The Czech Republic

RISK & COMPLIANCE REPORT

DATE: February 2019

KNOWYOURCOUNTRY.COM

Executive Summary - Czech Republic

Sanctions:	None
FAFT list of AML Deficient Countries	No
Higher Risk Areas:	None
Medium Risk Areas:	Compliance with FATF 40 + 9 recommendations US Dept of State Money Laundering assessment

Major Investment Areas:

Agriculture - products:

wheat, potatoes, sugar beets, hops, fruit; pigs, poultry

Industries:

motor vehicles, metallurgy, machinery and equipment, glass, armaments

Exports - commodities:

machinery and transport equipment, raw materials and fuel, chemicals

Exports - partners:

Germany 31.8%, Slovakia 9.1%, Poland 6.1%, France 5.1%, UK 4.9%, Austria 4.7% (2012)

Imports - commodities:

machinery and transport equipment, raw materials and fuels, chemicals

Imports - partners:

Germany 29.5%, Poland 7.7%, Slovakia 7.4%, China 6.3%, Netherlands 5.8%, Russia 5.3%, Austria 4.3% (2012)

Investment Restrictions:

The right of foreign and domestic private entities to establish and own business enterprises is guaranteed by law in the Czech Republic. Enterprises are permitted to engage in any legal activity with limitations in some sensitive sectors such as the media and aerospace.

Contents

Section 1 - Background

At the close of World War I, the Czechs and Slovaks of the former Austro-Hungarian Empire merged to form Czechoslovakia. During the interwar years, having rejected a federal system, the new country's predominantly Czech leaders were frequently preoccupied with meeting the increasingly strident demands of other ethnic minorities within the republic, most notably the Slovaks, the Sudeten Germans, and the Ruthenians (Ukrainians). On the eve of World War II, Nazi Germany occupied the Czech part of the country and Slovakia became an independent state allied with Germany. After the war, a reunited but truncated Czechoslovakia (less Ruthenia) fell within the Soviet sphere of influence. In 1968, an invasion by Warsaw Pact troops ended the efforts of the country's leaders to liberalize communist rule and create "socialism with a human face," ushering in a period of repression known as "normalization." The peaceful "Velvet Revolution" swept the Communist Party from power at the end of 1989 and inaugurated a return to democratic rule and a market economy. On 1 January 1993, the country underwent a nonviolent "velvet divorce" into its two national components, the Czech Republic and Slovakia. The Czech Republic joined NATO in 1999 and the European Union in 2004.

Section 2 - Anti – Money Laundering / Terrorist Financing

FATF status

The Czech Republic is not on the FATF List of Countries that have been identified as having strategic AML deficiencies

Compliance with FATF Recommendations

The last Mutual Evaluation Report relating to the implementation of anti-money laundering and counter-terrorist financing standards in The Czech Republic was undertaken in 2019. According to that Evaluation, The Czech Republic was deemed Compliant for 4 and Largely Compliant for 23 of the FATF 40 Recommendations. It was deemed Highly Effective for 0 and Substantially Effective for 3 of the Effectiveness & Technical Compliance ratings.

Key Findings from latest Mutual Evaluation Report (2019)

The National Risk Assessment (NRA) appears to be the result of a transparent and realistic analysis of the money laundering (ML) and financing of terrorism (FT) risks faced by the country. However, certain aspects of risks identified in the NRA, such as laundering of foreign proceeds, the use of instruments of fictitious entrepreneurships, real estate business or risk posed by organised crime require further analysis. The private sector contributed, to a certain extent, in identifying key ML/FT risk and the Financial Analytical Unit (FAU) provided sector specific versions of the NRA to the reporting entities, and prepared the general structure of the risk assessment which should be used by the private sector when performing their own evaluation of risks.

The Ministry of Interior developed the National Security Audit (NSA), which examines, inter alia, the risk related to terrorism, terrorism financing and organised crime. Since the NSA looks at several relevant areas, it remains unclear why the analysis therein was not fully integrated with the NRA. The specific levels and prioritisation of different categories of risks could have been expressed in a clearer manner such that the conclusions should have led the reader to easily establish the priorities as between different risk areas.

Competent authorities use financial intelligence produced by the FAU to a certain extent. Law enforcement agencies (LEAs) use other information (e.g. their own intelligence, complaints from the public and information gained in the course of investigating predicate offences) to initiate ML and FT investigations regularly. Whilst the statistics do not provide a clear breakdown on use of financial intelligence, interviews held with LEAs and case examples presented suggest that the financial intelligence is mostly used to pursue predicate offences and associated ML. Limited feedback is provided to the FAU on use of financial intelligence by LEAs. This practice does not enable the FAU to adequately assess the quality of its analysis and prioritise its own course of actions.

Although the legislative reforms and increased efforts in pursuing ML investigations represent a clear step forward, more investigative opportunities should proactively be undertaken and pursued by Czech law enforcement. The authorities succeeded to reach considerable number of ML convictions, including in some large scale ML cases, though the number of these was modest. Serious large scale third party and stand-alone ML investigations, prosecutions and convictions continue to be the exception. Focus of ML investigations and prosecutions is not fully in line with the central ML risks for the country in terms of underlying criminal activity. Dissuasive and proportionate sentences were obtained for ML.

Seizure and confiscation represent policy priorities for the Czech authorities. Recent improvements in the legislative and institutional framework (e.g. access to relevant databases and introduction of the 'extended confiscation') have already produced concrete results in relation to freezing and seizure of assets. The amounts the Czech authorities confiscated and recovered during the period under review are significant. Nevertheless, these amounts are still far inferior to the sums seized and frozen. LEAs regularly carry out financial investigations in relation to proceeds-generating offences. There is an increasing specialisation in the area of financial investigation (at LEA and judicial levels) and external expertise is available upon request. However, little information was provided to demonstrate effective results with respect to undeclared cross border transportation of cash and bearer negotiable instruments. Data presented to the assessment team confirm that seizures and confiscation are largely related to the primary offences constituting ML risks.

During the final stages of the preparation of the NRA and since that time, a certain number of FT cases have been brought to light that confirm the realistic possibility of such activities taking place in the Czech Republic. The authorities have instituted programmes intended to mitigate these threats. Several investigations were launched in relation to the foreign terrorist fighters and other terrorism and FT related occurrences. One of these cases has reached the prosecution stage. Financial investigations are carried out in all terrorism related investigations, including at the pre-trial stage. One prosecution which was not technically for FT because the investigation originated from foreign intelligence rather than admissible evidence in court proceedings resulted in a number of convictions and significant sentences, demonstrating effective disruption of organised terrorism-FT activity and leading to the assessors' conviction that a "true" FT case would be dealt with in an effective and dissuasive manner.

The measures in place for application of UN targeted financial sanctions (TFS) related to both FT and proliferation financing (PF) are identical. As a member of the European Union (EU), the Czech Republic is negatively affected by the shortcomings identified in the EU legislation. This resulted in delays of implementation of targeted financial sanctions pursuant to relevant United Nations Security Council Resolutions (UNSCRs). To remedy this deficiency, the country introduced a national mechanism. This mechanism, although not requiring immediate freezing of assets but submission of a suspicious transactions report (STR) by a reporting entity, still ensures some elements of an effective system. The Czech Republic has no domestic mechanisms (apart from these developed under the EU framework) for implementation of the UNSCR 1373. Although the understanding among obliged entities on their obligations with respect to TFS varies considerably, there have been some false-positive matches identified with respect to FT and PF related designated persons and entities. In one case, the authorities succeeded to identify the assets of the entity which had links with the designated entity pursuant to UNSC Resolution 1718. Consequently, the authorities initiated a procedure for designation of that entity, which resulted in inclusion of the entity in the sanctions list.

The banks have an appropriate understanding of the ML/FT risks and obligations, but awareness is lower with the other financial institutions. The perception of the FT risks is based on the NRA, experience and/or group guidance, and guidance from the supervisors. Generally, all reporting entities demonstrated a good knowledge of the AML/CFT requirements, but the risk-based approach is applied mostly by banks, securities intermediaries and insurance industry. The quality of STRs increased significantly in the last couple of years. The banks are the main contributors in the overall volume of reports, while the number of STRs submitted by the designated non-financial businesses and professions (DNFBPs) is commensurate with their limited knowledge in the ML/FT area.

The Czech National Bank (CNB) has a robust financial institutions (FIs) licensing mechanism, including a sound process to make sure that criminals are not owners or managers of financial institution. On AML/CFT supervision, the FAU and CNB are the two main regulators that simultaneously oversee the biggest part of the financial sector. The efficiency of the existing model (duplication of duties for on-site AML/CFT supervision) might be an issue in a view of limited resources. The fines applied by the FAU and CNB are not playing their dissuasive and deterrent role and they are not applied in a proportionate manner.

The Public Register in the Czech Republic, include several registers: the Commercial Register, the Register of Associations, the Register of Foundations, the Register of Associations of Unit Owners and the Register of Benevolent Associations. Every public register can be accessed directly (on-line) and free of charge. Upon request, the authorities can require non-public information. LEA and Prosecution consider the Commercial Register as a good tool, which significantly improved since 2017. Trust and Beneficial Ownership Registers have been recently introduced but are still not fully populated with the respective data and information.

The Czech authorities have been active in relation to foreign requests, including those related to seizing and freezing assets. The feedback received from other jurisdictions was largely positive in terms of quality of mutual legal assistance (MLA) and did not highlight the timeliness as an issue of concern. The authorities also demonstrated significant activity with respect to the outgoing MLA requests across all predicate offences. The number of outgoing requests regarding ML offence also demonstrates that the authorities are proactive in seeking assistance from abroad. The relevant authorities (the FAU, LEAs, judiciary) proactively and constructively cooperates with their foreign counterparts by exchanging information on ML, associated predicate offences and FT, both spontaneously and upon request. Police and intelligence agencies are engaged in cooperative information sharing via different multi-agency platforms as well as in cooperation at the operational level (e.g. actively taking part in joint investigative teams).

US Department of State Money Laundering assessment (INCSR)

The Czech Republic was deemed a Jurisdiction of Concern by the US Department of State 2016 International Narcotics Control Strategy Report (INCSR).

Key Findings from the report are as follows: -

Perceived Risks:

The Czech Republic has a mid-sized, export-oriented economy. The country's central location in Europe and openness as a market economy leave it vulnerable to money laundering. Proceeds from fraud and tax evasion - especially related to the value-added tax (VAT) and excise tax - are reportedly the primary sources of laundered assets in the country. A common tactic is "carousel trading," in which a chain of related companies creates fictitious records of transactions and related invoicing, against which the final link in the chain claims a refund of the VAT. Commodities frequently misused for tax evasion include diesel and fuel oils, electric power, gas, scrap and precious metals, rapeseed, poppy seed, frozen meat, and carbon permits. Alcoholic beverages also are typically exploited in consumption tax fraud schemes. The key criteria for the selection of suitable commodities include the potential for high-volume transfers, difficulty in tracing goods, and cross-border transit.

According to the Czech police, there have been increased incidents of cyberattacks on banking networks, including cases during the past year of persons gaining illegal access to online banking systems through use of false identities, fake banking websites, breaking of passwords, skimming, and phishing. Online consumer fraud is another source of illicit funds. While perpetrators originally had targeted primarily customers interested in buying electronic goods, criminals have moved increasingly into fraudulent sale of items that fall below the $225 per item threshold for criminal prosecution, especially apparel.

The Czech police and Ministry of Finance (MOF) have also reported several cases of fraud and/or money laundering connected to bitcoin and other digital currencies. Though the government has expressed concern about potential abuse of digital currencies by criminals in connection to tax evasion, money laundering, terrorist financing, and sanctions circumvention, there were no reported cases of financing terrorism or avoidance of financial sanctions. The MOF's Financial Analytical Unit (FAU), the country's financial intelligence unit, recorded isolated cases of laundering of proceeds from tax evasion and internet fraud by purchase of bitcoin worth tens of thousands of euros.

