EU News
Monthly Journal

Number 23,
August 2005

Page 2 | Will the Commission regulate the mortgage loan market?

Page 5 | New priorities for growth, cohesion, and employment during the 2007-13

Page 5 | Ministers from member states have agreed on anti-terrorism measures

Page 8 | Analysis: What can be expected from the British presidency?

Page 9 | Topic of the Month: EEA and Norwegian Financial Mechanisms

ČESKÁ SPOŘITELNA

EU OFFICE
Česká spořitelna, a.s.
Poláčkova 1976/2
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
Head of EU Office
+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

under the auspices of Pavel Kysilka
member of the Board of ČS

Dear readers,

It seemed obvious that the drama we witnessed in European integration events this spring would most likely not continue to escalate in July. This, indeed, turned out to be the case and, in comparison with the preceding months, July was more of a calm preparation for the annual, more tranquil summer season.

Nonetheless especially at the start of July we witnessed several highly important events. These can be summarized basically in three points: 1) the first interpretation of the published “Strategic Guidelines for the Community”, which solidifies the European Commission’s concepts for directing financial flows at regional policies during the 2003-2007 program period; 2) Luxembourg’s referendum on the European Constitution as the first in line after the defeat in both France and the Netherlands; and 3) the consequences of the terrorist attacks in London on the implementation of stricter measures for handling money.

The Commission published its “Strategic Guidelines for the Community” at the end of June. This document, in fact, presents a specific list of priorities that should be financially supported over the course of 2007-2013. This document should be viewed as a very plausible guideline by the national and regional authorities that are currently concerned with preparing the program phase for the Union’s next fiscal period. All interested parties have the opportunity to participate in discussions and influence the final version of the financial framework until mid-September.

The significance of the Luxembourg referendum is considered primarily from the perspective of EU cohesiveness after the events that led to its visible ungluing. This erosion was caused mainly by the French and Dutch refusal of the constitution and the inability to agree on budgetary rules for the next period. Maybe because Jean-Claude Juncker, the popular Prime Minister of Luxembourg, linked the results of the referendum to his future as Prime Minister, Luxembourg’s citizens voiced their approval of the European constitutional document with a fairly close “yes” vote.

Just a few days prior however, the British metropolis was struck by a truly tragic incident, against which neither Britain nor the European Union has an effective antidote. The problem of terrorism is now one of the most critical risks that can threaten the very existence of the European Union itself. Among other things, the reaction to escalating terrorism led to the passage of a proposed directive that limits the possibility of using financial flows for the purposes of terrorism to an even higher degree.

It is generally the rule that August is always the calmest period as far as European integration events are concerned. If it holds true that this tranquility only represents a period during which sufficient strength for subsequent demanding tasks is gathered, we hope that it is not interrupted by any negative outbursts. With wishes for a pleasant August spent perusing the pages of the EU News Monthly Journal,

Petr Zahradník

Luxembourg was the first country to hold a referendum on the European Constitution after the negative results in France and the Netherlands. The majority of Luxembourg's voters chose in favor of the Treaty. The European Commission published a Green Paper that is meant to strengthen the integration of the mortgage loan market. By a large majority of votes, the European Parliament rejected a controversial proposal on patent protection for software and other computer-based inventions.

POLITICS

Luxembourgers Support the Constitution

The first referendum held after the negative opinions voiced by France and the Netherlands ended in success for the supporters of deeper European integration. The results of the popular vote confirmed the prior predictions – **56.5% of the voters expressed their opinion in favor of the Treaty** on the Constitution for Europe. Approval was a victory for Luxembourg's Prime Minister, Jean-Claude Juncker, who was willing to resign from his post if the election ended negatively. Voter participation exceeded 90%, which is due to mandatory voting during elections and referenda in Luxembourg.

In July, the Treaty on the Constitution was also ratified by the smallest EU member – **Malta**. A positive vote was carried unanimously in parliament.

Since the negative results of the referenda in France and the Netherlands, three countries have expressed their consent to the European Constitution: Cyprus and Malta through parliamentary ratification and Luxembourg by means of a popular vote. As of now, **thirteen countries have voiced approval, two are against**, and in ten countries, including the Czech Republic, the ratification process has yet to take place.

According to EU primary law however, the European Constitution will not be valid **until it has been ratified by all twenty-five members**. Theoretically, it is still possible to request the French and the Dutch to reconfirm their opinion through a repeat vote and hope that this time they vote in favor of the constitution. Taking into consideration the significantly negative results, this scenario is not very likely. In addition, Great Britain has not voted yet and its citizens traditionally hold a lukewarm stance when it comes to issues involving European integration.

http://europa.eu.int/constitution/ratification_en.htm

SINGLE INTERNAL MARKET

Will the Commission Regulate Mortgages?

A Green Paper published by the European Commission has proposed the possibility of regulating the mortgage loan market at Union level. This topic is now open for discussion with the professional public. European regulation has already been debated for quite a while. A very large market segment, equal to 44% of the European Union's GDP, is involved and this specific issue also has a direct impact on consumers. At the same time, the cross-border market for providing mortgages is negligible – banks from one member state provide only 1% of all mortgages in other states. **The market is heavily fragmented** and the conditions for providing mortgages vary from state to state.

The Green Paper should start a debate on how **mortgage loans can be provided across the borders** of member states and thus result in an expanded offer being available to consumers. According to Charlie McCreevy, the EU Internal Market Commissioner, European legislation in this area will be implemented only if its benefits are proven clearly. Representatives of European banks are leaning more towards the implementation of voluntary standards rather than the acceptance of binding regulations.

The primary points addressed by the Green Paper are:

Consumer protection – This is one of the most important issues and concerns the consolidation of information that mortgage banks are required to provide customers. Should a standardized calculation for the internal rate of loan expenses (similar to the APRC) be implemented? Should a code of ethics for bank behavior be legally binding?

Access to information – How can consumers obtain information on mortgage products?

Legal system – How can a bank verify the credibility of a cross-border customer?

Euromortgage – One of the options for resolving problems with various legal systems is a common "Euromortgage".

Obstacles – It is important to identify and remove obstacles such as tax barriers, compensation procedures in the event of customer insolvency, and interest rate ceilings.

Financing mortgages – Can institutions other than banks and building savings institutions provide mortgage credit?

The European Commissions consultation procedure also includes a study of the probable expenses and potential benefits of any legislation regulating mortgages. This study will be published in August.

The Green Paper on mortgages is open to consultation **until November 30, 2005.** The results will be summarized in December at a public hearing.

http://europa.eu.int/rapid/pressReleasesAction.do?reference=IP/05/971

ENTERPRISE

Lisbon Program Focuses on 8 Key Measures

The European Commission has submitted an integrated plan for EU measures – the **"Community Lisbon Program".** Its main goals are to stimulate growth and create more and better employment positions. The primary

purpose is to supplement the national action plans for growth and employment that will be presented in October.

The goal is to make Europe an attractive location for investment and employment by supporting knowledge and innovation. The Commission will thus strive towards opening the market to a greater degree, removing bureaucracy, and increasing investments in a modern infrastructure.

In its effort to achieve these goals, the Commission is focusing primarily on eight key measures, all of which have great added value:

1. support for knowledge and innovation in Europe;
2. reform within state support policies;
3. improvement and simplification of the legal regulatory framework for businesses;
4. final implementation of the internal services market;
5. conclusion of an ambitious agreement within the framework of Doha negotiations;
6. removal of obstacles that prevent the mobility of individuals, workers, and university students;
7. development of unified access to economic migration; and
8. support for efforts aimed at eliminating the social consequences of economic restructuring.

