
**Raising awareness of CSR instruments and building capacity in CSOs and Trade
Unions in selected new member states**

CSR convergence monitoring

**Case study report:
LG.Philips Displays Czech Republic Ltd.**

Czech Republic, September 2006

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The Environmental Law Service - Ekologický právní servis

1. Description of the company

1.1. Company name

LG.Philips Displays Czech Republic s.r.o. (Ltd.) - (hereinafter "LG.Philips").

1.2. Is this a subsidiary company? If yes, what is the name of the controlling company?

LG.Philips is a joint venture of two multinational companies: "Korean" LG Electronics (hereinafter "LG") and "Dutch" Koninklijke (Royal) Philips Electronics (hereinafter "Philips").

1.3. Who owns the company?

According to Czech company register: LG.Philips Displays Holding B.V. (with its business share of 96%) and LG.Philips Displays Investment B.V. (with its business share of 4%) .

1.4. Is this company a contractor, subcontractor, supplier, licensee or distributor of a transnational corporation?

Please, fill this section in case the company that is object of this questionnaire is not a transnational company itself

1.5. Subject of company's business

Manufacturing Production of large Cathode Ray Tubes (CRT's) for the television industry.

2. Positive or negative company behavior

Please mark one of the two possibilities according to what the case is about. In the event of the company's pro-active implementation of CSR and behaviour in compliance with the law, select "positive". In the opposite case, please select negative.

☐ positive

☒ negative

2.1. In the event that you ticked "positive", please describe, what kind of positive impact the company has.

2.2. In the event that you ticked "negative", please describe what kind of negative impact the company has.

The multinational LG.Philips company has benefited from the permits issued illegally by the state offices, thereby confirming the unfortunate phenomenon, when Czech state bodies, face to face with large foreign investments, accommodate this multinational corporation at the cost of breaching the law, instead of defending the interests of their citizens.

The serious accident prevention programme for LG.Philips, in which the risks of occurrence of a serious accident and its possible consequences on the surrounding area must be thoroughly assessed, was approved not before commencement of manufacture (September 2001) but more than 2 years later (January 2004) in conflict with the law.

The LG.Philips factory had problems with leakage of dangerous substances into the Bečva River and the Velička stream. Fines were repeatedly imposed on the company for breach of the Atmosphere Protection Act, the Waste Act and laws in the area of wastewater discharge.

Following the bankruptcy of the controlling LG.Philips Displays Holding in January 2006 the factory in Hranice must be sold soon. Other possible negative consequences related to this (for example dismissal of approx. 1200 employees) are not clear yet.¹

LG.Philips did not fulfil the conditions, which were the basis for the investment incentives it received from the government, because out of the promised 3250 workers it only employed approx. 1200 persons, similarly it subsequently did not re-qualify at least 2000 of its employees. Some of the provided incentives should therefore be returned. However the above-mentioned appears to be problematic because all assets have been mortgaged and furthermore this concerns a limited liability company. On 04/09/2006 LG.Philips creditors approved a settlement, proposed by the factory in Hranice, this being that LG.Philips would pay 30% of their receivables, which the creditors applied in a total of 7.38 milliard crowns.² Consequently the state will recover a maximum of 30%.

3. Geographic dimension

☒ local ☒ regional ☒ state-wide
☐ international ☒ EU-wide

4. Short description of the case

Briefly describe what the core issue of the case. The text should not have more than 1200 characters including spaces.

One of the largest foreign “green field” investments in the Czech Republic at the turn of the millennium was construction of the LG.Philips Displays Colour Monitors Plant in Hranice. Construction of the plant took place very quickly, but in conflict with the law the risks of occurrence of serious accidents were not assessed before production commenced. The plant subsequently started to fulfil some of its statutory obligations after it was indirectly forced to do so by the activities of the Environmental Law Service GARDE programme.

During the proceedings for issue of an integrated permit LG.Philips did not have its whole technological centre assessed. The permit was then cancelled by a court on the basis of a complaint. However on issue of a new permit LG.Philips did not react to the demand by GARDE-EPS and refused comprehensive assessment of its production complex.

LG.Philips received investment incentives from the Czech government in the value of approx. 1.6 milliard CZK. The planned development of the plant did not take place and in conflict with the

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- 1 At the present time LG.Philips states that within the scope of restructuring and in compliance with the principles of settlement, entry of a new strategic investor is planned at the turn of 2006/2007. This investor should continue to develop the production complex in Hranice and has taken on all employees. At the present time LG.Philips is directing negotiations with approximately 25 potential interested parties. See <http://www.lgpd.cz/index.php?menu=68>
- 2 see for example articles dated 05/09/2006: “LG.Philips Displays creditors approved the proposal for settlement”: http://www.novinky.cz/ekonomika/veritele-lg-philips-displays-odsouhlasili-navrh-na-vyrovnani_94884_7lvh8.html
or “LG.Philips will return one third of the incentives to the state”:
<http://aktualne.centrum.cz/ekonomika/cesko-a-ekonomika/clanek.phtml?id=230208>

conditions of the Contract for Provision of Investment Incentives L.G. Phillips employed less than half of the promised 3250 employees.

In January 2006 the LG.Philips Displays Holding B.V. controlling company was forced to file a petition in bankruptcy. In spite of the fact that the LG.Philips concern is successfully developing its LCD division, the Czech plant will not be converted to production of LCD monitors. To satisfy creditors it will be necessary to sell the plant and instead of this LG will establish a new LCD factory in Poland.

5. Company CSR policy

Please write all CSR policy that the company officially claims to fulfill.

5.1. What does the company state? (for example: Has the company adopted a code of conduct)

Environment Protection in LG.Philips Displays Czech Republic³

Environmental protection and permanent lowering of the negative effects of the production activities, as well as of products and services on the environment, continuously belong to the highest priorities of the company. LG.Philips Displays Czech Republic considers the ecological approach together with the economical and social aspect to be the basic conditions of the permanently manageable development, which is perceived by the company as the optimal balance between protection of the environment and economic development. In its approach to the environmental protection LG.Philips Displays Company's policy consists mainly of preventing the occurrence of negative effects on the environment and of the provision of the standard of the environmental care on the level of well-developed countries. The Technology Center has a modern generation of energies, lowering of the emissions into the air, drainage system and cleaning of wastewater and waste disposal.

