# Trade successfully with the Czech Republic

## Ten important principles

# The velvet touch

Exporters looking for a potentially profitable market at the heart of Europe, with a resurgent economy and a taste for a wide range of foreign products and expertise, could do a lot worse than to target the Czech Republic.

The 'Velvet Revolution' of 1989 began the transition from post war Communist rule to democracy for what was then Czechoslovakia, while the subsequent 'Velvet Divorce' created the independent Czech and Slovak Republics.

Today, the Czech Republic is a stable market economy with strong sovereign credit ratings from each of the leading rating agencies: AA- stable from Standard and Poor's, A1 stable from Moodies, and A+ stable from Fitch.

While the Czech Republic was relatively unscathed by the global credit crisis of 2008/9, it fell into a period of recession in 2012/13, with exports hit by a drop in demand from European partners. Now the outlook is brighter, with GDP forecast to grow by more than 2% in 2014. A recent OECD report (May 2014) forecasts stronger consumer confidence and higher real incomes: a positive sign for foreign exporters targeting this market.

The following ten principles are designed to help those exporters make their venture into the Czech Republic a success.

*"Stronger consumer confidence and higher real incomes."*

# 1. Take advantage of the Czech Republic's location

The Czech Republic is located near Europe's 'industrial core' – a densely populated and highly industrialised area – attractive for investment in transport and logistics. It has borders with Germany, its main trading partner, Austria, Slovakia and Poland, and is in easy reach of the rest of Europe, both to the west and the east. Added to this is a well-developed infrastructure and, for those planning to establish a physical presence in the Czech Republic, a well-educated and skilled workforce (92% of Czech adults aged 25-64 have the equivalent of a high school degree, well above the OECD aver age of 75%).

Moreover, while future EU funding for infrastructure has been in jeopardy, at the time of writing, that threat has been lifted, subject to the Czech government putting in place stringent laws to protect the environment against the impact of major infrastructure projects.

# 2. Get a foothold in the market

Having a presence in the market can prove advantageous in many respects. For exporters from outside the EU, a distributor or agent can be of particular help to ensure problem-free Customs clearance. Indeed, a non-EU exporter will generally require a Czech entity to clear goods through Customs (For non-EU goods, Customs clearance can take place at the point of entry into the EU or at the Czech border).

The good news for EU exporters is that, because the Czech Republic is an EU member state, on proof of the EU origin of goods there are no Customs implications for their intra-Community trade.

However, whether a foreign exporter is from the EU or elsewhere, setting up a business or other form of representation in the Czech Republic can aid promotion, sales, distribution and after-sales care. It can take several forms - a branch office, partnership, limited liability company or joint stock company and there are few if any barriers to foreign enterprises 'setting up shop' in the country.

You can find more information about setting up a business in the Czech Republic at the Czech Business Web Portal www.businessinfo.cz

Whatever form of representation that you plan…

*"Representation in the Czech Republic can aid promotion, sales, distribution and after-sales care."*

## 3. … Don’t forget: you’ll need to get a business or trade licence

Any business operating in the Czech Republic, in whatever form, generally needs to obtain a business or trade licence. For most operations, including retail and wholesale, a simple general trade licence will suffice. A branch or legal entity can obtain a trade licence by notification filed with a trade licence department of any district or municipal office. Other trade licences, such as for transportation services, are issued by the trade licence department on fulfilment of specific requirements. The type of licence required is determined by the nature of the business: some, like banking and insurance, require a special licence issued by the state authority.

Foreign firms can conduct their business in the Czech Republic as freely as can a Czech firm, which means that they must obtain the same licence that a Czech company would require. As an exception, a firm based in another EU member state can conduct business in the Czech Republic on a temporary basis under the authority of a trading licence from its home state. But, if its Czech activities become more regular and continuous, it must apply for a Czech licence and register any Czech-based branch in the Czech Commercial Register.

For more information about the Czech Republic’s business and trade licence requirements, contact one of the many Czech Embassies worldwide: www.myczechrepublic.com/embassy_visa/czech_embassy.html

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## 4. Make sure that the price is right

When exporting goods or services to the Czech Republic, your pricing strategy may need to take account of the standard of living and average disposable income of Czech households. According to the OECD Better Life Index, in the Czech Republic the net-adjusted disposable income per capita is US$ 17,262 (€12,594.59): that’s below the OECD average of US$ 23,938 (€17,465.82).

As you might expect, Czech consumers are therefore very price-sensitive. Exporters from outside the EU will face competition on price from European businesses which have lower transport costs and no import duties to pay, as the Czech Republic has been a member of the EU since 2004 and goods of EU origin are not subject to Customs clearance. Many exporters from outside the EU have addressed this by setting up assembly or value-added plants within the Czech Republic itself or elsewhere in Europe.

A good sign for foreign exporters to the Czech Republic is that, according to the Czech Statistical Office, consumer confidence there has rebounded from its low point in mid-2013.

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## 5. Can you contribute to the Czech Republic's export drive?

…that may seem an odd question if you're planning to export to, not from, the Czech Republic. But the Czech economy relies heavily on its exports, with around 80% of its GDP accruing from export orders. Its traditional export sectors include automotive, engineering, electronics, chemicals, pharmaceuticals, and information and communication technology, all of which offer opportunities for joint ventures with foreign suppliers of materials, components, expertise or investment.