Domestic and foreign organized criminal groups target Czech financial institutions for laundering activity, most commonly by means of financial transfers to tax havens. Illicit proceeds from narcotics, trafficking in persons, or smuggling counterfeit goods are often associated with foreign groups, particularly from the former Soviet republics, the Balkans, and Asia. Proceeds from fraud and tax evasion are typically laundered by specialized groups from various EU states and the Middle East, using the services of local lawyers and tax advisors who specialize in trading with ready-made shell companies and creating offshore structures, allowing for fund transfers under the umbrella of tax optimization. According to the Czech police, development and investment companies, real estate agencies, currency exchange offices, casinos, gaming establishments, antique shops, pawnshops, restaurants, taxi companies, (executive) auction halls, imaginary research centers, and advisory companies have all been used to launder criminal proceeds.

There are 10 free trade zones operating in the Czech Republic, but Czech authorities do not consider them to be vulnerable to money laundering.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR ILLEGAL DRUG SALES THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:
"All serious crimes" approach or "list" approach to predicate crimes: List approach
Are legal persons covered: criminally: YES civilly: YES

KNOW-YOUR-CUSTOMER (KYC) RULES:
Enhanced due diligence procedures for PEPs: Foreign: YES Domestic: NO
KYC covered entities: Banks, currency exchanges, insurance companies, and postal license holders; securities dealers and exchanges; gaming enterprises; attorneys, trusts, and company service providers; realtors, notaries, accountants, tax advisors, and auditors; pawnshops and dealers of precious metals and stones and of secondhand goods, including vehicles

REPORTING REQUIREMENTS:
Number of STRs received and time frame: 2,723: January 1 - November 25, 2015
Number of CTRs received and time frame: Not applicable
STR covered entities: Banks, currency exchanges, insurance companies, and postal license holders; securities dealers and exchanges; gaming enterprises; attorneys, trusts, and company service providers; realtors, notaries, accountants, tax advisors, and auditors; pawnshops and dealers of precious metals and stones and of secondhand goods, including vehicles

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:
Prosecutions: 148 in 2014
Convictions: 20 in 2014

RECORDS EXCHANGE MECHANISM:
With U.S.: MLAT: YES Other mechanism: YES
With other governments/jurisdictions: YES

The Czech Republic is a member of the Council of Europe Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL), a FATF-style regional body.

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

Czech companies issuing bearer shares must register their shares with the Central Securities Depository of the Prague Stock Exchange; have the shares held in a legal entity's safe deposit box; or convert the shares into registered stocks. Law enforcement personnel acknowledge some companies have been searching for other ways to obscure true ownership; joint stock companies showing non-transparent ownership structures reportedly include numerous dormant or inactive companies not engaged in any business activity and with no active points of contact, or an ultimate owner registered in jurisdictions friendly to non-transparent ownership structures.

The government has yet to publish any formal regulations on digital currency. In 2013, the MOF published reporting guidance for banks regarding digital currency payments. In October 2015, the European Court of Justice (ECJ) issued a judgment on bitcoins and other virtual currencies.

According to this decision, bitcoins and digital currencies are considered to be a means of payment; trading them does not constitute a commitment to pay VAT. Neither the Czech National Bank (CNB) nor the MOF has yet developed any guidance to incorporate this decision into the national legislation.

There is weak AML regulatory oversight of the gaming industry. The Czech gaming industry is represented by a powerful lobby that has succeeded in blocking many proposed regulations. Casinos continue to file a relatively small number of suspicious transaction reports (STRs). Contrary to the lottery and betting companies, other gaming entities, including bars and restaurants with electronic games and slot machines, are not yet subject to the Anti-Money Laundering Act (AMLA) requirements. Without robust oversight and the applicability of the AMLA to all gaming establishments, the potential exists for money laundering to become more significant in the gaming sector, especially resulting from a growing potential of online lottery and betting. The FAU has stated that the Government of the Czech Republic will amend the AMLA by mid-2016 following the European Commission's recent actions regarding gaming restrictions.

The 2013 amendment to the excise tax law had required fuel distributors to post an annual deposit of CZK 20 million (approximately $2.9 million) against liabilities for fuel-related excise tax. While this tool proved effective at combating tax evasion, it also drove out tax-compliant distributors that lacked the cash flow to post such a large deposit. This has left only 8 percent of the fuel distributors operating in 2013 still active in the Czech market. In 2015, the government reduced the surety requirement to CZK 10 million (approximately $1.5 million).

The introduction in 2013 of VAT reverse charges on some commodities – applied to business customers - has proven to be an effective measure against VAT evasion in some instances. Its effectiveness is limited, however, because EU law permits them only through an exemption process. Criminal entities are also able to shift their activities quickly to commodities not covered by reverse-charge rules, and to jurisdictions that offer more favorable conditions for fraud. The government took several measures against commodity-related fraud and trade-based money laundering in 2015, including implementation of a surety (bond) for gasoline distributors and a reverse VAT charge on various commodities, including on non-ferrous metals, scrap and some waste, carbon permits, cell phones, computers, and some cereals.

In 2014, the government established a specialized team consisting of experts from the Tax Authority, Counter-Financial Criminality Unit of the Czech police, and Czech Customs. The team deals primarily with cases that originated prior to the implementation of measures to combat tax evasion. Since the launch, the team has seized criminal proceeds of approximately $94.5 million.

According to the Czech Penal Code, police are always required to start an investigation under the supervision of a public prosecutor when there is a justified suspicion a criminal offense has been committed. It pertains also to the laundering of assets. Two aspects of the Czech legal framework, however, continue to constrain efforts to prosecute money laundering. First, prosecutors must prove the accused also committed a predicate offense resulting in the laundering of assets. Second, a court can only sentence an individual to prison for one crime, even if several crimes were committed. Since convictions for predicate offenses generally result in prison sentences at least as long as those for money laundering, prosecutors have typically had little motivation to pursue money laundering convictions. Nevertheless, the Czech police report the situation is improving, as some prosecutors have expressed willingness to prosecute both the predicate offense and the money laundering in one procedure. Police investigated 678 criminal cases of money laundering in 2014, which resulted in approximately CZK 878 million (approximately $36 million) in frozen assets.

The Czech Republic should strengthen its oversight of the gaming industry and ensure all appropriate entities are covered under the AMLA. Additionally, the government should expand its definition of terrorist financing to include the collection of funds for terrorist purposes and make such an offense prosecutable without the funds being used or linked to a specific terrorist act. Furthermore, the Czech Republic should establish corporate criminal liability for all terrorist financing offenses.

Current Weaknesses in Government Legislation (2013 INCRS Comparative Tables):

According to the US State Department, The Czech Republic does not conform with regard to the following government legislation: -

Record Large Transactions - By law or regulation, banks are required to maintain records of large transactions in currency or other monetary instruments.

EU White list of Equivalent Jurisdictions

The Czech Republic is on the EU White list of Equivalent Jurisdictions

World Governance indicators

To view historic Governance Indicators Ctrl + Click here and then select country

Failed States Index

To view Failed States Index Ctrl + Click here

Offshore Financial Centre

The Czech Republic is not considered to be an Offshore Financial Centre

Reports

US State Dept Narcotics Report:

No report available

US State Dept Trafficking in Persons Report 2016 (introduction):

The Czech Republic Is classified a Tier 1 country - is a country whose government fully complies with the Trafficking Victims Protection Act's (TVPA) minimum standards.

The Czech Republic is a source, transit, and destination country for women and children subjected to sex trafficking and a source, transit, and destination country for men and women subjected to forced labor. Women, girls, and boys from Czech Republic, Slovakia, Ukraine, Romania, Bulgaria, Nigeria, the Philippines, and Vietnam are subjected to sex trafficking in Czech Republic and also transit through Czech Republic to other European countries where they are subjected to sex trafficking. Men and women from Czech Republic, Ukraine, Romania, Bulgaria, Moldova, Mongolia, the Philippines, Russia, and Vietnam are subjected to forced labor in Czech Republic, typically through debt bondage, in the construction, agricultural, forestry, manufacturing, and service sectors, including in domestic work, and may also transit through Czech Republic to other countries in Europe where they are exploited. The majority of identified victims in the country are Czech. Romani women from Czech Republic are subjected to forced prostitution and forced labor internally and in destination countries, including the UK.

The Government of the Czech Republic fully meets the minimum standards for the elimination of trafficking. The government slightly increased funding for NGOs providing victim services, but identified fewer potential victims and enrolled significantly fewer victims into its program to protect individuals assisting law enforcement. Law enforcement efforts increased as authorities achieved significantly more convictions in 2015 than in 2014, although the government initiated fewer prosecutions; not all sentences were commensurate with the severity of the crime. Victims continued to have minimal opportunities to access court-ordered or state-funded compensation.

US State Dept Terrorism Report 2009

The Czech Ministry of Interior's office with primary responsibility for counterterrorism analysis, the National Contact Point for Terrorism (NCPT), concluded that there was no acute risk of a terrorist incident, but assessed that the overall security situation in the Czech Republic was unpredictable. The NCPT is the Ministry of Interior's lead office for collecting and analyzing law enforcement data related to terrorism. A relatively new organization, the NCPT continued to recruit and train needed personnel, and to establish reporting protocols within the Czech National Police to ensure effective and timely dissemination of information. The NCPT determined that the country's membership in NATO and the EU, and its military presence in Afghanistan, made it a potential target for an attack. Czech law enforcement officials also remained vigilant for signs that the country was being used as a logistical or staging base for potential terrorist attacks within Europe.

The NCPT perceived an emerging risk in a possible connection between increasingly violent right-wing extremism and terrorism. In October, a group of 10 individuals was arrested by the Czech National Police on suspicion of preparing to conduct a terrorist attack, possibly directed against an infrastructure facility such as a power plant. These individuals were members of the illegal right- wing extremist organization White Justice, which declared itself to be a militant neo-Nazi group. Evidence indicated that members of the group were conducting military training camps to teach small- unit military tactics. There were no other arrests related to terrorism in 2009.

The Czech government's overall efforts against terrorism are established in its "National Counterterrorism Action Plan for 2007- 2009". This strategic document set goals in four areas: improving communication and coordination between intelligence and law enforcement agencies; protecting the public and critical infrastructure; preventing the isolation and radicalization of immigrant communities; and conducting foreign policy to counter international terrorism. In October, after receiving the Ministry of Interior's evaluation of the effectiveness of the 2007-2009 Plan, the Czech National Security Council tasked the Ministry of Interior to prepare a new plan for the period 2010-2011.

The Ministry of Finance's Financial Analysis Unit and the Customs Service cooperated with the NCPT to combat terrorist financing. The NCPT has a public website with an anonymous Internet hotline.

The Czech Republic actively participated in the counterterrorism and nonproliferation efforts of multilateral bodies such as NATO, the EU, and the UN. The country's bilateral cooperation with the United States was also close. The NCPT characterized the level and quality of cooperation it received from U.S. agencies and law enforcement offices as exceptionally good and very successful.

The Czech parliament approved an ongoing deployment of up to nearly 540 military personnel in Afghanistan. The Czech Ministry of Defense also slightly increased the size of its Provincial Reconstruction Team of civilian experts in Afghanistan's Logar Province.

International Sanctions

None applicable

Bribery & Corruption

Index	Rating (100-Good / 0-Bad)
Transparency International Corruption Index	57
World Governance Indicator – Control of Corruption	68

Corruption can impede business in the Czech Republic. Patronage and nepotism are considered especially problematic in the country. The Criminal Code criminalises attempted corruption, extortion, active and passive bribery, bribery of foreign officials and money laundering. Criminal liability for legal entities (Act No. 418/2011 Coll.) covers domestic and foreign corporate entities registered in the Czech Republic. Nonetheless, the government does not implement the legal framework for combatting corruption effectively. The Czech Republic prohibits facilitation payments, and although the majority of citizens do not encounter petty corruption in their daily lives, bribes or gifts are occasionally needed to speed up public administration processes. **Information provided by GAN Integrity.**

Corruption and Government Transparency - Report by US State Department

Current law criminalizes both giving and receiving bribes, regardless of the perpetrator's nationality. Prison sentences for bribery or abuse of power can be as high as twelve years for officials, and police investigate bribery with tools such as wiretapping. Corruption of public officials is prosecuted on the regional level to ensure that prosecutors have specialized knowledge and avoid bias. The special Organized Crime Police Unit (UOOZ) and the Unit for Combating Corruption and Serious Financial Criminality are primarily responsible for investigating high-level corruption cases. Bribes are not tax deductible, and all anti-corruption laws apply equally to Czech and foreign investors. Criminal procedure law allows for the seizure of criminal proceeds paid or transferred to family members of corrupt officials, though their prosecutions depend on evidence.

