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Dear readers,

just during the short part of 2005 that has passed within the framework of European integration activities, even less careful observers have registered that the key themes for this January were undisputedly the consistent course of the ratification of the European Constitution and the creation of a new financing structure for the coming 2007-2013 fiscal period. It can also be predicted with certainty that these themes will reliably remain the most important during the remainder of 2005 and even after the end of this year. We are of course devoting ourselves to them adequately and will also do so within the pages of the EU News Monthly Journal.

In the last issue, we provided a description of what we call the new financial framework for 2007-2013 in the form of the changes being considered for EU regional policy tools and goals. This time, we are presenting analytical material and the resulting conclusions on the anticipated impacts within this framework, both for individual members of the EU as well as explicitly for the Czech Republic. In other words, the key subject matter of this material is a comparison of how the right to receive financial resources from the Community should change as compared to the existing situation.

The discussion regarding the ratification of the European Constitution is starting to place us in a fairly unenviable and, as compared to other countries, literally isolated position as undecided – not even knowing the manner in which to express an opinion on the acceptance of this document. It is of course entirely appropriate that the discussion pages of information media and various conference forums are more or less full of debates between devoted supporters and opponents of the European Constitution. It is however not acceptable that we are the only member state of the Union that does not yet know which procedure it will apply for accepting or rejecting the Constitution. Not to even mention the fact that there is already a large group of countries that have expressed a positive opinion on its acceptance and thus symbolically acknowledged their agreement with European integration activities, seemingly without placing all that much emphasis on identifying with each individual article of the proposed constitution.

Another very important issue – and directly related to the creation of a new financial framework for the 2007-2013 period – is the new development phase of the Lisbon Strategy. This matter can to a certain extent also be considered as a breakthrough, due to the fact that in the new Lisbon Agenda it will be more difficult to search for ideological and proclamatory slogans and we will find a blueprint for a society that should rely on healthy and long-term economic growth. At the same time, it might also be true that the new Lisbon Agenda might become the setting for a battle between various EU member states, for example, between the traditional core of the Union and last year's new members.

Of course, it is possible to agree without regard to being convinced about the appropriateness of the current integration path, that this over saturation with principal topics can be dramatic and also fatal to the membership of each country in the EU and its success.

Petr Zahradník

The European Commission presented its priorities for the period through 2010. Basically, they can be summarized into three primary lines: prosperity, solidarity, and security. Nikoforos Diamandouros from Greece will continue in the function of European Ombudsman for the coming five years. The EU Council on Economic and Financial Affairs approved the Czech convergence program, according to which the Czech Republic will achieve a public finance deficit below the 3% of GDP by 2008.

POLITICS

European Commission Priorities for 2005-10

A partnership for prosperity, solidarity, and security – this is what José Barroso, the President of the European Commission, wants to offer the citizens of Europe in the coming years. Barroso presented the Commission's strategic priorities for the 2005-2010 period, which have three primary lines, to the European Parliament at the end of January:

1. **Prosperity:**
   - ensure a better business environment; implement a Europe-wide system with the same rights for establishing enterprises;
   - three percent of GDP to go to science and research; improve financing for higher education; increase the attractiveness of the EU for scientists and researchers;
   - create conditions leading to an increase in employment; face the aging of the population with higher worker mobility and taking advantage of immigration.
2. **Solidarity:**
   - eradicate the differences between the richer and poorer members of the EU; promote the development of rural areas and prevent the loss of inhabitants in these areas;
   - improve the efficient use of energy; ensure the better care of natural and energy resources;
   - protect basic human rights and eradicate discrimination against immigrants and developing nations;
3. **Security:**
   - improve the efficiency of the fight against terrorism; strengthen the capacity of action of police, customs, judicial, and legislative bodies;
   - attain the integrated management of external borders and visa policies; ensure the acceptance of judicial decisions;
   - create a timely warning system against flooding and other consequences of climatic changes and against the consequences of the possible use of weapons of mass destruction and the spread of contagious diseases.