LG.Philips Displays Czech Republic s.r.o. is aware of its responsibility characterized by careful use of natural resources, by the prevention of pollution and by lowering of the negative effects on the environment. Therefore in 2004 it introduced the Environment Protection Management System in compliance with the international standard ISO 14001, which was certified by TÜV Rheinland Company. The main aim is to minimize the negative effects on the environment, which, above all, includes reduction of polluting emissions into the air, the amount and pollution of released wastewater and reduction of waste production. In order to achieve the goals of EMS, in 2005 (compared to 2004) the chemical consumption per one tube was decreased by 2%, energy consumption was decreased by 8%, material consumption was decreased by 2% and waste production was decreased by 27%.

The employees of LG.Philips Displays Czech Republic acknowledge the rules of the permanently manageable development and they commit to fulfill the **environment policy** items as follow:⁴

- It is the minimal goal to fulfill the requirements of the valid laws, instructions and other requirements of the bodies of state administration, which relate to the protection of the environment, work safety and fire prevention.
- To prevent the pollution of the environment and apply the prevention procedures in the protection of the environment
- To lower the pollution of the environment and improve the work environment

³ excerpt from the declarations on the LG.Philips website: <http://www.lgpd.cz/index.php?menu=52&jazyk=en>

⁴ excerpt from the declarations on the LG.Philips website: <http://www.lgpd.cz/index.php?menu=53&jazyk=en>

- To target the employees training to the enforcement of the awareness of the relation to the environment
- To inform the employees and the public about the effect of its activities on the environment
- To regularly evaluate the importance of aspects and the effectiveness of the realized environmental programs for lowering the negative effects on the environment
- When selecting suppliers, take into account their relationship to the environment

Declaration on the Serious Breakdown Prevention Policy⁵

Management of LG.Philips Displays Czech Republic s.r.o. is fully aware of importance of industrial breakdown prevention. Therefore within its manufacturing management the Company investigates all possible safety risks related to the manufacturing activities, evaluates its potential effect on community, employees, environment and property and implements such measures that minimize the extent of possible impact to the acceptable level.

5.2. What does the mother company state?

5.2.1. On its international⁶ web pages LG.Philips Displays International Ltd. also gives its “Code of Conduct“. However this code is not given on the web pages of its Czech branch, which also do not contain any reference to it.

Code of Conduct Statement

Introduction

Our Code of Conduct, adopted and approved by the Executive Board of LG.Philips Displays (LPD), outlines our guidelines for corporate actions and employee behaviour. This is the minimum set of standards of conduct for all LPD employees worldwide. Delegated management may consider specifying additional, but not contrary, local rules of business conduct.

While the Code provides a broad range of guidance on the standards of integrity and business conduct, no code can address every situation that individuals are likely to encounter. This Code is not a substitute for our responsibility and accountability to exercise good judgement and obtain guidance on proper business conduct from appropriate authorities within our organization.

1. General Principles

As a global industry leader, LPD and its employees accept the responsibility to pursue mutual benefits with our shareholders, customers, suppliers, fellow employees, and the communities where we are located. We recognize the importance of upholding the principles of honesty, fairness, and the responsibilities incumbent on an outstanding member of society. We run our business according to F.A.S.T. (Focus, Accountability, Speed, Teamwork) values and behavioural standards and we respect cultural differences. We comply with the laws and regulations of the countries where we conduct our operations.

2. Commitment towards our Business Partners and the Society in general

- 1) We respect the ethical values of the international business community in which we operate, reflected in our behaviour as an organization and in the behaviour of our employees. We observe applicable laws and regulations in the countries where LPD is located.
- 2) We respect the rights of members of the communities where we operate, and are committed to the preservation of our operating environments.

⁵ excerpt from the declarations on the LG.Philips website: <http://www.lgpd.cz/index.php?menu=54&jazyk=en>

⁶ see the web pages of the LG.Philips Displays concern: <http://www.lgphilips-displays.com/english/corpinfo/conduct.htm>

- 3) LPD values the opinions of our customers, who are the foundation of our business. We seek to secure unconditional trust from our customers by consistently providing them with unbeatable value propositions. We strive for the highest standards of product quality and safety.
- 4) We conduct business in a spirit of fair competition. We select our business partners based on the value they bring to our organization and our customers.
- 5) We protect the interests of stakeholders by pursuing business opportunities that add value to our organization, and by avoiding unnecessary or excessive business risks.

3. Commitment towards Employees

- 1) Our employees are our most important assets. Employees are treated fairly, with equal opportunities based on abilities and performance, regardless of personal background or belief. No form of discrimination or harassment is tolerated in LPD.
- 2) LPD strives to foster a reputable organizational culture that promotes mutual trust, understanding, and respect for culture and value differences.
- 3) We are committed to providing a safe and healthy workplace for our employees.

4. Commitment of Employees

- 1) LPD employees are committed to protect our organization's reputation, by complying fully with our Code of Conduct and authorized corporate policies, and supporting our business guidelines.
- 2) To protect the value we provide to customers and other stakeholders, employee's business decisions should always be in the best interests of LPD.
- 3) LPD's assets, physical and intangible, are to be used only for legitimate business purposes.
- 4) Confidential information is to be kept secure, and not shared internally or externally outside an employee's specific authority.
- 5) The integrity of business information should be protected. Employees must always ensure accuracy and completeness when preparing and sharing business information.
- 6) Deliberately distorted or false statements that undermine the reputation of individuals or of the organization are not tolerated.
- 7) LPD employees are encouraged to participate in activities valuable to the community, unless such participation is inconsistent with their duties as LPD staff.

5. Compliance with the Code of Conduct

Each LPD employee has an obligation to know and understand not only the guidelines contained in the Code, but also the values on which they are based. By signing the Letter of Acknowledgement on the Code of Conduct, we accept to comply with this Code. As individuals, we are encouraged to raise any issues and concerns through appropriate channels.

Compliance with LPD's Code of Conduct is mandatory for all employees, and should be clearly communicated to contractors and others representing LPD in business. Non-compliances are subject to disciplinary actions, which can include dismissal for serious offences. LPD reserves the right to report actual or apparent criminal matters to appropriate law enforcement authorities.

Disciplinary action is applicable to breaches of the Code of Conduct and the supporting Practice Guidelines. The appropriate action in relation to a breach is generally determined by the next-level or higher management of the employee responsible for the breach, in consultation with Human Resources management.

Corporate Internal Audit supports the Executive Board in monitoring compliance with the Code.

6. Structures for addressing known violations of the Code of Conduct

Known violations of the Code of Conduct can generally be made to your Direct Manager or to a local Human Resources Manager.

7. Queries and Guidance

In case of queries on the Code of Conduct, we are encouraged to seek advice from the next-level manager and/or Human Resources manager on site or the Corporate Human Resources in Hong Kong. Common sense should prevail, and the rights and responsibilities of local management should also be carefully considered prior to escalating issues to Corporate Headquarters.

