EU News
Monthly Journal

Number 31, April 2006

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,

A meeting of government heads of the Member States is traditionally held in March. This time, the main topic consisted of ideas about the creation of a truly common energy policy in the EU. Some energy matters have been harmonised already. Let's just mention the directives requiring an increase of energy efficiency of electric appliances and equipment or determining a minimum ratio of renewable sources in the total electric energy consumption, or the ratio of bio fuel in fuels. In view of constantly growing prices of energetic raw materials, especially oil, the European Union is more intensively realising its vulnerability and import dependence, often from politically unstable areas. This is also why more and more companies have been urging the EU to speak with one voice in energy matters towards countries outside the EU. "One day we will say that the common energy strategy was born on 23 March 2006 in Brussels," claimed José Manuel Barroso, European Commission President, optimistically after the spring summit. However, the road towards a truly common energy policy is long, if we can actually see its end. In the near future we can expect that it will more likely consist in greater mutual co-ordination, particularly in negotiations with third countries, or possibly in stricter enforcement of the set targets. Most powers, including the choice of an energy production mix, will remain in the hands of the Member States.

Our main topic reacts to the waves that flooded the domestic media in March. Questions regarding how much we are (un)successful in drawing on the EU structural funds were widely discussed. Our analysis is not so black and white and emotional. Some processes of acquiring European money have been accomplished perfectly; elsewhere there is idle time that can be hardly excused. The sufficient amount of submitted and approved projects proves that the problem of insufficient interest in EU funds does not exist. On the contrary, the process of approving contracts and their conclusion at the level of managing bodies is starting to stagnate. However, this still does not explain why only 5 % of the total allocation was drawn as of the end of February. The main reason is the system of project reimbursement. The so-called retroactive financing means that the subsidy will be paid after the project has been implemented (by means of own or borrowed resources). This system was pushed through in order to minimise the risk of subsidy abuse. At present there are many projects in the implementation phase and until they are finished, the statistics in the column "exhausted finances" will not change. So we can responsibly evaluate how successful we were in using the offered billions from Brussels only after the end of the programming period, after all of the projects have been completed.

However, the European Union is not only about funds and various subsidies, as, unfortunately, a number of people still think. The general awareness of the European Union is low in our country, as was confirmed in the column "Outer View" by the Manager of the European Information Department of the Office of the Czech Republic Government, Petra Mašínová.

I wish you the fastest possible recovery from spring fatigue and pleasant reading.

Petr Zahradník

Even during March, negotiators of the European Parliament and the Council were not able to reach a common position on the future financial perspective. The Commission agreed with the European shoe manufacturers and imposed temporary import duties on leather shoes from China and Vietnam. The European Commission is working on a directive which should eliminate the great differences between domestic and cross-border charges for using mobile phones.

BUDGET

Financial Perspective 2007 – 2013: Parliament Wants Extra € 12 Billion

Not much progress has been made at the third meeting of the negotiators of the European Parliament and the EU Council. That is to say, MEPs asked for an **increase of the future European budget** for the years 2007 – 2013 by **an additional €12 billion** contrary to the proposed € 862.4 billion, on which the representatives of the Member States agreed at the December EU Summit.

According to the European Parliament, it is necessary to increase the future financial perspective in order to finance policies with a high “Communitary added value”. In particular, **education, research, Trans-European transport networks** and cross-border co-operation have been mentioned. MEPs also think that the flexibility instrument for unforeseen eventualities should be increased.

However, according to Karl-Heinz Grasser, finance minister from presiding Austria, the extra € 12 billion is an **unrealistic demand**, which the Member States do not agree on. He believes that a realistic compromise would be to increase the budget by around € 1.5 billion.

The next meeting of the negotiators will be held at the beginning of April. If the parties do not reach an agreement `n the end, the European Union will suffer another great **blow to its trustworthiness and good reputation**.

However, from an economic perspective this is not the “end of the world”. The European Union’s budget would return to the **situation before 1988**, when the budget was approved for the first time in the form of a several-year budget framework. An **annual budget** would have to be approved for each year separately. Due to the impossibility to agree on a seven-year budget framework, an annual "tug-of-war” between the two European budget authorities would not be easy either. If the institutions do not agree on the seven-year or one-year budget by the end of the year, the European Union would head for a **provisional budget in the next year**. In this case the provisional budget would respect this year’s priorities and expenditures. Of course, this would have the greatest impact on new Member States, which would be deprived of the promised multiple increase in subsidies from the structural funds.

http://www.europarl.eu.int/news/expert/infopress_page/034-6511-080-03-12-905-20060320IPR06486-21-03-2006-2006-false/default_en.htm

TAXATION AND CUSTOMS UNION

Will VAT in Financial Services Change?

The European Commission is considering **reviewing the value added tax treatment of financial services**. For this reason it has called for public input and asked those interested to debate over the future treatment of this sector.

The cornerstone of the legislation on VAT payment in financial services and insurance is an almost thirty-year old

Structure of New Financial Perspective 2007-2013 according to the European Council, billions € at 2004 prices

commitment appropriations	2007	2008	2009	2010	2011	2012	2013	2007-2013
1. Sustainable growth	51,09	52,15	53,33	54,00	54,95	56,38	57,84	379,74
1a. Competitiveness for growth and employment	8,25	8,86	9,51	10,20	10,95	11,75	12,60	72,12
1b. Cohesion for growth an employment	42,84	43,29	43,82	43,80	44,00	44,63	45,24	307,62
2. Preservation and management of natural resources	54,97	54,31	53,65	53,02	52,39	51,76	51,15	371,24
of which : Agriculture - Market related expenditure and direct payments	43,12	42,70	42,28	41,86	41,45	41,05	40,65	293,11
3. Citizenship, freedom, security and justice	1,12	1,21	1,31	1,43	1,57	1,72	1,91	10,27
4. The EU as a global partner	6,28	6,55	6,83	7,12	7,42	7,74	8,07	50,01
5. Administration	6,72	6,90	7,05	7,18	7,32	7,45	7,68	50,30
Compensations	0,42	0,19	0,19					
Total appropriations for commitments / % GNI	**120,60 /1,10**	**121,31 /1,08**	**122,36 /1,06**	**122,75 /1,04**	**123,64 /1,03**	**125,06 /1,02**	**126,65 /1,00**	**862,36/ 1,045**

Source: UK presidency to the EU, 2H 2005

Sixth VAT Directive (Directive 77/388/ECC). Based on this Directive, most financial services are exempt from the obligation to pay VAT. In the 70s this demand was pushed through because of the absence of a readily identifiable mechanism that would enable calculation of the tax. However, the Directive also states that if it is possible to overcome these obstacles, any exemptions from VAT should be kept to the strictest minimum.

Thus financial institutions are now **exempt from the obligation to charge VAT** on the services provided by them and subsequently to pay it; however, on the other hand they must pay the tax on the products they purchase. This results in inadequately **high costs, especially of an administrative nature**, which the banks and insurance companies must cover and which present an obstacle to smooth integration of the financial services market.

Those who are interested have the opportunity to express their opinion on the VAT treatment of financial services **by 9 June 2006**; a possible legislative change would be submitted by the end of the year.

http://europe.eu.int/comm/taxation_customs/common/consultations/tax/article_2447_en.htm

FOREIGN TRADE

EU Imposed Duty on Shoes from China and Vietnam

The Commission has agreed with European shoe manufactures and imposed a **provisional import duty on leather shoes from China and Vietnam**. This protective measure will come into force on 7 April, when the duty reaches 4%. However, during the next five months it will probably increase up to 19.4% on Chinese shoes and 16.8% on Vietnamese shoes.

The duties are of an **anti-dumping nature** since the European Commission supposedly identified clear evidence of disguised subsidies and unfair state interventions in the footwear sector in China and Vietnam in its preliminary investigation. However, MEP Jan Březina told ČTK the Commission did not want to publish the results of the investigation. According the MEP Zuzana Roithová, the duties are too low and, moreover, they do not apply to children's and sport shoes. However, according to the European Commission, imposing duty on children's shoes would negatively affect families due to their higher price and sport shoes are no longer produced on the old continent anyway, says ČTK.

With respect to the adjustment of customs tariffs, the European Commission also agreed on a reverse procedure in March and it will **decrease the duty on some types of goods imported from the USA**. The aim is to compensate losses caused to American companies after the enlargement of the EU. After accession to the EU, the new Member States had to accept the common European trade policy and under its conditions they had to increase their low duty towards the USA to the all-European level. Lower duties will apply to some agricultural and industrial goods produced in the USA, such as e.g. chemical products or fish, no later than from this July. Apart from decreasing duties, the EU will increase quotas for the United States on the import of ham, poultry and chocolate.

http://europa.eu.int/rapid/pressReleasesAction.do?reference=IP/06/364

INTERNAL MARKET

EU Wants to Bring down Roaming Prices

Excessive **charges for using your mobile phone abroad** could soon be a thing of the past. Information Society Commissioner, Viviane Reding, has been working on a proposal of an EU directive, which should decrease the prices for international roaming.