These three priorities are embedded within the overall context: The European Union needs a single, unified voice on the international scene. A closer look at priorities that have been established indicates that the Commission is trying to meet the issues encountered during the reform of the traditional European and social model in a head-on manner. Barroso's commission, which is fairly liberal-minded, is trying to ensure increased competitiveness and a friendlier business environment while safeguarding the social state and environmental protection policies at the same time.

http://europa.eu.int/rapid/pressReleasesAction.do?reference=SPEECH/05/43

Diamandouros continues as European Ombudsman

Nikiforos Diamandouros from Greece, who has been the European Ombudsman since January 2003, was re-elected by the European Parliament for the next five-year period. He secured the support of 564 MEPs whereas his opponent, Giuseppe Fortunato from Italy received only 45 votes.

Diamandouros's current priorities are:

- to ensure that human rights as provided by European legislation are respected at every level of the Union;
- to make certain that European institutions maintain the highest administrative standards in all their activities;
- to guarantee that the ombudsman's office serves citizens in as efficient manner as possible.

http://www.euro-ombudsman.eu.int/home/en/default.htm

MEPs say YES to the Constitution

In mid-January, the European Parliament approved the proposed Treaty on the European Constitution by a large majority of votes. European Parliament members approved the Constitution by a vote of 500 to 137. The remaining 40 abstained from voting. The Czech members proved to be the greatest pessimists to a large degree. Of the 24 Czech representatives, only 7 voted for.

From the political perspective, the voting within the European Parliament was not all that important. The two-year ratification

process is just starting and the greatest problems are expected with the ratification in some of the member states. In order for the Constitution to become valid, it must be approved by all of the EU member states (whether by means of a national parliamentary decision or through a popular vote). As of now, only three countries have approved it: Lithuania, Hungary, and Slovenia. The first country that will submit the issue to a popular vote is Spain, on February 20.

http://www2.europarl.eu.int/omk/sipade2?PUBREF=-//EP//TEXT+PRESS+DN-20050112-1+0+DOC+XML+V0//EN&L=EN&LEVEL=2&NAV=X&LSTDOC=N#SECTION1

ECONOMY AND EURO

EcoFin approves the Czech Republic's convergence program

At the meeting of the EU Council, the finance ministers of the EU member states approved the Czech Republic's updated convergence program for the 2004-2007 period, including the comments made by the European Commission. They asked Prague to implement stricter budgetary policies in the mid- and long-term periods, primarily to implement reforms in the pension and healthcare systems.

The measures adopted by the Czech Republic, Poland, Slovakia, Cyprus and Malta for removing excess budget deficits were likewise approved. The EU Council agreed with the Commission's opinion that, for the time being, these measures are sufficient for reaching the three-percent deficit limit for public financing within the timeframes established in these countries' convergence programs. For example, the Czech Republic wants to decrease the budget deficit to below 3% of GDP by 2008.

In agreement with the Commission, the EU Council believes that the Czech Republic will achieve this goal under the condition that the government actually performs the planned cuts in public spending. They however consider the development from the long-term perspective as being riskier unless measures taking into consideration increased expenses for healthcare and pensions related to the anticipated aging of the population are implemented.

The ministers agreed with the European Commission's proposal to continue with the procedure for exceeding the allowed deficit in the case of Hungary. In this case, the Commission reached the conclusion that the government measures are not sufficient for fulfilling the goals defined in Hungary's macroeconomic program and thus ensuring the conditions for implementing the Euro in 2008. Hungary is not yet a member of the Eurozone, thus no financial sanctions can be levied against it. These could however be a threat to Greece. The member states today stated, once again in agreement with the recommendations of the European Commission, that Greece did not do enough to decrease its deficit and expressed their concerns that this problem will continue in 2005.

http://europa.eu.int/rapid/pressReleasesAction.do?reference=IP/05/20

Convergence program of CR – key characteristic

in %	2004	2005	2006	2007
GDP growth	3.8	3.6	3.7	3.8
Inflation HICP	2.7	3.2	2.6	2.2
Public debt to GDP	38.6	38.3	39.2	40.0
Public budget deficit to GDP	-5.2	-4.7	-3.8	-3.3

FOREIGN TRADE

Is a free trade treaty with Ukraine closer?