Although the former government of Petr Necas listed the fight against corruption as its main priority, it made only limited improvements. In 2013, the government canceled the lifetime immunity of politicians, abolished anonymous bearer shares, and abandoned the practice of "losovacka" (lottery), which had allowed the government to limit the number of bidders in public procurements by drawing lots. The Necas government, however, collapsed in the wake of its own corruption scandal in June 2013.

In October 2013, the caretaker cabinet of Prime Minister Jiri Rusnok approved an anti-corruption program that applies to all governmental departments and offices that went into effect immediately. Government agencies had three months to bring themselves into compliance with the program, which included the introduction of internal codes of conduct. However, the lack of a Civil Service Act makes it difficult to enforce such codes, and impedes protection of whistleblowers and civil servants from political pressure. Many international companies have effective internal controls, ethics, and compliance programs in place to detect and prevent bribery.

Despite the anti-corruption efforts of NGOs and other concerned stakeholders, inadequate legislation on financial disclosure, weak campaign finance rules, and limited funding for investigations continues to limit the ability of authorities to root out corruption.

A law introducing criminal liability for legal entities came into effect on January 1, 2012. The government ratified the OECD anti-bribery convention in January 2000 and the UN Convention Against Corruption (UNCAC) in January 2014. According to Transparency International (TI) reports, there is little or no enforcement of the OECD convention in the Czech Republic. TI cites insufficient definition of foreign bribery offenses, jurisdictional limitations, lack of coordination between investigation and enforcement entities, inadequate whistleblower protection, and lack of awareness as the causes for this lack of enforcement.

The Czech Republic became a member of the Open Government Partnership in 2011, and in 2012 approved an Action Plan including the adoption of an Act on Civil Servants, which was supposed to lead to a system allowing freer access to information and publication of data. Yet due to the 2013 collapse of the Necas Government, none of the goals have been fulfilled.

In 2013 a new anti-corruption initiative called Reconstruction of the State was launched. This platform of 20 locally-renowned anti-corruption organizations, headed by Transparency International, Frank Bold, and Oživení, works towards strong anti-corruption reform in the Czech Republic and at the adoption of eight new pieces of anti-corruption legislation.

Despite widespread concern about corruption, U.S. companies have not been significantly deterred from investing in the Czech Republic. The most common allegations of corruption relate to public procurement and external pressures on the judiciary. An April 2012 procurement reform law lowered the threshold for application of procurement rules to contracts valued at one million Czech crowns ($50,000) for services and three million crowns ($150,000) for construction, though the Senate later amended it by raising the threshold to its previous higher level. The law requires more than one bidder for all procurements and mandates that the tender be published. The law also requires bidders to disclose more of their ownership structure in the bidding process, but it contains some exceptions to that obligation. American businesses have also cited inconsistent competition policies as an investment obstacle.

Section 3 - Economy

Czechia is a stable and prosperous market economy that is closely integrated with the EU, especially since the country's EU accession in 2004. The auto industry is the largest single industry, and, together with its upstream suppliers, accounts for nearly 24% of Czech manufacturing. Czechia produced more than a million cars for the first time in 2010, over 80% of which were exported.

While the conservative, inward-looking Czech financial system has remained relatively healthy, the small, open, export-driven Czech economy remains sensitive to changes in the economic performance of its main export markets, especially Germany. When Western Europe and Germany fell into recession in late 2008, demand for Czech goods plunged, leading to double digit drops in industrial production and exports. As a result, real GDP fell sharply in 2009. The economy slowly recovered in the second half of 2009 and registered weak growth in the next two years. In 2012 and 2013, however, the economy fell into a recession again, due both to a slump in external demand in the EU and to the government's austerity measures, returning to weak growth in 2014, and stronger growth in 2015.

Foreign and domestic businesses alike voice concerns about corruption, especially in public procurement. Other long term challenges include dealing with a rapidly aging population, funding an unsustainable pension and health care system, and diversifying away from manufacturing and toward a more high-tech, services-based, knowledge economy.

Agriculture - products:

wheat, potatoes, sugar beets, hops, fruit; pigs, poultry

Industries:

motor vehicles, metallurgy, machinery and equipment, glass, armaments

Exports - commodities:

machinery and transport equipment, raw materials, fuel, chemicals

Exports - partners:

Germany 32.4%, Slovakia 9%, Poland 5.8%, UK 5.3%, France 5.1%, Austria 4.1% (2015)

Imports - commodities:

machinery and transport equipment, raw materials and fuels, chemicals

Imports - partners:

Germany 30%, Poland 9%, China 8.3%, Slovakia 6.6%, Netherlands 5%, Austria 4.1% (2015)

Banking

There are a number of foreign banks and large local banks in the Czech Republic offering highly professional services. Foreign and large domestic banks (such as Komercni and CSOB) offer corporate checking accounts and debit cards. Internal bank transfers take one day; domestic transfers take three days; transfers between major international and

Czech banks usually take less than a week. The top Czech commercial banks offer brokerage, investment advisory and underwriting services.

Stock Exchange

Although the Prague Stock Exchange (PSE) is small (with only 15 companies listed), the overall trade volume of stocks reached CZK 389.87 billion (roughly USD 20.4 billion) in 2010 as compared to CZK 463.86 billion (roughly USD 24.5 billion) in 2009, with an average daily trading volume of CZK 1.55 billion (approximately USD 81 million). The PSE index tends to mirror movements in international markets. The PSE index increased by 9.62 percent in 2010.

In March 2007, the PSE created the Prague Energy Exchange (PXE), which has now renamed itself the Power Exchange Central Europe, to trade electricity in the Czech Republic and Slovakia. PXE's goal is to increase liquidity in the electricity market and create a standardized platform for trading energy. The PXE completed its first trade in July 2007 and its trading volume has increased steadily with a total futures market contract value in 2009 of 1.4 billion Euro.

In 1998 the government created a Securities and Exchange Commission to function as a capital market watchdog. The Commission has made important strides in establishing a regulatory framework for Czech capital markets and enforcing new rules. It has employed a large number of new staff. A new securities law was adopted in 2001 to improve regulation of brokers and dealers. Legislation adopted in 2002 gives the SEC more flexibility in issuing guidelines and requiring reporting of information. In 2006, the SEC moved into the Czech National Bank as part of a plan to bring all of the financial regulators under one roof.

Section 4 - Investment Climate

Executive Summary

The Czech Republic is a medium-sized, open, export-driven economy. Around 80 percent of its GDP is comprised of exports – mostly from the automotive and engineering industries. Its strong dependence on foreign demand, especially from the Eurozone, of which it is not a member, was highlighted in the global financial crisis of the late 2000s. However, the Czech banking sector remained relatively healthy. After two years of economic contraction, the Czech economy emerged from recession in early 2013 and has enjoyed some of the highest GDP growth rates of the European Union – 2.3% and 4.3% in 2014 and 2015, respectively. Experts predict approximately 2.5 percent growth in 2016.

Since November 2013 the Czech National Bank (CNB) has intervened in the foreign exchange markets to prevent appreciation of the Czech Crown (CZK) beyond 27/Euro. The formal justification for this action has been to prevent deflation, though it has also had the benefit of making Czech exports more cost-competitive. As of April 2016 the Crown trades at approximately 24/dollar. The Czech crown is fully convertible and all international transfers of investment-related profits and royalties can be carried out freely without delay. While there has not been significant political momentum toward Euro accession in recent years, the current government under Prime Minister Sobotka has demonstrated a more positive approach to EU integration than any past government. CSSD, Sobotoka's party and the coalition leader, expressed support in March 2015 for joining the Eurozone by 2020. President Zeman is also a strong supporter of Euro accession. The Czech government has met four of the five Maastrict criteria for adoption of the Euro, but decided in December 2015 not to seek to join the Exchange Rate Mechanism (ERM II) in 2016.

The Czech Republic fully complies with EU law and OECD standards for the equal treatment of foreign and domestic investors. Labor laws are comparable with most developed nations, but wages generally trail those in neighboring Western European countries. The U.S.-Czech Bilateral Investment Treaty from 1992 provides for international arbitration of investor–State disputes. Great strides have been taken since the fall of communism to open the market to competition and privatization, but the prosecution of anti-trust violations is still less than adequate. Corruption remains a problem. Czech Intellectual Property Rights (IPR) protections are still not optimal, but the legal framework for IPR protection has been tested and proven successful in punishing infringers. Other western concepts such as entrepreneurship and corporate social responsibility (CSR) are growing trends in the Czech business and NGO communities.

There are no general restrictions on foreign investment, although limits exist within certain sectors. The Czech Republic attracts a great deal of FDI for its size, and has taken strides to diversify its traditional investments in engineering into new fields of research, development and innovative technology. EU structural funding has enabled the country to open a number of world-class scientific and hi-tech centers. Companies from EU member states are the chief foreign investors in the Czech economy, but the government has signaled a desire to seek more export and investment opportunities from non-European regions, including the United States, China, and South Korea.

Table 1

Measure	Year	Index or Rank	Website Address
TI Corruption Perceptions index	2015	37 of 168	http://www.transparency.org/cpi2015
World Bank's Doing Business Report "Ease of Doing Business"	2016	36 of 189	doingbusiness.org/rankings
Global Innovation Index	2015	24 of 143	globalinnovationindex.org/content/page/data-analysis
U.S. FDI in partner country ($M USD, stock positions)	2014	$7.247 billion	http://bea.gov/international/direct_investment_multinational_companies_comprehensive_data.htm
World Bank GNI per capita	2014	$18,370	data.worldbank.org/indicator/NY.GNP.PCAP.CD

1. Openness To, and Restrictions Upon, Foreign Investment

Attitude toward Foreign Direct Investment

The Czech Republic is a recipient of substantial foreign direct investment (FDI). As a medium-sized, open, export-driven economy, the Czech Republic is strongly dependent on foreign demand, especially from the Eurozone. In 2014, more than 82 percent of Czech exports went to fellow EU states, with about 60 percent shipped to the Eurozone, and 32 percent to the Czech Republic's largest trading partner, Germany. The recent global economic crisis pulled the Czech Republic into its longest historical recession and highlighted its sensitivity to economic developments in the Eurozone. In early 2013, the economy finally emerged from recession, and has shown moderate growth since then. In 2015, GDP growth reached 4.3 percent.

2014 Czech per capita GDP was 84 percent of the EU average, ranking the Czech Republic 16th wealthiest EU member state. The 2014 economic output placed the Czech Republic not only above all fellow former communist states as well as economically weaker South-Western European countries, but also made it overtake Slovenia for the first time ever. The trade balance has been positive every year since 2005, and in 2014 and 2015 rose substantially, with surpluses of around USD 11.8 billion, and USD 11.94 billion, respectively. Exports comprise nearly 80 percent of the country's GDP. The main export commodities are automobiles, machinery, and information and communications technology.

Over the past ten years, the Czech Republic has taken a wait-and-see approach regarding the country's entry into the Eurozone. Recent economic difficulties in the Eurozone weakened public support for the country's adoption of the euro, and previous governments opposed setting a target date for accession. The current government, led by Prime Minister

Bohuslav Sobotka (CSSD), has indicated its readiness to adopt the Fiscal Compact, a treaty committing signatories to limit their state budget deficits to 0.5 percent of GDP, and subsequently to adopt the euro. While there has not been significant political momentum toward euro accession in recent years, CSSD at its March 2015 conference expressed support for joining the Eurozone by 2020, though the government opted not to seek to join the Exchange Rate Mechanism (ERM II) in 2016.