The advances made, both at the national as well as at the European levels, will be **analyzed annually**. This annual evaluation will then be used as the basis for revising the Community Lisbon Program.

http://europa.eu.int/rapid/pressReleasesAction.do?reference=IP/05/973

State Aid for Public Interest Services Permitted

Payments of up to EUR 30 million per year will not be considered as state aid next time around as long as they are directed at private companies for **the purpose of ensuring public interest services.** In addition, the recipients of the assistance cannot earn returns in excess of EUR 100 million per year and, if they also provide standard commercial services, they will **have to differentiate amongst** the two types of activities **within their accounting systems**.

The new principles presented by Neelie Kroes, the EU Commissioner for Competition, relate to all levels of public administration with **emphasis on the local level**, and cover such businesses as waste management, water supply, social housing, hospital operation, schools, etc. Up to now, it was not quite clear how payments for the provision of public interest services should be handled. The acceptance of the new, more precise regulations was provoked by the European Court, which interpreted compensation given to private businesses that provide public services as classic state aid with very strictly defined exceptions.

According to Commissioner Kroes, the more benevolent rules **limit profuse bureaucratic administration** during the evaluation of state aid within the EU. The new legislative package does not precisely define everything that can be considered as public interest services. The Commissioner would like to leave it up to the member states to create a precise list of public services within a one-year timeframe.

http://europa.eu.int/rapid/pressReleasesAction.do?reference=IP/05/937

ENVIRONMENT

Lower taxes for ecological vehicles

For the future, the European Commission is planning on replacing the one-time payment for vehicle registration with **a harmonized European road tax system** that would be based on the level of carbon dioxide (CO2) in exhaust emissions. If this system is accepted, lower taxes would be paid for vehicles that are environmentally-friendly.

The goals of the directive are to incite consumers **to purchase "green" vehicles** and to prevent dual taxation when automobiles are transferred from one member state to another. The current situation requires a consumer to pay registration tax at the time the vehicle is purchased in one country, and a subsequent road tax in another country.

According to the proposed directive, which was submitted by László Kovács, the EU Commissioner for Taxation and Customs, the taxes and fees for vehicle registration would not be terminated immediately, but rather during an interim five- to ten-year timeframe. This would allow sufficient time for the states that apply high registration taxes to replace them with other income.

The most controversial section of the proposal is the introduction of ecological elements. The less CO2 emitted

The European Commission published Strategic Directions for economic, social, and territorial cohesion for the 2007-2013 period. The goal is to provide nation states with a guideline for the preparation of cohesion programs. Anti-terrorism measures include a proposed directive that, if approved, will lead to stricter monitoring of the flow of monetary resources within the European Union countries.

by a vehicle per kilometer, the lower the tax that will be paid by the owner. Road tax would be calculated **taking CO2 emissions into consideration** in a manner whereby the share of tax related to this element would equal 25% of the tax by the end of 2008 and increase to 50% by 2010.

The directive would harmonize only the framework principles. Decisions on the level of the tax rates would remain with the member states while respecting the specific ecological perspective.

As this involves a tax directive, the standard joint decision-making procedure does not apply. The burden of making the decision rests solely with the member states, which must reach a unanimous decision.

http://europa.eu.int/rapid/pressReleasesAction.do?reference=IP/05/839

Parliament Supports a Ban on Phthalates

The European Parliament supported a permanent ban on the use of phthalates in children's toys. Phthalates are used to soften PVC and are hazardous to human health, as they cause reproductive problems and increase the risk of allergies, asthma, and cancer.

Phthalates were temporarily banned starting in 1990 and the ban was renewed on a regular basis. This time, a permanent ban is involved.

On the basis of the new directive, three phthalates (DEHP, DBP, BBP) would be banned in all toys and childcare products and three additional phthalates (DINP, DIDP, DNOP) would be banned only in toys and items with which children might come into oral contact. The specific rules regarding which toys and items can be placed in a child's mouth will be prepared by the Commission.

The EU Council has already expressed its preliminary consent to the directive and thus its approval in autumn would be only a formality.

http://www.europa.eu.int/rapid/pressReleasesAction.do?reference=IP/05/838

JUSTICE AND HOME AFFAIRS

Ministers have agreed on Anti-Terrorism Policies

Subsequent to the terrorist attacks in London, the Ministers of Justice and the Interior of the member states agreed to **speed up the acceptance of activities aimed at combating terrorism**. A special session of the EU Council for Justice and Home Affairs decided to give new momentum to a wide spectrum of anti-terrorism measures. None of the measures is new, but **the timeframes for their implementation have been shortened.**

The most controversial recommendations are:

Data retention – On a legislative basis, telecommunications companies will have to store information on all telephone conversations, E-mail, and Internet traffic. The original proposal was defeated by a large majority in the European Parliament. The ministers are, however, insisting on the acceptance of this legislation. In order to avoid the dissenting opinion of the Eurodeputies, they have selected to submit the proposal within the framework of the third pillar of the EU (regulated by judicial cooperation in criminal matters), which is not included in community law and thus the decisive word is held solely by the representatives from the member states.

Strategy against radicalization and the recruitment of terrorists – According to Franco Frattini, EU Commissioner for Justice, Freedom, and Security (including home affairs), the roots of terrorism must be eradicated. Thus far, not many tasks have been completed in this sensitive area and future procedures are not very clear.

Strengthening the Schengen Information System – Human rights organizations are very dissatisfied with the amount and type of information that is stored in the Schengen Information System. They also have issues regarding access to this information.

Uniform standards for identification documents – Great Britain is requesting the use of biometric elements on all identification documents. In relation to the strategies for protecting the external borders of the EU, biometric data should be included with all visa applications.

Other measures that should come into effect by December of this year are:

- a framework decision on a European Arrest Warrant;
- policies for data protection as a component of procedures for storing telecommunications information;
- tools for the exchange of information between the police and the courts;
- fighting the financing of terrorism, including the acceptance of a third directive against money laundering, measures that prevent charity organizations from collecting money for terrorists, and the option of freezing assets;
- increasing the role played by SitCen – the EU Council's body for coordinating information and police services;
- protection of the civil infrastructure; and
- joint procedures to follow in the event of terrorist attacks.

The strengthened anti-terrorist plan will be implemented by no later than December 2005.

http://ue.eu.int/ueDocs/cms_Data/docs/pressData/en/jha/85703.pdf

Tighter Control over Money Transfers

The European Commission proposed a directive that should tighten control over money transfers in the Union. The goal of this measure, which is included in the package accepted after the terrorist attacks in London, is **to cut off terrorists from financial resources.**

On the basis of this directive, all money transfers to and from the European Union would **have to include data on the sender's name,** address, and bank account number. If the sender does not have a bank account, the transfer order must then include **unique identification information** that will enable reliable tracking of the source of the funds and the identity of the sender. For the simplified procedure, valid for payments between EU member states, the sender's bank account number would be sufficient. Name and address would be required only upon request by the recipient's bank.

The provision of this information should simplify any subsequent investigations. If the required information is not available and is not presented upon request, the provider of the payment relationship (the bank) **will refuse the payment.** The provider of the payment relationship would have to maintain records on these transactions for a period of five years.

