

**EGAP procedures to determine the ratio of goods and services of the Czech origin to the export value and its control**

**(valid from 15/10/2013)**

### Basis and scope of modification

1. As part of the export credit risk insurance granting process, the Export Guarantee and Insurance Corporation (EGAP) assesses the Czech content. Further to export credit risk insurance granting terms and conditions and as stipulated in the Act No. 58/1995 Coll., EGAP hereby sets out procedures to determine the Czech content, that is a ratio of value of goods and services originated in the Czech Republic to the export value and value of production intended for export, and to assess its amount and as such as one of points of view in the process of making decisions on granting the insurance. This order further to assessment of the Czech ratio level governs the possible insurance cover and financing of local costs.

### Czech proportion and its proof

1. In the event of export or production for export, for which the state support in the form of export credit risk insurance is requested, with the exception of insurance of investments of Czech legal entities abroad (I) and insurance of credit for financing investments of the Czech legal entities abroad (If), with the procedure governed by par. 2, the Czech proportion has to represent at the minimum 50 % of the value of export or production for export.
2. For the insurance of investment of Czech legal entities abroad ("I") and the insurance of credit for financing investment of Czech legal entities investing abroad ("If"), the aspect of Czech portion can only be used based on a requirement in the process of approving the insurance as a supplementary information in making the decision on granting the insurance.
3. Exporter or Manufacturer states in the Statement of Export content an export or production value, that is percentage of the price stipulated in the Export Contract or contract for production for export. The above mentioned Statement shall be submitted by the applicant for insurance together with the binding Application for Insurance. The Czech  content is subsequently stipulated in the Contract Governing Relations with the Exporter/Manufacturer, unless the Exporter/Manufacturer is the Insuree, or in the insurance policy together with notification duties of Exporter or Manufacturer concerning fulfilment of the Czech  content and further associated obligations, if the Exporter or Manufacturer is the Insuree.
4. In the case that the insurance covers export credit risks potentially arising in connection with delivery of goods or services by the Exporter which is a Foreign Company, the Czech  content has to form at the minimum 50 % value of the export or production for export, and on top at least one of the following Czech national interest criteria has to be met:

a)  contribute to the employment in the Czech Republic,

b) the export or production for export is intended for export to priority countries,

c) support small-sized and medium-sized enterprises,

d) export of advanced technology (in accordance with the high-tech goods classification of the Czech Statistical Office, in accordance with SITC),

e) support research and development in the Czech Republic,

f) reduce costs and maintain international competitive ability,

g) promote new product or penetrate a new market,

h) dividends from the Foreign Company are used in the Czech Republic,

i) other significant benefits for the Czech Republic over a long-term period.

1. Goods and services forming the subject matter of export or production for export are regarded for the purpose of calculation of the Czech content as provided for in pars. 1 and 4 as goods and services of the Czech origin provided that the following conditions are met:
2. the contractual party to the contract for export or production for export is the Exporter,
3. goods and services forming a subject matter of export or production for export, are invoiced by the Exporter directly to the importer (foreign buyer),
4. subdelivery for export or production for export is delivered and invoiced to the Exporter or Manufacturer by a Czech Subcontractor,
5. subdeliveries (components, parts, material, etc.) bought abroad by the Exporter, Manufacturer or Czech Subcontractor, are only regarded as of the Czech origin if the Exporter, Manufacturer or Czech Subcontractor increases sufficiently their value in production; the sufficiency is subject to assessment on the Part of EGAP, that is of the Trader. This condition is not met, where goods is only re-exported without any modification to its state or in the case of only a very simple manipulation. In assessing the degree of improvement, especially the degree and complexity of improvement of Subdeliveries on the territory of the Czech Republic in the form of assembly or machining, particularly based on material description of the way of improvement presented by the Exporter or Manufacturer or by the Inspection Company as the case may be, completed with a price calculation,
6. Subdelivery from abroad forming a part of the contract for export or production for export, for which EGAO obtained reinsurance with another ECA or commercial reinsurance company, shall be completely excluded from the calculation of the Czech  content as provided for in pars. 1 and 4,
7. in the case of export credit risk insurance, if the export is financed from multiple sources, the subdelivery from abroad, which is part of a Export Contract and which is financed without a state support of export under Act No. 58/1995 Coll., such subdelivery shall be completely excluded from the calculation of the Czech content as provided for in pars. 1 and 3,
8. in the case of bank guarantee insurance, if the foreign subdelivery is covered by countersecurity, such subdelivery shall be completely excluded from the calculation of the Czech content as provided for in pars. 1 and 3,
9. the EGAP insurance premium value shall be completely excluded from the calculation of the Czech content as provided for in par. 1 and 3.
10. Subdeliveries bought by the Exporter, Manufacturer or Czech subcontractor in abroad that do not meet conditions contained in par. 5 as to be regarded as of the Czech origin or that are not excluded from calculation of the Czech percentage of goods and services in accordance with conditions contained in par. 5, are regarded for the purpose of calculation of the Czech percentage of goods and services as foreign subdeliveries.
11. The provisions for subdeliveries from abroad as provided for in par. 5, letter iv) do not apply to subdeliveries bought by the Exporter from subcontractors in the country of destination. Such subdeliveries present local costs and are covered by respective provisions of the OECD Consensus.

