

DEFENSE AND SECURITY MARKET REPORT: CZECH REPUBLIC

JUNE 2018

HISTORY AND OVERVIEW: CZECH REPUBLIC

- Czech Republic is one of the safest/most peaceful countries
- 1999: Warsaw Pact → NATO Membership
- Army of the Czech Republic (ACR) active with EU forces since 2004
- Rising Threats:
 - Russian expansion into Ukraine
 - Migration Crisis from Africa
 - Terrorism / Organized Crime
 - Cyber Threats
 - Corruption
- Critical Infrastructure:
 - Soft Targets
 - Airports
 - Nuclear Power Plants
 - Dams
 - Pipelines
 - Refineries

GOVERNING BODIES AND INSTITUTIONS

Defense and Military

- Ministry of Defense (MoD)
- General Staff of the Army
- Army of the Czech Republic (ACR)
- Air Force
- Ground/Special Forces
- Electronic Warfare Battalion
- CBRN Defense
- Military Police

Homeland Security

- Ministry of Interior
- Security Information Service (BIS)
- National Police of the Czech Republic
- Rapid Deployment Unit
- Municipal Police

MILITARY BUDGET AND SPENDING

- NATO Requirements:
 - Defense Expenditure: 2% of GDP
 - Equipment Expenditure: 20% of Defense Budget
- Czech Expenditures:
 - 2017 MoD Budget: USD\$2.15 billion; 1% of GDP
 - 2017 Equipment: USD\$245.5 million; 12% of MoD budget
- 2016-2025 Action Plan Estimates:
 - MoD: rise up to 1.4% per yr.; reach 2% of GDP by 2025
 - Specific expansion areas: Heavy-armored infantry combat vehicles, helicopters, artillery, light-armored vehicles, radar, UAVs, uniforms

Alternative Funding of Military Procurement

- NATO Funding
- EU Funding
- FMF Program – US Foreign Military Financing
- VOP CZ – Enterprise for G2G contracts. State-owned and controlled by MoD

MODERNIZATION AND ARMAMENT STRATEGY

The MoD declared to spend over USD\$6.7 billion by 2026 on army modernization projects. Several key projects have already been announced:

- Heavy armored infantry combat vehicles
 - Expected to be the largest army contract ever
- 12 multirole helicopters
 - The plan is to approach at least 3 suppliers
- 52 new howitzers
 - Replacing the aging Dana howitzers is a priority for the army
- 80 light armored Iveco-based vehicles for anti-chemical units
 - The vehicles will have advanced automatic sensors for combat substances but will also be able to measure industrial pollutants

HOMELAND SECURITY BUDGET

- National Security = 75-80% of MoI budget
 - Spending on the rise due to the migration crisis and to improve terrorism prevention
 - Largest portion of national security spending goes to Police (USD\$1.4 billion in 2017)
- BIS – Security and information service
 - Employs 300-500 people
 - Budget: USD\$48.5 million
- Police of Czech Republic
 - Budget: USD\$909 million on salaries (majority)
 - USD\$77.2 million available for modernization/tech
- Municipal Police:
 - Budget of Prague City Police: USD\$75 million

DOMESTIC, REGIONAL AND INTERNATIONAL THREATS

Organized Crime

- Most serious non-military threat to national security
- Most dangerous organized criminal groups reached an advanced stage where they use fraud instead of violence

Terrorism

- The MoI dedicates maximum priority to its readiness and prevention of potential terrorist threats

Civil Aviation Safety

- Protection of civil aviation is a priority area for monitoring, primarily because it is a permanent target area for terrorists in the long run

Cyber Threats

- Cyber threats and IT crimes occur in a wide range from cyber espionage, hacking and DDoS attacks to increasingly frequent internet fraud

Extremism

- Due to violence, the Ministry assigned extremism with the highest security priority

PHYSICAL AND CYBER SECURITY

- Czech Republic is one of the safest/most peaceful countries
- Rise in number of security cameras/surveillance technology across the country
- Cyber, CR is forerunner in Central and Eastern Europe
 - IT Security Pioneers, AVAST and AVG Technologies
 - Security required as part of Cyber Security ACT of 2015
 - AND GDPR (general data protection regulation)
- Key Public Body: National Cyber and Information Security Agency
 - National Center of Cyber Forces Budget: USD\$15 million

PUBLIC PROCUREMENT SYSTEM

General Aim of Legislation:

- Provide conformity with the law of the EU
- Set clear rules to prevent corruption, guarantee effective use of public funds, realization of needed projects, and fair competition of bidders
- Reduce administrative burdens and ensure a sufficient level of transparency

Public Procurement Based on expected size of contract:

1. Small-scale: under CZK 2m / 6m for construction
2. Under-threshold: over CZK 2m / 6m for construction
3. Above-threshold:
 - Over CZK 3.686m for governmental orgs
 - Over CZK 5.706m for non-profits
 - Over CZK 11.413m for state-owned suppliers
 - Over CZK 142.688m for construction

Defense and Security Related Procedures:

1. Simplified Under-threshold Procedure
2. Restricted Procedure
3. Negotiated Procedure with Publishing
4. Negotiated Procedure without Publishing
5. Competitive Dialogue

ENTERING THE CZECH MARKET

- Good opportunities exists in **high-end, advanced technological products** to meet needs of Army, Police, or Private Sector
- Member of EU, WTO, and OECD – group regulations and national regulations apply
- Gain access through following channels:
 - Direct Exports
 - Local distributors (best for SMEs)
 - Local subsidiaries
 - Acquisition of local companies
 - Regional Sales Agent

Key Considerations:

- Having a native/Czech speaker is a major advantage
- GDPR – unsolicited emails is no longer allowed
- EasyLink Business Services, the VEDP consultant in Central and Eastern Europe can assist with identifying and contacting potential partners