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Committed to Mr. Martin EMMER
Residence off Mr. Ruff R-1st FEM

INVESTORS GUIDE TO CZECHOSLOVAKIA

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CONTENTS

FOREWORD

PART 1

Political and Economic Realism

What Czechoslovakia Needs

What Czechoslovakia Can Offer

Investments to Date

Geography

Parliament, Government, People

Languages

PART 2

Legislation

Investment Guarantees

Investment Protection Treaties

Taxation

Types of Companies that May Be Incorporated

Labour Resources and Costs

Industry

The Infrastructure

Natural Resources

Agriculture

Spa Resorts

Culture, History, the Arts

Procedures

The Investment Agencies

PART 3

Transport

Currency

Living Costs

Czechoslovak Embassies Abroad

PART 4 - SUPPLEMENTARY INFORMATION

Annex 1. Employment

Annex 2. Finance and Banking

Annex 3. Energy Resources

Annex 4. Tourism

Annex 5. Czechoslovakia's Motor
Vehicle Industry

Annex 6. Swords into Ploughshares

FOREWORD

Cooperation between firms in Czechoslovakia and foreign entrepreneurs is one of the keystones upon which the country's future economy will be built. This guide is intended to give the foreign investor the background information he needs to assess the CSFR as a location for new enterprises.

Czechoslovakia has recently gone through a dramatic and crucial phase in its political and economic history. In less than two years the country has freed itself from the shackles of economic centralism and, through far-reaching legal reforms, has begun to meet the challenge of creating a market-oriented economy.

In so doing, the country aims to re-assume the role of a progressive nation, among Europe's leaders, which it held during the years of the First Republic (1918-1938). Despite the events of the last forty years, Czechoslovakia has retained and developed a heritage of skills and industry which are as good as the best in the world. However, in order to improve its manufacturing and marketing capabilities, it needs to modernize its commercial and administrative structures, to conquer new markets, and to acquire new technologies.

Czechoslovakia's geographical location and 40 years' experience in trading with its eastern neighbours are an asset for any foreign businessman wishing to enter those markets from a base conveniently which is also ideally located for access to markets in western Europe. Fortunately this new phase in our national development has begun with a manageable level of foreign debt and low inflation. It cannot be expected that the transition will be without pain, but we are confident that the re-equipping and restructuring of our manufacturing industry will rapidly alleviate the problems arising from an industrial set-up that was in the past often too unwieldy to compete effectively on world markets.

Thus it is the view of both government and industry that this process must be accelerated - and for it to be successful, an inflow of foreign capital and technology is essential. Of course, in placing his confidence in Czechoslovakia's future, the foreign investor will be motivated mainly by financial considerations, and it is with this reality in mind that a new law was enacted in November of 1990 which effectively makes the Czechoslovak koruna convertible for all legitimate business purposes. Now it is up to you, the investors, to visit Czechoslovakia in order to see for yourselves what opportunities are offered. You are assured of a warm welcome and the full support of the country's authorities and people.

PART I

Political and Economic Realism

In the less than two years since Czechoslovakia experienced what has become known as its "velvet revolution", many things have changed, some dramatically, others subtly. Today a sense of burgeoning opportunity is evident among members of the business community now that the constraints of a centrally planned economy have been shed and new contacts are being made with enterprises in other countries.

The Czechoslovak people's talent for commerce and industry, largely dormant under the previous regime, is reawakening, and people are excited at the new prospects. These aspirations are however tinged with apprehension and uncertainty as to what the future holds for industrial sectors in which large units with facilities in urgent need of modernization are facing the need to find an alternative to their former COMECON markets.

The problems of these sectors are compounded by many years of neglect of environmental protection by the previous regime, the consequences of which will cost huge sums to repair. Their industries employ thousands of highly skilled workers, and the problem of preserving jobs in the face of stringent rationalization plans is one of the government's main preoccupations.

Current events in Czechoslovakia are virtually without precedent in economic history, and there are no ready-made solutions to the problems. Nevertheless, everyone agrees that swift and determined action is essential. One of the solutions chosen is the privatisation of state enterprises, both large and small, and considerable progress has already been made in selling many small businesses in the service sector - retail stores, workshops, restaurants and the like.

The main thrust of the new privatisation policy, however, is directed at industry, and here the policy is to enable workers to participate in the ownership of their factories by issuing them vouchers which can be exchanged for company shares. The participation of foreign investors willing to inject capital and know-how in the framework of a joint venture or other business partnership is an important part of the government's privatisation strategy. This is already happening, examples being the VW-Skoda link and the Procter & Gamble joint venture with Rakona Rakovnik, a leading detergent manufacturer. Yet another example is the US\$ 48 million stake (40% of the total equity) which Asahi Glass Co of Japan, has taken in Sklo Union's float glass project.

In an effort to determine their potential for rehabilitation and expansion through cooperation with a foreign partner, the Czechoslovak government recently invited several hundred Czechoslovak manufacturing companies to prepare proposals for co-operation with potential foreign partners, an endeavour in which it has been assisted by the United Nations Industrial Development Organization (UNIDO). Detailed profiles of more than 200 of the most promising proposals have been prepared and are available to support negotiations between Czechoslovak companies and foreign entrepreneurs. Individual profiles can be obtained from the Ministry for Economic Policy and Development of the Czech Republic, whose address is given in this Guide.

This undertaking is part of the CSFR's plan to privatise upwards of 2,000 state enterprises in the coming years. These include companies dealing in capital goods, paper and printing, building materials, textiles, electronics, electrical goods and chemicals.

What Czechoslovakia Needs

After operating for over forty years under a highly centralised system that has failed to achieve the rewards its initiators envisaged, Czechoslovakia faces the need for modernisation and renewal in virtually every sector of the economy. There is an urgent need for training and counsel - in the administration, in manufacturing and service industries - and for the transfer of proven technologies from advanced industrialised countries. Skills are

required at all levels - from top management to the shop floor. However the country is far from lacking skills; on the contrary there is a tradition of technical expertise in the manufacture of many industrial products throughout the country, but unfortunately, many of these skills do not make use of the improved methods developed by other industrialised countries because of Czechoslovakia's overdependence on markets within the COMECON trading group.

Now there is an urgent need for training in the theory and practice of production planning, product design and engineering, quality control, organisation and methods, electronic data-processing, financial and cost accounting, personnel management, export marketing, advertising, public relations, and general administration. And all this training needs to be oriented towards the best technology available.

The markets of eastern Europe have been disrupted by the introduction of world market prices and convertible currency accounting as of 1 January 1991. For many industries, the timely replacement of these markets is a matter of survival. One way to gain access to new markets is to establish joint ventures, another is to conclude subcontracting arrangements with western partners for products to be manufactured within the CSFR for export.