If the subcontractor of any goods or services is a foreign company (that is the works are performed by its regular employees, not by its subcontractors), these goods and services are regarded as of the Czech origin.

1. The maximum local cost financing supported by state determined in accordance with OECD Consensus is 30 % Export Contract Value and should the financing value be more than 15 % of the Export Contract Value, prior notifying OCED is required.
2. It is possible to grant exceptions from the provision contained in par. 1 and 4 provided that the following conditions are met:
3. the Exporter or Manufacturer states in writing its inability to satisfy the delivery with equivalent goods at a comparable price from a Czech Manufacturer (the manufacture states to be not able to produce the given product in the Czech Republic or substantiates with competitor's price quotations the advantage of the foreign subcontractor over a Czech Manufacturer or, in the case of cost-comparable Manufacturers, explains the qualitative advantage of having the foreign subcontractor, transport cost factor, etc.)
4. in the case of export credit risk insurance in accordance with OECD Consensus, the percentage of local deliveries in the country of the importer if the export is financed from multiple sources, the subdelivery from abroad shall meet rules given by the Consensus OECD concerning local costs as mentioned in par. 7.
5. The exception as provided for in par. 9 cannot be granted, if the percentage of delivered goods and services of Czech origin in the total deliveries in accordance with the Export Contract or Contract for Export of Services is lower than 20 % of the export value.
6. The decision on granting the exception of reduced Czech percentage is always made by the EGAP Board of Directors, at the latest at the moment of approving the insurance or prior to the approval as the case may be, if the EGAP Board of Directors is not the approving body. In making decision, the EGAP Board of Directors takes into consideration especially as follows:
7. whether it is a significant reference contract;
8. whether it is an Exporter or Manufacturer having history of a higher number of insured business cases, where have occurred no problems with observance of declared Czech percentage,
9. whether foreign subcontractors in opposite to Czech subcontractors, give objective advantages in the form of lower price or significantly higher quality,
10. whether the case from the point of view of EGAP is regarded as entailing lower or higher risk (debtor's solvency, territorial risks, industry, business case structure complexity, quality of reinsurance, etc.),
11. whether the generally lower Czech percentage is partially compensated with export of goods and services of high value added (such as designing, assembly supervision, specialised Manufacturer, etc.,
12. whether it is possible to substantiate with documents that one or more foreign subcontractors buy significant volume of goods or services from other Czech companies,
13. the aspect of industry, when for different types of deliveries (technological equipment and investment units, infrastructure projects, developer projects, etc.) objectively different extent of local costs spent on civil works and purchase of materials that cannot be exported from the Czech Republic from the point of view of transport costs,
14. If export or production for export does not meet either required Czech content criterion and criteria of granting exclusion under pars. 9 through 11, the insurance with state support is not granted.
15. If after conclusion of the insurance contract or Contract Governing Relations with the Exporter (possibly the Exporter's Statement of the Export content), during the fulfilment of the Export Contract or the Contract for Production for Export, the Czech  content drops below the minimum extent stipulated in pars. 1 and 4 or pars. 9 through 11, the Exporter or Manufacturer are required to notify without unnecessary delay EGAP of such change, state the reasons and apply for exception.
16. If, in accordance as provided for in pars. 9 through 11, the EGAP Board of Directors approves the exception of decreased Czech  content, the insurance cover for the given business case or respective insurance contract will be modified so that the insurance cover calculated in the usual way (depending on the extent of insured risks, assessment of nature and risk level of the respective business case, length including the drawing as well as redemption, and the participation amount) shall be, depending on the percentage of the approved exception of decreased Czech  content ranging between 50 to 20 % increased linearly by up to 30 % of the insurance premium calculated in the usual way (in the case of approved exception of Czech  content of 20 %).
17. Insurance premium discounts granted under Order No. 153 up to the maximum amount of 35 %, in the cases of transfer of yields or debts arising from the Export Contract, securing by assets, securing by fixed asset or conditional account, can only be granted when the Czech content exceeds 50 %. Besides the assessment of quality of securing instruments, also the degree of excess in the Czech content above the minimum percentage, which is 50 %, shall be taken into consideration, aiming at granting the Czech percentage maximization bonus. With regard to the necessary notification in accordance with OECD Concensus2, these discounts shall be approved by the EGAP's Board of Directors as part of the insurance approval or prior to the approval as the case may be, if the EGAP's Board of Directors is not the approving body3, and so only in exceptional cases meeting the Czech national interest criteria as mentioned in par. 4.
18. In the case of 20 % excess of the minimum level of the Czech  content (50 %) and on the basis of EGAP's positive previous experience with the respective Exporter or Manufacturer, that is in the course of recent 5 years at least there was not a single business case, in which the respective Exporter or Manufacturer would have been one of parties, with an insurance event, considerable delay with business case realization, credit insurance redemption problems, problems to fulfil declared Czech  content, etc., the Insuree can be offered with increased percentage of insurance cover, and that is by 1 % in the case of reaching the Czech  content of 70 % and further by 1% insurance cover per each 10 % of the Czech  content above the level of 70 %.

