentives, there is also a whole range of opportunities to receive direct cash grants for investments and for selected operating costs. It often occurs in practice that a company plans more investments during the same period and questions arise about the option of combining different types of state aids. In general, it is possible to use several types of subsidies and even different types of investment incentives. In such situation, it is necessary to divide individual investments among various support programmes, particularly in view of the need for fulfilment of the specific conditions of each grant programme or investment incentives, while simultaneously maximising the potential benefit. For all types of support, there is a basic rule that each cost may be supported only once. Therefore, individual combinations need to be considered optimally prior to filing of an application or an investment plan.

Increased Activity of Foreign Investors

The flow of investments to the Czech Republic was successful last year, and in 2014 the CzechInvest Agency agreed on 147 projects with foreign and Czech investors. Its success far exceeded that of the investment agencies in the Czech Republic's closest neighbours, Slovakia, Poland, and Hungary, where the sum of brokered projects was 139. The investments mediated by CzechInvest for just under CZK 87 billion are expected to create more than 16 000 new jobs, mostly in the Moravia-Silesia and Ústí nad Labem Regions, which have long suffered from high unemployment.

"The increased activity of foreign investors is related to the gradual recovery of the European market, driven mainly by the automobile industry," says Minister of Industry and Trade Jan Mládek. "However, Czech companies are also active. Many of them are expanding thanks to investments of hundreds of millions to billions of CZK. These include



mainly engineering, textile and food companies," Mládek adds. "We registered the most projects in the first half of the year, when investors were still able to achieve better investment incentives. The second half of the year was weaker, and therefore we now have to make a greater effort to attract investments. The return of our foreign branches in strategic locations, to which South Korea was added this year, has helped us enormously," says CzechInvest CEO General Karel Kučera. CzechInvest has a total of 7 offices abroad. As of May 2015, a more accommodating amendment to Investment Incentive Act became valid (more on pages 8–9), and CzechInvest also expects a more active approach towards investors.

■ MOTOR VEHICLE PRODUCTION TRADITIONALLY DOMINATES

Korean investors, even despite the significant investments of Nexen Tire and Hyundai Mobis, are still among the most active investors in the Czech Republic. If we leave out domestic investors, most investors have traditionally entered the Czech market from Germany and the United States. However, South Korean investors clearly have invested the most money. Together with Nexen Tire and Hyundai Mobis, two other Korean investors, Donghee Czech and Hanwha Advanced Materials Europe, are investing CZK 25.77 billion and creating 2 429 jobs. Motor vehicle production traditionally dominates the sector in all indicators. A total of 50 projects falling within this sector based

Ten most significant investments for 2014 according to investment amounts

| Investor | Czech entity's name | Sector | Country of origin | Investment amount (millions of CZK) | Jobs | Region | Expansion/New investment project |
|--|--|--------------------------------------|-------------------|-------------------------------------|-------|------------------------|----------------------------------|
| Nexen Tire Corporation | Nexen Tire Corporation Czech s.r.o. | Rubber | South Korea | 22 764.34 | 1 384 | Ústí Region | NIP |
| Brose CZ | Brose CZ spol. s r.o. | Motor vehicle production | Germany | 2 650.00 | 810 | Moravia-Silesia Region | EXP |
| Continental Automotive Czech Republic s.r.o. | Continental Automotive Czech Republic s.r.o. | Motor vehicle production | Netherlands | 2 631.88 | 648 | Hradec Králové Region | EXP |
| Hyundai Mobis | Mobis Automotive Czech s.r.o. | Motor vehicle production | South Korea | 2 625.73 | 935 | Moravia-Silesia Region | NIP |
| AL INVEST Břidličná a.s. | AL INVEST Břidličná a.s. | Metal working and metal processing | Czech Republic | 2 421.30 | 49 | Moravia-Silesia Region | EXP |
| Pila Štětí Labe Wood | Labe Wood s.r.o. | Paper and wood processing | Austria | 1 950.00 | 159 | Ústí Region | NIP |
| Karsit Holding s.r.o. | Karsit Holding s.r.o. | Motor vehicle production | Czech Republic | 1 782.00 | 300 | Hradec Králové Region | NIP |
| Mölnlycke Health Care ProcedurePak | Mölnlycke Health Care ProcedurePak s.r.o. | Biotechnology and medical technology | Sweden | 1 598.00 | 214 | Moravia-Silesia Region | EXP |
| Lovochemie a.s. | Lovochemie a.s. | Chemical and petrochemical industry | Czech Republic | 1 582.88 | 0 | Ústí Region | EXP |
| Magna Exteriors & Interiors (Bohemia) s.r.o. | Magna Exteriors & Interiors (Bohemia) s.r.o. | Motor vehicle production | Austria | 1 557.96 | 217 | Liberec Region | EXP |

Source: CzechInvest

**Number of investment projects mediated by CzechInvest for 2014
based on sectors**

| Sector | Number of projects | Investments (millions of CZK) | Jobs |
|--------------------------------------|--------------------|-------------------------------|-------|
| Motor vehicle production | 50 | 26 121.64 | 8 447 |
| Metal working and metal processing | 18 | 7 584.03 | 663 |
| Engineering | 13 | 4 156.15 | 617 |
| Food | 11 | 5 318.34 | 404 |
| ICT | 8 | 30.08 | 515 |
| Chemical and petrochemical industry | 7 | 5 450.24 | 124 |
| Paper and wood processing | 7 | 4 056.11 | 302 |
| Services | 5 | 124.10 | 1 938 |
| Textiles | 4 | 2 982.42 | 609 |
| Electrical equipment | 3 | 435.06 | 182 |
| Electronics | 3 | 92.94 | 293 |
| Rubber | 3 | 23 115.80 | 1 424 |
| Non-metal mineral products | 3 | 1 146.85 | 35 |
| Biotechnology and medical technology | 2 | 1 777.01 | 392 |
| Pharmaceuticals | 2 | 1 624.30 | 420 |
| Miscellaneous transport means | 2 | 1 217.02 | 121 |
| Plastics | 2 | 617.10 | 45 |
| Others | 4 | 1 106.95 | 202 |

Source: CzechInvest

**Number of selected investment projects mediated by CzechInvest for 2014
based on the country of origin**

| Country of origin | Number of projects | Investment amount (millions of CZK) | Jobs |
|-------------------|--------------------|-------------------------------------|-------|
| Czech Republic | 39 | 21 023.96 | 2 801 |
| Germany | 26 | 7 745.24 | 3 107 |
| USA | 13 | 3 134.27 | 2 900 |
| Netherlands | 11 | 8 199.45 | 1 057 |
| France | 7 | 2 119.87 | 579 |
| Spain | 6 | 1 336.97 | 379 |
| Italy | 5 | 824.80 | 158 |
| Japan | 5 | 1 346.73 | 314 |
| Switzerland | 5 | 1 232.39 | 344 |
| UK | 5 | 1 858.45 | 422 |

Source: CzechInvest

on investments announced last year are generating CZK 26.12 billion and creating 8 447 jobs. The metalworking, metal processing, rubber, and engineering industries are also significant. The most jobs can be looked forward to in Moravia-Silesia; there are 26 investment projects worth a total of CZK 15.89 billion, creating 3 851 new job opportunities. The Ústí nad Labem Region can expect a similar figure; last year 19 investment projects were agreed upon, worth a total of CZK 30.99 billion, which will create 3 231 jobs.

At the top of the ladder of the ten most important investments brokered by CzechInvest last year is the already mentioned company Nexen Tire, followed in second place by the expansion of Brose CZ in Rožnov pod

Radhoštěm and Kopřivnice with investments totalling CZK 2.65 billion and in third place by the expansion of Continental Automotive Czech Republic with investments totalling CZK 2.63 billion in the Hradec Králové Region. The ten most important investors also include three Czech companies, which are AL INVEST Břidličná, Karsit Holding, and Lovochemie a.s. as well as the biotech company Mölnlycke Health Care Procedure, belonging to a sector on which CzechInvest wants to focus the most, in line with the new strategy.

■ FURTHER INFLUX IN 2015

The CzechInvest Agency's greater activity is already yielding results. "In the first months of 2015, we registered huge interest from inves-

tors across different sectors. We are also being contacted by investors who plan additional projects. This shows that they are doing business successfully here and appreciate the more extensive and intensive services that we have begun providing," adds Karel Kučera. For example, in June 2015 at Brno's Černovická teras industrial park, the Taiwanese company HTC opened a mobile phone repair centre for Europe in an already standing facility with an area of 11 000 square metres. When it began operations, it employed around 150 trained employees, and the company expects to expand the centre further in the future. More than 1 000 people could find work there. "I am very pleased that the government is managing to create attractive conditions for new investors in the Czech Republic and that HTC has chosen our country for its strategic investment. This is not only extremely good news for the South Moravia Region and Brno, where more than a thousand new jobs are expected to be created, but is good news for the Czech economy as well. The acquisition of new investments, support for the economy and creation of new jobs have been one of my government's key priorities from its start," says Prime Minister Bohuslav Sobotka. "We managed to win HTC's investment also because we were operatively able to offer a suitable piece of real estate for its business activities. Time played an important role in the negotiations, as did quick finding of a location and a quick start of operations," Kučera explained. In Přestanov near Ústí nad Labem, as of the end of April 2015, there will be a new factory built for SSI Technologies s.r.o. This American manufacturer of magnetic sensors, pressure and level sensors, monitoring systems and digital pressure meters for the automotive and engineering industries will employ approximately 120 people in the first phase. The new buildings with 3 515 square metres of production space and 1 821 square metres of office space will be built in VGP Park Ústí nad Labem by the end of 2015. "This is our first production plant outside of the United States," says Frank Jasnauer, Operations Director of SSI Technologies s.r.o. "We chose the Czech Republic, specifically Ústí nad Labem, for many reasons. These included both the access to our customers and connections to main traffic routes and the airport. The availability of the work force also played an important role of its own during the selection of the location," he adds.

More at www.czechinvest.org

New Business Reliefs in the Czech Republic

In 2015, legislative changes are continuing to facilitate business activities in the Czech Republic and reduce the administrative burden for businessmen. Not much, however, has changed as regards the general conditions for doing business, and the changes really mean simplification, not complication.



The most important changes made in 2015 so far include changes leading to faster and cheaper registration in the Companies Register, changes in the functioning of Trade Licence offices and Amendments to the Energy and the Telecommunications Act.

■ QUICKER AND CHEAPER REGISTRATION IN THE COMPANIES REGISTER

In the framework of private law recodification, Parliament have passed a new Act on public registers of legal and natural persons, which also regulates the registration of legal entities in the Companies Register. The Act, already effective in its version from 1 January 2014, stated that, in addition to the Commercial Court, registration in the Companies Register can also be effected by a Notary Public ("direct entry"). Because of delays in processing the changes and their feeding into the Companies Register information system and the non-existence of legislation concerning the amount of administration fees, this option was only made possible as from 1 May 2015, when the Court Fees Act Amendment became effective. This means that, from June 2015, businessmen may use the services of either a Notary Public or the Commercial Court.

The main aim of this legislation was to simplify and speed up the process of registration in public registers. While in court,

court proceedings must be held to prove that the registration has been implemented, the Notary Public makes the entry in the register immediately, provided that the required conditions have been met. Therefore, in most cases a registration carried out by a Notary Public is quicker (and in many cases also cheaper) than a registration effected by the court. However, it will not be possible to use the direct entry in all cases, as the entry must be based on a Notarial Deed and all the documents required by law for entry in the public register or must be presented to the Notary Public for being filed in the collection of documents. For example, if a company wants to increase its registered capital, further steps are required which will have to be registered in the relevant Deeds Registry, and this may incur further costs. Immediate entry in the register and the corresponding copy of the entry in the public register, however, may justify those extra costs. Unlike registration through the Commercial Court, clients who have their entry effected by the Notary Public will not have to wait up to five working days to have their entry registered.

Court fees for registration in the public register carried out by the Notary Public are lower than those effected by the Commercial Court. In this case, however, clients must reckon with having to pay a fee to the Notary Public for making the entry in the public register, which is CZK 300 excl. VAT, and possibly remuneration for drawing up

the Notarial Deed certifying the entry in the public register, which is CZK 1 000 excl. VAT. So that if such an "additional" Notarial Deed has to be drawn up for the entry in the public register to be effected, registration through the Notary Public will not provide any financial benefit.

In the case of the initial registration of a joint stock company carried out by the Notary Public, the court fee shall be CZK 8 000 instead of CZK 12 000, and, in the case of the initial registration of a limited liability company, the fee shall be CZK 2 700 instead of CZK 6 000. Besides initial entries, companies may also have changes in the Companies Register made through the Notary Public. In that case, businessmen will make a saving, as the fee will be CZK 1 000 instead of CZK 2 000.

■ DIGITALISED AND "DEPERSONALISED" REGISTERS OF TRADES

Trade Licence offices will digitalise all documents filed after 1 January 2015 and will give all the other Trade Licence offices remote access to them. This change will facilitate the procedure of filing applications for new licences for businessmen. In practice, businessmen will no longer be required to produce documents proving facts which have already been proven before, on condition that the facts have not changed. For example, businessmen will no longer be required

to prove anew the legal reason for using the space or their professional competence, or, in the case of foreigners, to produce a criminal record certificate. However, it continues to apply that the certificate must not be more than three months old.

The Trade Licence Register significantly increases the protection of the businessmen's personal data. Data on businessmen's residential addresses have been transferred from the public to the non-public section, which will only be open to persons who prove their legal interest. The same applies to the handling of digitalised documents, which the Trade Licence offices will have obtained from the businessmen. A new provision is that data concerning persons who have forfeited their business licence will become non-public, but only after the lapse of four years.

■ LOWER MINIMUM LIMIT FOR FINING SCHWARZ SYSTEM OFFENCES

The Employment Act reduces the minimum amount of fines for the illegal employment of persons, termed as the Schwarz System (the system whereby the employer does not have regular employees, but engages self-employed people, for whom he does not have to pay health and social insurance), from the original CZK 250 000 to CZK 50 000. In 2014, the Constitutional Court ruled that the minimum amount of the sanction for illegal employment amounting to CZK 250 000 was obviously inadequate, and decided to abolish the fine. However, legislators have re-introduced it, but its level is substantially lower.

■ SIMPLIFYING CHANGES OF BUSINESS TERMS IN TELECOMMUNICATIONS AND THE POWER INDUSTRY

Changes in legislation making it easier for businessmen engaged in those branches to intervene in their contracts with clients became effective on 1 January 2015 for Telecommunications and on 1 January 2016 for the Power Industry. The new legislation specifies whether a change of the terms and conditions, even if provoked by the state, such as an increase in regulated charges or a change of legislation, institutes the customer's right to terminate the contract.

