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Playing the EU waiting game

Many people believe that it is in the interests of the Czech Republic to join the EU at the earliest opportunity. Desire by member states to maintain the status quo, however, is proving an obstacle to membership.

Member countries in the EU are trying to prolong the status quo for as long as possible to keep out non-member states waiting to join. Meanwhile, member states get all the benefits of doing business in places like the Czech Republic while the Czechs endure the status of second-class citizens.

That was the hard-hitting accusation levelled at the EU by prominent Czech Republic politician, Prof Ing Václav Klaus when he gave the keynote speech at UHY's European Regional Meeting in Prague on 19 May 2001.

Prof Klaus was premier of the Czech Republic from 1992-7 and is Chairperson of the influential Civic Democratic Party which, he claimed, makes the minority government, led by the Czech Social Democratic Party, possible.

He said that EU integration was of primary concern in the Republic but that it rarely figured in member countries' thinking. Yet non-membership was the factor that differentiated Czechs from the other Europeans; and the Republic was belittled as a small, obedient country that should be kept sidelined from standard European affairs. In Central and Eastern Europe, believes Klaus, the debate about the future of Europe has two crucial dimensions and he said, "On the one hand is the evolution of the integration process in Europe, and on the other hand, are the dealings of the member countries with its potential counterparts. These are the two topics debated every day in the Czech Republic."

The Republic had left itself open to abuse in an "innocent and unprotected way" at the fall of communism. EU member states had taken full advantage of trading benefits agreed at the time, but the benefits to the Czechs had been "rather marginal, rather small."

"It is in our interests to join [the EU]," said Prof Klaus. "But I am afraid that we live in a world of asymmetric motivations. Non-members are motivated to enter, however, the interests of existing members are quite different. It is in the interests of member states to prolong the status quo as long as possible."

Simply, he said, "it is not fair".

Prof Klaus favoured an EU where national diversity was preserved – not the creation of one artificial European state. "Efficiency and strength will not come from being standardised but from experimentation, diversity and competition," he said.

Current EU strategy was, however, leading to a single European state – and the citizens of Europe needed to know what was truly happening. Weaker states would depend on huge fiscal transfers, which would lead to fiscal unification. That, in turn, was not possible without political unification.

> *Efficiency and strength will come from experimentation, diversity and competition*

"That is not being sufficiently explained to European citizens," said Prof Klaus. He continued, "Europe is not an optimum currency area and current monetary unification will have some unpleasant consquences. Fiscal unification is impossible without political unification."

Just as the EEC had become the EC, then the EU – so would the EMU become the EFU (European Fiscal Union) then the EPU (European Political Union). EU history had not yet run its course – "there is an unavoidable continuation" and Europe's citizens were "condemned to the final stage."

Ten years ago, said Prof Klaus, an artificial monetary union called Germany was created. "I am absolutely sure its people do not have the slightest idea of the costs involved." So too was the European Political Union proceeding apace without its citizens' full understanding.

In order to guarantee a positive future in Europe, Prof Klaus believes that serious debate must take place, debate which he feels has yet to materialise. "The silent, uninvolved majority of Europeans don't care or see the importance of key issues. I am deeply frustrated by this," he said.

Most Europeans, he continued, live in nirvana – in a dream world naively believing everything is alright. It is time they woke up and stopped being passive objects of the whole process.

Ready, steady, Euro!

The introduction of the Euro presents businesses across Europe with a significant strategic challenge, encompassing both administrative changes and the need for new trading values.

The imminent introduction of Euro notes and coins has particular implications, both in countries that have adopted the "wait and see" approach and in those that have joined the Euro zone. Much effort will need to be made across all sectors, beginning with consultation between businesses, customers and suppliers to discuss preparations and establish when your business is expected to start dealing in Euros.

Immediate priorities

Identifying the IT systems which require modification is an immediate priority, due to the long lead times involved in choosing new software. Internal accounting packages and electronic data interchange with external systems will both be affected and you may also need to adapt your paper-based record keeping systems to tie them in to the changed IT systems.

All business contracts will need to be reviewed, particularly any long-term commitments that may extend into the transition periods of new countries wishing to join the Euro zone. In addition, you may need to revise your pricing policies, as conversion into Euros could make prices seem less appealing to customers used to familiar 'round' numbers.

Export sales literature, both on and off-line, will also need to be changed. Similarly, educating staff on the effect of conversion is vital to maintain a smooth, professional service. Training will be especially relevant for those staff with direct customer contact or an involvement in finance, accounting or IT.

