Basic Information on the European Union

Petr Zahradník

EU Office of Česká spořitelna

EU OFFICE
Česká spořitelna, a.s.
Olbrachtova 1929/62
140 00 Praha 4
tel.: +420 261 073 308
fax: +420 261 073 004
EU_office@csas.cz
http://www.csas.cz/eu

Petr Zahradník
+420 261 073 019
pzahradnik@csas.cz

Jan Jedlička
+420 261 073 484
jjedlicka@csas.cz

Alena Smolíková
+420 261 073 308
asmolikova@csas.cz

ČESKÁ SPOŘITELNA

Contents:

1. Introduction

This information database represents one of the principal communication resources of the EU Office of Česká spořitelna. It shall be used as a basis of additional, follow-up, more detailed or periodical outputs (for instance, *Měsíčník EU aktualit* - EU News Journal).

European integration can be viewed from different angles – historical, institutional, economic or political. The importance of individual angles (or sometimes their combination) in various integration stages has varied considerably. It is very unlikely that the basic conflict, i.e. whether the main goal is economic or political integration, will ever be resolved because both aspects are equally important if true integration is to be achieved. However, it is not important whether the integration of Europe is a political or economic process but whether it is effective. In other words, integration must above all improve the existing quality of life of the highest possible number of European citizens. The main objective of this information database is to deal in detail with particular effects and information related to and/or resulting from individual stages of European integration.

2. Integration: Development, Institutions, EU Legislation

European integration can be viewed from different angles – historical, institutional, economic or political. The importance of individual angles (sometimes in symbiosis with others) in various integration stages has varied considerably. It is very unlikely that the basic conflict, i.e. whether the main goal is economic or political integration, will ever be resolved because both aspects are equally important if true integration is to be achieved. However, it is not important whether the integration of Europe is a political or economic process but whether it is effective. In other words, integration should above all contribute to considerable improvement of the existing quality of life of as many European citizens as possible.

The gradual integration of the world, in various depths, areas and territories creates a nucleus of thus far highly inhomogeneous global economics. Globalisation – as a part of integration efforts – has become both a motto and a motive for investors, politicians and consumers. Its main objective is not, however, to create a smooth system – preferably without barriers – but to gain personal or associated benefits. That is why the elimination of barriers is – in spite of the considerable progress achieved so far – still only in a very early stage.

It is partially thanks to global integration merits that many developing countries have been recently able to come closer to the developed states. Integration – above all regional – has allowed the practical implementation and use of cohesion and convergence in several integration groups, above all the European Union.

The example of quickly integrated (on various levels) developing countries and countries in the process of transformation can be very inspiring for those states that would like to strengthen their engagement in international integration, thus increasing their development opportunities. It is clear that some of the current leaders of fast and comprehensive integration whose economic development is well above the average have only recently belonged to relatively weak and closed countries. Closed not only within their national boundaries but – because of the absence of integration merits – also with their seemingly irresolvable domestic problems.

Economic integration can be measured in various ways. It can, for instance, be quantified by its contribution to the given country's increased participation in the global economy:

- acceptance and implementation of new ideas, technologies and products,
- preservation of natural external competition for domestic producers and providers of services, increase of competition and competitiveness as an impulse leading to the implementation of global standards of effectiveness,
- allocation improvement and strengthening of resources,
- more extensive consumer opportunities,
- ability to acquire cheaper financial resources on international markets.

The aforementioned integration aspects require a certain level of openness of the domestic markets, certain forms of co-operation and co-existence of domestic subjects with foreign partners, certain limitation of nationally orientated strategies and preference of internationally measurable criteria. The said forms, co-operation, limitation and measurability then determine the type and cohesion of particular integration groups.

The very first objective of integration efforts – as demonstrated by the progress made by the developed countries – is the thorough elimination of restrictive measures and limitations in natural international commercial relations.

Another integration aspect is the division of direct foreign investments, very flattened and disproportionate among individual countries of the world.

Much like foreign trade, direct foreign investments also represent an important indicator of integration, partially thanks to their spreading potential of modern technologies and high labour qualification.

Other indicators used to compare the integration abilities of individual countries include the **credit rating evaluation** and the **proportion of manufacturing industries in overall export**. Credit rating evaluations granted by banks and rating agencies measure both access to private capital markets and particular access conditions.

However, integration is not just an economic phenomenon. It is based – or at least should be based (especially in the case of deeper regional integration, such as the European Union) – on common history, traditions, understanding and co-operation conditions. It should also take into account the principles of permanent peaceful co-existence and the prevention of military conflicts, ensure general regional stability and improve the quality of life. The aforementioned aspects depend to a great extent on generated, achieved and potential wealth, in other words on economic output, without which it would undoubtedly be impossible to turn integration notions and ideas into material results. Nevertheless, integration should never lack the power of ideas, concepts and humanistic visions. When taking individual integration steps, it is always necessary to consider whether their main objective is a partial, personal interest or the interest of the majority; in other words, whether each individual measure is being adopted for the benefit of the majority living within the integrated territory and whether it will bring any material, practical merit. The higher the level of integration, the more emphasis must be placed on the general expediency of such measures and the larger the importance of a humanistic approach.

2.1. Institutional Framework of EU integration

2.1.1. Purport, mission and practical activity or main EU institutions

EU institutions are represented by a relatively extensive hierarchy of key subjects and less important subjects. In connection with the Maastricht Treaty and the ongoing development it is customary to talk about main EU (EC) institutions (European Commission, European Council, European Parliament, European Court of Justice, Court of Auditors and European Central Bank) and collateral bodies (Economic and Social Committee, Regional Committee, Employment Committee, etc.). In addition, it is also possible to mention specialised – mainly financially orientated – institutions (such as the European Investment Bank; the European Bank for Reconstruction and Development can also be regarded as a specialised institution with close ties with the European Union and special mission in Central and Eastern Europe).

The nine most important institutions employ a relatively small number of people (approximately 25,000 persons in the first half of 2004). It is, therefore, highly exaggerated to call EU institutions in Brussels a “rampant administration machine”. The said nine institutions represent nine bodies with specifically determined activities and competencies and a quite clearly defined division of labour and mutual collaboration reflecting the difficult journey the Union has undergone since 18 April 1951 when the European Coal and Steel Community was established in Paris (the Paris Treaty became effective on 27 July 1952). The difficulty is further underlined by the fact that the forms of individual EU institutions and their mutual collaboration are becoming less and less suitable for the current 15 member states (the original Union had only 6 members), not to mention the planned expansion. That is why one of the most serious issues raised at the recent Intergovernmental Conference (with rather unconvincing results) was the necessity to change the existing institutions in order to make their activities and services more efficient and to adjust them to the newly expanded and more integrated Union.

It is no secret that in the first stage of European unification most executive powers and responsibilities for economic, political and social development leaned upon individual countries, with individual institutions more or less merely creating an impression of deeper cohesion and union of European nations. In the course of the first fifteen years (until 1967), the extent to which the Commission was making proposals, the Council of Ministers was making decisions, the Parliament was exercising advisory powers and the Court of Justice was specifying how individual decisions should and should not be interpreted, was very limited.

In the following twenty years the position of main institutions, above all the EU Commission and EU Council, strengthened considerably. As a result of the institutionalisation and formalisation of the European Council, the executive powers of the European Parliament were also greatly broadened (with its members no longer elected indirectly by representatives but directly, by all EU citizens). In addition, a brand new institution – the Court of Auditors – was established. The European Investment Bank became the main financing source of public economic development within the Union. The European Currency Institute created all the necessary conditions for the introduction of a single currency, the EURO, and was later transformed into the European Central Bank. The Economic and Social Committee is living proof of the fact that various social partners need to collaborate and participate in discussions. And last but not least, the Regional Committee was founded to promote regional interests and diversities.

All of the aforementioned institutions are currently forced to deal not only with competence and co-operation problems but also with the funding of individual plans and objectives. Unlike in the past, they have to look for sufficient resources from which it would be possible to finance various ambitious integration projects. At the same time, they have – or at least seem to have – the necessary executive power to decide on key affairs of the European Union, including – *inter alia* – all matters related to the establishment and effective functioning of a monetary union.

ČESKÁ SPOŘITELNA

2.1.2. EU Council

The EU Council represents the main - and essentially the only - EU institution with executive powers respecting the opinion of individual member states. It consists of representatives of national governments discussing and voting (deciding) on EU laws and legislation system. Although officially there is only one Council (and only one official term), in reality there are several different councils whose structure varies considerably. When dealing with important political issues, it is called the General Council and consists of the ministers of foreign affairs of the individual member states. When special issues, such as agriculture, finance, economics, etc., are the subject of discussions, the Council's personnel structure is modified accordingly. When dealing with financial and currency affairs, it is called the ECOFIN Council. The Council holds as many meetings concerning special issues as necessary until a solution is found.

It is quite compelling that in certain situations individual Council members may hold completely different views and follow different interests. This fact was demonstrated many times in the past. Council members – governmental ministers – are liable to national governments and – above all – to national parliaments. However, as Council members, they are also responsible for adopting binding, final and irrevocable community legislation addressing problems of the Union as a whole. As demonstrated by several examples, a satisfactory resolution on a national level may not be in accordance with a resolution acceptable for the entire Union. In other words, it is often necessary to find a solution to the same problem from two different points of view. In many cases, Council members (who are also members of national governments) have to decide which point of view to prefer.

The Council is competent to adopt the most important legal regulations in the form of directives or regulations.

Regulations are generally effective – they concern an unspecified number of cases on a general and abstract level, with all the parts being strictly binding. They are practically equal to national laws. Regulations become immediately binding in all EU member states – they are effective within national boundaries together with national laws. No co-operation of national legislative bodies is required. Unlike directives, regulations are binding not only for member states but also for all subjects, including individuals, whose relations they concern. Regulations are binding in all respects, i.e. not only in terms of results but also in terms of particular procedures (unlike directives). They can be used in all EU member states on the instant, without an additional internal transposition or transformational act reflecting their content. In other words, they do not need to be incorporated into national legal systems in order to be nationally applicable (enforceable).

Directives – unlike regulations – concern EU member states exclusively. They must be incorporated into national legislation (through separate legislative acts) within a specified period of time. This means that directives specify only results, not procedures (those can vary from state to state).

Depending on the area and the subject of discussions, there are two types of voting used by the Council in compliance with the Unified European Act: unanimous (with factual right of veto) and major (corresponding to a more advanced integration stage). The strengthening of major voting has been a subject of ongoing discussions between its advocates (mainly Germany) and opponents (mainly France and some of the smaller member states which can use a unanimous voting system to protect their national interests).

Another subject of discussions has been the distribution of votes for the purpose of a majority vote. It depends on the size of each individual state, with Germany, Britain, France and Italy having ten votes and the smallest member state, Luxembourg, having just two. In the event of a major vote, it is impossible for any individual country alone to block any proposals. At the moment, 26 votes (i.e. the votes of at least three states) are necessary to constitute a blocking minority.

The relevant minister of the presiding country, usually the minister of foreign affairs or the prime minister, directs all individual meetings of the Council and becomes the Council's chairman for the entire presiding period.

Another important body is the "Troika" (a Russian expression), having special - albeit limited - executive powers comparable to those of the Council of Ministers (or more precisely, its presidium). It consists of the past, current and future presiding state, respectively. Its main objective is to ensure the continuity of all priorities followed by EU institutions in the given period. Its opinion is also quite important in the area of the external relations of the European Union, EU expansion policy, etc. In compliance with the political decisions made in the 1990s, the EU presidency should never be held by three powerful EU member states in a row (as a result, the Troika should never consist only of powerful member states).

2.1.3. European Council

The European Council, consisting of the leaders of individual EU member states (presidents or prime ministers), ministers of foreign affairs, the president of the European Commission and one of his/her deputies, has been holding regular and institutionalised meetings since 1975. Although not an official EU institution, the European Council is

ČESKÁ SPOŘITELNA

essentially an expanded EU Council in its top structure. The term "European Council" has only been in practical and wide use since 1987. These top-level meetings take place at least twice a year (regular meetings of the European Council) on the occasion of the end of each six-month EU Council presidency period (with all EU member states taking the presidency one by one – originally in alphabetical order).

Individual meetings of the European Council are usually organised by the countries whose EU Council presidency is about to end. If more than two meetings are held during one calendar year, they usually have the form of extraordinary or emergency summits discussing exceptionally important matters.

In spite of the original assumptions (resulting from the Community's founding treaties), the European Council has become *de facto* the Union's top political body. This situation is clearly reflected in the Maastricht Treaty, the very first important document of the Union officially defining the Council's position. Pursuant to the Maastricht Treaty, the Council initiates various actions necessary for the Union's further development and defines its general political line.

2.1.4. European Commission (European Communities Commission)

The European Commission (European Communities Commission) is the Union's top executive body responsible for producing and presenting policy proposals and their implementation and practical introduction. It represents the driving force of European unification, manages the register of common policies, designs and implements common budgetary policy, is in charge of the European budget and deals with "European" agenda and administration ("Eurocracy"). In addition, it also ensures that all treaties are duly observed, proposes legal regulations (regulations and directives) ensuring the fulfilment of individual objectives and supervises the practical implementation of all adopted legal regulations. The European Commission's objectives could be characterised very briefly in three words: initiative, implementation and supervision. If a member state breaches EU regulations or fails to implement them, the European Commission can use sanctions, including legal actions involving the European Court of Justice.

The European Commission has considerable autonomous executive power, especially in the area of economic competition and common policies in individual sub-sectors and segments (agriculture, transport, etc.). Together with the European Budget, it is also the administrator of EU funds and programmes, including projects providing help and assistance to non-member states.

European Commission - structure:

The Commission consists of **25 members** – commissioners. They are appointed by their respective national governments (although they are fully independent of them once they are approved) in compliance with a common agreement of all the member states. Their term of office is 5 years (the overall amount of terms served by individual commissioners is not limited).

The beginning of the Commission's new office term is **November 2004**. The current Czech commissioner Vladimír Špidla is responsible for the area of employment and social affairs.

Term of office:

Until 1995, EU Commission members were appointed for **four years**. **In January 1995**, the said term of office was extended by one year, so the European Commission mandate presently corresponds to the **five-year term of the members of the European Parliament**. Although the executive powers of individual main institutions have not been precisely defined as yet, the extension of mandates had to be adopted in order to enable the European Parliament to authorise the European Commission, thus confirming its democratic legitimacy. While until the end of October, all large EU countries – France, Italy, Germany, Britain and Spain – will have two commissioners, each of the remaining twenty smaller states will appoint one representative.

In autumn 2004, when all current mandates expire, a new Commission with 25 commissioners (one from every member state) will be appointed. **Its term of office shall begin on 1 November 2004**.

The individual members of the European Commission (commissioners) – like ministers in national governments – do not represent this collective body alone but also bear responsibility for particular political areas, while managing the relevant department of multinational public services in charge of these areas. Each department of the European Commission is called the directorate general.

Box: Commissioners and their responsibilities for 2004 – 2009

José Manuel Durao Barroso (Portugal)

ČESKÁ SPOŘITELNA

- Pesident,

Margot Wallström (Sweden)

- Vice President, Institutional Relations and Communication Strategy,

Günter Verheugen (Germany)

- Vice President, Enterprise and Industry,

Jacques Barrot (France)

- Vice President, Transport,

Siim Kalas (Estonia)

- Vice President, Administrative Affairs, Audit and Anti-Fraud,

Franco Frattini (Italy)

- Vice President, Justice, Freedom and Security,

Viviane Reding (Luxembourgh)

- Information Society and Media,

Stavros Dimas (Greece)

- Environment,

Joaquín Almunia (Špain)

- Economic and Monetary Affairs,

Danuta Hübner (Poland)

- Regional Policy,

Joe Borg (Malta)

- Fisheries and Maritime Affairs,

Dalia Grybauskaité (Lithuania)

- Financial Programming and Budget,

Janez Potočnik (Slovenia)

- Science and Research,

Jan Figeľ (Slovakia)

- Education, Training, Culture and Multilingualism,

Markos Kyprianou (Cyprus)

- Health and Consumer Protection,

Olli Rehn (Finland)

- Enlargement,

Louis Michel (Belgium)

- Development and Humanitarian Aid,

László Kovács (Hungary)

- Taxation and Customs Union,

Neelie Kroes (The Netherlands)

- Competition,

Mariann Fischer Boel (Denmark)

- Agriculture and Rural Development,

Benita Ferrero-Waldner (Austria)

ČESKÁ SPOŘITELNA

- External Relations and European Neighbourhood Policy,

Charlie McCreevy (Ireland)

- Internal Market and Services,

Vladimír Špidla (Czech republic)

- Employment, Social Affairs and Equal Opportunities,

Peter Mandelson (United Kingdom)

- Trade,

Andris Piebalgs (Latvia)

- Energy

Source: European Commission

2.1.5. European Parliament and European Ombudsman

Although its options and political executive powers are more limited than those of national parliaments, the European Parliament has its say in the European Union's legislative and budgetary process and represents the Union's supreme supervisory and controlling body.

The European Parliament currently has **732 members**, including representatives of the new member states elected in June 2004.

Elections to the European Parliament are held every five years. **The last elections** (for the period 2004 – 2009) took place **from 10 to 13 June 2004**. **The citizens of the Czech Republic** voted for the very first time on **11 and 12 June 2004**. They have **24 representatives** in the European Parliament.

Individual representatives (Members of Parliament) are associated in accordance with their political views, not on a national basis.

The Unified European Act has broadened and strengthened the European Parliament's legislative role by giving it joint executive power with the European Council over the authorisation of association treaties with non-members and admission treaties with new member states.

Box: European Ombudsman

Although in the Czech Republic the legitimacy of ombudsman as an institute is still a subject of heated discussions, the European Union – through the European Parliament – elected its first ombudsman as early as 12 July 1995. Its main task is to act as an effective independent instrument helping and protecting all EU citizens whose legal rights have been denied or who have not been properly and appropriately treated by EU institutions and bodies.

2.1.6. European Court of Justice

The European Court of Justice is the European Union's supreme judicial body. It is an independent institution ensuring the unified application of EU legislation in all member states.

The European Court of Justice has 25 judges and 8 general attorneys appointed by the common accord of all national governments for 6 years (there is no re-election limit). Every three years, seven or eight new judges and four or five new general attorneys are appointed (or the existing ones re-appointed). In other words, one half of the judges and general attorneys is re-appointed after three years. At the moment, each member state is represented by one judge, with the last, neutral post being left to the discretion of all governments.

The independence of all judges and general attorneys is warranted by the Court's statute. The judges and general attorneys cannot be recalled and all their meetings and hearings are confidential.

The European Court of Justice may (is entitled to) annul any legislative act of the EU Council or the European Commission not compatible with any of the basic documents of the Union and/or the Communities (Rome Treaties, Unified European Act, Maastricht Treaty), if asked to do so by a directly involved EU (EC) institution, member state or individual.

2.1.7. Court of Auditors

The Court of Auditors was established in 1977 as an independent body responsible for auditing European public finances (EU public finances).

It is a corporate body consisting of 25 members, one from each member state, appointed by the EU Council for six years. Individual appointments are consulted with the European Parliament.

The Court's main objective is to examine and audit all expenditures and revenues of the European Union as well as all organisations established by the Communities. It verifies whether all revenues have been received correctly and have found their recipients, whether all expenditures have been used properly and in accordance with EU legislation and whether the Communities' financial management has been conducted properly and thoroughly.

An audit can be executed (organised) not only in EU member states, but also in those non-member states that have obtained financial assistance from EU resources, for instance the ACP countries receiving support from the European Development Fund.