Peter Mandelson, the EU Trade Commissioner, declared that as long as Ukraine continues with its reforms, it will be possible to conclude a free trade treaty between the EU and Ukraine. This however reflects more of a long-term goal.

According to Mandelson, the Union could accept Ukraine's market economy status. Kiev would however have to drop its regulated pricing and reform bankruptcy laws and those related to refunding value added tax.

Currently trade negotiation are underway that focus on improving the entry of Ukrainian steel and textile products on European markets. "These are key trade areas between the EU and Ukraine and represent one-third of Ukrainian exports," stated Mandelson. In 2003, Ukraine traded goods and services with a value of 14.5 billion Euros with the Union.

SINGLE INTERNAL MARKET

Commission's action plan for electronic public procurement

The European Commission published its Action Plan for submitting public contracts over the Internet, the mission of which is to provide member states with assistance with the implementation of applicable directives from last April. The goal is to allow any business with a computer and access to the Internet to bid for public contracts from all of the countries of the European Union over the Internet.

The action plan applies to the 2005-2007 period and defines the steps that are necessary for implementing the system. The document anticipates, among other things, that by the

During the first days of February, the European Commission presented a proposal for reviving the Lisbon Agenda. A new point – and for some MEPs a controversial one – is greater emphasis on economic growth and employment to the detriment of social and environmental policies. The Commission approved a program in the amount of 36 million Euro that is focused on expanding the provision of credit to small and medium-sized enterprises and is aimed primarily at the new member states.

end of January 2006, the member states will have implemented the legislation that is necessary for implementing and operating the system. The individual national systems should then be able to become fully operational by the end of 2007.

"Electronic procurement means true benefits for buyers, suppliers, and, most importantly, for the taxpayers, who ultimately fund public purchases," said Charlie McCreevy, the EU Commissioner for Internal Market and Services. Public contracts in the EU accounts hold a 16 percent share of GDP.

http://europa.eu.int/rapid/pressReleasesAction.do?reference=IP/05/66

Lamfalussy Process will expand to banking

The EU Council on Economic and Financial Matters (EcoFin) agreed with the expansion of the Lamfalussy Process to banking, insurance, and pension funds.

The Lamfalussy Process is a plan designed at four levels for the purpose of speeding up the implementation process for European legislation and also allows widespread consultation with all players on the market.

At the first level, a consensus should be reached on basic principles that will then be incorporated in directives. At the second level, the Commission, in cooperation with the Committee of European Securities Regulators (CESR), will formulate more detailed accompanying legislation. At the third level, CESR will ensure the consistent interpretation and application of the legislation at national levels. At the fourth level, the European Commission once again performs enforcement and monitoring.

The plan was proposed by a group of experts headed by Baron Lamfalussy and was first applied as a part of the Action Plan for Financial Services during the implementation of new legislation for securities.

Now it is also to be applied for the implementation of legislation related to banking, insurance, and pension funds. "Application of the Lamfalussy principle increases the flexibility of the legislative process," says EcoFin in the explanation for its decision.

http://ue.eu.int/uedocs/cms_Data/docs/pressdata/fr/ecofin/83427.pdf

ENTERPRISE

Revival of the Lisbon Strategy: greater emphasis on growth

Greater focus, simplification, and national acceptance of the agenda – these are to be the miracle cures that José Barroso's team is ordaining for the purposes of reviving the Lisbon Agenda.