Some unfinished elements in the economic transition, such as the slow pace of legislative and judicial reforms, have posed obstacles to investment, competitiveness, and company restructuring. The Czech government has harmonized its laws with EU legislation and the acquis communautaire. This effort involved positive reforms of the judicial system, civil administration, financial markets regulation, intellectual property rights protection, and in many other areas important to investors.

While there have been many success stories involving American and other foreign investors, a handful have experienced problems, mainly in heavily regulated sectors of the economy, such as in the media sector. The slow pace of the courts is often compounded by judges' lack of familiarity with commercial or intellectual property cases. In the 2016 World Bank' Ease of Doing Business, the Czech Republic ranks 36th overall out of 189 economies (an improvement of eight positions from 2015), and 28th out of 189, in the category of Protecting Minority Investors.

Both foreign and domestic businesses voice concerns about corruption. Other long-term economic challenges include dealing with an aging population and diversifying the economy away from an over-reliance on manufacturing toward a more high-tech, services-based, knowledge economy.

Attitude Toward FDI

Since 1990, the Czech Republic has become one of the leading countries in the Central and Eastern European (CEE) region attracting most of incoming FDI. Though Poland was the leader by total volume of FDI gained, the Czech Republic and Hungary managed to achieve the highest FDI per capita. While in the early years massive volumes of FDI flowed primarily into the Czech automotive, real estate, and alternative energy sectors, in 2010, the Czech Republic, together with its fellow Visegrad Four countries (Slovakia, Hungary, Poland) attracted 70 percent of all FDI headed towards development of services and R&D projects in the CEE region. FDI inflow tripled in 2012 after a sharp drop-off during the economic crisis. 2014 FDI inflow data recorded a year-on-year increase of about 60 percent. The increased activity of foreign investors reflects a gradual recovery of the European market, driven mostly by the automotive industry.

CzechInvest, the government investment promotion agency, has adopted a new strategy to place the Czech Republic among Europe´s ten most attractive investment destinations. The strategy is based on five pillars: enhanced activity abroad; improved service for investors; better coordination of support for small and medium-sized enterprises; emphasis on the use of research and development; and general improvement in communication among FDI-related agencies and institutions. In 2015 CzechInvest negotiated 106 new investment projects in the Czech Republic worth CZK 45 billion (about $1.875 billion). The largest number and value of investments came from the United States, followed by Germany and Taiwan.

Investment Trends

Originally the Czech Republic attracted FDI mainly in the engineering industry. New, large automotive greenfield projects emerged in the northeast and central part of the country. These investments especially benefited from lower labor costs (relative to Western countries), the strong tradition of Czech engineering, as well as a central location.

The structure of FDI has changed in recent years, shifting from manufacturing to other high-technology sectors, such as information and communications technology. The Czech Republic aims to become a destination for investments with high value-added content. Therefore, the Czech Republic focuses on negotiations with investors from the areas of R&D and services, to which it can offer an optimal combination of favorable investment factors, such as a strategic location, and a highly qualified and innovative work force.

Other Investment Policy Reviews

The Czech government underwent an OECD investment policy review in 2001 in the process of joining the OECD. The World Bank's, Doing Business 2016 Economic Profile and the Economist Intelligence Unit likewise provide further detail on the Czech Republic's investment climate.

Laws/Regulations on Foreign Direct Investment

In 2012, the Czech Parliament passed a new Civil Code (effective January 1, 2014), modifications to the existing civil law, and a new regulation for corporations – an Act on Corporations (also effective January 1, 2014).

The Czech Ministry of Industry and Trade maintains a doing business website at www.businessinfo.cz, which aids foreign companies in establishing and managing a foreign-owned business in the Czech Republic, including how to navigate the legal requirements, licensing, and operating in the EU market.

Liability

Criminal liability – related offences are included in the new Criminal Code, Act No. 40/2009 Coll., which has been in effect since January 1, 2010. Penalties include imprisonment, a ban on the activity, asset forfeiture or fines.

Administrative liability covers administrative offenses committed by both individuals and legal entities (or individuals as entrepreneurs).

A new law on criminal responsibility of legal entities has been in force since January 1, 2012. It outlines a list of offenses that could be committed by legal entities. A legal entity is responsible for the behavior of its management, personnel and any bodies that fall under its control.

The latest statistics from the Supreme Public Prosecutor show that there were 227 prosecutions of legal entities in 2015. The most frequent crime was fraud – especially tax fraud – followed by extortion and environmental crimes. There were 115 convictions. The most frequent penalty was a fine (from CZK 10,000-50,000 (USD 400-2,000), as well as publishing of the penalty (on the Internet, in the press and on TV), and a ban on activities. In 13 cases the court decided to abolish the company.

Members of Parliament on March 23 approved an amendment to the law on criminal responsibility of legal entities. While it still requires approval by the Senate and the President, it would expand the range of illegal activities for which legal entities – and not just individuals - would face criminal liability.

Organizational Structure of Investments

Foreign investors can, as individuals or business entities, establish sole proprietorships, joint ventures and branch offices in the Czech Republic. In addition, the government recognizes joint-stock companies, limited liability companies, general commercial partnerships, limited commercial partnerships, partnerships limited by shares, and associations.

National Treatment

From a legal standpoint both foreign and domestic investors are treated equally. The government does not differentiate between foreign investors from different countries, and does not screen foreign investment projects other than in the banking, insurance and defense sectors. Upon accession to the Organization of Economic Cooperation and Development (OECD), the Czech government agreed to meet (with a small number of exceptions) OECD standards for equal treatment of foreign and domestic investors and implement limitations on special investment incentives. The U.S.-Czech Bilateral Investment Treaty contains specific guarantees of national treatment and Most Favored Nation treatment for U.S. investors in all areas of the economy other than insurance and real estate (see the section on the Bilateral Investment Treaty below).

Business Registration

Business Register (Obchodnl rejstrik) is a publicly accessible register that provides details on business entities, as specifically stated by related legislation. Such details include: name, address and registration number of the entity; description of its business activities; information on the entity's owners; and details on equity shares. Business Register is administered on a regional basis, by Business Register Courts.

An application for an entry into the Business Register can be submitted in a hard copy, via a direct entry by a Public Notary or electronically, subject to meeting online registration criteria required by law.

The Business Register is available at www.justice.cz.

Trade Register is an online information system that collects/provides information on entities running licensed business activities. www.zivnostensky-rejstrik.cz/.

The Ministry of Industry and Trade provides an electronic guide on doing licensed business, presenting step-by-step assistance, including links to related legislation and statistical data, and specifying authorities to deal with (e.g. as business registration, tax administration, social security, municipal authorities). www.mpo.cz/cz/podpora-podnikani/zivnost-podnikani and www.businessinfo.cz/

By the World Bank 2015 Doing Business Guide, the Czech Republic ranked 93rd in the "Starting a Business" category, 127th in dealing with construction permits, and 37th in registering property.

There exist two public agencies promoting investment and/or facilitating doing business. Both are managed by the Ministry of Industry and Trade.

CzechTrade supports development of international trade and cooperation between Czech and foreign entities. By means of supporting export activities, CzechTrade promotes increased competitiveness of Czech industry. More information is available at www.czechtradeoffices.com/about-czechtrade/.

CzechInvest focuses on attracting inward foreign investment as well as on promoting the Czech Republic abroad. CzechInvest acts as an intermediary between the EU and small (SMEs) and medium-sized enterprises (MSMEs) to ease implementation of EU structural funds (subsidies). More information is available at www.czechinvest.org/en/about-czechinvest.

Following the EC 2003/361 Recommendation, the size definition of a business entity is based on the number of employees, volume of annual turnover, and volume of assets.

An MSME employs less than 250 employees, its annual turnover does not exceed Euro 50 million, and the volume of its assets is less than Euro 43 million.

Small enterprises (SMEs) employ fewer than 50 persons with annual turnover as well as volume of assets do not exceed Euro 10 million.

Micro enterprises have fewer than 10 employees. Annual turnover and volume of assets are under Euro 2 million.

Useful information on facilitating doing MSME business is available at www.czechinvest.org/definice-msp.

Industrial Promotion

Industrial production, a key export component, has recovered from the economic downturn of the late 2000s. After a significant decline in 2010, it recorded moderate growth in 2010 and 2011, and stagnated again 2012 and 2013. 2014 industrial production gained almost nine percent, with the automotive industry accounting for a large part of this gain. The 2015 industrial output declined by 2.5 percent. In response to unfavorable economic conditions, the Czech government expanded its export strategy to include markets beyond Western Europe, and reduce its dependence on the automotive, heavy and general industrial equipment sectors.

While the export strategy still includes traditional export destinations in Western Europe, it focuses on twelve additional priority countries: Brazil, China, India, Iraq, Kazakhstan, Mexico, Russia, Serbia, Turkey, Ukraine, the United States, and Vietnam, in addition to another 25 countries of interest. The strategy characterizes chemicals or chemical products as new, promising export commodities.

In response to Russia's illegal annexation of Crimea in early 2014, the EU adopted economic sanctions against Russia, binding on all member states. This resulted in a decrease of approximately 30 percent in Czech exports to Russia in 2015.

The January 2016 implementation of the Joint Comprehensive Plan of Action (JCPOA) and the lifting of some economic sanctions against Iran, has prompted significant interest in the Iranian market by Czech exporters hopeful of revitalizing historically close business relations between the Czech Republic and Iran.

Limits on Foreign Control and Right to Private Ownership and Establishment

Foreign individuals or entities can operate a business under the same conditions and to the same extent as Czech persons. Some areas, such as banking, financial services, insurance, media, or defense equipment have certain limitations or registration requirements, and foreign entities need to register their permanent branches in the Czech Commercial Register. Some professions, such as architects, physicians, lawyers and tax advisors require membership in the appropriate professional chamber. These licensing and membership requirements apply equally to foreign and domestic professionals.

As of early 2012, U.S. and other non-EU nationals can purchase real property, including agricultural land, in the Czech Republic without restrictions. Czech legal entities, including 100 percent foreign-owned subsidiaries, may own real estate without any limitations. The right of foreign and domestic private entities to establish and own business enterprises is guaranteed by law in the Czech Republic. Enterprises are permitted to engage in any legal activity with the previously noted limitations in some sensitive sectors. Laws on auditing, accounting and bankruptcy are in force. These laws include the use of international accounting standards (IAS) for consolidated corporate groups.

Privatization Program

According to the Ministry of Finance, as a result of several waves of privatization of formerly state-owned companies since 1989, almost 90 percent of the Czech economy is now in private hands. Privatization programs have been generally open to foreign investors. In fact, most major state-owned companies have been privatized with foreign participation. The government evaluates all investment offers for state enterprises. Many complainants have alleged non-transparent or unfair practices in connection with past or planned privatizations.

In early 2013, the Czech government approved the sale of a 44 percent stake in the national airline, Czech Airlines (CSA), to Korean Air. The Czech government sought a strong, non-European investor who would help CSA to further develop, and to expand the number of CSA flights to overseas destinations. The tender process met EU rules, and the final purchase conditions were subject to approval by the European Commission. The government had attempted, unsuccessfully, to privatize the airline in 2009. A local private carrier, Travel Service, acquired an additional 34 percent stake in CSA. Czech Aeroholding, an umbrella company which includes a national group of companies operating in air transport and related services, holds a minority stake of 19.74 percent, and the Czech Insurance Company (Ceska Pojistovna) owns 2.26 percent.

Screening of FDI

The government does not differentiate between foreign investors from different countries, and does not screen foreign investment projects other than in the banking, insurance and defense sectors.

Competition Law

The Antimonopoly Office (Urad pro ochranu hospodarske souteze) reviews both domestic and international transactions for competition-related concerns, including fair competition, public procurement, and concessions. An Act on the Protection of Economic Competition took effect in 2001, adopting antitrust rules consistent with EU competition policy related to restrictive agreements, abuse of a dominant market position, practices distorting competition, and merger control.

2. Conversion and Transfer Policies

Foreign Exchange

The Czech crown is fully convertible. Imports or exports equal to or exceeding 10,000 euros (USD 13,000) in cash, travelers' checks, money orders, securities or commodities of high value (such as precious metals or stones) must be declared at the border.