2.1.8. Economic and Social Committee

The Economic and Social Committee is a consultation body providing advice and consultations for the EU institutions having the power of decision in the area of social and employment matters concerning the entire European Union.

It consists of a wide range of experts focusing on economic and social issues. They are divided into three principal groups: employers, employees and various specialised and professional activities, such as agriculture, transport, business, small and medium-size enterprises, freelance occupations and consumers.

The Committee has 344 members nominated by national governments and appointed by the EU Council for four years (there is no re-appointment limit).

2.1.9. European Investment Bank

The European Investment Bank was established in 1958 in Rome, together with the European Economic Community, as a financing instrument of capital investments promoting and ensuring the balanced development of the Community.

Organisation: the European Investment Bank, its headquarters located in Luxembourg, is managed and directed by:

- The Council of Governors, formed by ministers appointed (designated) by individual member states. The Council of Governors proposes and formulates credit-related general directives.
- The Council of Directors (Board of Directors), formed by 26 directors and 16 representatives nominated by member states and the European Commission and appointed by the Council of Governors for five years (there is no re-appointment limit). Dealing with general administrative matters, it is the main decision-making body in the area of credit provision, interest rate fixing, etc.
- The Managing Committee, formed by its president and 8 vice-presidents. It is appointed by the Council of Governors for six years (there is no re-appointment limit). The Managing Committee deals with all normal banking operations, executes all credit and loan agreements, implements and applies the individual decisions of the Council of Directors. One of the vice-presidents is the ex-Minister of Finance and Education of the Czech Republic, Ivan Pilip.

The text on the European Union approved at the Maastricht Summit of the European Council confirms and strengthens the position of the European Investment Bank in the process of economic and social cohesion. The conditions determining the Bank's competencies are sufficiently general (and flexible), allowing the Bank to meet new priorities resulting from European integration taking place in a permanently changing political and economical environment. While, for instance, promoting the ongoing improvement of the Common Market by financing the development of trans-European transport network, the Bank also takes into account its environmental impact (thus respecting public interests).

2.2. Integration history and real opportunities of its future development

It is undoubtedly possible to say that the European Union is the most sophisticated and complex attempt at economic and social cohesion ever tried on a global scale. Although it has been quite paradoxically subject to relatively persistent criticism, its success is not a result of a smooth and painless process, but of a fifty-year effort, frequently very complicated not only due to the insufficient maturity of individual participating countries but also due to unfavourable global circumstances.

However, in spite of all obstacles, the original idea of European unification, further underlined by the bleak post-war situation, proved to be so strong that it has thus far avoided all traps and demonstrated its practical viability.

It is very important to realise that not economic motives, but the vision of a new Europe overcoming national antagonisms (very likely inconceivable without the experience resulting from World War II and resistance against all types of totalitarian regimes) represented the most important driving force of integration in its initial phases. The economic aspect of this new European climate is only a secondary phenomenon. It is, however, also one of the most important conditions enabling successful fulfilment of the said political concept.

Right from the start the idea of integration – later a political concept – formulated by two French politicians, Jean Monnet and Robert Schuman, and its early results were based on two general principles – federalism and functionalism that were to stimulate real integration. While federalism requires ad hoc collaboration and the mutual support of local, regional, national and European institutions on the most competent levels, a functionalistic approach favours the gradual transfer of sovereignty from individual states to the Union. The advocates of both systems later managed to reach a consensus that forms the basis of the current conviction that national and regional institutions should be supported by independent democratic European institutions responsible for those areas in which a common approach is more efficient than the effort of individual states (one of the possible models is also the well-known principle of subsidiarity). At the same time, it is clear from historic experience that the areas deserving joint approach include a common market, a common economic and monetary policy, economic and social cohesion, a foreign policy and defence.

The very first material result of the aforementioned ideas and immediate nucleus of current "European" institutions illustrating the sense of their existence and explaining their operating principles was the European Coal and Steel Community. All previous European integration attempts were characterised by the absence of a multinational approach on an executive level because individual participants refused to give up even a small part of their national sovereignty. The European Coal and Steel Community, therefore, represented the first institution whose activities were governed by international regulations.

In May 1950, French foreign minister Robert Schuman presented his revolutionary appeal for the establishment of a coal and steel community managed by a multinational body. Within less then one year, six countries (France, Germany, Italy, Belgium, Holland and Luxembourg) joined in, agreeing at their meeting in Paris to found the European Coal and Steel Community. The said countries can be rightly regarded as the pioneers of current European integration efforts based above all on peaceful arrangement of relations between former military rivals – France and Germany. The common coal and steel market became fully functional in May 1953.

The following important stage of European integration – although driven by a strong political idea – may seem to have been focused above all on economic problems, especially considering that the attempt at the close co-ordination of foreign policy and defence came to grief very soon. Having to deal with almost identical problems at present, we realise that such efforts were probably too ambitious in the mid-1950s. It shows that individual integration steps need to have a certain logical order.

Economic issues, especially the gradual elimination of barriers (regarded as unnecessary), were much less sensitive in the mid-1950s. It is possible to say that since the Messina Conference in 1955, the building of new Europe had been based on the principle of solidarity, above all in economic affairs. After that, the common market – originally meant only for coal and steel – opened to other products as well. This moment can be regarded as the true beginning of the Common European Market, the European Economic Community and the EUROATOM (co-ordinating the production of atomic energy).

That the said efforts can hardly be compared to a stroll through a rose garden is clearly demonstrated by the fact that the Common Internal Market – based on the principle of the following four economic liberties: free movement of persons, goods, services and capital – was only launched on 1 January 1993. It took almost 40 years for the Union (then consisting of twelve member states) to eliminate all national barriers.

The aforementioned process can be compared to a gradual approach to economic transformation. Nobody was able to predict how the economic mechanism would react to this unprecedented attempt. This is why individual measures were implemented very slowly, one by one. The very first step was the establishment of a customs union on 1 July 1968. The customs duty levied by individual member states was gradually eliminated and joint customs tariffs concerning third countries were introduced. One year earlier, the Union had implemented a unified taxation system of goods and services and a uniform VAT mechanism. In addition, in 1967, the executive bodies of all three communities (European Economic Community, European Coal and Steel Community and EUROATOM) were merged and a joint commission (later renamed the European Commission) acting as the Union's key executive body was established. The end of 1960s

ČESKÁ SPOŘITELNA

(1968) was also characterised by the introduction of common economic policies, above all the most ambitious of them – a common agricultural policy.

At first, the unified customs environment was thought to be the principal condition of common economic policies. This idea had to be revised later as the differences among individual member states persisted in spite of customs unification. However, the introduction of common economic policies was not stopped or considerably delayed as a result. The only aspect that might be regarded as questionable was the project's cost effectiveness.

The success of common economic policies in agriculture contributed to their expansion to other departments, such as trade, the protection of economic competition and transport. Their co-ordination took place continually with the development of common policies. The extent of common policies also grew as a result of the Union's further expansion (admission of new member states), eventually including fishing, regional development, energy production, technological research and development and social affairs. Common economic policies have been financed from various structural funds and the European Budget.

While the main objective of the first 30 years of European economic integration was the establishment and subsequent improvement of a common market, the current task is much more ambitious – the introduction of a single currency and common monetary policy. Its advocates have been trying to prove that a common market cannot work properly unless all transactions are settled in currency of the same quality. In other words, the common market cannot be regarded as completely common without a single currency.

It must be said that the advocates of a single currency spent practically the entire 1990s investing huge political and economic capital in its construction (at that time, the term "EURO" had yet to be introduced) and the promotion of a common monetary environment. The fact that the Union is currently able to propose such an ambitious project shows quite clearly that the previous 50 years cannot be regarded as unsuccessful. Not only are the fifteen member states forming the Union prior to 2004 closer to each other than ever before, but their average economic growth is unprecedented. It is obvious that the aforementioned facts are not just a result of European integration. Nevertheless, it is also undeniable that the process of integration has thus far had many more positive than negative effects and that its potential is still far from exhausted.

Chronological review of key integration events

1947	Marshall's plan of economic reconstruction of post-war Europe
1948	Benelux established
1948	Establishment of the Organisation for European Economic Co-operation
1949	Establishment of the European Council in Strasbourg
1950	Schuman's declaration
1951	Establishment of the European Coal and Steel Community (Belgium, France, Italy, Luxembourg, Holland and Federal Republic of Germany) effective as of 27 July 1952
1957	Establishment of the European Economic Community and EUROATOM effective as of 1 January 1958
1967	Merger of three EC institutions (8 April 1965 – conclusion of the Merger Treaty establishing common bodies for all European Communities)
1968	Customs Union
1968	Introduction of common policies
1973	First expansion of the European Union (Denmark, Ireland, Great Britain)
1974	Establishment of the European Council
1979	European Monetary System
1979	First direct and general elections to the European Parliament (June 1979)
1981	Admission of Greece to the European Communities
1986	Admission of Spain and Portugal to the European Communities
1986	Unified European Act
1991	Maastricht Treaty and Conference, proposal of an EU Treaty, decision on single currency

ČESKÁ SPOŘITELNA

1993	Common Internal Market
1993	Copenhagen Conference – definition of general conditions for the admission of Central and Eastern European countries
1995	Admission of Finland, Austria and Sweden to the European Union
1997	Amsterdam Treaty and Conference
1999	Introduction of a single currency
2003	The Nice Treaty comes into force (concluded on 26 February 2001)
2004	The largest expansion in EU history: Czech Republic, Estonia, Cyprus, Latvia, Lithuania, Hungary, Malta, Slovakia, Slovenia and Poland

2.3. The Czech Republic and its involvement in integration groups

The Czech Republic, like its predecessor – Czechoslovakia - as a small country characterised by a relatively high level of economic openness, situated in the geographical centre of Europe, has always been destined to participate in international economic integration because of its traditions and location. The post-war arrangement of European conditions in which economic integration reflected political circumstances also predetermined Czechoslovakia's participation in integration groups.

Czechoslovakia was a typical example of a country strongly economically dependent on the Council of Mutual Economic Assistance (an economic as well as political coalition), of which it was a founding member. Even though only marginal prior to World War II, economic relations between Czechoslovakia and the other members of the Council of Mutual Economic Assistance became dominating soon after its establishment. As a result, Czechoslovakia had little chance to conceive an effective economic relationship with the European Communities (EC). Even during the relative boom in mutual relations, Czechoslovakia's foreign trade with EC countries amounted to less than 15% of its overall amount. Not to mention the share of Czechoslovakia in the foreign trade of EC countries amounting to some 0.5% at the turn of the 1960s and 1970s (i.e. at the time of their strongest relations) and less than 0.25% just before the Velvet Revolution in 1989.

In addition, the economic relationship between Czechoslovakia and the European Community had been reduced practically to a mere exchange of goods until the beginning of the 1990s. This situation by no means corresponded either to the pre-war traditions or to the model of economic relations used by other industrially developed countries of the world.

The objective of our current integration efforts (the "return to Europe") is to enable our firms, companies, consumers, individuals and citizens to explore the opportunities and advantages resulting from equal economic relations on the vast European market without barriers, not to vanish in a united Europe and lose our national identity. Integration also has very important non-economic consequences. They are, however, difficult to explain in full. One of the most significant aspects is political unity. In other words, the integration of countries with more or less identical political opinions on the future of Europe who are ready to sacrifice something in order to realise their ideas. The non-economic aspects include security and defence (the creation of an effective defence shield based on the reliable alliance of all participants, even though some of them may have a different opinion on defence strategies), social issues (the creation of a system in which people can live, work, learn, spend their free time and carry out leisure-time activities without constraints and regardless of national borders) as well as a certain sense of belonging to a community of like-minded people.

Although not without risks, it is a very promising and hopeful idea supported by almost 50 years of positive experience. It should logically lead to general European prosperity and well-being, even though probably nobody will ever prove that individual European states would not have achieved the same level of prosperity and well-being without taking an active part in the integration process. From our point of view, it is definitely not a futile attempt, especially if compared to the undemocratic conditions, unequal mutual relations and ordinariness based on false principles and views so characteristic for the former Council of Mutual Economic Assistance.

<u>Political aspects.</u> The unification of political structures is possible only on a certain level of integration. At the turn of the 1980s and 1990s – i.e. prior to the historic Maastricht Summit – the unification of political structures meant for most people above all institutionalisation in the area of foreign policy collaboration, the activation of security, defence and military co-operation and the reformation of the mutual relations and competencies of the main EU bodies. It is no coincidence that the said general problems are still topical and that it is very unlikely that they will

ČESKÁ SPOŘITELNA

be resolved before the end of the first decade of the new millennium. The said political aspect of integration in its narrow sense is closely linked to economic aspects, such as dynamics, directness, decisiveness and success.

The experience gained in the course of the past fifty years or so offers another important lesson: the mutual relations between economic and political aspects are governed by an unrelenting yet unpredictable logic. The history shows that even though modern European integration began as a demonstrative pact of stability built on the ruins of post-war Europe, some of the first attempts at deeper political integration (for instance, the European Defence Community) came to nothing. After that, the Union concentrated on economic problems, seemingly independent of political development. As a result, many people still regard European integration as primarily an economic process (such an opinion is, however, incomplete and quite misleading). Although economic integration really represents the Union's utmost priority, its main objective – a fully functional monetary union – is also the principle objective of political integration. This means that economic integration essentially depends on political integration.

<u>Economic aspects</u>. At the time of the revolutionary changes that took place in Central and Eastern Europe in the late 1990s the road to monetary union was too vague and therefore, the attention of both the European Union and the countries seeking admission focused on the individual merits of the Common Internal Market. Although it is clear that the Common Internal Market requires further improvements even after almost 40 years of continuous efforts (with the first stage concluded in January 1993), it is probably the biggest and the most obvious result of past integration attempts and at the same time, the largest attraction, problem and reason for joining the European Communities (European Union). While for many countries, a perfectly functioning Common Internal Market is even the final – and from their current position the only visible – objective of their integration efforts, in the long term, the most attractive aspect of European integration by far is probably the European Monetary Union and single currency, however fragile and still largely untested.

However criticised, the aforementioned opening was practically the only source of Czechoslovakia's economic growth (or more precisely, it compensated for the country's economic decline) during its first transformation years. The Common Internal Market, its principles being binding for all EU member states and in a modified form for all associated countries and all countries belonging to the European Economic Area, means above all the gradual elimination of individual obvious, visible barriers preventing the free movement of goods, services, persons and capital. It is, however, necessary to say that as a result of strong national interests (prevailing over integration interests), a truly barrier-free common international market is still far away. In spite of the hectic efforts of the years 1991 – 1992, the positive effects are still being undermined by numerous hidden barriers and instruments of national economic regulation. It is very likely that this fact was in the past partially ignored by Central and Eastern European countries and led to a whole range of unpleasant surprises in this area.

The Czech Republic and the other countries joining the European Union seem to be fortunate that the stagnant integration of certain common market spheres, demonstrated by a mostly divergent economic development of several EC member states, integration disillusions, loss of integration dynamics and potential fall behind other global economic centres, led to a very strong practical implementation of convergence exactly at the right time for the new members. After a whole range of unsuccessful and delayed improvement efforts, the Union adopted highly decisive measures in the mid-1980s. While a theoretical definition of the term "convergence" is difficult enough, its practical implementation is even more difficult. It is not easy to explain completely what the Union's convergence process is based upon and what development it is subject to. We shall pay special attention to the said process in a separate article. Here, we shall briefly mention just a couple of basic ideas. It is possible to say that in substance, convergence means (1) the transformation of the former common market into a true <u>common market</u> that would be similar to the internal markets existing in each individual country allowing the truly free movement of goods, services, persons and capital and restricted by no market barriers in the standard sense. In order to create a true common market, however, it is necessary (2) to secure equal conditions for everyone, with all individual participants – i.e. member states – first <u>mutually adjusting their laws, standards, legal and civil regulations, etc. and then gradually harmonising their tax and fiscal systems and adopting all other necessary measures ensuring the economic freedom of firms, corporations, households and individuals as well as their effective collaboration and co-operation</u>.

Monetary integration, leading to a perfectly functioning and "tuned" <u>monetary union</u> (3), represents a certain "convergence superstructure" also requiring political co-operation. It is not only the consequence of a unified market but also a suitable accessory and instrument to the unified market.

It is clear that conditions (1) and (2) are essential for any deeper economic integration and probably the most distinctive positive results of economic integration yet. Both should be the main focus of all current players in the Czech Republic. We could state with a bit of exaggeration that even if we succeeded in nothing but effective participation in the Union's Common Internal Market and the elimination of all barriers preventing its proper functioning, our integration effort would be regarded as generally completed and thus successful (or certainly the most successful of all previous attempts, whether realised or intended). This does not, however, mean that further monetary integration is useless and unnecessary. On the contrary. It is merely something extra, something that has never been practically tested.

While full-scale compliance with conditions (1) and (2) will undoubtedly result in effects regarded as useful by any intelligent person, the same cannot be said about monetary integration because the related loss of national autonomy may prove to be out of accordance with the interests of individual countries. One of the most important merits is the elimination of the current fractionation of research and development. According to many observers, the said fractionation, together with a low level of innovation on relatively small and imperfect national markets, is the main cause of technological backwardness and poor competitiveness of the entire European Union.

The future of integration and compliance with conditions (1) and (2) are still subject to heated discussions. While in this area the Union has already reached a consensus on a general level and in some particular departments, it has not succeeded in agreeing on even the most general monetary-related issues, in spite of the fact that the single currency has already been introduced in most member states and seems to be functioning without serious problems. It is probably obvious that close co-ordination between the Union's monetary policy and its monetary system is extremely useful and advantageous for proper functioning of the common market in general, and for the current largely liberalised capital market in particular. Nevertheless, it is also a razor-edge issue because the well-meant intention of using the advantages of the common market and delegating executive powers in the area of monetary policy to international bodies may easily turn against individual member states, if the Union's joint monetary policy fails. The development in the 1980s and especially in the 1990s clearly showed that the development of the exchange rates of individual currencies did not completely follow the convergence of other macroeconomic indicators. In addition, exchange rate stability was abandoned in the first half of the 1990s. Even though individual convergence criteria have already been defined, it is not completely clear whether their observance would reflect true convergence. Although much effort has been spent on the creation of a unified monetary environment and although a certain (firm) course seems to have been defined, the relevant Union bodies still have not <u>theoretically, practically or politically</u> demonstrated that the Common Internal Market cannot function without the introduction of a single currency and monetary union. In other words, in spite of a relatively credible scenario and the prevailing opinion that the introduction of a single currency and monetary union is essential, there is still no clear proof of their necessity, advisability and tenability (even though the single currency has already been introduced successfully).

In order to discuss all the circumstances concerning the admission of the Czech Republic to the European Union in earnest, it is necessary to introduce the European Union at least briefly, mention its visions and development alternatives and realise that by joining the European Union, the Czech Republic did not climb aboard a train waiting at a railway station but jumped on a runaway express whose final station is neither completely obvious nor generally known.

Principal dates, events and documents concerning the relationship between the Czech Republic and the European Union

September 1988	Czechoslovakia signs an agreement on the exchange of goods.
16 December 1991	Czechoslovakia signs the first European Association Treaty regulating economic and political relations. After the division of Czechoslovakia, only its transitory provisions remained valid for a certain period of time.
1992	Temporary agreement on trade and related affairs concluded by and between the Czech and Slovak Federal Republic (later the Czech Republic), on the one hand, and the European Economic Community and the European Coal and Steel Community, on the other.
21 - 22 June 1993	Copenhagen Summit of the European Council – definition of admission conditions concerning Central and Eastern European countries and acceleration of the elimination of trade barriers.
4 October 1993	The Czech Republic signs the European Association Treaty as an independent state.
November 1994	The Czech government creates the European Integration Committee co-ordinating all public administration activities concerning convergence with the EU.
December 1994	The EU invites the respective representatives of all associated countries, including the Czech Republic, to the Essen Summit of the European Council.
1 February 1995	The European Association Treaty concluded by and between the Czech Republic and the European Union comes into force.