The directive has been accepted on the basis of a joint decision-making procedure. It must be approved by both the European Parliament and the EU Council. If this occurs, the directive will become valid **in January 2007.**

http://europa.eu.int/rapid/pressReleasesAction.do?reference=IP/05/1008

INFORMATION SOCIETY

Parliament Rejects Software Patent

By a wide majority of votes (648 out of 680), the European Parliament rejected a proposed directive on the patentability of software and other computer-implemented inventions. The European Commission said that it **will not submit a new proposal on this controversial topic.**

The goal of the rejected directive was **to implement mutual regulations for protecting** software patents in the EU, where they currently represent a significant portion of innovations. As of this date, rules are in effect at a national level and they vary among the individual member states.

According to the Eurodeputies, the reason for their refusal was the ambiguity of the directive, which would introduce **the risk of excessive interpretation** with serious consequences for small and medium-sized European software companies. These enterprises were concerned that large computer companies would take over the software market and no space would remain for them.

http://www2.europarl.eu.int/omk/sipade2?PUBREF=-//EP//TEXT+PV+20050706+ITEM-004-03+DOC+XML+V0//EN&LEVEL=2&NAV=X

REGIONAL POLICY

New Strategic Priorities for Cohesion, Growth, and Employment

European Commissioners Vladimír Špidla and Danuta Hübner published a Communication from the Commission on the strategic directions for economic, social, and territorial cohesion for the 2007-2013 period. The new directions define **the priorities for a new generation of cohesion programs,** which will help the member states focus on key areas related to economic growth and employment.

The final version of these rules will be formulated **after the conclusion of a public consultation** in which all interested parties can participate with their opinions (deadline: September 30, 2005).

The strategic directions provide the member states and the regions **with a guideline for establishing priorities** while preparing their cohesion programs. They emphasize primarily the need to increase synergy between cohesion policies, national and regional priorities, and the Lisbon Strategy.

The main priorities for cohesion policies during the new program period are:

- **Make Europe a more attractive location for investments and jobs** – improvement and expansion of the infrastructure, support for renewable and alternative sources, etc.;
- **Knowledge and innovation for economic growth** – development of an information-based society, increased investments in research, development, and innovation, etc.; and
- **More and better employment opportunities** – a flexible employment market, modernized social systems, investments in human resources, etc.

http://europa.eu.int/rapid/pressReleasesAction.do?reference=IP/05/850

Another event in July that deserves attention is the report published by Eurostat, according to which the influx of direct foreign investments in the EU has decreased. The Green Paper and associated public consultation on improving the European legislative framework for investment funds should not escape the attention of the financial sector. From the perspective of advances made in the incorporation of European directives on an internal market into national legislation, the CR is the fourth worst.

01 JULY

Negotiating framework for Turkey:
http://www.europa.eu.int/comm/enlargement/whatsnew.htm

04 JULY

New and updated versions of road safety quick indicator on road accidents causing injuries:
http://www.europa.eu.int/comm/transport/road/figures/accidents/quickindicator/index_en.htm

05 JULY

2005 report on implementation of Directive 2003/30/EC on promotion of renewable fuels for transport:
http://www.europa.eu.int/comm/energy/res/legislation/biofuels_members_states_en.htm

Utilisation of budget appropriations (June 2005):
http://www.europa.eu.int/comm/budget/execution/utilisation/details_en.htm

06 JULY

Food & Veterinary Office - Programme of Inspections 2005
http://www.europa.eu.int/comm/food/fvo/inspectprog/index_en.htm

07 JULY

Commission proposes reform on Internet licensing:
http://www.europa.eu.int/comm/internal_market/copyright/management/management_en.htm

Environmental policy integration– the role of administrations:
http://org.eea.eu.int/news/Ann1120649962/index_html

08 JULY

New Tempus Programme website now online:
http://www.europa.eu.int/comm/education/programmes/tempus/index_en.html

Energy Demand Management - Directive on establishing framework ecodesign requirements adopted:
http://www.europa.eu.int/comm/energy/demand/legislation/eco_design_en.htm

Decrease in FDI flows with extra-EU countries and in intra-EU25 flows in 2004:
http://epp.eurostat.cec.eu.int/pls/portal/docs/PAGE/PGP_PRD_CAT_PREREL/PGE_CAT_PREREL_YEAR_2005/PGE_CAT_PREREL_YEAR_2005_MONTH_07/2-08072005-EN-AP.PDF

EU25 FDI inward flows in 2004

EUR bn	Intra EU-25	Extra EU-25		Intra EU-25	Extra EU-25
UK	52.9	10.2	Hungary	1.6	1.7
Luxembourg	30.2	15.7	Greece*	0.9	0.2
France	20.5	1.1	Estonia	0.6	0.2
Belgium	18.9	8.8	Cyprus	0.5	0.5
Island	14.3	-3.0	Lithuania	0.5	0.2
Italy	10.2	1.9	Latvia	0.4	0.2
Spain*	8.9	-1.0	Slovenia	0.4	-
Poland	5.2	-0.3	Portugal	-1.3	2.2
Finland	3.3	0.4	Sweden*	-3.2	-0.6
ČR	2.9	0.7	Germany	-27.9	-3.2
Austria	2.9	1.0	EU-25	132.2	57.6
Netherlands	1.8	-5.4			

Source: Eurostat, Note: preliminary results, for Denmark, Malta and Slovakia the figures are not available
**) data without reinvested earnings*

11 JULY

Information Society: ICT and Media Industry sign-up to Commission Roadmap for Growth and Jobs:
http://www.europa.eu.int/information_society/eeurope/i2010/docs/ceo_synthesis_european_business_leaders_summit_pr.doc

12 JULY

Public Consultation on the Modernisation of Rules of Audiovisual Services:
http://www.europa.eu.int/comm/avpolicy/revision-tvwf2005/consult_en.htm

13 JULY

MEPs back moves to simplify exports of generic drugs to poorer countries:
http://www2.europarl.eu.int/omk/sipade2?PUBREF=-//EP//TEXT+PRESS+NR-20050713-1+0+DOC+XML+V0//EN&LEVEL=2&NAV=S#SECTION5

2672nd Economic and Financial Affairs Council meeting:
http://ue.eu.int/ueDocs/cms_Data/docs/pressData/en/ecofin/85688.pdf

14 JULY

Report on the application of the new Financial Regulation:
http://www.europa.eu.int/comm/budget/furtherinfo/index_pg2_en.htm#execution

Justice and Home Affairs extraordinary meeting, Brussels: http://ue.eu.int/ueDocs/cms_Data/docs/pressData/en/jha/85703.pdf

15 JULY

Internal Market: Commission Green Paper on enhancement of EU framework for investment funds: http://www.europa.eu.int/comm/internal_market/securities/ucits/index_en.htm#greenpaper

18 JULY

Consultation on the E-Money Directive: http://www.europa.eu.int/comm/internal_market/bank/e-money/index_en.htm

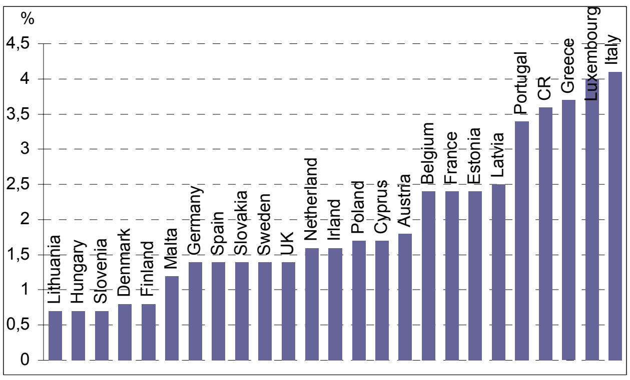
Consultation on the Deposit Guarantee Schemes Directive: http://www.europa.eu.int/comm/internal_market/bank/guarantee/index_en.htm