The Ministry of Finance and Czech National Bank (CNB) administer the foreign exchange market. Foreign exchange authorities, the Ministry of Finance, and the CNB supervise compliance with foreign exchange regulations. Articles of Agreement (http://www.imf.org/External/Pubs/FT/AA/index.htm#art7)

Remittance Policies

All international transfers of investment-related profits and royalties can be carried out freely.

The U.S.-Czech Bilateral Investment Treaty guarantees repatriation of earnings from U.S. investments in the CR. However, a 15 percent withholding tax is charged on repatriation of profits from the Czech Republic. This tax is reduced under the terms of applicable double taxation treaties. For instance, under the U.S. treaty, the rate is five percent if the U.S. qualifying shareholder is a company controlling more than 10 percent of the Czech entity, and 15 percent in other cases. There are no administrative obstacles for removing capital. The law permits conversion into any currency. The average delay for remitting investment returns meets the international standard of three working days.

Similar to the central banks in most other developed economies, the CNB uses a managed floating exchange rate for the national currency, the Czech crown, and uses monetary policy for other purposes, such as stabilizing employment and prices.

3. Expropriation and Compensation

The Embassy is aware of just one case of possible alleged expropriation of a U.S. foreign investment. Government acquisition of property is done only for public purposes in a non-discriminatory manner, and in full compliance with international law.

Potential investors should first ensure they have clear title to all land and property associated with potential projects. The process of tracing the history of property and land acquisition can be complex and time-consuming, but it is necessary to ensure clear title. Title insurance is still a relatively new concept in the Czech Republic. Investors participating in privatization of state-owned companies are protected from restitution claims through a binding contract signed with the government.

4. Dispute Settlement

Legal System, Specialized Courts, Judicial Independence, Judgments of Foreign Courts

The Czech commercial code and civil code are largely based on the German legal system which follows a continental legal system where the principle areas of law and procedures are codified. The commercial code details rules pertaining to legal entities and is analogous to corporate law in the United States. The civil code deals primarily with contractual relationships among parties.

As of January 1, 2014 the Czech Commercial Code, Act No. 513/1991 Coll. (former Czech Commercial Code), ceased to exist; some areas which were regulated by the former Czech Commercial Code are newly governed by the new Czech Civil Code, Act. No. 89/2012 Coll, while other parts have been abolished. The new Czech Act on Business Corporations, Act No. 90/2012 Coll. (Corporations Act) has stepped in to govern those areas which are specifically concerned with trading companies and cooperatives.

Matters related to the Czech Commercial Register are governed by Act No. 304/2013 Coll., on public registers of legal entities and individuals. The new Czech Act on Business Corporations introduces substantial changes to Czech corporate law. Detailed provisions for mergers and time limits on decisions by the authorities on registration of companies are covered, as well as protection of creditors and minority shareholders.

The judiciary is independent, but decisions may vary from court to court. The reason for diverse legislative approaches may well be the fact that the new Civil Code does not only rewrite the system but also introduces new terminology. Consequently, the two substantive laws, the Penal Code and the Civil Code, have been adopted without a new procedural law to explain how the laws should be applied, which would allow courts to proceed according to a clearly outlined jurisdiction. Some observers ascribe the variances to the lack of a procedural law to delineate application of the Penal and Civil Codes.

Bankruptcy

The bankruptcy law addresses important structural impediments such as the slow and uneven performance of the courts, weakness of creditors' legal standing, and the lack of provisions for corporate restructuring. According to local legal experts, the law shortened court proceedings and made them much more transparent, gave a stronger position to creditors, and incorporated some elements designed to increase efficiency. The 2016 edition of the World Bank´s Doing Business Report ranked the Czech Republic 22nd (compared to 17th in 2015) for ease of resolving insolvency, placing it ahead of many fellow EU member states.

Investment Disputes

Post is aware of only one-- and still ongoing -- investment dispute during the last ten years. In 1993 the Czech Republic became a member state to the International Centre for Settlement of Investment Disputes (ICSID Convention). The 1993 U.S.-Czech Bilateral Investment Treaty contains provisions regarding the settling of disputes through international arbitration.

International Arbitration

ICSID Convention and New York Convention

The Czech Republic is a signatory and contracting state to the International Centre for Settlement of Investment Disputes (ICSID Convention) They have also ratified the convention on the Recognition and Enforcement of Arbitral Awards (1958 New York Convention). This convention obligates local courts to enforce a foreign arbitral award if it meets the legal criteria. Applications for enforcement of foreign judgments can be made to Czech courts and are determined in accordance with a bilateral recognition treaty, agreement or convention, if such does not exist, then in a manner which is consistent with Czech law. Judgments rendered in other EU countries are enforceable in accordance with applicable EU regulations.

Duration of Dispute Resolution – Local Courts

Legal proceedings for commercial disputes can last six years or longer for the most complex cases involving multiple appeals. However, many cases reportedly are resolved within one to three years.

5. Performance Requirements and Investment Incentives

WTO/TRIMS

The Czech Republic is a party to the Agreement on Trade-Related Investment Measures (TRIMS).

Investment Incentives

The Czech Republic offers incentives to foreign and domestic firms that invest in the manufacturing sector, technology, research and development centers, business support service centers, etc. Incentives are funded from the Czech Republic's national budget as well as from European Union Structural Funds. The amendment to the Investment Incentives Act will make it possible to expand the number of eligible districts from four to 14. The purpose of the expansion is to encourage investors to implement projects in regions with the highest rates of unemployment.

For more information on investment incentives consult Financial Support Programs on CzechInvest's website at http://www.czechinvest.org/en/financial-support-programs, or contact CzechInvest directly at +420 296 342 512, pobidky@czechinvest.org, or www.czechinvest.org.

Research and Development

In the past fifteen years, the Czech Republic's expenditure in R&D has increased from less than 1 percent to nearly 2 percent of GDP, making it a regional R&D leader. While design, development & testing has generated the highest number of total jobs and greatest investment, R&D has the largest project size on average in terms of both investment and job creation within the Czech Republic. After the entry of the Czech Republic into the EU, the inflow of structural funds into the R&D sector accelerated the development of new science and technology parks. These include the Central European Institute of Technology in Brno, focusing on life sciences and advanced materials and technologies; the International Clinic Research Centre in Brno which is focused on cardiovascular and neurological diseases; the IT4Innovations in Ostrava, a super computer facility combining IT research and applications; and two science parks located close to the capital of Prague – the Biotechnology and Biomedicine Centre and the Extreme Light Infrastructure (ELI) Beamlines. ELI Beamlines is a high-powered laser system which will support cutting-edge research and innovations in medicine, biology, physics, and material sciences. The Lawrence Livermore National Laboratory in California provided the Czech Academy of Sciences (Institute of Physics) with an initial laser for about USD 46 million, out of a total project cost of USD 340 million.

In 2014, the U.S. company National Energetics, along with its Lithuanian partners, signed a deal to provide the Academy with another laser, valued at USD 48 million. Honeywell invested USD 10 million in 2015 in new labs at their R&D Center of Excellence in Brno, making it the largest Honeywell R&D Center in Europe. In December 2015, EPAM Systems, a provider of product development and software engineering solutions, opened a new delivery center in Prague. The center cost approximately USD 13 million and created 200 new jobs. In November 2015, IBM opened a new design studio in Prague, at an estimated cost of USD 5 million and creating approximately 100 jobs. In October 2015, automotive component manufacturer Lear relocated to a new, larger technology center in Plzen. Scheduled to commence operations in the first quarter of 2016, the 4700 square meter site will double capacity. The center will design and engineer plastic car components, foams, upholstery materials and wiring systems for car seats to be distributed globally. Overall, the software and IT sectors – which are closely tied to R&D – account for almost half of the projects in which U.S. firms invested in 2015. California, New Jersey, North Carolina, and New York produce the most companies that invest in the R&D sector in the Czech Republic.

Performance Requirements

Post is not aware of any performance requirements mandated by the Czech government for foreign investors, with the possible exception of those that receive investment incentives from the Czech government.

Data Storage

Data Storage is governed by EU standards.

6. Protection of Property Rights

Real Property

Real estate (land and buildings) located in the Czech Republic must be registered in the Cadastral Register, which is maintained by the Cadastral Office. The Cadastral Register is the primary source of information on real estate (including related encumbrances, easements or liens). The Cadastral Register, containing information on plots of land and buildings, housing units and non-residential premises, is publicly available and information on a particular property can be obtained from the Cadastral Register. Transfer of ownership title to real estate (e.g., sale and purchase agreement) is effective from the date of execution of a written agreement and registration of the transfer of the ownership title in the Cadastral Register. The Czech Republic ranked 37th for ease of registering property in the 2016 World Bank Doing Business Index (from 31 in 2015).

Intellectual Property Rights

The Czech Republic is a signatory to the Bern, Paris, and Universal Copyright Conventions. In 2001, the government ratified the World Intellectual Property Organization (WIPO) Copyright Treaty and the WIPO Treaty on Performances and Phonograms. Domestic legislation protects all intellectual property rights, including patents, copyrights, trademarks, industrial designs, and utility models. Amendments to the trademark law and the copyright law have brought Czech law into compliance with relevant EU directives and WTO Trade-Related Aspects of Intellectual Property Rights (TRIPS) requirements. The civil procedure code provides for ex parte search and seizure in enforcement actions. Literary works enjoy copyright protection from 50 to 70 years. The customs service and the Czech Commercial Inspection have legal authority to seize counterfeit goods. A 2006 amendment to the Law on Civil Procedure made ex-parte search more accurate, clearer and easier to apply and enforce. The amendment also made it easier to define and recover losses caused to owners by piracy. The Criminal Code which came into effect January 1, 2010, increased maximum penalties for trademark, industrial rights and copyright violations from two to eight years.

Intellectual property rights (IPR) violations at markets on the borders of Germany and Austria were once an issue of greater concern, but since 2008, Czech authorities have made substantial efforts against physical markets and have adopted an acceptable legal framework for IPR protection. In recognition of this fact, USTR removed the Czech Republic from the Special 301 Watch List in 2011. While online piracy is a growing concern, the legal framework for IPR protection has been tested and proven successful in punishing infringers. The Embassy will continue to work with U.S. industry and Czech government officials to strengthen enforcement of intellectual property rights.

For additional information about treaty obligations and points of contact at local IP offices, please see WIPO's country profiles at http://www.wipo.int/directory/en/.

Resources for Rights Holders

The Embassy POC covering IPR issues in the Czech Republic:

Marko Velikonja
Senior Economic Officer
+420 257 022 000
velikonjamg@state.gov

American Chamber of Commerce (AmCham), address: Dusni 10, Prague 1, Postal Code: 110 00, phone: +420 222 329 430, fax: +420 222 329 433, http://www.amcham.cz/

Association for Foreign Investment, address: Stepanska 11, Prague 2, Postal Code: 120 00, phone: +420 224 911 750-1, http://afi.cz/

CzechInvest, the Investment and Business Development Agency, address: Stepanska 15, Prague 2, Postal Code: 120 00, phone: +420 296 342 500, fax: +420 296 342 502, www.czechinvest.org

Czech Chamber of Commerce, address: Freyova 27, Prague 9, Postal Code: 190 00, phone: +420 266 721 300, fax: +420 266 721 532, http://www.komoracz.eu/

Ministry of Industry and Trade of the Czech Republic, address: Na Františku 32, Prague 1, Postal Code: 110 15, phone: +420 224 851 111, fax: +420 224 811 089, www.mpo.cz

Commercial Register, address: Vyšehradská 16, Prague 2, Postal Code: 128 10, phone: +420 221 997 111, fax: +420 224 919 927, www.justice.cz

Trade Register, www.rzp.cz

Ministry of Finance of the Czech Republic, address: Letenská 15, Prague 1, Postal Code: 118 10, phone: +420 257 041 111, www.mfcr.cz

Czech National Bank, postal address: Na Prikope 28, Prague 1, Postal Code: 115 03, phone: +420 224 411 111, fax: +420 412 404, filing room address: Senovázna 3, Prague 1, Postal Code: 115 03, www.cnb.cz

Ministry of Foreign Affairs of the Czech Republic, Doing Business Guide including contact information for investors:
https://www.mzv.cz/beijing/cz/obchod_a_ekonomika/kdo_jsme_a_kde_nas_najdete/all_you_have_to_know_about_doing/index.html

7. Transparency of the Regulatory System

Tax, labor, environment, health and safety, and other laws generally do not distort or impede investment. Policy frameworks are consistent with a market economy. All laws and regulations are published before they enter into force. Opportunities for prior consultation on pending regulations exist, and all interested parties, including foreign entities, can participate. A biannual governmental plan of legislative and non-legislative work is available on the Internet, along with information on draft laws and regulations (often only in the Czech language). Business associations, consumer groups and other non-governmental organizations, including the American Chamber of Commerce, can submit comments on laws and regulations.