Main elements of the proposal:

- The regulation should address **wholesale prices** – i.e. inter-operator tariffs. It should ensure that operators do not charge operators from other countries substantially more than the actual cost.
- The Commission also sees a need for **regulating the retail level** in order to ensure that operator savings on the wholesale level are actually passed on to the consumers.
- The new directive should in particular **eliminate all roaming charges for receiving a call** when travelling abroad in the EU.
- Regarding calls made abroad (within the EU), the new regulation could introduce the "**homing principle**". A mobile customer travelling abroad in the EU would always be charged only the price he/she is used to paying in his/her country of residence: he/she would either pay the rate for a local call regardless of where he/she is travelling in the EU (e.g. a Czech calling a taxi in Lisbon), or the normal international rate for calls to EU states, again regardless of where he/she is travelling in the EU (a Czech calling his family in Prague from his trip to Lisbon).

The prevailing significant differences between the prices in one country and cross-border prices have been a thorn in the Commission's side for some time since they **oppose the**

The European Commission proposes to increase the minimum amount of state aid ("de minimis") to one company, which is not considered as violation of economic competition in the EU internal market, to € 150,000 during three years. In order to help workers made redundant as a result of globalisation, the Union wants to establish a special "European Globalisation Adjustment Fund". One of the main results of the European Council is an agreement of the States on greater co-ordination of the energy policy.

principle of the single EU internal market. The price differences are also confirmed by the Commission's web site on international roaming charges:

http://europa.eu.int/information_society/roaming

Calling Home to the CR from abroad via Vodafone

Domestic operator	Foreign Country			
	Germany	Hungary	Portugal	UK
Eurotel	5.21 €	4.12 €	4.80 €	6.40 €
T-Mobile	4.39 €	6.96 €	6.96 €	6.96 €
Vodafone CZ	3.55 €	4.26 €	4.26 €	4.26 €

Source: http://europa.eu.int/information_society/roaming
Note: Typical roaming charges for a 4-minute call during peak time for subscribers (not pre-paid cards), including VAT, valid in March 2006. Example: I have a contract with Eurotel; a four-minute call from Lisbon to Prague at noon will cost me € 4.80 via the Vodafone roaming partner.

The proposal of the directive should be completed and adopted by the European Commission in June. In order for the proposed regulation to come into force, it will have to be approved by the European Parliament and the Council of Ministers. However, this will probably **not be sooner than next year**.

http://europa.eu.int/rapid/pressReleasesAction.do?reference=IP/06/386

ENTERPRISE

Increasing the Ceiling of the "de minimis" State Aid

The European Commission is proposing to exempt more small subsidies from the notification obligation under the EC Treaty state aid rules. The aim is to **simplify the state aid rules** and to decrease the related administrative costs.

According to the current *de minimis* regulation, financial support not exceeding € 100,000 over a period of 3 years in favour of a given company is deemed to have no substantial effect on competition and trade between the Member States, and therefore not to constitute state aid and it does not need notification and approval from the Commission. The proposed **increase of the ceiling to € 150,000** takes into account inflation and GDP growth in the EU since the *de minimis* ceiling was last increased. The current proposal also extends the scope of application, under certain conditions, to the marketing and processing of agricultural products.

The representatives of the Member States also became familiarised with the proposal at the Council of Ministers, and they are in favour of the proposal and would agree with **doubling the de minimis aid to € 200,000**.

The particulars of the proposal will be negotiated further. This draft will now be sent to the Member States for the first consultation. The next consultations of the Member States will be held from June to November and all interested parties will be invited. The reviewed directive could **come into force next year**.

http://europa.eu.int/rapid/pressReleasesAction.do?reference=IP/06/283

Simplifying the Transfer of SME Ownership

Thousands of businesses, mainly small and medium-sized enterprises (SMEs), disappear every year as a result of the difficulties involved in the transfer of ownership**.** A number of businesses, whose owner does not wish to do business anymore, e.g. due to retirement, cease to exist instead of being sold or transferred to successors. The reason lies in huge **administrative and financial problems connected to this transfer**.

That is why the European Commission has come up with an initiative, which should **simplify the transfer of ownership of SMEs** and thus decrease the risk of their disappearance. A set of regulations in the form of a call upon the Member States is a part of the European Commission's new strategy for supporting SMEs and through them the economic growth and employment in the EU.

Under this initiative the European Commission advises the Member States to increase their effort in these areas:

1. **Providing adequate financial conditions** – start-up financial facilities, loans and guarantees should be available not only for creating a new business but also for taking over existing ones.
2. **Raising awareness and mentoring** – many failures of these businesses could have been avoided if transfers had been planned well ahead and specialised advice had been provided. Member States should support activities increasing the awareness of owners regarding the transfer of businesses and should support mentoring schemes (provided e.g. by business associations and chambers of commerce).
3. **Organising transparent markets for business transfers** – facilitation of the transfer by match making between potential buyers and sellers could be helped by establishing or supporting impartial services for the concerned parties. These would go beyond the mere administration of databases for transferable businesses and would include a comprehensive mediation service to guarantee a successful transfer.

4. **Transfer-friendly tax systems** – Member States could introduce partial income tax exemptions for the gains from the sale of a business (e.g. when the owner retires) or a special tax relief for proceeds that are reinvested into the purchase of another business or are used to finance retirement.

http://europa.eu.int/rapid/pressReleasesAction.do?reference=IP/06/307

EMPLOYMENT AND SOCIAL POLICY

Commission Wants an Anti-globalisation Fund

The European Commission has proposed to establish a new "**European Globalisation Adjustment Fund**" with an annual budget of up to € 500 million. The aim of the Fund is to support workers made redundant as a result of globalisation because they worked in less competitive sectors. According to the European Commission's estimate, aid from the fund would be distributed to as many as 50,000 workers in the EU.

The European Globalisation Adjustment Fund (EGF) will **complement the efforts of the Member States** at national, regional and local levels. The one-off, tailor-made services to be funded by the EGF include job search assistance, personalised retraining, promoting enterprise and assisting with self-employment.

Equally, special temporary 'in-work supplements', such as allowances for those participating in training, may be available, as well as complementary wage allowances for workers over 50. The measures are designed to **help workers laid off** by multinational or national companies, including SMEs (small and medium-sized enterprises) to find and retain a new job; the actions will be spread over 18 months.

Leaders of the Member States have also **tentatively approved the proposal** to create a similar fund at the meeting of the European Council last December. However, the consent of the European Parliament and Council of the EU is necessary for the definite adoption of the proposal. The European Commission would be glad if the directive on the Fund's establishment came into force from January 2007.

We do not believe that the establishment of the so-called Anti-globalisation Fund is the best instrument for keeping jobs when facing global competition. The fund will certainly have positive effects on employees made redundant, but its main flaw is that it is oriented on the consequences. **It does not deal with the causes** of lower competitiveness of some sectors or businesses. In order to retain jobs it would be better to make the job markets in the EU more flexible, to increase the bureaucratic burden laid on entrepreneurs, decrease the taxation of labour and enterprise in favour of higher indirect taxes or increase investments into research and development.

http://europa.eu.int/rapid/pressReleasesAction.do?reference=IP/06/245

ENERGY AND TRANSPORT

Will We Have a Common Energy Policy?

The energy policy of the European Union has been characterised by its strange nature. Even though it exists at the community level, **most powers still remain in the hands of the Member States**. This should change in the future. The need to diversify energy sources, fight global warming and especially speak with a single voice to third-world countries, producers of raw materials, has brought the need for closer co-operation in the energy strategy. "One day we will say that the common energy strategy was born on 23 March 2006 in Brussels," said European Commission President José Barroso after the spring EU summit. But even this strategy should be a **co-ordinating policy**; the key role will still be played by individual Member States.

Consideration of the future common procedure with respect to the energy strategy in the EU was one of the main topics of the March EU Summit. Leaders of the Member States finally agreed that there is a **need for closer co-operation** in this area and gave their blessing to the European Commission's strategy in this sector as it was defined in the **Green Paper** published in March. This Paper contains 6 priorities:

1. **Completing the single internal energy market** – in order to accomplish this priority, a European energy grid code and a priority European interconnection plan should be adopted; furthermore, a European energy regulator should be established and new initiatives should be started to ensure a level playing field, particularly regarding the unbundling of networks from competitive activities. The single internal electricity and gas market should start working efficiently in the EU by the middle of 2007.
2. **Securing a safe energy supply** – the possible proposed measures in this area include the establishment of a European energy supply observatory and a revision of the existing Community legislation on oil and gas stock to ensure they can deal with potential supply disruptions.