In addition, the country needs substantial capital inflows for investment in the manufacturing, transport and communications industries, as well as in the rapidly developing tourist industry.

The scope for foreign investment is extremely wide and industries seeking foreign partners are found among all the following groups:

- Chemicals
- Basic metals
- Engineering
- Transport equipment
- Agricultural machinery and vehicles
- Medical supplies and equipment
- Electrical and electronic equipment.
- Telecommunications equipment
- Furniture
- Building materials
- Environmental protection equipment
- Domestic appliances and household goods
- Glassware
- Beverages
- Paper products
- Books and printed matter
- Footwear
- Textiles

Observers of the industrial and commercial scene agree that of the former COMECON countries Czechoslovakia, thanks to its manufacturing capability, is in a favourable position to manage the transition to a free-market economy. Multilateral agencies such as the International Monetary Fund, the European Economic Community, and individual states are providing financial and technical assistance with this aim in view.

Thus the EEC is funding a programme to reorganise vocational training in the CSFR, while the IMF recently granted a 1,500 million dollar facility to be used primarily to upgrade energy resources.

The United Nations Development Programme and the United Nations Industrial Development Organization are implementing, at the request of the Federal Government of the CSFR, a programme to identify and promote industrial investment opportunities, culminating in the first Investment Forum for Czechoslovakia, Prague, 4-6 November 1991.

What Czechoslovakia Can Offer

Czechoslovakia offers the prospective investor in industry an excellent and strategically located manufacturing base with easy and rapid access to the principal population centres of western and eastern Europe.

Production costs are currently well below those obtaining in most western European countries, this being primarily due to low wage levels which make Czechoslovakia very competitive, a situation likely to continue in the foreseeable future. Moreover there is no shortage of willing, adaptable workers, many of them highly skilled.

Recent changes in legislation have effectively removed the need for foreign investment proposals to receive prior government approval, so that now setting up business in the CSFR is a quick and simple affair. Moreover, the large number of Czechoslovak firms interested in business co-operation with foreign interests means that there is a large pool of potential local partners to choose from.

Items required for a joint venture - machinery, raw materials and intermediate inputs - can be imported duty free if the venture's production is to be exported.

Upon application, foreign investors may be granted relief from corporate income tax during the first two years of operation.

In addition to the Federal Foreign Investment Agency, investment promotion agencies have been set up in the Czech and Slovak republics to advise potential foreign investors and assist them in identifying a suitable joint venture partner.

THESE PEOPLE CHANGED THEIR COUNTRY OVERNIGHT. YOU CAN RELY ON THEM TO MAKE THE CHANGE WORK.

Investments to Date

As of July 1991, some 3,200 joint ventures have been registered in the CSFR, of which 2,420 are located in the Czech Republic and 780 in the Slovak Republic. Total investment is estimated at 26,500 million korunas (US\$ 880 million). Some 65 per cent of the total is accounted for by such major deals as Skoda-Volkswagen (Germany), Cofumin (Belgium), Technoplyn-Linde (Germany), Evrotel (Holland), Aluminium Decin (Switzerland), Volkswagen-BAZ Bratislava (Germany).

Geography

The Czech and Slovak Federal Republic lies north of Austria and Hungary, south of Poland, west of the Soviet Union, and east of Germany.

Total land area is about 128,000 square kilometers, of which two fifths are arable and another two fifths mixed forest. There are two mountain ranges: the Bohemian massif in the west and the Carpathian mountains in the east. The highest mountain is the Gerlachovsky Stit in Slovakia (2,655 metres) near the border with Poland. Three great rivers, the Elbe, the Oder and the Danube traverse the country, providing access to the North Sea, the Baltic Sea and the Black Sea, and thereby facilitating the transit of bulk freight.

The climate in Czechoslovakia is temperate in the west, less so in the east. Annual rainfall is 20-30 inches throughout the country. Winter temperatures are relatively mild, and in the summer it is warm without being oppressive. Average temperatures in Prague are -3°C (27°F) in winter and 18°C (65°F) in summer.

Parliament, Government, People

Czechoslovakia is a federal state comprising the Czech republic, with Prague as its capital, and the Slovak republic, the capital of which is Bratislava. Both republics have their own autonomous governments and administrations. The Federal Assembly, which is the national parliament, meets in Prague and comprises the Chamber of the People with 200 members elected directly by proportional representation, and the Chamber of Nationalities with 75 deputies representing each of the two constituent republics. The National Assembly elects the federal president who appoints the federal government, which must however be approved by both houses.

At the time of going to press the federal government was formed by a coalition of the three largest political groups represented in the Federal Assembly, the Civic Movement, the movement Public against Violence, and the Civic Democratic Party.

The main thrust of government policy over the last two years has been to restructure the economy in such a way that market forces can prevail.

Czechoslovakia has a population of 15.6 million, of whom 65 per cent are Czechs and Moravians, and 30 per cent Slovaks. The remaining five per cent are accounted for by several ethnic groups, of which the largest is Hungarian. The six largest cities are: Prague, with 1.2 million inhabitants; Bratislava with 402,000; Brno, with 381,000; Ostrava, with 324,000; Kosice, with 214,000; and Pilsen, with 174,000.

Languages

The official languages are Czech and Slovak. The most widely spoken foreign languages are English, German and Russian.

PART 2

Legislation

Since 1990, the federal parliament has enacted legislation relating to the new fiscal and industrial policies of particular concern to foreign investors. The principal acts are the following:

1. Foreign Exchange and Banking

Foreign Exchange Act and Amendment
 Central Bank Act
 Commercial Bank Act

2. Privatisation and Restitution

Act on Large Privatisation
 Act on Small Privatisation
 Act on Mitigating the Consequences of Certain Property

Violations

Extra-judiciary Rehabilitation Act

Rgts

3. Foreign and Domestic Trade

Act on Economic Relations with Foreign Countries
 Act on Private Commercial Activities of Natural Persons
 Act on Enterprises with Foreign Capital Participation
 Prices Act

4. Taxes and Duties

Corporate Income Tax Act
 Turnover Tax Act
 Customs Act

Further details of the above acts and copies of the relevant texts may be obtained from the Agency for Foreign Investment of the Czech Republic

Investment Guarantees

In order to encourage direct investment from abroad, the government of Czechoslovakia recently introduced legislation to safeguard the rights of investors as regards their business assets and other property, and the profits from their operations. Thus profits and payments in respect of debt service, capital gains and royalties can in general be remitted without restriction. Exchange controls are designed to ensure that normal business transactions can be effected promptly and easily.

Moreover it is now possible for foreigners to establish enterprises in which they hold 100 per cent of the equity. The procedures for establishing joint ventures have been greatly simplified. Approval and registration requirements have, with few exceptions, been abolished.