5.2.2. On its web pages the first of the Controlling companies, Phillips, devotes extensive space to the sphere of sustainability (<http://www.philips.com/about/sustainability/Index.html>). In the Czech language version it only offers limited information, in the English version we can find complete information including reports to download.

In its Sustainability report dating from 2004 Phillips states:

„We have incorporated standards into our management systems based on our strategy, stakeholder concerns and relevance to our business. These tools provide a necessary framework in the emerging area of non-financial reporting. To help us drive our sustainability performance, we have chosen the following tools: Global Reporting Initiative (GRI) Sustainability Reporting Guidelines, International Labour Organization (ILO) Core Conventions, ISO 14001 and International Standard on Assurance Engagements (ISAE 3000).”

5.2.3. The other controlling company, LG Electronics, does not offer any information about sustainability (<http://www.lge.com/index.jhtml>) or CSR on its web pages. However on its individual national pages (for example Austria,⁷ Belgium,⁸ Canada,⁹ Germany,¹⁰) we can find certain declarations within the scope of CSR, but not on the Czech pages. This version is noticeably poorer and only contains a link to sporting and social sponsorship¹¹, which however consists expressly of articles written in English (for example about the gift of 1 million CZK to the Foundation fund of the Klaus couple).

In its environmental report dating from 2004 LG states:

“The executives and employees of LG are of one mind in making LG one of the most environmentally conscious and responsible business groups in the world.

1. LG gives a top priority to environment, safety and health issues in every step of managerial activities and takes these as opportunities to create value for the customer.
2. LG establishes and complies with its own strict environmental, safety, and health standards based on rules and regulation of the region in which it conducts business.
3. LG regularly audits and publicizes its performance of environmental, safety, and health policies.
4. The executives and employees of LG actively take part in conserving the local environment as part of its social responsibility to conserve the global environment.”

6. Breach of CSR policy

In case you ticked off “positive” at question number 2. of this form, please jump to the question number 11. of this form

6.1. Does company breach its own CSR policy?

Please, be specific. Make a list and describe the reason why the company is breaching the CSR policy.

7 see: http://at.lge.com/experience/social_commitment/community.jsp

8 see: http://be.lge.com/ne/experience/social_commitment/shaker.jsp

9 see: http://ca.lge.com/en/experience/social_commitment/commitment.jsp

10 see: http://de.lge.com/experience/social_commitment/community.jsp

11 see: http://cz.lge.com/experience/social_commitment/community.jsp

LG.Philips breached many of its obligations on the field of CSR. In relation to this it must be said that the statements concerning the company's relationship to environmental protection appeared on its web pages only after GARDE-EPS notified the public and the competent state offices that the LG.Philips plant was operating in conflict with the Major Accident Prevention Act. It was only after this that the "Written declaration of the serious accident prevention policy" appeared on the LG.Philips web pages.¹² Similarly the declaration of support of sustainability principles and of fulfilment of the points of the "environmental policy" by L.G.Phillips.¹³ only appeared after this notification.

LG.Phillips only started to publish information concerning monitoring of the effects of production in the plant on the environment¹⁴ after we gave an impulse to the building authority to check fulfilment of the conditions of the building permit, which LG.Philips did not satisfy in this sphere.

It is necessary to consider the circumstances surrounding bankruptcy of the LG.Philips Displays concern, manufacturing "morally outdated" CRT screens, to be very essential within the scope of the whole case, not just the factory in Hranice belonging to LG.Philips but also the controlling Phillips and LG companies. To satisfy creditors it will also be necessary to sell the Czech branch in Hranice. However its whole registered capital, equalling more than 3.5 milliard CZK, has been pledged to the Hong Kong based JP Morgan bank since 2004. Apparently the controlling companies were well aware at this time of the fundamental problems in demand for CRT screens. However instead of attempting to save the factories for their manufacture, they started up massive production of LCD monitors in their L.G. Phillips LCD division, which is their greatest world producer. The money acquired from the pledged assets of the Czech branch could furthermore serve to develop the LG.Philips LCD division. Consequently production lines for CRT screens will unfortunately not be replaced in Hranice for LCD production lines, even though at least technically, this would be possible, similarly for example to a similar transition in Pilsen, successfully managed by the Panasonic company.¹⁵ Instead of this the multinational Philips and LG companies will build a completely new factory for manufacture of LCDs in Poland, where they will certainly receive substantial investment incentives.

6.2. Have you asked the company to fulfill its CSR provisions?

A direct demand that the LG.Philips company adhere to its declared obligations within the scope of CSR by GARDE-EPS was made during the IPPC process in September 2005. In the demand submitted to the top management of the plant in Hranice, GARDE-EPS stated the following:

"According to "Dow Jones Sustainability Indexes" for 2003 and 2004 the Royal Philips Electronics company was repeatedly identified as a world "leader" in responsible behaviour within the scope of its sector. Even though the LG Electronics company is not judged so positively, it still declares on its web pages that it is focusing on becoming the leading industrial group on the field of environmental protection, safety and protection of health.

Both companies, associated in the joint LG.Philips Displays enterprise enjoy fairly high credit on the field of corporate social responsibility. Both companies have developed a system and rules of social responsibility, including social and environmental responsibility and it is consequently understandable that the Czech public also could and can justifiably expect their fulfilment and sensitive approach when dealing with negative social effects connected with realisation of the investment intention and operation of the L.G.Phillips Colour Monitor Plant in Hranice. On its web pages LG.Philips publicly

12 see the LG.Philips website: <http://www.lgpd.cz/index.php?menu=54>

13 an excerpt from the LG.Philips website: <http://www.lgpd.cz/index.php?menu=53>

14 see the LG.Philips website: <http://www.lgpd.cz/index.php?menu=55>

15 see for example Mladá fronta DNES, 28.1.2006, Zuzana Kubátová, Tomáš Lysoněk – The owners of the factory in Hranice are going bankrupt: *"The Panasonic company also ended production of classic televisions last week in its factory in Pilsen, which now only focuses on production of plasma and LCD televisions. In Hranice they are worse off, they do not have the technology for production the more modern screens at all."*

declares that environmental protection and continuous reduction of the negative effects of production activities are permanently one of the highest priorities of its environmental policy, during which time the minimum target is to fulfil the requirements of the valid laws, orders and other requirements of state administration bodies.