After long negotiations, the Eurovignette Directive was finally approved, which should lead to reducing exhaust fumes and improving the management of commercial freight traffic. The ministers also approved the introduction of a European driving licence, which should replace all of the present national licences no later than by 2032. The European Parliament supported the proposal that prevents companies, which obtained subsidies from the structural funds, to relocate their production capacities abroad.

3. **A sustainable, efficient and diverse energy mix** will remain in the power of the Member States; however, choices made by one Member State inevitably have an impact on the energy security of its neighbours and of the Community as a whole. This could be achieved through the Strategic EU Energy Review, covering all aspects of the energy policy and analysing all advantages and drawbacks of different sources of energy, which could "justify" nuclear power in the EU.
4. **Preventing global warming** – an action plan on energy efficiency should be adopted by the end of this year, which will identify the measures necessary for the EU to save 20% of the energy that it would otherwise consume by 2020. In addition, it proposes that the EU prepares a new plan for renewable energy sources in the EU and targets to be achieved by 2020 and beyond. Based on indicative, unbinding targets, the ratio of renewable energy sources in the total consumption should increase to 15% by 2015 and the ratio of bio fuel to 8%.
5. **Energy efficient and low carbon technologies** – they constitute a rapidly growing international market that will be worth billions of Euros in the coming years. The aim is to ensure that European industries are world leaders in this new generation of technologies and processes.
6. **Common external energy policy** – in order to react to the challenges of growing demand, high and volatile energy prices, increasing import dependency and climate change, Europe needs to speak with a single voice in the international arena. Therefore the Commission proposes to conclude a fundamental energy treaty with Russia, seek new suppliers in the Caspian region or North Africa and build new gas lines or terminals for condensed gas.

Due to the Council's approval of the energy strategy, the **European Commission may now start submitting specific legislative proposals** in each area.

The representatives of the Member States will decide in particular whether the future common energy policy will be actually implemented or will remain an unrealised literary exercise. However, the achievement of some goals is already dubious. While the adopted strategy speaks about creating an internal EU market and a common procedure of all of the Member States, **some of them are still running their own national shows**. Protectionist parties of France and Spain, fighting against the take-over of their energy corporations (Gaz de France and Endesa) by competitors from other EU countries (German E-ON and Italian Enel), are obvious examples.

In order for the single internal energy market to start really working, it is also necessary to **create a real competitive environment**. Although liberalisation tendencies are in force on paper, the reality is often different. National markets continue to be dominated by former monopolies; there is almost no pressure from foreign competition due to limited cross-border transport capacities. The Economic Competition Commissioner Neelie Kroes has warned that **measures could be adopted which would divide companies** controlling both the supply and distribution on one market and thus blocking access to competition.

http://europa.eu.int/rapid/pressReleasesAction.do?reference=IP/06/282

http://ue.eu.int/ueDocs/cms_Data/docs/pressData/en/ec/89013.pdf

Eurovignette Directive Approved

The Council of the European Union on transport definitely approved the Eurovignette Directive, which should lead to **reducing pollution by exhaust fumes, improve the management of commercial freight traffic** and generate funds for investment in new transport infrastructure.

In compliance with the wording of the Directive, it will be possible to collect tolls not only on motorways as today, but also on other roads of a lower category used for transit transport. However, the Directive **does not harmonise the sum of the charges**, in this point the exclusive power remains in the hands of the Member States; its aim is to allow the States to adjust the charges flexibly according to their national preferences.

According to the new rules it will be possible to differentiate the charges according to the volume of exhaust fumes from trucks or the time of the day – increased during rush hours

or vice versa. In environmentally sensitive areas, such as the Alps, for example, it will be possible to increase tolls by up to one quarter, but the income from these mark-ups must be invested into railroad construction. One of the intended aims is to **transfer cargo to the railroad, reduce traffic jams and protect the environment** more, says ČTK. The charges will apply to vehicles over 3.5 tonnes (now over 12 tonnes).

The Directive must be incorporated into national law within two years. The Czech transport minister, Milan Šimonovský, told ČTK that our Act on Electronic Toll **already complies with this Directive**.

http://www.europa.eu.int/rapid/pressReleasesAction.do?reference=IP/06/383

ENLARGEMENT

Ukraine Wants To Be in the EU by 2015

According to the Ukrainian Minister of Foreign Affairs Boris Tarasjuk, Ukraine is an integral part of Europe and thus it is unfair and unwise of the European Union to hold this country outside its structure. According to him, **Ukraine would like to join the EU as a full member by 2015** and it is not trying to achieve a similar status with the EU as North African or South Caucasian countries. Minister Tarasjuk also said that he would try to push through the submission of a formal application for membership in the EU by the end of this year.

However, representatives of the European Union have not signalled that enlargement by Ukraine would be on the agenda. In the meantime the EU wishes to **co-operate with Ukraine only under the Neighbourhood Policy**. Last year the country was granted Market Economy Status; negotiations on reviewing the visa policy are in progress.

As we stated several times in the previous issues of our Monthly, the **European Union is not ready for any further substantial enlargement**. **Bulgaria** and **Romania** have concluded the Accession Treaty, they will become members of the EU in 2007 (2008 at the latest). Accession talks were begun with **Croatia** and **Turkey** last October; however, they do not necessarily have to end with accession to the EU. Especially with respect to Turkey, strong opposition is being formed in some Member States. Theoretically, the **republics of the former Yugoslavia** (except for Slovenia and Croatia) should be the next in line, and mostly these countries have already concluded the Stabilisation and Association Agreement with the EU and have formally applied for membership. And only after that should enlargement focus on Ukraine. After the rejection of the so-called European Constitution in France and the Netherlands, the European Union is not even technically ready for further enlargement. The present EU primary law takes into account only the accession of Bulgaria and Romania and an amendment of the founding treaties would have to precede the next enlargement wave. This is also why we do not think that Ukraine will become a member of the EU by 2020.

http://europa.eu.int/comm/external_relations/ukraine/intro/index.htm

JUSTICE AND HOME AFFAIRS

The European Driving Licence Is Coming

The Council of Ministers approved a three-year old proposal of the European Commission regarding a **European driving licence**. The aim of the adopted directive is to facilitate the free movement of EU drivers, prevent fraud when driving licences are used as identification documents, eliminate bureaucratic difficulties and improve road safety. A single model in credit card format **will replace the more than 110 different models currently in circulation**. The new directive will leave Member States free to introduce a microchip with electronic information on its holder on the new driving licence. The validity period of the new licences will be **limited to ten years**. Member States **may increase the validity period by another five years**. The new driving licence will ensure improved road safety through better definitions of the scope of application of the different driving licence categories. It will make clear exactly who is entitled to drive what.

The directive also introduces a more **intensive exchange of information** on drivers among the Member States. This measure should prevent a driver temporarily banned in one country from immediately obtaining a new driving licence in another Member State.

In order for the directive on the European driving licence to come into force, the **European Parliament has to adopt it** as well in the joint decision-making procedure. This is expected during this year. Thus the directive will come into force already in 2006 and will be applicable no later than at the end of 2012, and from this time only the European driving licences should be issued. A transitory period of 20 years will apply for exchanging old driving licences. http://europa.eu.int/rapid/pressReleasesAction.do?reference=IP/06/381

INFORMATION SOCIETY

Broadband Internet is a Priority in the European Union

A wide range of various European political instruments and funds are activated for the purpose of **increasing the penetration of high-speed broadband Internet** into poorer regions. Its availability is one of the key elements in accomplishing the Lisbon Strategy.

Despite the significant progress in broadband take-up across Europe in the past three years, the European Union still needs to bridge the widening gap between urban and rural areas.

The prospects of low and uncertain returns on investment are the reason why broadband Internet has not fully reached a number of the EU's less-developed areas. For example, in 2005, broadband was available to more than **90% of the population in the urban areas of the EU15, but only to 60% of households in rural areas**. The gap is even greater in the new Member States.