19 JULY

2676th Agriculture and Fisheries meeting http://ue.eu.int/ueDocs/cms_Data/docs/pressData/en/agricult/85787.pdf

Internal Market Scoreboard : Second best transposition result ever: http://www.europa.eu.int/comm/internal_market/score/index_en.htm

Transposition Deficit of Internal Market Directives



Note: How many % out of all internal market directives have been transposed into the national law, source: DG Internal Market

20 JULY

2nd meeting of the EU-Former Yugoslav Republic of Macedonia stabilisation and association council: http://ue.eu.int/ueDocs/cms_Data/docs/pressData/en/er/85784.pdf

21 JULY

EFSA launches public consultation on post-market environmental monitoring of GM Plants: http://www.efsa.eu.int/press_room/press_release/1041_en.html

22 JULY

Commission welcomes Council's decision to sign agreement on the transfer of air passenger data to Canada: http://www.europa.eu.int/comm/external_relations/canada/news/ip05_965.htm

25 JULY

How to close the broadband gap - public consultation: http://www.europa.eu.int/comm/enterprise/library/enterprise-europe/news-updates/2005/2005-07-22a.htm

Inter-institutional Monitoring Group for financial services re-established: http://www.europa.eu.int/rapid/pressReleasesAction.do?reference=IP/05/1002&format=HTML&aged=0&language=EN&guiLanguage=fr

26 JULY

The European City – improving the quality of your environment: http://www.europa.eu.int/comm/environment/urban/public_consultation_2005.htm

27 JULY

Open Consultation on Commission Staff Working Paper - 'Rights of passengers in coach transport': http://www.europa.eu.int/comm/transport/road/consultations/index_en.htm

Eurosystem collateral framework - inclusion of non-marketable assets in the Single List: http://www.ecb.int/press/pr/date/2005/html/pr050722.en.html

28 JULY

Internet consultation on the Soil Thematic Strategy: http://www.europa.eu.int/comm/environment/soil/index.htm

29 JULY

Health and Consumer Protection: Helping consumers seek redress: http://europa.eu.int/comm/consumers/redress/out_of_court/index_en.htm

Unfortunately, Luxembourg, which presided over the EU bodies during the first half of this year, was unsuccessful in resolving and bringing Europe's main problems and demands to a fruitful end. Great Britain has now assumed the metaphorical presidential scepter over the Union for the remaining six months. A closer look at its position and anticipated is included in the Analysis Column of this current, August issue of the EU News Monthly Journal.

WHAT CAN BE EXPECTED FROM THE BRITISH PRESIDENCY?

Based on a traditional rotating principle, Great Britain assumed the function of presiding country for the European Union Council as of the first day of July. As a member of the Community, joining in 1973, Britain now holds this position **for the sixth time**, the last term being in 1998.

With regard to the events that have accompanied the development of European integration during the past several months, when some of the key EU countries are expressing a difference of opinion as concerns the future formation of the Union, **the role of the British presidency can be relatively important**. It is a given that the presiding country is specifically the one that has the opportunity to affect and influence topics to which the EU Council – and, within a wider sense, other EU institutions as well – devote their time during the given time period. This is even supported by the overview of responsibilities that the presiding country of the EU Council should fulfill:

- organize and preside over EU Council meetings and its work groups;
- represent the EU Council not only towards other Union institutions, but also represent the EU in the worldwide context with organizations such as the UN and the WTO as well as in relationships with countries that are not members of the EU; and
- ensure that key tasks that were not fulfilled during the previous presidency are resolved on a priority basis and, in the event that any key tasks remain unresolved at the end of the presidency, transfer them to the subsequent presiding country.

With regard to the fact that Great Britain happens to be one of the key EU members that is striving for a change in priorities for the Union's future direction (as was evidenced by the budget debate for the 2007-2013 timeframe, which failed to be untangled at the European Council Summit that was held in June in Brussels), it is currently also interesting to think over the priorities of the British presidency itself:

- the UK presidency has 2 key priorities: **the future model for EU financing and the Common Agricultural Policy**;
- in addition, during this half of the year, Britain is focusing on other critical areas, with an interest in making visible advances in their resolution: **economic reform and social justice, security, and stability**, and Europe's role in the world.

In the case of the model for EU financing, Britain is already exerting significant efforts towards an advance in the agreement on the future financial framework. A consulting period with other partners within the framework of the Council has already begun, with the goal of reaching – or at least nearing – a consensus on the structure of the EU budget and its priorities.

Reform of **Common Agricultural Policy** can be considered as a component of the financial framework reform process. The British position emphasizes that its goal is not to terminate or radically reduce this policy overnight. Rather, Britain intends to prepare a precise, gradual time schedule for reforming agricultural financing, taking into consideration the globalization demands within this sector.

From the list of measures within the framework of economic reform and social justice, it is appropriate to bring to light the fact that Britain will strive to **implement the measures provided by the Kok Report** in 2004 (even in the priorities for the next program period). These are related directly to supporting a **knowledge-based society, strengthening the Single Internal Market, improving the entrepreneurial environment, and implementing reforms on the national employment markets** (as is also stated in the updated Lisbon Strategy). Acceptance of the **Services Directive** and extinguishing political and social doubts, which surround and complicate the acceptance process for this directive, will also be a subject of the British presidency's interest. Lastly, Britain is interested in ending its presidency by successfully capping off the set of tasks assigned by the **Financial Services Action Plan**.

Conceivably, it can almost be argued with certainty that a six-month period is too short a timeframe to fully achieve such ambitious goals, especially in light of the current situation with the European integration process. On the other hand, any visible movement in the designated direction represents the correct path for the EU – a path that is pragmatic, objective, and open.

Presidency to Council:

Period	Member state
July-December 2005	United Kingdom
January-June 2006	Austria
July-December 2006	Finland
January-June 2007	Germany
July-December 2007	Portugal
January-June 2008	Slovenia
July-December 2008	France
January-June 2009	Czech Republic
July-December 2009	Sweden

Two new financial instruments present an interesting alternative for those who cannot attain access to subsidies from EU Structural Funds. Czech entities can obtain grants from the European Economic Area and the Norwegian Financial Mechanisms. These can be used for investment and development projects in priority sectors, such as the conservation and renewal of cultural heritage, environmental protection, judiciary support, healthcare, childcare, and others.

EEA AND NORWEGIAN FINANCIAL MECHANISMS

In May 2004 not only was the European Union enlarged, but the European Economic Area (EEA) increased as well. This gave Iceland, Liechtenstein, and Norway (members of the EEA, but not of the EU) the advantages of access to a unified internal market that was expanded by ten new member states. In return, these countries undertook to establish **two financial mechanisms** (the EEA Financial Mechanism and the Norwegian Financial Mechanism), which have the goal **to support social and economic cohesion** in the financially weaker member states of the current 28-member European Economic Area (specifically, the 10 newcomers, Greece, Portugal, and Spain).