Even businesses already trading with other Euro zone countries need to anticipate the consequences of phasing out national currencies.

Once you have renewed your systems, you will need to monitor their performance and fine tune processes to meet the changing needs of customers and suppliers.

Future considerations

On the plus side, small and medium sized enterprises (SMEs) also stand to benefit from the changeover to the Euro. Suppliers to small business are likely to make significant savings on imports and SMEs should make sure these savings are passed on to them in the form of price reductions.

For more information, please contact your nearest UHY office. *See page 8 for details.*

What next for your business?

Succession planning is a key issue for small to medium-sized businesses all over the world, particularly those that are family-owned. So what steps should you be taking?

Many entrepreneurs hope that their business is something they will be able to pass on to their children. All too often, though, the family's "rags to riches" story culminates in an undesirable situation with a combination of poor planning, tax problems and family conflicts conspiring to prevent the next generation realising the full value of the business.

Research in the US shows that only one in three family-owned businesses survives to the second generation, and a mere 15 per cent reach three generations of ownership. The European Commission estimates that there are also around 1.5 million small businesses in Europe that run the risk of failure as a result of succession problems. These problems come in a number of forms, but most involve a failure to plan ahead and an inability to communicate, even between members of the same family. You should also remember that management responsibility and ownership do not have to rest with the same individuals. A business that is viewed as a "one man band" will not keep its value when the founder leaves, so it's important to build up the skills, contacts and knowledge of your future managers, and to look for new ways of using your brand name as an asset.

Failure to plan ahead

One of the commonest failings is simply leaving everything too late. Many entrepreneurs are reluctant to share command before they retire, leaving the next generation wholly unprepared when they do.

Parents running a family business frequently make assumptions about what their children want but, by the time succession becomes an issue, they may have very different career plans of their own. For example, there is a documented tendency for fathers to underestimate the contribution their daughters might be able to make, and it is also easy to overlook the fact that key employees may in fact be better equipped to manage the business than a family member.

A neutral advisor

This is where a neutral advisor, such as your accountant, can prove invaluable. As a "third party", your accountant can help you to separate objective from subjective views, and make sure that priority is given to the most important long-term objectives. Your accountant can also help you maximise your tax position, preparing the handover in such a way that the new owners of the business are not presented with a huge bill.

'Keeping It in the Family', a booklet produced by the Association of Chartered Certified Accountants (ACCA) for family-owned businesses and their advisers, recommends that you begin by considering the "philosophy" of your business. Must it stay as a family enterprise or is it more important to realise the maximum value from the business you have built up?

> *Your accountant can help you maximise your tax position*

Things to consider

Your plans must be based on a sound knowledge of all aspects of the business and should spell out, amongst other things: the criteria for the top jobs; how contacts and procedures will be passed on smoothly; how any retiring family members' aspirations are to be met and when the changeover will take place.

Conflicts over the succession plan can be resolved or prevented by setting up a "family council" allowing all those involved to discuss the issues in a neutral setting, and with your professional advisor present. This helps to counter the understandable tendency of energetic founders to act without reference to anyone else.