Therefore the Commission wants to focus on reducing this gap, since the differences between the rural and urban areas point to an **imperfect functioning of the single internal market**. The situation could be improved by relaxing the rules for state aid, since the creation of the necessary infrastructure for less populated areas is not always profitable for private companies. Moreover, European structural funds should be used more in order to solve this problem.

http://europa.eu.int/rapid/pressReleasesAction.do?reference=IP/06/340

REGIONAL POLICY

European Parliament against Relocation of companies

The European Parliament approved the Commission's proposal to impose the obligation of returning subsidies on companies that relocate their business within seven years after being granted financial aid from the structural funds. MEPs have justified this by claiming that activities "which are not in compliance with the target of economic, social and territorial cohesion and full employment, along with the right to social progress", should not be supported by the European Union. The European Commission has proposed **higher penalties within the proposal to reform EU's structural funds**. The original period for banning relocation was five years.

A part of this measure should be to elaborate a list of companies that have received financial aid from EU funds and have relocated their business to other Member States or outside the EU before the expiration of the seven-year period. The prepared "**European Code of Conduct**" should also prevent the relocation of companies or their manufacturing parts to another region or Member State only for the purpose of obtaining financial aid from the EU. The **European Foundation for the Improvement of Living and Working Conditions** in Dublin (European Monitoring Centre on Change) should be charged with studying, assessing and monitoring the relocation of businesses.

In our opinion this measure is **contrary to the purpose of the European regional policy**. Its aim is to reduce the differences in the development of the regions in the EU, and the arrival of new investors and building of new business capacities contribute greatly to the achievement of this goal.

At the same time it is **against the principles of the single internal market** since it creates more obstacles to the free movement of capital. Companies leaving the region and moving to poorer Member States present a truly serious problem especially in some West European countries. However, the solution should be sought in creating a more business-friendly environment and eliminating the reasons why companies move.

http://www.europarl.eu.int/news/expert/infopress_page/059-6153-073-03-11-910-20060313IPR06152-14-03-2006-2006-true/default_cs.htm

With respect to other uncommented events that happened in March, we would like to point to the Pioneur project, which monitored and analysed cross-border movement within the EU. The results of the study are interesting: Europeans move more often because of their partner and family than because of work. The Eurostat statistics proved that, on average, a tenth of Europeans are not connected to a sewerage system or waste trap.

1 MARCH

CoR: Stronger role for regions in EU jobs and growth strategy: http://www.cor.eu.int/en/press/press_06_02019.html

EIB: JASPERS - Joint Assistance to Support EU Projects: http://eib.eu.int/news/news.asp?news=140

2 MARCH

Updated stability and convergence programmes: http://www.europa.eu.int/comm/economy_finance/about/activities/sgp/year/year20052006_en.htm

Update of EU member states statistical informations in Community Road Accident Database (CARE): http://www.europa.eu.int/comm/transport/care/statistics/index_en.htm

3 MARCH

EU lifts longstanding public procurement sanctions against US: http://europa.eu.int/comm/trade/issues/respectrules/anti_dumping/pr010306_en.htm

6 MARCH

Commission to tackle gender inequality with new roadmap: http://www.europa.eu.int/comm/employment_social/emplweb/news/news_en.cfm?id=136

7 MARCH

Financial Perspective - MEPs adopt new draft resolution: http://www.europarl.eu.int/news/expert/infopress_page/034-5785-065-03-10-905-20060306IPR05767-06-03-2006-2006-false/default_en.htm

Degree of success of national objectives on electricity from renewable energy (2005 Reports): http://www.europa.eu.int/comm/energy/res/legislation/electricity_member_states_en.htm

8 MARCH

European Foundation for the Improvement of Living and Working Conditions: Most new jobs created in new Member States: http://www.eurofound.eu.int/press/releases/2006/060308.htm

Utilisation of budget appropriations (12/2005 - rev.): http://www.europa.eu.int/comm/budget/execution/utilisation_2005_en.htm

9 MARCH

Commission adopts Communication on action to help EU fishing fleets regain economic viability: http://www.europa.eu.int/comm/fisheries/news_corner/press/inf06_16_en.htm

10 MARCH

2713th Environment Council meeting: http://ue.eu.int/ueDocs/cms_Data/docs/pressData/en/envir/88721.pdf

EU committed to halting biodiversity loss in Europe: http://www.europa.eu.int/comm/environment/nature_biodiversity/index_en.htm

13 MARCH

Bond market notes on euro-denominated bond markets - http://www.europa.eu.int/comm/economy_finance/publications/bondmarkets_en.htm

Key euro area indicators - updated: http://www.europa.eu.int/comm/economy_finance/indicators/key_euro_area/keyeuroarea_en.htm

14 MARCH

2715th Competitiveness Council: http://ue.eu.int/ueDocs/cms_Data/docs/pressData/en/intm/88778.pdf

Final report of the "Study on Road Cabotage in the freight transport market": http://www.europa.eu.int/comm/transport/road/policy/marketaccess/roadhaulage/cabotage_en.htm

15 MARCH

EU mercury strategy - MEPs want an export ban by 2010: http://www.europarl.eu.int/news/expert/infopress_page/064-6115-073-03-11-911-20060309IPR06021-14-03-2006-2006-false/default_en.htm

2717th Transport, Telecommunications and Energy Council meeting: http://ue.eu.int/ueDocs/cms_Data/docs/pressData/en/trans/88806.pdf

2716th Economic and Financial Affairs Council meeting: http://ue.eu.int/ueDocs/cms_Data/docs/pressData/en/ecofin/88797.pdf

16 MARCH

New joint consortia format under the future EC-US cooperation programme: http://www.europa.eu.int/comm/education/programmes/eu-usa/consult_en.html

Office for Harmonization in the Internal Market: The Annual OHIM Award: http://oami.eu.int/en/office/award/default.htm

17 MARCH

Consumer education: a key factor of being responsible citizen: http://www.esc.eu.int/press/cp/docs/2006/cp_eesc_025_2006_en.doc

Economic Papers 245/2006 - Profitability of venture capital investment in Europe and the United States: http://www.europa.eu.int/comm/economy_finance/publications/economic_papers/2006/economicpapers245_en.htm

20 MARCH

Commission calls for civil society projects that encourage debate on EU issues: http://www.europa.eu.int/comm/dgs/communication/grants/index_en.htm#plan_d

Main policy initiatives and outputs in education and training: http://www.europa.eu.int/comm/education/policies/2010/doc/compendium05_en.pdf

21 MARCH

Parliament calls for sanctions against Belarus: http://www.europarl.eu.int/news/expert/infopress_page/030-6526-079-03-12-903-20060320IPR06501-20-03-2006-2006-false/default_en.htm

2720th Agricultre and Fisheries Council meeting: http://ue.eu.int/ueDocs/cms_Data/docs/pressData/en/agricult/88925.pdf

2718th General Affairs Council meeting: http://ue.eu.int/ueDocs/cms_Data/docs/pressData/en/gena/88923.pdf

2719th External Relations Council meeting: http://ue.eu.int/ueDocs/cms_Data/docs/pressData/en/gena/88924.pdf

90% of EU25 population connected to waste water collection systems: http://epp.eurostat.cec.eu.int/pls/portal/docs/PAGE/PGP_PRD_CAT_PREREL/PGE_CAT_PREREL_YEAR_2006/PGE_CAT_PREREL_YEAR_2006_MONTH_03/8-21032006-EN-AP.PDF

Population connected to urban waste water collection:

Spain	100%	France	82%
Luxembourg	100%	Finland	81%
Malta	100%	**CR**	**80%**
Netherlands	99%	Lithuania	73%
UK	98%	Estonia	72%
Germany	95%	Slovenia	63%
Ireland	93%	Hungary	62%
EU-25	**90%**	Slovakia	55%
Austria	86%	Cyprus	35%
Sweden	85%		

Source: Eurostat, explanation: household waste water not collected by a waste water collection system is generally discharged directly into the environment (onto land or into a river, lake or the sea), most data for 2002 year

22 MARCH

Aviation blacklist agreed by national experts: http://www.europa.eu.int/comm/transport/air/safety/flywell_en.htm

EU's support for biodiversity continues in next Framework Programme: http://www.europa.eu.int/comm/research/environment/newsanddoc/article_3906_en.htm

23 MARCH

National social partners need bigger role in making Growth and Jobs strategy work: http://www.europa.eu.int/comm/employment_social/emplweb/news/news_en.cfm?id=143

24 MARCH

Parliament adopts report on challenges for politics and society due to demographic change: http://www.europarl.eu.int/news/expert/infopress_page/047-6632-082-03-12-908-20060322IPR06614-23-03-2006-2006-true/default_en.htm

27 MARCH

2006 European Court of Auditor's work programme: http://www.eca.eu.int/audit_approach/program/audit_approach_program_en.htm

28 MARCH

Intellectual Property Rights (IPRs) in China: http://www.europa.eu.int/comm/trade/issues/sectoral/intell_property/ipr_china_en.htm

29 MARCH

The EU must define how far it can expand with new member states: http://www.europarl.eu.int/news/public/story_page/027-6822-072-03-11-903-20060329STO06821-2006-13-03-2006/default_en.htm

30 MARCH

Europeans move for love and a better quality of life: http://www.europa.eu.int/comm/research/press/2006/pr2803en.cfm

New Report on the Legal Issues Regarding Biofuels for Transport: http://www.europa.eu.int/comm/energy/res/sectors/bioenergy_publications_en.htm

31 MARCH

Calculating potential growth rates and output gaps: http://www.europa.eu.int/comm/economy_finance/publications/economic_papers/2006/economicpapers247_en.htm

After the opening contribution in the previous March Monthly, this time the contribution to the new column “Outer View” is from Petra Mašínová, director of the European Information Department at the Office of the Czech Republic Government. She describes why the government should provide information to its citizens on matters related to the European Union, and implies a very low awareness of EU issues in the Czech Republic.