### Sanctions and measures

1. The EGAP's Board of Directors is entitled, if after the conclusion of insurance contract:

a) declared Czech  content is not fulfilled, that is the Exporter of Manufacturer provided false information in the Statement of the Export content and in the insurance contract or the Contract Governing Relations with the Exporter/Manufacturer or

b) in the course of realization of the export contract or contract for production for export the Czech content dropped below the limit stated in the Statement of the Export content and in the insurance contract or the Contract Governing Relations with the Exporter/Manufacturer by more than 5 %, and the Exporter or Manufacturer did not inform EGAP and did not apply for exception, or

c) the Exporter or Manufacturer does not fulfil their notification duties concerning the actual fulfilment of Czech  content,

decide to apply some of the following measures against the Exporter or Manufacturer:

1. make conditions (such as notification duty or assessment of possibility of granting exception of decreased Czech  content) for new business cases in which one of parties is the respective Exporter or manufacture more restrictive,
2. refusal of granting further export credit risk insurance for new business cases in which the respective Exporter or manufacture is one of parties.

### Demonstration of the Czech content

1. At the latest at the stage of final assessment of granting the insurance, the Exporter or Manufacturer or, where the Exporter or Manufacturer is not the applicant for insurance, through an applicant for insurance with exception as provided for in part V, par. 1, letter iii), shall submit:

a) structured overview of price calculation of the export contract or contract for production for export, clearly indicating the following categories (perhaps further itemized for the purpose of usefulness):

1. own goods and services of the Exporter or Manufacturer including profit margin,
2. Czech subdeliveries of goods and services,
3. deliveries from third countries improved in in the Czech Republic,
4. deliveries from the third countries,
5. local costs,

Part of which shall be calculation of the Czech content of the export value or the value of production for export.

b) overview of known and prospective main the subcontractors including estimated price of their subdeliveries. Where subcontractors are not known, a list of potential subcontractors or indication of where Czech or foreign subcontractor is expected.

In case that the assessment of Czech content at the first subcontractor level is does not provide sufficient information (for example, foreign subcontractors at the first subcontractor level have Czech subcontractors), the Exporter or Manufacturer or the applicant for insurance, if the Exporter or Manufacturer is not the applicant for insurance, can be asked to submit an overview of such further subcontractors and the Czech content shall be assessed at the second subcontractor level.

For subdeliveries of goods or services with declared Czech origin, the Exporter or Manufacturer shall indicate and confirm the respective Czech subcontractor.

For foreign subdeliveries that are declared as Czech based on their value improvement in the Czech Republic, the Exporter of Manufacturer shall provide a brief material description of the way of improvement including a price calculation.

2. Input information under par. 1 shall be assessed by respective Trader which as need be may ask the Exporter or Manufacturer to provide additional explanation including presentation of overview mentioned in par. 1 or if necessary and at the cost of applicant for insurance or Exporter or Manufacturer the opinion of an Inspection Company or independent expert.