Start planning now

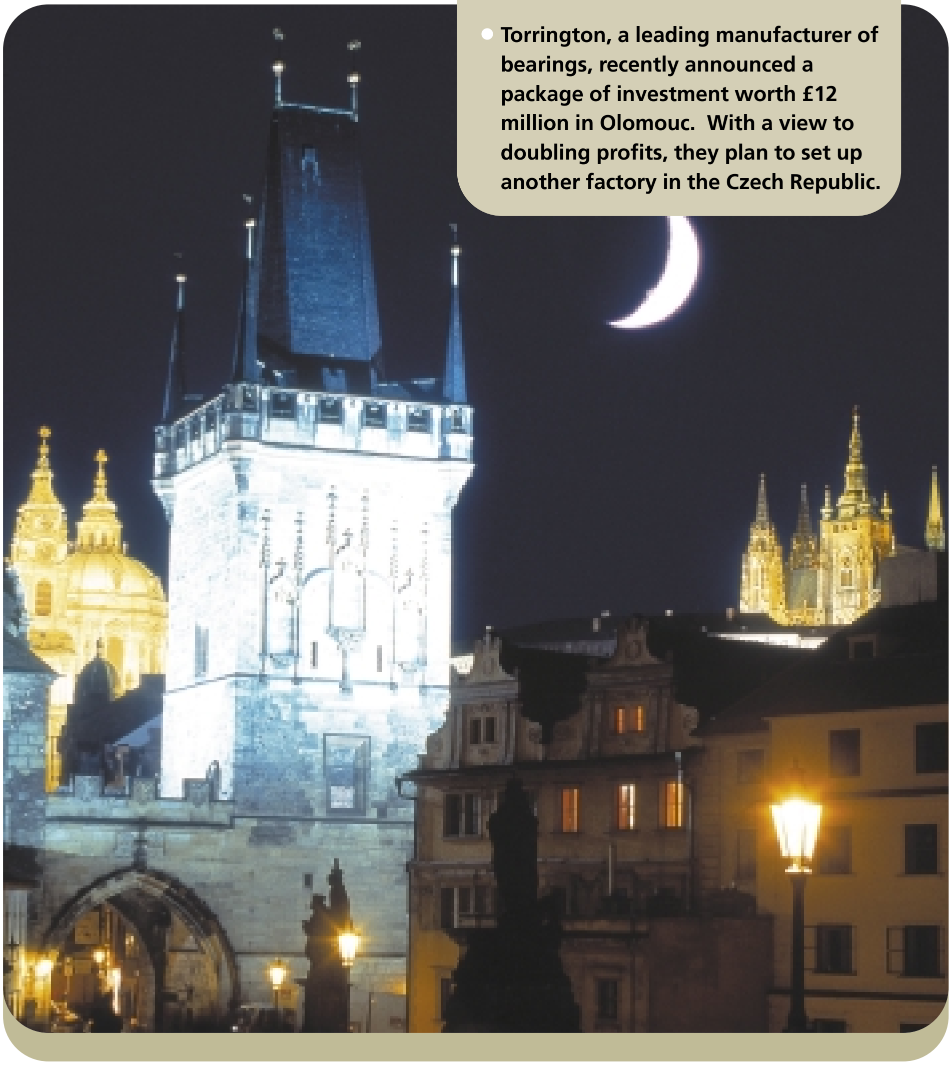
Arguably, planning for a smooth exit is something entrepreneurs should be doing from the very outset. You must bear in mind that management responsibility and ownership do not have to rest with the same individuals. If you invest in someone else's business, a major factor is always considering how you can get out at a later date. Few people ask themselves the same question in relation to their own business.

For more information on succession planning, please contact your nearest UHY office. *See page 8 for details.* *Visit the ACCA's website at www.accaglobal.com.*

Czech Republic enjoys foreign investment boom

Investment in action

- E&M Manufacturing was the first company to benefit from CzechInvest's presence in the UK. The Lancashire Textiles manufacturer invested £1 million and employed 80 people in Pecka. As a result of its success the owner bought another company in Lazne Belehrad and now employs 200 staff.
- A clothing producer from the UK initially set up a business in Liberec with CzechInvest's assistance. Initially employing 40, Okan Designs Limited now employs almost twice this amount and successfully exports its finished product to the UK market.
- Torrington, a leading manufacturer of bearings, recently announced a package of investment worth £12 million in Olomouc. With a view to doubling profits, they plan to set up another factory in the Czech Republic.



In recent years the Czech Republic has been among the most popular locations for investment in Central and Eastern Europe. Is this an opportunity too good to miss?

The inflow of Foreign Direct Investment (FDI) to the Czech Republic has been doubling every year since 1997. A stable economic environment coupled with good geographic positioning and low labour rates has so far attracted more than $19 billion from foreign investors seeking new opportunities.

Emerging as an information technology centre for Central Europe, the Czech Republic specialises in exporting services such as software development, R&D, customer services and data processing. A restructured manufacturing base with a strong German industrial influence has also attracted significant inward investment in key technology sectors, including engineering, electronics and environmental engineering.

This level of investment is hardly surprising given the incentives on offer. Tax benefits are available for both first-time manufacturing and expansion, with packages including:

- Grants of between CZK 80,000 and CZK 200,000 per employee;
- Training and re-training grants for up to 35% of costs.

An inexpensive and educated labour force, a co-operative government, considerable investment incentives and the prospect of quick growth have all attracted global manufacturers.