IT IS IMPORTANT TO BE WELL INFORMED ABOUT EUROPE

At the beginning of the work of the European Information Department, established last year at the Office of the Czech Republic Government, many doubts about its targets and the purpose of its existence were expressed. It was difficult to justify the belief that the government is responsible for providing information on European problems, that its task is to ensure absolute information availability even one and a half years after the Czech Republic’s accession to the EU, both for professionals and for the general public. In my opinion every citizen of the European Union should be able to obtain any information concerning, for example, travelling in Europe, jobs in the EU, structural funds, student exchange programmes, Euro or Europe’s future in his/her country, and this should be as simple as possible. Today the statement about a lack of information does not hold true. However, it is necessary to accept criticism that it is difficult to find one’s way in this information. We spend hours on the internet, searching for information sources on the EU, we spend money for many hours of waiting on the telephone extensions of various offices, where we end up being frustrated that we cannot make out the information at home, much less in the foreign language environment of Brussels.

Another reason for launching quality European public education is the effort to prevent costly explanation campaigns in the event it is necessary to decide in referenda or just if I, as a citizen, am interested in an important European topic. For example the French, to whom nobody had explained any European topics for several decades, were astonished when the government suddenly poured a huge quantity of data and information on them in an effort to adopt the Treaty establishing the Constitution for Europe. The more factual information on the European Union there is among teachers, their pupils and students, among journalists and local authorities, the more difficult it will be for various populists with extreme ideas or confusing lies to win recognition. Our aim is not to describe the EU in a rose-tinted light. The aim of our work is to create a comprehensible and simple information system regarding the EU and to make room for opening a discussion, exchanging opinions on Europe’s further development and its future.

The specifics of the Czech public, to which the communication strategy must be adjusted, are already clear from the basic indexes resulting from the research. For example, in the question of awareness regarding the European Union, the Czechs underestimate themselves somewhat. In their own opinion, only a third (34 %) understands how the European Union works, the EU-25 average is 41% and in the ten new Member States it is 49 %.

Furthermore, the degree of understanding the principles of how the EU processes and institutions function is low among the citizens of the Czech Republic. Most people (89 %) agree that functioning of the EU should be simplified and comprehensibly explained to ordinary people. Three out of five citizens are interested in how the EU really functions, and what its activities and targets are.

I treat these data as strategic indicators and I try to conceive a truly practical communication strategy on their basis, as well as to find instruments that would cover the information deficit in various groups of the Czech public. This means creating communication channels through which it is possible to obtain information quickly and without obstacles, information that is practical (e.g. related to travelling – information on travelling in the EU, on the Euro and health insurance in other countries), specific (information on jobs abroad, enterprising, employment contracts, studying, opportunities for acquiring money from European funds) or general and systematic (information on the principles of EU functioning, rights and obligations of citizens, environment protection).

We use the research also as feedback. It is important for us to know whether the public finances invested into informing the public have hit their target. The results of the last measurements show they have. More than one half of the public (57 %) thinks that the government should spend more money on information campaigns. Another piece of good news is that 72 % of the public support the government’s effort to continue spending money on informing about the EU in 2006. Only 5 % of the public clearly disapprove of this government action.

There are still many European topics waiting for their explanation and information campaign. The public will be interested in the introduction of the Euro, further enlargement of the European union, the fate of the European Constitution or, for example, the priorities of the Czech presidency in the Council of Ministers in the first half of 2009. In this respect it is alarming that only 1 % of Czech citizens understand what such presidency actually means.

It is clear that much meticulous work lies ahead of us. We all have to realise that EU issues are no longer foreign policy but domestic matters. And if we want to participate in deciding about it or at least thinking about it, we should get to know it well and find our way in it. Therefore, in this sense informing about European matters is necessary.

Petra Mašínová, Director of Department of Information on European Affairs /Office of the Government of the CR

In April the plenary meeting of the European parliament will deserve our attention, where the Commission should present a new version of the directive on services. It is now certain that it will resemble the reduced version approved by the European Parliament in February rather than the original proposal. On 19 April a public consultation will be opened, in which the interested parties can express their opinion on the approval process for merges and acquisitions in the EU's financial sector.

Meeting of the key EU institutions

4.-5.4.2006	**Strasbourg, France**
- European Parliament Plenary	
7.-8.4.2006	**Vienna, Austria**
- ECOFIN (informal)	
10.-11.4.2006	**Luxembourg, Luxembourg**
- General Affairs and External Relations Council + Development	
21.-22.4.2006	**Graz, Austria**
- Competitiveness (informal)	
25.4.2006	**Luxembourg, Luxembourg**
- Agriculture and Fisheries Council	
25.-26.4.2006	**Vienna, Austria**
- Health Ministers (informal)	
26.4.2006	**Brussels, Belgium**
- European Parliament Plenary	
27.-28.4.2006	**Luxembourg, Luxembourg**
- Justice and Home Affairs (JHA) Council	

Public consultation on EU legislation

Topic of the consultation	Organiser	Deadline
Rules on Supervisory Assessments in the Financial Sector	DG MARKT	19.4.2006
Facilitating damages claims for breaches of EU competition law	DG COMP	21.4.2006
Rights of passengers travelling by sea or inland waterway	DG TREN	30.4.2006
Input on the forthcoming review of Community Excise Legislation	DG TAXUD	30.4.2006
The Facility for Euro-Mediterranean Investment and Partnership	DG ECFIN	30.4.2006
Review of Legislation on the VAT treatment of financial services	DG TAXUD	9.6.2006

Alarming articles that appeared in some media during March started an interesting discussion. The much-glorified European regional policy is said to be of trivial importance to the Czech Republic; why, we were not able to draw even five percent of the offered sum by the end of February. The responsible ministries defend themselves thus: “we are evaluating a football match during its progress”. Who is right, then?

SUCCESSFULNESS OF DRAWING ON THE EU STRUCTURAL FUNDS UNTIL FEBRUARY 2006

ANALYSIS ON THE LEVEL OF OPERATIONAL PROGRAMMES/SPDS

There are **several perspectives** from which we can look at the evaluation of our ability to prepare projects financed with the help with EU funds and to draw on these funds. The **preparation and submission of the project** is something totally different when compared to the **real flow of “European” money**, which is allocated to the project. To put it in different words, we can make only a very partial, “in progress” assessment with the information as of the end of February 2006 regarding our ability to draw on the EU funds. The final settlement can be made only at the end of the second year following the period, for which the finances were allocated. We can evaluate the successfulness of drawing on the funds in the first year 2004 only together with the data as of 31 December 2006. The whole first programming period 2004 – 2006 can be evaluated only with the information as of the end of December 2008. Despite this fact we do not think that making partial assessments is pointless.

We will use several objective categories for the purpose of our analysis:

- The volume of **projects submitted** by the applicants;
- The volume of **approved projects**;
- The volume of projects **covered by a concluded contract**;
- The volume of **expenditures paid** by the end beneficiaries during the implementation of approved projects;
- The volume of expenditures for projects **authorised by managing bodies**;
- The volume of **exhausted finances**.

All of these categories actually represent **each time phase of the whole process**: at the beginning there is a predetermined and inviolable allocation for each operational programme (single programming document), for its priorities and measures. Potential project applicants, who submit projects, apply for obtaining the funds from these programmes in a tender. Successful projects are approved and later a contract on granting finances is concluded with their authors. Due to the majority system of retroactive financing, the funds are released only after the project has been implemented. The end beneficiaries expend money on the implemented projects (from their own resources or from bridging loans), which is reimbursed by the Payment Body (Ministry of Finance) after an inspection and authorisation from the managing bodies of the operational programmes / single programming documents).