June 1995	The Cannes Summit of the European Council approves the White Book preparing the expansion of the EU eastwards and specifying the convergence areas and methods (above all in legislation).
December 1995	The Madrid Summit of the European Council confirms that negotiations with new EU candidates will start within six months after the end of the planned intergovernmental conference on the reform of EU treaties (the conference ended at the Amsterdam Summit of the European Council in June 1997).
17 January 1996	The Czech Republic, represented by Prime Minister Václav Klaus officially applies for full membership in the European Union, as the last of the Central and Eastern European countries.
April 1996	The Czech Republic, together with all other associated countries, receives a detailed questionnaire concerning its preparedness to join the European Union.
16 July 1997	The European Commission, using the aforementioned questionnaire, publishes its assessment of the Czech Republic. The Czech Republic is named as one of the six countries to take part in full membership negotiations.
December 1997	The Luxembourg Summit of the European Council approves and confirms the countries to be invited to admission negotiations.
First quarter of 1998	Initiation of admission negotiations.
16 April 2003	Admission Treaty concluded by and between the Czech Republic and the European Union.
1 May 2004	Admission of new member states, including the Czech Republic, to the European Union.

ČESKÁ SPOŘITELNA

3. Common Internal Market

3.1. Common Market

The Common Internal Market represents essentially the only realised and finalised project of European economic integration. It is a result of almost 40 years of systematic efforts. Its effective opening on 1 January 1993 was, therefore, the result of the long-term pursuit of the four basic economic liberties, free movement of goods, services, persons and capital, by means of the elimination of unnecessary legislative, technical and fiscal barriers.

Here, it is probably better to mention several completely practical and characteristic fragments typical for the Common Internal Market rather than including a rather boring and tiresome list of all areas concerned by the application of the aforementioned four economic liberties to the process of European integration.

It is possible to say that when the Common Internal Market was finally launched in 1993, even the European Commission regarded financial and capital issues, tax matters, transport policy aspects, agricultural issues, new energy resources, the environment, social and structural issues and the effects immediately seen by individual citizens (thus giving the project public credibility) as the most important.

In this document, we shall, therefore, also concentrate on the aforementioned areas.

3.1.1. Financial and Capital Issues

The harmonisation of financial services effective as of January 1993 brought a wide range of advantages to all EU subjects, with clients benefiting above all from a more extensive assortment of financial products, in many cases at lower prices (in comparison with the situation prior to January 1993).

From the point of view of corporate finances, the most important merit is the opportunity to collaborate with any subject and to operate anywhere within the territory of the European Union. Another significant improvement is the much more transparent business environment benefiting from legal harmonisation, informational obligations and market protection.

Since January 1993 it has been much easier to found a banking institution within the territory of the European Union. In addition, any bank registered and having its registered office in one of the EU member states can offer its services and establish its branches anywhere within the Union (provided that it holds a valid licence issued by an EU member state).

The regulations of common banking market determine the minimum amount of capital necessary for the establishment of a bank, specify in detail the universal amount of capital adequacy and define bank supervision principles. One of the most important aspects of monetary integration is money laundering prevention. Another advantage is much more extensive protection of clients (including minimum statutory compensation in cases of clear failure on the part of banks and a much higher amount of information available to potential clients).

A similar philosophy is applied to common securities markets. It is based on the introduction of “European passports” designated for everyone wishing to secure his/her investment in any EU member state. As a result, financial brokers authorised in one EU member state can operate within the entire EU territory in accordance with a unified licence issued in their native country.

Various efforts to explore the unified EU market are also apparent in insurance business. This area is already subject to uniform authorisation and common protection (for instance, of life insurance clients).

3.1.2. Tax Issues

The modification of tax issues resulting from the launch of the Common Internal Market was based above all on the fact that border control inside the European Union was almost completely abolished as of 1 January 1993. Border control elimination is one of the measures immediately seen and appreciated by the public, and not only in the European Union. It significantly affected a whole range of tax and other budgetary revenues and to a certain extent, expenditures as well (the customs officers made redundant as a result of border control abolishment were mostly civil servants and the state had to bear the cost of their retraining or compensation).

The end of border controls resulted above all in the further harmonisation of VAT rates, together with the mutual adjustment of consumer tax rates.

ČESKÁ SPOŘITELNA

3.1.3. Transport and Agricultural Aspects

Transport aspects

The liberalisation of transport services in the context of the Common Internal Market is a very difficult issue because most of its parts, especially road haulage, are determined above all by national conditions. Transport aspects include transport policy concepts and ecological impacts.

Agricultural aspects

The Common Internal Market has contributed considerably to a general strengthening of competition and efficiency of the Union's common agricultural policy going hand in hand with a severe reduction of subsidies and guarantees. It is clear that the reform of a common agricultural policy must be implemented gradually because it has a great effect on the fate of farmers and agricultural companies in various parts of Europe having very different production capacities. It also affects the interest of consumers greatly. The development of agriculture upon the conditions created by the Common Internal Market shows a distinctive reduction of past dependence on an extremely liberal price policy based on huge subsidies (their proportion in overall agricultural expenditures was considerably cut back in the course of the 1990s). As a result, agricultural production was able to closely follow market demand, public budget resources could be allocated much better and agricultural production became much more ecological.

3.1.4. Power Industry Policy, Environment and Social Affairs

Power industry policy and environment

In its initial phase, the opening of the Common Internal Market resulted in the adoption of a whole range of ecological measures. Later on, it triggered a significant liberalisation of the power industry. In addition, this area is characterised by the symbiosis of common market principles and structural and cohesion policies.

Social affairs

The social dimension of the European unification process following the opening of the Common Internal Market focused above all on wage policy, employment, childcare, the creation of financial reserves for social needs, work safety and health protection and campaigns against smoking. The main objective was to create a natural counterpart of the trade liberalisation measures.

3.2. Effects Immediately Recognisable by Ordinary Citizens

It is obvious that citizens perceive and appreciate particular measures in accordance with their own individual preferences. Their effectiveness and assessment can be very subjective. While someone may almost be in a trance when looking at the Union's blue flag with golden stars, other people require more tangible and material effects. In any case, it is beyond discussion that since 1 January 1993 both emotional and pragmatic effects have been much more visible. It is up to each individual to decide whether to regard them as positive, negative or completely indifferent.

On the other hand, it is also clear that the free movement of goods, services, persons and capital brings many merits. The following effects are just a fragment of the more pragmatic of them:

- Tourism – thanks to the abolishment of border controls, consumers pay VAT in the country of purchase (origin) and the amount of goods imported from abroad (i.e. from other EU member states) is no longer important (in terms of consumers' obligations towards fiscal authorities; it is still important from the macroeconomic point of view due to different VAT rates in individual EU countries). Abolishment of duty-free shops. Tourist industry plans whose main objective is to co-ordinate the development of tourism with other segments of the Common Internal Market. Since 1 January 1993 there has been no luggage control at airports for persons travelling within the European Union, except for special random checks related to emergency security situations.
- Road transport – the Union has introduced a unified system of vehicle certification ensuring that all vehicles comply with the same safety and technical requirements. As a result, vehicles can be sold within the entire European Union regardless of their country of origin. In addition, since 1 January 1993, every vehicle with a petrol engine must be equipped with a catalyser.
- Free movement of persons – any citizen of one EU country may stay in any other EU country, regardless of whether this person is working or not. The only condition is a valid health insurance policy. All university degrees and qualification courses requiring at least three years of study in any EU member state are recognised by all other member states.

- Pharmacy – EU regulations allow almost free competition among pharmacists and chemists because most drug-related price differences have been harmonised. All permissible and prohibited components of cosmetic products are determined by strict structural, labelling and packing regulations.
- Foodstuffs – fruit and vegetables – consumer protection in this area takes into account the latest research of pesticides. Producers of fruit and vegetables profit from the free movement of goods. The packaging of foodstuffs is subject to strict hygienic and veterinary regulations concerning not only the quality of ordinary edibles but also the possible usability of vegetable and animal residues by the food-processing industry. All regulations are strictly defined, both technically and analytically, with severe sanctions in the event of positive findings. The same applies to regulations concerning the safety testing of new food ingredients. Consumers are also protected against undesirable food additives (colouring agents, flavours, conservation preparatives). They are subject to the same procedures that regulate the introduction of new types of foods.
- Consumer protection – general safety of products – as a regulation, all products marketed anywhere within the European Union must be safe. Special regulations also apply to mail-order systems and teleshopping and the protection of private information and data (including the revocation of agreements on the provision of private information). Other principles of consumer protection concern warranties, access to legal services, the provision of information, safety and health protection, etc.

It is necessary to point out that the aforementioned examples are really just an illustration of the way the Common Internal Market is regulated. We have focused above all on those measures that were introduced shortly before the launch of the Common Internal Market. Although at the first glance, it may seem that they suddenly materialised out of thin air, we should not forget that the preparation and creation of the Common Internal Market was an evolutionary process and that the said measures (together with hundreds of others) were implemented gradually and at a slow pace.

It is quite clear even from the fragmentary review specified above that the measures and characteristics typical for the Common Internal Market can be divided into two principal groups: technical and fundamental. It is obvious that the solution of technical problems, usually involving the elimination of absurd barriers preventing economic subjects from making free decisions, is a positive and acceptable fact. On the other hand, fundamental problems, concerning mainly the delegation of executive powers from a national to an international level, can be much more questionable. Fundamental problems can also be of a technical nature and may concern, for instance, unified European standards regulating certain commodities or services which are binding for the entire EU. At the same time, fundamental problems may easily grow from relatively simple technical issues into issues requiring the delegation of whole political agendas. In this context, fundamental problems include, for example, fiscal unification, economic and monetary union, concepts of common foreign policy, defence or security, etc.

3.3. Protection of Economic Competition

The preparation of Czech corporations for the country’s admission to the European Union is closely linked to their competitiveness. There is a certain apprehension that small and medium-sized firms might be completely swallowed up by their European competitors, forced to close down or might become entirely dependent on their local regional markets. One of the methods of dealing with this rather bleak vision is to merge existing companies into larger groups that could stand up much better to foreign competitors (on condition that such associations are reasonable and purposeful).

We must, however, get used to the relatively interesting fact that the possible merger of two entirely domestic companies may be subject to the approval of the European Union (in particular, its general directorate of economic competition protection).

This phenomenon – i.e. the Union’s approval or prohibition of mergers of companies operating exclusively on national markets – appeared in the mid-1990s. It resulted from a massive wave of mergers and associations of both smaller companies and firms dominating the entire industry. Every year (sometimes even several times a year) a new global leader emerged. Although this process slowed a bit at the beginning of the new millennium because of economic recession, it is expected to accelerate again once the recession is completely over.

It may seem that the type of mergers specified above has nothing to do with the Union (and vice versa). However, the opposite is true. Apart from some not very transparent practices, some of which only emerged after the completion of individual mergers, waiting for the Union’s approval represented one of the most important parts of these transactions. In fact, the Union was able to block even transactions that had been already completely agreed and prepared and required only its approval.

It can be argued that the European Commission applies an approach to the protection of economic competition within its territory that is a bit too extensive. While some of the planned mergers were completed successfully, some were not approved by the Commission and came to nothing.

The protection principles of economic competition used by the European Union are relatively complicated. Their importance grew above all during the presidency of the Belgian Karl Van Miert. This very authoritarian commissioner turned the general directorate of economic competition protection into the most authoritarian and respected body of the entire Brussels executive. The Italian Mario Monti, his successor and the present European commissioner, walks firmly in Miert's steps. According to the principles, the European Commission is usually completely tolerant of mergers resulting in a market share not exceeding 20%. If a merger is about to provide up to a 40% market share for the resulting subject, the Commission is much more alert, assessing whether such a merger may be subject to exemption from anti-monopoly legislation. All cases potentially resulting in a market share exceeding 40% are assessed by the Commission on an individual basis. It is very important that it does not matter at all in which country the merging companies are registered. That is why European commissioners can examine, for instance, a merger of two American companies. It is very unlikely that any of the Czech companies could find themselves in a similar situation simply because they are not powerful enough as yet and their market share (albeit combined) can hardly amount to 20%.

The definition of protection of economic competition and the Common Internal Market of the European Union is truly complex, with the authority in charge of protection sufficiently qualified and respected not only in Europe but also globally and powerful enough to block even transactions taking place outside the territory of the European Union that could – even potentially – negatively affect competitiveness within the European Union.

When generalised, the aforementioned definition means that in accordance with the competition protection measures valid in the European Union, firms must not adopt any measures that could affect business relations among individual member states and whose objective or consequence is the elimination, limitation or disturbance of free competition on the Common Internal Market.

Examples of prohibited measures:

- specification of prices or other business conditions,
- reduction or regulation of production, sales, technical development or investments,
- division of markets or supply resources,
- application of uneven conditions in relation to business partners,
- forcing of tying transactions on business partners (business partners are forced to agree with future contracts in no way connected to the original agreement).

Forms of prohibited measures:

- agreements and arrangements between companies,
- decisions of groups of companies,
- joint (consolidated) procedures not based on formal agreements.

4. Single Currency and the EMU: Monetary and Exchange Rate Policy

4.1. Monetary Co-ordination in the European Union: the Way to a Single Currency

This Section should demonstrate that the way to the European Monetary Union and single currency was not easy. At first, it was nothing more than a theory discussed by academics. Later on, at the end of 1960s, it turned into a practical concept taken up by the European Communities but left unfinished. It took 10 more years for the European Union to dust off the idea of monetary co-ordination and more than another decade for EU member states to sign the Maastricht Treaty. That is why we cannot talk about real preparations for the introduction of single currency prior to 1991.

4.1.1. European Monetary System (EMS): its development until 1988

European Monetary System (EMS), 1979

1. Stabilisation mechanism of exchange rates and interventions (Exchange-Rate Mechanism, ERM).
2. Existing international currency unit, ECU.
3. The European Monetary Institute, EMI (1994 – 1998), that replaced the European Monetary Co-operation Fund (1973 – 1993).
4. Credit mechanism.

According to the prevailing opinion of EU institutions the economic and monetary union (EMU) represents a logical part, supporting element and consequence of the Common Internal Market and a determinative political milestone on the way to a united Europe. At the end of the 20th century, a single currency really replaced the national currencies of the original EMU member states, as predicted at the beginning of the 1960s. The introduction of a single European currency should also help average EU citizens realise that they are an integral part of the new European entity.

The original, more or less merely warm-up, tentative and theoretical discussions taking place in EC institutions at the beginning of the 1960s.

The summit of the prime ministers and presidents of the member states in The Hague in December 1969 – the preparation and sketching of a gradual and phased plan for the creation of an economic and monetary union. It served as a basis of the Werner Report (named after the then Minister of Finance and Prime Minister of Luxembourg) – prepared and published in 1970 – proposing the establishment of an economic and monetary union in three stages in the course of the following ten years. Today, we can only speculate on the project's feasibility as it was soon suspended and terminated due to insufficient political will.

The only manifestation of monetary and exchange rate co-ordination of that period was the introduction of a European exchange rate system, also known as the "snake" or "snake in a tunnel" in 1972 (following the acceptance and authorisation of the Werner Report), and the conclusion of an agreement on the European Monetary Co-operation Fund in April 1973.

In 1974 the Council of Ministers made a decision whose objective was to ensure high level of economic convergence among the individual EC member states (directive on stability, growth and full employment). This period of clarification and formulation of opinions proved to be extremely important later on when it became obvious that economic convergence was a necessary condition of a successful and fully functional monetary union.

European Monetary System. At its summit held in July 1978 in Bremen the European Council decided to establish the European Monetary System (officially launched in March 1979). The EMS combined certain elements of the abandoned mechanism proposed in the Werner Report with a convergence approach. It represented a parallel between the following linked factors:

- maintenance of exchange rate parity,
- introduction of economic convergence.

June 1988 – the Hanover summit of the European Council – objective: assessment and proposition of "concrete steps" leading to an economic and monetary union. The Delors Committee and Report.

ČESKÁ SPOŘITELNA

Since the Hanover summit, the way to monetary union, in spite of all complications and risks, has been more or less continual, following all time schedules and objectives specified afterwards (although sometimes with utmost difficulty). A real and critical loading test came during the period of 1998 – 2002 when the Union managed to successfully meet all deadlines and tasks.

4.1.2. European Monetary System (EMS), 1989 - 1992

June 1989 – the Madrid summit of the European Council. Definition of general characteristics, conditions and deadlines of a project that was supposed to lead to the introduction of a monetary union and single currency. It consisted of several stages.

Stage One was initiated on 1 July 1990. All the member states prepared detailed convergence programmes focused on the convergence and improvement of their economic output. Their fulfilment and ongoing observance was regarded as a principal condition of the planned system of fixed exchange rates. The summit's key idea was the further development of all basic principles upon which the European Monetary System was based. Although this stage resulted in a clear improvement of economic convergence of the individual EC (EU) member states, the development of an exchange rate system – after a brief period of success – followed a completely different path, with a distinctively flexible arrangement prevailing over fixed exchange rates (practically until the introduction of the European Monetary Union).

The main objective of Stage One was to prepare a concept of convergence programmes of individual member states focused on mutual cohesion and the improvement of economic efficiency. While this objective was almost completely met, one of the intended pillars of the Union's convergence philosophy, the idea that the improvement of economic output will create conditions for the gradual cohesion of individual member states, eventually leading to complete fixation of their exchange rates, collapsed at the very beginning. It was demolished as early as the second half of Stage One by the actual development of exchange rates. As a result, the Union was soon forced to improvise on its planned convergence course.

The Maastricht Treaty. The European Union Treaty signed in Maastricht on 7 February 1992 is the key document ensuring the eventual introduction of a single currency.

4.1.3. The Principle of Flexibility

Some member states expressed their political distrust of the European Monetary Union as well as their reluctance to participate and eventually join in resulting not from insufficient economic preparedness but from political reasons as early as upon their ratification and signing of the Maastricht Treaty.

The process of observance of the principle of flexibility, "codified" by the Amsterdam summit of the European Council in June 1997, is a permanent one. In the initiation stage of the Maastricht process flexibility meant above all the adoption of quite extensive exemptions and the conclusion of additional protocols enabling certain member states to proceed independently.

Determination of a reasonable flexibility ratio – a challenge for the upcoming period of the European integration process – on one hand, all member states must be interested in accepting the widest and deepest possible base and platform, thus supporting its common denominator; on the other hand, each member state is still a sovereign unit having the right to defend its own opinions and directions.

In the additional set of protocols to the Maastricht Treaty, Britain, for instance, reserved the right not to take part in Stage Three (i.e. to stay out of Stage Three), even if it complied with the required economic efficiency and convergence criteria. In another protocol, Denmark reserved the right to organise a referendum concerning its participation in Stage Three because this is required by its constitution. Both aforementioned countries, together with Sweden, thus have the right to opt out of Stage Three, although thanks to their current economic output, they would very likely be able to support the European Monetary Union considerably.

4.1.4. The Purport and Legitimacy of the Maastricht Convergence Criteria as an EMU Admission Condition

Convergence has become an integral part of the vocabulary used in connection with the economic and monetary union of the European states. The launch of the European Monetary Union on 1 January 1999 also meant the end of the 10-year period in the course of which the economic policy of individual member states focused above all on their meeting of the criteria adopted in Maastricht. Since then, these criteria have become relevant only to those member states that refused to join the "Euro-zone" in 1999 and to the new EU member states hoping to join it in a couple of years. A certain comprehensive assessment of their purpose and justification is, therefore, necessary. It is also possible to say that a modified version of the criteria adopted in Maastricht is included in the regulations of the Pact of Stability and Growth.