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More Shopping Centres to Open

In the period between 2009 and 2011, the number of new conventional shopping centres being opened in the Czech Republic declined. The expansion was the lowest in 2011, when only one new shopping centre (Harfa Gallery in Prague) was opened. The following year, three new shopping centres were put into service and in 2013 as many as five shopping centres covering an aggregate surface area of 134 000 sq. m were opened.

In 2014, altogether five shopping centres were completed, according to an INCO-MA GfK survey: two in the Ústí Region (Teplice Gallery, Děčín Brewery), two in Prague (Quadrio, OC Lužiny), and one in Frýdek-Místek (OC Frýda). This added 80 000 sq. metres to the gross rentable area of shopping centres in the Czech Republic, which is the lowest number since 2011. Looking back, however, this is not an excessively low figure when compared with the expansion of shopping centres in the Czech Republic in the years 2003, 2010, and 2011.

In the next two years (2015 and 2016), the expansion of shopping centres will once again be reduced in comparison with 2013 and 2014. In that period, the opening of six more new shopping centres is envis-

aged: three conventional centres (Central Kladno, Stromovka Gallery, Aupark Hradec Králové), two multifunctional projects with an important commercial section (Centrum Palmovka, OD 13 Zlín) and one factory outlet centre (The Prague Outlet, north-west of Prague), with an aggregate 100 000 sq. m of gross rentable area. In 2017 and 2018, the construction or revitalisation of two to three shopping centres can be expected in either year, despite the increasing market occupancy. In the near future, the enlargement of several existing important shopping centres (Centrum Chodov and Olympia Olomouc) is expected.

The CBRE consulting firm, too, believes that the shopping centre boom in the Czech Republic is over. The market is satu-

LARGEST ACQUISITION IN THE REAL ESTATE SECTOR

The largest business deal in the real estate sector in the history of the Czech Republic took place in 2015, when Union Investment has acquired a majority stake in the Palladium Shopping Centre in Prague. The property, consisting of a shopping centre with retail shops covering an area of approximately 41 000 sq. m and some 18 000 sq. m of office space, has a strategic position in the city centre, forming a natural continuation of Prague's busiest shopping street, Na Příkopě.

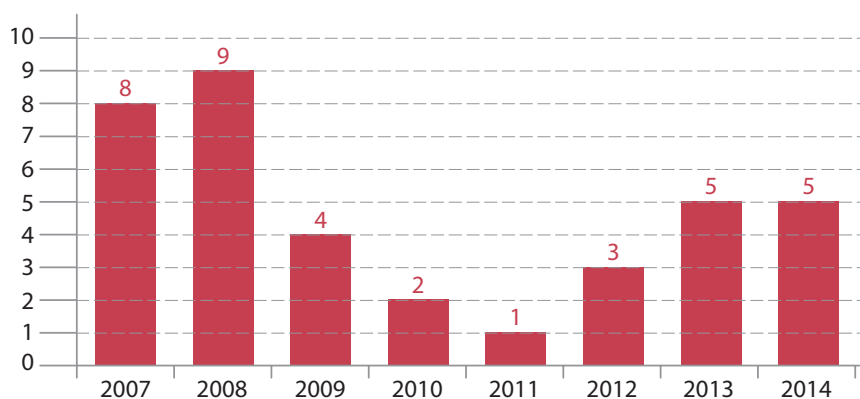
rated and there is no craving for more centres to be built. Investors must realise which target group of customers they want to address and offer them the required kind of goods and services. Shopping centres usually have the same or a very similar structure of renters. The solution is distinguishing the offer from that of other firms, specialising the product ranges and putting emphasis on the specific needs of the clientele in the area concerned. CBRE therefore expects greater diversification of the structure of renters in the shopping centres, a process that will last several years. At the end of the period, the shopping centres should have a clearly defined positioning in the market and an offer addressing customers on whom the centres have decided to focus. According to Veronika Tebichová, Head of CBRE Retail Agency, such diversification can already be observed in certain towns, which focus, for example, on the fashion client seeking a wide choice of fashion and design products, even if they are more expensive. "Such an example is Centrum Chodov in Prague. Another example is Palladium, also in Prague, which focuses on foreign clientele. The advanced level of the market, which is the case of the Czech market, calls for distinction and responsiveness towards customers," adds Ms Tebichová.

■ LARGE-SURFACE SHOPPING COMPOUNDS IN THE CZECH REPUBLIC OCCUPY AN AGGREGATE AREA OF 4.5 MILLION SQ. METRES

At the end of 2014, there were 497 modern shopping compounds (shopping centres, retail parks, outlet centres, hypermarkets with small shopping arcades, and department stores) in the Czech Republic, covering an



DEVELOPMENT OF THE NUMBER OF NEW SHOPPING CENTRES OPENED SINCE 2007*



Source: INCOMA GfK survey*, including the reconstruction of older shopping centres, conventional shopping centres with more than 5000 sq. m GLA

area of more than 4.5 million sq. m of gross rentable area, according to an INCOMA GfK survey. Of this number, 92 are conventional shopping centres occupying an aggregate

area of 2.3 million sq. metres. Calculated in terms of the 100-persons equivalent, the largest aggregate gross rentable areas of shopping compounds are to be found in Prague (nearly 80 sq. m per every 100 inhabitants), so that, from this point of view, the capital city of the Czech Republic is unequivocally the most saturated region, followed by the Ústí nad Labem Region with 52 sq. m per every 100 inhabitants. The least occupied, from the point of view of the relative size of gross rentable areas of shopping centres and other department stores, is the Vysočina Region (21 sq. m per every 100 inhabitants) and the Central Bohemia Region (24 sq. m per every 100 inhabitants); here, however, the figure is strongly under the influence of Prague, for which the adjacent communities of Central Bohemia are natural catchment areas.

- The importance of small shopping centres and shops is growing, with 49% of customers giving preference to them in comparison with large shopping centres).
- Customers in other EU countries travel 6-15 minutes to do their shopping; the Czech customer travels 16-30 minutes.
- Factors important to the customer as regards shopping centres are the price, cleanliness, availability and safety.
- Most often customers in other EU countries and in the Czech Republic, too, make their purchases in retail shops. The role of online purchases, where Czechs are more active than the EU average, is rapidly increasing.
- The EU customer goes shopping 39 times a year, the Czech customer 30 times a year. Both EU and Czech customers judge the improvement of their shopping centres mainly as regards renovation, the offer of new trademarks, and enlargement of the shops.

Source: CBRE



www.sindelar-spedition.cz

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Better Prospects for the Energy Sector

The energy sector and the entire Czech economy are improving their balance sheets with ever better prospects for the period to come. This is the outcome of an analytical study conducted by Bisnode consulting company, which analysed the business activities of the 78 most important firms doing business in the energy sector. Between 2011 and 2013 those firms showed a nearly 12% growth in their revenues and a nearly 25% increase in their operating profits, while the number of their employees decreased. The revenues of those firms rose from approximately CZK 740 billion in 2011 to CZK 834.5

billion in 2013, an increase of nearly 12%. Total costs of those firms in the period under review increased by 6.7%, with a distinct divergence in 2012, to CZK 799.5 billion. "The changes in revenues and costs, i.e. in profits, occurred after significant changes had taken place, especially in mining and the manufacturing industry. The improvement of the situation is especially due to the manufacturing industry. The results show that the energy industry and, with it, the entire economy are improving their balance sheets with ever better outlooks for the future. In addition, the slight decline in the number of employees with the simultaneous maintenance of the level of revenues indicates that the productivity of this sector is increasing," says Michal Řičář, Bisnode analyst.

High Standard of Retail Trade in the Czech Republic

Industry is responsible for 33% of the growth of Czech GDP, followed by the trading sector accounting for 18% of the growth. In addition, the trading sector is the second largest in terms of employment, after industry, with approximately 700 000 people employed in trading. "Retail trade in the Czech Republic is among the most advanced in Europe, taking advantage of all the available modern technologies and the launch of new trends. Competition among traders is keen indeed, which naturally benefits consumers, who in the final

analysis pay a good price for their purchases," says Marta Nováková, President of the Czech Confederation of Trade and Tourism. A positive feature was that in 2014 household consumer spending, one of the main factors of economic growth, increased, albeit moderately. The year-on-year increase in household retail spending was nearly 2%. An average four-member household spends more than CZK 24 000 on retail purchases a month, which is more than CZK 120 000 per person/year on an average. Recently, great changes have taken place as regards the mode of purchase, with a massive increase in online shopping. In 2014, e-shop revenues were 2.5 times higher than in 2008 and accounted for 7.1% of total revenues.

The Czech Republic Has the Cheapest Consumer Electronics and Cars

The cheapest consumer electronics and cars can be purchased in the Czech Republic, according to Eurostat's June report. Statisticians compared the prices of different categories of goods available in the Czech market in 2014 with the EU average. The comparison, however, also included countries outside the EU, such as Norway, Switzerland, Iceland, Albania, and Turkey. In the Czech Republic, the price of passenger transport means, which also comprise motorcycles and bicycles, in addition to cars, is

75% of the EU average. Other goods worth buying in the Czech Republic, according to the report, are alcohol and tobacco, which are the third cheapest commodities among EU countries.



Czech Building Industry at the Stage of Revival

The Czech building industry continues the upward trend started last year. In the first quarter of 2015 it increased its performance by up to 6.9%, mainly due to engineering construction financed especially from public sources and civil engineering. Managers of building companies expect a 5% annual growth of the sector. The industry continued its revival also in April, mainly due to new contracts with private investors and work completed under public contracts from the previous year.



Not only Prague Castle, but also Industrial Sights Attract Tourists

Traditionally, the most visited Czech tourist attractions in 2014 were Prague Castle and the Prague Zoo, according to CzechTourism Agency. The top ten attractions, however, also included industrial sights — Vítkovice-

Ostrava, breweries and exhibitions of the Pilsner Urquell brewery. Most visitors — 1.8 million — came to see Prague Castle, 50 000 more than in the previous year; the second greatest attraction, Prague Zoo, welcomed 1.4 million visitors, followed by AquaPalace Prague, with 845 000 visitors. A new addition to the TOP 10 were the Pilsner Urquell exhibitions. In 2014, 600 000 visitors came to Plzeň to become acquainted with the city's famous brewing tradition.

Greenhouse Gas Emissions in the Czech Republic Dropped to a Historical Low

Installations, which in the Czech Republic come under the European Union Emission Trading Scheme (EU ETS), in 2014 emitted the lowest volume of greenhouse gases since 2005, when the system was launched. Last year, electric power stations, heating plants and big industrial enterprises emitted 66 435 325 tons of carbon dioxide or its equivalent, which is 1.9% less than in 2013 (67 713 644 t

of CO₂) and 19.5% less than in 2005 (82 535 613 t of CO₂). This shows that in this sector the emission reduction trend in the Czech Republic is continuing, the same as in the entire EU28. The EU target is to reduce emissions covered by EU ETS by 21 % by the year 2020 in comparison with 2005. Operators of the installations have the obligation to surrender the corresponding number of emission allowances each year by 30th April. For each non-surrendered allowance, the operator has to pay a fine of EUR 100. In the Czech Republic, all the 336 installations having this obligation surrendered all the required allowances for the year 2014.



Lower Administrative Burden for Businessmen

Reducing the administrative burden for businessmen in the Czech Republic is one of the priorities of the Ministry of Industry and Trade. Between 2005 and 2012, thanks to legislative measures, the administrative burden was reduced by more than 23%. In 2013, a new target was set: to simplify administrative obligations by the introduction of 60 specific measures. Last year, 52 of those measures were implemented. For example, the process of issuing trade licences has been simplified and so has the starting of a business, especially by young and start-up businessmen, by reducing the number of notifiable trades from the previous 120 to a single trade. Since 2012, businessmen can announce any changes of data they are required to report to the Social Security administration, the Financial Office, the Labour Office and the Health Insurance company through the central registration point (i.e. the local Trade Licensing Office), even if by announcing the change the businessman does not fulfil his

obligation to report to the Trade Licensing Office. In addition, as from 2015, businessmen are no longer obliged to repeat the submission of documents to the Trade Licensing Office which they have already presented to another local Trade Licensing Office.

Aviation Industry Exports Grew Massively Last Year

The total turnover of the 22 firms grouped in the Association of Czech Aircraft Manufacturers in 2014 amounted to CZK 13.5 billion and their total exports to CZK 10.5 billion. In comparison with the previous year, the members' revenues increased by 15%. At the same time, the firms invested in research and development. The productivity of labour of those firms increased as well, with added value growing much faster than the number of employees. The firms grouped in the Association include, for example, Aero Vodochody, Jihlavan, GE Aviation, LOM Praha and Zlín Aircraft.

Good Year for the Czech Railway Industry

The results of the Czech railway industry for 2014 confirmed the trend of previous years: exports grew rapidly, while the total turnover of firms increased moderately, to CZK 84 billion. According to the Association of Czech Railway Industry (ACRI), the volume of production and employment in the sector was maintained. „Last year, the Association proved that it has indeed become an active association and a respected and recognised representative and partner in the branch in the Czech Republic and abroad. ACRI participates in the expert debates of the European Commission concerning the 4th railway package and it has been active at the sessions of UNIFE on a long-term basis,” Marie Vopálenská, Managing Director of ACRI, said. In 2015, the Association will focus on the preparation of the cohesion policy for the new programming period after 2014 with the aim of maximising support for the modernisation and development of railway and rail transport in the Czech Republic and complete preparations for the re-codification of the new Railway Act.

The Role of the Czech Export Bank Is Irreplaceable



This year, the Czech Export Bank celebrates twenty years of its presence in the market. "During that time it has supported export deals worth more than CZK 375 billion," says Karel Bureš, Chief Executive Officer of Czech Export Bank (ČEB).

Czech Export Bank (ČEB) as a state-owned governmental credit institution is an integral part of the state export-oriented policy system since its establishment. ČEB's business activities are focused on the provision of financial services linked primarily with exports to territories involving certain risks (according to OECD). Its emphasis is on the comprehensiveness of the export financing products offer. ČEB has a rich experience in financing both large export transactions of Czech exporters and export contracts for smaller and partial deliveries.

■ THE TERRITORIAL STRUCTURE WILL CHANGE

In view of ČEB's orientation to territories involving certain risks, its credit portfolio is still headed by Russia, which on 30 June 2015 accounted for 33.16%. Second place is held by Slovakia with 22.64%, where ČEB supported Czech exporters in the realisation of a demanding energy project. Following the above-mentioned is Turkey (20.37%), Azerbaijan (9.96%), and Georgia (5.47%). The current portfolio comprises another ten countries, in addition to the preceding five. The proportion of none of them, however, exceeds the 2-per cent margin. Nevertheless,

this territorial structure will soon change. "Our strategy, which we are successfully realising, is territorial diversification. We are trying to support Czech exporters in their efforts to expand to Asian, African, and American markets," Chief Executive Officer Karel Bureš says. An especially attractive market for Czech exporters is, for example, Mexico, where clients have good experiences, with Czech products and services. Special interest is shown there in Czech engineering goods, products of the automotive industry, the power industry and agricultural and woodworking machines, IT services and environmentally friendly waste disposal. In addition, ČEB has mediated cooperation with Mexico's state development bank, Banco Nacional de Comercio Exterior (Bancomex) and Banco Mercantil del Norte, Mexico's third largest bank, which will be using ČEB as its preferred partner for all its future indirect consumer loans and refinancing credits to finance Czech exports to Mexico. ČEB representatives also brought excellent news from Morocco, where, among other documents, they signed a memorandum of cooperation with Morocco's Attijariwafa bank. Morocco is one of the priority countries for Czech exports as it is a key economic player in West

Sub-Saharan Africa offering Czech exporters a wide range of business opportunities. Other territories where Czech exporters will have a chance to do business, thanks to co-operation with ČEB, are for example India, Vietnam, Iraq, and Iran.