With reference to the facts given in the preceding paragraph and also to the good reputation implied above and the publicly declared obligations of the company, or more precisely the Phillips and LG companies, in the sphere of social responsibility and awareness of the gravity of the situation of operation of the Company's technological centre in conflict with the IPPC Act and its possible further consequences both for LG.Philips and also for the Ministry of the Environment, the Regional Authority or the Czech Republic, we hereby invite the LG.Philips company to actively prevent the occurrence of such a generally unfavourable situation."

LG.Philips reacted to this demand by GARDE-EPS with absolute rejection with the explanation that LG.Philips adheres to the laws of the Czech Republic and respects the decisions by its courts. On the contrary LG.Philips accused GARDE-EPS that it proceeded in conflict with the law, when it stated false, incomplete, imprecise and misleading information about LG.Philips and the course of the IPPC proceeding (more with regard to the legal aspects of the IPPC proceeding in point 9.2.3).

7. Breach of OECD Guidelines

7.1. Does the company breach OECD Guidelines for Multinational Enterprises?

Yes, it does.

7.2. What article was breached?

Article III, paragraph 3, point e) and f) (Disclosure): Enterprises should also disclose material information on e) Material foreseeable risk factors. f) Material issues regarding employees and other stakeholders.

Article IV, paragraph 3 (Employment and Industrial Relations): Provide information to employees and their representatives which enables them to obtain a true and fair view of the performance of the entity or, where appropriate, the enterprise as a whole.

Article V, paragraph 1, 2 and 5 (Environment):

- 1) Establish and maintain a system of environmental management appropriate to the enterprise.
- 2) Taking into account concerns about cost, business confidentiality, and the protection of intellectual property rights: a) Provide the public and employees with adequate and timely information on the potential environment, health and safety impacts of the activities of the enterprise, which could include reporting on progress in improving environmental performance; and b) Engage in adequate and timely communication and consultation with the communities directly affected by the environmental, health and safety policies of the enterprise and by their implementation.
- 5) Maintain contingency plans for preventing, mitigating, and controlling serious environmental and health damage from their operations, including accidents and emergencies; and mechanisms for immediate reporting to the competent authorities.

7.3. Did you file a complaint to the National Contact Point?

No, GARDE-ELS didn't file a complaint to the Czech NCP.

7.4. Do CSOs in your country know about existence of National Contact Point?

Yes, they know, but just a little bit. This Project strives to promote the common knowledge of the Guidelines among the wider public, CSOs included.

7.5. Does the National Contact Point have a web site?

The Czech NCP doesn't have its particular website but it publishes information on the Czech Ministry of Finance's website, because the Czech NCP is a part of the ministerial structure.¹⁶

7.6. In case of positive answer to previous question, please make list the information published on the National Contact Point web site.

- OECD Guidelines' text
- Reports on the work of the Czech National Contact Point (2002-2004)
- Reports on the work of other OECD countries' NCPs
- Contacts and Links to other OECD related topics

7.7. Have you asked the company to respect OECD Guidelines?

No, we haven't.

8. UN Global Compact

Please, be specific. Make a list of how the company is breaching the UN Global Compact.

8.1. Does the company or it's controlling company support the UN Global Compact? meaning: is listed as a company supporting the UN Global Compact?

Neither LG.Phillips or any of its controlling companies, Phillips or LG, are members of the UN Global Compact.

8.2. Does the company breach the UN Global Compact?

Yes, there is a conflict with principles 7 and 8 of the UN Global Compact. (for further information see above)

9. Legal aspects of the case

9.1. Is there any breach of national law?

9.1.1. The speed at which all the required permits for LG.Philips were issued was absolutely exceptional:

¹⁶ Please see: http://www.mfcr.cz/cps/rde/xchg/mfcr/hs.xsl/meo_oecd.html#NKM (in Czech only)

- EIA proceedings were commenced at the end of April 2000 and concluded on 16 June 2000
- Territorial zoning and planning proceedings were commenced in May 2000 and concluded on 23 June 2000
- Building permit proceedings were commenced in June 2000 and concluded on 16 August 2000
- In September 2001 LG.Philips ceremonially started its production

It cannot be reasonably expected that such permits for e.g. a small family house could be obtained within such a short period of time; proceedings concerning projects of this size and importance usually take more than one year and frequently even several years. Since the LG.Philips's plant was subject to the Act on the Prevention of Serious Accidents, the company was obligated to meet the requirements of the Act, i.e. to start proceedings on the approval of the prevention programme already during the stage of the zoning and planning proceedings. However, compliance with the obligations imposed by the PZH Law could lead a substantial delay (possibly of several years), which was undesirable for LG.Philips and other involved entities (the town of Hranice, etc.).

Already the foregoing outline shows that there was an enormous political interest to enable LG.Philips, which selected the Czech Republic as the place of its investment and, thus, was supported with milliard-value investment incentives via governmental resolutions, to start its investments and subsequently production in the Czech Republic within the shortest possible time.

The town of Hranice was the proprietor of the industrial zone and, at the same time, officials of its Building Office issued authorisations for the zone, in particular for LG.Philips. This is a classical example of system bias, when municipality's employees decide on a request submitted by the municipality. Even in incomparably smaller cases the courts have stated that officials cannot in any case be considered unbiased due to their direct dependence on their employer, i.e. municipality. Let alone where the municipality has an absolutely clear political, economic, and social interest in the result of the proceedings: construction of the zone and LG.Philips.

The town of Hranice started building the industrial zone for a single investor. During the preparation of the construction it violated the Act on Awarding Public Contracts (see Journal of the Supreme Audit Office 2002, Volume 2, pp. 78-93, 01/26 – Subsidies Granted from the State Budget to Fund Industrial Zones).

That pressure, combined with other circumstances, led to an unlawful issue of the zoning and planning decision, building permit, etc. even though basic obligations in the area of prevention of serious accidents and Building Law were not complied with or were violated.

9.1.2. Specific legal problems connected with promoting investments by LG.Phillips in the Czech Republic:

- In September 2001 LG.Phillips illegally commenced operation, without approval of a prevention programme by the Regional authority, consequently the risk of occurrence of a serious accident and its possible consequences on the surrounding area were not thoroughly assessed. The programme was only finally and conclusively approved in January 2004 (more information with regard to this in point 9.2.1.).
- The territorial zoning and planning decision and subsequent building permit issued in 2000 were issued unlawfully thanks to the absence of approval of the prevention programme.
- LG.Philips also lacked statutory insurance for damages incurred as a result of serious accident, which it was required to arrange before putting its factory into trial operation according to the PZH Law.
- During the proceeding for issue of a so-called integrated permit (IPPC), LG.Phillips did not have its technological centre assessed as a whole, in conflict with the law, but only selected facilities, the

paint-shop. The permit was then cancelled in April 2005 by the Municipal Court in Prague on the basis of an action by GARDE-EPS. However on issue of a new permit LG.Philips did not react to the demand by GARDE-EPS and refused comprehensive assessment of its production complex (more information in point 9.2.2.).