The European Commission presented the EU's proposed new strategy for the development of economic growth and employment, which has as its primary goal the revival of the Lisbon Agenda. According to the Commission, the proposed measures might lead to a 3% growth in GDP in 2010 and the creation of 6 million employment positions. The proposal is based on the recommendations made in the Kok Report and will serve for the mid-term revision of the Lisbon Strategy at the March meeting of the European Council. Last November, Wim Kok's team reached the conclusion that there have been no great advances in fulfilling the Lisbon goals. One of the major causes was defined as the rationale of some of the measures accepted within the framework of the economic, social, and environmental pillars of the Lisbon Strategy.

The European Commission is now recommending that the primary focus should be placed on measures that support growth and employment. The following three areas are at the centre of the European Commission's attention:

1. **Europe – a more appealing location for investment and employment positions:**
   - Complete a unified market in areas that can truly ensure actual growth and increased employment and which are of immediate significance to consumers (services, regulated professions, energy, public contracts and financial services, a balanced agreement on the REACH system that takes into consideration the impact of competitiveness, innovation, and small and medium-sized enterprises);
   - Improve European and national regulations with the goal of decreasing administrative expenses;
   - Expand and improve the European infrastructure;
   - Put forth an effort to implement a Community Patent and a move forward in the area of a consolidated tax base for business income.
2. **Skills and innovation for growth:**
   - Increase spending on research and development to 3% of GDP;
   - Support information and communication technologies, development of innovation sites that join regional centres, universities, and businesses;
   - Support European plans in the field of technology by means of public and private partnerships;
   - Support strong European industrial bases through the mobilization of partnerships in the public and private sectors;

- Create a European Institute of Technology, wherein the best thoughts, ideas and enterprises in Europe would be concentrated.

3. **Establishment of a greater number of quality employment opportunities:**
   - Interest people more in searching for employment, specifically through measures for decreasing unemployment of the young (European Youth Initiative) and modernizing the social security system;
   - Increase the adaptability of workers and enterprises and the flexibility of the employment market by removing obstacles to the free movement of the work force;
   - Reform the EU structural fund and cohesion fund, invest in human capital, and contribute to better education and increased qualifications.

In order to ensure better coordination and fulfilment of the Lisbon Plan, the governments of the member states have been requested to appoint a "Ms./Mr. Lisbon". This person will be responsible for the implementation of the Lisbon Strategy in the applicable country. The Czech government already appointed Martin Jahn, Deputy Prime Minister of Finance, to this position last November.

Putting through the Commission's proposal will more than likely be a hard nut to crack. Critics are making themselves heard, especially within the socialist faction of the European Parliament, which finds the prioritisation of financial growth ahead of social and environmental policies to be a major thorn in its side.

http://ue.eu.int/uedocs/cms_Data/docs/pressdata/fr/ecofin/83427.pdf

New program for supporting small and medium-sized enterprises

The European Commission approved a program in the amount of 36 million Euros, the goal of which is to increase the options and trust of financial institutions in providing loans to small and medium-sized enterprises. The program is focused primarily on the new member states, including the Czech Republic.

As opposed to their larger competitors, small and medium-sized enterprises, which have traditionally formed the backbone of advanced market economies, often have more difficult access to credit and higher transaction expenses – banks consider them to be a high-risk group. The new program should stimulate banks to provide more credit to this sector.

In addition to the European Commission, the European Bank for Research and Development, the European Investment Bank, the European Investment Funds, and Kreditanstalt für Wiederaufbau will all share in the program.

The first six million Euros will be used for providing technical support and searching for opportunities in those member states of the Union that have a low number of loans provided. In addition to technical support, banks in individual countries will have the possibility to obtain guarantees against the loans they provide to small and medium-sized enterprises.

http://europa.eu.int/rapid/pressReleasesAction.do?reference=IP/05/13

EMPLOYMENT AND SOCIAL POLICY

EU opens the debate on economic migration

The European Commission accepted a Green Paper titled "On an EU approach to managing economic migration". The goal is to start a debate on how to best regulate the entry and residence of citizens from third countries who are searching for employment in the European Union.

The regulations on granting citizens from non-member states of the EU access to the domestic employment market differs significantly within individual member states. This results in administrative problems, not only for the European companies searching for a work force outside of the EU, but also for the foreign workers.