4.1.5. Positive Convergence in Monitored Areas

It is possible to say that the convergence efforts specified above helped individual EU member states meet the criteria agreed in Maastricht, especially those created during the last three years prior to December 1997 when the European Commission played an important role in this area (in particular, from May 1995 to December 1997).

The average inflation rate in the European Union decreased from 2.2% to 1.3% between December 1996 and December 1997. All member states – except for Greece – recorded an inflation rate of less than 2%. At the same time, standard divergence – used as a convergence criterion – dropped from 1.6% to 0.9% and the long-term interest rate throughout the entire Union decreased to 5.5% as of December 1997 (i.e. as of the end of the reference period). In addition, there was almost no difference among the interest rates specified by individual EU member states. It is interesting that the exchange rates of EU currencies remained relatively stable even upon the conditions of a modified (i.e. not as strict) exchange rate mechanism (ERM). The criterion of fiscal deficit – the most serious stumbling block of convergence efforts – improved considerably especially in the course of 1997, although not always as result of completely correct methods. It is, nevertheless, true that fiscal deficits dropped in all EU member states (some even recorded a fiscal surplus). Besides, the average proportion of budget deficit in the GDP in all EU member states decreased in December 1997 to 2.4% (in comparison with 4.2% in the same period of the previous year). At the end of 1997, for the very first time in the 1990s, the proportion of public debt in the GDP also dropped. It is necessary to realise that its reduction is even more difficult than the reduction of the previous indicator. As a result, the environment necessary for the maintenance of non-inflation economic growth was improved considerably. On the downside, the average amount of public debt in the GDP was still too high, totalling 72.1% in December 1997 (i.e. 12.1% over the limit). In addition, in three EU member states (Belgium, Italy and Greece) the value of the public debt criterion exceeded the aforementioned average substantially.

4.1.6. Permanent Necessity of Economic Discipline and the Pact of Stability and Growth

In the context of a common monetary policy, it is extremely important to *maintain* the cohesion and convergence achieved in the period 1991 – 1998, *preferably permanently*, i.e. during the entire effective period of the monetary union. It is obvious that most countries admitted to the European Monetary Union will need effective and long-term stabilisation mechanisms of a structural nature helping them to deal with a wide range of risks, such as:

1. high and persisting unemployment, to a large extent structural,

2. demographic trends that might result in huge public expenditures,

3. a high level of public debt negatively affecting the normal state budgets of several EU member states until its considerable reduction.

4.2. Adjustment of the Corporate Sphere to EMU Conditions: Current Experience and Themes

The establishment of a common economic and monetary union represented an enormous challenge for the corporate sphere in all current 12 EMU member states. Their experience, together with a possible specific impact on the Czech Republic, is the subject of Chapter 4 of this Section.

4.2.1. Impact on the Corporate Sphere

While at the stage of technical preparations of the European Monetary Union, banks and financial institutions could enjoy a considerable advantage thanks to the European Commission's Green Book published in May 1995, the practical impact on other corporate departments was much less obvious.

In this document, we shall concentrate on two types of impacts on both financial and non-financial subjects, including their implications in our business environment, and three levels of interest.

1. All companies and entrepreneurs should start their preparations for our admission to the European Monetary Union as soon as possible. Their preparedness may prove to be vital, if they want to fully exploit all effective changes of monetary environment and – at the same time – avoid both technical and personnel problems.

2. It is necessary to highlight the role of civil authorities and institutions responsible above all for eliminating technical, legislative or fiscal obstructions that could complicate or even prevent our use of a single currency in the initial stages.
3. Individual companies and entrepreneurs require clear, complete and practically usable information on the European Monetary Union and the single currency.

4.2.2. General Functional Impacts

The introduction of a single currency should create new business opportunities and contribute to a higher efficiency of corporate organisations and their systems. These changes are in the interest of the entire European Union because they can positively affect not only its general competitiveness but also the current alarming unemployment rate (although an employment policy can easily prove to be a high-risk factor). A single currency will help increase the size of markets that can be regarded as domestic (or homogenous) from a monetary point of view. This aspect is much more important for small and medium-sized firms than for multinationals because multinationals are already well prepared for the execution of cross-border transactions within the European Union.

Information systems play one of the most important roles in the aforementioned process. It is recommended that information systems of individual corporations be included in the first stage of monetary adjustment to a single currency, if possible problems in this area are to be avoided. Monetary transformation gives us a unique opportunity to harmonise corporate information systems.

Communication needs. The European Commission, as the Union's executive body, places great emphasis on effective communication. It recommends that specialised national centres be established, ensuring that the entire transformation process is smooth and gradual. The corporate sphere was very interested in initiating discussions between the private and public sectors, especially in connection with fiscal administration.

4.2.3. Internal Management of the Single Currency Project

1. Gathering information and sharing information with other organisations.
2. Establishment and creation of a EURO basis (platform).

Table: Recommended structure of a single-currency platform

Director General or Financial Director					
Steering Committee					
Finance	Administration	Marketing	Personnel dept.	Legal dept.	Information system
Working group	Working group	Working group	Working group	Working group	
Information system	Information system	Information system	Information system	Information system	Information system

3. Identification of business areas requiring modifications as a result of a single currency.
4. Determination of transition strategy, including time schedule and corporate budget.
5. Implementation of changes.

4.3. How should the Czech Republic Prepare itself for the EMU?

In the concluding section of this Chapter we shall try to define a comprehensive system of objectives that the Czech Republic (and all other newly admitted countries) must meet in order not to represent a risk element in the expanded European Monetary Union. We shall demonstrate that in addition to macroeconomic and monetary objectives, it is also necessary to analyse and discuss such terms as competitiveness, innovation potential, flexibility of workforce, quality of public services, etc.

The introduction of a single currency in January 1999 affected the Czech Republic only marginally because the Czech Republic was not at that time a member of the European Union (not to mention the European Monetary Union) and the Czech crown remained its legal tender. As a result, any adjustment in the monetary area was merely a matter of natural competitiveness, not a binding obligation. The necessity of a voluntary adjustment to single-currency conditions originated above all in the financial sector. Czech banks, in particular, were very eager to offer routine transactions in a

ČESKÁ SPOŘITELNA

single currency from the very beginning. Other domestic non-banking financial institutions – unless directly involved in activities concerning the European Union or holding foreign exchange licences for trading abroad – were affected much less by the introduction of a single currency. The second group of subjects affected by the introduction of single currency, albeit more technically than economically, includes non-banking and non-finance corporations with foreign interests or participants in foreign trade transactions. All such companies are to a lesser or greater extent confronted with the need to conduct their accounting books in a single currency and to adjust their payment and information systems accordingly. This is, naturally, a concern of individual subjects, such as consultation firms, travel agencies, hotels, etc. The European Monetary Union naturally affects also all individual citizens travelling to one of its member states, whether privately or on business. Thanks to a single currency replacing the individual national currencies of the 12 EMU member states, the financial and economic relations of corporate bodies and private individuals alike have been much easier and simpler since 1 January 1999.

No dramatic macroeconomic changes have resulted from the introduction of a single currency. Technically, the most important change concerned the structure of our foreign exchange reserves (in particular, the considerable amount of assets denominated in German marks).

It is obvious that the aforementioned situation changed quite substantially after the admission of the Czech Republic to the European Union. As a result, we need to adopt a wide range of binding measures in the area of exchange rate co-ordination (admission to the first preparation phase of the European Monetary Union and to the European System of Central Banks), create a strategy of participation in the exchange rate mechanism ERM II and begin preparations for our admission to the European Monetary Union on a macroeconomic level.

When the Czech Republic is admitted to the European Monetary Union, the Czech crown will cease to be the legal tender within its territory (which will become an integral part of the monetary union). It is almost certain that at that time, the interest rates, price level and other macroeconomic parameters will be more or less identical to those typical for current EU members.

How is the economic policy of the Czech Republic going to be affected? On a macroeconomic level, our adaptation to single-currency conditions should bring only general merits. When looking for an analogy, we only need to go back to the 1990s. In that period, individual EU member states (some of them in a much worse macroeconomic situation than the Czech Republic today) improved their basic macroeconomic indicators enormously and reached a level of convergence higher than ever before because they were forced to meet the criteria agreed in Maastricht. Even if the Czech Republic succeeded in achieving nothing more than this, its economic situation would improve considerably. This means that the convergence process related to our admission to the European Monetary Union is beneficial under any circumstances because it produces important economic merits. Even if we did not join the European Monetary Union for any hypothetical reasons, the convergence merits alone would justify our effort.

Possible drawbacks include above all reduced national sovereignty in the area of monetary policy (this aspect is, however, closely linked to any integration process – in other words, if a country is not prepared to give up a part of its national sovereignty, it should not take part in integration efforts) and the inability to use exchange rate and interest rates as instruments of national economic policy. Nevertheless, we will be still able to enjoy the said national privileges in full for at least a couple of years.

The Union's structural and cohesion policies **should help overcome the existing economic and social differences** (*see below*).

After 2006 (when the new EU fiscal regulations come into force), it will be necessary to adopt a whole range of changes in the area of cohesion policy reacting to the emergent social and economic disparity within the European Union related to its expansion. It is, however, necessary to say that the Union's expansion – although a very important factor – is not the only reason why its cohesion policy must be modified. Its reform is also a direct result of current economic, social and territorial changes taking place in the existing EU. The aforementioned aspects represent the subject of current discussions whose outcome will undoubtedly affect the Union's new cohesion policy to come into effect on 1 January 2007.

5. Common and Co-ordinated Policies

5.1. Financial Policy and Harmonisation

In order to meet the objectives formulated in the Rome Treaty, the European Communities went almost immediately to great pains to introduce common policies focused on economic and social progress and improvement of living conditions, by eliminating all unnecessary and useless internal barriers that divided (or used to divide) Europe, strengthening economic unification (common economic characteristics) and overcoming differences among individual regions.

The European Communities and the European Union later created a whole range of financial instruments used to achieve the aforementioned objectives. The most important of them is the European Budget, whose revenues have been drawn from the Union's own resources since 1970 and whose expenditures have been monitored by the Court of Auditors since 1977. It is also used to finance various structural funds and regional projects.

Some activities in specific areas are financed from off-budgetary resources. In the coal and steel industries, for instance, the European Coal and Steel Community regularly uses financial means acquired through loans and coal and steel production charges. The main source of assistance provided by the European Union for Third World countries is the European Development Fund, to which individual member states contribute directly.

5.1.1. European Budget

The European Commission, the Council of Ministers and the European Parliament participate in the preparation of the European Budget. Each year, the European Commission presents a preliminary budget to the Council of Ministers. This is either accepted or changed by a qualified majority and then forwarded to the European Parliament. Here, it is discussed in the course of its first reading. The Parliament can either approve the budget immediately or propose changes to "obligatory" expenditures and vote for changes to "optional" expenditures.

The budget is then examined by the European Council. It can either approve the modifications proposed (conducted) by the European Parliament by a qualified majority or perform additional changes. In the latter case, the budget is returned for the last time to the Parliament for a second reading. The Parliament then adopts its final verdict. In this phase, it can confirm the original changes after "reconciliation" discussions with the Council of Ministers by approving the budget by a qualified majority (i.e. three fifths of all votes). If the Parliament rejects the budget even after its second reading, including the aforementioned "reconciliation" discussions with the Council of Ministers, the Council of Ministers is obliged to produce and present a new proposal.

The aforementioned procedure shows that all European Budget-related executive powers are divided between the Council of Ministers and the European Parliament, with the latter acting as a democratic controlling body.

Expenditures. The largest amount of expenditures of the European Union is represented by operating costs related to operating and investment requirements of various programmes, projects and policies of both member and non-member states. Administration costs represent only 4.5% of the overall amount (the most important EU institutions employ some 25,000 persons). Almost 90% of all expenditures are allocated to economic, social, cultural and regional programmes taking place in both member and non-member states of the European Union.

(1) Agriculture. Its share still amounts to almost one half of the Union's overall expenditures (although it is much less than in the 1990s when agricultural price guarantees alone totalled up to 45% of the total expenditures). While the amount spent on European agriculture may seem extremely high, and this opinion is shared by many experts, it can be explained quite rationally by the fact that agriculture in the European Union is funded through multinational financing systems.

(2) Structural measures represent the second largest item, amounting to some 28% of the overall expenditures. This increase is a result of the hectic efforts preceding the launch of the common market on 1 January 1993 and involving above all the significant strengthening of economic and social cohesion. It is also a result of the co-ordination of the structural funds defined by the Unified European Act. Its main objective was to double the available financial means in the course of a period determining the success of the common market (1987 – 1993), promote regional policies focused on the elimination of regional differences and reduce unemployment.

(3) Other areas of joint advancement, such as social policy, power engineering, the environment, industry, consumer protection and research represent approximately 7.5% of total expenditures (more than one half is spent on research and technological development).

(4) Approximately 4% of the overall amount of expenditures is reserved for international co-operation, above all with Latin America, Asia and the Mediterranean, and food aid. However, these financial means do not represent the only aid provided by the European Union for non-member states. For example, its financial and technical assistance provided in accordance with the Lomes Convention for 69 African, Caribbean and Pacific countries comes from the off-budgetary European Development Fund. For illustration, the amount in the period 2000 – 2005 totals € 13.5 billion. Neither the PHARE nor TACIS funds can be regarded as an integral part of the European Budget.

5.1.2. Unification and Harmonisation of Fiscal and Tax Policies

The legislative basis of the unification and harmonisation of fiscal and tax policies was determined by the Rome Treaty. Its ratification, however, was followed by almost 10 years of stagnation. Afterwards, the European Communities finally decided to define the principal subjects of fiscal and tax harmonisation, above all indirect taxes. While VAT harmonisation has become one of the principal conditions of admission to the European Communities (European Union), some efforts have also been made in the area of other fiscal legislation and administration.

Other attempts at fiscal unification and harmonisation, although almost never binding, concern the structure of national public budgets and their statistics, the co-ordination of national budgetary policies or documentation of the process of convergence of budgetary revenues and expenditures to the GDP in individual countries.

We shall try to focus on those elements of fiscal administration that could be regarded as standard and reflecting budgetary processes. This should help us realise which way to go if we want to adopt a compatible fiscal policy and also which areas will be affected by individual necessary modifications. In addition, we will also discover that certain elements are already almost comparable.

At this point, it might be helpful to mention individual unification directions of the Union's financial policy and indicate when they became an integral part of the entire European integration process.

The legislative platform of unification and harmonisation of fiscal and tax policies was determined upon the very launch of the European Communities, for it is included in the Rome Treaty of 1957. Its ratification, however, was followed by almost 10 years of stagnation concerning not only the harmonisation of tax systems but the entire area of financial policy. The European Communities regarded the harmonisation of indirect taxes, above all Value Added Tax, as the main problem (the European Union still does), with other tax rates, even though their fragmentation represents a serious barrier negatively affecting the proper functioning of both the European Internal Market and the European Monetary Union, never becoming subject to intensive harmonisation. This applies above all to corporate tax and individual income tax.

A breakthrough in the harmonisation of indirect taxes came in 1967 when it was decided that the then existing systems of indirect taxation would be replaced by Value Added Tax (VAT). It was introduced in all EC member states in 1973. The newly admitted states, however, were granted temporary exemptions (Greece, for example, introduced VAT as late as 1986) because a fast transition to VAT proved to be very expensive. The process of tax harmonisation was given a fresh impetus in 1977 when a uniform base for the calculation of VAT was approved. It must be said, however, that it has not become binding yet, with individual countries usually using tax rates reflecting their national specifics. Most of them use two types of rates, standard and reduced. Needless to say, any increase of lower tax rates or lowering of higher tax rates is always subject to heated discussions of the parties concerned and that no significant progress has been achieved so far in the area of further unification. The Czech Republic currently uses two different VAT categories corresponding to the limits specified by the European Union.

The subject of closer fiscal co-ordination reappeared in connection with the launch of the Common Internal Market in January 1993, but to no avail whatsoever because once again, all the proposed measures concerned indirect taxation exclusively. It is said that direct taxation has enormous political influence with an immediate effect on voters. Clearly, the longer the existing VAT differences prevail, the larger barriers or disparities will exist on the consumer market. As internal border controls are no longer possible in most countries thanks to the Schengen Treaty, entire industrial sectors have been wiped out in regions subject to higher taxation. This trend is clearly visible even in the most developed EU member states. The elimination of differences will, therefore, be one of the key conditions of the Common Internal Market even in the consumer sector. The same aspect also troubles the harmonisation of consumer tax on selected consumer products (tobacco, alcohol, mineral oils, fuels) in the European Union. Because of the said differences, some EU member states, especially their border zones, experience shopping invasions from across the border. While in tax-attractive countries trading in some commodities flourishes, producers of the same commodities on the other side of the border face bankruptcy.

On the other hand, direct taxation hasn't thus far been subject to distinctive unification attempts, even though the differences in direct taxation represent clear and obvious barriers restricting the possible co-operation of firms and companies within the territory of the European Union and give some subjects a significant advantage over other subjects on the Union's otherwise almost integral market. In order to ensure perfect functioning of the Common Internal Market in future, it will be necessary to eliminate different income tax rates in individual EU member states.

In contrast to the harmonisation of indirect taxes, no unified (not even optional) system of taxation of corporate and personal income has been designed thus far. Direct taxation is also closely linked to tax breaks (tax-deductible items and allowances) and accelerated depreciation methods. Although uniform depreciation rates and joint principles of accelerated privatisation have been produced, no significant agreement has been reached in this area.

In comparison with the United States, revenues in the European Union (or European Communities) are – and above all used to be – subject to mainly indirect taxation, with tax systems based first and foremost on VAT and consumer taxes. In this context, the Czech Republic is even more "European" than most EU member states because its revenues from VAT and consumer taxes are approximately three times higher than its revenues from direct taxes.

The process of harmonisation of the financial policy in the European Union is definitely not an insignificant problem. In addition, it is obvious that the scope of redistribution of the GDP through public budgets in EU member states has been growing steadily (on average, by 5% in the course of each decade). It is difficult to say whether the stagnating proportion of tax revenues in GDP totalling some 43% is a result of the huge cuts necessary in order to meet the admission-related convergence criteria or whether it reflects the necessity to decrease the overall amount of public budgets.

While the aforementioned proportion amounted to approximately 34.9% in the period of 1961 – 1970, it grew to 39.4% in the period of 1971 – 1980 and to 43.6% in the period of 1981 – 1990. At the moment, it is relatively stable, totalling approximately 43%. The importance of direct and indirect taxes and their proportion in the GDP are demonstrated by the following tables.