■ POWER INDUSTRY AND MECHANICAL ENGINEERING LEADING THE CREDIT PORTFOLIO

As regards the ČEB credit portfolio structure classified by sector, the dominant branches are the power industry and mechanical engineering. Confirmation of this fact is the new acquisition of the company FERMAT CZ, which purchased a 100% interest in the renowned American company Lucas Precision LP in Cleveland, Ohio, with ČEB's support. FERMAT CZ is one of the world's leading suppliers of precision machine tools -- horizontal boring machines. The firm draws on its rich tradition in metal working, construction, and the machine tool manufacture in the Czech Republic. Four acquisi-

tions took place in the Czech Republic and one in the USA. "When FERMAT's representatives presented us their plan -- to buy in the USA a company with a great, century-long history, which would help them penetrate the American market, we did not hesitate to support them. In general, Czech engineering goods have great renown in the USA. For example, in the horizontal boring machines segment, the Czech Republic holds an at least 10% share of the American market," ČEB's CEO explains.

■ THE QUALITY OF THE PROJECT IS WHAT MATTERS

During the past two years, ČEB has significantly enlarged its services in financing small and medium-sized enterprises whose business is linked with exports. "What matters to us is not the size of the exporting firm, but the quality and viability of the project. The small and medium-sized enterprises segment is very interesting in our country, and very innovative at that. We have there-

fore adjusted the organisational structure of our business section to the latest needs of the market with the aim of strengthening our capacity in favour of small and medium-sized enterprises. Our main product instruments in this respect are export-oriented guarantees, which we grant as reinsurance of credits obtained from commercial banks, and bank non-payment guarantees, pre-export and export credits and credit purchasing. The purchasing of credits from contracts and pro-export guarantees which we provide are products in which we differ from other banks and are unique in this respect," Karel Bureš explains.

Possibilities of financing export deals of Czech firms selling their products to different territories will naturally also be discussed at this year's International Engineering Fair (IEF) in Brno, where the Special Focus Country is the Republic of Korea. "ČEB has its stand regularly at IEF. We use every opportunity to meet our existing and potential clients," Karel Bureš, CEO of ČEB, points out.

Czech bank for Czech Export

Czech Export Bank is Export Credit Agency of the Czech Republic providing a wide range of products and services to assist and support Czech export internationally.

Czech Export Bank provides credits and other financial products to Czech and foreign companies, financial institutions and governments to finance exports of goods and services from the Czech Republic.

Czech Export Bank offers excellent business conditions and assists Czech companies and their foreign partners to successfully fulfil their international business opportunities.

Czech Export Bank offers following products:

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- Credit for Pre-Export Financing of Production (Pre-Export Credit)
- Indirect Export Buyer's Credit (extended to the foreign importer's bank)
- Refinancing of Export Supplier's Credit
- Refinancing of Export Buyer's Credit
- SME Support Programme -- Exporter's Subcontractor
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- Purchase of Insured Export Receivables without Recourse
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Future Development of the Energy Sector and Its Importance for the Czech Economy

The energy sector is one of the most important branches of the Czech economy. Traditionally the country is very strong in the area of engineering and the manufacture of power generating facilities, which the industry can build and operate efficiently, including nuclear power sources. The Czech Republic is self-sufficient in electricity production, based predominantly on domestic brown coal supplies and nuclear power sources. On the other hand, natural gas and oil are imported from politically unstable countries, which may endanger safe and reliable supplies in future. The sufficient capacity of national and international transmission facilities creates prerequisites for international trade in electricity. The energy sector is a stable branch in the Czech Republic, which attracts foreign investors and creates good prerequisites for the further development of Czech industry.

■ DEPENDENCE OF THE ENERGY SECTOR ON PRIMARY SOURCES FROM POLITICALLY UNSTABLE AREAS – GAS INDUSTRY

Europe is more than 80% dependent on primary energy sources from politically unstable areas. None of the four Visegrad countries (V4), including the Czech Republic, can do without Russian natural gas. It is therefore unconditionally necessary to seek new, alternative transport routes, in addition

to facilities carrying gas from east to west, ensure reverse flow from west to east and complete the Czech section of the Stork II gas pipeline running in the north-south direction and linking the Polish harbour liquefied gas terminal with the important junction in Baumgarten, Austria. Investment activities aimed at interconnecting European gas pipeline systems must be stimulated at both the EU and national levels. In this respect, positive news is the fact that the Czech Republic has updated its State Energy Concept taking this project into account.

■ THE OIL AND PETROCHEMICAL INDUSTRIES

Another risk commodity is crude oil. An alternative to the conventional transport route carrying Russian oil across Ukraine is the TAL Transalpine Oil Pipeline, making it possible to supply the Czech market with crude oil carried by tankers to Trieste, Italy, or via the Adria Oil Pipeline, which links the Omišalj harbour in Croatia with the Slovak part of the Družba pipeline. Currently the facilities on the alternative oil pipelines are used at nearly 100%, but the volume of oil transported by the "national" Družba oil pipeline is declining in both the Czech Republic and Slovakia. The reason is the excess refinery capacity in Europe and potential national interests in the case of the Polish



KEY ACTORS IN THE ELECTRICITY AND GAS MARKETS IN THE CZECH REPUBLIC

The most significant actor in the Czech market is the ČEZ Group, currently figuring among the ten most important actors in the European market. ČEZ is a vertically integrated company operating in the area of coal mining, conventional and renewable energy sources production, trading, electricity and gas sale, electricity distribution, energy services, and telecommunications. ČEZ Group has the capacity to flexibly react to changes in the energy sector, which ranks it alongside the best energy companies in Europe in terms of "Earnings before Interest, Taxes, Depreciation and Amortization" (EBITDA). The second most important actor in the Czech market is the RWE Group, which concerns itself with gas transmission, distribution and sale, and energy services. The RWE company is one of the most successful entities within the RWE group. The stability, efficiency, and adequate profit rate of the Czech energy market has attracted foreign investors, who have entered the segment operating the network infrastructure. Other important actors in the Czech market include the E.ON group, selling and distributing electricity and gas and providing energy services. The group's portfolio also comprises smaller manufacturing facilities. Another company with a similar structure is Pražská energetika operating on the territory of the capital city of Prague, which also invests in renewable energy sources. There are also a number of alternative electricity and gas suppliers and energy services providers in the Czech Republic, a segment with great potential for future development.

owner of Czech oil refineries. A solution is to build an all-European transmission system that will enable reverse flows and higher deliveries via the Družba pipeline, for example through the IKL oil pipeline to German refineries or more intensive cooperation of Slovakia's Transpetrol with ÖMV in the construction of facilities enabling reverse supplies from Bratislava to Schwechat, Austria.

■ PRODUCTION OF ELECTRICITY FROM CONVENTIONAL SOURCES

Conventional production of electricity from coal and nuclear material has a very strong position in the Czech Republic. The updated State Energy Concept (more on page 24) supports the use of those sources, which we can operate very efficiently. A key issue is the enlargement of the nuclear power plants by adding new blocks to the existing plants

in Dukovany and Temelín. Here, however, a stronger incentive must come from the state, as we can see, for example, in the UK, where measures have been taken to support investment in new facilities, irrespective of the type of production source, the aim being to ensure the availability and reliability of energy supplies. This motivates firms to long-term investment which, considering current energy prices amounting to 32 EUR/MWh, appears to be rather risky. These prices are below the level of the turning point of conventional energy sources production.

■ RENEWABLE SOURCES

After the solar wave, energy production in the Czech Republic from renewable sources is stabilised. Water sources are being used at 99%, and as regards solar energy development, good prospects exist in the operation

of facilities with a capacity of under 10 kW. Opportunities for development also exist in biofuel incineration. As it is hard to predict possibilities of developing production from renewable sources, the idea of electricity "storage" has come to the fore. This role can be played by pumped-storage power plants, which can pump water to the upper reservoir when there is a surplus of electricity and the price is very low, or even negative. There are localities in the Czech Republic suitable for this type of power station, but their construction would be expensive and demanding as regards administration. This reduces their potential in the future. A question is the development of other electricity storage technologies (batteries, fuel cells), or the active management of demand. Here, however, technological development has not made enough progress to enable their massive development in the conditions of the Czech market in the next five years.

■ DEVELOPMENT OF ELECTRICITY PRICES

Electricity prices will not go up markedly in the wholesale market in the course of the next three to five years. The reasons are the large number of production facilities and at the same time the low price of primary sources as a result of OPEC's price policy and the theoretical possibility of "alterna-

tive supplies" of primary sources (shale gas or coal) to Europe. Therefore, oscillation of wholesale electricity prices at the level of 30–40 EUR/MWh can be expected.

The price for final users is experiencing a permanent paradigm. Prices in the wholesale market are declining, but since 2008 the prices for final users have been increasing. This growth is linked with the need to support the financing of investment in renewable sources, in certain cases their preferential connection to the system, and the need to finance projects to increase the capacity of existing transmission and distribution systems. There is also the problem of compensation payments for gas-fuelled plants temporarily being put out of action and acting as a stand-by source to ensure the reliability of electricity supplies. Investments are also needed to build facilities enabling the interlinking of the electricity markets, as required by EU legislation. This will concern not only the energy infrastructure, but also the area of information technologies. The benefit will be easier availability and greater reliability of electricity supplies, but no price reduction for final users can be expected.

■ CHANGES IN THE CONSUMPTION AND BEHAVIOUR OF CUSTOMERS

Energy consumption is closely linked with industrial production and also with the weather.

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This is especially true of the gas industry. The last two mild winters in the Czech Republic did not do much good to the industry as regards revenues. The price, the same as consumption, which in the past correlated with gross domestic product, was stagnant. In the 1st half of 2015, the Czech economy grew, in the 1st quarter the growth was record high, amounting to 3.4%, but energy consumption is far from showing such a dynamic increase. The reason is greater energy efficiency in both the industrial and household sectors. It can therefore be said that energy consumption cannot be expected to grow massively in the next three to five years.

■ ENERGY STABILITY IN THE CR AND ATTRACTIVENESS FOR FOREIGN INVESTORS

The Czech Parliament recently passed a new Energy Act Amendment (more about changes in legislation concerning the power industry sector on page 26). The State Energy Concept has been updated and rules are being prepared for the new regulation period in the area of distribution to come into force on 1 January 2016. In cooperation with the Energy Regulation Office, electricity and gas distributors have prepared a new draft of the

tariff structure to ensure long-term stability of the distribution segment in the changing conditions of the Czech energy market.

From the foreign investors' point of view, the Czech Republic is very attractive as regards the energy sector, both as concerns legislation and future development. More investment can be expected to go into production facilities, the strengthening of cross-border installations and protection against electricity spilling across the border, especially from Germany, to prevent overloading of the grid, investment in the infrastructure in the area of distribution and the completion of the backbone gas pipeline running from north to south. The parameters of the updated State Energy Concept and the draft to regulate the pipeline system create good conditions for ensuring a reasonable pay-back period for the capital invested.

■ IMPACTS OF NEW TRENDS IN THE ENERGY SECTOR ON INDUSTRIAL PRODUCTION IN THE CR

For industrial production, prospects of more investment in the energy systems is a good signal. Such investment will ensure good energy supplies, thanks to the opening of alternative transport routes the risk of non-deliveries from politically unstable countries will be eliminated and a high quality and reliability of deliveries will be guaranteed. For the period of the next three to five years, the prices are expected to remain stable. What we can predict with certainty is that no price reductions are in sight. Thanks to government support of programmes to raise energy efficiency, however, the whole economy can be expected to become less energy intensive. This, of course, is a task to be tackled by industrial enterprises themselves. In the final analysis, the results of this programme should lead to an overall reduction of energy costs and higher competitiveness of Czech enterprises in the Czech Republic and abroad.



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ZVVZ GROUP Is Steadily Growing also Thanks to Its Activities Abroad



The ZVVZ GROUP is an umbrella company bringing together six firms with an estimated turnover this year amounting to CZK 2.5 billion. It is one of Europe's largest manufacturers and suppliers of air and industrial gas purification equipment. The holding, with a tradition dating back to 1948, employs 838 people and is based at Milevsko.

Its most important divisions are **ZVVZ-ENVEN ENGINEERING**, a trading and engineering joint stock company, and the ZVVZ MACHINERY trading and manufacturing joint stock company.

The ambition of the firms is to expand in Europe and to strengthen their position as respected suppliers of environmental engineering products and equipment. ZVVZ-ENVEN ENGINEERING has vast experience in the supply of dust and emission separation and desulphurisation equipment. In addition, it plays the role of general supplier to structures, such as in the case of the desulphurisation of four energy boilers of ArcelorMittal Energy company, which is the largest heating plant in the Czech Re-

public. Its position as whole plant supplier also provides opportunities for further business activities.

The company provides its clients with comprehensive services, from project design and construction design of the project to the assembly of technological wholes and putting the equipment into operation.

Its customers in the Czech Republic include important firms, such as the ČEZ energy group and Dalia, and the Třinecké železářny and ArcelorMittal Ostrava metallurgical companies. ZVVZ-ENVEN ENGINEERING envisages its future in expansion in Russia, Ukraine, and Kazakhstan, where it already has subsidiaries, as well as in Central Europe and the Balkans. The firm has been operating in those markets for a number of years and is one of the three best-known companies doing business there, together with Alstom and Rafako. The ZVVZ trademark has an excellent name and good references in those territories.

ZVVZ-ENVEN ENGINEERING enjoys the reputation in those territories of a modern, technical firm with a great history and a great future, wishing to broaden its supplier portfolio by the addition of incinerating plants and complete ventilation systems for nuclear power plants.

ZVVZ MACHINERY has its own development and production facilities. Its affiliate, ZVVZ-ENVEN ENGINEERING, purchases nearly one-third of its production. Its core business is the production of dust separators and solid and gaseous admixture separators for differ-

ent industries, as well as ventilators. These are its key products, and in addition to the energy sector and foundries, they are used in the ventilation of road and railway tunnels, the Metro, airport halls, and industrial plants. Its largest supplies of this kind of equipment were for the capital city of Prague, where they are used in the Blanka road tunnel system and tunnels forming part of the ring road and the Metro, including the new Dejvická-Motol line. Another important area of the portfolio of ZVVZ MACHINERY is heavy-duty ventilation systems, in the energy industry – air blowing, forced draft systems, flue gas desulphurisation systems and transport of air mass mixtures in the chemical and metallurgical industries.