The main points of the Green Paper are:

- **Aging of the European population** – a decrease in the birth-rate and longer life expectancy will lead to an anticipated decrease in the working population in the EU 25 from the current 303 million to 297 million by 2020, which will be reflected negatively in economic growth. Economic migration is thus necessary in order to maintain the growth of GDP. Competition between the world's economic blocks exist for many work immigrants.
- **Lack of workers in certain sectors** – this primarily concerns the information technology, healthcare, and construction sectors. This raises a question on whether horizontal access (unified regulations for access) shouldn't exist as compared to a sector approach, which would allow short-term, quick access to foreign workers in order to balance the deficiencies.
- **Illegal immigration** – long-term policy requires allowing legal economic migration; currently, in a number of the member states, deficiencies on the labour market are satisfied by illegal workers.
- **National vs. European regulations** – the right of each member state to regulate the entry of immigrants remains – it is also accepted by the new Constitution. The

Croatia wants to the join the European Union in 2009. The Albanian Prime Minister voiced his belief that his country may be able to join the EU in 2014. The European Presidency presented a document that provides member states with advice on implementing tax incentives for vehicles with lower emissions. The goal is to prevent fragmentation of the internal market, as some states have already implemented these measures.

Commission accepts this fact in the Green Book but at the same time emphasizes the need to harmonize the procedures and criteria for entry. The decision on the number of permits to be issued to foreign workers will remain within each country's jurisdiction.

- **Green Card/Work and Residency Permit** – the goal is to start an extensive discussion on the scope of validity of entry permits granted at the EU level. One option is the implementation of an equivalent to the US "Green Card", which would allow individuals to work anywhere in the EU.
- **Entry procedures** – the Green Paper raises the issue of whether some sort of rule of preference should exist, i.e. whether an employment position can be filled by a foreigner only if there is no qualified domestic candidate. Along the same lines, another issue that was raised concerns whether foreign workers should be allowed entry only into certain required sectors or if entry should be granted to everyone who fulfils certain specific criteria (education, language skills, work experience, etc.).
- **Rights and integration** – an individual who obtains the right to work in the EU must obtain legal status, which will guarantee them economic and social rights. The issue is, whether this right shouldn't be structured according to duration of residence.

Contributions to the Green Paper will be accepted until April and a public hearing will be held in July. On the basis thereof, the Commission will prepare the appropriate directive, most likely by the end of 2005.

http://europa.eu.int/comm/justice_home/doc_centre/immigration/work/doc/com_2004_811_en.pdf

ENERGY AND TRANSPORT

Small advance in the liberalization of the gas and electricity markets

The regular annual report on the energy market in the EU prepared by the European Commission criticizes the member states for taking an insufficient number of steps towards opening their national gas and electricity markets.

The directives on the liberalization of the energy markets provide that businesses should have the ability of selecting the best agreement on the delivery of gas and electricity by July 1, 2004. Households should have a free choice of supplier within the framework of the EU in 2007.

The goal of liberalization is to increase competitiveness and to decrease prices. According to the Commission, this was partially successful. The cost of electricity in the majority of the countries decreased in comparison to 1995 by ten to fifteen percent as expressed in real numbers. The decrease was by more than 25% for large consumers.

"The report shows enormous differences in the efforts to open the markets on the part of member countries, but I expect a significant improvement as soon as the directives are implemented in full," says Andris Piebalgs, EU Commissioner for Energy.

http://europa.eu.int/rapid/pressReleasesAction.do?reference=IP/05/11

ENLARGEMENT

Croatia expects the close of negotiations in 2007

Croatia wants to conclude accession talks with the European Union by 2007 and to join the Union as a full member in 2009. Ivo Sanader, the Croatian Prime Minister, committed to ensuring that his country will do everything within its powers when cooperating with the International Criminal Tribunal for the Former Yugoslavia, which accused several Croatian generals of committing war crimes.