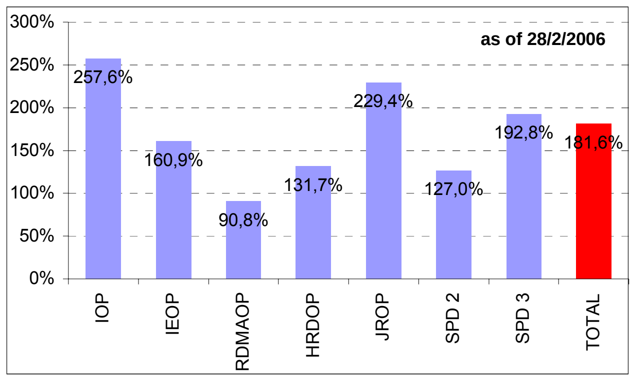
This procedure clearly shows that if we make the assessment too soon, we have not allowed sufficient time for the process to proceed to the phase of contract conclusion or drawing on the funds.

Submitted Projects

From the perspective of the total sum of the funds requested by the submitted projects, our position is not bad at all. During the period 2004 – 2006, projects totalling almost **double the set allocation**, on average, were submitted, i.e. twice the total of all five operational programmes and two single programming documents together.

The greatest interest and thus the highest excess of demand over supply was in the **Infrastructure Operational Programme** (258 % of the IOP allocation). Only in the case of the **Rural Development and Multifunctional Agriculture Operational Programme** (151 %) the volume of submitted projects is lower (by approximately 10 %) than the offered allocation until the end of 2006. The great interest represented by the submitted projects proves strong competition among the applicants and their true interest in embarking on the project’s implementation. Based on these data we can reliably state that the problem of insufficient interest among potential applicants in finances from the EU structural funds certainly does not exist.

Volume of Submitted Projects per Allocation for 2004-06



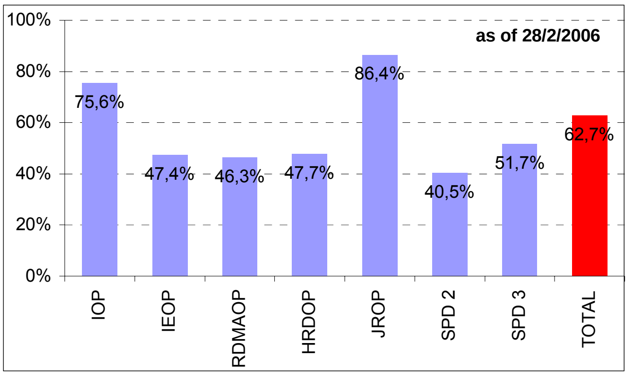
Source: www.strukturalni-fondy.cz, own calculations

Approved Projects

Also the criterion comparing the volume of money for approved projects with the offered funds does not seem to be that negative for the Czech Republic. In general, it can be said that in the entire three-year programming period 2004 – 2006 the volume of approved projects **reaches around two thirds of the share from the total package** for this period; however, the period has not expired yet and 10 months remain for other approvals. This could lead us to the conclusion that, in general, a sufficient number of projects, which have passed the strict assessment and thus have achieved a certain quality, are submitted.

Looking at it from a more detailed point of view, we can discover that there are substantial differences among the programmes. The relatively largest amount of approved projects is from the **Joint Regional Operational Programme (JROP)** (86.4 % from the allocation) and the **Infrastructure OP** (75.6 %). More than one half of the allocation has also been approved for projects under **SPD 3**. In all other operational programmes, the volume of approved projects has not even reached one half of the allocation; the worst situation is in **SPD 2**. This is the first negative finding of our analysis: the volume of quality, i.e. approved projects, is lower in all operational programmes than the offered funds; in some cases the prospects for achieving the 100% limit of the allocation with approved projects is very remote.

Volume of Approved Projects per Allocation for 2004-06

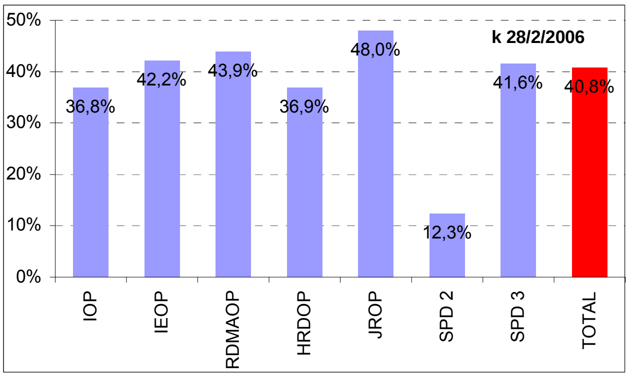


Source: www.strukturalni-fondy.cz, own calculations

Projects Covered by Contracts

Comparison of the projects, for which a contract on financing with the offered allocation has already been concluded with their authors, is starting to look negative. This is mainly caused by the time discrepancy among the various perspectives. The stumbling block of the fact that only **around two fifths** (40.8 %) of the offered funds from the structural funds for the monitored period **are covered by contracts** consists in formal and procedural matters at the level of managing and implementation authorities. The possibilities and capacities of these bodies are probably not so great for them to be able to deal with and formally confirm such a high volume of projects in a relatively short period of time. The ways of solving this problem, i.e. the maximum possible reduction of the waiting period between the project's approval and conclusion of the contract, should be found by the start of the next programming period in 2007. They probably consist in both personnel backup and stabilisation as well as in acquiring the necessary experience and learning on model situations, which will enable to approve similar projects much more flexibly than now.

Volume of Projects under Contracts per Allocation



Source: www.strukturalni-fondy.cz, own calculations

In none of the operational programmes the volume of contracts concluded for obtaining subsidies for the projects has reached one half of the money offered from the structural funds. However, all of the operational programmes are on more or less the same level, the conclusion of contracts significantly lags in the **Single Programming Document for Target 2** in Prague.

Finances Expended on Projects and Their Authorisation

As has already been said, due to the prevention of fraudulent acts, the system of reimbursement is generally based on **retroactive payments, made after the project's implementation** (constructional inspection, purchase). Therefore, the index of the volume of finances expended on projects by the end beneficiaries gives evidence on the progress of the project's implementation with the help of EU structural funds. As of 28 February

2006, this volume has reached 6.2 % of the allocation for the entire three-year period, respectively 29.1 % of the allocation for 2004. With respect to each OP/SPD, relatively most finances were expended on projects co-financed from the **Rural Development and Multifunctional Agriculture Operational Programme**. On the other hand, the smallest amount of finances, compared to the allocation, was expended on projects under the **Single Programming Document for Target 3** for Prague.

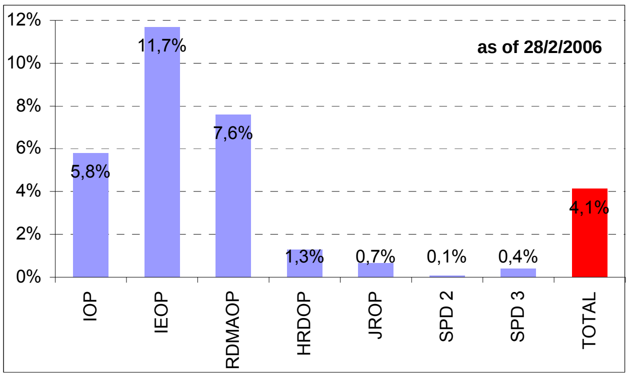
After the finances have been expended by the end beneficiaries, these expenditures are checked and authorised, as the case may be, by the relevant managing bodies of OPs/SPDs and prepared for reimbursement by the payment Body through the payment units under each operational programme. In the monitored period, expenditures for projects amounting to 4.4 % from the three-year allocation 2004 – 2006 were authorised (and approximately 21% of the allocation for 2004). From this perspective the **Industry and Enterprise Operational Programme** was the most successful, with authorised expenditures amounting to 12% of the total allocation; on the contrary, the relatively smallest volume of project expenditures was authorised under **SPD 2**. The comparison of the authorised expenditures with the finances expended on projects enables us to monitor the idle period between the submission of the application for payment by the end beneficiary and its approval by the managing body.

Reimbursed Projects

If we were to consider the current amount of finances drawn on the offered funds as the only criterion, our report card would be truly unsatisfactory. The total volume of finances drawn on the funds as of 31 February 2006 totalled only 4.1 % of the potential volume available to us. However, from the perspective of the N+2 rule for the 2004 allocation, it is important that the volume of the finances reimbursed from the structural funds amounts to one fifth of the allocation for 2004.