Bilateral tax treaties have been concluded with a number of countries. These are: The Netherlands, France, Finland, Belgium, Japan, Austria, Sri Lanka, Norway, Sweden, Cyprus, Spain, Denmark, Germany, Yugoslavia, Italy, India, China, Greece, Brazil, and Nigeria.

Investment Protection Treaties

Bilateral agreements for the protection of investments have already been concluded between Czechoslovakia and the following countries: Italy, France, Germany, Switzerland, Austria, Australia, Finland, Sweden, Canada, Spain.

Denmark, Norway, Greece and the Benelux countries. Agreements are under negotiation with the USA, Bulgaria and Israel.

Taxation

The principle taxes which affect foreign investors in Czechoslovakia are corporate and personal income tax, turnover tax, dividend tax, wage levy, employee income tax, and tax on income from royalties.

Any enterprise with foreign participation in its capital is subject to corporate income tax, turnover tax and wage levy. Its proprietors are subject to dividend tax and, if employed by the business, to employee income tax. Natural (as opposed to legal persons) are subject to tax on business profits, on royalties earned from literary or artistic work, and on income from employment. Finally, there is a wages levy assessed on the total wages paid by an enterprise to its employees during a given period (usually a calendar year).

1. Corporate Income Tax

Business profits of up to 200,000 korunas in a given financial year are taxed at 20 per cent, while profits from 200,000 korunas upwards are taxed at 40 per cent in the case of companies with foreign participation of over 30 per cent. Companies with lower rates of foreign participation pay tax at the standard rate of 55 per cent. A tax holiday for up to two years may be granted upon application, provided that the company pays no dividends during this period.

2. Turnover Tax

The basis of assessment is the domestic selling price, and it is not payable on exports. The rates are 11 per cent (building materials); 20 per cent (most manufactured goods); and 29 per cent (private cars, cosmetics and garments); energy, fuel and basic foodstuffs are zero-rated.

3. Wage Levy

The levy is assessed on the enterprise's total payroll. The rate is 20 per cent in the services sector, 50 per cent in other sectors. The levy is deductible from corporate income tax as a business expense. A taxpayer can apply for relief for up to two years, similarly to the corporate income tax holiday.

4. Dividend Tax

Dividends paid to equity holders in joint ventures are taxed at 25 per cent unless, in the case of non-residents, double taxation treaties stipulate lower rates, which may be 0-, 5-, 10-, or 15 per cent.

5. Personal Income Tax

Income accruing from business activities carried on by individuals without incorporation is taxed at rates ranging from 15 to 55 per cent, plus a lump sum. Natural persons not resident in the CSFR are liable for this tax on that part of their income which is derived from sources within Czechoslovakia, while CSFR residents are liable for the tax on their world income.

6. Employee Income Tax

The rate of tax applicable to individuals receiving salaries and wages depends on a number of factors which include age, family status and the number of dependants. The rate ranges from five to 32 per cent.

7. Tax on Royalty Income

Royalty income received by authors and performing artists is taxed at rates ranging from 3 per cent to 33 per cent.

8. Depreciation of Fixed Assets

Enterprises in which the share of foreign ownership is greater than 30 per cent are entitled to concessionary rates of depreciation on their fixed assets, provided these were purchased after 1 January 1991. For buildings, 30 per cent of the cost of construction or acquisition may be written off during the first five years of use, and a further 20 per cent during the succeeding five years. The balance is then written off at normal rates based on estimated useful life. In the case of machinery, one half of the cost may be written off in equal annual instalments over the first three years, the balance being depreciated at normal rates.

Types of Companies that May Be Incorporated

1. Companies with liability limited by shares (a.s. - akciová společnost). This most common type of corporation is regulated by Act 104/1990 Coll. The following procedures are necessary to establish a limited liability company:

- deposition of articles of association (foundation agreement) or foundation plan (when there is only a single founding member)
- subscription of the corporate capital, minimum 100,000 korunas
- holding of a foundation general meeting
- valuation of in-kind capital contributions by a sworn valuer
- deposition of byelaws in conformity with the minimum requirements laid down by the Act
- entry in the register of companies.

Companies with liability limited by shares are required to hold annual general meetings, to have a board of directors, a supervisory board and at least one auditor.

2. Associations (sdružení). This type of company, which is envisaged by the Act on Relations Arising in International Trade, is less commonly found. An association may be established by two or more persons who set up in business with a view to profit. The founders must conclude a written agreement and the association must be entered in the register of companies.

3. Trading companies (obchodní společnosti). The old "Economic Code of the CSSR", which is expected to be superseded in 1992 by a new commercial code, has already been amended to permit the establishment of trading companies of the following types:

Private Limited Liability Companies (s.r.o. - společnost s ručením omezeným). This type of company is described in sections 106n to 106g of the Economic Code. It is established by a deed of partnership specifying the company's name and the amount which each partner has agreed to subscribe to the initial capital. Such a company can be created by one person, the minimum

authorized capital being 100,000 korunas, of which at least 20,000 must be paid up by each member. The liability of the members for the company's debts is limited to its assets. The deed of formation must specify the company's name and principal place of business, its objects, the amount of its authorised capital and the amount to be subscribed by each member, the rights and duties of the members and the organisation of its management, the arrangements for winding up the company and for increasing or decreasing its capital

General Commercial Partnership (verejna obchodni spolecnost).

See Economic Code, Sections 106g to 106m. At least two persons are needed to establish this type of company, which has no limitations on the size of its capital. Each partner may act on behalf of the company, and the liability of the partners for the company's debts is unlimited.

Limited Partnership (komanditni spolecnost). See Sections 106r to 106s of the Economic Code. The liability for the debts of the company of at least one partner (the "complementaire") must be unlimited; the liability of the other partner or partners (the "commanditaires") is limited to the capital they have agreed to subscribe. In the absence of any special stipulations, the rules for general commercial partnerships shall apply.

Partnership limited by shares (komanditni spolecnost na akcie). See Section 106t of the Economic Code. This type of company will be abolished by the new commercial code mentioned above.

Co-operative (druzstvo)

There are a number of different types of co-operative which exist for different purposes, e.g. manufacturing, residential housing, farming, consumers, with their own regulatory framework. Co-operatives are empowered to act as joint venture partners for foreign investors.

BOX:

A policy of restitution, under which the property and businesses of former owners expropriated by the state under the former regime, is now being implemented. Property is to be either restored outright or compensated for. Compensation may take the form of cash or, where the restitution concerns a business, shares in such business.

Labour Resources and Costs

Perhaps the most important incentive available to investors in Czechoslovakia's industry is the abundance of skilled, experienced workers. Both before the Second World War and during the last forty-odd years - despite the constraints of central planning and control - the ability of Czechs and Slovaks to turn out high quality precision products has enabled them to meet new challenges and adopt new technologies. From the foreign investor's point of view, relatively low labour costs are an additional inducement to relocating business operations to the CSFR. A list of representative wage and salary rates appears in Annex 1 of this guide.