One of the company's specialities is the manufacture of ventilators for aerodynamic, acoustic and climatic testing tunnels, used by big car factories, such as Audi and BMW, and various research institutes, (VZLU Aviation Research and Testing Institute, Brno University of Defence, Oshawa University, Canada).

Besides ventilators, ZVVZ MACHINERY also manufactures high capacity semi-trailers for the transport of loose and liquid materials, pressure vessels, ISO containers and driers for the printing industry, which are all products requiring extreme precision and high-tech skills. After having massively invested in new machinery and equipment, the firm now boasts a modern production base providing a number of accompanying services.

The **ZVVZ GROUP** closed the 2014 year with consolidated revenues amounting to CZK 2 billion and gross profit of CZK 62 million. Last year was a very complicated one. For example, the military conflict in Ukraine cost the Group hundreds of millions of crowns in lost contracts, which were already signed, and additional millions will be lost on the contracts providing for the removal of dust from power stations in the Donbas industrial region in future years, which were already prepared for signing. In spite of this, the holding achieved the maximum possible.

In 2015, revenues are expected to reach CZK 2.5 billion, with a profit of CZK 55 million. More contracts are anticipated abroad, as the Czech market no longer offers such opportunities in the field of environmental engineering as in the past. The firms of the holding are therefore seeing new clients in Poland, the Balkans and Germany, as well as in Russia, Kazakhstan, Ukraine, Turkey, and China.

Czech Power Industry Strategy: Safe, Competitive, Sustainable in 2040

In May 2015, the Czech Government approved the final shape of the long-awaited State Power Industry Concept Update (ASEK), which is the key strategy document of the state in the area of the power industry. The document sets out the strategic tasks for the development of the Czech power industry in the next 25 years.

The aim of ASEK is to ensure a reliable, safe, and environmentally friendly supply of energy for the population and the national economy and to secure uninterrupted supplies of energy even in any potential crisis situations. "The State Power Industry Concept of 2004 has been surpassed in many respects and it did not take into account numerous events which occurred in the power industry sector and in European economy in general. Its update was also necessary in connection with the need to meet EU targets," said Jan Mládek, Minister of Industry and Trade, pointing out that the new structure of the concept would make it possible for the Czech Republic to meet its obligations, in particular as regards the EU climate-energy policy. ASEK also identifies mechanisms ensuring the safety of the state in connection with energy supplies. In par-

ticular, it proposes greater diversification of sources and the interest in maintaining the current full independence in the area of heat and electricity supplies, but without the important export of the energy produced. This will only be possible by the further development of nuclear power production in the Czech Republic. This issue is tackled in detail by the National Action Plan for the Development of Nuclear Energy (NAP JE), which is directly linked with the already approved ASEK concept.

■ STRATEGIC TARGETS OF CZECH POWER INDUSTRY

■ Safety of energy supplies = ensuring essential energy supplies for consumers in ordinary operation and in any leap change of external conditions (drop-outs of primary source supplies, price fluctuations in the markets, breakdowns and attacks) in the EU context; the aim is to guarantee a prompt renewal of supplies in the case of any drop-out, while guaranteeing the full supply of all the kinds of energies to the extent of "emergency regime" supplies for the economy and the population.

■ Competitiveness (of the power industry and social acceptability) = final energy prices (electricity, gas, gas products) for industrial consumers and households, comparable with other countries in the region and other direct rivals + power generating enterprises capable of creating economic added value on a long-term basis.

■ Sustainability (sustainable development) = power industry structure sustainable from the environmental point of view (no worsening of the quality of the environment), the financial and economic point of view (financial stability of power industry enterprises and capability of ensuring essential investments in renovation and development), human resources (education) and social impacts (employment), and primary sources (availability).

■ 2040 TARGET VALUES DEFINING THE STRATEGIC ORIENTATION OF CZECH POWER INDUSTRY:

■ A 40% cut of CO₂ emissions by 2030 in comparison with 1990 and further emission cuts in accordance with EU strategy aimed at the decarbonisation of the economy by the year 2050 in accordance with the economic possibilities of the Czech Republic.

WE PUT A FEW QUESTIONS TO MS DANA DRÁBOVÁ, CHAIRWOMAN OF THE STATE OFFICE FOR NUCLEAR SAFETY:

You are one of the members of the Government Council for Energy and Raw Materials Strategy of the Czech Republic. What, in your opinion, are the priorities of the updated state energy concept?

In my opinion, the concept has realistically assessed our possibilities and has put them together in such a way as to make it possible to take the best advantage of the strengths of the different sources, while limiting their weaknesses. In today's rapidly changing world, it is important to have the possibility of reacting flexibly to the changes, i.e. to maintain a diverse energy mix. Another priority is the gradual restriction of the role played by fossil fuels, and the resulting emission reduction. We must not forget about safety, a friendly approach to the environment and the social and economic viability of the accepted solutions.



In June, the Czech Government approved the National Action Plan for the Development of Nuclear Energy. One of the priority tasks of the document was the identification of potential investment and business models making the construction of a new nuclear source possible. In what direction, in your opinion, is the nuclear power industry moving in the Czech Republic?

We should try at least to maintain the current installed output of nuclear power stations (4300 MW), ideally to raise it somewhat higher. It is therefore recommendable to maintain and to develop the facilities and sources so as to be able to replace them with new 2000 MW blocks in Dukovany by 2035 as, between 2035 and 2040, the existing four blocks will gradually be shut down.

What are the priorities of your office in 2015?

As in previous years, our first and foremost task in 2015 is to ensure an adequate control of risks involved in the use of nuclear technologies and ionising radiation sources in all areas of human activities. As regards nuclear power generation, we'll concentrate especially on the licensing process for the operation of the Dukovany nuclear power station after 2015 and the monitoring and control of the implementation of measures adopted on the basis of the post-Fukushima stress tests carried out at the Temelín and Dukovany nuclear power stations.



In early June, the Czech Government also approved the National Action Plan for the Development of Nuclear Energy (NAP JE), which outlines the possibilities of the future development of the nuclear power industry in the Czech Republic and envisages the construction of new nuclear blocks in the Dukovany and Temelín localities. "To ensure the energy self-sufficiency and safety of our country, we must start preparations for the construction of one nuclear block in the Dukovany locality and one block in the Temelín locality, with the possibility of an enlargement to two blocks in both localities," said Jan Mládek, Minister of Industry and Trade. He pointed out that to maintain continuity of operation in the Dukovany locality it is especially essential, in the Government's point of view, to build the block in that locality so that it may be launched by 2037.

One of the priority tasks mentioned in the document was the identification of potential investment and business models enabling the construction of a new nuclear source. In this respect, three options have been presented and analysed in detail that could be realised in the Czech Republic:

1. investment through the current owner and operator of nuclear power stations, the ČEZ company, a.s., possibly a 100% affiliation owned by that company;
2. investment through a private investor consortium, i.e. an association of investors with the aim of attaining the set target (ČEZ, financial investor, big customer, supplier of the nuclear block, etc.)
3. direct construction on the part of the state by a new state enterprise.

■ A 20% increase in energy savings by 2020 in comparison with the expected situation without any active measures ("business as usual") and further increase in energy efficiency by the year 2040 in accordance with EU strategy, with the aim of attaining energy intensiveness and average per capita energy consumption below the EU28 average.

■ Raising the proportion of the annual electricity output from domestic primary sources to total gross electricity production in the Czech Republic to at least 80% (renew-

able energy sources and wastes, brown and black coal and nuclear fuel, while ensuring their sufficient supplies) with the following target structure of electricity production (in relation to total gross electricity output):

1. Nuclear fuel 46–58%
2. Renewable and secondary sources 18–25%
3. Natural gas 5–15%
4. Brown and black coal 11–21%

■ Diversified mix of primary sources (in relation to the total annual consumption of

primary energy sources) with the following target structure:

1. Nuclear fuel 25–33%
2. Solid fuels 11–17%
3. Gaseous fuels 18–25%
4. Liquid fuels 14–17%
5. Renewable and secondary sources 17–22%

■ Maintaining the positive electricity output balance and ensuring adequate output reserves and regulation outputs (ensuring essential supporting services) and output adequacy in the range of -5% to +15% of the maximum load of the electric power supply system.

■ Import dependence not exceeding 65% by 2030 and 70% by 2040 (nuclear fuel as import source).

■ Final electricity prices (market price plus regulated part) for the business sector, comparable with the development in neighbouring countries and below the EU28 level, but not more than 12% of the OECD average.

■ Reducing the proportion of energy expenses to total household expenses to under 10% as the target value.

Changes to the Czech Energy Regulation

In April 2015, the Czech energy sector was significantly changed by amendments to two important acts. The legislative affects energy audits, licenses for electricity producers, and creates new systems of payments in support of electricity generated from renewable sources.

■ THE ENERGY MANAGEMENT ACT¹ AMENDMENT

The Energy Management Act Amendment ("the EMA Amendment"), effective as of 1 July 2015, introduces, inter alia, the following important rules which will affect both investors and consumers:

1. The Energy Performance Certificate

The EMA Amendment repeals the general obligation to obtain an energy performance certificate (the energy label) for all buildings. The energy label continues to be required when a building or a part thereof is sold or rented; however, an exception will be given to those buildings which were built before 1 January 1947, provided they have not undergone any major reconstruction since then. In those cases, subject to the agreement with the other party, the Energy Performance Certificate will not be required even if the building is sold or rented. Further exceptions will be introduced for certain additional types of buildings, such as cultural monuments and buildings situated in conservation areas.

2. Heat Meters

Individuals and legal persons purchasing heat, cold or hot water for their own use will be required to equip internal heating installations with utility meters, as stipulated in the Metrology Act. Every apartment and all non-residential premises in apartment houses and multi-purpose buildings with heating or cooling supplied from a heat supply system, district heating or cooling, or a hot water heating system used by multiple units, must be equipped with devices recording heat supply (i.e. specified heat meters in accordance with the Metrology Act), or with heat cost allocators (i.e. gadgets splitting up

heat costs), to the extent and the manner prescribed in the implementing law. Secondary legislation sets out exceptions to this obligation when the installation of heat meters is economically impractical, for example, where the price of the heat meter installation would exceed the price paid for the heat consumed in such buildings.

3. The Obligation to Prepare the Energy Audit

The EMA Amendment requires large enterprises² to complete an Energy Audit every 4 years. Large enterprises are exempted from the obligation, provided that they implemented and duly certified the energy management system (ČSN 50001) or the environmental management system (ČSN 140001), which includes the Energy Audit as well.

4. The Content of the Energy Services Contract

The EMA Amendment lays down the specific requirements on the content of Energy Services Contracts. These include, inter alia: 1) a list of measures related to the efficiency of energy use; 2) a specification of guaranteed cost savings or energy savings; 3) the duration of the Contract; 4) the terms and conditions of withdrawal from the Contract; 5) the dates and periods relevant for ascertaining the savings thereby made or the energy savings; 6) the determination of remuneration for providers of energy services; and 7) the sanctions for the breach of the contractual obligations. The rationale of these measures is the standardisation of the quality of the services provided.

5. State and Territorial Energy Conception

The changes also affect the State Energy Conception (SEC) and the Territorial Energy Conception (TEC), that are to be adopted for the period of 25 years. The EMA Amendment aims at standardising and formalising the process and structure of the national strategic planning in the area of energy management, including the definition of indicators to be used in the area of safety, competitiveness, and sustainability.

■ THE ENERGY ACT³ AMENDMENT

The Energy Act Amendment ("the EA Amendment"), which will become effective on 1 January 2016, should bring positive



changes, especially a significant reduction of the administrative burden for entrepreneurs and small electricity producers.

1. Small Electricity Generating Stations without a License

Small electricity generating stations with an output not exceeding 10 kW which are connected to a distribution or transmission system will no longer be required to have a license, provided the power generated is for the entity's own consumption. The rules governing this type of production are to be specified.

The measure is intended to simplify the administration for small electricity generating stations which do not amount to a business activity and whose output has a limited impact on the distribution system. This category of energy production is mainly intended for the customer's own consumption.

2. License for an Indefinite Period

Licenses for certain types of businesses (gas and electricity transmission and distribution, gas storage, heat distribution, and the activities of an operator of a market) should be awarded for an indefinite period of time which will reduce the administrative burden and the regulatory framework. So far, licenses for these activities have been granted for a duration of 25 years in the Czech Republic. Licenses for electricity and gas trading should continue to be granted for a duration of 5 years.



3. Annual Reporting

The administrative burden for both entrepreneurs and public administration should be reduced since network operators (power, gas, heat) will no longer be required to report every modification of an installation separately to the regulator, but instead, will provide the regulator with an annual report containing all the changes made over the past 12 months.

Moreover, the regulator is empowered to amend a decision on the granting of a license only once a year and, therefore, it will no longer be required to issue decisions on the granting of a license each time a change has been made in the course of the year.

4. Transfer of a License to a Legal Successor

In the case of the transformation of a legal person, its legal successor will be able to carry on the licensed activity on the basis of the existing license issued to the original company until the Energy Regulatory Office (ERO) issues a new license.

This novelty is primarily designed to ensure the continuation of a licensed activity in the case of a merger or a division of a company, assets transfer to a shareholder or a change in the company's legal status. At the same time (if applicable) the date of a former grid connection, which is decisive for the rise of a claim linked to the support

of electricity generated from renewable energy sources, will be maintained.

5. State Authorisation Not Required for Output below 1 MW

State authorisation of the construction of an electricity generating station will only be required when an output exceeds 1 MW (at the moment the threshold is 100 kW). The authorisation is not granted automatically; the Ministry of Industry and Trade should not grant the authorisation when the intended electricity generating station is not in conformity with: 1) the State Energy Conception; 2) the National Action Plan for Renewable Energy; 3) territorial planning documentation and 4) the raw material policy of the state. Following the current policy, construction of electricity generating stations will be considered with regard to the requirements of the EU law as well as weighing the costs and benefits for efficient production of electricity and heat.

6. New Scheme for Renewable Energy Support Payments

A change is proposed to the scheme for collecting money in support of electricity generated from renewable sources, irrespective of the amount of electricity consumed by the customer. The new prices will differ depending on the voltage level the customer is connected to. The fee for ERO's activities is to be

determined in reference to the place where the electricity is consumed, and not by a fixed rate for the unit of electricity/gas consumption as is now the case. As a result, customers should be paying either the same amount or less than they are currently paying. ERO criticised a payment method based on the place of consumption as benefiting wholesales over small customers, as both categories will be contributing the same amount of money.