### Monitoring and assessment of the Czech content

1. Depending on the nature of business case (volume, length, type of insurance, project financing, etc.), the insurance decision and the insurance contract or the Contract Governing Relations with the Exporter/Manufacturer shall define a process of further monitoring of the Czech  content fulfilment by the Exporter:
2. insurance contracts with MPH over CZK 500 mil. and all types of insurance of Transactions require update of structured overview of price calculation of costs as mentioned in part IV, par. 1 at Regular Reporting intervals as provided for in the special internal procedure, including additional information about contractual provisions for subdeliveries to be submitted to the Inspection Company, which shall also carry a regular physical audit of the progress of the business case on site or at the place of production for export,
3. insurance contracts with MPH over CZK 100 mil. and below CZK 500 mil. only require update of the structured cost price calculation overview as mentioned in part IV, par. 1 in the case that so is set out in the insurance decision or on the basis of doubts on the part of EGAP regarding actual fulfilment of declared Czech content level and on the basis of decision to change the insurance terms and conditions or decision within the business case administration process3,4. Unless otherwise stated in the insurance decision, no certificate issued by the Inspection Company is required in the possible update of the mentioned overview.
4. insurance contracts with MPH up to CZK 100 mil. only require confirmation by the Exporter or Manufacturer of the expected Czech content in the form of Statement of Export content. This Statement needs to be completed with the structured cost price calculation overview as mentioned in part IV, par. 1 or its update in the course of implementation of the business case only in the case that so is set out in the insurance decision or on the basis of doubts on the part of EGAP regarding actual fulfilment of declared Czech content level and on the basis of decision to change the insurance terms and conditions or decision within the business case administration process3,4.

The placement of contract with the Inspection Company with its contents based on EGAP's request shall be arranged by the Exporter/manufacture, the applicant for insurance or insuree, provided that this duty shall be mentioned in the contract.

**Definitions and Abbreviations**

For the purposes of this Order, the following shall be defined:

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| **Czech Content** | The ratio of value of goods and services generated in the Czech Republic to the export/production for export value |
| **Czech Subcontractor** | A legal entity or physical person based or with permanent residence respectively in the Czech Republic. |
| **Export Contract Value** | A value defined in compliance with OECD Consensus as a total amount which is to be paid by the buyer (importer) or on behalf of the buyer (importer) for exported goods or services and reduced by local costs. |
| **Export Value** | price concluded in the export contract as provided for in Act No. 58/1995 Coll. An EPC contract is also regarded to be an export contract. |
| **Local Costs** | A value defined in compliance with OECD Consensus as expenses for goods and services in the country of buyer that are necessary for fulfilment of an export contract or for completion of a project associated with the export contract. Local Costs do not include the commission of the Exporter's commercial representative in the country of buyer. |
| **MPH** | Maximum insurance value. |
| **Statement on Export Content** | The statement of an Exporter or Manufacturer on the Czech content in relation to the export value in the form approved by the Board. |
| **Contract Governing Relations between the Exporter/Manufacturer\*\*** | A contract concluded by and between EGAP and the Exporter/Manufacture, which defines notification duties of the Exporter in relation to the fulfilment of Czech content and further associated obligations as approved by the Board of Directors. |
| **Manufacturer** | Entity which produces goods or renders services intended for export as specified in Act No. 58/1995 Sb. |
| **Exporter** | 1. A legal entity or physical person based or with permanent residence respectively in the Czech Republic or its organisation unit abroad or 2. a foreign company   as specified in Act No. 58/1995 Sb. |
| **Foreign Company** | A legal entity based abroad, controlled by a legal entity based in the Czech Republic, which is entrepreneur in accordance with the Commercial Code and which controls the Foreign Company through a direct or indirect share of more than50 % in its registered capital or controls that absolute majority of rights of vote associated with share in the registered capital of the Foreign Company or is entitled to appoint the majority of board members, members of supervisory board or other similar top authority of the company. |

\*For the purpose of better orientation in the text of document, defined terms and abbreviations may have initials in capital letters..

\*\* A valid alternative of the Contract Governing Relations with the Exporter is the Statement on content

The other terms and abbreviations used, but not defined in this Order, are defined in other Internal Procedures, Legal Regulations of in the List of Abbreviations and Definitions. Internal Procedures mean internal procedures of EGAP.