Sanader also expects that the accession talks will be focused directly on membership – not like the case of Turkey, where the negotiations are open-ended.

Olli Rehn, EU Commissioner for Enlargement, confirmed that the timeframe for negotiations with Croatia will be presented in February. The negotiations will be conducted within the framework of 36 chapters (compared to 31 during the last wave) as some of the chapters have been divided.

At the end of January however, Rehn expressed dissatisfaction with Zagreb's cooperation with the International Criminal tribunal. "If the Commission were to give its recommendation on the basis of today's information, I could not recommend opening negotiations with Croatia", were his exact words. The European Union is pressing Croatia to turn over General Ante Gotovina, who has been accused of committing war crimes against Serbs in the mid- 1990s.

http://europa.eu.int/rapid/pressReleasesAction.do?reference=SPEECH/05/20

MEPs offered Ukraine a perspective in the EU

By an overwhelming number of votes (467 for, 19 against, and 7 abstaining), the European Parliament supported a resolution offering Ukraine a clear European perspective. According to the European Commission, Union membership for the country is not currently on the agenda.

Parliament members consider the Ukrainian presidential election to be fair and believe that it is time to accept a framework agreement on affiliating with the Ukraine on the basis of other than just EU neighbour policies. This should support the political and economic reforms planned by President Yuschenko.

The member states and the Commission are keeping low to the ground on the issue of Ukraine's candidacy for membership in the EU. For the time being, the Commission is planning to strengthen ties with Kiev by offering a new level of relationship after the company makes some progress in implementing reforms.

Ukraine does however have a strong interest in EU membership. According to President Yuschenko, accession talks should start as early as 2007.

http://www2.europarl.eu.int/omk/sipade2?PUBREF=-//EP//TEXT+PRESS+DN-20050113-1+0+DOC+XML+V0//EN&L=EN&LEVEL=2&NAV=X&LSTDOC=N#SECTION4

Albania wants to join the EU in 2014

According to Albanian Prime Minister Fatose Nana, Tirana will be prepared to conclude a Stabilization and Association Agreement with the EU this year and will become a full member in 2014. "In 2014, we'll be celebrating the 25th anniversary of the fall of the Berlin Wall, which appears to be a perfect date for further expansion," said Nano.

"Negotiations on the Stabilization and Association Agreement are continuing with Albania," said Olli Rehn, the EU Commissioner for Expansion. Progress will depend on the parliamentary elections (in June 2005) and the speed of reforms. According to him however, the current political climate in Albania is not conducive for reforms and could influence the preparation of coming reforms.

http://europa.eu.int/rapid/pressReleasesAction.do?reference=SPEECH/05/20

ENVIRONMENT

EU has started trading with CO2 emissions

As of the start of this January, approximately 12 thousand European industrial plants in the power and energy-intensive businesses have the option of participating in CO_2 emission trading.

The Emissions Trading Scheme allows companies that exceed their individual limits for releasing CO_2 into the atmosphere to purchase "Pollution Permits" from companies that release fewer emissions than they are allowed to according to the emissions plan. These can then obtain higher value from investments in "greener" technologies and assist the European Union as a whole in fulfilling the conditions of the Kyoto Protocol.

The system for emissions trading improved the European Union's image as a leader in the fight against climatic changes. Disagreement is however being voiced from industrial circles, as the EU is remaining alone at the global level and is thus undermining its international competitiveness.

Environmental protection organizations were enthusiastic about the idea at first, but now they are complaining that too many permits were issued and thus companies are not being forced to save.

In addition, some countries are not participating in the trading, as their allocation plans for permits were either not approved by the Commission or these plans have not yet been submitted. These countries include Great Britain, Italy, the Czech Republic, and Greece.

http://www.europa.eu.int/comm/environment/climat/emission.htm

Incentives for vehicles with lower emissions

The European Commission presented a document that provides member states with advice on implementing tax incentives for the purpose of lowering emissions from automobiles with diesel motors and thus meeting stricter environmental standards than are currently required by European legislation.