All of the basic principles and tenets related to the EEA Financial Mechanism and the Norwegian Financial Mechanism for the period 2004-2009 are incorporated in the **Agreement on Participation in the European Economic Area** (Protocol 38a) and the **Agreement between the Kingdom of Norway and the European Community on a Norwegian Financial Mechanism**. These agreements specify the amounts that will be allocated for investment and development projects, the goals and priorities for using the financial resources, the amount of co-financing required for projects, the evaluation frequency, the redistribution of unused financial resources as applicable, etc.

The Czech Republic's participation in both mechanisms is defined in more detail in the signed **Memorandum of Understanding on the Implementation of the EEA Financial Mechanism** (or **Norwegian Financial Mechanism**, as applicable) for the 2004-2009 period.

Both financial mechanisms pertain to the period **from May 1, 2004 through April 30, 2009**. After the end of this five-year period, an investigation will determine the subsequent steps that should be taken and how necessary it is to resolve economic and social disparities within the European Economic Area framework.

ADMINISTRATION OF THE FINANCIAL MECHANISMS

At the supranational level

The EEA Financial Mechanism is administered by the **EEA Financial Mechanism Committee**, which also accepts the decisions on the provision of financial assistance. In the case of the Norwegian Financial Position, this function is performed by the **Ministry of Foreign Affairs of the Kingdom of Norway**. The **Financial Mechanism Office** (EEA/Norwegian), which is located at the European Economic Area Secretariat in Brussels, assists these highest bodies with day-to-day administration. The Financial Mechanism Office in Brussels does not, however, accept any applications directly from the requestors but rather through the National Focal Points in the beneficiary states.

At the national level

At the national level, the most important body is the National Focal Point, which acts on behalf of the beneficiary state and bears full responsibility for managing the activities of the EEA and the Norwegian Financial Mechanisms, including financial controls and audits. The **Ministry of Finance** is the National Focal Point for the Czech Republic, whereby administration activities are provided by the Centre for Foreign Assistance (Foreign Assistance Coordination Unit).

The overall administrative structure is based on the structure that was established for EU pre-accession assistance programs (i.e., PHARE) as well as for the Cohesion Fund and the Structural Funds. The **Monitoring Committee** holds a significant position within this structure. The Monitoring Committee assists the National Focal Point in project selection and management. The members of the Monitoring Committee are appointed by the Minister of Finance on the basis of recommendations made by the ministers from the applicable ministries and the directors of the appropriate institutions.

On the basis of an agreement with the Financial Mechanism Office, responsibilities for the preparation of projects and their implementation are delegated to **intermediaries** (ministries and other central state administration bodies, regional offices, or other entities). The intermediaries are responsible for ensuring all of the corresponding activities, including co-financing for the projects.

Procedures for Submitting and Evaluating Grant Requests

Individual interested parties learn about the possibilities for submitting grant applications by **open calls for proposals**. These calls establish the specific conditions that must be met when preparing the application for the provision of assistance and are published by the National Focal Point at the Internet address http://www.eeagrants.cz and in periodical publications. Over the course of one year, the National Focal Point can announce a maximum of 4 rounds of calls for proposals. The announcement of a new round of calls depends on the total financial obligations for projects received within the framework of the preceding calls.

PRIORITY AREAS FOR FINANCING

Overview of Priority Sectors and Focus Areas of the EEA Financial Mechanism

Priority Sector	Focus Area
1) Conservation of European cultural heritage	• Protection and renewal of immovable cultural heritage • Improved care and protection of movable cultural heritage • Renewal of historical urban areas and other historical areas in the regions • Renewal of historical and cultural heritage in the regions • Removal of ecological burdens from smaller properties within cities and municipalities (small-scale brownfield reclamation)
2) Protection of the environment	• Assessment of impacts on air, water, and land conditions in the Czech Republic as a result of the implementation of international legislation • Regional monitoring systems and the subsequent use of the monitoring results • Environmental education at all levels of state and pubic administration • Waste management – provision and administration at the local level • Support for biofuels and alternative energy sources as a secondary energy source at the local level • Reduction of greenhouse gases in the Czech Republic • Reduction in the decrease of biodiversity and preservation of untouched natural habitats • Supporting technology for reducing pollution and fuel consumption; increasing safety, especially as relates to public transport
3) Human resources development	• Programs for the support and development of modern public administration services at the regional and local levels through the use of IT technology • Development and improved provision of social services in the regions • Support for non-governmental nonprofit organizations • Support for the integration of minority communities in society • Programs for promoting gender equality in the public sector • Modernization and the provisions of equipment for daycare centers, nursery schools, schools, education centers, and children's homes
4) Health and childcare	• Systematic and primary prevention of drug addiction • Prevention of communicable diseases • Food safety measures • Programs for supporting children with special needs
5) Promotion of sustainable development	• Assistance in promoting and implementing the Strategy on Sustainable Development at the local and regional levels
6) Academic research and development	• Academic research and development in the specified priority sectors, especially in relation to the environment, healthcare, and children's living conditions

Overview of Priority Sectors and Focus of the Norwegian Financial Mechanism Priorities

In addition to the six priority sectors of the EEA Financial Mechanism, which are identical for both mechanisms, the Norwegian Financial Mechanism includes the following two priorities:

7) Implementation of the Schengen acquis, strengthening the judiciary	• Implementation of the National Schengen Information System (N-SIS) and the establishment of a SIRENE Office • Bringing regional airports into compatibility according to the Schengen acquis • Strengthening the educational system within the judiciary sector • Implementation of programs to fight corruption, organized crime, illegal trafficking of drugs and humans
8) Technical assistance	• Strengthening the capacity for providing development assistance by the Czech Republic • Transfer of knowledge and exchange of experiences related to the adoption and application of the acquis in the areas specified in the European Committee's Comprehensive Monitoring Report through cooperation with the appropriate bodies and institutions • Exchange of experience and cooperation with regional and local self-government

Applications for projects that can be financed through EU pre-accession programs (such as PHARE) or from EU structural funds **cannot be submitted within the framework of the EEA or the Norwegian Financial Mechanisms**.

In addition to the classic open calls, which are used for submitting applications for **assistance for individual projects** (project goals), there is another set of calls designated for those coordinating applications for **assistance for a program** or **block grant assistance**.

If an entity decides to apply for a grant, in the case of individual projects the application must be delivered to the **appropriate Local Focal Point** (the Local Focal Point is a public administration institution in the form of a central state or regional administration body or any of its contribution organizations) or, in the case of program or block grants, to the **appropriate intermediary**. After the final deadline for submitting applications has passed, the Local Focal Point will open the envelopes immediately and evaluate the applications from a formal perspective as well as to ensure that they meet the eligibility criteria. The Local Focal Point subsequently transfers the applications that meet the formal and eligibility criteria to the applicable evaluating committee, which evaluates the quality of the application. Finally, the Local Focal Point prepares a Report on Evaluation Results that it sends, together with the recommended grant applications, to the National Focal Point.

The National Focal Point evaluates the submitted applications and prepares its opinion. The National Focal Point then sends a complete list of the recommended and rejected applications, together with the reasoning for each project, to the Monitoring Committee in order to obtain its opinion. On the basis of the recommendations made by the Monitoring Committee, the National Focal Point forwards the selected applications, together with the Monitoring Committee's opinion, to the Financial Mechanism Office in Brussels. This office, in turn, evaluates the submitted applications, consults them with the European Commission and subsequently forwards them to the **EEA Financial Mechanism Committee or the Ministry of Foreign Affairs of the Kingdom of Norway for a final decision**.

