

AmCham

The European Parliament voted on its recommendations for the principles of a trade treaty with the USA (TTIP). The parliamentarians want to open the US market without undermining EU standards. That is in line with US position. They want to create an independent court with publicly-appointed judges to resolve disputes. That is not. The vote was 436 in favor against 241 opposed. This allows talks to continue. The 10th round of negotiations will take place next week in Brussels. Contact Weston Stacey at wstacey@amcham.cz with questions or comments.

AmCham's **Energy Efficiency Task Force** conducted its first audit at the Linet manufacturing complex in Slany. Savings of up to CZK 80 million were identified, along with EU programs to help defray the cost of investment. The committee is finalizing its audit of the Futurum Business Center in Ostrava, and starting audits of a Prague hotel and another manufacturing plant. To get on the schedule for audits, contact Renata Paceltova at rpaceltova@amcham.cz.

AmCham's **Health Care Task Force** is drafting a position document.. The document adopts healthy life years as the primary measurement for improving the system, proposes an e-health system to monitor how changes in policy influences outcomes, identifies areas (both inside and outside the health care system) that influence healthy life years, and now is asking members and associations to propose policies. Contact Veronika Szentivanyiova at veronika@amcham.cz

For whom does the toll benefit?

Who wins the bid for operating the government's highway toll system will determine more than just which company will get a big boost to its revenues. How the process is handled may decide the longevity of this government, and will certainly influence how long Minister of Transport Dan Tok stays in his position.

Someone is going to make a lot of money. That may provoke some envy among other businesses, but that is just a simple reality of the tender. We can only hope that the margins are thin, all payment transfers official, and all beneficial owners known. At the moment, two companies are judged to be the frontrunners, PPF and the incumbent, Kapsch. There are at least two other interested parties.

The media debate will focus on who will win. It will also focus- because it has been told to focus on it by the Social Democrats- on whether the tender will be technology neutral. The argument they make is that the two current bidders have different types of technology, and that neither technology should be preferred over the other. Their unspoken demand is that Kapsch should not be favored because it provides the current system. Both their argument and demand are valid. However, it is tough not to issue a tender for a service so reliant on technology without addressing technological capabilities. If you ignore technology altogether, you might end up buying a Fabia when you needed a snow plough.

What is needed is to make the bid technologically "neutral" is a clear idea of what the toll system should achieve. In other words, to study what you want the toll system to do, and then carefully and comprehensively craft selection criteria that will guide decision-makers to make the best choice. This is where the Social Democrats may be making a mistake by rushing the tender. Virtually no preparations for the bid had been made when Minister Tok arrived in the office. Forcing the Minister to act now means ruling out a solid set of criteria based on well-researched objectives. If the tender is also to rule out technology, the only real selection criteria will be price and bidder.

That should be avoided. The toll system is too important to the national economy to reduce the contest to cost and possible political influence. The toll greatly determines how efficiently trucks transit across the country. A good system cuts both time and the price of distribution, which helps export manufacturers. And a good toll system also helps with quality of life in populated areas by keeping trucks from blasting through sleeping neighborhoods early in the morning. This is especially important around Prague and Brno. Creating the balance between economic efficiency, quality of life, and sufficient toll collection to maintain the country's roads is a delicate balance which will require more consultation and negotiation than the current deadline allows. The Social Democrats have done everyone a favor by raising attention about the importance of the bid. We should all hope that the government now will take the next step and demand that the bid be not only technologically neutral but also positive for the economy as whole, not just the winning company.

Public Procurement: The pendulum swings in the other direction

Major reform usually requires several versions. Reform 1.0 is a radical swing toward a new equilibrium. Reform 2.0 is a radical swing back– and sometimes past- toward the old equilibrium. How long it takes for the reform to settle on the new, happy medium is usually determined by how radical the first reform was, and how entrenched the special interests who were disrupted by that first reform are.

The first reform of the public procurement act was not radical by EU standards. Some of the new rules were unwieldy, and a few small changes just simply did not work. That happens. The reaction of the special interests was incommensurate with the size of the reform. Why? The change in the law coincided with an economic crisis and a change in the behavior of law enforcement and the Competition Office. The economic crisis pushed competitors to block winning bids by submitting an appeal to the Competition Office. After years of criticism for prosecuting nothing, authorities began to investigate bad decisions as if making a mistake were a crime (in some cases, the mistake may have had criminal intent). And the Competition Office also began to render judgements based not on whether the tender was conducted fairly and by the rules, but on whether authorities had made the right decision. Understandably, decision makers froze. No one wants to be called an idiot. And no one wants to be called a criminal. So, to be safe, authorities stopped deciding, or, when they had to decide, chose based on price. Price does not always mean economic value. In fact, you could argue that it mostly does not.

Instead of looking at the root causes of this change in behavior, politicians blamed the new law. Now, they are set to amend it. The primary justification is a new set of EU rules. The primary aim is to reduce accountability of authorities. In essence, politicians are telling the public if they do not trust politicians to make good decisions, the politicians will stop telling the public what decisions they make. This is what is caused a vicious cycle. We will be paying a price for it down the road.

What will that price be? Two things. First, Inefficient procurement. The government, and particularly the Prime Minister, has argued that more public procurement is the remedy for the shaky economy. No. Good public investment is. That requires a more stringent planning process and a more competitive bidding process. The new proposal moves away from either. Second, wobbly public finance. The government is now proposing to raise substantially the threshold for procurement. Most European countries have a less complicated set of guidelines for procurement under the threshold. Depending on which expert you speak with, the Czech Republic has a few conditions or none at all. Virtually all municipal procurement will now be under the threshold. This opens the door for a public debt crisis a few years down the road.

There is no doubt that the new amendment will make it easier legally for the government to spend more and say less about it. Whether it does in practice will depend on whether newspapers will suddenly stop making money by printing scandals, and whether political parties will stop benefitting from calling the other parties crooks. Not likely. This amendment will simply supply more ammunition. Let's call it a Pandur's Box: better not to open it.

1300 euro

Increase from 2007-2014
GDP per capita,
eurostat

20th

Rank in EU
GDP per capita,
eurostat

1,918 euros

Increase avg. net earnings
2007-2013
eurostat

19th

Ranking in EU
2013 avg. net earnings
eurostat