A 2014 OECD Country Economic Survey notes that, since joining the EU, the Czech Republic has made progress in improving its inconsistent competition policy and removing bureaucratic barriers that inhibit competition. The competition framework is on par with OECD best practices, but successful prosecution of cartels has rarely happened. The OECD survey is available at: http://www.oecd.org/czech/economic-survey-czech-republic.htm.

8. Efficient Capital Markets and Portfolio Investment

Money and Banking System, Hostile Takeovers

Large domestic banks belong to European banking groups. Most operate conservatively and concentrate almost exclusively on the domestic Czech market. As a result, Czech banks remained relatively healthy throughout recent global financial crisis. Results of regular banking sector stress tests, as conducted by the Czech National Bank (CNB), repeatedly confirm the outstanding state of the Czech banking sector, presenting a capital adequacy ratio exceeding 17 percent, on average, which is deemed sufficient resistance to potential shocks. Stress test conditions developed by the CNB present substantially stricter criteria than those set up by the European Central Bank (ECB). Results of the most recent stress test conducted by the CNB are available at https://www.cnb.cz/cs/financni_stabilita/zatezove_testy/. As of December 31, 2015, the total assets of commercial banks stood at CZK 5.44 trillion (approximately USD 225 billion), according to the CNB. Foreign investors have access to bank credit on the local market, and credit is generally allocated on market terms. Domestic household borrowing in foreign currencies is negligible. In 2002, banks established a mechanism for sharing credit histories of borrowers.

The issue of hostile takeovers is covered by the EU Directive 2004/25/EC on Takeover Bids. The copy of this document is available at:

http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2004:142:0012:0023:EN:PDF

The Prague Stock Exchange (PSE) is small, with only 15 listed companies. The overall trade volume of stocks increased from CZK 153.5 billion (USD 6.1 billion) in 2014 to CZK 167.9 (USD 6.8 billion) in 2015, with an average daily trading volume of CZK 674.3 million (USD 27.3 million). The PSE index (PX) increased by one percent in 2015. The PX development trend reflected signs of very weak revitalization activity as well as slowly increasing liquidity on the PSE.

In March 2007, the PSE created the Prague Energy Exchange (PXE) to trade electricity in the Czech Republic and Slovakia and, later, Hungary. (The Exchange's official name now is Power Exchange Central Europe) PXE's goal is to increase liquidity in the electricity market and create a standardized platform for trading energy.

A new securities law was adopted in 2001 to improve regulation of brokers and dealers. In 2006, supervision over banks, capital markets, insurance houses and pension funds were combined under the umbrella of the Czech National Bank http://www.cnb.cz/en/index.html.

9. Competition from State-Owned Enterprises

The Ministry of Finance is the administrator of the ownership rights of SOEs. Issues of potentially conflicting interests are covered by existing Act No. 159/2006 on Conflicts of Interest. Legislation on the civil service took effect January 1, 2015, and established measures to prevent political influence over public administration, including operation of SOEs.

Private enterprises are generally allowed to compete with public enterprises under the same terms and conditions with respect to access to markets, credit, government contracts and other business operations, although there are frequent accusations that large domestic companies – including both SOEs and private firms – use their political clout and connections to gain unfair advantage. SOEs purchase or supply goods or services from private sector/foreign firms. SOEs are subject to the same domestic accounting standards, rules and taxation policies as their private competitors, and do not afford any material advantages, compared to private entities. State-owned or majority state-owned companies are present in several (strategic) fields, including the energy, postal service, information & communication, and transport sectors. The Czech state also owns interests in two small banks, and in an insurance house. One of the banks and the insurance house specialize in export financing; their services are available to both private firms and SOEs.

SOEs are usually structured as joint-stock companies. They do not report directly to ministries but are managed by a Board of Directors (statutory body) and a Supervisory Board that generally includes representatives of the government and trade unions representing by law employees, both union and non-union. Like privately owned joint-stock companies, the SOEs are fully responsible for their obligations towards third parties although shareholders are not personally liable for a company's obligations. SOEs are required by law to publish an annual report and disclose their accounting books, and submit to an independent audit.

Private enterprises and SOEs carry out procurement in accordance with the Act on Public Procurement No 137/2006 (http://www.portal-vz.cz/getmedia/f93961f9-8ea1-41dc-852f-154e657e791e/137-2012-AJ-KZ-_2) which is fully harmonized with the existing EU legislation on Public Procurement. In harmony with the long-term efforts to secure single rules for public procurement purposes, the European Commission issued proposals to amend Directives 2004/17/EC on procurement in the water, energy, transport and postal services sectors (COM/2011/895 final) and 2004/18/EC on public works, supply and service contracts (COM/2011/0896 final), as well as for the adoption of a Directive on concession contracts (COM/2011/0897 final) in December 2011. New Directives were adopted by the European Parliament and the Council of the European Union on 26 February 2014. EU countries had until April 2016 to transpose the new rules into national law (except with regard to e-procurement where the deadline is October 2018). Details on updated legislation are available athttp://ec.europa.eu/growth/single-market/public-procurement/index_en.htm.

A list of some 50 state-owned or majority state-owned companies is available at: http://www.mfcr.cz/cs/verejny-sektor/hospodareni/majetek-statu/2016/majetkove-ucasti-ministerstva-financi-ke- 24337.

OECD Guidelines on Corporate Governance of SOEs

As an OECD member, the Czech Republic promotes the OECD Principles of Corporate Governance and the affiliated Guidelines on Corporate Governance for SOEs. SOEs are subject to the same legislation as private enterprises regarding their commercial activities. The Ministry of Finance administers the government's ownership of SOEs; http://www.mfcr.cz/en/.

Corporate Governance rules are covered by:

Act on Criminal Liability of Legal Entities
Act on Corporations
Civil Code
Act on Capital Markets
Act on Audit
Act on Banks
Money Laundry Act
Public Procurement Act

In 2004, an Administration and Management Code was developed based on the OECD Principles of Corporate Governance to set up standards of operation for business entities and their relation to shareholders, investors, creditors and auditors. As a result of numerous subsequent legislative updates, corporate governance rules are now in the process of being modified to reflect current trends in corporate administration and management, as well as to meet new rules (to be) adopted by the EU, such as on obligatory provision on data collection.

Information on Corporate Governance principles is available on the web sites of the Corporate Governance Institute http://www.governance.cz/cs/.

Courts act independently and are declared to be free from any interference. Post is not aware of any evidence of discriminatory conduct presented by courts with respect to favoritism toward a SOE.

Sovereign Wealth Funds

The Czech government does not operate any sovereign wealth fund.

10. Responsible Business Conduct

The concept of responsible business conduct (RBC) is fairly new in the Czech Republic. The government has successfully grasped the concept of corporate social responsibility (CSR) and it is in the process of understanding and defining RBC. Some principles of RBC are consistent with already long-effective laws protecting human rights, environment, labor relations, and financial accountability. In addition, the host country has a well-developed structure of trade unions and the private sector in particular, responds to societal expectations through voluntary implementation of their own CSR) programs.

In April 2014, the Czech government approved the National Action Plan for CSR. The document was drafted in cooperation with NGOs and private companies and presented by the Ministry of Industry and Trade. The major goal of the National Action Plan is to establish fundamental principles and to support and encourage CSR, highlighting that CSR should remain a voluntary policy. In 2015, CSR and the Sustainable Development Section of the Quality Council of the Czech Republic - an advisory and coordination body of the government - actively encouraged CSR in the Czech Republic through creation of a National Informational CSR Portal that provides businesses, NGOs, representatives of state administration, and the public with updates related to CSR in the Czech Republic. In addition, the Section participated in a number of public and expert forums, advocating for social responsibility and sustainable development, and it submitted an updated version of the National Action Plan (NAP) for CSR.

The updated NAP touches on the issues of public tenders and encourages businesses and state administration to consider potential long-term social and environmental impacts of their procurement decisions, instead of deciding strictly based on financial costs.

Post is not aware of any controversial instances of corporate impact on human rights.

The government strictly and effectively enforces legislation in the area of human rights, labor rights, consumer protection, and environmental protection to protect individuals from adverse business impacts. Domestic standards are generally very high and in many instances exceed EU-wide requirements. Negligence or failure to comply with this legislation results in serious consequences.

Shareholders are protected by developed legislation that clearly describes legal processes, organization structures, administration, management of all business components, including stakeholders.

Companies are not required to publicly disclose information about their RBC or CSR activities. However, they gladly promote their efforts, for example by applying for prestigious CSR awards.

Various local NGOs monitor and advise CSR programs, such as the Business Leaders Forum, Business for Society, the CSR Association, and the CSR Committee of the American Chamber of Commerce. Business for Society gives annual CSR awards to the "Top Responsible Company" in order to increase public awareness about CSR, promote and reward excellent CSR achievements, and to encourage entrepreneurship. The private sector competes for prizes in 12 various categories and the event enjoys strong media attention. Growing numbers of applicants, especially small and medium-sized Czech companies, indicate increasing attention these companies are paying to CSR.

The host government encourages local as well as foreign enterprises to follow generally accepted RBC principles on grounds of adherence to the OECD Guidelines for Multinational Enterprises (MNE) and to the United Nations Guiding Principles of Business and Human Rights. The OECD Guidelines for MNE are actively promoted by the National Contact Point and the United Nations Principles are being reviewed at the Office of the Government, with the goal to issue a separate national action plan to secure its implementation.

Since 2013, the host government has maintained a National Contact Point (NCP) for OECD MNE guidelines. The NCP working group consists of representatives of the government, employer organizations (Confederation of Industry and Trade), employee organizations (Czech-Moravian Confederation of Trade Unions), and NGOs (Frank Bold). It is supervised by the Ministry of Industry and Trade. In November, the NCP in cooperation with the Norwegian NCP organized an all-day seminar focused on the importance and mission of the OECD MNE guidelines. The goal was to introduce representatives of business, unions, and state administration to the text of the guidelines, to its objectives and to activities of the NCP. The Norwegian NCP presented their experience with practical implementation of the guidelines in Norway. In addition, the Czech NCP participates in the Economic Diplomacy Course for Czech diplomats and other employees, organized by the CzechTrade agency. The NCP closely and actively cooperates with other regional NCPs to share best practices, procedures and experience.

The host government adheres to the OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Afflicted and High-Risk Areas. At the moment, a joint EU directive, which should establish specific responsibility for the whole supply chain, has been submitted by the European Commission and is being negotiated in the European Parliament. The implementer of this agenda in the Czech Republic is the Ministry of Industry and Trade, which should transcribe the EU directive into national legislation.

The Czech Republic does not have any significant oil and natural gas resources and is dependent on purchasing these commodities from abroad. There are no special domestic transparency measures requiring the disclosure of payments made to governments for projects related to the commercial development of oil, natural gas, or minerals. Payments for extraction of minerals in the Czech Republic abide by the Mining Law, which clearly determines payments are processed for extracted minerals as well as for mined areas. International trade with oil, natural gas and minerals is not subject to any special legislation; it follows the general rules of international trade. The Czech Republic is not an EITI Complaint Country, nor an EITI candidate.

OECD Guidelines for Multinational Enterprises

The Czech Republic adheres to the OECD Guidelines for Multinational Enterprises, ensured by the Director of Multilateral and Common Trade Policy Department at the Ministry of Industry and Trade.