It is possible to submit only a **project purpose** (through the Local Focal Point or the National Focal Point) to the Financial Mechanism Office, which then performs a **preliminary evaluation** of the purpose (i.e., an evaluation of the objectives, the anticipated results of the project). If the resulting opinion is positive, the applicant is requested to complete a full application.

TYPES OF PROJECTS AND APPLICANTS

The EEA/Norwegian Financial Mechanisms allow implementation through:

• Individual projects (IP),

• Programs (PRG),

• Block grants (BG).

Individual Projects

A project consists of a financially indivisible series of tasks that fulfill a specific technical function, have clearly identifiable goals, and resolve a single issue. An application for an individual project can include one or more sub-projects. The amount of grant assistance to be requested is generally **no less than EUR 250,000**. A minimum of 60% of the total finances allocated to the beneficiary state is intended for individual projects.

Individual sponsors (**regions/central administrative bodies**) decide whether they will submit the program within the applicable call for proposals and will be the intermediary for program implementation or if they will be the local focal point for submitting the applications for individual projects by individual requestors, and ensuring their evaluation.

If, as the sponsor, the region/central administrative body decides to be the focal point for submitting an application for individual projects during the specific call for proposals, the requestors can submit individual projects to:

- **the Local Focal Point in the applicable region** – submittal of projects that lie within the framework of the region's priorities or a specific focus of priorities as decided by the region within the call for proposals and which correspond to a **specific regional strategy**. The projects can then only be implemented within the territory of the applicable region.
- **the Central Administrative Body** – the focal point for projects within the framework of **sector priorities**, which are based on the competencies of the applicable central administrative bodies. The specific purpose of the priorities and additional specifications are established by individual central administrative bodies within the call for proposals. The projects can be implemented anywhere within the territory of the Czech Republic.

An application **cannot be submitted to a region and to a government department concurrently**. If this is the case, the application will be eliminated from the evaluation process. The application is prepared and submitted by the requestor – the final recipient of the grant.

Programs (groups of sub-projects)

A program is a coordinated portfolio of **groups of individual sub-projects**, which is prepared and submitted by the authorized representative of a partnership and is focused on a series of mutually defined goals. These are designated for simplifying the implementation of more complex and demanding strategies.

Programs are prepared within the framework of a partnership, which will represent everyone who has key interest in performing the proposed activities. This partnership will work within the framework of the established strategy and will nominate a leading partner and program intermediary who will be the National Focal Point for the implementation of the program within the framework of delegated legal authority.

The **maximum total contribution** from the EEA/Norwegian Financial Mechanism for an individual sub-project is **EUR 250,000**. The minimum amount of the contribution is proposed by the program intermediary.

If, as the sponsor, the region/central administrative body decides to submit the program, it designates the specific focus of priorities and additional specifications for its program within the framework of its jurisdiction and priority sectors. The application is prepared and submitted by the program intermediary (i.e., the region or central administrative body), which will implement the program. The final beneficiary is the recipient of the grant for the implementation of the sub-project within the framework of the approved program.

Block Grants

A block grant is a **fund established for a clearly defined purpose,** and can be used for providing assistance to individuals, organizations, or institutions. Block grants are designed for simplifying the implementation of projects within which each sub-project or **final beneficiary is too small** to be identified *a priori* or processed independently. The grant application is prepared and submitted by a designated intermediary. The final beneficiary is the recipient of the individual grant that is allocated within the framework of implementing the approved block grant.

The following grant schemes will be opened in the Czech Republic within the implementation framework of the Financial Mechanism:

I. **Non-Governmental Nonprofit Organizations (NNO) Fund** – This fund will be focused on providing support to non-governmental nonprofit organizations that provide public services. Within the framework of the fund, NNOs in all priority sectors will be supported; however, primarily those in the areas of the environment, strengthening human rights and a multicultural environment, and support for children and youths with special needs. The intermediaries for this block grant will be selected from among nonprofit organizations through a public tender announced by the National Focal Point.

II. **Technical Assistance Fund** – This fund will have two sections. One section will support cooperation and the transfer of knowledge between the CR and Norway, primarily in the area of cooperation with the EU while fulfilling the provisions of the applicable legislation in all priority sectors. Cooperation will be enabled at all levels of public administration (state administration, regional and local self-government), state institutions, universities, professional chambers and associations, and non-governmental nonprofit organizations. The second section will support the National Focal Point's activities in relation to ensuring the overall coordination of the programs of the EEA/Norwegian Financial Mechanisms. The intermediary for this grant scheme will be the Ministry of Finance – Centre for Foreign Assistance.

III. **Fund for the Support of School Cooperation** – This fund will be used to support cooperation and educational seminar programs for students, lecturers, and experts from secondary schools, colleges, and universities in the Czech Republic, and cooperation between the relevant institutions in the Czech Republic, Iceland, Liechtenstein and Norway. The Socrates National Office will submit the application for this block grant and will be the responsible intermediary.

IV. **Research Support Fund –** This fund will be used to support activities related to cooperation between academic institutions and institutions in Norway, Iceland, and Liechtenstein and the transfer of experience from these countries with a focus on increasing the effects of innovations. The intermediary for this fund is yet to be selected.

In addition, funds are available from the EEA/Norwegian Financial Mechanisms to be used as **resources for support during the preparation of projects**. This special fund will be targeted at providing technical assistance during the preparation of project applications that will be submitted for co-financing by the EEA/Norwegian Financial Mechanisms. It will be provided primarily to regional and local administration bodies especially for projects related to the environment, sustainable development, and preserving cultural heritage. Grants provided from this fund should generally be in the range of EUR 5,000 to 20,000 for each final recipient.

For whom are the funds intended?

Any institution from the public or private sector can apply for assistance, as well as non-governmental nonprofit organizations that are established as legal entities in the beneficiary states and perform activities in the public interest – i.e., national, regional, and local authorities, educational and research institutions, institutions concerned with

environmental protection, voluntary and social organizations, and public-private partnerships.

It is ideal if, within the framework of the project, the applicant proves the potential benefits for cooperation between Czech and Norwegian institutions – **the presence of a Norwegian partner in the project is a great advantage**.

An application for assistance with the implementation of an **individual project** can be submitted by:

- a state organizational unit;
- a contribution organization established by a state organizational unit;
- a region;
- an organization established or founded by a region (the region must hold a majority share in theorganization);
- a municipality;
- a union of municipalities;
- an organization established or founded by a municipality (the municipality must hold a majority share in the organization);
- an educational/research institution;
- a non-governmental nonprofit organization (NNO); or
- an entrepreneurial entity.

All of these institutions can also apply for a grant/financing for a sub-project within the framework of program implementation or a block grant.

A region or central administrative body can submit an application for assistance during the implementation of a **program** as an intermediary, as can a subsidiary contribution organization on the basis of authorization provided by the appropriate ministry/region. Assistance for support from a **block grant** can be requested by an assigned intermediary or an intermediary that has been selected through an open call for proposals (see above).