In fact, recent research by the Erste Group (Import Content of the Czech Economy May 2014) has found that the imported content of Czech exports accounts for 50% of the Czech economy. One example is the Czech Republic's thriving automotive sector, which is reliant on many imported components and raw materials in order to manufacture and export the finished vehicles.

*"The imported content of Czech exports accounts for 50% of the Czech economy."*

## 6. Understand the business culture in meetings and negotiations

Formality is the order of the day in Czech business meetings. Arrange your meeting well in advance, avoiding Friday afternoons. Arrive on time – punctuality is essential. Dress conservatively, greet your counterparts with a firm handshake and eye contact. With older business people in particular, the legacy of formerly state-owned monopolies still echoes: Czech businesses are hierarchical and negotiations can be painfully slow and bureaucratic. Don't be fazed if your hosts give little away in their facial expression or body language: it doesn't mean that they lack interest.

In common with their German neighbours, Czechs prepare well for meetings and will expect you to do likewise. Unlike those German neighbours, Czechs can be less direct in their response to your business proposals.

That said, there is a generational gap in Czech business and, while older business people may display these characteristics, younger ones tend to be more entrepreneurial. So it's worth researching the businesses that you'll be meeting in advance to find out their origins, the decision makers' profiles, and indeed (with older business counterparts in particular) whether it would be advantageous to have a Czech speaker on your team.

# 7. Get yourself noticed… advertise!

Because the Czech Republic is a relatively compact market, with a population of around 10.5 million, the process of advertising your products and services there needn't be overly complex or expensive.

A Czech advertising agency (many are located in Prague) can advise you on the kind of advertising that will work for your products and services: taking into account Czech cultural sensitivities – perhaps even sense of humour – because what works in other markets may not do so here.

Czech advertising channels are quite sophisticated and internet advertising has grown rapidly in recent years, with expenditure on such promotion rising from CZK 5 billion (€180 million) in 2008 to a predicted CZK 15 billion (€540 million) in 2014. Various sources place internet usage by Czechs at around 66% - 70%, somewhat lower than the European average but growing, with the main activity that of finding information about goods and services.

The Czech Republic's laws on required advertising standards are based on the EU's Directives. For additional guidance, it's also worth reading the Czech directive concerning misleading and comparative advertising.

The Czech Advertising Standards Council issued non-binding ethical rules on advertising and the Council for Advertising (RADA PRO REKLAMU) provides compliance assessments as a paid service.

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# 8. Comply with the Czech competition laws

Firstly, the Czech Republic's anti-monopoly laws prohibit any agreement that hinders economic competition, such as price fixing or agreements that restrict access to the market for other competitors. Secondly, they also prohibit the abuse of a dominant market position such as the imposition of unfair conditions, limiting production to the prejudice of consumers, or offering goods for sale at unfairly low prices. And thirdly, they prohibit any merger, consolidation or acquisition that has not been approved by the Office for the Protection of Economic Competition.

For more information on Czech Competition Law, contact the Czech Office for the Protection of Competition www.uohs.cz/en/homepage.html

Intellectual property protection is based upon EU law. Court proceedings allow for preliminary injunctions designed to collect evidence of breaches of intellectual property rights.

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# 9. Avoid lengthy legal action

In the event of a payment dispute about goods or services supplied, several options are available in the Czech Republic - court action, arbitration and recently introduced formal mediation.

A foreign supplier will clearly want to avoid unnecessary delay or expense if a dispute arises. The advantage of mediation is that a dispute can be resolved relatively quickly and less expensively than court action. It does rely on both parties to the dispute keeping channels of communication open and showing a willingness to reach an amicable solution.

Arbitration is also generally a faster option than court action and can proceed provided that an arbitration clause has been written into the sales contract. Arbitration fees can be higher than court fees. The permanent arbitration court within the Czech Chamber of Commerce has a good track record, with arbitrators well-versed in commercial issues. Once a final ruling or arbitration award has been obtained, the enforcement process is quite straightforward, and the services of private bailiffs can be used instead of enforcement by court clerks. As the Czech Republic is party to the 1958 New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards, an award made in another contracting state will be recognised and enforceable in the Czech Republic.

# 10. Protect your bottom line

The Czech Republic is now emerging from a period in which it experienced an economic downturn. Although the signs of recovery are optimistic, as in any market when a sale is made on credit terms there is always a certain level of risk on non-payment and unpredictability. It is therefore advisable for a supplier to seek protection in the form of credit insurance to guard against those risks that due diligence alone cannot avoid. Such risks include the unforeseen insolvency or protracted default of the buyer or external factors beyond either party's control, such as political decisions or natural disasters that prevent the successful conclusion of the sale.

Credit insurance mitigates such risks, allowing the supplier to concentrate on future sales rather than past debt. It also provides the reassurance needed to offer competitive terms of payment, safe in the knowledge that sales are protected.

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# Striking the balance between maximising sales and minimising risk

Mark®ta Strħ²nkov§, Atradius' country manager for the Czech Republic, had this to say: "As with any market, there will be risks when trading on credit terms here, so an effective credit management regime will help you strike the balance between maximising sales and minimising the risk of late payment or bad debt. It should start with an accurate assessment of a potential customer's payment behaviour: get that wrong and you may incur serious cash flow problems. Atradius can provide that insight, as well as the safety net of credit insurance."

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