11. Political Violence

The risk of political violence in the Czech Republic is extremely low. Two historic political changes – the Velvet Revolution, which ended the communist era in 1989, and the division of Czechoslovakia into the Czech Republic and Slovakia in 1993 – occurred without loss of life or significant violence.

12. Corruption

Current law criminalizes both payment and receipt of bribes, regardless of the perpetrator's nationality. Prison sentences for bribery or abuse of power can be as high as twelve years for officials, and police investigate bribery with tools such as wire-tapping. Corruption of public officials is prosecuted on the regional level to ensure that prosecutors have specialized knowledge and avoid bias; the government believes that regional prosecutors know the local environment and actors better that their colleagues on the national level. The special Organized Crime Police Unit (UOOZ) and the Unit for Combating Corruption and Serious Financial Criminality (UOKFK) are primarily responsible for investigating high-level corruption cases. Bribes are not tax deductible, and all anti-corruption laws apply equally to Czech and foreign investors. Criminal procedure law allows for the seizure of criminal proceeds paid or transferred to family members of corrupt officials, although their prosecutions depend on evidence.

The current government has proclaimed fighting corruption as one of its priorities, and to that end, has been working on anti-corruption legislation. It has passed an amendment to the law on public procurement, and a new law on the register of public tenders. In addition, the Government Legislative Council is reviewing a new law on the public prosecution service that envisages a more independent prosecutor. It then goes to the Cabinet for approval before submission to the Chamber of Deputies, perhaps as soon as the current spring 2016 session.

Two more anti-corruption bills are currently debated in the Chamber of Deputies: the financial disclosure bill and the bill on financing political parties.

UN Anticorruption Convention, OECD Convention on Combatting Bribery

A law introducing criminal liability for legal entities came into effect on January 1, 2012. The government ratified the OECD Anti-Bribery Convention in January 2000 and the UN Convention Against Corruption (UNCAC) in January 2014. According to Transparency International (TI) reports, there is little or no enforcement of the OECD Convention in the Czech Republic. TI cites insufficient definition of foreign bribery offenses, jurisdictional limitations, lack of coordination between investigation and enforcement entities, inadequate whistleblower protection, and lack of awareness as the causes for this lack of enforcement.

The Czech Republic became a member of the Open Government Partnership in 2011, and in 2012 approved an Action Plan including the adoption of an Act on Civil Servants, which was intended to lead to a system allowing freer access to information and publication of data. Yet due to the 2013 collapse of the Necas Government, none of the goals have been fulfilled.

In 2013 a new anti-corruption initiative called Reconstruction of the State was launched. This confederation of nearly 20 locally-renowned anti-corruption organizations has worked towards strong anti-corruption reform in the Czech Republic and has successfully advocated for the adoption of six new pieces of anti-corruption legislation.

Despite widespread concern about corruption, U.S. companies have not been significantly deterred from investing in the Czech Republic. The most common allegations of corruption relate to public procurement and external pressures on the judiciary. An April 2012 procurement reform law lowered the threshold for application of procurement rules to contracts valued at one million Czech crowns (USD 50,000) for services and three million crowns (USD 150,000) for construction, although the Senate later amended it by raising the threshold by 10 percent. The law requires more than one bidder for all procurements and mandates that the tender be published. The law also requires bidders to disclose more of their ownership structure in the bidding process, but it contains some exceptions to that obligation. American businesses have also cited inconsistent competition policies as an investment obstacle.

An amendment to the Law on the Central Registry of Contracts was enacted in December 2015 and will take effect July 1, 2016. The amendment proposes to require all national, regional and local authorities and companies to make public all newly concluded contracts valued at CZK 50,000 (USD 2,000) or more.

Resources to Report Corruption

Contact at government agency responsible for combating corruption:

Eva Kyzourova
Department for Combating Corruption
Office of the Government
Vladislavova 4
11000 Praha 1
+420 224 002 412
sekretariat.brs@vlada.cz

Contact at watchdog organization:

David Ondracka
Director
Transparency International Czech Republic
Sokolovska 260/143
+420-224 240 895
ondracka@transparency.cz

13. Bilateral Investment Agreements

The Czech Republic and United States share a bilateral investment treaty (BIT). The former government of Czechoslovakia signed the original BIT with the United States in 1992, and the Czech Republic adopted this treaty in 1993, after the split with Slovakia. The Czechs amended the treaty in 2003, along with other new EU entrants which had U.S. BITs, following negotiations with the European Commission about conflicts within the EU acquis communautaire.

Several dozen other countries have signed and ratified investment agreements with the Czech Republic, and some are in the process of ratification. The Czech Republic has abrogated several treaties – mostly those with other/new EU member states, in accordance with the EU determination that, given the Commission's new investment competence under the Lisbon Treaty, investment treaties among member states are now inconsistent with EU legislation. The full list of agreements, including ratification dates, can be found on the Ministry of Finance website http://www.mfcr.cz/cs/legislativa/dohody-o-podpore-a-ochrane-investic/prehled-platnych-dohod-o-podpore-a-ochra.

Bilateral Taxation Treaties

A bilateral U.S.-Czech Convention on Avoidance of Double Taxation has been in force since 1993. In 2007 the U.S. and Czech governments signed a bilateral Totalization Agreement that exempts Americans working in the Czech Republic from paying into both the Czech and U.S. social security systems. The agreement entered into force on January 1, 2009. In 2013 the U.S. and Czech governments signed a Supplementary Totalization Agreement amending the original agreement to reflect new Czech legislation on health insurance. In 2014, the U.S. and the Czech Republic signed an Agreement on Improvement of International Tax Compliance and to Implement FATCA (the Foreign Account Tax Compliance Act).

14. Foreign Trade Zones/Free Ports/Trade Facilitation

Both Czech and EU laws permit foreign investors involved in joint ventures to take advantage of commercial or industrial customs-free zones into which goods may be imported and later exported without depositing customs duty. Free zone treatment applies to both non-Community and Community goods, and duties need to be paid only in the event that the goods brought into the free zone are introduced into the local economy. However, since the Czech Republic has been part of the single customs territory of the European Community, and offers various exemptions on customs tariffs, the use of these 11 free-trade zones has declined.

15. Foreign Direct Investment and Foreign Portfolio Investment Statistics

Table 2: Key Macroeconomic Data, U.S. FDI in Host Country/Economy

	Host Country Statistical source*		USG or international statistical source		USG or International Source of Data: BEA; IMF; Eurostat; UNCTAD, Other
Economic Data	Year	Amount	Year	Amount	
Host Country Gross Domestic Product (GDP) ($M USD)	2015	$181.8 billion	2014	$205.3 billion	http://data.worldbank.org/country/czech-republic
Foreign Direct Investment	Host Country Statistical source*		USG or international statistical source		USG or international Source of data: BEA; IMF; Eurostat; UNCTAD, Other
U.S. FDI in partner country ($M USD, stock positions)	2014	$4.388 billion	2014	$7.247 billion	http://bea.gov/international/direct_investment_multinational_companies_comprehensive_data.htm
Host country's FDI in the United States ($M USD, stock positions)	2014	$38.1 million	2014	$93 million	http://bea.gov/international/direct_investment_multinational_companies_comprehensive_data.htm
Total inbound stock of FDI as % host GDP	2014	3.2%	2014	3.53%	World Bank

*Source: Czech National Bank

Czech GDP grew approximately 4.3 percent in 2015, expressed in Czech Crowns. However, in 2014 the average exchange rate was 20.75/USD, and in 2015 24.6, so Czech GDP declined when expressed in USD.

Table 3: Sources and Destination of FDI

Direct Investment from/in Counterpart Economy Data – 2014					
From Top Five Sources/To Top Five Destinations (US Dollars, Millions)					
Inward Direct Investment			Outward Direct Investment		
Total Inward	122,081	100%	Total Outward	17,494	100%
Netherlands	31,268	26%	Netherlands	6,966	40%
Austria	16,938	14%	Slovakia	2,872	16%
Germany	15,491	13%	Germany	1,064	6%
Luxembourg	14,826	12%	Jersey	1,064	4%
France	6,782	6%	Bulgaria	552	3%
"0" reflects amounts rounded to +/- USD 500,000.					

The IMF data differ significantly from the statistics from the Czech National Bank, which ranks the highest 2014 FDI inflows as coming from Germany ($3.9 billion), Cyprus ($1.6 billion), Luxembourg ($1.55 billion), France ($1.14 billion), and Poland ($618 million).

The Czech Statistical Office ranks the top five FDI destination countries as Germany ($496 million), Croatia ($275 million), Luxembourg ($136 million), Slovakia ($117 million), and Liechtenstein ($72.9 million). https://www.cnb.cz/en/statistics/bop_stat/fdi/fdi.html

The top sources of and destinations of Czech foreign direct investment represent a combination of major EU trading partners and favored tax havens. The leading country for both inward and outward direct investment flows is the Netherlands. In the early 1990s, it became a popular place for corporate registration for domestic and foreign businesses active in the Czech Republic. In past years, the main rationale for registering a business in the Netherlands related to favorable corporate income taxes, stimulating rapid development of offshore corporate structures in the Czech Republic. While the tax haven effect has dissipated (corporate income tax rates in the Czech Republic and Netherlands are nearly equal), the Netherlands remains a popular country for large corporations. Luxembourg attracts Czech businesses for the same reason. In 2013, 4,500 out of 12,000 Czech companies registered abroad resided in the Netherlands. Among the other FDI partner countries, Cyprus offers one of the lowest corporate income tax rates in the EU (currently 12.5 percent), and tax exemption of dividends. Nevertheless, all corporations are required to have an independent audit of their accounting.

These statistical distortions should dissipate in future years with the global adoption of the recently revised OECD Benchmark Definition for FDI, which is designed to discount investment flows from special purpose entities.

Table 4: Sources of Portfolio Investment

Portfolio Investment Assets – 2014								
Top Five Partners (Millions, US Dollars)								
Total			Equity Securities			Total Debt Securities		
All Countries	29,221	100%	All Countries	13,308	100%	All Countries	15,913	100%
Austria	4,837	17%	Luxembourg	3,587	27%	Slovakia	3,219	20%
Luxembourg	4,286	15%	Belgium	2,606	20%	Austria	2,842	18%
Slovakia	3,493	12%	Austria	1,996	15%	Netherlands	1,610	10%
Belgium	2,731	9%	United States	1,477	11%	Poland	1,429	9%
United States	2,576	9%	Ireland	679	5%	France	1,162	7%

Section 5 - Government

Chiefs of State and Cabinet Members:

For the current list of Chiefs of State and Cabinet Members, please access the following - [Central Intelligence Agency online directory of Chiefs of State and Cabinet Members of Foreign Governments]

Legal system:

in 2014, a new civil code will replace the existing civil law system, which is based on former Austro-Hungarian civil codes and socialist theory and has been amended 40 times since the Communist regime fell in 1989

International organization participation:

Australia Group, BIS, BSEC (observer), CD, CE, CEI, CERN, EAPC, EBRD, EIB, ESA, EU, FAO, IAEA, IBRD, ICAO, ICC (national committees), ICRM, IDA, IEA, IFC, IFRCS, ILO, IMF, IMO, IMSO, Interpol, IOC, IOM, IPU, ISO, ITSO, ITU, ITUC (NGOs), MIGA, MONUSCO, NATO, NEA, NSG, OAS (observer), OECD, OIF (observer), OPCW, OSCE, PCA, Schengen Convention, SELEC (observer), UN, UNCTAD, UNESCO, UNIDO, UNWTO, UPU, WCO, WFTU (NGOs), WHO, WIPO, WMO, WTO, ZC

Section 6 - Tax

Exchange control

The Foreign Exchange Act allows the Czech currency to be used freely to pay for business and other costs, for direct investment and reinvestment, and for purchase of real estate property abroad. Also, the acceptance of financial loans from non-residents is now legal.

Capital transfers have been deregulated but the reporting duty has been retained. Non-residents may use funds deposited in their accounts denominated in Czech or foreign currencies for transfers to and from abroad, providing the reporting duty is observed.

A licence is required for a financial service business. Sales of foreign currency and gold are permitted where one of the parties is an entity holding a licence or foreign currency permit.