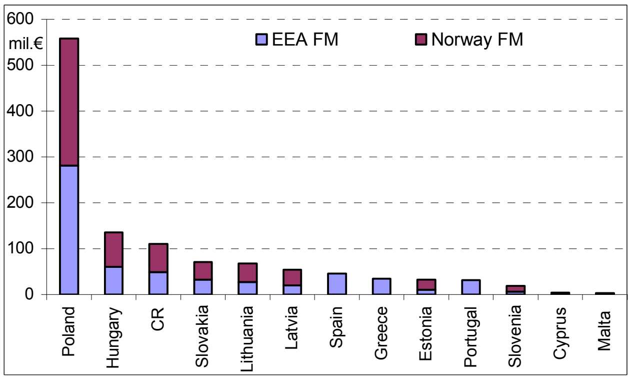
Applicants can submit the application either independently or with partners. The application is submitted by the managing partner. In the event that the submitted application receives a grant from the EEA/Norwegian Financial Mechanism, **the managing partner bears full responsibility** for adhering to the conditions established for implementing the project.

BUDGET

The volume of the EEA Financial Mechanism for the entire 2004-2009 period is in the amount of EUR 600 million, which will be made available by Iceland, Liechtenstein, and Norway in five annual tranches of EUR 120 million. The Norwegian Financial Mechanism operates with a budget of EUR 567 million. **There is thus a total of EUR 1.17 billion available.**

These are, however, only gross amounts from which it is necessary **to subtract managing expenses** for both financial mechanisms (operating expenses for the Financial Mechanism Office, expenses related to the activities of the EEA Financial Mechanisms Committee and the Financial Mechanism Division at the Norwegian Ministry of Foreign Affairs, expenses for monitoring the proper use of grants, etc.). Operating expenses have been established as 4% of the total budget in the case of the EEA Financial Mechanism and 5% for the Norwegian Financial Mechanism.

Gross Allocation of Financial Mechanisms for 2004-2009



The Czech Republic has been designated to receive **EUR 48.54 million from the EEA Financial Mechanism and EUR 62.37 million from the Norwegian Financial Mechanism.** After managing expenses are subtracted, EUR 46.60 million and EUR 59.25 million remain, respectively. The total allocated to the Czech Republic is EUR 110.91 million – a net amount of EUR 105.85 million. **The average annual allocation is thus in the amount of EUR 21.17 million**. Use of the entire sum being offered is, however, dependent on the ability of Czech entities to submit a sufficient number of quality projects.

Co-financing and Use of Funds

Generally, the contributions from the EEA and Norwegian Financial Mechanisms cannot exceed **60% of the total project expenses**. There is an exception for projects that are otherwise financed from state, regional, or local budgets, in which case the contribution cannot exceed **85% of the total expenses**. In addition, combined support from the EEA and Norwegian Financial Mechanisms and the European Community Grants cannot exceed 90% of the total expenses.

Grant assistance is provided in the form of **retroactive payment for expenses that have already been paid and**

have been documented according to an approved payment schedule.

Current status

On May 18, 2005, the **first call for the submittal of individual project proposals** within the framework of the EEA/Norwegian Financial Mechanisms was announced. The amount allocated from the overall plan for the 2004-2005 period is EUR 10.68 million. The amount of the allocation for the first call for submitting proposals is representatively distributed between individual regions and central administrative bodies (the division is purely indicative – the decisive factor will be the quality of the submitted projects):

- nine regions (South Moravia, Liberec, Moravia-Silesia, Olomouc, Pardubice, Pilsen, Prague, Central Bohemia, and Ustí nad Labem): EUR 0.6 million per region, for a total of EUR 5.4 million;
- the Ministry of Culture: EUR 2.35 million;
- the Ministry of the Environment: EUR 1.5 million; and
- the Ministry of Health: EUR 1.43 million

The remaining regions have decided not to accept applications for individual projects as they will submit applications for individual projects themselves or will act as program intermediaries.

The total amount allocated for the 2004-2005 period is EUR 21.17 million, which, after subtracting the EUR 10.68 million that are the subject of the first call, will be distributed as follows:

- preparation of block grants: EUR 4.34 million;
- the individual project being prepared directly by the Karlový Vary region: EUR 0.6 million;
- programs being prepared by the remaining regions (South Bohemia, Hradec Králove, Vysočina, and Zlín): EUR 2.4 million; and
- individual projects being prepared by the Ministry of Justice (EUR 0.5 million) and the preparation of programs at a central level (EUR 2.15 million).

The updated status of calls and submittals can be viewed at http://www.eeagrants.cz

SERVICES PROVIDED BY ČESKÁ SPOŘITELNA

As indicated above, the process of submitting and evaluating projects is similar to that in effect for structural funds. Likewise, financing for projects subsidized from the EEA/Norwegian Financial Mechanisms occurs in **a manner similar to that applied for financing projects within the framework of operational programs** (i.e. Joint Regional Operational Program – JROP).

Česká Spořitelna can, therefore, offer the services provided by its **EU Program Region** for the purposes of implementing these projects. This program's financial and other services will significantly simplify the investor's successful implementation of its project. In addition, Consulting ČS offers services for preparing projects and grant applications. Currently, its experts are intensively working on several of the first projects within the framework of these Financial Mechanisms.

Consultants for the Public and Nonprofit Sector have been established at all regional ČS branches, not only for the purpose of offering the services Česká Spořitelna provides in relation to implementing projects subsidized from the EEA/Norwegian Financial Mechanisms, but also to ensure the bank's closer cooperation with the public and nonprofit sectors. These specialists can provide advice on the following issues:

- how to finance a project;
- which project financing method is currently the most advantageous for the public and nonprofit sectors;
- what financial sources can be used for implementing a project (subsidies, loans, etc.);
- what an applicant (investor) must submit in relation to an application for a subsidy; and
- which institutions should be turned to with an application for a subsidy.

The value of the Consultants for the Public and Nonprofit Sector has been proven at Česká Spořitelna branches. Customers view these consultants as a means of establishing a quick connection between themselves and their requirements on the one side, and the services offered by the bank, on the other.

Česká Spořitelna offers the public and nonprofit sector the possibility of **financing projects with a loan of up to 100%** of the total project expenses. Our customers have the option of **deciding themselves** on the amount of expenses they will finance through a loan – whether only the subsidized portion or the total amount of the project expenses.

The possible **methods for securing a loan** provided to customers from the public and nonprofit sector are:

- future budget income of municipalities;
- guarantor's declaration by the founder of a nonprofit organization;
- lien rights to receivables; and
- lien rights to property.

Whereas last month's issue of the Monthly focused on one of Europe's largest economies – Great Britain - this month we turn our attention to an economic dwarf – Luxembourg. Size is not an issue in this case. In order to present a brief economic description of Luxembourg's current situation, its approximately three decades of past development, and the country's future prospects, we would need to use a number of superlatives or, at the least, describe a great success story.

LUXEMBOURG

Government type/chief of state	constitutional monarchy/The Grand Duke Henri
Area (share of EU)	2 586 km2 (0.07%)
Population (share of EU)	451 600 (0,1 %)
Age structure	0-14 years: 18.8%, 15-64 years: 67.2%, over 65 years: 14.0%
Total GDP (share of EU)	EUR 25.66 bn (0.25 %)
GDP per capita in PPS	222.3 % of EU-25 average
GDP - composition by sector	agriculture: 0.5%, industry and construction: 16.1%, services: 83.4%
Average inflation	3.2%
Average unemployment	4.2%
GDP growth	4.5%
General government balance	-1.1% of GDP
General government debt	7.5% of GDP
Number of NUTS2	1 NUTS2, Luxembourg 222.3%

Note: the figures are for 2004, source: EU, CIA

Over the past thirty years or so, Luxembourg's economy, when recalculated per capita, has undisputedly become the **richest in the entire European Union.** Wherein, however, does the source of Luxembourg's success lie?