In order to curb inflation there is a ceiling on wage increases to link them to changes in the cost of living. The ceiling does not however apply to wage increases which will merely prevent wage-earners purchasing power from falling by more than 10 per cent.

At present, the normal working week in industry is 40 to 42.5 hours. Manual workers are entitled to three to five weeks paid leave annually, depending on

seniority. White collar workers normally receive four to five weeks. There are nine public holidays.

There is a compulsory social security scheme to shield employees from the financial consequences of sickness and accident and provide them with retirement benefits. The cost of contributions to the scheme is shared between employer and employee. See Annex 1 for current rates.

Structure of Employment by Main Sectors

Agriculture, forestry, water resources	
Industry	
Construction	
Transport and communications	
Science, education, culture, services, and welfare	
Other	
	Total

Source: Statisticka Rocenka CSFR

Industry

After the Second World War, Czechoslovak industry expanded significantly and output grew to five times the pre-war figure. Growth has been particularly marked in the steel and engineering sectors, especially in Slovakia. Output has also expanded in other sectors which include glass, textiles, footwear and wood products. By the end of 1989 industry accounted for 68 per cent of GDP.

The following are the most important industrial sectors:

Energy (4.2 %)

Textiles (4.5 %)

Basic metals (12.9 %)

Machinery (27.8 %)

Food (14.6 %)

Chemicals (13.2 %)

The structure of Gross Material Product (a term formerly used to measure national output) in 1989 was the following:

Services (government sector) 19.0 %

Services (private sector) 1.0 %

Transport 4.2 %

Trade 11.5 %

Construction 9.3 %

Agriculture and forestry 7.3 %

Industry 43.9 %

Other 3.8 %

Industrial output of the CSFR for 1989 and 1990

Value of production in Kcs '000
million at constant 1984 prices

(Strana 13A)

Up till the end of 1989 approximately 80 per cent of Czechoslovakia's foreign trade was with COMECON member states. It is estimated that in 1991 this will fall to 50 per cent, entailing a substantial loss of outlets but also a swing towards the development of other markets.

Sectors expected to benefit from this change include textiles, porcelain and glass. There have been notable increases in orders for machine tools and other capital goods for which the CSFR has a high reputation. German unification has increased the demand for automobiles, and in 1991 35 000 vehicles "made in CSFR" will be sold there - about ten times as many as in 1990. By contrast, demand from the USSR for heavy trucks has fallen sharply.

The armaments industry, much of it located in the Slovak Republic, is perhaps the most seriously affected by the recent economic and political upheavals in eastern Europe. In order to assist the transition from the manufacture of military equipment to products for civilian use, the CSFR government has provided subsidies of approximately Kcs 500 million (US\$ 16 million) to this sector, which employs about 200,000 workers. Its survival depends largely on its success in finding suitable foreign joint venture partners, for whom its greatest asset is likely to be its skilled and experienced workforce.

The five principal industrial sectors in the CSFR.....(strana 14)..... electrical engineering (5.9 per cent).

The CSFR is one of the few countries in eastern Europe in which mechanical engineering is the major contributor to GDP. The reasons are historical. In the earlier part of this century Czechoslovakia was heavily engaged in the development and manufacture of plant, machinery and automotive equipment. It was in Czechoslovakia that the first automobile assembly line in Europe was set up in the early 1920's. "Made in Czechoslovakia" was, and still is, a symbol of quality in design and reliability in performance for a whole range of engineering products.

Similarly, Czechoslovak precision engineering products - measuring instruments, testing equipment and precision optics - enjoy success in world markets.

The importance of industry is reflected in the structure of employment in the CSFR, with 37 per cent of the total working population of 9.6 million engaged in industry, 12.5 per cent in agriculture and only 10 per cent in commerce.

The Infrastructure

Czechoslovakia has a developed infrastructure, although there are still some regions which need to mobilise additional resources for this purpose.

The country's system of arterial roads feeds into the main European road network and there is a motorway linking Prague, Brno and Bratislava.

The railway system is based on three principal lines: western Germany to the USSR via Prague; Poland to Austria and Hungary via Ostrava and Vienna; and northern Germany to Hungary via Prague, Brno, and Bratislava.

The country possesses sufficient electricity generating capacity for its needs and a national grid able to provide adequate supplies of current to all but a few outlying districts. Many power plants are located in northern Bohemia to make use of the large deposits of brown coal found there.

Both Prague and Bratislava have international airports capable of handling wide-bodied aircraft. Passenger handling facilities at both locations are currently undergoing modernisation and expansion. Modern airports are also to be found at Ostrava and Kosice, while smaller facilities serve Brno, Karlovy Vary, Piestany and Poprad.

Bulk cargoes can be transported by inland waterway using the system of canals which links the rivers Elbe (for Hamburg and the North Sea), Oder (for the Baltic), and Danube (for the Black Sea). The system has potential for further expansion.

Airline Traffic

Czechoslovak Airlines, CSA, operates from Prague and Bratislava to cities in Europe, the Middle East, Asia, North Africa, and North America. The airline recently acquired two Airbus 300s for long distance routes.

Lufthansa, Aeroflot, Pan Am, Aeroflot, LOT.....(strana 15).....regular services to and from Czechoslovakia.

In 1990 approximately one million passengers flew with CSA on its international routes and 300,000 on its national ones.

Railway Traffic

There are some 13,000 kilometres of railway track of which nearly 4,000 kilometres have been electrified. The tonnage transported by rail in 1990 was 254 million, and a total of 407 million passengers traveled on trains operated by Czechoslovak Railways (CSD).

Container Traffic

At present only about one per cent of freight is containerised. This is due to the predominance - some 65 per cent of the total - of bulk freight not suited to containerisation.

However, this situation is expected to change in the future as container terminals are set up at strategically placed locations.

Road Transport

In 1990 some 256 million tons of freight were transported by highway.

Natural Resources

Northern Bohemia is the country's main supplier.....(strana 15).....creates problems for the environment.

Twenty-seven per cent of Czechoslovakia's energy comes from four nuclear power plants. Hydro-electric power plants account for a further 4.5 per cent.

The privatisation policy envisages the restructuring of 13 brown-coal mining operations. Each is to be set up as an independent company with its own management, a majority interest being retained by the state. However, there are plans to reduce total output of brown coal to not more than 45 million tons by the year 2005.

In western Bohemia and Slovakia there are deposits of china clay which are being used for the production of procelain.

In northern and southern Bohemia there are deposits of silica sand used to manufacture glass.

Uranium and lead are mined in Pribram, while in Kremnica mining continues of small deposits of gold and silver.