Also in this case the situation varies greatly among the operational programmes. Partly due to the short-term nature of the projects, the relatively largest amount of finances was drawn on the **Industry and Enterprise Operational Programme** (almost one eighth) and the **Rural Development and Multifunctional Agriculture Operational Programme** (for example, projects for purchasing agricultural equipment are of a one-shot nature and enable quick drawing). On the contrary, the worst results are in both **Single Programming Documents** for Prague and also in the **Joint Regional Operational Programme** (JROP). The reasons are partly objective – a number of projects have not progressed to the phase of completion or implementation, in which the subsidies can be paid out. This partial conclusion may raise the question whether it would be better to open more possibilities for drawing on the funds in the form of advance payments or on the basis of meeting the conditions related to each phase of the implemented projects in the next programming period 2007 – 2013 also in the Czech Republic.

Volume of Reimbursed Projects per Allocation for 2004-06



Source: www.strukturalni-fondy.cz, own calculations

However, the **reasons** for the low amount of drawn finances are also **subjective**. The fiercest criticism should be certainly addressed to the cases when the approved project was successfully implemented and completed and its beneficiary is still waiting in vain (in many cases even several months) for the actual reimbursement. This situation has nothing to do with the time sequence of the project procedure and it is solely a demonstration of failure of the system's functioning; and moreover, with a very negative factor, which could discourage other potential applicants from designing and submitting projects. This danger will become important especially from 2007 when the total allocation from the structural funds will be several times higher than now.

ANALYSIS ON THE LEVEL OF PARTIAL MEASURES

Publicly available data may come to conclusions not only about the popularity of the operational programmes (single programming documents) as a whole, but also about their measures. Already during the time of preparations for drawing on the finances from the generous purse of the EU funds it was clear that the interest in various subsidy

BOX: Time Plan of Soft versus Hard Projects

The misleading nature of the successfulness of drawing on the EU funds before the end of the programming period is demonstrated by this hypothetical case. There are two EU Member States; each of them chooses only one operational programme for drawing on the European funds, in which it sees the most important priority for its development. The first country considers education as its priority, and therefore the contents of this only Education Operational Programme will be short-term "soft" projects focused on improving the system of education. From a superficial perspective, this country will probably report "excellent" results very soon. Due to the short-term nature of the projects, the delay between the projects' approval, conclusion of contracts and actual drawing on the funds will be very short and the given country may exhibit wonderful intermediate times during the whole process.

The second country is focused on the development of transport infrastructure, in particular the construction of motorways. Thus it concentrates all of its finances from the structural funds on this priority with a long investment horizon. The volume of approved projects for the construction of motorways soon reaches the limit of the allocation potential of its only Motorway Operational Programme, but the actual withdrawal from this fund will be very low, maybe even zero, during the whole process. If the present conditions apply, the finances will be reimbursed only after the newly constructed sections of the motorways are inspected and approved. In the meantime, the second country will receive very poor evaluation, since it has not exhausted such an amount as the first country in the course of the process. However, at the end of the programming period, respectively after the end of the additional two-year period, when it is possible to draw on the fund, everything can change. The motorway will be put into operation, the necessary amount of European money will flow in and only then it is possible to evaluate not only the ability to draw on the funds, but also the impact of the implemented projects on economic growth, employment and other relevant indexes.

categories would vary. The key question remained whether it would be possible to set their conditions so that they would appeal to as many potential applicants as possible. The operational programmes and their measures **had to respect the priorities of the regional EU policy and also the specific needs of the Czech Republic** and the organisations operating in this territory. The decision on setting the budgets for each programming document and their measures so that they would match the interest of domestic entities as accurately as possible was equally important. Underestimation of future interest and setting a too economical budget for one measure is punished by not utilising the development potential in the given area and by disappointment of unsuccessful applicants. On the contrary, consequently to overestimated budgets a part of the money may be unexploited.

The beginning of 2006 is a sufficient period of time in order for us to responsibly answer the question of **which measures the applicants are most interested in** and, on the other hand, where there is danger that the offered funds will not be used. The interest of applicants may be evaluated with respect to the financial volume of all submitted projects compared to the budget (allocation) of the subsidy title, or from the aspect of the absolute number of submitted applications.

Measures with the Highest Amount of Applications

The analysis of the amount of submitted projects at the level of operational programmes or single programming documents confirms a similar survey into their partial measures. Among the ten most wanted measures are four from the **Infrastructure Operational Programme**. The relatively largest amount of money is demanded under the measure "Air Protection Infrastructure Improvement" within the Infrastructure OP, which supports projects for using environmentally friendly combustion technologies or renewable energy sources. The measure "Development of Tourism Infrastructure" from the **JROP** came immediately second on this imaginary chart. The aim of the projects supported under this measure is to improve the transport accessibility of places and monuments attractive to tourists, increasing the income from tourism or the overall improvement of the services provided in this segment.

Largest Volume of Submitted Projects per Allocation

OP/ SPD	Measure	Requested /Allocation
IOP	3.3 Air Protection Infrastructure Improvement	659 %
JROP	4.2 Development of Tourism Infrastructure	606 %
IOP	3.1 Recovery of Envir. Funct. of the Landscape	413 %
IEOP	2.1 Est. and Devel. of SME – Development	335 %
SPD3	3.1 Development of Primary Education	334 %

However, potential applicants are least interested in the measure “Modernisation of Public Employment Services” from the **Human Resources Development OP** or in “Professional Training” under the **Rural Development and Multifunctional Agriculture OP**. Under both measures the submitted projects have reached 5 % of the total allocation for 2004 – 2006.

The attractiveness of the subsidy category may also be evaluated by the actual number of submitted project applications. From this perspective the most attractive measure is the “Investments in Agricultural Holdings (from the **Rural Development and Multifunctional Agriculture OP**), where 2487 project applications were submitted as of the end of February 2006.

Largest Actual Number of Submitted Project Applications

OP/SPD	Measure	Number of Projects
RDMAOP	1.1 Investments in Agricultural Assets	2487
RDMAOP	2.1 Adaptation and Development in Rural	1304
JROP	4.2 Developm. of Tourism Infrastructure	996
HRDOP	4.1 Adaptability of Empl. to Changes	920
IEOP	2.1 Est. and Dev. of SME – CREDIT	866

Source: www.strukturalni-fondy.cz, data as of 28 Feb 2006

Most Exhausted Measures

The nature of the subsidy categories substantially predetermines how quickly and in what relative volume the funds will be drawn on. This has been demonstrated at the level of operational programmes (see above), dominated by the **Industry and Enterprise OP**, and also at the level of their partial measures. With respect to the ratio of the sum exhausted on implemented projects to the offered allocation for 2004 – 2006, the most successful measure is the “Establishing and Development of Small and Medium-sized Enterprises” and its three sub-measures Credit, Start and Development under the IEOP. The most demanded programmes Credit (for entrepreneurs with a shorter history) and Start (for starting entrepreneurs) have the form of a preferred loan for purchasing tangible and intangible fixed assets, supplies and some operating costs. The Development Programme provides subsidies to small and medium-sized businesses, particularly for purchasing tangible and intangible fixed assets or property, as the case may be. The measure “Implementation of Protective Measures on the Transport Network to Ensure Environmental Protection” under the **Infrastructure Operational Programme** was the only one that came between the aforesaid.

Most Finances Drawn for Projects per Allocation

OP/ SPD	Measure	Exhausted /Allocation
IEOP	2.1 Est. and Dev. of SME – CREDIT	85.8 %
IEOP	2.1 Est. and Dev. of SME – START	38.5 %
IOP	2.1 Protective Measures on the Transport	36.5 %
IEOP	2.1 Est. and Dev. of SME – Development	24.7 %
IOP	1.4 Construction of Port Infrastructure	14.5 %

Source: www.strukturalni-fondy.cz, data as of 28 Feb 2006

Based on our analysis it is clear that the authorised organisations have not underestimated the matters leading towards the preparation and submission of projects. A closer look shows that the **process of approving and concluding the contracts is starting to lag** behind. Due to the time sequence of the project implementation, it is too soon to withdraw the funds in the case of a number of projects; many projects have not been finished yet and thus it is too soon to draw on the funds.

However, in some other cases an unjustified delay is piling up and this problem is inexcusable. However, we believe that proportionately to how the phases of the current programming period terminated in 2006 approach their end, the **volume of finances drawn on the fund after its expiration will increase substantially**. Therefore it is suitable to keep repeating that despite many shortcomings, we are assessing the process in its progress.