It consists of **successful industrial and sector diversification policies**, which, since the early 1970s, have been reflected in a higher rate of economic growth, very low unemployment levels, stable and disciplined state finances, a highly open and efficient economy, and a very credible and healthy entrepreneurial environment. Until the end of the 1960s, Luxembourg's economy was dependent on iron and steel production, and agricultural and food manufacturing. At the beginning of the 1970s, the steel industry alone accounted for more than 30% of Luxembourg's GDP. The basis of industrial diversification lay in fully restructuring one of the world's largest steel companies – Arbed (now known as Arcelor) - and adapting to current market demands.

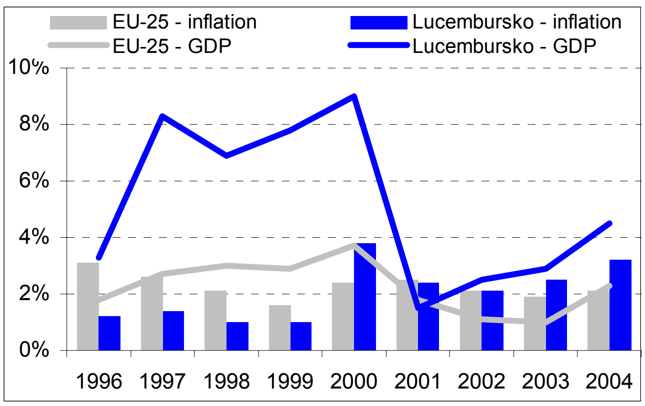
Sector diversification was **an investment in the development of services**, primarily those of a financial nature, but also those related to transportation, communications, and real estate. Thanks to favorable legislative and fiscal conditions, several hundred banks from all corners of the world found their way to Luxembourg, as did several dozen investment companies, financial and real estate administrators, and brokerage companies. Over the past two decades, an average of approximately 25% of Luxembourg's GDP has consisted of financial services. An even more significant role in Luxembourg's overall economy is played by transportation and communications services, which make up more than 30% of the country's GDP

The fact that Luxembourg is one of the three countries chosen as the **location for key institutions of the EU** is also a reflection of its wide range of well-developed, first-class services. Several thousand employees from European institutions provide sufficient demand for services in relation to their professional activities as well as to fill their leisure time. In addition, this country, as one of the founding members of the European Community, is one of the greatest backers of European integration.

Luxembourg's employment market is unique as well – not only due to a **very low unemployment level** combined with a very **high salary standard**, but also because almost one-third of all employees commute on a daily basis from countries and regions located outside Luxembourg. These "nomads" come not only from the neighboring countries of Germany, Belgium, and France, but also citizens of many other countries who live in Germany, Belgium, or France and offer their occupational skills on Luxembourg's employment market.

Final line: Luxembourg and its economy are not only **extraordinarily rich** but **are currently dynamic,** progressive**,** disciplined bodies that serve not only as a lure but also as a model for a large number of companies and individuals. They demonstrate how to succeed from the entrepreneurial and business perspective as well as how to establish a pleasant environment for life as such.

Inflation and GDP



Source: Eurostat

The statistical window in a tabular form shows the important macroeconomic and financial indicators of the countries which have newly acceded to the European Union, with respect to the criteria defined in the Maastricht Treaty: the month-on-month, year-on-year and average inflation rates, the indicators of the fiscal budget deficit and the state debt, expressed in relation to the GDP, and the volatility of the exchange rates of national currencies to the euro.

Price development

	m-on-m HICP growth			y-on-y HICP growth			average y-on-y HICP growth in %		
	III-05	IV-05	V-05	III-05	IV-05	V-05	III-05	IV-05	V-05
EU	0.4	0.3	0.1	2.1	2.0	2.0	2.2	2.2	2.2
EU - minimum	-	-	-	-	-	-	0.8	0.8	0.8
CR	0.3	0.1	0.6	1.4	0.9	1.3	2.3	2.2	2.1
Estonia	0.5	0.2	0.7	4.7	2.9	3.2	4.3	4.2	4.1
Cyprus	1.1	0.2	0.2	2.8	2.0	1.5	2.5	2.6	2.5
Lithuania	0.3	0.2	0.2	3.2	1.9	2.0	2.5	2.6	2.7
Latvia	1.1	0.8	0.6	7.1	6.5	6.6	7.0	7.0	7.0
Hungary	0.7	0.6	0.3	3.8	3.5	3.7	5.7	5.3	5.0
Malta	3.6	0.6	0.0	2.0	2.4	2.1	2.6	2.5	2.4
Poland	0.4	0.3	-0.1	3.1	2.2	1.4	4.1	4.0	3.8
Slovakia	0.2	0.1	0.4	2.5	2.3	2.5	5.6	5.1	4.6
Slovenia	0.1	0.3	0.1	2.7	2.1	1.7	3.4	3.2	3.0

Note: HICP means harmonised index of consumer prices, EU – minimum means the average inflation in three EU member states with the lowest inflation. Source: Eurostat

Fiscal development

	Net balance of general government to GDP in %			General government gross debt to GDP in %		
	2002	2003	2004	2002	2003	2004
EU-25	-2.2	-2.8	-2.6	62.7	64.3	63.8
CR	-6.8	-11.7	-3.0	30.7	38.3	37.4
Estonia	1.4	3.1	1.8	5.3	5.3	4.9
Cyprus	-4.5	-6.3	-4.2	65.2	69.8	71.9
Lithuania	-1.5	-1.9	-2.5	22.4	21.4	19.7
Latvia	-2.7	-1.5	-0.8	14.1	14.4	14.4
Hungary	-8.5	-6.2	-4.5	55.5	56.9	57.6
Malta	-5.9	-10.5	-5.2	62.7	71.8	75
Poland	-3.6	-4.5	-4.8	41.2	45.4	43.6
Slovakia	-5.7	-3.7	-3.3	43.3	42.6	43.6
Slovenia	-2.4	-2.0	-1.9	29.5	29.4	29.4

Note: according to the ESA 95 methodology. Source: Eurostat

Volatility of FX rates of new EU member states

	Last 24 months			Last 12 months		
	average rate	deviation maximum in %	deviation minimum in %	average rate	deviation maximum in %	deviation minimum in %
Czech koruna	31.44	+7.2	-5.7	30.62	+4.4	-4.0
Estonia kroon	15.65	+0.0	+0.0	15.65	+0.0	+0.0
Cyprus pound	0.582	+1.5	-1.0	0.579	+0.9	-1.0
Lithuanian litas	3.453	+0.0	-0.0	3.453	+0.0	-0.0
Latvian lats	0.670	+7.3	-4.0	0.686	+5.1	-1.8
Hungarian forint	251.9	+4.3	-8.0	247.1	+2.3	-3.2
Maltese lira	0.429	+1.1	-1.4	0.430	+1.3	-1.0
Polish zloty	4.402	+13.6	-10.8	4.176	+7.8	-6.5
Slovakian koruna	39.92	+6.3	-5.4	39.10	+4.1	-2.9
Slovenian tolar	238.5	+1.6	-0.6	239.7	+0.1	-0.1

Note: volatility of foreign exchange rates of new EU member states to euro is expressed in the form of arithmetical average and in the form of maximum and minimum deviation from the average in the reference periods. The reference periods end at 31 July 2005. Source: Eurostat