The country has small oil and gas deposits, but natural gas is imported in quantity from the USSR.

Agriculture

At present agriculture accounts for approximately 10 per cent of GDP. Some 43 per cent of the total land area is under cultivation, and most of the common field crops flourish, particularly barley and hops, which are important export items. Czechoslovakia is justly proud of its excellent beer which is drunk all over the world. The "pils" type of beer derives its name from "Pilsener Urquell", the best known brand of Czech beer, closely followed in popularity by Budweiser (not to be confused with the North American variety). But Czechoslovakia is also well known for quality wines produced by the vineyards in Moravia, southern Slovakia and Bohemia.

(DAT TABULKU STRANA 16 !)

Spa Resorts

In the spa districts of Karlovy Vary.....(strana 16).....appropriate atmosphere for convalescence.

Culture, History, the Arts

Czechoslovakia has a rich cultural heritage and a number of its statesmen, writers and composers have achieved international renown. The political leaders Thomas Masaryk and Rostislav Stefanik; the writers Franz Kafka, Jaroslav Seifert (Nobel prize for literature), and Karel Capek; the composers Antonin Dvorak, Bedrich Smetana, and Eugen Suchon are revered not only in their home countries, but all over the world. The folklore, traditional

music, dances and costumes of the country's different regions are still very much alive today, and a major attraction for visitors from abroad.

Architecture of the seventeenth and eighteenth centuries still dominates the skyline of many Czechoslovak cities, and there is little in Europe to compete with the panorama that can be enjoyed from Prague's Hradcany Castle high up above the Moldau river.

The first recorded mention of Prague, the national capital and capital of the Czech Republic, was in the year 965. At that time it was already widely known in Europe and further afield as a busy trading centre. By the Middle Ages Prague was among the most important centres of European science and scholarship, which led to the foundation in 1348 of the Charles University, the first to be established in central Europe.

During the reign of Charles IV, the imposing cathedral of St Veit was built by Peter Parler, who later designed the Charles Bridge over the Moldau which, lined with an intriguing collection of ecclesiastical sculptures, links the old and new parts of the city.

Czechoslovakia has numerous archeological and architectural treasures. Many of the churches and castles date from Romanesque times, but there are also many fine examples of Gothic architecture.

The Renaissance period is represented by the castles of Belvedere and Hvezda, the largest building in this style being the magnificent Schwarzenberg Palace in Prague's Hradcany Square.

The Baroque period is particularly well represented because native architects were joined by German, Austrian and Italian counterparts to create superb buildings many of which have survived to this day, thanks to stringent zoning restrictions in historic cities, and especially in Prague. At the beginning of the twentieth century Art Nouveau was very much in vogue, and the many manifestations of this style, especially in Prague, create an ambiance and a mood hardly to be found elsewhere in Europe today. However, many of these buildings are in need.....(strana 17).....Old Town Square in the heart of Prague.

Bratislava, capital of the Slovak Republic, also possesses a rich and ancient history, boasting two castles dating from mediaeval times - the castle of Devin, and Bratislava castle, today used by the federal president when residing in the city. But Bratislava, strategically placed at one of Europe's great trading crossroads, is also a bustling industrial city with a refinery and numerous chemical plants.

Procedures

The Ministry of Economic Policy of the Czech Republic (MEPD).....(strana 17).....carried out by the Federal Ministry of Finance.

Both the MEPD in Prague and the SMES in Bratislava assist and advise investors regarding opportunities within their respective republics. Formalities for the establishment of companies have been greatly simplified so that projects can be implemented with minimum delay. Local lawyers can assist with company registration formalities. Accountancy firms, both national and international,

are available to provide financial and related services. For a list of these companies please contact either of the above mentioned agencies.

Investors should submit an outline.....(strana 19).The more detailed the proposal, the easier it will be to identify a potential partner.

The following diagram indicates the procedure to be followed by potential foreign investors who wish to establish contact with companies or individuals in the CSFR.

Foreign Investor
 CSFR Government.....(strana 19. 19A).....Registration of Companies
 (Courts)
 Federal Ministry of Finance
 Registration

Enquiries should be addressed to

Commission for Economic Strategy
 of the Slovak Republic
 812 70 Bratislava
 Kycerskeho 1
 Tel. 496 204
 Fax 493 476

Ministry for Economic
 Policy and Development
 of the Czech Republic
 Vrsovicke 65
 101 60 Prague 10
 Tel. 712 20 31
 Fax 712 22 63

The Investment Agencies

In addition to the Federal Foreign Investment Agency, agencies for the promotion of foreign investment exist in both the Czech and Slovak republics. The functions of these(strana 19).....other state institutions.

The foreign investor is not required to use the services of the agencies in his search for joint venture partners.

PART 3

Transport

By Road

Czechoslovakia has a well developed road network. Many of the highways and motorways connecting the larger urban centres and industrial regions provide direct access to arterial road systems in neighbouring countries. This facilitates road haulage operations between locations in Czechoslovakia and destinations in western and eastern Europe.

A large volume of freight is transported by heavy lorries, while use of containers is increasing. There are express overnight services to cities in Germany, Italy, Austria, France, Holland, Belgium, Scandinavia, Poland, Hungary, Romania and the USSR. The advantages of door-to-door deliveries are fully exploited, and undue delays at frontier crossing points are very much the exception.

By Rail

Czechoslovak Railways operate.....(strana 20).....Berlin (6 hours).

By River and Canal

Czechoslovakia has the unique.....(strana 20).....the role of entrepot for freight to Czechoslovakia.

By Air

The airports at Prague.....(strana 20).....to and from these airports.

Leading international courier companies such as DHL have now opened offices in Czechoslovakia.

Currency

The koruna (Kcs) is the national currency. In July 1991, the rate of exchange was:

US\$ 1 - Kcs 31
DM 1 - Kcs 16.5

Living Costs

In comparison with most west European.....(strana 20).....must be paid for in hard currency.

Lunch in a restaurant costs between 150 and 200 korunas (US\$ 5 - 7). Half a liter of Pilsener, probably one of the world's finest beers, costs 20 korunas or 65 US cents. An airline ticket from Prague to Bratislava costs Kcs 720 (US\$ 24).

A 15-minute taxi ride should cost about 60 korunas, but there can be considerable fluctuations and advance negotiation with the driver may be advisable.

The sudden rise in popularity(strana 20).....by surprise. It is advisable to make table reservations well in advance, and for some especially popular restaurants, days in advance.