➤ Following another leakage of toluene from the plant a week-long inspection was performed in LG.Philips at the turn of October and November 2003 by the Czech Environmental Inspection. On the basis of the results of this the Inspection commenced a proceeding to impose a fine for defects according to the Atmosphere Protection Act, Water Protection Act and Wastes Act.

➤ At the beginning of January 2004 GARDE-EPS lawyers lodged a complaint against the officials who permitted the construction and operation of the LG.Philips factory unlawfully. Investigations by the Czech Republic Police was postponed twice, but on the basis of objections by GARDE-EPS the prosecuting attorney ordered that 4 officials, who later on in autumn 2005 had to leave their posts, be accused. In spite of this the investigation was concluded by termination of the criminal prosecution consequently enabling the officials to return to their positions from summer 2006 (more information in point 9.2.3.).

9.2. Are there any legal steps that your organization or any other organization or individual person have done to oppose the unlawful behaviour of the company?

9.2.1. Illegal operation of LG.Philips for reasons of absence of assessment of the risk of a serious accident

GARDE-EPS participated in substantial administrative proceedings:

- Proceedings on the granting of IPPC (Integrated Prevention and Pollution Control) approval;
- Public discussion of the serious accident prevention safety programme (prevention programme)

Within our analysis of materials underlying the IPPC approval and prevention programme we came across a finding that start of the trial operation (10 September 2001) involved a very considerable problem concerning the prevention of serious accidents pursuant to Act No. 353/1991 of the Collection of Laws (“Coll.”), on the prevention of serious accidents (“PZH Law”), as follows:

- Utilisation of the plant (i.e. any – not only permanent – utilisation including trial operation) where large quantities of hazardous chemicals are kept (in LG.Philips e.g. hydrofluoric acid and nitric acid, toluene, and acetone) may not be commenced until the decision on approval of the prevention programme by the competent Regional Authority (in this case Regional Authority of the Olomouc Region) comes into force. The programme is indispensable for the plant’s operation since it must thoroughly consider any risks of occurrence of serious accidents and their potential impacts on the surroundings. However, the Regional Authority had not approved the LG.Philips’ prevention programme at the moment we got involved in the case (the approval process was still in progress);
- In addition, LG.Philips lacked statutory insurance of liability for damage resulting from serious accidents, which it was obligated to take out prior to the start of its trial operation in compliance with the PZH Law.

Within stage one of the LG.Philips case, we carried out the following **legal acts**:

On 16 September 2003, we addressed the Regional Authority of the Olomouc Region, Environmental Department, as the competent body in the area of prevention of serious accidents, with the following issues:

- Initiation of proceedings on prohibition of LG.Philips' operations (Section 25 (4) of the PZH Law)
- Imposition of a sanction for the missing insurance (Section 24 (1) (b)).

The aim of the said submissions was to point out the following circumstances:

- LG.Philips, despite being massively supported with governmental investment incentives, had been manufacturing TV monitors illegally in the Czech Republic for more than two years;
- Officials were either sitting back or directly contributed to the above-described situation;
- Another aim was to force the multinational concern to respect Czech legislation.

On 14 October 2003, the Regional Authority handled our submissions. The contents of the reply letter confirmed that there had been non-compliance in the area of prevention in the past and that the District Authority had acted in contradiction to the PZH Law. On 17 October 2003, we expressed our disapproval of the handling of our submission citing in particular the fact that LG.Philips had not only violated the PZH Law but – what is more important – that it had been acting illegally for several years. Our submission was finally settled on 5 November 2003, when the Regional Authority did not find any reason to impose a penalty on LG.Philips or to prohibit LG.Philips' operations due to its violation of the PZH Law.

Naturally, we published our findings in media through a press release and other communications with journalists. With regard to the significance of our findings and subject matter, the interest of media was quite enormous. Apart from regional newspapers, also top nationwide Czech dailies such as *Hospodářské noviny* (which discussed the case repeatedly and most closely), *MF Dnes*, *Lidové noviny*, *Právo*, brought news and articles about LG.Philips' illegal operation and the case was commented on even by Czech Television and TV Prima in their programmes.

9.2.2. Criminal complaint against the officials who permitted LG.Philips

In January 2004, we submitted a notification to the District Prosecutor's Office in Přerov describing circumstances which implied that an offence pursuant to Section 158 or Section 159 of the Criminal Law (abuse of authority of a public official and frustration of duties of a public official due to negligence) had been committed. The said complaint concerned officials participating in all authorisations issued to LG.Philips, in particular in the area of prevention of serious accidents and in the area of the Building Law.

GARDE-EPS' lawyers were aware that in terms of law this matter is quite difficult to sanction, nevertheless on the basis of a detailed analysis of the case and with regard to the significance of the individual illegalities came to the conclusion that the individual officials grossly violated their legal obligations, enabling LG.Philips to start its production and, thus, generate high (perhaps unlawful) profits, which it would not have been able to gain if it had not received the required authorisations "in time".

The thing is that by law LG.Philips was supposed to submit its prevention programme already when making its request for the issue of a zoning and planning decision, i.e. in May 2000. LG.Philips and state bodies had enough time (from May 2000 to September 2001) to prepare (approve) the programme. It did not happen, though. LG.Philips supplied the programme to the Regional Authority for approval only after having started the trial operation. Moreover, the programme was prepared so poorly that repeated corrections and additions had to be made upon request of the Regional Authority. Undoubtedly, LG.Philips acquired a considerable benefit because if it had complied with the obligations set out in the PZH Law and if the staff of the Building Office and District Authority had

required that compliance in line with applicable legislation, the production could absolutely not be started in September 2001.

The competent state officials had to be clearly aware of the importance of the construction and of the circumstances of their decisions. This was not an ordinary project. On the contrary, it was the largest foreign investment in the Czech Republic of its time where many various institutions such as the Czech Government (which provided milliard-value incentives), territorial self governments (in particular due to the promise of thousands of new jobs), and LG.Philips itself were involved (often materially). However, the responsibility for the approval processes was borne by specific authorities, individual officials of the authorities. They could not escape that (even criminal) liability in any way.