Table: Proportion of direct taxes in 1965 - 95 (concerning goods and services, in % of GDP)

	1965	1980	1986	1995
Belgium	8.5	17.8	18.3	19.2
Denmark	13.7	25.0	28.4	31.0
Finland	10.0	11.2	15.5	20.0
France	5.6	7.6	8.0	11.0
Ireland	6.7	12.4	14.5	17.5
Italy	4.2	9.3	13.7	14.8
Luxembourg	10.9	17.7	18.3	22.0
Germany	10.7	13.3	13.0	16.3
Netherlands	11.9	15.1	12.6	13.2
Portugal	4.5	5.7	6.9	9.5
Austria	12.0	13.5	14.8	15.2
Greece	2.0	5.5	6.4	8.0
Spain	3.6	6.3	7.6	10.0
Sweden	12.8	17.5	21.7	26.5
United Kingdom	11.3	13.3	14.9	17.9
EU in total	**7,8**	**12,4**	**13,6**	**18,2**

ČESKÁ SPOŘITELNA

Table: Proportion of indirect taxes in 1965 - 95 (concerning goods and services, in % of GDP)

	1965	1980	1986	1995
Belgium	11.4	11.4	11.4	13.5
Denmark	12.1	17.0	17.6	17.5
Finland	9.5	10.2	10.7	11.6
France	13.4	12.7	13.1	14.0
Ireland	13.7	14.9	16.7	15.0
Italy	9.3	7.9	9.6	11.2
Luxembourg	7.5	8.6	12.3	14.7
Germany	10.4	10.3	9.6	10.0
Netherlands	9.5	11.6	12.6	13.5
Portugal	8.1	12.9	15.5	17.9
Austria	10.5	11.7	11.8	13.0
Greece	10.7	11.5	18.3	21.9
Spain	6.0	5.0	10.0	13.2
Sweden	13.9	12.7	13.5	15.0
United Kingdom	10.1	10.4	11.6	12.0
EU in total	**10.2**	**11.2**	**11.3**	**16.7**

The project of a gradual convergence of VAT rates

The Union’s executive bodies, above all the European Commission, did a great deal of work on fiscal harmonisation, especially immediately before the opening of the Common Internal Market in 1993, by preparing a **project of gradual convergence of VAT rates** whose realisation was not limited by the year 1993, based on the following instruments:

- convergence of VAT rates,
- new business agreements concluded by EC members,
- clearing system for tax revenues.

It was expected that upon the launch of the Common Internal Market its prospective members (then including only EC member states) would use two VAT rates, standard and reduced. Standard VAT rates were supposed to range from 15 to 20% (subsequently increased to 25%). Reduced VAT rates, applying, for example, to food, water supplies, pharmaceutical products, books, newspapers, periodical press, passenger transport, etc., were to range from 4% to 9%. Each member state was to be given an opportunity to modify its VAT rates in accordance with its historical and national specifics. Unfortunately, only a fraction of the said principles was implemented in practice. It is possible to say that although EU member states presently use two types of VAT rates, they rarely observe the aforementioned limits. In addition, in some countries there is more than one VAT rate in each category. Some countries use differential VAT rates. In fact, thanks to its VAT legislation, the Czech Republic is in this respect in better situation than some EU member states.

Tax parameters to be observed by the Czech Republic

It is clear from the completed negotiations that the **Czech Republic joined the European Union upon the following tax-related conditions** (regardless of the future development of fiscal and tax reform):

- **Value Added Tax:** the transfer of selected goods and services from the reduced 5% rate to the basic 19% rate. Thanks to an exemption effective until 31 December 2007, the aforementioned reduced VAT rate may be applied to construction work on residential structures and to heating supplies. In addition, the Czech Republic was granted a permanent exemption in the area of the registration of persons for VAT (the original minimum annual turnover was reduced from CZK 3 million to approximately one third of this amount, depending on the current exchange rate as the new sum is specified in EUR - € 35,000.00).
- **Consumer tax**: the introduction of conditional tax exemption through tax warehouses operated by licensed subjects in accordance with strict criteria. Pursuant to a special time schedule the consumer tax on cigarettes (currently totalling 40%) should be increased gradually. It is supposed to amount to 57% as of 31 December

ČESKÁ SPOŘITELNA

2006. In addition, consumer tax on other commodities (above all liquid and compressed gas, except for gas designated for transport and heat-producing purposes, and heavy fuel oil) currently lower than in the European Union, will be also harmonised. The increase of tax on spirit and tobacco products will be accompanied by measures preventing tax evasion (prohibition of sale at marketplaces, compulsory labelling of alcoholic drinks with tax labels, more consistent control resulting from the aforementioned new concept of tax warehouses, etc. (from 1 January 2004).

- **Income tax**: the only areas affected by harmonisation are the joint taxation of parent companies and subsidiaries operating in different EU member states, the uniform taxation of mergers, asset transfers and the exchange of shares carried out by companies located in different EU member states.
- **Road tax**: vehicles registered in other EU member states and selected non-member states are no longer subject to road tax.
- "**Ecological taxes**": where applicable, the amount of consumer tax on hydrocarbon fuels was increased to the minimum level applied by other EU member states. This measure is expected to have a significant ecological effect.

5.2. EU Regional Policy and its Financial Instruments

5.2.1. Analysis of the financial support in the framework of Structural a Cohesion Policy in the EU

5.2.1.1. Basic characteristics

Because of the global character of current business relations, individual territories and their economic activities, whether within or outside the European Union, are subject to ever-increasing competition. However, not all regions have the same economic, social and geographical qualities and not all of them compete upon the same conditions.

For many years the problems determined by different development and life conditions, existing long before the establishment of the European Communities, were being dealt with almost exclusively by the member states concerned. This situation changed dramatically when common European policies were introduced. Since then, the amount of GDP per capita in the three least developed EU member states has increased significantly, drawing much closer to average EU figures.

Nevertheless, substantial differences, quite distinctive not only as a result of comparison among individual EU member states but above all as a result of comparison among individual regions within the European Union, still persist. That is why EU regional policy is regarded as necessary and practical for the stimulation of harmonious development of the entire EU territory. Its objective is to enable all EU regions to benefit in full from all opportunities offered by the Common Internal Market and at the same time, contribute to the stability of the Economic and Monetary Union (EMU).

The Union's regional policy is, above all, a matter of **solidarity**. It should secure assistance and aid on an EU level and help the most disadvantaged regions overcome their handicaps. Between 2000 and 2006 one third of the Union's budget (€ 213 billion) will be spent on regional policy, i.e. redistributed among the most underdeveloped regions. Both individual EU member states, through their own schemes and projects of regional assistance, and the European Union as a whole will continue to try to reduce development differences, contribute to the convergence of recession-affected industrial regions, diversify activities in rural areas and improve urban areas stricken by decline and decay.

Regional policy is also **material** and **noticeable**, its results being clearly recognised by all EU citizens benefiting from job-seeking assistance and above all various training and retraining courses reacting to changing labour market conditions. It also helps improve the life of all people living in those regions whose public finances are supported by additional funds, especially in the area of infrastructure construction and the enhancement of the competitiveness of local firms and companies. Motorways, airports and some high-speed railways have been built or reconstructed thanks to co-financing from the EU funds known as Structural Funds. Not to mention the fact that all construction activities co-financed in this manner are always subject to strict European environmental standards. Another objective of regional policy is the establishment of new small and medium-sized companies and their support in remote regions. Informational society infiltrates even the most remote rural areas. New educational, health protection and leisure-time opportunities are introduced in reconstructed and revitalised suburbs. All the aforementioned facts can be demonstrated by clear and apparent examples.

5.2.1.2. Legislative base

Articles 2 and 3 of the Founding Treaty of the European Communities specify that one of the principal objectives of European integration is to "support harmonious, balanced and sustainable development of economic activities, a high level of employment and social protection increasing the quality of life and status and economic and social cohesion and solidarity among all member states within the entire territory of the European Communities".

More particularly, pursuant to Section XVII, Articles 158 – 162 of the Treaty, addressing economic and social cohesion, the European Communities focus on the reduction of development differences among individual regions and on the underdevelopment of regions and islands, including rural areas. The European Union supports cohesion efforts through projects financed from its Structural Funds. In addition, the European executive (the European Commission) is supposed to present a report on progress towards economic and social cohesion every three years. The report should also include suitable proposals concerning the future concentration of regional policy.

5.2.1.3. Decision-making procedure

Pursuant to Article 161 of the Treaty, the European Council decides unanimously on proposals presented by the European Commission and – having obtained approval from the European Parliament and having consulted the Economic and Social Committee and the Regional Committee – specifies the following aspects related to the Structural Funds and the Cohesion Fund:

- objectives, priorities and organisational matters,
- general regulations,
- regulations ensuring the efficient utilisation of individual Funds, their mutual co-ordination and co-ordination between the Funds and other existing financial instruments.

The aforementioned decision-making procedure will be changed in accordance with the Nice Treaty of December 2000. As of 1 January 2007 the European Council will be deciding by a qualified majority on all matters concerning the Structural Funds and the Cohesion Fund. However, as the next programme period (2007 – 2013) begins in 2007, all its financial aspects will have to be adopted and approved by the European Council unanimously.

5.2.1.4. Instruments

At present, the European Union provides financial assistance in compliance with regional development programmes agreed by individual regions, EU member states and the European Commission for several years in advance and in accordance with specific Community initiatives and schemes through the following four Structural Funds:

1. **European Regional Development Fund** (ERDF). It is used to finance infrastructure, productive investments used to create new jobs, local development projects and assistance for small and medium-sized companies.
2. **European Social Fund** (ESF). It is used to finance the adaptation of the workforce to new labour market conditions and to enable the unemployed and other disadvantaged groups to find jobs, especially through retraining and recruitment programmes.
3. **European Agricultural Guidance and Guarantee Fund** (EAGGF), in particular its orientation section. It is used to finance rural development and assistance to farmers, especially in underdeveloped regions, and common agriculture policies in other EU regions.
4. **Financial Instrument for Fisheries Guidance** (FIFG). It is used to finance structural reforms in the fishing industry.
5. **Cohesion Fund**. As a special solidarity fund, it is used to co-finance environmental and traffic networking projects in all EU member states whose GDP per capita amounts to less than 90% of the EU average (Spain, Greece, Ireland and Portugal in the current programme period).

The requirements of current EU candidates in these areas, i.e. infrastructure, industry, services, support of small and medium-sized companies, agriculture and the environment – are often rather constrained or exceed the capacity of the aforementioned Funds.

In the period 2000 – 2006 the European Union is helping EU candidates to prepare for their membership through Accession Partnership programmes, strategic documents concerning programme assistance from the following two new Structural Funds:

1. **Instrument for Structural Policies for Pre-Accession** (ISPA). It is used to help EU candidates finance transport and ecological projects in compliance with the Cohesion Fund's regulations.

ČESKÁ SPOŘITELNA

2. **Special Accession Programme for Agriculture and Rural Development** (SAPARD). It is used to help EU candidates prepare for the Union's Common Agricultural Policy.
3. **PHARE** (Poland and Hungary Assistance in Reconstruction of their Economies).

5.2.1.5. Development

The need to support balanced development by reducing distinct differences among various regions and to help the most underdeveloped regions catch up to the rest of the European Communities was addressed by the Founding Treaty of 1957.

The Treaty also secured the establishment of the European Social Fund (promotion of employment and improvement of workforce mobility within the Communities) and the European Investment Bank. The remaining instruments, whether intended, considered or proposed, designed to support development in individual member states were introduced later on in accordance with the progress of European integration and the accession of additional countries.

The European Agricultural Guidance and Guarantee Fund was established in 1962, when the Communities adopted their very first Common Agricultural Policy, with the objective of supporting and stimulating agricultural production within the European Communities. In 1964 the Fund was divided into two sections, guarantees and orientation, with the latter financially contributing to the structural reform of agriculture and promoting new forms of rural development.

The European Regional Development Fund was established two years after the accession of Britain, Ireland and Denmark in 1973. It first served as an assistance instrument for regeneration of the British industrial regions hit by the recession and as compensation for Britain's participation in the Common Agricultural Policy. The Fund's activities were considerably expanded to other underdeveloped regions later on, when Greece, Spain and Portugal joined the European Communities.

In 1986 the Unified European Act introduced for the first time specific legal classification of economic and social cohesion, thus creating conditions for real regional policy based on the principle of solidarity. This process also resulted in a significant increase of the Communities' financial base (pursuant to the Delors package), with structural and operating expenditures increasing almost twofold to 31% of the overall EC budget during the 1988 – 1993 period.

The Maastricht Treaty on the European Union of 1992 made economic and social cohesion one of the highest development priorities, together with preparation for the Economic and Monetary Union and the Common Internal Market. By defining the criteria of economic and budgetary convergence for all EU member states, the Maastricht Treaty contributed above all to the strict control of public deficits. Some of the poorer countries were forced to introduce very strict budgetary policies and invest in the infrastructure. Both measures helped accelerate their development and increase their growth potential. At that time, Spain, Greece, Ireland and Portugal were unable to meet the required criteria without considerable EU assistance. That is why the Union established the Cohesion Fund, thus showing its solidarity to the said four least prosperous member states (this characterisation has changed significantly since then, with Ireland becoming the third richest EU member state – in terms of GDP per capita – within just a decade). The Cohesion Fund was established to help the said countries enter the Economic and Monetary Union upon the most favourable and convenient conditions possible.

The Edinburgh Summit of the European Council in December 1992 decided to increase the amount of financial means designated for structural operations in the 1994 – 1999 period up to 40%. One year later, in 1993, the Financial Instrument for Fisheries Guidance was established in reaction to the fishing industry crisis occurring in the beginning of the 1990s. Its main objective was to help restructure the entire sector.

The Amsterdam Treaty of 1997 confirmed the strategic importance of cohesion by explicitly mentioning its influence on employment, when specifying the need to reduce the rate of unemployment within the Union.

The Berlin Summit of the European Council in March 1999 redefined the term cohesion once again when it approved the Agenda 2000, an action plan proposed by the European Commission to enhance EU policies and to create a new financial framework for the programme period of 2000 – 2006, while also respecting the process of EU expansion. The Agenda 2000 also deals with the necessary reform of the Structural Funds (both the Cohesion Fund and the Structural Funds were given a new legal framework that should remain valid until 2006), specifies that the assistance provided from the Funds will be concentrated and simplified and clarifies the individual roles and responsibilities of the EU member states and the European Commission.

In the area of EU expansion the Agenda 2000 also creates two new financial instruments, ISPA and SAPARD, determining the conditions upon which EU candidates can join the Common Internal Market and preparing the management of structural assistance provided by the Communities.

5.2.1.6. Outlook

At present, the Union's regional policy faces the following three key challenges:

1. **Economic competition** is much more intensive as a result of liberalisation. Firms and companies relocate to any place offering conditions ensuring better competitiveness (high-quality infrastructure and services, qualified workforce, etc.). Any region wishing to attract companies and create an entrepreneurial environment must offer an adequate infrastructure and high-quality services.
2. **Informational society** and technological revolution make people, firms, companies and territories much more flexible. The existence of telecommunications networks means that people – regardless of their current location – can expect to enjoy access to the latest know-how, innovations and top professional education.
3. **Expansion of the European Union.** The EU has been slowly opening to new candidates whose economic and social conditions are frequently worse that those of the least developed regions of EU-15. This very significant fact means that the current form and principles of the cohesion policy must be reassessed.

To a large extent, the aforementioned three angles will determine the resulting study. **However, in order to draw the most comprehensive picture possible of the given problem, a whole range of other relevant connections will be discussed.**

The reform of regional policy specified by the financial aspects of the Agenda 2000 was based on the provision of structural assistance above all for the most underdeveloped regions and on the significant simplification of implementation activities. In order to ensure better understanding of specific details and particular local situation, individual EU member states and their regions were given the opportunity to take over responsibility for their own futures and directly manage the financial means made available in accordance with the Union's structural and cohesion policy. They are, however, **obliged to co-ordinate all "European resources" and to ensure, control and accept liability for their efficient and suitable utilisation!!!** Not only did the cohesion policy contribute to a significant reduction of regional differences (and still does), it also helps establish partnerships associating the European Union, EU member states, local authorities and private enterprises and focusing on development strategies whose objective is to support the tasks and projects formulated by the European Communities.

The forthcoming process of EU expansion greatly increases the extent of economic and social cohesion and moves the focal point of the structural and cohesion policy eastwards. The accession of current membership candidates will eventually mean the reassessment of the existing regional policy concept and the consideration of at least the following three key aspects:

1. Regional development differences will increase considerably. While the Union's territory and population are going to grow by about one third, its GDP will raise by no more than 5%. At the same time, the Union will introduce a "new membership category" (directly linked to its structural and cohesion policy) including those member states whose GDP per capita amounts to less than 40% of the EU average (luckily, the Czech Republic will not be included in it).
2. The political focal point (i.e. the focal point of the structural and cohesion policy) will probably move eastwards; it is no wonder that the southern members of EU-15 – currently receiving the largest part of the financial assistance from the Cohesion Fund – are rather anxious for their future benefits.
3. The differences existing within EU-15 will not disappear as a result of EU expansion and should not be overshadowed by this process.

The aforementioned challenges by no means disable the existence of an economic and social cohesion policy. However, it will be necessary to specify the most suitable forms of assistance provided in compliance with the Union's cohesion policy as well as the fundaments upon which they should be based. It is, naturally, possible to say that the Union's future regional policy is not just a financial issue, but that it should be discussed in the context of European integration as such.

5.2.2. Regional Policy Reform in the Period of 2000 – 2006

The process of European integration is carried out by a group of countries tied together by economic relations and regulatory measures of common interest to which they are willing to conform. However, the concept of EU integration can be regarded as credible only upon the condition that they are able to achieve and maintain a sufficient level of economic and social cohesion. Taking this condition into account, the structural policy measures featured in the Agenda 2000 package concentrate on the following two principal challenges:

- efficiency improvement of structural policy instruments in order to achieve true economic and social cohesion;
- permanent inclusion of structural policy in the process of future expansion of the European Union.

Harmonious development has been one of the principal objectives of the European Economic Community since 1957. In the beginning, the Community succeeded in establishing a common market, ensuring the further development of all member states and overcoming certain regional differences. The Founding Treaty created all the necessary conditions for the establishment of the European Social Fund, whose main objective was to support employment and promote workforce mobility within the Communities. Nevertheless, its role was only marginal in the course of 1950s and 1960s because of a relatively high economic growth and low rate of unemployment at that time.

The economic shocks occurring in 1973 and the resulting need for economic restructuring highlighted developmental differences among some member states. Regional differences increased even further after the accession of Britain and Ireland and later on of Greece, Spain and Portugal.

The introduction of a real structural policy reducing the differences in economic growth and living conditions soon turned out to be necessary. Apart from the European Social Fund, the Communities established other Structural Funds, each having a specific purpose. The Communities also established the European Agricultural Guidance and Guarantee Fund (EAGGF) whose objective was to finance their Common Agricultural Policy; the European Regional Development Fund (ERDF) concentrating on selected underdeveloped regions and the Financial Instrument for Fisheries Guidance (FIFG).

The Cohesion Fund was established together with some of the Structural Funds in 1993. It is used to finance the transport and ecological infrastructure of those member states whose GDP per capita amounts to less than 90% of the EU average.

The term “economic cohesion” was defined by the Unified European Act in 1986 and since 1992 (when the Maastricht Treaty on the European Union was signed), it has been representing **one of the three pillars of the European Union** (together with the Common Internal Market and Economic and Monetary Union). Today, cohesion is no less important and this fact is reflected by the European Budget, with the structural policy representing the second most significant programme financed by the European Union (after its Common Agricultural Policy).

5.2.2.1. The Reform of Structural Policy in 1999

While respecting the existing elements of structural policy, the reform of 1999 concentrates above all on:

a) **efficiency improvement of structural instruments** by enhancing concentration, limiting the number of objectives of both structural policy and Community initiatives, improving the management and clarifying the joint responsibility of all involved parties;

b) **strengthening** of economic and social cohesion;

c) inclusion of future member states in the **structural policy**.

ad a) Efficiency improvement of structural policy instruments

STRUCTURAL FUNDS

Generally speaking, the reform of 1999 increased the concentration of assistance and simplified and decentralised its management. On the other hand, it introduced a much clearer division of responsibilities and stricter application of the principle of subsidiarity.