Czechoslovak Embassies Abroad

(strany 20, 21, 22)

PART 4 - SUPPLEMENTARY INFORMATION

Annex 1. Employment

Current wage rates (July 1991)

Category	Monthly Wage
Fitter	
Toolmaker	
Engineer	
Electrician	
Electronics engineer	
Foreman	
Secretary	
Financial manager	

Social Security Costs

Employers pay the equivalent of 50 per cent of wages and salaries into the state social fund. Employees' contributions to this fund range from 10 to 32 per cent of pay, depending on whether they are married or single, and the number of their children. In case of sickness, the fund will pay 90 per cent of an employee's wages for a maximum of six months. Legislation currently under consideration may transfer this obligation to the employer or amend the period during which this benefit is payable.

Termination Indemnity

Where a contract of employment is terminated by the company, the employee will normally be entitled to payment of the equivalent of two months' average wages. In some firms there may be an agreement with the trade union to pay compensation of up to five months' average earnings.

Working Hours

Normal working hours are 42.5 per week. These are reduced to 41.25 hours for one-shift working and 40 hours for two-shift working.

Bonuses

For shiftwork, overtime and week-ends the normal hourly rate is increased by 25 - 50 per cent, depending on agreements reached in specific cases between management and workforce.

Annual Vacation

Normal annual leave.....(strana 23).....nine public holidays.

Absenteeism

In manufacturing industry, absences due to sickness average 4.5 per cent, which is low by international standards.

Structure of Employment

Agriculture, forestry, water resources
Industry

Construction

Transport and communications.....(strana 24).....

Other non-production activities

of which administration,

courts,

Other

Total

Source: Statisticka rocenka CSFR

Wages and Labour Productivity in Industry.....(strana 24).....
Source: Statisticka rocenka CSFR.

Just over 7 per cent of the labour force possesses higher education. This represents 3.6 per cent of the total population. In the 1989 academic year some 137,000 students were receiving higher education, a figure which is expected to increase substantially in the coming years.

Annex 2. Finance and Banking

Financial and Banking Institutions in Czechoslovakia

Until 1990 the State Bank of Czechoslovakia was responsible for most banking transactions, performing the dual function of central bank and commercial bank for the domestic economy. It had 108 branches, which included all the country's main population centres. In addition, there was the Czechoslovak Commercial Bank, which handled transactions in foreign currencies, the Zivnostenska Banka, a small institution handling non-resident accounts and providing financial services for tourism, and two state savings banks with numerous branches.

Establishment of New Banks

As of 1 January 1990 the functions of the Czechoslovak State Bank (CSB) were transferred to four newly-created financial institutions. The central banking function was assumed by a new independent CSFR State Bank, while the remainder of the CSB's functions and its network of branches were taken over by three new commercial banks.

Of these the Commercial Bank is now the largest such institution in Czechoslovakia and serves the Czech Republic. The General Credit Bank serves the Slovak Republic, while the Investment Bank provides long-term finance to borrowers throughout the country.

The commercial banks all offer their clients the full range of banking services which enables them to specialize and yet retain a high degree of flexibility. As a result, Czechoslovak banks are already fully competent in domestic and foreign exchange operations - and in attracting new domestic depositors.

Former Constraints

Under the previous system of central management of the economy, the importance of an effective banking system was not appreciated, and as a result the banking sector remained seriously underdeveloped. The following figures illustrate this imbalance: whereas there are 9.8 bank employees per 1.000 of

the population in Germany, and 8.8 in Austria, the equivalent figure in Czechoslovakia is 1.6.

This situation also resulted in obsolete payment procedures and inter-bank clearing mechanisms. The system of accounting for payments was among the least efficient in the world. Efforts towards improving the banking system therefore concentrate on setting up new centralised interbank clearing arrangements before the end of the current year, which should greatly accelerate all payments.

As part of the measures aimed at creating a market economy, Czechoslovakia is introducing an accounting system based on the western model, and this process will be completed by 1 January 1993 to coincide with the reform of the tax system. At present the banks are introducing the new system and the granting of new loans depends on whether the recipient has already modified his accounting practices to fulfil the new requirements. For enterprises with foreign capital participation, adoption of the new accounting system is already mandatory, and the Commercial Code which will supersede the existing Economic Code in 1992 will require such companies to undergo an annual audit.

Foreign Banks in Czechoslovakia

There is a perceived need to expand the range of banking services offered, both through joint ventures with foreign banks, and through the creation of entirely new banks. Thus by April 1991 no less than twenty-eight bank licences had been granted, some to joint ventures involving foreign institutions, as in the case of Tatrabanka and Komerčni Banka, and others to wholly-owned subsidiaries of foreign banks, such as Creditanstalt-Bankverein, with headquarters in Austria, and Citibank, headquartered in the USA.

There is plenty of scope for these new banks to expand their role in the new banking environment, since at present some 90 per cent of foreign exchange transactions are handled by the Czechoslovak Commercial Bank, which does not however have sufficient staff resources to cope with the demand for its services.

To remove this bottleneck, foreign exchange licences have now been granted to a total of fourteen banks. Both the Commercial and General Credit banks are expanding their foreign payment departments, and it is expected that the new foreign banks will further contribute to the process by providing their local staff with intensive training in all routine foreign exchange operations.

Interest Rates

At present, interest rates in Czechoslovakia are somewhat volatile because of the lack of an established money market to cushion short-term fluctuations in credit supply and demand. The central bank's discount rate is 10 per cent, while for commercial loans interest rates range from 20 to 24 per cent. Twelve month bank deposits can earn up to 15 per cent.

Although a securities market is developing, at present company shares and bonds are not freely negotiable. Most shares are those assigned to employees under the voucher scheme. The large-scale privatisation now underway is expected to lead to a rapid development in the securities market as an ever larger number of employees acquire shares in their enterprises.

Stock Exchange

A stock exchange act is in preparation, and exchanges in Prague and Bratislava are expected to open their doors in 1992. Meanwhile, a provisional securities market is being operated by the State Bank. At present, only financing institutions are entitled to use its facilities on behalf of clients.

Convertibility of the Czechoslovak Koruna

Beginning in 1991, the CSFR entered a phase of radical legal and institutional reform with the aim of transforming the country's centralistic and largely state-owned economy into one operating along market lines.

Since Czechoslovakia's relatively small economy is heavily dependent on foreign trade, the question of convertibility of the national currency must be a key issue in any economic reform scenario. The basic problem is how to progress from a situation where foreign currency resources are allocated to competing uses by administrative decision, to one where they are allocated by market forces. Of the available alternatives, the most realistic and practicable one was that of facilitating access to foreign exchange by introducing, as a first step, a limited degree of convertibility.

This appeared to be the only means of integrating the complex issue of foreign exchange into the economic reform process, thereby facilitating the participation of foreign capital in the privatisation of industry and helping to create a rational price structure compatible with world markets.