7. Measuring Obligations

According to the EA Amendment, the renewable energy support does not apply to electricity if the producer does not meet the measuring obligations laid down in Section 11a of the Renewable Energy Act (if the installed output exceeds 10 kW, the producer must have a meter meeting the conditions under the Metrology Act requiring it to be: (a) maintained; (b) checked and supervised by a person authorised by the Ministry; (c) protected against interference and manipulation, and (d) checked as regards its security against interference and manipulation).

The support is paid based on the metered amounts; however, to date, the measuring devices were not registered in any way or secured against potential tampering. If the producer fails to meet newly defined measuring obligations, it shall not be entitled to support in the form of green bonuses for electricity generated from renewable sources, green bonuses for electricity generated from secondary sources or green bonuses for electricity from combined heat and power generation.

Ensuring that measuring devices will not be unlawfully manipulated will lead to less frequent replacement of the devices and reduce misconduct of electricity producers who may intentionally report higher amounts of electricity eligible for the subsidy. Ultimately, this new obligation is expected to have a positive impact on the state budget.

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¹ Act No. 406/2000 Coll., on Energy Management.

² The Act defines large enterprises as enterprises that are not small or medium-sized.

³ Act No. 458/2000 Coll., on business conditions and public administration in the energy sectors and on Amendment to other laws (the "Energy Act").

Dynamic Development of the Energy Sector: Local Solutions and Energy Management Systems

The Czech energy sector has undergone extremely dynamic development in the past few years. This year, the country's updated State Energy Concept outlining the development of the sector in the next 25 years was approved, together with two Energy Act Amendments... "What are the goals of the further development of the sector? Definitely a lesser dependence on fossil fuels, decentralisation and a new technical and organisational arrangement of the energy sector taking advantage of new technological possibilities, while maintaining reliable supplies and resilience of the energy systems," Ms Zuzana Šolcová, Executive Director of the Energy Managers Association, commented on the situation.

In May 2015, the Czech Government approved the State Energy Concept Update (ASEK), a key state strategic document in the area of the energy sector and energy policy. The document sets out the strategy for the Czech energy sector for the next 25 years. What is your opinion of the new version of the concept?

ASEK is a comprehensive energy concept, which I consider the best in the history of the Czech Republic and one of the best and most comprehensive energy strategies in our region. It is a broadly conceived document comprising all the energy-related issues, including energy savings and the whole chain from production to consumption, including market organisation and the execution of state administration in all its aspects. I consider it a well-balanced document, which provides for the diversification of sources, transport routes and imports, while keeping all three main pillars – safety, competitiveness, and sustainability – in mutual balance. It can be seen that it respects the general strategy-making principles, using the balanced scorecard method. The concept respects new trends – both as regards the EU2030 strategic framework,

technological development in the area of renewable energy sources and network technologies, and the influence of the policies of large neighbouring states (especially the German "Energiewende") and long-term trends in the commodity markets, as seen by the international energy agency.

The Czech energy sector is showing a high degree of self-sufficiency in the area of electricity production. Can we expect this trend to last?

Currently, the Czech Republic has big output and production surpluses, which will undoubtedly decrease. ASEK nevertheless expects that the balance, meaning self-sufficiency, will be maintained. Considering the share of industry in GDP and consequently the importance of energy, and realising the expected deficits in a number of neighbouring countries, this will be most needed.

The Czech economy, however, is highly energy intensive. By EU comparison, we hold the fourth position. Can you explain why?

Yes, the Czech Republic has the second- or third-highest energy consumption per unit of GDP. There are several reasons for this. Perhaps the most important is the high share of industry in GDP creation. If converted to the normalised share of industry, energy consumption will be five points lower. Another factor is the higher share of highly energy-intensive industries (foundries, heavy chemical industry): when converted to the normalised structure, we'll get one more point down. Another important factor is the level of added value. Many products create intermediate products, which are manufactured in the framework of international corporations with a major part of added value being created in the development or finalisation taking place in another state. And the third most important factor is the lower energy efficiency of a number of operations. This last factor is the only one we can influence significantly by pressing for higher energy efficiency. The previous two, instead, are related to long-term economic development.

Do you expect any significant effects of technological innovations in the energy sector?

Yes, definitely. The development of decentralised sources, local energy solutions and energy management systems plus clever households already now influence develop-



ment and will continue doing so in future. The whole energy sector is changing, and the area of decentralised production and balance management at the level of lower wholes, especially in the household and services sector, and possibly in smaller enterprises, will be equally as strong as the central sources especially covering the needs of industry.

Do European countries wish to keep their identity in the energy sector, or would they rather prefer to build a single market?

Which countries share our position or are closest to it as regards the energy sector? Where should the EU Energy Policy change?

EU countries want to build a single market, and at the same time retain the decision-making powers and possibilities to politically influence the energy sector. This does not go together and leads to disarray in the electricity market, slowing down efforts to integrate it with the gas market. Without any doubt, we hold identical views within the Visegrad group of countries, together with Romania, and we have similar views as The UK and the Netherlands. And there are countries with which we have common views on some things, but not on every-

thing (for example, we have identical views to France on the role of nuclear energy, but different views as regards the capacity mechanisms and the model of the market).

What opportunities and prospects can you see in the Czech energy sector? Which aims will it pursue? What is the Czech energy sector most lacking?

The geographical position of the Czech Republic and its well-developed nuclear infrastructure, including its public support, are opportunities. These are our main competitive advantages. To be able to make full use of them, we must have a strongly concerted approach to the energy issue, plus a long-term vision and the ability to make decisions and to act. All this has been missing on our part so far. And where will the energy sector be aiming? Definitely towards reducing dependence on fossil fuels, decentralisation and finding a new technical and organisational arrangement of the energy sector that will take advantage of new technological solu-

tions, while maintaining the reliability of supplies and resilience of the energy systems.

In the Czech Republic, electricity from renewable sources has left a bad taste in people's mouths because of the lavish state support of the solar business. Nevertheless, further growth of the proportion of those sources is to be expected. Is it a correct direction for the energy sector to follow?

Of course it is. Renewable energy sources have an important role to play in the energy mix and they will be developed to the extent to which they will be able to find buyers under market conditions. It was correct that their development was massively supported, but the bad thing is that this was done in the worst possible way. Instead of supporting research, development and pilot projects, and in the case of the most forward-looking sources, which have nearly reached market maturity, limited grants were added at the level of ten, fifteen per cent of costs, a machine was installed for massive re-distribution with negligible effect

on electricity supplies. We expect the output of electricity generated from renewable sources to treble between 2010 and 2040, and maybe even a little more. The limit will be the extent and the way of using farmland, the conflicts with nature and landscape protection efforts and the extent to which electricity from smaller plants will be used for local purposes. In the case of commercial supplies to the network, for example, for industrial consumption, the plants will have to be fitted with reserve sources, storage facilities and control systems; all this will at least double the costs (today the increase would be more than treble, but here, too, we expect the prices to go down) and the competitiveness of the plants will be limited.

What is your opinion as regards the extension of Czech nuclear power stations?

Without them, we would be unable to ensure safe electricity supplies for the economy, unless we decide to give up an important part of industry and unless we waive the requirement to reduce CO₂ emissions.

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Czech Pellet Plants Are Doing Well

Czech pellet plants are doing well, especially the certified ones. Production of wood pellets grew by 23% in 2014, and this year even greater growth is expected. Four new pellet plants and expansion of existing capacity are expected to raise production by tens of thousands in 2015. Most Czech pellets are intended for export.



WHAT IS NECESSARY FOR ENPLUS CERTIFICATION?

The certified pellets fulfil the requirements of the international standard EN ISO 17225-2, which specifies the main parameters and quality requirements for pellets. ENplus wood pellets are divided into three categories based on the quality of the used wood. The highest and most used is category A1. Besides regular values, such as calorific value and moisture, it also sets new criteria for transparent supplying of pellets. Another new criterion is the minimum melting temperature of ash, which prevents caking and slagging of ash on the burners.

Records of numbers of produced pellets are kept by Klastr Česká peleta, which is the administrator of the ENplus certification in the Czech Republic. While in 2013 144 493 tonnes of certified pellets were produced, in 2014 the figure was 177 586 tonnes, and therefore year-on-year growth reached 23%. In 2014, the production capacity of existing production facilities was increased, and new pellet plants were opened.

As far as the share of certified pellets in overall production is concerned, the Czech Republic holds first place among the countries of East Europe. Only 20 000 to 30 000 tonnes are produced annually without certification. "ENplus certification serves as a ticket for entry into the international market, to which most of the pellets produced here are exported, and therefore the newly established pellet plants apply for certification usually before even commencing production," explains Mr Vladimír Stupavský, Chairman of Klastr Česká peleta. In the Czech Republic, there are 12 certified pellet plants. "Since two thirds of Czech production is still intended for export, especially to West Europe, ENplus certification is a necessary condition for our producers' success. And it helps improve the quality of the entire Czech pellet market," Stupavský adds.

■ OUTLOOK FOR 2015

This year, the pellet market is developing mainly with the construction of the Stora Enso pellet plant in Ždírec nad Doubravou, which will produce 55 000 tonnes annually. Another 15 000 tonnes will then be added to the total number by the TIMBORY pellet plant, operated by Holzindustrie Chanovice, which is doubling its production. Other existing pellet plants are also expected to get ENplus certification. "We are currently negotiating regarding certification with four pellet plants, which are undergoing preparation for an audit," Stupavský confirmed. And where will pellets newly be pressed? Two smaller pellet plants in the Olomouc Region together produce 30 000 tonnes, and one

local plant in the South Bohemian Region will have a capacity of 12 000 tonnes. The largest of the new pellet plants will be built in Vysočina, with a planned capacity of approximately 55 000 tonnes.

At the turn of the year, pellets began being produced by another new pellet plant, which was built in Horní Planá in South Bohemia. Last year, three pellet plants were put into operation in Chotěboř, and two former briquette factories operated by BIOMAC in Mladějov and Borohrádek were expanded and now produce both wood briquettes and pellets. "There are and will be plenty of pellets, which will lead to stabilisation or even reduction of the price," says Stupavský. Pellet prices fell already last year, and the prices of certified bagged pellets in Moravia even fell by 15%.

Domestic consumption of pellets is expected to increase in 2015 as well. For the first time after a few years, there was a sharp reduction in the prices of pellets, because the raw materials used to produce them, sawdust and wood shavings, got cheaper. This spring, prices fell by more than 20% compared to the winter heating season. Therefore, pellets are being viewed increasingly by Czech households as a comfortably affordable fuel.

For more details, see www.ceska-peleta.cz/

KLASTR ČESKÁ PELETA

Klastr Česká peleta cooperates with the main producers and distributors on the wood pellet, boiler and biomass markets and takes a unique approach to statistics and to prognoses for the future. It strives to increase the quality of Czech pellet production and manages and issues ENplus certification. Its chairman, Vladimír Stupavský, holds a leading position in the European Pellet Council, which developed the ENplus certification and implemented it at an international level.

Unique Mining Machinery System from T Machinery

T Machinery, founded in 2003, is an important Czech manufacturing and engineering firm specialising in the area of mining machinery and equipment. It is the only manufacturer in the Czech Republic capable of designing, manufacturing and supplying whole mining machinery systems and putting them into operation. The history of T Machinery joint stock company is linked with the Baťa firm and the mining of lignite for the renowned Baťa Works in the 1930s. This is when the Tomáš deep mine was opened. In its time, it was the most-up-to-date underground mining facility of its kind, using the latest technologies and appreciated by its managers and employees alike. To learn more about the company's present, we addressed its Managing Director, Zdeněk Gajdík.

The current production programme of T Machinery focuses on underground mining machinery systems for coal mines, in particular the development and manufacture of continuous mining machines. Which other products/services do you offer? Can you give us any details? Is there anything unique you can offer?

Apart from mining machinery systems, our company also offers the use of its vacant production facilities in the area of engineering production, such as welding, machining, forming, surface finishing, etc. A unique feature of TM Machinery is the quality of its production, which is based on and declared by the ISO 9001 and ISO 3834-2 certificates that we hold. We are one of few firms worldwide manufacturing specific continuous mining machines for low seams (type MB 444P). A great advantage of the miners is their small size, great firmness and resistance to mechanical forces in mining. T Machinery has also developed a system, TM Vision, designed for surface display of the manufactured mining equipment in operation. The data are transferred into the pro-



gram online by a communication line and with the help of special communication modules. The data thus displayed provide information about all the operating conditions recorded by the equipment, as well as any defects which may occur on it. Using this program, the service operator can localise any defect on the surface, without physically having to go to examine the machine, which can significantly shorten the time needed for repair.

Great emphasis is placed on innovation. With your team of specialists you develop new machines meeting world standards, especially as regards the efficiency of mining operations and the reduction of the proportion of physical work, thus eliminating the negative influence of the human factor in mining. This means greater safety in mining in general. What innovations are you preparing this year?

In 2014, T Machinery worked on the development of the MB 330 MONO one-arm continuous miner, which is designed for extraction in seams with different disintegration capacity and parting. We presented the single-drum continuous miner to the public last June. In 2015, we began developing a new type of continuous miner, the MB 750E, and a new conveyor, C3K 284, which is characterized by increased durability.

Your firm is an important Czech exporter, which exports around 95 % of its output. Do you think Czech products have a good name abroad?

Yes, I do. We believe that Czech engineering production in particular has a very good name abroad.

You export your products to a number of countries, for example Ukraine, Russia, Poland, Germany and Mexico. Which order you have received so far are you most proud of?

T Machinery is proud of all the orders, because it is proud of the high quality of its products. If we were to mention just one, it would be the order for the construction of the largest mining equipment in the Czech Republic – the MB 1200E continuous miner, whose capacity is 20-55 t/min. and which is our largest, most productive and most efficient machine. The MB 1200E continuous miner, developed for underground coal mining, was made for Zarechnaya colliery (Russian Federation) in 2013.

What are your plans and visions for the future?

In the longer perspective, our plan is to continuously raise the quality of our products. We would also like to innovate our equipment and enlarge our current production programme. In the perspective of a few years, our plan is to add India, Kazakhstan, North and South America to our export destinations.

You participate in a number of trade fairs and exhibitions. Where can visitors see your expositions this year?

This year, T Machinery a.s. displayed its products at Minex fair (Izmir, Turkey) and Ugol Rossii and Mining (Novokuznetsk, Russian Federation). In 2015 it will attend the China Coal & Mining Expo to be held in Beijing at the turn of October and November. All visitors will be welcome to the T Machinery stand.



Czech Engineering Industry Expected to Grow

In 2015, Czech engineering industry is expected to grow by 2.1 %, according to CEEC Research analytical company. Higher performance of the engineering sector is expected by 75 % of managers. The Czech engineering industry is also expected to grow in 2016. The firms' managers predict a 1.9 % growth in 2016 over this year's results.