The aforementioned higher concentration results from the reduction of objectives from seven to three.

a) **Objective 1** – support of the development and structural adaptation of all underdeveloped regions, i.e. all regions whose GDP per capita amounts to less than 75% of the EU average. This new objective concerns most remote regions (French overseas territories, the Azores, Madeira and the Canary Islands) and the regions covered by the former objective 6 resulting from the Accession Treaty concluded with Austria, Finland and Sweden. As in the past, two thirds of the operations concerning the Structural Funds concern objective 1. Almost 20% of the EU population could benefit from the measures adopted in connection with this objective.

b) **Objective 2** – contribution to the economic and social conversion of all regions suffering from structural problems not covered by objective 1. This objective partially replaces the former objectives 2 and 5b, now also covering all regions facing economic diversification: in general, it concentrates on all areas undergoing economic change and on the decrease of productivity in rural areas, areas dependent on the fishing industry and urban areas in crisis. This objective does not concern more than 18% of the EU population.

c) **Objective 3** – includes all measures concerning human resources, except for those covered by objective 1. It partially replaces objectives 3 and 4 and represents a reference framework for all measures resulting from the fight against unemployment defined in the Amsterdam Treaty and by the European Strategy of Employment.

All regions covered by the former objectives 1, 2 or 5b in the 1994 – 1999 period but uncovered by the new objectives 1 and 2 in the period 2000 – 2006 will be subject to temporary arrangements.

In addition, thanks to new measures, the overall number of **Community initiatives** was reduced from 13 to the following 4:

- **INTERREG** focused on the stimulation of cross-border, international and interregional collaboration.
- **LEADER** supporting rural development through the initiatives of local action groups.
- **EQUAL** focused on new methods of fighting against all forms of discrimination and inequality concerning access to the labour market.
- **URBAN** promoting the economic and social regeneration of towns and suburbs in a critical situation.

Each of the aforementioned four Structural Funds plays a specific role in the definition of Community objectives and initiatives.

ERDF. It is used to reduce regional differences within the European Union. This Fund allocates financial assistance to less developed regions. It contributes to the fulfilment of **objectives 1 and 2** and the **Community initiatives INTERREG and URBAN**. It is the **most important Structural Fund by far** in terms of financial resources.

ESF is the main social policy instrument of the Communities. It deals with the financial aspects of qualification courses, retraining and the creation of new jobs. Emphasis will be placed on the improvement of labour market conditions and the return of the unemployed to work. Although contributing to all three objectives of the structural policy, the Fund concentrates above all on objective 3. It also finances the Community initiative **EQUAL**. In addition, new regulations give the Fund more power in the area of social issues because it can now participate in projects forming a part of the European Strategy of Employment and affect employment policy principles.

The reform of 1999 preserved the dual contribution of **FIFG** to the regional development policy and the common fishing industry policy. All structural measures concerning the fishing industry form a part of the Union's common fishing industry policy or serve as instruments of a sectional policy.

EAGGF is divided into a **guarantee section** and **orientation section**. While the former finances the joint organisation of markets and agricultural prices, rural development related to market support, the rural development of regions not covered by objective 1, selected veterinary measures and informational measures concerning the Union's Common Agricultural Policy, the latter finances any other rural development not dealt with by the guarantee section, including the **LEADER** initiative.

New regulations make the policy of rural development simpler and more rational in the following aspects:

- specification and accentuation of rural development suitability criteria (concentrating above all on additional measures focused on agriculture and the environment, the support of farmers seeking early retirement, the modernisation and diversification of farms through investments, the support of young farmers, forestation, etc.);
- programming in the context of objectives 1 and 2 and new programmes of rural development;
- assessment of the financing source (i.e. either the guarantee section or the orientation section) depending on the regional context.

COHESION FUND

This Fund reflects the reform of the EU structural policy. Although still supporting the environmental and transport infrastructure, its operating procedures have been changed and simplified and the financial control of individual member states over the Fund enhanced.

The terms upon which it is possible to receive assistance from the Cohesion Fund (especially the macroeconomic criteria) have been modified. As a result, the financing is not terminated if the criterion of public deficit is not met, as in the past.

In addition, new regulations of project financing will stimulate the utilisation of additional private funds and better application of the "polluters pay" principle.

Halfway through the current programme period, in 2003, the suitability of individual projects financed from the Cohesion Fund (i.e. whether the criterion of 90% of the average EU amount of GDP per capita is met) will be reassessed. Should a member state no longer qualify for receiving support from the Cohesion Fund, the financial means allocated to the Cohesion Fund will be reduced accordingly.

ad b) Continuation of efforts at economic and social cohesion

In order to maintain the current level of economic and social cohesion representing one of the Union's priorities, in May 1999 all the main EU institutions (European Parliament, European Council and European Commission) concluded an agreement concerning budgetary discipline and its improvement in the 2000 – 2006 financial period, ensuring that in the 2000 – 2006 period 0.46% of the Union's GDP will be spent on economic and social cohesion (i.e. the same amount as in the 1993 – 1999 period). The overall budget of the Structural Funds and the Cohesion Fund in the said period shall amount to € 213 billion.

Table: Financial means for the Structural Funds and the Cohesion Fund in individual years

In millions of EUR, in 1999 prices

	2000	2001	2002	2003	2004	2005	2006
Structural measures	**32,045**	**31,455**	**30,865**	**30,285**	**29,959**	**29,595**	**29,170**
Structural Funds	29,430	28,840	28,250	27,670	27,080	27,080	26,660
Cohesion Fund	2,615	2,615	2,615	2,615	2,515	2,515	2,510

FINANCIAL MEANS FROM THE STRUCTURAL FUNDS

The overall amount of the Structural Funds, including transformation aid, Community initiatives and innovation campaigns, shall total € 195 million.

Financing of the aforementioned three new objectives:

- 69.7%, € 135.9 billion, is designated for objective 1,
- 11.5%, i.e. € 22.5 billion, is designated for objective 2,
- 12.3%, i.e. € 24.05 billion, is designated for objective 3,
- 0.5%, i.e. € 1.1 billion, is designated for the FIFG projects not covered by objective 1.

5.35% will be spent on Community initiatives and 0.65% on innovation projects and technical assistance.

FINANCIAL MEANS FROM THE COHESION FUND

In total, € 18 billion will be provided from the Cohesion Fund in the 2000 – 2006 period.

Inclusion of future EU member states in the structural policy

The process of EU expansion, concerning not only several Central and Eastern European countries but also Cyprus and Malta, will considerably increase the existing problems of economic and social cohesion within the Union, mainly as a result of the significant underdevelopment of new member states and their regions in comparison with the average development in EU-15. As the expansion is going to increase differentiation within the European Union and bring new problems related to the adjustment of individual regions and sectors, adequate preparation is necessary.

In order to ensure the effective adjustment of the structural policy to EU expansion, certain conditions will have to be met. Individual EU candidates will need enough time to get used to the way in which structural measures work. That is why their pre-accession strategy must, above all, be effective and open.

A whole range of instruments can contribute to the aforementioned objectives, including the PHARE programme helping the Central and Eastern European countries that have currently undergone political changes (its overall budget in the 2000 – 2006 period amounts to € 10.92 billion), ISPA financing environmental and transport projects (its overall budget in the 2000 – 2006 period amounts to € 7.28 billion) and SAPARD, representing another financial instrument of agricultural development (its overall budget in the 2000 – 2006 period amounts to € 3.64 billion).

When the current candidates become full-fledged members of the European Union, the aforementioned pre-accession assistance instruments will be replaced by particular programmes of the Structural Funds and particular projects of the Cohesion Fund, taking into account the specific character of each individual country.

5.2.3. EU Regional Solidarity vs. Expansion Process

5.2.3.1. New opportunities and big needs

Opportunities

The first report of the European Commission on the effect of EU policies related to the accession of Central and Eastern European countries was presented to the European Council at the Madrid Summit in December 1995. The European Council then asked the European Commission to deepen its analysis of expansion effects on Community policies, especially agricultural and structural policies. Agenda 2000 represents the first complete answer to this request.

The European Union must be prepared for expansion of the Common Internal Market from the existing 370 to approximately 500 million consumers and for the resulting strengthening of its position on the international political scene and global markets.

At the same time, there is a whole range of interests within the European Union that will generate significant pressure on sectional and regional adjustment, requiring that appropriate measures be adopted prior to the Union's expansion.

- reform of the existing operating ways and methods used by EU institutions and bodies,
- all candidates must adopt the *acquis* and prepare themselves for the Common Internal Market. This is the main objective of pre-accession strategy.

Needs

The average amount of GDP per capita in Central and Eastern European countries is still considerably lower than in EU-15. More than 98 million of the 105 million people living in those countries live in regions whose GDP per capita is lower than 75% of the average of the **expanded European Union**.

These countries have enormous needs in all economic and social sectors: industry, services, transport, the environment, agriculture or human resources. Their national transport networks will have to be expanded and integrated into the existing trans-European system. The most important environmental problems concern water and air pollution and waste disposal. Huge changes will also occur on the labour markets. The proportion of people employed in industry and agriculture is still very high (in comparison with EU-15), while the service sector remains weak – especially outside main settlements – and labour productivity well below the average of EU-15.

5.2.3.2. What are the consequences for regional policy?

At the summits in Göteborg, Nice and Brussels the European Council decided that the accession process should enable the new EU member states to participate in the next elections to the European Parliament taking place at the end of the first half of 2004.

The accession of new member states represents the main challenge for the current EU policy concerning economic and social cohesion. In reality, the Union will be joined by a group of countries whose average GDP per capita amounts to less than 40% of the EU average. The principle of solidarity requires that EU structural policies concentrate on the least developed regions, i.e. mostly on regions located in new member states. However, the current differences within EU-15 will not disappear and will have to be taken into account.

The implementation of regional development policies represents something completely new for the relevant authorities of new member states. Management of the Structural Funds – to which they will be soon entitled – requires far-reaching changes to practices and operating procedures on all levels of administration. It has to comply with the legal regulations on which the Union's structural assistance is based. In this respect, much has been done especially in the following areas:

- creation of a suitable legal framework for the implementation of regional policy,
- agreement with the European Commission on the administrative division of territories in compliance with NUTS,
- definition of long-term integrated regional development programmes,
- definition of responsibilities on all levels included in the implementation of a future regional policy in candidate states,
- compliance with general principles of structural assistance: programming, partnership, the principle of additionality, management, monitoring, evaluation, payments and financial control.

5.2.3.3. Pre-accession strategies

The pre-accession strategy approved by the European Commission in compliance with the Luxembourg resolution of the European Council of 1997 defines specific priorities based above all on the adoption of the EC ***acquis*** by all individual candidates.

The strategy also takes into account the increasing institutional and administrative capacity of EU candidates necessary for their application of the ***acquis*** and preparation of their companies for Community standards.

It is based on the thesis that because of the social and economic disparity resulting from the Union's expansion, it will be necessary to adopt a whole range of changes after 2006 ensuring that its cohesion policy corresponds with the requirements of EU-27 (we use the hypothetical term EU-27 as a symbol of the new expanded European Union, although considering the conclusions of the October summit of the European Council in Brussels, it is almost certain that the expanded Union will – at least temporarily – consist of just 25 member states and the term EU-25 would, therefore, be more accurate). At the same time, the Union's expansion from EU-15 to EU-27, however important, is not the only reason for changing its cohesion policy. Its reform would have been triggered by current economic, social and territorial changes within EU-15 anyway. The current discussion is expected to affect the Union's **new cohesion policy** coming into force on 1 January 2007.

HDP per capita in PPS (EU-25 = 100) in 2003

Luxembourg	208	Greece	79
Ireland	131	Slovenia	77
Denmark	123	Portugal	75
Austria	121	Malta	73
Netherlands	120	**Czech republic**	**69**
United Kingdom	119	Hungary	61
Belgium	116	Slovakia	51
Sweden	115	Estonia	48
France	113	Lithuania	46
Finland	111	Poland	46
EU-15	109	Latvia	42
Germany	108	*Norway*	*149*
Italy	107	*Switzerland*	*129*
euro-zone	**107**	*Iceland*	*116*
EU-25	**100**	*Romania*	*30*
Spain	95	*Bulgaria*	*29*
Cyprus	83	*Turkey*	*27*

Source: Eurostat

Note: The table also provides information on the situation of non-member states, such as Norway, Switzerland, Iceland, Romania, Bulgaria and Turkey.

The current lowest decile of development of EU-15 is considerably lower than the economic development of the Czech Republic (totalling 58% of the average amount of GDP per capita of EU-15). In addition, faster economic growth in the Czech Republic (in comparison with EU member states) should in two years time increase the relative weight of the Czech Republic. It is, however, also true that the Czech Republic temporarily lost its position at the end of 1990s as a result of economic recession.

5.2.3.4. Resources

One of the most important characteristics of the Union's future cohesion policy (apart from conceptual issues, such as addressing and identifying both problems and opportunities – positive approach) is the effective utilisation of the limited resources of EU-27. This means that the Union's future cohesion policy will have to address not only new member states and their regions but also all regions of EU-15 subject to persisting regional and territorial differences.

The next programme period begins in 2007. It is clear that the accession of new member states will result in considerable expansion of the areas whose economic development will have to be supported, if they are to reach the average EU level. However, even the regions of EU-15 will suffer from similar problems, although they may not seem so serious in relative comparison.

Nevertheless, the basic principle of cohesion policy must remain unchanged: the Union's limited resources must be concentrated on a limited number of problems.

One of the most important aspects of the current programme period is the strict application of the **principle of additionality**. This means that structural assistance provided from national public funds must at least equal the amount received from the Structural Funds.

PARTNERSHIP

The tendency to decentralise decision-making on national and Community policies has been increasing. As a result, regional and local authorities (governments) play a much more important role in this process. If indirect determination were to be used for the specification of resources more frequently, it would be better to add guarantees concerning regional and local authorities.

PROGRAMMING CAMPAIGNS

The process of programming should consist of two phases. The European Commission should define a general strategy, including various economic, social and territorial dimensions of its partnership with EU member states on national and international levels, and identify priorities, including areas of special Community interest. After the allocation of financial means in accordance with the specified priorities, programming would be decentralised to the relevant level; for instance, regional, municipal, international, etc.

For underdeveloped regions, integrated programming will remain the main instrument ensuring the positive results of their economic, social and territorial development. Selection procedures (ensuring an absolutely transparent selection of the most suitable offers) should be used widely on various levels (regional, national, international, in co-operation with the European Commission).

THE PRINCIPLE OF ADDITIONALITY

This principle (requiring that national funds be added to Community funds) was significantly simplified for the 2000 – 2006 period. In addition, the relationship between the Cohesion Fund and the Structural Funds was considerably improved.

The Cohesion Fund is designated above all for those member states whose GDP per capita amounts to less than 90% of the EU average (on condition that they have a programme of macroeconomic convergence). As an addition to the Structural Funds, it is regarded as a useful instrument promoting the investments and solidarity of EU countries.

In future, it will be necessary to reconsider the overall amount of the financial means allocated to the Cohesion Fund in absolute figures and to strengthen co-ordination between the Cohesion Fund and the Structural Funds.

The Treaty limits the use of the Cohesion Fund for transport and environmental investment projects. At present, the proportion of the Cohesion Fund in the overall amount of structural expenditures of the concerned member states totals 18%. Whether this proportion is also sufficient and suitable for the new member states will be subject to future discussions.

5.2.4. Structure of Financial Resources and their Institutional Organisation within the Czech Republic

Even after its entry into the European Union, the Czech Republic belongs among the less-developed member states. However, economic and social cohesion policies offer it a number of opportunities for supporting overall and balanced development of its own territory. For these purposes, there are a large number of instruments available to regions, municipalities, entrepreneurs, non-profit organisations and an entire range of additional entities.

The core of the European Union's regional and structural policy is composed of structural funds. These are aimed directly at decreasing the differences in the level of development in various regions and decreasing the obsoleteness of the most disadvantaged regions or islands, including rural areas. For this reason, the most important financial resources include the **"subsidised opportunities" that are financed by the structural funds**.

The contents of this document are focused on the issues related to various operational support programmes within the framework of what has been defined as **Target 1**.

ČESKÁ SPOŘITELNA

There are always several basic goals (priorities) identified within each operational programme, which are then assisted through various measures and supplemental measures.

A basic overview of the financial structure of individual programmes:

Operational Programmes:	EU (mil. euro)	ČR (mil. euro)	TOTAL (mil. euro)
Operational Programme Infrastructure	246.4	88.3	334.7
Operational Programme Industry and Enterprise	260.9	87.0	347.8
Operational Programme Rural Development and Multifunctional Agriculture	173.9	76.7	250.6
Operational Programme Human Resources Development	318.8	103.6	422.4
Joint Regional Operational Programme	454.3	144.6	598.9
TOTAL (mil. euro)	**1 454.3**	**500.2**	**1 954.5**

5.2.4.1. <u>Operational Programme Infrastructure</u>

Managing Authority: Ministry of the Environment of the Czech Republic, Integrated Financing Department

Implementing Agency: - State Environmental Fund (for the environmental sector)

- Ministry of Transport of the Czech Republic, Section for International Affairs and the European Union

Priority 1: Modernisation and Development of Transport Infrastructure of Nation-wide Importance

Measure 1.1. – Modernisation of Lines of Nation-wide Importance and of Important Railway Junctions

This measure includes direct support of activities within the railway infrastructure. Co-financing is expected from the state budget and the State Transport Infrastructure Fund. The measure is focused primarily on non-corridor railway lines, with primary attention being paid to lines covered by the AGC and AGTC agreements and the lines classified into the TINA network.

Measure 1.2. – Construction and Modernisation of Class I Roads

This measure has been prepared in order to provide support for projects submitted by the Road and Motorways Directorate of the Czech Republic. Co-financing is expected from the state budget and the National Transport Infrastructure Fund. Primary focus will be placed on improving the quality of nation-wide class I roads and partially for the completion of construction on high-speed motorways.

Measure 1.3. – Modernisation of Civil Airports of Inter-regional Importance

This measure has been prepared in order to provide support for projects submitted by the Czech Airport Administration or other entities that provide public services in the field of air transport. Co-financing is expected from the state budget and other, including private, sources.

Measure 1.4. – Construction of Port Infrastructure and Modernisation of Waterways

This measure has been prepared in order to provide support for projects submitted by the Directorate of Waterways of the Czech Republic and by other entities that provide public services in this area. Co-financing is expected from the state budget, the State Transport Infrastructure Fund, and other sources.

Priority 2: Reducing the Negative Environmental Impacts of Transport

Measure 2.1. – Implementation of Protective Measures on the Transport Network in Order to Ensure Environmental Protection

This measure has been prepared in order to provide support for projects submitted by the Directorate of Roads and Motorways of the Czech Republic and other similar entities. Co-financing is expected from the state budget, the State Transport Infrastructure Fund, and other sources.

Measure 2.2. – Support for Combined Transport

This measure has been prepared in order to provide support for projects submitted by owners and operators of rail transport and other similar entities. Co-financing is expected from the state budget, the State Transport Infrastructure Fund, and other sources. Combined transport is defined as the use of various transport modes for the transfer of goods by means of transport units (i.e., containers). The largest portion of the transport must be accomplished by rail or water transport – the most ecological modes.

Measure 2.3. – Support for the Introduction of Alternative Fuels

This measure has been prepared in order to provide support for projects submitted by the manufacturers and owners of vehicles who are expected to be the users of new technologies. Co-financing is expected from the state budget, the State Transport Infrastructure Fund, and other sources. The measure is focused on decreasing the production of damaging emissions that are the result of road transport and the use of road transport vehicles.