Our analysis proves that the current situation of the process of acquiring finances from the European structural funds in the Czech Republic is far from perfect; however, **it would be a mistake to think it is tragic**. Although we do not want to doubt in any way the importance of maximum utilisation of the offered funds in the current shorter programming period 2004 – 2006, the **future perspective is much more important**.

Right now the work on the programming documents that specify the nature of and budgets for the future operational programmes in 2007 – 2013 are being finished. We firmly believe that its authors have learned from and been inspired by the current situation and have set the new conditions so that the offered finances can be used as much and as efficiently as possible.

The statistical window in a tabular form shows important macroeconomic indicators from all member states and the EU as a whole. It includes economic performance indicators (per capita GDP as compared to the EU average, GDP growth, unemployment rate), external economic stability indicators (current account to GDP), fiscal stability indicators (public budget to GDP, public debt to GDP), and pricing indicators (annual inflation based on HICP, base price level).

Key macroeconomic indicators

	GDP growth y-on-y			Current account to GDP*			Unemployment rate			Inflation y-on-y average		
in %	2003	2004	2005	2003	2004	2005	X-05	XI-05	XII-05	X-05	XI-05	XII-05
Belgium	0.9	2.6	1.4	4.5	3.5	3.0	8.4	8.2	8.2	2.8	2.8	2.8
CR	3.2	4.4	4.8	-6.3	-5.2	-2.9	**7.7**	**7.7**	**7.7**	**1.9**	**2.4**	**2.4**
Denmark	0.6	2.1	2.7	3.3	2.5	2.9	4.0	4.4	4.4	2.2	2.0	2.1
Estonia	6.7	7.8	8.4	-12.0	-12.7	-9.9	6.7	6.3	5.9	3.6	4.7	4.5
Finland	2.4	3.6	1.9	3.8	4.1	2.2	8.3	8.2	8.1	1.1	n/a	n/a
France	0.8	2.3	1.5	0.2	-0.7	-0.8	9.2	9.2	9.1	1.8	2.3	2.0
Ireland	4.4	4.5	4.4	0.0	-0.8	-2.2	4.3	4.3	4.3	1.9	2.5	n/a
Italy	0.3	1.2	0.2	-0.8	-0.4	-1.2	7.7	n/a	n/a	2.1	2.2	2.2
Cyprus	1.9	3.8	3.9	-3.0	-5.7	-5.8	4.9	5.3	5.2	1.4	2.0	2.3
Lithuania	10.5	7.0	7.0	-6.9	-8.0	-74.0	6.8	6.9	6.6	3.0	3.5	3.4
Latvia	7.2	8.3	9.1	-8.2	-12.6	-11.1	8.1	8.2	8.0	7.1	7.6	7.0
Luxembourg	2.9	4.5	4.2	8.2	8.4	5.9	5.6	5.5	5.4	3.4	4.1	3.9
Hungary	2.9	4.2	3.7	-8.7	-8.8	-8.4	7.5	7.6	7.6	3.3	2.5	2.3
Malta	-1.9	0.4	0.8	-5.8	-10.5	-6.7	7.6	7.9	8.0	3.4	2.4	2.3
Germany	-0.2	1.6	0.8	2.1	3.7	3.8	9.5	9.1	8.9	2.1	2.1	2.1
Netherlands	-0.1	1.7	0.5	5.8	6.1	6.0	4.6	4.5	4.4	2.0	1.8	1.4
Poland	3.8	5.3	3.4	-2.2	-4.2	-3.2	17.2	17.2	17.0	0.8	0.9	0.9
Portugal	-1.2	1.2	0.4	-6.1	-7.8	-9.5	7.8	7.7	7.7	2.5	2.6	2.9
Austria	1.4	2.4	1.7	-0.5	0.3	0.8	5.2	5.2	5.1	1.6	1.5	1.5
Greece	4.6	4.7	3.5	-8.5	-8.2	-7.4	9.6	n/a	n/a	3.5	3.0	3.1
Slovakia	4.5	5.5	5.1	-0.5	-3.4	-6.6	16.1	15.9	15.8	3.9	4.1	4.3
Slovenia	2.7	4.2	3.8	-0.3	-2.0	-1.6	6.4	6.3	n/a	2.4	2.6	2.3
Spain	3.0	3.1	3.4	-4.2	-5.9	-7.4	8.7	8.7	8.7	3.7	4.2	4.1
Sweden	1.5	3.6	2.5	5.9	7.8	7.0	n/a	n/a	n/a	1.3	1.1	1.1
UK	2.5	3.2	1.6	-1.5	-2.0	-2.1	4.9	n/a	n/a	1.9	1.9	n/a
EU-25	1.2	2.4	1.5	0.1	0.0	-0.3	**8.6**	**8.5**	**8.5**	**2.1**	**2.2**	**2.2**

	Public budget to GDP*			Public debt to GDP			GDP per capita to Ø EU			Price level to Ø EU		
in %	2003	2004	2005	2003	2004	2005	X-05	XI-05	XII-05	X-05	XI-05	XII-05
Belgium	0.1	0.0	0.0	100.4	96.2	94.9	115.8	116.8	118.3	102.3	104.0	104.2
CR	**-12.5**	**-3.0**	**-3.2**	**36.8**	**36.8**	**36.2**	**67.1**	**68.2**	**70.0**	**54.7**	**55.5**	**55.0**
Denmark	1.2	2.9	3.7	45.0	43.2	36.0	120.6	121.1	121.5	135.6	138.8	137.0
Estonia	2.6	1.7	1.1	6.0	5.5	5.1	46.3	48.7	50.7	107.5	108.7	106.6
Finland	2.5	2.1	1.9	45.2	45.1	42.8	112.9	112.7	114.3	124.4	125.9	122.9
France	-4.1	-3.7	-3.2	63.2	65.1	66.5	113.3	111.6	110.2	106.1	105.8	108.0
Ireland	0.2	1.4	-0.4	31.5	29.8	29.0	131.6	131.4	138.4	122.4	126.6	123.1
Italy	-3.2	-3.2	-4.3	106.8	106.5	108.6	108.2	106.0	104.8	97.9	102.3	102.7
Cyprus	-6.3	-4.1	-2.8	69.8	72.0	70.4	82.8	81.5	81.2	90.9	96.5	93.3
Lithuania	-1.2	-1.4	-2.0	21.4	19.6	20.7	42.1	45.4	47.8	54.6	54.9	54.6
Latvia	-1.2	-0.9	-1.2	14.6	14.7	12.8	38.7	40.6	43.2	57.6	55.4	56.4
Luxembourg	0.2	-1.2	-2.3	6.7	6.6	6.8	211.0	213.0	222.0	102.5	105.3	106.1
Hungary	-6.5	-5.4	-6.1	57.4	57.4	57.2	58.1	59.5	60.9	56.9	59.0	61.9
Malta	-10.4	-5.1	-4.2	72.8	75.9	77.2	72.6	72.3	71.1	73.7	74.4	74.9
Germany	-4.1	-3.7	-3.9	64.8	66.4	68.6	109.9	109.1	108.8	107.5	108.7	106.6
Netherlands	-3.2	-2.1	-1.8	52.6	53.1	54.0	121.1	120.0	119.2	105.3	106.6	105.2
Poland	-4.8	-3.9	-3.6	45.3	43.6	46.3	45.3	45.6	46.7	59.5	53.4	52.4
Portugal	-2.9	-3.0	-6.0	57.7	59.4	65.9	76.1	74.1	72.5	76.2	87.3	85.7
Austria	-1.2	-1.0	-1.9	65.1	64.3	64.3	121.3	120.9	121.1	105.2	105.7	103.6
Greece	-5.7	-6.6	-3.7	108.8	109.3	107.9	77.0	80.5	81.6	82.2	84.5	85.1
Slovakia	-3.8	-3.1	-4.1	43.1	42.5	36.7	51.0	51.9	52.0	44.6	50.5	54.9
Slovenia	-2.7	-2.1	-1.7	29.4	29.8	29.3	74.7	76.2	77.8	75.5	77.9	75.8
Spain	0.0	-0.1	0.2	49.4	46.9	44.2	96.1	98.8	98.1	85.0	86.6	87.4
Sweden	0.2	1.6	1.4	52.0	51.1	50.6	113.9	114.3	115.9	121.1	124.0	121.1
UK	-3.3	-3.2	-3.4	39.7	41.5	43.1	117.4	118.7	118.9	110.7	103.8	105.6
EU-25	**-3.0**	**-2.6**	**-2.7**	**64.0**	**63.4**	**64.1**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

*Source: Eurostat, the figure for 2005 year is from European Commission's Economic forecast autumn 2005, *) net balance, GDP per capita according to PPP*