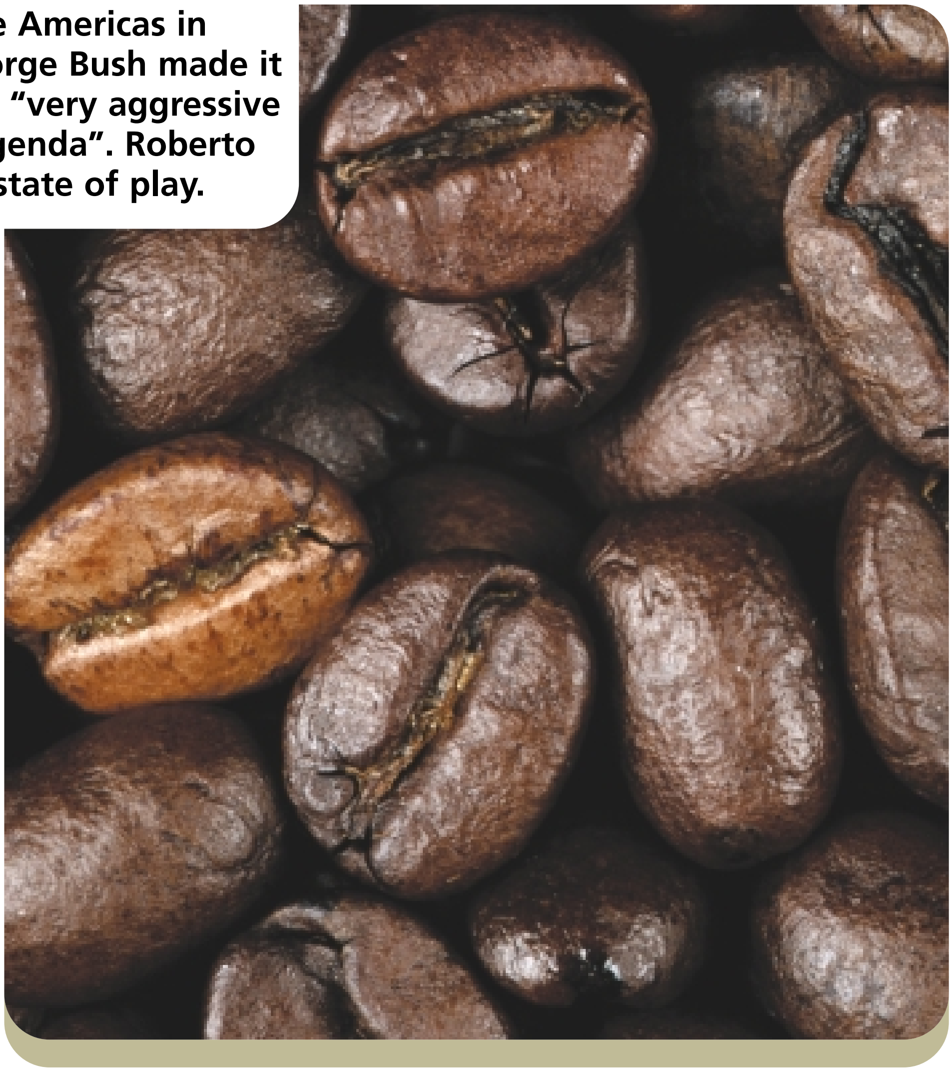
A recent survey by CzechInvest, the National Investment Promotions Agency for the Czech Republic, predicts that current trends are likely to continue and 91% of established manufacturers say they already have plans to expand. CzechInvest provides information on the local business climate, helps companies to identify suitable sites, finds venture partners and locates suitable Czech suppliers. English being the main business language also broadens the appeal of this location, and CzechInvest has offices in the UK and the USA.

The Czech Republic has also been quick to push through the necessary reforms for EU entry. Neighboring countries such as Slovakia are still struggling as a result of leaving their reforms too late, with unemployment rising to an alarming 20%. It is widely expected that the Czech Republic will be among the first to join the EU, and this should enable the economy to prosper further.

For more information on investment opportunities in the Czech Republic, please contact: Georg Stöger, +420 2 2480 0411

The future of free trade

Just before the Summit of the Americas in Quebec on 22 April 2001, George Bush made it clear that he was going to be "very aggressive about pushing a free trade agenda". Roberto Macho examines the current state of play.



Many American countries have enjoyed success in achieving goals via such agreements as NAFTA, Mercosur, and ALADI but the Free Trade Agreement of the Americas (FTAA) will not only allow almost every country in the continent to enjoy trade benefits, in much the same way as European countries benefit from EU membership, but will provide a political counterbalance to the EU for the region. Such a development has been eagerly awaited by many Latin American administrations and on 22 April 2001, leaders of 34 countries in the Americas laid the foundations for the creation of the world's largest free trade zone at the Summit of the Americas in Quebec, Canada. The FTAA is due to start in 2005 and has been backed by billions of dollars in aid.