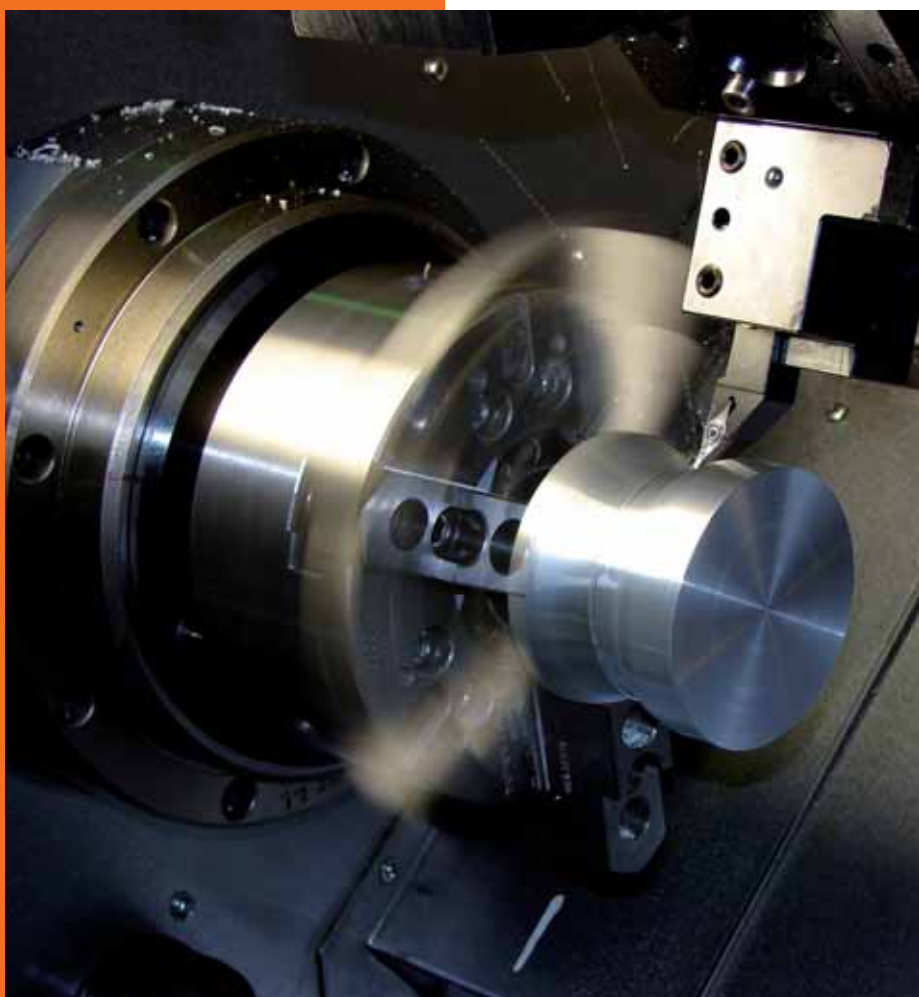
"No major changes are expected in the development of the engineering industry in 2015 and 2016, provided no political crisis occurs. Currently the crisis in Ukraine seems to be nearing its end and we hope agreements will be reached to ensure peace in that area. This is a very positive development. On the other hand, a very negative fact is that politicians are unable to react to it and, in my opinion, want to aggravate the situation, with the aim of weakening the Russian economy as much as possible. This may greatly weaken a large number of Czech engineering firms which export their products to Russia, or supply products to firms in different European countries, for which Russia is the final customer. In general, it can be said that Czech engineering will copy the development of the engineering industries in the advanced EU countries, with only a potential difference which could be caused by a significant change in the EUR/CZK exchange rate," says Stanislav Hrdina, Sales Manager of ŽDAS, a.s.

■ EXPECTED GROWTH OF REVENUES


The revenues of engineering companies are also expected to grow, which companies put into the context of the generally improving economic development in both the Czech Republic and some of the countries to which Czech firms export their products, with a positive impact on their revenues. The outlook for 2015 shows that eight in every ten companies (79%) expect their revenues to grow. The weighted average of the answers of all the responding managers indicate that in 2015 revenues will increase by 3.7%. The survey reveals that the current capacity utilisation rate of engineering companies is at a level of 86%. In terms of size, the differences in the capacity utilisation rate are very small, although, in the case of large firms, the rate is slightly higher on an average (88%), with small and medium firms having their rates at a level of 86%. "In 2014, we increased the volume of production by approximately 20%. There is, however, a considerable difference in certain sectors and the car industry, according to customers to whom we supply our products. In some sections, we work three shifts seven days a week, but elsewhere we have not increased the volume of production and work two shifts five days a week. In the future, we expect an increase in the volume of production, according to the outlook of our customers, mainly in the automotive industry. We have managed to procure interesting projects, where strong growth can be observed and which dramatically increase the volume of production in our factory," adds Petr Novák, Director of Koyo Bearings Česká republika s.r.o.

■ BEST WAY OF WINNING CONTRACTS – LONG-TERM COLLABORATION WITH THE CUSTOMER

Companies usually have contracts for six months in advance. Large companies are even better secured with contracts, with deliveries to be made in 8.6 months on an average. In the case of small and medium firms, the term is 5.5 months. Thirty-one per cent of companies confirm that currently they have more contracts signed than a year ago, with a mere 13% of companies reporting a lower volume of contracts than last year. About every other company (56%) has





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■ **TRATEC-CS, s.r.o.** is a leading Czech manufacturer of machine tool accessories. Our main products are hydraulic control cabins for horizontal centres, stationary and movable machine tool coverings, machine fairings and control panels and all other machine tool accessories.

■ Our long-standing partners include leading Czech companies concerned with the production of machine tools (FERMAT CZ, s.r.o., KOVOSVIT MAS, a.s., OMOS, s.r.o. ŠKODA Machine Tool, a.s., TOS Hulín, a.s., TOS KUŘIM-OS, a.s., TOS VARNSDORF, a. s.), and other international manufacturers (ELHA-MASCHINENBAU Liemke KG, Karl Keppler Maschinenbau GmbH, Viking CNC A/S, OOO GRS-URAL).

■ **TRATEC-CS s.r.o.** is extending its traditional production programme and is continuously moving ahead. The company is developing its own robot implementation system and working on the realisation of a reference testing project with the aim of becoming one of the world's robotics implementers for automated production processes.

■ **TRATEC-CS, s.r.o.** is also a leading Czech manufacturer of rail vehicle interiors for suburban and urban transport, with its own toilet box vacuum evacuation system for modern railway transport.

TRATEC-CS, s.r.o. manufactures specifically:

- **Hydraulic control cabins for table-type and desk-type horizontal boring and milling machines**
- **Stationary machine tool coverings anchored to the base of the machine** (partly type "C" or along the machine circumference)
- **Movable machine tool coverings fitted to the machine**
- **Machine fairings according to the customer's own design, or own development**
- **Control panels for machines** (according to customer requirements, with bottom or upper suspension)



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the same amount of contracts as last year. The best way of winning new contracts, according to the companies, is long-term collaboration with customers. Here, the average evaluation of efficiency is 8.1 points out of the maximum 10. A full 99% of firms win their new contracts in this way. Personal contacts are also highly valued (confirmed by 97% of directors, with 7.1 points out of the maximum 10). A relatively frequent method of winning contracts is direct enquiries from customers (confirmed by 98% of directors). In this case, however, the efficiency is lower (5.4 points out of the max. 10). The least efficient method of winning contracts is tendering (confirmed by 83% of directors, with a mere 4.5 points out of the max. 10). In this case, there are no significant differences between large and small/medium companies.

The survey also analysed the main problems raised by company directors in the discussion. State bureaucracy is the problem mentioned most often (98%) and having the most negative impact on the economic results of engineering companies (6.5 on a 0 to max. 10 scale). This concerns the legislative requirements by the State and the non-systematic and frequently changing behaviour of the State, which place unnecessary bureaucratic requirements on firms, preventing them from making long-term plans for their activities, in certain cases even pricing. Another key factor limiting firms is the lack of skilled labour (confirmed by 90% of firms, valuation 6.1 points). Also frequently mentioned are high labour costs and keen

competition, even though the point valuation is lower than in the case of the above-mentioned limits.

"The unequivocally greatest limiting factors for Czech engineering are the long-term shortage of good university-trained technicians and a growing administrative burden ensuing from binding requirements concerning certification and inspection in the technical area," says Miroslav Holý, Director of the Services for Industry and Construction Division, TÜV SÜD Czech s.r.o. "Slower investment activities can be observed in the energy sector, with relative stagnation especially in Europe, not to mention the Czech Republic, as a result of several years of economic stagnation, when energy consumption was stagnant and firms were reluctant to invest and modernise. As the same number of firms in the world are competing for the same cake, the competition is relatively keen. We try to direct sufficient financial means into technical development and the modernisation of our products to keep pace with the high international standards in the area of steam turbines, and we can say we have succeeded. Sometimes there have been problems in finding new skilled labour, both as regards workers and technicians, but finally we always manage to solve them. The main factor of the company's growth is the volume of new contracts in power engineering. Nevertheless, the company is growing steadily, although the rate of its growth could sometimes be higher. A new feature in electricity production is its diver-

sification, with a rising proportion of solar and wind power plants. In response to this trend, our company has developed a new type of turbine for solar power stations, and already last year we were successful in two important projects in Latin America," says Pavel Kuch, Head of Business Development Dept., Doosan Škoda Power s.r.o.

■ LOOKING FOR NEW OUTLETS

In connection with the sanctions imposed against Russia by the EU, one-third of companies (35%) will be looking for new outlets for their products, both in Europe (especially in Germany) and elsewhere in the world (Asia, Africa, the Near East). Once again, this concerns big firms in particular, as confirmed by most of their managers (68%). Most of the responding managers believe that the absence of Czech products in the Russian market could be substituted for with products from Asia, and, to a lesser extent, from some European and possibly Arab countries. "In this respect, Czech manufacturers are in a similar position to those in the other EU states or the USA and Japan. To a certain extent, Western products can be replaced by products from Korea, Taiwan and China. Both Korea and Taiwan, however, are largely dependent on the West, especially the USA, and so I believe that they will have to take their other interests into account in trading with the Russian Federation. A certain solution is investing in assembly and manufacturing facilities in the Russian Federation," adds Oldřich Paclík, Director, Association of Engineering Technologies, Prague.

MIRROR POLISHING



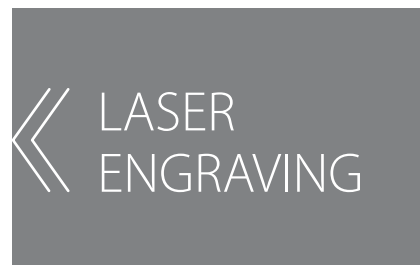
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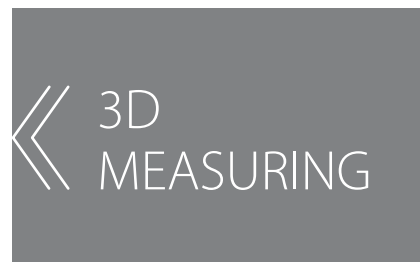
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PARTNERS



Engineering Has a Long Tradition in the Czech Republic

Between 1993 and 2014, CzechInvest Agency mediated 203 engineering investment projects in the Czech Republic. This amounts to CZK 71 516.89 million invested in the engineering sector with the help of CzechInvest over the past 20 years and the creation of 22 450 jobs. Investors are attracted to the Czech Republic not only by its long engineering tradition, but also by its well-educated labour force and the strategic position of the Czech Republic in the centre of Europe.



Some 6 700 firms are engaged in this sector in the Czech Republic. Among others, they include world renowned companies, such as Robert Bosch, Honeywell, Siemens, and Doosan. The most active investors are German, Japanese, and American firms. Up to 90% of products made in the Czech Republic go for export, mainly to the European Union. The regions which attracted most of the engineering investments were the South Moravia, the Moravia-Silesia and the Ústí nad Labem Regions.

■ PARTICIPATION IN INTERNATIONAL COOPERATION STRUCTURES

In addition, the Czech Republic is the only one of the Central and East European countries (CEE), which is a member of the European Committee for the Cooperation of the Machine Tool Industries (CECIMO). In 2014, the Czech Republic was placed seventh in terms of the volume of production within this organisation, whose members comprise the strongest European economies and Turkey.

■ THOUSANDS OF NEW GRADUATES EVERY YEAR

In 2014, approximately 3 500 students entered the labour market, while more than 16 000 were enrolled at Czech technical universities and over 12 000 students graduated from secondary technical schools. Technical education has a long tradition in the Czech Republic, going back to the beginning of the 18th century, when the Czech Technical University was founded in Prague. Universities, from which new engineers graduate each year, also exist in other cities, for example Brno, Plzeň, Ostrava, and Liberec. Czechs boast a long history in engineering innovations. Worth mentioning, for example, is the invention of the ship screw and the jet weaving principle.

■ REASONS TO INVEST IN THE CZECH REPUBLIC

In addition to its long engineering tradition and good background in the form of universities, the Czech Republic also offers lower production costs than, for example, the Western Europe. In 2012, average hourly wages in en-

gineering in the Czech Republic amounted to USD 12, while in neighbouring Germany it was USD 46. The Czech Republic can offer potential investors a good infrastructure, and, thanks to its geographic position in Central Europe, also easy possibilities of exporting to the western and eastern European markets. Engineering in the Czech Republic is divided into three basic sectors: power engineering, transport engineering, and machine tool production. Linked to these three important sectors is a vast network of subcontractors, which can also be used by new investors.

■ CZECHINVEST CAN HELP

Both new and existing investors are invited to use consulting services and other assistance provided in the Czech Republic by CzechInvest Business and Investment Development Agency. This state-run organisation provides its services free of charge. Its main services are supplying all necessary information to potential investors, consultation on current Czech legislation and also the administration of certain support instruments,

such as investment incentives and certain EU structural funds. The Agency provides investors assistance in dealing with the authorities and assists them in finding contacts with universities and research institutions. Thanks to its unique data bases, CzechInvest is in a position to supply investors with wide-ranging information about suitable business

properties, industrial parks and brownfields, and about potential contractors.

■ INTERNATIONAL ENGINEERING FAIR

Engineering is one of CzechInvest's main fields of interest. That is why the Agency annually participates in the International Engineer-

ing Fair in Brno, the most important industrial fair in Central Europe. This year's event to be held in Brno from 14 to 18 September will be no exception.

Eva Bernardová

*Sector Manager for High-Tech
Mechanical Engineering
CzechInvest, www.czechinvest.org*

KOVOSVIT MAS – Leader of High-tech Technology Development in the Czech Republic

The Czech engineering firm KOVOSVIT MAS, a.s. boasts a long tradition in machine tool production. It was founded in 1939 by the Czech entrepreneur Tomáš Baťa and in 2014 celebrated the 75th anniversary of its presence in the engineering technologies market. For the whole duration of its existence it has been in Czech hands. Its main clients are subcontractors for the car industry, the energy sector and the aviation and engineering industries. To find out how the firm is faring now, we addressed Mr František Komárek, Chairman of the Board of Directors of KOVOSVIT MAS, a.s.