Treaty and non-treaty withholding tax rates

Czech Republic has signed **93 agreements** (**84 DTC** and **9 TIEA** agreements) providing for the exchange of information.

Jurisdiction	Type of EOI Arrangement	Date Signed	Date entered into Force	Meets standard	Contains paras 4 and 5
Albania	DTC	22 Jun 1995	10 Sep 1996	Unreviewed	No
Andorra	TIEA	11 Jun 2013	not yet in force	Unreviewed	Yes
Armenia	DTC	6 Jul 2008	15 Jul 2009	Unreviewed	Yes
Australia	DTC	28 Mar 1995	27 Nov 1995	Yes	No
Australia	DTC Protocol	9 Mar 2012	not yet in force	Yes	Yes
Austria	DTC	8 Jun 2006	22 Mar 2007	Yes	Yes
Azerbaijan	DTC	24 Nov 2005	16 Jun 2006	Unreviewed	No
Bahrain	DTC	24 May 2011	10 Apr 2012	Yes	Yes
Barbados	DTC	26 Oct 2011	6 Jun 2012	Yes	Yes
Belarus	DTC	14 Oct 1996	15 Jan 1998	Unreviewed	Yes
Belgium	DTC	16 Dec 1996	24 Jul 2000	Yes	No
Belgium	DTC Protocol	15 Mar 2010	not yet in force	Yes	Yes
Bermuda	TIEA	28 Jul 2011	not yet in force	Yes	Yes
Bosnia and Herzegovina	DTC	20 Nov 2007	12 May 2010	Unreviewed	No
Brazil	DTC	26 Aug 1986	14 Nov 1990	No	No
Bulgaria	DTC	9 Apr 1998	2 Jul 1999	Unreviewed	No
Canada	DTC	25 May 2001	28 May 2002	Yes	No
Cayman Islands	TIEA	9 Nov 2012	20 Sep 2013	Yes	Yes
China	DTC	28 Aug 2009	4 May 2011	Yes	Yes

Jurisdiction	Type of EOI Arrangement	Date Signed	Date entered into Force	Meets standard	Contains paras 4 and 5
Colombia	DTC	22 Mar 2012	not yet in force	Unreviewed	Yes
Croatia	DTC	22 Jan 1999	28 Dec 1999	Unreviewed	Yes
Cyprus	DTC	28 Apr 2009	26 Nov 2009	Yes	No
Denmark	DTC	25 Aug 2011	17 Dec 2012	Yes	Yes
Estonia	DTC	24 Oct 1994	26 May 1995	Yes	No
Ethiopia	DTC	25 Jul 2007	30 May 2008	Unreviewed	No
Finland	DTC	2 Dec 1994	12 Dec 1995	Yes	No
Former Yugoslav Republic of Macedonia	DTC	21 Jun 2001	17 Jun 2002	Yes	No
France	DTC	28 Apr 2003	1 Jul 2005	Yes	No
Georgia	DTC	23 May 2006	4 May 2007	Unreviewed	No
Germany	DTC	19 Dec 1980	17 Nov 1983	Yes	No
Greece	DTC	23 Oct 1986	23 May 1989	Yes	No
Guernsey	TIEA	15 Sep 2011	9 Jul 2012	Yes	Yes
Hong Kong, China	DTC	6 Jun 2011	24 Jan 2012	Yes	Yes
Hungary	DTC	14 Jan 1993	27 Dec 1994	Yes	No
Iceland	DTC	18 Jan 2000	28 Dec 2000	Yes	No
India	DTC	1 Oct 1998	27 Sep 1999	Yes	No
Indonesia	DTC	4 Oct 1994	26 Jan 1996	Yes	No
Ireland	DTC	14 Nov 1995	21 Apr 1996	Yes	No
Isle of Man	TIEA	18 Jul 2011	18 May 2012	Yes	Yes
Israel	DTC	6 Dec 1993	23 Dec 1994	Yes	No
Italy	DTC	5 May 1981	26 Jun 1984	Yes	No
Japan	DTC	11 Oct 1977	25 Nov 1978	Yes	No
Jersey	TIEA	12 Jul 2011	16 Mar 2012	Yes	Yes
Jordan	DTC	10 Apr 2006	7 Nov 2007	Unreviewed	No
Kazakhstan	DTC	9 Apr 1998	29 Oct 1999	Unreviewed	No
Korea, Democratic People's Republic of	DTC	2 Mar 2004	7 Dec 2005	Unreviewed	No
Korea, Republic of	DTC	27 Apr 1992	3 Mar 1995	Yes	No
Kuwait	DTC	5 Jun 2001	3 Mar 2005	Unreviewed	No
Latvia	DTC	25 Oct 1994	22 May 1995	Unreviewed	No
Lebanon	DTC	28 Aug 1997	24 Jan 2000	No	No
Lithuania	DTC	27 Oct 1994	8 Aug 1995	Yes	No
Luxembourg	DTC	5 Mar 2013	not yet in force	Yes	Yes
Luxembourg	DTC	18 Mar 1991	30 Dec 1992	No	No
Malaysia	DTC	8 Mar 1996	9 Mar 1998	No	No
Malta	DTC	21 Jun 1996	6 Jun 1997	Yes	No
Mexico	DTC	4 Apr 2002	27 Dec 2002	Yes	No
Moldova, Republic of	DTC	12 May 1999	26 Apr 2000	Unreviewed	No
Mongolia	DTC	27 Jan 1997	22 Jun 1998	Unreviewed	No
Montenegro	DTC	11 Nov 2004	27 Jun 2005	Unreviewed	No
Morocco	DTC	11 Jun 2001	27 Dec 2002	Unreviewed	No
Netherlands	DTC	4 Mar 1974	5 Nov 1974	Yes	Yes
New Zealand	DTC	26 Oct 2007	29 Aug 2008	Yes	Yes
Nigeria	DTC	31 Aug 1989	2 Dec 1990	Yes	No

Jurisdiction	Type of EOI Arrangement	Date Signed	Date entered into Force	Meets standard	Contains paras 4 and 5
Norway	DTC	19 Oct 2004	9 Sep 2005	Yes	Yes
Panama	DTC	4 Jul 2012	not yet in force	Unreviewed	Yes
Philippines	DTC	13 Nov 2000	23 Sep 2003	Yes	No
Poland	DTC	13 Sep 2011	11 Jun 2012	Yes	Yes
Portugal	DTC	24 May 1994	1 Oct 1997	Yes	No
Romania	DTC	8 Nov 1993	11 Aug 1994	Unreviewed	No
Russian Federation	DTC	17 Nov 1995	18 Jul 1997	Yes	Yes
San Marino	TIEA	25 Nov 2011	6 Sep 2012	No	Yes
Saudi Arabia	DTC	25 Apr 2012	not yet in force	Unreviewed	Yes
Serbia	DTC	11 Nov 2004	27 Jun 2005	Unreviewed	Yes
Singapore	DTC	21 Nov 1997	21 Aug 1998	No	No
Sint Maarten	TIEA	27 Oct 2012	not yet in force	Yes	Yes
Slovakia	DTC	26 Mar 2002	14 Jul 2003	Yes	No
Slovenia	DTC	13 Jun 1997	28 Apr 1998	Yes	No
South Africa	DTC	11 Nov 1996	3 Dec 1997	Yes	No
Spain	DTC	8 May 1980	5 Jun 1981	Yes	No
Sri Lanka	DTC	26 Jun 1978	19 Jun 1979	No	No
Sweden	DTC	16 Feb 1979	8 Oct 1980	Yes	No
Switzerland	DTC	4 Dec 1995	23 Oct 1996	No	No
Switzerland	DTC Protocol	11 Sep 2012	not yet in force	Unreviewed	Yes
Syrian Arab Republic	DTC	17 May 2008	12 Nov 2009	Unreviewed	No
Tajikistan	DTC	7 Nov 2006	19 Oct 2007	Unreviewed	No
Thailand	DTC	12 Feb 1994	14 Aug 1995	Unreviewed	No
Tunisia	DTC	14 Mar 1990	25 Oct 1991	Unreviewed	No
Turkey	DTC	12 Nov 1999	16 Dec 2003	Yes	No
Ukraine	DTC	30 Jun 1997	20 Apr 1999	Unreviewed	No
United Arab Emirates	DTC	30 Sep 1996	9 Aug 1997	No	No
United Kingdom	DTC	5 Nov 1990	20 Dec 1991	Yes	No
United States	DTC	16 Sep 1993	23 Dec 1993	Yes	No
Uzbekistan	DTC	2 Mar 2000	15 Jan 2001	Unreviewed	Yes
Venezuela	DTC	26 Apr 1996	12 Nov 1997	Unreviewed	No
Viet nam	DTC	23 May 1997	3 Feb 1998	Unreviewed	No
Virgin Islands, British	TIEA	13 Jun 2011	19 Dec 2012	Yes	Yes

Methodology and Sources

Section 1 - General Background Report and Map

(Source: CIA World Factbook)

Section 2 - Anti – Money Laundering / Terrorist Financing

	Lower Risk	**Medium Risk**	**Higher Risk**
FATF List of Countries identified with strategic AML deficiencies	Not Listed	AML Deficient but Committed	High Risk
Compliance with FATF 40 + 9 recommendations	>69% Compliant or Fully Compliant	35 – 69% Compliant or Fully Compliant	<35% Compliant or Fully Compliant
US Dept of State Money Laundering assessment (INCSR)	Monitored	Concern	Primary Concern
INCSR - Weakness in Government Legislation	<2	2-4	5-20
US Sec of State supporter of / Safe Haven for International Terrorism	No	Safe Haven for Terrorism	State Supporter of Terrorism
EU White list equivalent jurisdictions	Yes		No
International Sanctions UN Sanctions / US Sanctions / EU Sanctions	None	Arab League / Other	UN , EU or US
Corruption Index (Transparency International) Control of corruption (WGI) Global Advice Network	>69%	35 – 69%	<35%
World government Indicators (Average)	>69%	35 – 69%	<35%
Failed States Index (Average)	>69%	35 – 69%	<35%
Offshore Finance Centre	No		Yes

Section 3 - Economy

General Information on the current economic climate in the country and information on imports, exports, main industries and trading partners.

(Source: CIA World Factbook)

Section 4 - Foreign Investment

Information on the openness of foreign investment into the country and the foreign investment markets.

(Source: US State Department)

Section 5 - Government

Names of Government Ministers and general information on political matters.

(Source: CIA World Factbook / https://www.cia.gov/library/publications/world-leaders-1/index.html)

Section 6 - Tax

Information on Tax Information Exchange Agreements entered into, Double Tax Agreements and Exchange Controls.

(Sources: OECD Global Forum on Transparency and Exchange of Information for Tax Purposes PKF International)

DISCLAIMER

Part of this report contains material sourced from third party websites. This material could include technical inaccuracies or typographical errors. The materials in this report are provided "as is" and without warranties of any kind either expressed or implied, to the fullest extent permissible pursuant to applicable law. Neither are any warranties or representations made regarding the use of or the result of the use of the material in the report in terms of their correctness, accuracy, reliability, or otherwise. Materials in this report do not constitute financial or other professional advice.

We disclaim any responsibility for the content available on any other site reached by links to or from the website.

RESTRICTION OF LIABILITY

Although full endeavours are made to ensure that the material in this report is correct, no liability will be accepted for any damages or injury caused by, including but not limited to, inaccuracies or typographical errors within the material, Neither will liability be accepted for any damages or injury, including but not limited to, special or consequential damages that result from the use of, or the inability to use, the materials in this report. Total liability to you for all losses, damages, and causes of action (in contract, tort (including without limitation, negligence), or otherwise) will not be greater than the amount you paid for the report.

RESTRICTIONS ON USE

All Country Reports accessed and/or downloaded and/or printed from the website may not be distributed, republished, uploaded, posted, or transmitted in any way outside of your organization, without our prior consent. Restrictions in force by the websites of source information will also apply.

We prohibit caching and the framing of any Content available on the website without prior written consent.

Any questions or queries should be addressed to: -

Gary Youinou

Via our Contact Page at KnowYourCountry.com