Measure 2.4. – Study and Research Projects Addressing the Problems Connected with the Improvement of the Environment in Terms of Transport

This measure has been prepared in order to provide support for projects submitted by subjects wishing to perform research projects in the public interest. Co-financing is expected from the state budget, the State Transport Infrastructure Fund, and other sources.

Priority 3: Environmental Infrastructure Improvement

Measure 3.1. – Recovery of Environmental Functions of the Landscape

This measure has been prepared in order to provide support for projects focused on the recovery of the impaired water system of the landscape and supporting biodiversity.

Measure 3.2. – Water Management Infrastructure Improvement

This measure has been prepared in order to provide support for projects to reduce the level of contamination of watercourses by meeting the requirements provided by Directive 91/271/EEC on municipal waste water treatment, and to ensure appropriate treatment of sludge produced by waste water treatment plants. The main resolution methods are considered to be the modernisation of waste water treatment plants, the extension of sewerage systems, and the construction of facilities for recovering and removing sludge produced by waste water treatment plants.

Measure 3.3. – Air Protection Infrastructure Improvement

This measure has been prepared in order to provide support for projects aimed at the reduction of the level of emissions from mobile sources, the elimination of the negative impacts resulting from the incineration of communal and dangerous waste and from manufacturing processes that use solvents. These projects should lead to meeting the requirements provided by Framework Directive 96/62/EC on air quality and Directive 2001/81/ECS on emission ceilings.

Measure 3.4. – Waste Management and Removal of Old Ecological Burdens

This measure has been prepared in order to provide support for improving the standard of waste management in accordance with the established hierarchy of waste management and the rehabilitation and redevelopment of old ecological burdens.

Priority 4: Technical assistance

Measure 4.1. – Technical Assistance in Managing, Implementing, Monitoring and Controlling the Operations of the OP Infrastructure

Technical assistance will be implemented in accordance with the decision of the Managing Authority and co-financed from the state budget. It will be managed and co-ordinated by the appropriate internal department of the Managing

Authority. In this manner, funding for the management, implementation, monitoring and control of operations will be provided.

Measure 4.2. – Other Expenditures for Technical Assistance for the OP Infrastructure

Financial resources provided from the Structural Funds can be used for:

- acquiring and installing a monitoring system for the Operational Programme (computer system for managing and monitoring the implementation of the Operational Programme and for performing information analysis);
- meeting the requirements ensuing from the communications strategy of the Operational Programme, including the organisation of informational and promotional events, publishing promotional materials and performing analyses of the consequences of these events;
- preparing studies and analyses focused on monitoring the consequences of the implementation of the Operational Programme, analysing the course of their implementation, as well as the appropriateness and effectiveness of the implementation structures;
- supporting activities focused on improving methods for the evaluation and exchange of information on practical procedures in the area of implementing assistance from the Structural Funds;
- organising seminars and workshops focused on the exchange of experiences between the individual parties involved in the implementation of the Operational Programme and on co-operation and exchange of experiences with other European Union regions, including discussions on the further direction of support during the new programme period; and
- preparing analyses and support studies as well as preparing the Operational Programme itself for the 2007-2013 timeframe, including the preparation of ex-ante evaluations and environmental impact assessments.

Allocation of financial resources within the OP Infrastructure

Priority/Measure	EU (ERDF)	CR	Total
1. Modernisation and Development of Transport Infrastructure of Nation-wide Importance	84.1	30.2	114.3
1.1 Modernisation of Lines of Nation-wide Importance and of Important Railway Junctions	37.8	12.6	50.4
1.2 Construction and Modernisation of Class I Roads	33.6	11.2	44.8
1.3 Modernisation of Civil Airports of Inter-regional Importance	4.2	2.8	7.0
1.4 Construction of Port Infrastructure and Modernisation of Waterways	8.4	3.6	12.0
2. Reducing the Negative Environmental Impacts of Transport	14.8	4.9	19.8
2.1 Implementation of Protective Measures on the Transport Network in Order to Ensure Environmental Protection	3.0	1.0	4.0
2.2 Support for Combined Transport	7.4	2.5	9.9
2.3 Support for the Introduction of Alternative Fuels	3.0	1.0	4.0
2.4 Study and Research Projects Addressing the Problems Connected with the Improvement of the Environment in Terms of Transport	1.5	0.5	2.0
3. Environmental Infrastructure Improvement	142.1	51.4	193.5
3.1 Recovery of Environmental Functions of the Landscape	13.5	3.4	16.9
3.2 Water Management Infrastructure Improvement	60.6	22.4	83.0
3.3 Air Protection Infrastructure Improvement	30.9	13.2	44.1
3.4 Waste Management and Removal of Old Ecological Burdens	37.1	12.4	49.5
4. Technical assistance	5.4	1.8	7.1
Total in EUR mil.	**246.4**	**88.3**	**334.7**

ČESKÁ SPOŘITELNA

5.2.4.2. Operational Programme Industry and Enterprise

Managing Authority: Ministry of Industry and Trade of the Czech Republic, Department of Structural Funds

Implementing Agency:
- CzechInvest
- CzechTrade
- Czech Energy Agency
- Czech-Moravian Guarantee and Development Bank

Priority 1: Business Environment Development

Measure 1.1. – Infrastructure for Industrial Research, Development and Innovation

This measure has been prepared in order to provide support for projects focused on strengthening the links of research and development to industry. It is also designed to provide a support infrastructure for industrial research, technological development and innovation. It will assist in improving the environment for technologically oriented forms – a "knowledge society". The measure is also intended to stimulate co-operation between the industrial sector and research institutions and to support investments in the area of communication and information technologies.

Special attention will be paid to creating conditions for establishing and operating business incubation centres and technological parks and centres for the transfer of technology.

Measure 1.2. – Development of Business Infrastructure

This measure has been prepared in order to provide support for projects aimed at improving the business infrastructure through providing support for construction projects and renovation of business properties, including the development of the infrastructure of existing industrial and business zones and increasing the intensity of their use, primarily in areas that are suffering from depression, and the restructuring of industrial production.

Measure 1.3. – Infrastructure for the Development of Human Resources in the Industry and Business Sectors

This measure has been prepared in order to provide support for projects aimed at improving the conditions for the efficient performance of employees at all levels of company management in individual regions through:

- increasing the number of institutions with their own high-quality, technically equipped educational facilities – building reconstruction and modernisation of the facilities of existing company training centres, including the infrastructure for electronic forms of company education, the construction of new company training centres if needed, including the provision of all appropriate educational materials and tools;
- supporting the creation of new regional training facilities for the business community and companies in regions where there is a lack of these facilities and in regions where there is an insufficiently developed infrastructure for education; and
- supporting the acquisition or development of educational tools and programmes for professional training at companies.

Measure 1.4. – Development of Information and Consulting Services

This measure has been prepared in order to provide support for projects aimed at increasing the skills of professional consultants and consulting organisations while providing top-quality consulting services for business development and increasing competitiveness and innovativeness.

The measure includes provisions for the creation of a register of accredited consultants that should ensure the required quality, capacity and accessibility of consulting services on the territory of the Czech Republic. In order to increase the competitive ability of small and medium-sized enterprises, the framework of this measure supports basic associations of entrepreneurs.

An additional goal of this measure is to support the development of the infrastructure for increasing the volume and quality of information and consulting services that support the competitiveness of Czech companies on international markets and to introduce a self-regulating system as a new method for cultivating the market environment.

1.4.1. Programme for establishing Clusters – **CLUSTERS**

1.4.2. Project for increasing the quality of the consultant network – **REGISTER OF CONSULTANTS**

ČESKÁ SPOŘITELNA

1.4.3. Project for the development of information and consulting services for international trade

Priority 2: Development of Enterprise Competitiveness

Measure 2.1. – Establishment and Development of Small and Medium-sized Enterprises

This measure has been prepared in order to provide support for projects aimed at start-up small and medium-sized entrepreneurs during the early phases of their activities. The measure is focused on obtaining information and financial resources for completing their business projects, which would be much more difficult to obtain under standard market conditions.

This measure should bring:

- easier entry to the business sector for new entrepreneurs;
- successful completion of investment-oriented business development projects by small and medium-sized enterprises that have a shorter history, lower capital resources and limited possibilities for obtaining credit;
- increased accessibility to quality consulting services for small and medium-sized enterprises, more easily obtained external business services with advantageous financing, support for including the enterprise in co-operative international or manufacturing efforts; and
- increased competitiveness of the enterprise on the global market through the introduction of new processes in the area of technology, new forms of management and human resources.

Measure 2.2. – Support of Innovation of Products, Technologies and Services

This measure has been prepared in order to provide support for projects that are focused on meeting the objectives defined by the Lisbon Strategy, primarily the conclusions reached by the European Union Council for competitiveness in "Strengthening European Innovation Policies" and the message imparted by the European Commission through the document titled "Innovation Policy: Updating the European Union's Approach in the Context of the Lisbon Strategy".

The measure is primarily focused on the direct support of innovation projects that are aimed at improving the technical and utilitarian parameters for products and the characteristics of production processes and higher level technologies.

Measure 2.3. – Reducing Energy Consumption and Higher Use of Renewable Energy Sources

This measure has been prepared in order to provide support for projects focused on the efficient and economic use of energy within the industry and business sectors of the Czech Republic. Emphasis is placed on increasing the efficiency of the procedures used for energy transformation (electric power plants, heating plants, boiler rooms, distribution networks). Additionally, technologies and processes that decrease energy demands by industry and businesses are supported, i.e., the installation of machinery that requires less energy, more efficient heating and energy distributions. An important component of this measure is the support of technologies that take advantage of renewable and secondary energy sources. The framework of the measure also includes consulting and information services in the area of energy.

The goals of the measure are secured **through the following programmes:**

Energy Savings – a programme for decreasing energy demands
Purpose of the support:

- to contribute to a decrease in the energy demands of Czech industry through the provision of financial support for energy saving investment projects.

Renewable Sources – a programme for taking advantage of renewable energy source
Purpose of the support:

- to support projects for the introduction of the production of electric energy or heat from renewable energy sources (these projects will contribute to an increase in the share of renewable energy sources in overall energy production and to a decrease in the use of primary, non-renewable energy sources and thus to a decrease in the level of emissions associated with the production of energy and heat.)

Priority 3. Technical Assistance

Measure 3.1. – Technical Assistance for the Management and Implementation of the Operational Programme Industry and Enterprise

ČESKÁ SPOŘITELNA

The technical assistance provided to the Managing Authority and Implementation Agencies for the purposes of managing and implementing the Operational Programme, which includes activities related to the processes for selecting, evaluating, and monitoring projects by committees, including expert consulting. In addition, co-operation is provided during the implementation of the Operational Programme, audits and controls.

Measure 3.2. – Other Technical Assistance

Within the framework of this measure, technical assistance is provided in the areas of publicity, the provision of information and exchange of experiences, the acquisition and installation of monitoring systems, as well as for the preparation of evaluations, studies, analyses, strategies and methods used within the framework of this Operational Programme.

Allocation of financial resources within the OP Industry and Enterprise

Priority/Measure	EU (ERDF)	CR	Total
1. Business Environment Development	130.4	43.5	173.9
1.1 Infrastructure for Industrial Research, Development and Innovation	41.7	13.9	55.6
1.2 Development of Business Infrastructure	60.0	20.0	80.0
1.3 Infrastructure for the Development of Human Resources in the Industry and Business Sectors	15.7	5.2	20.9
1.4 Development of Information and Consulting Services	13.0	4.3	17.4
2. Development of Enterprise Competitiveness	120.0	40.0	160.0
2.1 Establishment and Development of Small and Medium-sized Enterprises	62.6	20.9	83.5
2.2 Support of Innovation of Products, Technologies and Services	31.3	10.4	41.7
2.3 Reducing Energy Consumption and Higher Use of Renewable Energy Sources	26.1	8.7	34.8
3. Technical Assistance	10.4	3.5	13.9
Total in EUR mil.	**260.9**	**87.0**	**347.8**

5.2.4.3. Operational Programme Human Resources Development

Managing Authority: Ministry of Labour and Social Affairs of the Czech Republic, Department for European Social Fund Management

Implementing Agency:

- Ministry of Labour and Social Affairs of the Czech Republic, Department for the Implementation of the Programmes of the European Social Fund
- Ministry of Education, Youth and Sports of the Czech Republic, Department for European Integration and International Relations
- Foundation for the Development of a Civil Society
- National Training Fund

Priority 1: Active Employment Policy

Measure 1.1. – Strengthening Active Employment Policy when Employing Job-seekers and Individuals Interested in Employment

This measure is aimed primarily at increasing the scope and effectiveness of active intervention on the labour market. It will be implemented as a supplement to current state employment policy as a way of increasing the range of activities as well as including groups of individuals that are not included within the state's existing employment policies.

The measure will focus on job-seekers and persons interested in employment, especially young unemployed people and people who are over fifty years of age, employees facing the threat of unemployment, persons who have been unemployed for a long period of time and people facing the threat of long-term unemployment.

Measure 1.2. – Modernisation of Public Employment Services

ČESKÁ SPOŘITELNA

This measure places higher demands on proficiency and qualifications but also on the general insight of the employment authority workers, primarily the divisions for consulting, requalification and the labour market. In order to ensure the successful completion of more demanding tasks, it is necessary to equip workers that provide employment services with further theoretical knowledge and practical experience that can be obtained through intensive training courses.

The implementation of these activities will contribute to the modernisation and increased efficiency of employment services.

The measure will focus on the official providers of employment services and their employees as well as on co-operative organisations and their workers.

Priority 2: Social Integration and Equal Opportunities

Measure 2.1. – Integration of Specific Population Groups in Danger of Social Exclusion

The framework of the measure will include the implementation of activities in the area of employment and social services.

Within the area of employment, the measure will focus on long-term unemployment that is caused primarily by changed work abilities, a lower level of qualifications and a higher age category. Groups that find themselves on the edge of society and have not been able to achieve social inclusion in their natural environment deserve special attention.

Within the area of social services, two spheres of activities will be implemented:

- system activities whose goal is to support education of providers and sponsors of social services for the purposes of strengthening their abilities and skills in providing these services; and
- activities that are performed at a nation-wide level and that will focus on selected target groups whose risk of social exclusion is not only of a regional character (i.e., members of the Roma community, immigrants, victims of criminal activities, commercially abused persons, the homeless, etc.).

The measure will focus on people suffering from or threatened by social exclusion as a result of long-term unemployment, youth living in a disadvantaged social environment or in a different socio-cultural environment, social service workers, municipalities, regions, social service providers for target groups threatened by social exclusion se and specific target groups for whom nation-wide projects will be implemented.

Measure 2.2. – Equal Opportunities for Women and Men on the Labour Market

This measure will contribute towards the elimination of the still existing inequalities of the sexes, primarily towards women. The primary priority in the area of equal opportunities is to support the implementation of the principle of equality between men and women in practice.

The measure will focus on women, primarily towards mothers with small children, single-wage-earning mothers (and men who are in a similar situation as women with small children and single-wage-earning mothers), long-term unemployed women, women facing the threat of unemployment, women with an elementary level of education or no education, women approaching retirement age, women starting their own business, employers and organisations that are creating educational programs and women's organisations.

Measure 2.3. – Strengthening the Capacity of Social Service Providers

Within the framework of Priority 2, a portion of the financial resources from the Operational Programme Human Resources Development will be allocated to small grants through the Global Grant. The purpose of the Global Grant is to provide access to the resources from the Operational Programme Human Resource Development to non-governmental non-profit organisations, which are capable of meeting the goals and indicators of the measure, but have not yet developed the capacity to apply for these resources within the framework of the more complex mechanisms that apply to the main flow of the Operational Programme Human Resources Development.

The measure fill focus on entities within the non-profit sector, which function in the social services area and which can prove their non-governmental and non-profit nature (it is assumed that during the implementation of projects, co-operative partnerships will be established between non-governmental non-profit organisations and local public administration authorities).

Priority 3: Development of Lifelong Learning

Measure 3.1. – Increasing the Quality of Education in Schools and at Educational Facilities and the Development of Support Programmes in Education

ČESKÁ SPOŘITELNA

This measure was prepared as a response to the need to motivate individuals towards lifelong learning and thus significantly influence their employment potential. Schools will be motivated to actively co-operate while promoting good experiences. An important condition for this function is support for teachers and education professionals in continued systematic education. The fact that there is no existing integrated system for the collection, evaluation and co-ordination of information on the development of labour market requirements plays a role in the selection of an inappropriate type of education without any relation to the needs of the labour market. The creation of a functional integrated system for monitoring and evaluating will enable effective management and decision-making at all levels and, at the same time, will make it easier for individuals to make a decision when selecting an education path as well as finding places for graduates on the labour market.

The measure will be focused on pupils and students of elementary schools, secondary schools, higher professional schools, individuals with health disadvantages, socially disadvantaged individuals, migrants, refugees, ethnic minorities, children and youth that have been placed in institutional or protective care, individuals interested in furthering their education at secondary schools or at higher professional schools, individuals that left the education system prematurely, teachers, school directors, professional employees in the education field, educational consultants, primary schools, secondary schools, higher professional schools, educational facilities (facilities that provide institutional and protective care, school centres, clubs), organisations that are directly managed by the Ministry of Education, Youth and Sports, and non-governmental non-profit organisations.

Measure 3.2. – Support for Tertiary Education, Research and Development

Due to the fact that a university education cannot be considered as having been completed once and for all, it is necessary to create the appropriate conditions for the additional development of human resources within the sphere of tertiary education for the purposes of expanding the offers for additional education, specifically lifelong education at universities. The measure is also focused on the development of teachers' study programs, which provide professional vocational preparation to teachers in the early stages of education and allow those who have not yet attained pedagogical qualifications to do so. Special emphasis is placed primarily on strengthening the professional preparation of teachers for working with children with special educational needs. Taking into consideration that the sphere of tertiary education is closely tied to the field of research and development, the measure will also support activities focused on the development of human resources in this field as well.

The measure will focus on universities, research and development institutions and institutions that in practice are involved with education at the university level or co-operate with universities.

Measure 3.3. – Development of Vocational further education

This measure will contribute to the establishment of a system of accepted qualifications, which will link the education and employment spheres and motivate employers and other social partners to participate in the creation of educational contents and methodology and the requirements for certification. The measure will support the expansion of vocational further education that is offered by supporting development within the framework of establishing a network of educational and training centres for adults in all regions, including material supplies and personnel staffing. The quality and increased accessibility to vocational further education will be strengthened within the framework of the measure by the development of support services for further education, primarily information and consulting services. At the same time, the offer of vocational further education services will be strengthened.

The measure will focus on the Ministry of Labour and Social Affairs and other state administrative authorities, regions, municipalities, education and consulting institutions, professional associations, representatives of employers and other social partners, and non-governmental non-profit organisations that provide vocational further education.

Priority 4: Adaptability and Entrepreneurship

Measure 4.1. – Increasing the Adaptability of Employers and Employees to Changes in Economic and Technological Conditions, Support of Competitiveness

Implementation of this measure will contribute towards increasing the scope and effectiveness of active employment policies used by the employment authorities. The measure is focused on supporting the competitiveness of enterprises and organisations within the field of economics with growth potential and for the development of the professional skills, qualifications and competence of employers as well as of employees. Emphasis is placed on education within the field of information technology, maintained development and support of health at the workplace.

In addition to focusing on the development of educational activities, the measure will also be targeted at maintaining employment positions and creating new employment positions. The measure will also be applicable to individuals who are considering starting a business as potential employers in a manner whereby conditions for the development of employees in relation to changing economic conditions can be created in newly created organisations.

The measure will focus on employees, employers and individuals who are considering starting a business.