On the basis of the aforesaid facts contained in our complaints we are convinced that

Officials of the District Authority:

- within the zoning and planning (and other) proceedings
- omitted to perform their obligations imposed on the involved state-administration bodies in the area of prevention of accidents (Section 36 (3) and Section 126 (1) of the Building Law)
- omitted to impose on LG.Philips a remedial action (Section 20 (1) (n) of the PZH Law)
- omitted to initiate proceedings on the imposing of a penalty (Section 24 (1) (c) and (d) of the PZH Law)

Officials of the Building Office:

- omitted to call on the District Authority as the involved state-administration body in the area of prevention (Section 36 (1) of the Building Law)
- omitted to call on LG.Philips to supplement their documents (Section 35 (3) of the Building Law)
- omitted to suspend the zoning and planning (and other) proceedings (Section 35 (3) of the Building Law)
- issued zoning and planning decision, building permit, additional building permit, authorisation of trial operation, authorisation of the first and second modification of the construction prior to completion thereof, authorisation of interim utilisation and extension thereof in conflict with the Building Law (Section 36 (1), Section 37 (3), Section 61 (1), Section 62 (3), Section 66, Section 84 of the Building Law)

In complaint GARDE-EPS deduced that officials:

- had failed – deliberately – to comply with their statutory obligations (either with direct or indirect intention);
- had failed to do so in order to enable LG.Philips to go through the authorisation processes as quickly and smoothly as possible;
- the officials had been provably aware, or in their position they had had to be aware, of the obligations of LG.Philips in the area of prevention;
- the officials of both the authorities had acted in agreement in the area in question, since they had not complied with their obligations or, as the case may be, actively violated their obligations even though all of them had known about the obligations imposed on LG.Philips by the PZH Law;
- as a result of the aforesaid, they had provided to LG.Philips illegal profits of a substantial value

The above-listed facts imply that the LG.Philips case could be significantly burdened with political pressures, clientelism or corruption practices.

The Czech Republic Police postponed investigation of the criminal complaint twice, but on the basis of the objection submitted by GARDE-EPS the prosecuting attorney always cancelled its decision. In

July 2005 the Czech Republic Police accused four officials responsible for the authorisation processes for LG.Phillips.

On the basis of the Act on Officials (no. 312/2002 Coll.), these officials were forced to leave their posts. However senator Jílek (KDU-ČSL) proposed in March 2006 that the relevant paragraph (Section 11) be deleted from the act directly because of the LG.Phillips case. The senate accepted his motion to amend, as did the Chamber of Deputies. Apparently the necessity to transfer the official, who was accused of a crime to another job, without it being finally and conclusively decided on his guilt, apparently causes difficulties for these offices and the employees themselves. What if the mentioned provision chiefly protected the public from officials, whose integrity is justifiably doubted, that it should have reinforced the citizen's trust in the independent execution of public administration. Thanks to this amendment to the act the accused officials were able to return to their original workplaces from July 2006.

However they did not have to wait until July, because their prosecution was stopped as early as May 2006, and so they returned to work immediately afterwards. GARDE-EPS was relieved of its status of the injured party by the prosecuting attorney, consequently it was unable to influence the criminal proceedings in any way or file an objection, because the decision to stop prosecution was not delivered to it. According to the last acquired information from the prosecuting attorney, this was to have stated in the mentioned decision that the mentioned employees did not breach the Building Act or the PZH Law. However up until now GARDE-ESP has not yet received a copy of the decision to stop the prosecution, in spite of the fact that it is entitled to receive one.

9.2.3. The illegal integrated permit for LG.Philips

In August LG.Philips acquired an integrated permit from the Regional authority, which GARDE-EPS contested by an appeal. Apart from others GARDE-EPS found that LG.Philips proposed only one (even though this was exceptionally large) of the 17 sources of atmospheric pollution, which are found in the LG.Philips technological centre for manufacture of colour screens, for evaluation within the scope of the IPPC proceeding. The remaining sources of atmospheric pollution – one exceptionally large (preparation of paints), three large sources of atmospheric pollution (the energy-block, storage tanks for volatile organic substances and electron beam-gun cleaning) and twelve other sources of atmospheric pollution – remained outside the scope of the integrated proceeding, which, in compliance with European legislation, should simultaneously ensure that the plant and its effects on the environment are assessed complexly and as an integrated whole. If the plant was not assessed as a whole, then the objective and purpose of act no. 73/2002 Coll., on Integrated prevention (hereinafter referred to as the “IPPC Act”) or Directive 96/61ES on integrated prevention and restriction of pollution (hereinafter referred to as the “IPPC Directive”) could consequently have not been fulfilled in compliance with the laws of the European Community to achieve a high level of protection of the environment as a whole.

On the basis of the action filed by the lawyers of GARDE-EPS to the Municipal Court in Prague, the integrated permit for LG.Phillips was finally and conclusively cancelled by a judgement dated 28/04/2005, ref. no. 11 Ca 126/2004-65. However in the repeated IPPC proceeding the Ministry of the Environment, which repeatedly decided on the GARDE-EPS appeal, continued to support the incorrect legal opinion that the LG.Phillips plant had been sufficiently evaluated. This incorrect legal opinion of the Ministry of the Environment consequently resulted in a serious situation, because the Regional authority, respecting the opinion of the Ministry of the Environment, issued a new integrated permit for LG.Phillips in November 2005, which GARDE-EPS was again forced to contest by appeal for reasons of incorrect definition of the extent of the facility.

However even before this, in September 2005, with the objective of preventing this situation, with reference to the obligations of LG.Phillips within the scope of the CSR policy and protection of the

environment, GARDE-EPS invited the top management of the plant in Hranice to additionally expand the request for issue of an integrated permit to the other sources of pollution. L.G.Phillips reacted negatively to this request by GARDE-EPS with the explanation that LG.Phillips adheres to Czech laws and respects the decision of the courts. (more information to this in point 6.2.).

On the basis of the appeal by GARDE-EPS the Ministry of the Environment then changed the integrated permit, however in the matter of the extent of the assessment of the LG.Phillips facility it did not satisfy the appeal. Consequently in April 2006 GARDE-EPS filed an action against the integrated permit with the Municipal Court in Prague, which for the time being has not yet been heard. The fact that no plant can be operated without the integrated permit is fundamental in the given matter.