A mixed reception

However, not every country in the region is excited by the prospect. Brazil, the second largest market in the Americas with industrial power, has proved hesitant over the issue. A spokesman for the Brazilian government has openly stated that they see little point in speeding up the timeframe for the agreement, a position that is largely due to the fact that Brazilian products will be subject to non-duty barriers, despite Free Trade, and hence benefits will be fewer than those enjoyed by virtue of Mercosur. Argentina has expressed similar reservations.

There is no doubt that an agreement like this in a region as rich in natural resources as the Americas, with the leadership of the USA providing technology, would mean a huge opportunity for all member countries to boost their economies. But it is very unlikely to succeed unless each country involved adjusts its economy to meet international standards. If they do not, it is likely that the same experience currently endangering Mercosur, due to Brazilian devaluation, will undermine the cornerstone of the Americas agreement. Each unstable economy in the region inevitably multiplies the risk.

President Bush has said that he "was elected on a platform of free trade" and is confident of receiving fast-track authority from congress by the end of 2001. But there is still a long way to go before economies of the region have converged sufficiently to facilitate a stable economic region. To this end, the Inter-American Development Bank has pledged more than $40 billion in aid for Latin American countries. Real progress can only be achieved by the emergence of a strong political mandate in each negotiating country that enables them collectively to strengthen their focus and achieve unity for a region that encompasses one fifth of world commerce.

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Do you need an ASP?

A growing number of companies are discovering the potential for valuable business benefits that come from working with an Application Service Provider.

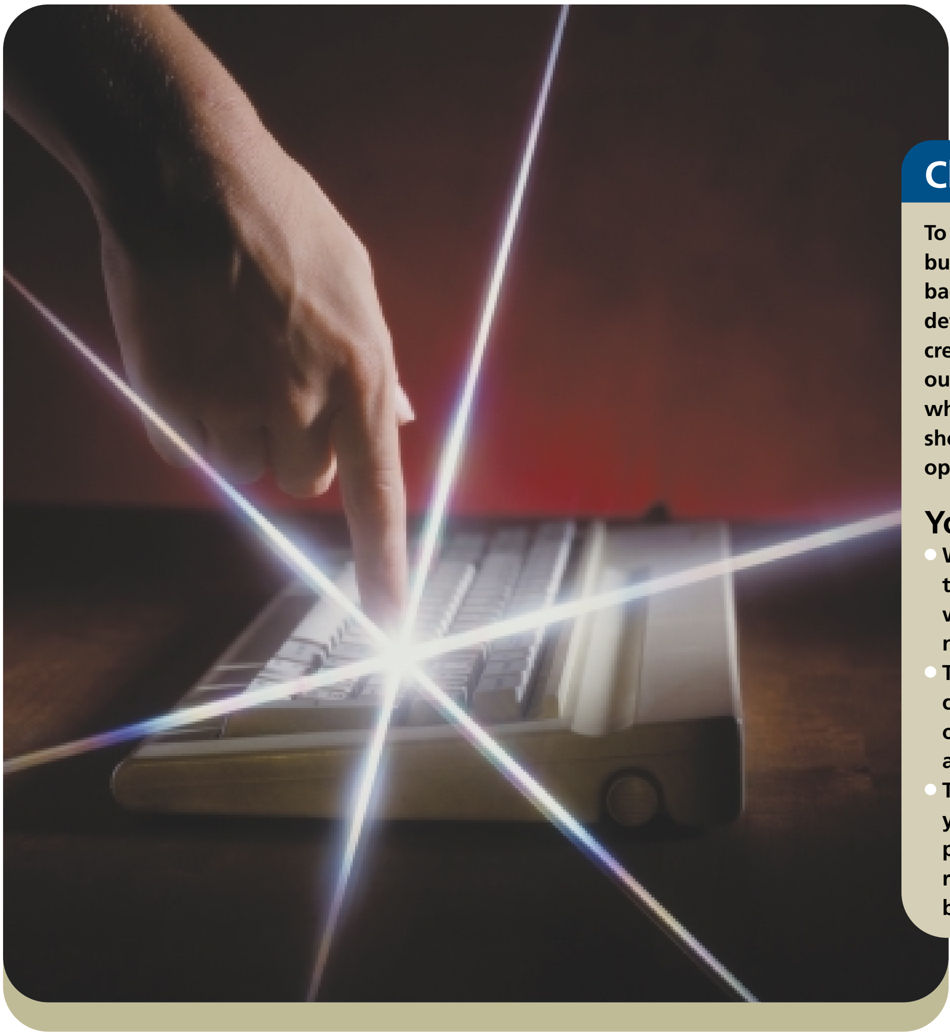
Application Service Providers (ASPs) offer a new mechanism for delivering computer applications, IT infrastructures and support systems. They can deliver virtually any application, from simple email to complex customer relationship management systems, via the Internet on a secure private network and they work on the basic principle of offering access to the very latest technology for a fixed annual fee.