Measure 4.2. – Specific Education

This measure supports specific activities for supporting the development of new knowledge economics and for strengthening the professional qualifications and education level within selected sectors of industry, business, services and the travel industry. The measure will even support cross-sectional educational activities in the area of the environment with regard to their significance for the evaluative orientation during lifelong education. The activities will support the acquisition of sufficient skills for the management structures of enterprises and services.

The measure will be focused on small and medium-sized enterprises, public administration authorities, public institutions and non-governmental non-profit organisations.

Priority 5: Technical Assistance

Measure 5.1. – Support for the Management, Implementation, Monitoring and Control of the Operational Programme Human Resources Development

Measure 5.2. – Other Acceptable Activities

Allocation of financial resources within the OP Human Resources Development

Priority/Measure	EU (ESF)	CR	Total
1. Active Employment Policy	102.6	34.2	136.8
1.1 Strengthening Active Employment Policy when Employing Job-seekers and Individuals Interested in Employment	85.8	28.6	114.4
1.2 Modernisation of Public Employment Services	16.8	5.6	22.4
2. Social Integration and Equal Opportunities	42.8	11.6	54.3
2.1 Integration of Specific Population Groups in Danger of Social Exclusion	32.0	8.0	39.9
2.2 Equal Opportunities for Women and Men on the Labour Market	7.6	2.5	10.1
2.3 Strengthening the Capacity of Social Service Providers	3.2	1.1	4.3
3. Development of Lifelong Learning	107.7	35.9	143.6
3.1 Increasing the Quality of Education in Schools and at Educational Facilities and the Development of Support Programmes in Education	54.8	18.3	73.0
3.2 Support for Tertiary Education, Research and Development	18.3	6.1	24.3
3.3 Development of Vocational further education	34.7	11.6	46.3
4. Adaptability and Entrepreneurship	50.5	16.8	67.4
4.1 Increasing the Adaptability of Employers and Employees to Changes in Economic and Technological Conditions, Support of Competitiveness	29.2	9.7	39.0
4.2 Specific Education	21.3	7.1	28.4
5. Technical Assistance	15.2	5.1	20.3
Total in EUR mil	**318.8**	**103.6**	**422.4**

5.2.4.4. Operational Programme Rural Development and Multifunctional Agriculture

Managing Authority: Ministry of Agriculture of the Czech Republic, Operational Programme Management Department

Implementing Agency: - Payment Agency of the Ministry of Agriculture of the Czech Republic

Priority 1: Support for Agriculture, the Processing of Agricultural Products, and Forestry

Measure 1.1. Investments in Agricultural Assets and Agricultural Enterprises

This measure has been prepared in order to provide support for projects to increase labour productivity, competitiveness and quality of products. This form will also be used as the means for financing measures designed to reduce and eliminate adverse effects of agricultural production on the environment, to protect water against pollution from agricultural sources, and to reconstruct, modernise and built new agricultural buildings so that they meet EU standards for breeding agricultural animals. This measure will also support young start-up farmers and the increased diversification of agricultural activities.

Sub-measure 1.1.1 – Investments in agricultural assets and support for young start-up farmers

Sub-measure 1.1.2 – Further diversification of agricultural activities

Measure 1.2. – Improving Processing and Marketing of Agricultural Products

This measure has been prepared in order to provide support for projects focused on the transfer of new technologies and innovations for processing agricultural products, on increasing the standard of agricultural products, to develop production sectors using domestic agricultural production and to improve the marketing for agricultural products.

The measure includes improvements to the processing of meat, milk, fruit, vegetables, mill products and starch during the first phases of processing.

Measure 1.3. – Forestry

This measure has been prepared in order to provide support for projects focused on investments that will introduce new technological procedures for processing forestry products and appropriate marketing concepts, help restore the potential of forests damaged as a result of natural disasters and fire and introduce appropriate preventive measures, improve and maintain the ecological stability of protected woodlands, assist in the establishment of associations of small forest holders, and the planting of non-agricultural land, and assist in the forestation of non-agricultural land.

Sub-measure 1.3.1. – Restoring the potential of forests damaged as the result of natural disasters and fire and introduction of appropriate preventive measures

Sub-measure 1.3.2. – Investments in forests

Sub-measure 1.3.3. – Establishment of associations of forest owners

Sub-measure 1.3.4. – Forestation of non-agricultural land

Priority 2: Rural Development, Fisheries and Vocational Training

Measure 2.1. – Promoting the Adaptation and Development of Rural Areas

This measure has been prepared in order to provide support for projects focused on the arrangement of ownership titles to land parcels, on spatial and functional adaptation of parcels, on making them accessible and having them actually demarcated. The measure further supports the protection of land resources, water management measures to ensure the safe drainage of surface water and protect the soil against flooding, and actions to protect the environment and increase ecological stability of the landscape. The measure also includes protective measures to alleviate the damage caused by natural disasters on agricultural land and for the restoration of damaged vegetation. It is also possible to finance preventive and anti-flood measures within the framework of this measure.

The measure also concerns the modernisation and reconstruction of existing facilities serving to accumulate water in the landscape and the removal of silt deposits from small water reservoirs and ponds.

Within the area of rural development, the support will be aimed at co-financing the implementation of pilot strategies for integrated rural development and for investing in the diversification of agricultural activities and activities close to agriculture in order to create new employment positions and sources of income.

Sub-measure 2.1.1. – Reparcelling

Sub-measure 2.1.2. – Restoring potential and maintaining the agricultural landscape

Sub-measure 2.1.3. – Management of agricultural water resources and providing for their functioning

Sub-measure 2.1.4. – Rural development

Sub-measure 2.1.5. – Diversification of agricultural activities and activities close to agriculture

Measure 2.2. – Vocational Training

This measure has been prepared in order to support education for persons working in the agriculture and forestry sectors in order to:

- acquire information, knowledge and skills necessary for the implementation of new products, production methods and technology, which are compatible with the interests of maintaining and enhancing the landscape, protecting the environment, and improving hygiene standards and animal welfare;
- acquire information, knowledge and skills necessary for increasing the operational effectiveness of persons working in the agriculture sector;
- acquire information, knowledge and skills related to new activities within the framework of the diversification of activities connected to the needs of rural development, and improving knowledge on the sustainable development in all agricultural areas;
- acquire information, knowledge and skills necessary related to new activities within the diversification of activities arising from the needs of the rural development;
- improving managerial skills and other specialised knowledge in order to achieve sustainable development in all areas of this sector sphere of action;

Measure 2.3. – Fisheries

This measure has been prepared in order to provide support for projects that are focused on increasing the productivity of labour, competitiveness and quality of products, renewing the original species of the fish population in the water basin, and maintaining specific genetic characteristics of the freshwater fish population. The measure also focuses on improving the water quality in the Elbe, Oder and Danube river basins.

Sub-measure 2.3.1. – Fish processing and marketing for fish products

Sub-measure 2.3.2. – Breeding water life forms – aquaculture

Sub-measure 2.3.3. – Professional activities within the fishing industry and promotional measures

Priority 3: Technical Assistance

Measure 3.1. Technical Assistance

Technical assistance is focused on financing the tasks related to implementing the Operational Programme.

Allocation of financial resources within the OP Rural Development and Multifunctional Agriculture

Priority/Measure	EU (EAGGF/ FIFG)	CR	Total
1. Support for Agriculture, the Processing of Agricultural Products, and Forestry í	97.5	53.7	151.1
1.1 Investments in Agricultural Assets and Agricultural Enterprises	78.4	46.0	124.5
1.2 Improving Processing and Marketing of Agricultural Products	10.0	4.3	14.3
1.3 Forestry	9.1	3.3	12.4
2. Rural Development, Fisheries and Vocational Training	73.4	22.0	95.4
2.1 Promoting the Adaptation and Development of Rural Areas	65.3	18.7	84.0
2.2 Vocational Training	1.1	0.4	1.5
2.3 Fisheries	7.0	3.0	9.9
3. Technical Assistance	3.0	1.0	4.0
Total in EUR mil.	**173.9**	**76.7**	**250.6**

ČESKÁ SPOŘITELNA

5.2.4.5. *Joint Regional Operational Programme – JROP*

Managing Authority: Ministry for Regional Development of the CR, Department for the Management of the Joint Regional Operational Programme and the Unified Programme Document – Prague

Implementing Agency:
- CzechInvest
- Centre for Regional Development
- the Secretariats of the Regional Councils
- Ministry for Regional Development, Department for Development Programmes for the Travel Industry

Priority 1: Regional Support for Enterprise

Measure 1.1. – Support of Business Activities in Selected Regions

This measure has been prepared in order to provide support for projects focused on providing direct support for small and medium-sized enterprises in selected problem regions of the Czech Republic. Support will apply only to existing entrepreneurs (not start-ups) who have closed their accounting for at least the last three accounting years. Development projects submitted by entrepreneurs that create new, long-term stable job opportunities, provide equal employment opportunities for men and women, focus on manufacturing with high added value, increase the level of co-operation between companies and stimulate export of local products will be supported. Support within the framework of this measure will not be provided to enterprises that are involved in agricultural production or other agricultural activities or to entrepreneurs within the travel industry.

This measure will support investment development plans of businesses that are related to the creation of new jobs or safeguarding existing jobs, including financing the purchase of consulting services (i.e., for the preparation of business plans).

The measure is divided into two parts:

1) Grant scheme supporting micro-enterprises, which employ less than ten employees, in all branches with the exception of:
   - the transport industry and activities related to the production, processing and introduction onto the market of the products specified in Annex 1 to the Treaty on State Aid;
   - support of export-related activities; and
   - support that is conditional on the use of domestic goods to the detriment of imports.
2) Grant scheme supporting small and medium-sized enterprises employing from 10 to 249 employees. Support will be available for enterprises in all branches, with the exception of sensitive and specific branches.

Participation in either grant scheme will be conditional upon the commitment to increase the number of persons employed by the receiver of the subsidy:

- within the grant scheme for micro-enterprises, the commitment must be at least one newly created and filled employment position;
- within the grant scheme for small and medium-sized enterprises, the commitment must be at least three newly created and filled employment positions for enterprises with 10 to 49 employees and 10 newly created and filled employment positions for enterprises with 50 to 249 employees (for each individual activity).

Priority 2: Regional Development of Infrastructure

Measure 2.1. – Development of Transport in Regions

This measure has been prepared in order to provide support for projects focused on two basic spheres of activities:

- support of regional road networks (second and third class roads and local roads in rural municipalities);and
- development of regional public transport service.

The financial weight of both sub-measures has initially been established in the ration of 70:30%.

Sub-measure 2.1.1. – Development of regional transport infrastructure
Sub-measure 2.1.2. – Development of transport services in the regions

Measure 2.2. – Development of information and communication technologies in the regions

This measure has been prepared in order to provide support for projects focused on supporting investments in the area of information and communications technologies (ICT) for regional and local public administration and for the general public. Support of activities related public access to information technologies (i.e., the Internet) in libraries, community centres and schools are included within this measure.

The measure includes:

- support for the introduction, preferably, of a broadband connection (minimum 256 kbps), primarily in the structurally affected and economically less developed parts of the Cohesion Regions (i.e., regions that have been defined by Government Resolution No. 722 and regions defined by the Counties);
- ensuring public access in municipalities to preferably broadband Internet; and
- ensuring that public administration services (at local and regional levels) are interactive and accessible for all, preferable through a broadband Internet connection.

The measure does not include support for business and entrepreneurial activities (this will be provided within the Operational Programme Industry and Enterprise).

Financial resources from this measure can be used for Internet installation, the construction of local and regional communication networks, the purchase of computers, special software, and basic PC equipment for PCs, if these items are necessary for using the Internet or for creating new ICT services and applications for individuals.

The projects must also satisfactorily address issues related to data transfer and software authenticity. Preference will be given to projects that will contribute to the development of public services, social integration and the development of infrastructure for using ICT.

The measure will target the wide general public.

Measure 2.3.– Regeneration and revitalisation of selected towns

This measure has been prepared in order to provide support for projects focused on supporting a limited number of integrated municipal investment projects, which are aimed at the improvement of the overall living environment and the living conditions of the residents and place focus on the regeneration and revitalisation of declining town centres or affected town areas (i.e., related to the discontinuation of business or social activities). The measure is considered as underlying activities and preparation for the future resolution of municipal problems within the scope of the URBAN Community Initiative in the Programme Period starting in 2007.

Investments into private property will not be eligible to receive support.

Priority 3: Development of Human Resources in the Regions

Measure 3.1. Infrastructure for human resources development in the regions

This measure has been prepared in order to provide support for projects focused on investment projects (co-financed from the European Regional Development Fund – ERDF) in the following areas:

- active employment policy;
- lifelong learning; and
- social integration.

Investment supported through this measure will contribute to development and structural changes in the applicable region and will create or safeguard sustainable employment positions.

Support within individual projects will be aimed at:

- New construction or renewal of appropriate buildings;
- Acquisition of technology, computers, SW, and computer networks,
- Necessary technical infrastructure related to construction and renewal of property, including any necessary landscaping).

It is possible to connect this measure together with JROP Measure 3.2 and to the Operational Programme Human Resources Development.

Measure 3.2. – Support for social integration in regions

This measure has been prepared in order to provide support for projects focused on a wide spectrum of activities concerning social integration at a local or regional level.

Support of a non-investment nature will primarily concentrate on:

- service providers who implement supportive projects for various socially threatened groups, subsequent solutions and preventive measures to prevent the origination of these groups (ethnic and national minorities, persons suffering from health disabilities, youth, mothers with children, unqualified individuals, individuals approaching retirement age, individual returning to society after serving a criminal sentence, drug addicts, etc.);
- developing a civil society, creating community plans, co-operating with non-profit organisations as well as with organisations established by the state, regions or municipalities; and
- creating equal opportunities for disadvantaged social groups.

The subject of support within the framework of this measure will be focused on the implementation of various non-investment programmes, training courses, consulting and services for individuals, including the provision of rehabilitation tools, learning tools, study materials, preparation of socially focused events, information and promotion activities, etc.

Measure 3.3. – Strengthening the capacity of local and regional bodies in the planning and implementation of programmes

This measure has been prepared in order to provide support for projects focused on the training and education of all participants at local and regional level, who are involved in the preparation and subsequent implementation of the JROP as well as in the preparation and subsequent realisation of projects for employees of municipalities, associations of municipalities, regions, various regional groups, economic and agricultural chambers, regional development agencies, education, non-governmental non-profit organisations, etc.

The measure will contribute to improving the implementation of the JROP at the regional level during the current programme period (until 2006) as well as during the programme period starting in 2007.

The education includes familiarisation with the applicable European Union legislation as well as that of the Czech Republic for individual segments related to the preparation and implementation of programs and projects (i.e., submission of tenders, environmental protection, equal opportunities, financing and financial controls, conditions for public support, monitoring of programs and projects, etc.). The training programs also include required sections related to strengthening audit and control functions with regard to decreasing institutionalised corruption and other misuse of official authority.

The support is related to non-investment expenses consisting primarily of:

- organising various forms of courses, seminars, training and workshops;
- publishing brochures and publications;
- consulting activities; and
- setting up websites, etc.

The financial beneficiary (applicable region) will receive the support, thanks to which they will be able to provide these services to individual target groups involved in training for low and acceptable prices (the projects will not bring the regions any profit). From the perspective of effectiveness and concentration of resources, one project will be prepared within the framework of each region, which will then provide integrated solutions for the region’s needs on the basis of analyses prepared by the region.

For this reason, the projects will be prepared within the framework of sponsorship by the applicable regions (final beneficiaries) and as early as during the preparation phase, the focus of the projects will be consulted with the JROP managing authority and co-ordinated with other relevant entities (state administration authorities, regional councils for the development of human resources, etc.) as well as with the Ministry of the Interior, which is responsible for educating local and regional administration employees.

Priority 4: Development of Tourism

Measure 4.1. – Development of services for tourism

This measure has been prepared in order to provide support for projects focused on supporting entities that purchase services related to tourism. These services include activities related to:

- creating public and private sector partnerships (social, consulting and information-providing activities);
- ensuring the exchange and distribution of uniform information through modern technology;
- supporting marketing studies for tourism;
- supporting participation at trade fairs;

ČESKÁ SPOŘITELNA

- organising symposiums and conferences on tourism;
- supporting the creation of promotional materials and standards for tourism;
- introducing a uniform system for labelling tourism activities.

The framework of the measure also includes non-investment support for paying the expenses related to the provision of the above-specified services.

Sub-measure 4.1.1. – Support of supra-regional services in tourism

Sub-measure 4.1.2. – Support of regional and local services in tourism

Measure 4.2. – Development of Tourism Infrastructure

This measure has been prepared in order to provide support for projects of an investment nature focused on developing the infrastructure necessary for tourism. These projects should specifically include the following support:

- products of convention, spa, cultural and religious tourism and eco-tourism;
- creating a national tourism information system;
- revitalisation of cultural, technical and industrial monuments and cultural heritage
- development of local and regional tourism information systems;
- increases to the capacities of small and medium-sized tourism enterprises (primarily increasing accommodation capacities and service infrastructure);
- construction or renovation of facilities in sports, recreation and spas; and
- renewal and development of hiking paths, recreational navigation infrastructure, bicycle paths and supplementary facilities.

Sub-measure 4.2.1. – Support for supra-regional tourism infrastructure

Sub-measure 4.2.2. – Support of regional and local tourism infrastructure

Priority 5. Technical Assistance

Measure 5.1. Technical Assistance for the JROP

Measure 5.2. Technical Assistance for CSF (Community Support Framework)

Allocation of financial resources within the Joint Regional Operational Programme

Priority/Measure	EU (ERDF,ESF)	CR	Total
1. Regional Support for Enterprise	45.1	15.0	60.2
1.1 Support of Business Activities in Selected Regions	45.1	15.0	60.2
2. Regional Development of Infrastructure	197.0	65.7	262.7
2.1 Development of Transport in Regions	152.0	15.2	167.2
2.2 Development of information and communication technologies in the regions	22.5	7.5	30.0
2.3 Regeneration and revitalisation of selected towns	22.5	7.5	30.0
3. Development of Human Resources in the Regions	92.3	23.9	116.2
3.1 Infrastructure for human resources development in the regions	45.0	11.3	56.3
3.2 Support for social integration in regions	37.1	11.3	48.4
3.3 Strengthening the capacity of local and regional bodies in the planning and implementation of programmes	10.1	3.4	13.5
4. Development of Tourism	108.1	36.0	144.1
4.1 Development of services for tourism	36.0	12.0	48.0
4.2 Development of Tourism Infrastructure	72.1	24.0	96.1
5. Technical Assistance	11.8	3.9	15.7
Total in EUR mil.	**454.3**	**144.6**	**598.9**

6. Conclusion

In this document we have tried to demonstrate that the process of European integration represents the most successful integration attempt in history, that its merits considerably exceed its costs, that its basis is very wide and its potential largely unexhausted and that it entered the new millennium with a great deal of enthusiasm and hope.

Whether we will succeed in the practical realisation of its individual objectives depends on the resolution and logical succession of the following four areas that could probably affect the future of European integration the most: the reformation of EU institutions, including system changes and changes to decision-making processes, the successful functioning of a single currency and satisfactory results of a common monetary policy, the successful process of cohesion and subsequent admission of current EU candidates, including the Czech Republic, and the distinctive modification of the foreign policy and security views within the Union.

This publication is considered as a supplementary source of information provided to our clients. The information in the publication cannot be seen as incontrovertible or unchangeable. The publication is based on the best information sources in the time of publication, which are generally considered as reliable and truthful. However Česká spořitelna, a.s. and its branches or employees could not guarantee this. The authors view as a propriety, if by using the information from this publication, the potential user mentions this source.