9.3. Have you been already successful with your legal objections?

On the basis of the above-mentioned legal steps taken by GARDE-EPS and its involvement in the LG.Phillips cases the following has occurred:

- on the basis of submissions dating from autumn 2003 a one-week inspection by the Czech Environmental Inspection was sent to the LG.Phillips plant,
- following the inspection by the Czech Environmental Inspection a proceeding to impose sanctions for breach of duties in the sphere of protection of water, the atmosphere and wastes was commenced against LG.Phillips,
- on the basis of submission to the Building office dating from September 2003, directed at performance of supervision over fulfilment of the conditions of the building permit, LG.Phillips began publishing information on environmental monitoring on its web pages, which according to the building permit it was required to publish, but had not done so until that time,
- the criminal complaint dating from January 2003 started to be investigated by the criminal service of the Czech Republic Police,
- The Ministry of the Environment cancelled the integrated permit for LG.Phillips in April 2005. The subsequently issued permit contained better quality conditions, which ensure increased environmental protection,
- investigation of the criminal complaint in July 2005 resulted in commencement of prosecution of 4 senior officials for obstruction of the tasks of an official agent as a result of negligence
- in autumn 2005 these four senior officials had to leave their posts.

9.4. What was the company's reaction to the legal steps that have been taken?

9.4.1. LG.Philips opposed to our legal steps regarding approval of a prevention programme in administrative procedures and in information media too. LG.Philips reacted with (false) statement that it absolutely complies with Czech law. A similar reaction appeared in the case of the IPPC proceeding. LG.Phillips answered negatively to the direct demand by GARDE-EPS for expansion of the request for an integrated permit by other sources of pollution and furthermore notified GARDE-EPS that it was proceeding in conflict with the law when giving false, incomplete, imprecise or misleading information.

9.4.2. On the basis of GARDE-EPS' engagement in the LG.Philips case, the following visible reactions in the field of CSR have been made:

- LG.Philips has started to publish information on environmental monitoring on its website;
- LG.Philips has published a declaration on its policy of the prevention of serious accidents and the overall policy of the company in connection with the environmental protection and human safety protection on its websites;

9.5. Is there any other occurrence of violation of the legal framework besides the description of this case?

No, or more precisely none have been proven.

9.6. In the event of a positive answer to your question, please specify if there have been any judicial or administrative proceedings against the company? (if you are not sure about the answer, don't answer this question)

10. Public awareness of negative impacts

10.1. Is the general public informed about the case, about the company etc.?

Thanks to the activities of GARDE-EPS the general public is relatively very well informed about the case. (for more information see point 9.2.1. above).

GARDE-EPS has created an internet presentation about the LG.Philips case.¹⁷

Thanks to long-term and systematic work by GARDE-EPS in the sphere of corporate accountability, litigation activities in the cases of the largest foreign investments, such as for instance the Mexican NEMAK aluminium smelting works in Havraň by Most, the Toyota Peugeot Citroën car factory in Kolín and publicly drawing attention to the problematic aspects of support of foreign investments, GARDE-EPS has helped to initiate a public discussion of the given subject. In the case of the planned new largest investment in the Czech Republic, the Hyundai Motor Company, which intends to establish a factory for manufacture of 300 thousand vehicles a year, the subject of the advisability of provision of investment incentives has already been extensively discussed in the media. For the first time the Ministry of Industry and Commerce and CzechInvest have prepared analyses of the possible consequences of the Hyundai project on Czech economy and for the first time an investment contract concluded with a foreign investor has been published.

10.2. Who opposes the company activities (local community, NGOs, TUs?)

GARDE-ELC and some by LG.Philips' investment affected citizens of Hranice.

10.3. What are the results of NGOs, TUs, or local community advocacy?

Please, see above 9.3. and 9.4. The GARDE-EPS' request for extension of the IPPC approval of other sources of atmospheric pollution joined even the town of Hranice too. Despite this fact, this demand hasn't been respected that led to another lawsuit submitted by GARDE-EPS, that is still pending.

¹⁷ see in Czech: <http://www.eps.cz/php/index.php?cat=prip&art=philips>
a <http://www.sedlakjan.cz/index-sedlak.php?cat=03.dalsi&art=03.02>
please see: <http://www.eps.cz/php/index-en.php?cat=urgent-cases&art=philips>
and <http://www.sedlakjan.cz/index-sedlak-en.php?cat=03.dalsi-en>

10.4. What was the attitude of public authorities?

The public authorities that GARDE-EPS contacted with the most serious legal actions (in the areas of prevention of serious accidents, building law and integrated prevention) did not fulfil their purpose. Consequently for this reason GARDE-EPS filed a complaint against the competent officials, who gave authorisation to LG.Phillips. The local administration bodies, chiefly the town of Hranice, observed our activities from afar, however in the area of IPPC they supported the requirement by GARDE-EPS for expansion of the request by LG.Phillips by further sources of pollution (more information to the standpoint of public authorities below in point 13.2).

11. Socially or environmentally responsible behavior

In the event that you ticked "negative" for question number 2. of this form, please go to question number 13. of this form

11.1. Is the positive activity performed according to what the company officially proclaims as general CSR policy valid for its activities, or does the company perform it only in your case?

11.1.1. We consider it objective to mention some benefits of the LG.Phillips investment, which the company itself describes on its web pages:

During its existence in Hranice LG.Philips Displays has aimed at the widest possible cooperation with the local region. Its activities have been always linked with support for local companies, institutions, offices and community in general.

Number of people employed in Hranice plant amounts to approximately 1200. At the time of establishment the company decreased unemployment in the region by 4%. All employees of LG.Philips Displays Hranice have also gone through necessary re-qualification and various trainings. Total costs for employee training as per January 1, 2006 have reached almost 70 million crowns. Additionally, in 2005 Competence Center was founded in Hranice. Within this the company hired further specialists and invested almost 60 million crowns.

Activities of Hranice plant also include sponsoring in wide extent. So far over one hundred various projects, institutions, cultural and sports events were supported and the sum of provided money amounts to a few million crowns. The company has always tried to satisfy the applicants from Hranice and close surroundings, being the top priority.

Contribution of LG.Philips Displays lies also in support of local sub-suppliers. The company has been supporting regional development, for which it utilized the state subsidy in the amount of 500 million crowns. Several suppliers is working directly on site and the number of their employees reach up to 200 people.

11.1.2. However the fact remains that establishing the Centre for technological development was one of the duties of LG.Phillips, when according to the Declaration of Joint Intention LG.Phillips should have used the sum of 60 million CZK of specific subsidies for establishment of a development

and research centre in the Czech Republic by 2010. Similarly it was also required to use the sum of 500 million CZK specific subsidies for regional development.

With regard to sponsorship and other activities, LG.Phillips has not become so markedly involved, or in comparison to manufacturers in Hranice, in the life of the region and the local community. It has chiefly sponsored the local football club with the sum of 500 thousand crowns annually. In March 2006 the town of Hranice dealt with the sum missing from the budget of the SK Hranice football club by providing the club with subsidies in the sum of 400 thousand crowns.