Companies of all types and sizes have chosen to work with ASPs because of their potential to reduce IT costs by up to 60%. They offer continuous access to the latest technology without the cost of IT ownership, leaving you free to focus on business critical operations.

Typical security features include automatic back-up, disaster recovery and 24 hour support services. Many ASPs will also handle training, installation and upgrades as a part of their package.

Of course, the downside is that your business won't actually own any software licenses in its own right, but for many this is a small price to pay for remaining one step ahead of the game.

To find out more, visit the ASP Consortium web site at www.allaboutasp.org or contact your nearest UHY office. See page 8 for details.



Choosing an ASP

To find the provider that's right for your business you'll need to ask some background questions. You should definitely make sure you conduct a credentials check before you buy. Find out how long the ASP has existed and whether it can offer a global service should you be involved in international operations.

You then need to establish:

- **Which applications you want your ASP to host - are they current applications which just require updating or entirely new areas of operation?**
- **The extent of your own internal IT capabilities – will you be adding value or simply duplicating functions you already have?**
- **The level of specialism required – do you need an ASP with experience in a particular field or are your requirements geared towards general business issues?**

Land of the few?

As many as 17.4 million medium sized American businesses are set to benefit from marginal tax cuts, says George W Bush, but do these numbers add up?

The new president marked his first weeks in office by announcing radical tax proposals, resulting in a $1.6 trillion overall tax cut across the next 10 years. However, the Senate later reduced this overall figure by a quarter, and the 4% budget increase allocated for next year is expected to be doubled by Congress. So is the picture as rosy as it first seems?

The White House is certainly making a considerable effort to convince each state of the benefits on offer. For example, the budget claims that 674,000 small to medium-sized businesses and entrepreneurs will see a substantial difference in Pennsylvania alone. But critics continue to allege fundamental inaccuracies in the administration's maths.

Firstly, in a recent speech to business owners, the president claimed that more than 17.4 million companies and entrepreneurs stand to benefit from a reduction of the top rate from 39.6 to 33%. According to the US Treasury, however, only 1% of 17.4 million US small and medium sized enterprises actually pay top rate tax.

Secondly, academic evidence suggests that marginal tax rate reductions will have little effect on the future health of the country's economy. In 1993, the top rate tax figure increased from 31 to 39.6%. Instead of the recession that many conservatives predicted, the country then experienced the longest period of continuous economic growth in its history, lasting throughout the 1990s. Indeed, overall growth has averaged 3% per year since 1995, more than double the 1.4% average between 1973 and 1993.

Reductions in tax are also unlikely to encourage more people into work or increase the rate of national savings. Instead, the overall effect of the current tax plan is likely to be a small reduction in GDP by the end of the ten year period.

But can businesses afford to take predictions such as this at face value?

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Critics allege fundamental inaccuracies in the administration's maths

China embraces new opportunity

The People's Republic of China is almost ready to join the World Trade Organisation (WTO), after years of restructuring to comply with WTO requirements. Membership is expected to boost China's economy making it less reliant on foreign trade and easing unemployment.

"Entry into the WTO will put all companies operating in China on an equal footing", commented Mr Shen Beizhang, President of China's Chamber of Commerce in the US. Competition created by foreign and domestic enterprises will benefit consumers not only in prices but in quality of service. Tax reforms are expected to take place in the coming months, whilst lowered tariffs, another WTO pre-requisite, will reduce costs of imported goods.

WTO membership opens avenues of trade previously closed to Chinese exporters

China is set to address legal and administrative problems which have been seen to deter foreign investors, who tend to view the legal systems and corporate governance as potential risks. Foreign investment brings international models of financial management, improves understanding of western business practice and helps create mutual trust.

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