The document was prepared after France and Germany implemented similar tax incentives last summer.

The European Commission approved a package of 260 million Euro designated for financing regional projects within the framework of the Interreg IIIA, PHARE, TACIS, and CARDS programs.

The Commission recommends establishing the emission limit for the tax incentive in a maximum amount of 5 mg per kilometre, which is a value that is met only by automobiles with a petrol engine equipped with a filter.

In comparison to the newest limits in the amount of 25 mg per kilometre that are valid as of this January (Euro 4 standard), this represents an 80% decrease in emissions. The goal of the European Commission's document is to prevent the fragmentation of the unified internal market as some additional member states wish to implement their own tax incentives.

The Commission expects that during the second half of 2005, it will be able to present a new proposal for the directive, which will include decreased emission limits that new automobiles will be cable of achieving in 2010 (Euro 5 standard).

http://europa.eu.int/comm/enterprise/automotive/pagesbackground/pollutant_emission/sec_2005_43.pdf

REGIONAL POLICY

Commission approves Interreg regional programmes

The European Commission approved a 260 million Euro package designated for cross-border and neighbouring cooperation for the new member states, candidate countries, and third countries within the framework of the Interreg IIIA, TACIS, PHARE, and CARDS programs.

The goal of the program is to increase economic, social, and territorial cooperation between the regions. It should be used by up to 57 million people. The programs have been budgeted up to 2006 and in addition to EU resources, national and regional financial resources will also be used for the financing.

Programme	Country	EU contribution (mil. EUR)
INTERREG IIIA	Czech republic, Poland	34.5
INTERREG IIIA	Poland, Slovakia	20.0
INTERREG IIIA	Slovakia, Czech republic	13.7
INTERREG IIIA	Italy, Malta	5.1
Neighbourhood	Hungary, Slovakia, Ukraine	27.8
Neighbourhood	Poland, Belarus, Ukraine	45.7
Neighbourhood	Slovenia, Hungary, Croatia	26.0
Cross-border	Estonia, Latvia, Lithuania, Belarus, Russia	27.0
Cross-border	Hungary, Romania, Serbia & Monte Negro	42.0

http://europa.eu.int/rapid/pressReleasesAction.do?reference=IP/05/95

Other interesting information that is not included in the commented on columns of the Journal includes the report by the General Director for Agriculture, which describes the outlooks for the development of the agricultural market for the period of 2004-2011 and the impact of last enlargement. At the start of January, the EU Council approved a directive on the equality of men and women in access to and offer of goods and services.

03 JANUARY

Consultation Document on Waste Oils Directive 75/439/EEC:
http://www.europa.eu.int/comm/environment/waste/oil/consultation.htm

Annual EU Report on US Trade Barriers shows potential for resolving outstanding trade disputes:
http://www.europa.eu.int/comm/trade/issues/bilateral/countries/usa/pr231204_en.htm

04 JANUARY

EU quick to assist the disaster victims in South-East Asia:
http://europa.eu.int/comm/press_room/presspacks/tsunami_asia/index_en.htm

Environmental monitoring from space - vegetation productivity:
http://ies.jrc.cec.eu.int/Vegetation_productivity.120.0.html

05 JANUARY

European Energy and Transport Forum - Minutes of the plenary meeting of 30/11/2004:
http://www.europa.eu.int/comm/dgs/energy_transport/forum/works/meetings_en.htm

Prospects for agricultural markets and income 2004-2011 and the impact of enlargement:
http://europa.eu.int/comm/agriculture/publi/caprep/prospects2004b/index_en.htm

06 JANUARY

New Directive on equality between men and women in access to and supply of goods and services:
http://www.europa.eu.int/comm/employment_social/news/2005/jan/equal_treatment_directive_en.html

European Central Bank: SWIFT public consultation on removing technical barriers to market integration:
http://www.ecb.int/press/pr/date/2005/html/pr050105.en.html