FRANTIŠEK KOMÁREK
Chairman of the Board of Directors,
KOVOSVIT MAS, a.s.

2014 was one of the most successful years for your company since 2011; currently you are one of the world's six manufacturers of hi-tech technologies. Can you give us a brief characterisation of your firm from the point of view that will interest your foreign customers?

KOVOSVIT MAS is known especially for its strong development base, where, for example in the 1980s, it designed and manufactured the world's first numerically controlled machine tool. This was the first "real" multifunctional machine with parameters that outstripped world engineering development by nearly 20 years. A recent achievement and acknowledgement is the Gold Medal our company won at the International Engineering Fair in Brno for a hi-tech machine tool.

How are you doing abroad and what reputation do you have among your clients there? What can you offer them? Which of your products are most in demand?

Machines with the MAS trademark have been in the market for more than 75 years and are well known all over the world. Their advantages are their long service life, rigidity, stability, and firmness. Some of our conventional machine tools from the 1950s are still in operation in different parts of the world. Currently, there is great demand for highly sophisticated hi-tech engineering machines and complete engineering systems supplied ready to operate, including robotic workplaces. We supply whole production halls made to order, which in the final analysis save customers time and money. KOVOSVIT MAS is one of the few firms in the Czech



MAS HI-TECH MACHINE

winner of a Gold Medal at the International Engineering Fair in Brno in 2013.

Republic to have its own foundry, which also supplies its castings to other countries.

An important step forward in the development of your firm was the recent enlargement of your business activities with the addition of power engineering and hydro-engineering production. In which countries have you managed to expand in this area?

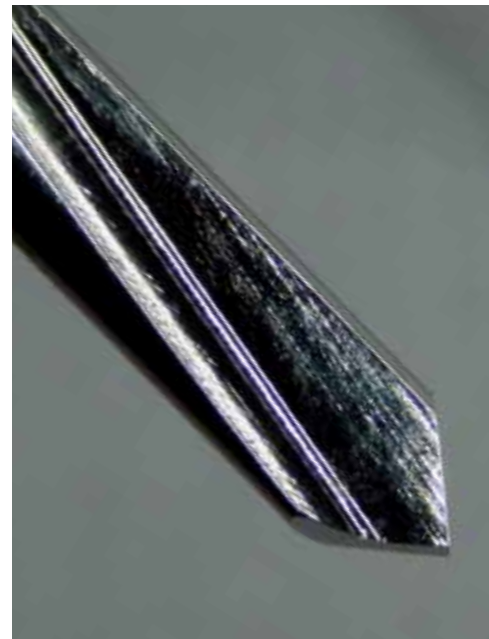
The technology we have developed in MAS HYDRO is primarily intended for use in localities with a small difference of levels. This specialisation defines our target markets, which are rather flat areas with canalised rivers. Within the EU, hydro-engineering is one of the supported energy-related sectors. One of the many advantages of our technology is its environmentally friendly approach to fish and other aquatic animals. That is why we are well established in countries with a strong emphasis on environmental protection. So it can be said that, thanks to this technology, we have managed to expand to the western EU countries. I would also like to mention our business achievements in the form of several turbines we have supplied to Germany and Italy. Another example of our good performance is the recent delivery of a spiral turbine for the Japanese state sector.

Research Leading to Higher Competitiveness

A number of projects realised within the framework of universities, research organisations and the firms themselves testify to the importance attached to engineering in the Czech Republic. The following are some of these.

One of the interesting projects is, for example, the NETME Centre (New technologies for engineering) of the Technical University in Brno, which concerns itself with research in the area of power engineering and mechatronics, including applications in machining, aircraft, and automobile technology, modern ways of proposing machine systems and testing, and advanced metal materials.

A special laboratory came into being on the grounds of the COMTES FHT research organisation based in Dobřany. The Centre's pride is its metallurgical laboratory with a vacuum induction melting and casting furnace with a capacity of 300 kg, a hydraulic press and a manipulator. "The Centre focuses on the research and development of materials from different metals to be used in metallurgy, engineering, construction, and power engineering, as well as in other branches, such as medical care," says Libor Kraus, Chairman of the company's Board of Directors.



"We have developed a new method of processing, which results in prolonging the service life of bearings," said the company's Research and Development Director, Ján Džugan, mentioning the very successful extra firm aluminium alloys and bio-compatible materials they have developed. "They may be used, for example, for tooth implants and hip joint prostheses," he explained. One-fifth of the Centre's revenues is accounted for by Czech and foreign orders from the engineering works of ŽDAS, Škoda JS, the Benteler industrial group and other firms.

Investment in the development of products and processes is the basic condition of maintaining competitiveness. A well-designed innovation strategy can ensure a very high rate of return. This is the strategy of the ZKL engineering concern, which manufactures bearings and exports them to nearly 80 countries. Last year the group increased its turnover by 5% to CZK 1.569 billion. One of the main factors responsible for the increase is investment in the innovation of the bearing and the modernisation of the technologies used. "Last year we invested CZK 370 million and this year's investment will also be more than CZK 300 million," said ZKL's Managing Director, Jiří Prášil. The current investments involve roller and railway bearings and concern the revitalisation of the manufacturing area and the purchase of new machinery meeting the most up-to-date scientific and technical knowledge and the use of top-quality materials.

NANOMATERIALS AT LOWER PRICES? CTU CAN DO IT

Nanotechnologies are much spoken about these days. They are suitable for applications in a very wide range of fields. However, R&D on these materials is very time-consuming and expensive, and the growing demand for mass production of nanofibres has not yet led to a reduction in costs. A team of scientists at the Czech Technical University in Prague (CTU) has been working on this problem, and has succeeded in creating two unique demonstrators that enable nanofibres and nanoelements to be produced more efficiently.

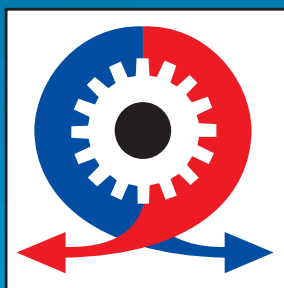
The first of these is a device called Nanocent, which is able to produce nanofibres. The aim is to meet the requirements of clients from the automobile industry, the environment, medical and textile production. The second device, called the Atomiser, can produce nanoelements and microelements for a wide range of uses in the food industry, medicine, and cosmetics. Both of these inventions are suitable for use in a broad range of applications.

"One of the advantages of the Atomiser over other devices on the market is that it can dry various types of polymers, bio-active molecules and living organisms more quickly and more gently, and at laboratory temperatures," says Miloš Beran, Head of the team for developing the technology. He adds, "Both of these devices, in an original manner, combine centrifuge technology for the production of nanomaterials and micromaterials with technologies using so-called supercritical fluids in the case of Nanocent, and with various organic solvents in the case of the Atomiser."

As demonstrators, both devices are suitable for specialised development and optimisation of production machinery according to the specific requirements of industry, especially as an element in various production lines. The research team at CTU in Prague is therefore collaborating with Inovacentrum CTU, a workplace of the rectorate of the University. Inovacentrum helps to introduce promising technologies that emerge at the University on to the market.

"We are confident that applications will soon be found for both devices, and that they will be brought into production. We are already collaborating with some producers in the food industry on optimising the parameters of both devices. We are interested in improving both of the devices on the basis of the real needs of industrial partners, and we are therefore open to expressions of interest in collaboration from other manufacturers. We are confident that, thanks to CTU in Prague, links will soon be made with other Czech manufacturers and international suppliers of nanomaterials, and the devices will consolidate their position worldwide as leaders of the industry," adds Marek Houda, Head of Technology Transfer at Inovacentrum CTU.

Jan Štěpánek



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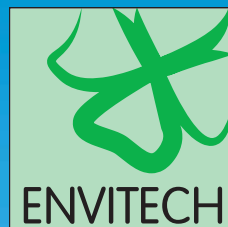


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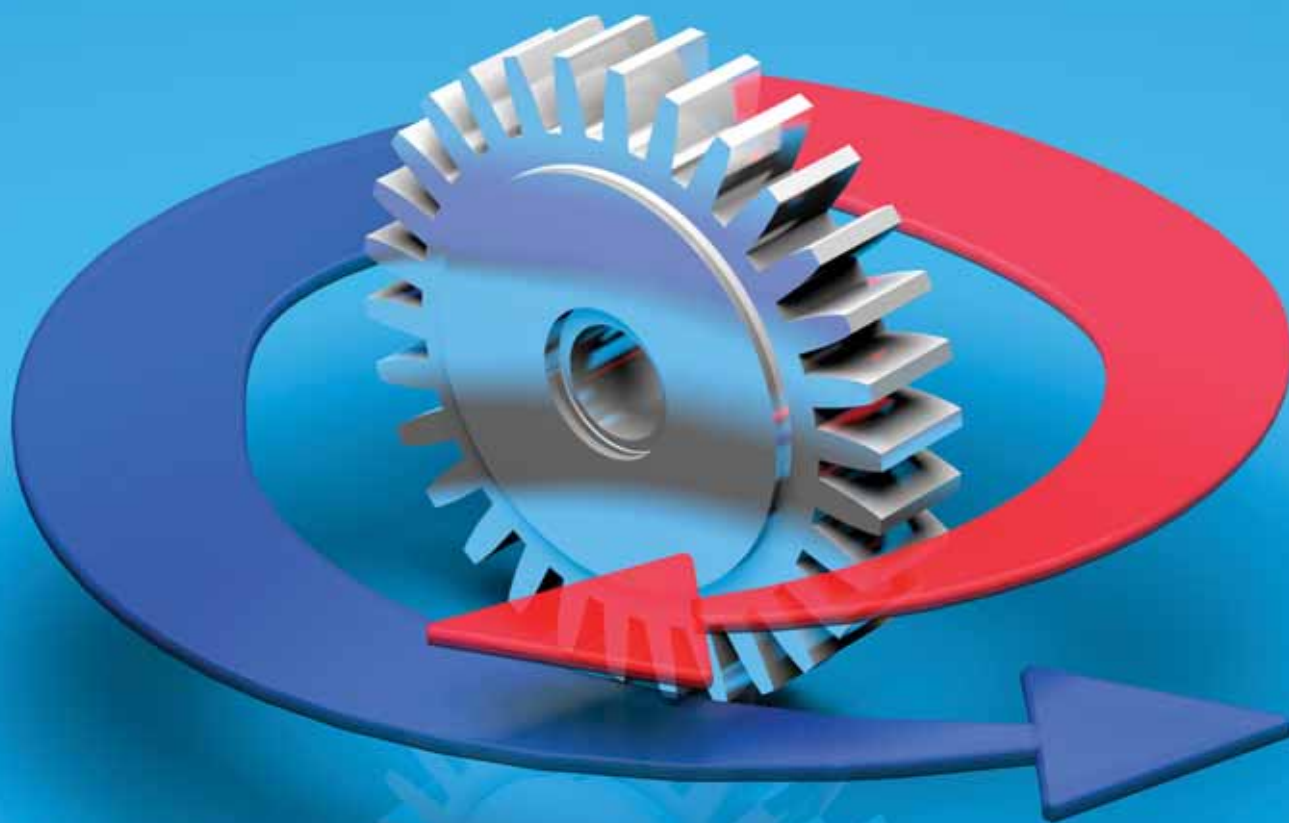
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Czech Machine Tools and Forming Machines Conquer Even the Most Demanding Markets

Thanks to tradition and quality, Czech manufacturers of machine tools and forming machines have always occupied a leading position among industrialised states. A characteristic feature of this sector is the significant surplus of production capacity over the absorption capacity of the domestic market. Historically, this sector has always relied on exports, and this applies to this day, when most of the production is finding outlets on foreign markets. At the same time, however, the volume of imports has also been growing massively in the past few years, especially thanks to the export of complete technology systems for foreign investors. In the modern history of the Czech Republic, the machine tool industry, which accounts for a very substantial part of Czech engineering production, is proving its high competitiveness even in the most demanding world markets.



The dominant item within the machine tool and forming machine sector is machine tools, both in exports and imports. In terms of the volume of exports, 2014 was a record year for this item on a long-term basis, according to the Association of Engineering Technology. In that year, Czech firms exported machines worth CZK 16 385.538 million, in comparison with CZK 9 437.960 million ten years ago. Last year, most of the machine tools and forming machines were exported to Germany, Russia and China. This means that those three countries continue to be the most important partners of the Czech Republic, who absorb more than 50% of total Czech exports.

■ CZECH FIRMS PRESENT THEMSELVES AT TRADE FAIRS

Czech companies seeking outlets in foreign markets often present their products at trade fairs in other countries. For example, in January 2015 the IMTEX trade fair was held in Bangalore, India, as well as Tooltech 2015, where the Czech Republic was also represented. In the Czech Republic's stand, companies displaying their machine tools and forming machines included KOVOSVIT MAS, PILANA METAL, SLOVÁCKÉ STROJÍŘNY, TOS ČELÁKOVICE, N.KO, STROJIMPORT-TOSHULIN GROUP and WEILER HOLOUBKOV and the Czech Union of Mechanical Engineering Technology. Another Czech company, VHS PLZEŇ, had a separate stand at the fair.

On the Indian market, the quality of Czech machine tools and forming machines is well known, which adds to the success of these kinds of products with Indian customers. With the support of the Ministry of Industry and Trade, Czech engineering firms participated in an important fair in Beijing.

Czech manufacturing enterprises have been exporting their machine tools and forming machines to China for more than 60 years and they participated significantly in the Chinese industrialisation programme. The traditional participation of the Czech Republic in the CIMT China International Machine Tool Show, the largest Chinese fair representing this sector, is a logical outcome of this cooperation. One of the largest Czech exhibitors was ŠKODA Machine Tool, which displayed its ŠKODA HCW 1000 horizontal boring and drilling machine at the show. TAJMAC ZPS presented its automatic screw-cutting lathe to Chinese specialists and TOS Varnsdorf showed models of its WHQ 13 CNC, WHtec 130, WRD 130 Q, and WHR 13 Q machines there. Visitors could examine different sections of the machines from various angles and move them. Other firms participating in the CIMT 2015 fair within the framework of joint official Czech participation also included ČKD Blansko, Fermat Group, Gearspect Group, Hestego, Kovosvit MAS, KS Kuřim, N.KO, NAREX, Slovácké strojířny, Šmeral, TOSHULIN, TOS Kuřim, Weiler Holoubkov and ŽDAS. DORMER – PRAMET

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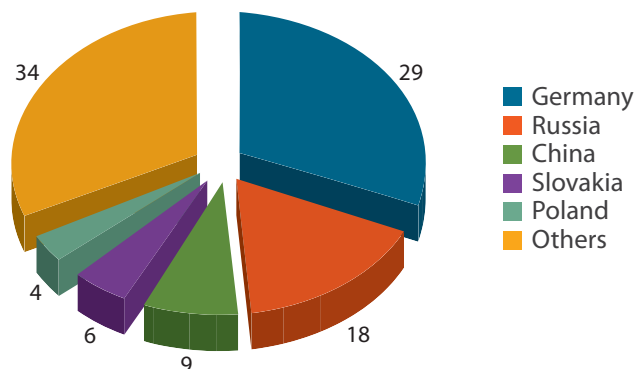
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participated in the show outside the main Czech exposition and in the world trade union section, the stand of the Association of Engineering Technology.