The second main goal of economic reform is the removal of price distortions, and this can only be achieved by the removal of import restrictions to counteract price fixing by monopolistic domestic suppliers. However, easier access to foreign exchange is a prerequisite of import liberalisation. Thus, the introduction of convertibility is an essential step on the road to a market economy. For this purpose internal convertibility was chosen as an interim solution, since this allows free access to foreign exchange by legitimate entrepreneurs, without however subjecting the Czechoslovak koruna to the pressures that would arise were it to be traded on international currency markets. However, full convertibility must remain the long-term goal.

For this system to operate, the parity of the koruna with respect to fully convertible currencies must be based on a rate which will reconcile supply and demand and also in the long term ensure that the balance of payments remains in equilibrium.

For many years in the past, the parity of the koruna was artificially maintained at a rate which ensured that demand for foreign exchange exceeded the supply by a substantial margin. Consequently the koruna was significantly overvalued. The return to a realistic rate inevitably entailed substantial devaluation in order to increase the cost of foreign currencies to a point where its supply to the domestic market would equal the demand.

In 1990 the koruna was devalued three times, thereby reducing its parity by one half. By this means it could become internally convertible in accordance with the government's policy of price and import liberalisation, which means that enterprises are entitled to purchase foreign exchange from the banks to

pay for imports, while at the same time being obliged to sell to them foreign exchange earned from exports.

Access to Foreign Exchange

Owing to current economic conditions and the limited availability of foreign exchange, the internal convertibility of the koruna applies only to legal persons - and even then only to payments for imports of goods and services on current account. Foreign payments are effected by the banks, who debit the account of the payer with the Czechoslovak koruna equivalent of the foreign payment. There is no longer any requirement that foreign payments may only be made from convertible currency funds previously earned or otherwise generated by the payer. All he needs are the equivalent funds in korunas. The banks will accordingly effect foreign payments on the basis of the usual documents - invoice, bill of lading, etc. and payment order. For control purposes the completion of a "Report on Payment made Abroad" form is required, but it can be safely stated that the present procedures have greatly simplified dealings by Czechoslovak firms with foreign business partners.

In order to cope with the initial heavy demand for foreign exchange, temporary measures were introduced, among them a ceiling on advance payments, loans from foreign sources in respect of imports above a certain amount, and a 20 per cent import surcharge on imports of consumer goods and foodstuffs (subsequently reduced to 15 per cent).

By contrast, transfers of capital are still subject to the approval of the Czechoslovak State Bank. Permission is required for payments for such purposes as opening bank accounts abroad, acquiring equity in foreign enterprises, purchasing foreign real estate and securities. Permission of the CSB is also required where profits from foreign business undertakings are to be retained abroad, or where loans and other financial commitments in foreign currencies are to be entered into. It should be noted that no special approval is required for enterprises with foreign capital participation to open bank accounts in foreign currencies for the purpose of depositing the foreign partners' share of the foundation capital. Such deposits are of course also exempt from the requirement to offer foreign currencies to the banks for purchase.

Transfers of capital and profits earned abroad to the CSFR are unrestricted.

Strategic Orientation

The government's ultimate aim is to make the koruna fully convertible. Thus all restrictions will be successively eliminated as the balance of payments situation stabilises.

The first phase in this process will be to reduce the obligatory payment requirements now in force and abolish the import surcharge by the end of 1991.

In the final phase, capital flows will be liberalized, restrictions on foreign exchange accounts abroad will be lifted, thereby leading to full external convertibility.

Foreign Banks in Czechoslovakia

Societe Generale, France

Creditanstalt-Bankverein, Austria
 Raiffeisen Zentralbank, Austria.....(strana 29-30).....
 Berliner Landesbank Girozentrale, Germany

Annex 3. Energy Resources

The Czechoslovak national grid possesses sufficient generating capacity to supply the country's immediate needs. Moreover, a number of the larger industrial facilities are equipped with their own generating plants. The following table gives an overview of the CSFR's energy resources.

Electric Power Plants Operating in Czechoslovakia

Type	No.	Capacity (MW)
Hydro-electric	7	1,359
Coal-burning	4	1,065
Brown coal-burning	5	9,106
Nuclear	4	1,760
Total		13,290

Brown coal is therefore Czechoslovakia's most important source of energy.

Voltage is 220 - 380 V at 50 cycles.

Current Costs of Energy and Water Resources

Electricity

Bulk consumers (10 - 26 KV)	Kcs 1.50/kWh
(110 - 400 KV)	Kcs 1.10/kWh
Medium to low consumers	Kcs 2.20/kWh
Household tariff	Kcs 0.53/kWh

NB. The above figures allow for price increases of 50 - 80 per cent which recently came into effect.

Coal Gas

Bulk consumers	Kcs 1.25/m ³
Other consumers	Kcs 1.85/m ³

Natural Gas

Bulk consumers	Kcs 3.35/m ³
Other consumers	Kcs 2.80/m ³

Brown Coal Kcs 710/tonne

Black Coal Kcs 1,500/tonne

Coke Kcs 2,310/tonne

Fuel oil Heavy Kcs 3,650/tonne
 Light Kcs 6,030/tonne

Petrol	Super (96 octane)	Kcs 18/liter
	Normal (92 octane)	Kcs 16/liter

Water

Industrial use	Kcs 8/m ³
Other use	Kcs 3/m ³

NB. The above prices can be converted to US dollars at
US\$ 1 = Kcs 31 (1 October 1991).

Annex 4. Tourism

Development and Investment Potential

The political, economic and social changes wrought by the events of November 1989 have of course also affected the tourist industry. Privatisation, restitution and the encouragement of free enterprise have brought an increase in investment from abroad in this domain.

Only now, with the elimination of visa formalities and compulsory currency exchange for citizens of most western European countries can the country begin to realise the immense potential for attracting new visitors offered by the treasures of a thousand years of history and a rich heritage of architectural and artistic masterpieces. Vast tracts of forest dotted with picturesque lakes make the country an attractive destination for nature lovers, while the curative properties of thermal springs in dozens of spa resorts of which the best known are Karlovy Vary in the Czech, and Piestany in the Slovak Republic have long been a household word among sufferers from a wide range of cardiovascular, locomotor and respiratory ailments.

50 Million Visitors

In 1990 some 50 million foreign visitors holidayed in the CSFR, many of them crossing the border only for a day. Nevertheless, close to four million of them stayed in hotels and other tourist facilities, the average stay being 2.4 days. Tourism's contribution to annual GDP is around 9,500 million korunas (US\$ 306 million), and in 1990 Cedok, the national travel agency, was listed as the country's eighth most profitable enterprise.

The government's policy towards tourism is to improve standards in the industry, thereby making it a profitable and productive part of the national economy, able to compete with the best in Europe. The strategy for achieving this goal includes the following elements:

- a) increase the number of visitors from higher income groups;
- b) substantially increase the number of overnight visitors and encourage them to stay longer;
- c) increase the range of services supplied to foreign visitors;
- d) achieve a more even distribution of tourism from abroad over the country as a whole.