Because of the bankruptcy of the LG.Phillips headquarters at the beginning of 2006 the House of Children and Youth in Hranice, where the company's money supported the majorettes, also lost its sponsor. LG.Phillips reputedly invested 2.4 million crowns into sponsorship activities in 2005, with the understanding that this was to have been more than in previous years.¹⁸

11.2. Was there any external pressure (NGOs campaign, community resistance, governmental initiative?) to develop a CSR strategy in this case?

12. Benefits for the company

If it is possible to ask the company's representatives directly to help you to answer this question, please do so. If not, and you have insufficient information, please try to estimate and add "estimate" to your answer

12.1. Is there any direct benefit for the company from having higher standards?

12.2. Is there any indirect benefit for the company from having higher standards?

12.3. Is there any positive reaction on the part of the general public, state representatives, communities, individuals?

13. Relation to public authorities

13.1. Does the local, regional or national government or EU Commission support the company in activities happening in your country?

The Czech government accepted resolution dated 29 March 2000 no. 321 on allocation of investment incentives and support to the Koninklijke Philips Electronics N.V. company. On the basis of this a "Declaration of Joint Intention" was signed between the Czech party and LG.Philips¹⁹ in June 2000 and the company subsequently received investment incentives in the sum of approx. 1.6 milliard CZK, not including the value of so-called tax holidays.

18 see the article at Aktuálně.cz, 16. 4. 2006, Martina Macková - Hranice is surviving, but no longer gives donations

<http://aktualne.centrum.cz/ekonomika/cesko-a-ekonomika/clanek.phtml?id=124689>

19 The mentioned declaration of joint intention was signed with the Phillips Displays Components Česká Republika, s.r.o. company, the Royal Phillips Electronics company created a joint venture with the Korean L.G.Electronics company soon after its entry into the Czech Republic in 2001. In the Czech Republic this company entered as an associate into the Phillips Displays Components Česká Republika, s.r.o. company by means of its Holding, which changed its firm to LG. Philips Displays Czech Republic, s.r.o. in August 2001.

However the case was medially promoted thanks to Mrs. Markéta Regecová, who owned land in the industrial zone being prepared for LG.Phillips. During the initial phase of preparation of the investment Mrs. Regecová refused to accept the price of 105 CZK/m² (at that time this was the usual price, however land in the future zone was also sold for 300 CZK/m²) offered by the town of Hranice and asked for nearly 50 CZK/m² more for her land. The local mayor, Rudolf Novak, then started to offend her in the media arousing a media war and great bidding over the price of the land. The highest state representatives, including the prime minister at the time, Miloš Zeman, entered the case, with his well known phrase: *"I would like more Phillips and fewer Mrs. Regecovás..."*. The deputy of the Police President, Václav Jakubík, attempted to convince Mrs. Regecová to sell under very unusual circumstances and the Security Information Service (BIS) was also reputedly interested in the whole matter, for the first time politicians started to publicly debate the possibility of dispossession for the purpose of industrial zones. And in the end the town of Hranice had to pay Mrs. Regecová a total of 5.2 million crowns for her land, on which LG.Phillips was unlawfully building, instead of only several tens of thousands of crowns more.

The situation arising in connection with construction of the plant on the land of Mrs. Regecová was again dealt with by the government in its resolution dated 2 May 2001 no. 428 on the possibility of solutions in the matter of the investment incentives for the Koninklijke Philips Electronics N.V. company. Consequently the investment by LG.Philips was politically supported from the actual beginning, both on the governmental, regional and also local level.

The Czech government attempted to help the bankrupt LG.Philips foreign investment immediately after the problem of the LG.Philips Displays holding bankruptcy was announced, for example by pro-export incentives in the sum of several hundreds of millions of crowns. However at the same time the Czech government ignored the call for aid and the request for equal dealings by the bankrupt traditional Czech manufacturer of screens, the TCT, a.s. company (formerly Tesla Rožnov), the factory of which is not more than 40 km from Hranice. However in the end the Ecimex Group, a.s. company, which ironically originally led LG.Philips to the Czech Republic as its investor²⁰ was forced to declare bankruptcy and end production in March 2006.

13.2. Is there any connection between the company and the local, regional or national government?

a) formal

Apart from the above quoted governmental resolution and Declaration of Joint Intention the town of Hranice also concluded several contracts with LG. Philips, chiefly for the purpose of sale of land in the industrial zone in which LG. Philips built its factory.

b) informal

20 see Technický týdeník, 21/03/2006, Jan Baltus – If reason leaves you, you will die: *"But it is interesting that the initiator of this investment was the Ecimex Group, who was seeking a partner for its "brownfield" factory in Rožnov. It naively led LG Philips right to the negotiating table in CzechInvest. However they told the representatives of LG Philips that it would be better if they sent Ecimex packing, because the government prefers investments on a green field and that this would also be cheaper for the investor. The investor would receive greater support. Ecimex made the best of it and invested into innovation of the line for production of screens of a high quality in the sum of 800 million crowns. It also requested support of business activities, but did not receive anything. However 40 km to the west from Rožnov the government provided support in the sum of 1.6 milliard crowns, to a competitor about whose intentions it must have known something. But who could refuse the fame?"*

The area of economic links between LG.Philips and the town of Hranice is questionable in this given case nevertheless it can be deduced from the above mentioned points. After the municipality had failed to timely ensure the transfer of all the land (i.e. Mrs. Regecová's land) in line with the agreements concluded with LG.Philips, it was obligated to pay the investor a penalty of EUR 10,000 for each day of delay. Before the final settlement of Mrs. Regecová case, the municipality's liability described in the previous sentence amounted to hundreds of millions Czech crowns; the municipality's mayor, Mr. Novák, talked about a sum of up to USD 80 million. That was apparently beyond the capacities of the municipal budget. However, "in return", the municipality smoothly and swiftly obtained the required authorizations through its officials, which allowed LG.Philips to start its production very soon and with unprecedented speed.

As it has been already mentioned, if the state-administration bodies had made sure that LG.Philips fulfilled the statutory requirements set out in the PZH Law and had required compliance with those obligations, LG.Philips would have started its production certainly with at least a one-year delay. Such delay would result in vast financial loss totaling to dozens of millions USD. Bargaining around the price of Mrs. Regecová's land drove the price up to CZK 30 million. However, the town paid CZK 5.2 million CZK "only". Thus, it is probable that the rest of the required price, i.e. several millions CZK, will be paid by LG.Philips. This can be substantiated personal appointment with Mrs. Regecová, who informed GARDE-EPS that she had concluded an unspecified contract with LG.Philips, on which basis she was bound by a confidentiality clause.

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