"China is one of the world's most dynamically developing economies and with its tremendous potential is a key country for the export of ŠKODA heavy-duty machine tools. CIMT is the most prestigious machine tool show on the Asian continent, with a traditionally massive turnout, held every other year. During the show, 57 business talks were held in the ŠKODA MACHINE TOOL stand, which resulted in 29 specific enquiries for new machines and the modernisation of previously supplied products," said Luboš Janoušek, Sales Manager of Škoda Machine Tool.

The 16th international METALLOBRABOTKA 2015 engineering fair, which in extent and participation is unequivocally the largest event of its kind to be held in Russia, took place in Moscow's EXPOCENTRE from 25 to

EXPORT OF MACHINE TOOLS AND FORMING MACHINES FROM THE CZECH REPUBLIC BY TERRITORY IN 2014 (in %)



Source: Association of Engineering Technology, www.sst.cz

29 May 2015. The restrictions ensuing from the sanctions imposed on the Russian Federation by the European Union in no way lessened the interest of Czech manufacturers of machine tools and forming machines in the Russian market. Participation was again massive, not only as regards Czech, but also other foreign exhibitors and visitors to the Metalloobrabotka in Moscow. Most Czech exhibitors displayed their products in the joint exposition of the Association

of Engineering Technology and the Ministry of Industry and Trade of the Czech Republic. They included the following firms: ALTA MACHINE TOOL, a.s., ČKD Blansko, a.s., HESTEGO s.r.o., KULIČKOVÉ ŠROUBY Kuřim, a.s., NAREX Ždánice, spol. s r.o., ŠMERAL Brno, a.s., Slováké strojírny, a.s., TOS Kuřim, a.s.; TOS Varnsdorf, a.s., ŽDAS, a.s., KOVOSVIT MAS, a.s., PILOUS, spol. s r.o., PRAMET TOOLS, s.r.o., Škoda Machine Tool, a.s. TOSHULIN, a.s., Hol-Monta s.r.o., HELTOS, a.s., Gearspect Group, s.r.o., Weiller, s.r.o., SORED Zlín, spol. s r.o., RIVETEC, s.r.o., LAC, s.r.o., M&V spol. s r.o., SWAH s.r.o., HYDROMA spol. s r.o., UNEX a.s., CZECHTRADE Agency, etc. Other firms, such as TAJMAC ZPS, a.s. and Fermat CZ, s.r.o., presented themselves in the stands of their dealers, e.g. the company TROS.

THE FOLLOWING PRODUCT GROUPS SHOWED THE GREATEST EXPORT INCREASES IN 2014 IN COMPARISON WITH THE PREVIOUS YEAR:

- Machining centres, unit metal working machine tools (8457) – by 26.31 %
- Machine tools for grinding, lapping and polishing of metals, carbides, etc. (8460) – by 20.62 %
- Metalworking lathes (8456) – by 16.58 %

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latest machining technologies. In general it can be said that whoever wants to succeed must continuously innovate.

Do you have specific plans for the development of your company?

In addition to the development I mentioned before, we are increasingly investing in our own machinery park and the improvement of the working environment in the manufacturing and assembly halls. We plan to strengthen the role of our affiliated manufacturing enterprises in the Russian Federation and China. We want to strengthen our representation not only in territories where we are already established, but also in new ones with good prospects, whereby we can replace or suitably supplement vacillating traditional markets.

What, in your opinion, is the position of Czech engineering in Europe?

Not only in Europe, but also throughout the world, Czech engineering is still capitalising on the good name enjoyed by the former Czechoslovak engineering industry. This is what we come across all the time. Naturally, competition is so keen that it is not possible to rely on tradition perpetually. That is why competitiveness must be raised by investing in development, the production base, employees. Czech engineering has a good name in certain branches, where it is at the very top, on the European and even the world scale. The largest Czech machine tool manufacturers definitely belong among the European and, in some cases, global leaders, but as I have said before, competition in this area is huge and uncompromising.



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Czech Agricultural Engineering – New Models and High Quality

In the past, agricultural machines were among important Czech export articles, but later the situation changed and Czech manufacturers were pushed out from many markets by international competition. Nevertheless, this sophisticated line of manufacturing has not disappeared from Czech factories and is now gaining momentum. The firms respond promptly to demand, come forward with new models and high quality, and are breaking new ground in the field of international trade with their competitive prices.

In the Czech Republic there are about 100 manufacturers of agricultural and forestry machinery. The Agricultural and Forestry Machinery Association (A.ZeT) has brought together 45 firms, which include all the major domestic manufacturers. The aggregate output of the member firms is worth CZK 18 billion (approximately EUR 700 million), which accounts for 75% of the total production of agricultural and forestry machines in the Czech Republic. Of the total Czech exports amounting to CZK 15.2 billion (approx. EUR 522 million), the A.ZeT members account for more than 80%. Czech agricultural machinery manufacturers employ some 10 000 people, about one-third of the number the sector employed 20 years ago.

According to a survey carried out by the Agricultural Machinery Importers Association and the Agricultural Association and A.ZeT, altogether 2 453 tractors were sold in 2014 as against 2 304 in 2013, an increase of 6.5%; in the same period 166 combine harvesters were sold as against 175 in 2013, a 5.1% decline year-on-year. The fact is, however, that sales dropped dramatically in 2009 and 2010, so that the 2014 figures are roughly at the 2006 level.

The manufacturers of final machines, who are less dependent on cooperation production, and who could maintain their employment levels by bringing their external coop-

erating partners back to their own factories, and also the manufacturers of smaller machines, where it is easier to find money for making purchases rather than in the case of big and expensive machines, have coped better with the sales crisis in past years.

Manufacturers who were previously engaged in cooperation production are worse off, because, at the time of declining demand, final manufacturers brought the co-operating partners back home so as to make better use of their own production facilities.

■ FOREIGN TRADE

Czech firms are becoming increasingly involved in international trade; in practice, until 2008 the import of foreign machines grew at the same rate as that at which Czech manufacturers were selling their products in foreign markets. Like domestic sales, exports in 2009 and 2010 dropped by approximately 30% in comparison with the previous period. In 2011, foreign trade witnessed a revival, and this trend also continued in the following years. According to the latest A.ZeT survey, exports and imports are at approximately the same level, of around 16 billion Czech crowns, with the volume of imports being comparable with the volume of exports.

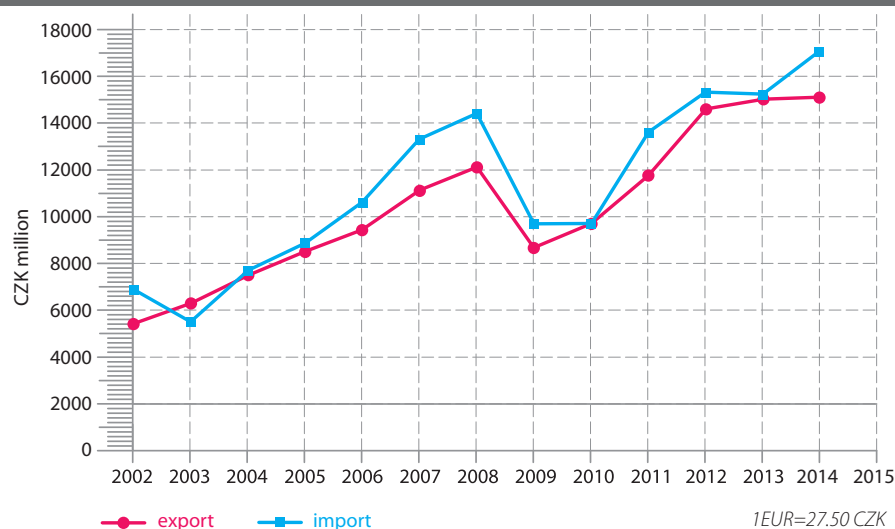
The main types of imported machinery are the machines which are not manufactured in the Czech Republic, such as combine harvesters, high output tractors (over 120 kW), and presses. Regrettably, such machines also include harvester cutters, which we used to manufacture ourselves, and which we also exported. However, their manufacture has been terminated. The same applies to sugar beet harvesters, where we must now fully rely on imports.

As regards tractor imports, the leading position over the past ten years has been held by the John Deere (23%), New Holland (13%), and Case IH (11%) trademarks, while the most popular combine harvesters imported to the CR are those by Claas (6%), New Holland (24%), and John Deere (21%).

In export, an important role is played by Zetor tractors. Zetor exports about 86% of its output and the rest is sold in the Czech Republic and Slovakia. Other important exporters are FARMET in Česká Skalice near Náchod, which manufactures soil working machines; this category of machinery (cultivators, compactors, harrows) comprises the most frequently exported items. Other very



DEVELOPMENT OF FOREIGN TRADE – MANUFACTURE OF FORESTRY AND AGRICULTURAL MACHINERY (MILLIONS OF CZK)



Source: Ministry of Industry and Trade of the Czech Republic



important manufacturers and exporters are BEDNAR FMT Praha, followed by OPaLL Agri Dolní Životice, and SMS CZ Rokycany. AGRIO MZS Křemže is known for its sprayers, and ZDT Nové Veselí for its trailers and semitrailers. Other export articles are mowing machines, front loaders, manure spreaders, and a large number of small agricultural machines, including tools. Other machines, such as stump cutters and oleaginous seed processing machines, are also doing well. Among stable equipment manufacturers, FARMTEC Jistebnice, BAUER TECHNICS Tábor, and AGE České Meziříčí are worth mentioning.

The largest trade partners of the Czech Republic are the neighbouring countries of Germany, Austria, and Slovakia, followed by France and Poland. Here, much depends on the specific machines. For example, ZETOR is traditionally popular in Poland, Scandinavia, and the Balkan countries. Many manufacturers have re-discovered their old partners in the countries of the former Soviet Union — Russia and Ukraine and the Baltic states — and have found partners in the new EU member states of Romania and Bulgaria.

■ TRADE FAIRS AND EXHIBITIONS IN THE CZECH REPUBLIC

Czech manufacturers and the largest importers collaborate closely with the organis-

ers of the two largest domestic exhibitions of agricultural machinery — Brno Trade Fairs, a.s. and České Budějovice Exhibition, a.s. The agricultural and forestry exhibitions, TECH-AGRO, SILVA REGINA, BIOMASS, and ANIMAL VETEX, have gained international renown and are ranked in importance immediately after the SIMA Paris and AGRITECHNICA Hannover fairs. The initiator of those exhibitions in 1994 was A.ZeT, which is one of their co-organisers and participates in drafting the concept of those events and the accompanying programmes. A.ZeT's member firms traditionally occupy a major part of the exhibition areas. In the past few years, TECH-AGRO has been the most successful project of all the trade fairs organised in the Czech Republic. For example, in 2014 the exhibition area occupied 83 707 sq. m. Altogether 743 exhibitors displayed their products at the fair, which was attended by 119 013 visitors.

■ PRESENTATION ABROAD

The production potential of Czech agricultural engineering exceeds the absorption capacity of the domestic market. One of the main activities of A.ZeT is the promotion of Czech exports. The Association assists Czech manufacturers to present themselves in other countries, at important exhibition events, such as SIMA in Paris and AGRITECHNICA in Hanno-

ver, where Czech firms have been regular exhibitors since 1995. The Association has also organised joint participation of Czech firms in Kiev, Ukraine, Herning, Denmark, Poznan, Poland, at the AGROSALON in Moscow and twice at EXPO AGRO in Argentina. Manufacturers of small agricultural machinery scored success at the GaLaBau fair in Nuremberg.

In 2015, the most important events abroad of interest to Czech manufacturers are the trade fairs in Paris and Hannover, held every odd year. For example, this year, seven Czech enterprises displayed their products at the SIMA fair in Paris, where they had separate exhibitions featuring a wide range of agricultural machines and components for field management, special soil cultivation, and livestock production at competitive prices. At the AGRITECHNICA fair in Hannover to be held in September, Czech agro-industrial enterprises will be represented in the form of official Czech participation under the auspices of the Czech Ministry of Industry and Trade; altogether 23 Czech manufacturing firms have applied to participate. The size of the exhibition areas they have reserved and the experience of previous years are a guarantee that the exhibition will be a representative display of the production of Czech enterprises.

The participation of Czech firms in those trade fairs and references to the good technical parameters, quality and reliability of their products augur well for their success even on the demanding EU market.

The quality of Czech products is comparable with European standards, evidence of which is the fact that a large number of machines and equipment developed in this country and manufactured in Czech factories under the colours of their foreign trade partners can be seen in the fields of European farmers. Not every Czech firm is prepared to accept this model; nevertheless it has become a general trend, and if such collaboration can provide work for Czech hands and make it possible for the products to reach foreign markets, there is no reason why it should not be done.

■ STRENGTHS OF THE SECTOR, TRENDS AND EXPECTATIONS

The relative advantage of Czech agricultural engineering is the structure of our manufacturing firms: the great majority of them are small and medium-sized enterprises, capable of responding flexibly to demand. They



are in a position to adjust the machines precisely and accurately to the customer's needs and wishes.

Making a trustworthy prediction for the period to come is extremely complicated. The crisis did not manifest itself only by falling demand and production, but also by the crisis of economic predictions. Of course a revival could be experienced, but there could also be a decline. The Czech economy is small and open and practically dependent on exports. We would naturally be pleased if

the situation we saw in recent years would repeat itself, if the information from the banking sector that the interest of farmers to invest were confirmed and the favourable trend in machinery purchases continued and were of a more lasting character.

However, agriculture is a sector largely dependent on political decisions, at both the national and EU levels. Fair competition is also being distorted by the policy of business chains, on which farmers are inadequately dependent, due to existing legislation. A contro-

versial issue dividing EU member states is the common agricultural policy financing, which upsets free competition by uneven and unjust interventions and subsidies and demotivates hundreds of Czech farmers, even those engaged in the production of meat, grains, milk, fruit and vegetables, where Czech agriculture is competitive. Due to different approaches, the question is to what extent it will be possible to push through changes that will reduce the aggregate volume of financial means on common agricultural policy, increase support for rural development and improvement of the quality of life in the countryside, while reducing production subsidies and restricting regulation in the sector, and putting an end to asymmetrical solutions disadvantaging certain member states (including the Czech Republic).

Dušan Benža

Secretariat Director, Agricultural and Forestry Machinery Association A.ZeT
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