To achieve this goal, facilities for foreign visitors are to be improved throughout the country. Priority will be given to increasing the number of three and four star hotels, the demand for which cannot at present be met, and raising the standards of restaurants to meet the expectations of foreign guests.

In addition, many historic buildings and town centres will require restoration in order to create an attractive environment offering opportunities for cultural pursuits, entertainment and sport. Moreover, modern, comfortable and ecologically sound public transport facilities are still lacking in many cities.

Problems hampering the development of tourism include lack of domestic investment resources on the part of both individuals and companies, and lack of experience in the highly competitive international travel market.

Now that the obstacles to capital inflows from abroad have been largely removed, there are many attractive opportunities for foreign investors in Czechoslovakia's tourist industry. The Federal Ministry of Trade and Tourism is willing to help potential foreign investors in the tourist industry find suitable local partners and to assist in completing such formalities as may be required to finalise cooperation agreements.

At present investment in hotels and restaurants is what is most urgently needed. As of 1 January 1991, the number of beds available for visitors was 198,000 (83,000 in hotels) in the Czech Republic, and 92,000 (36,000 in hotels) in the Slovak Republic. As regards the situation in the capitals of the two republics, Prague has some 24,000 beds for visitors, of which 14,000 are in hotels, while Bratislava has only 3,500 hotel beds and about the same number of beds in private accommodation. However, the reconstruction of the Carlton Hotel and the completion of the Danube Hotel (a joint venture with foreign partners) will enhance the city's ability to receive visitors.

Comparison with other countries reveals the inadequacy of Czechoslovakia's existing facilities, which work out at 12.4 beds per 1,000 inhabitants for the country as a whole. The corresponding figures for Denmark are 17.4, for Norway 24.9 and for Austria 86.2

Source: Compendium of Tourism Statistics 1985 - 1989, WTO, Madrid.

The historic centres of the Czechoslovak cities most popular with visitors offer little scope for new construction, but there are many attractive buildings which, if renovated and refurbished, could provide ample additional accommodation. Castles, palaces and former country houses in attractive locations outside the main urban centres likewise offer excellent opportunities for profitable new investment.

The spa resorts of western Bohemia which include Karlovy Vary and Mariánské Lázně, and those in the Slovak Republic such as Piestany and Trenčianske Teplice have enjoyed international renown since the previous century, thanks to their attractive location, the curative properties of their waters and the high standard of balneological treatment they offer. There is vast potential for increasing the number of foreign visitors to these resorts. However, here again, their facilities require extensive renovation and modernization that is at present beyond the means of their proprietors, and the participation of foreign investors in this task would therefore be welcomed.

Since the thirties, the Tatra mountains of Slovakia have attracted numerous visitors for climbing, hiking and winter sports. In recent years, lack of investment in accommodation and skilifts has prevented the Slovak winter resorts from keeping abreast of the competition from market leaders such as Switzerland and Austria. In today's changed conditions there is plenty of scope for foreign entrepreneurs to participate in expanding and improving a resort area whose potential has hardly begun to be tapped.

Annex 5. Czechoslovakia's Motor Vehicle Industry

Mass production of motor vehicles began in Czechoslovakia in the early 1920s. Skoda was one of the first companies in eastern Europe to install assembly lines. After the Second World War the company was nationalised, but in 1990 it regained its identity as a separate company and formed a joint venture with Volkswagen of Germany, which acquired 30 per cent of its capital and is expected to become the majority shareholder by 1995.

In recent years, Skoda has invested heavily in more modern and more efficient production facilities. In 1989, 183,000 vehicles were built at the Mlada Boleslav works 70 kilometres north of Prague by 20,000 production workers, with another 16,000 employed in the company's sales and service departments.

The biggest selling model is currently the 1.3 litre Favorit, a compact which retails on the domestic market for Kcs 130,000 (US\$ 4,000). Some 35 per cent of total production is exported, mainly to European countries.

According to plans recently announced by the management, over the coming eight years Volkswagen will provide up to US\$ 2,600 million for a new plant to build engines and gearboxes with annual production in the region of half a million a year. The intention is to increase annual production of Favorits to 700,000 by 1997.

There are three manufacturers of heavy goods vehicles in the CSFR: Tatra, Liaz, and Avia. Avia employs 15,000 workers and annual production is currently running at 17,000 4-ton lorries. Liaz, with 17,000 workers, produces 18,000 vehicles in the 8- to 12-ton range, as well as diesel engines. Tatra specializes in lorries in the 12- to 16-ton range, of which its 20,000 workers produce 15,000 units annually. Tatra is also known for its luxury automobiles selling at the top end of the CSFR market.

A high proportion of all components needed by the vehicle industry are manufactured in-house by the companies. However, the CSFR has several major component suppliers, among them Pal Magneton (starters, electrical components) and CZ (turbo-chargers).

The future of the motor vehicle industry in Slovakia seems assured. By 1993 the Volkswagen-BAZ Bratislava joint venture should reach an annual production level of 30,000 vehicles; by 1994 daily production of gearboxes will reach 1,300.

Subcontractors throughout the Slovak Republic will supply glass for windows and windscreens, ball bearings, tyres and electrical components. Many of these items will be made by companies which previously worked for the arms industry.

Annex 6. Swords into Ploughshares

One of the legacies of Czechoslovakia's long adherence to the Warsaw Pact is its arms industry which, with the end of the Cold War and the dissolution of the Pact is faced with the need to find new products and new markets.

About 70,000 workers were directly employed in the manufacture of tanks, military vehicles, and weapons of all types. If one includes all the subcontracting firms supplying components to the industry, the figure for total employment climbs to close on 200,000.

The manufacture of arms and military equipment calls for highly skilled toolmakers, draughtsmen, fitters, mechanics, and engineers, as well as artillery and explosives experts with many years' experience.

The dilemma now facing the government of the Slovak Republic, where most of this industry is situated, is how to create new employment opportunities for the many workers threatened with redundancy, now that the changed political situation in central and eastern Europe has effectively eliminated what for many years had been a stable and secure market for their products.

Engineering companies in Europe and overseas seeking to relocate manufacturing facilities may view many of these Slovak firms as attractive potential partners for joint operations. Given the extensive experience they have gained in all fields of machinery and equipment manufacture - whether heavy, light or precision engineering - any new project could be implemented within a comparatively short timeframe. A foreign partner could benefit from an up-and-running operation, speedily adapting production to civilian uses, and thereby benefitting from the enormous unsatisfied demand both in Czechoslovakia and its neighbours for consumer and industrial goods of all types. The government fully backs the policy of seeking suitable foreign partners and will give whole-hearted support to any mutually advantageous proposals for joint ventures of this kind.