07 JANUARY

Budget: Utilisation of budget appropriations (12/2004):
http://www.europa.eu.int/comm/budget/execution/utilisation/index_en.htm

Enterprise: New 'Women's Entrepreneurship Portal' is now on-line:
http://www.europa.eu.int/comm/enterprise/entrepreneurship/craft/craft-women/womenentr_portal.htm

10 JANUARY

Commissioner Mandelson reinforced commitments to EU-ACP trade relations:
http://www.europa.eu.int/comm/trade/issues/bilateral/regions/acp/pr010605_en.htm

Commission approves new standard clauses for data transfers to non-EU countries:
http://www.europa.eu.int/comm/internal_market/privacy/modelcontracts_en.htm

Court of Auditors: Specific Annual Reports for 2003:
http://www.europa.eu.int/eur-lex/lex/JOHtml.do?uri=OJ:C:2004:324:SOM:EN:HTML

European Central Bank: Annual review of the international role of the euro:
http://www.ecb.int/press/pr/date/2005/html/pr050107.en.html

11 JANUARY

Fifth report under article 12 of Regulation (EEC, Euratom) No 1553/89 on VAT collection and control procedures:
http://www.europa.eu.int/comm/budget/furtherinfo/index_en.htm#financing

Eurostat: EU25 fishery production fell by 17% between 1995 and 2002:
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_01/5-11012005-EN-AP.PDF

12 JANUARY

MEPs approve € 100 million to aid tsunami victims:
http://www2.europarl.eu.int/omk/sipade2?PUBREF=-//EP//TEXT+PRESS+NR-20050112-1+0+DOC+XML+V0//EN&L=EN&LEVEL=2&NAV=X&LSTDOC=N#SECTION1

Trade: EU/US Agreement on Terms for Negotiation to end Subsidies for Large Civil Aircraft:
http://www.europa.eu.int/comm/trade/issues/respectrules/dispute/pr110105_en.htm

13 JANUARY

Consultation - Directive 91/689/EEC on hazardous waste:
http://www.europa.eu.int/comm/environment/waste/hazardous/hazardous_consult.htm

Research Policy: From ‘stability and growth’ to ‘knowledge for growth’:
http://www.europa.eu.int/comm/research/headlines/news/article_05_01_12_en.html

Earth & Space Week profile: The space industry – Europe at the crossroads:
http://www.europa.eu.int/comm/space/news/article_1970_en.html

Eurostat: From A for Abruzzo to Z for Zuid-Holland:
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_01/1-13012005-EN-AP.PDF

14 JANUARY

Health and Consumer Protection: Programme 2003-2008: List and description of the projects funded in 2003:
http://www.europa.eu.int/comm/health/ph_projects/project_en.htm

Economic and Financial Affairs: European Economy : Provisional publication dates of 2005 online issues:
http://www.europa.eu.int/comm/economy_finance/publications/europeaneconomy_en.htm

17 JANUARY

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

Research: European Research Area, new leaflet available in 20 languages:
http://www.europa.eu.int/comm/research/era/index_en.html

18 JANUARY

Energy and Transport: Rail Transport and Interoperability - 2005 Work Programme has been adopted:
http://www.europa.eu.int/comm/transport/rail/era/wp_en.htm

Trade: Airbus A 380 rollout - a “European success story”:
http://www.europa.eu.int/comm/trade/issues/sectoral/industry/aircraft/pr170105_en.htm

19 JANUARY

Better access to medicines for poor countries?:
http://www2.europarl.eu.int/omk/sipade2?PUBREF=-//EP//TEXT+PRESS+NR-20050118-1+0+DOC+XML+V0//EN&L=EN&LEVEL=2&NAV=X&LSTDOC=N#SECTION2

Structural Funds well used in 2004:
http://www.europa.eu.int/rapid/pressReleasesAction.do?reference=IP/05/55

20 JANUARY

Reform of Stability Pact is on track, says Almunia:
http://www2.europarl.eu.int/omk/sipade2?PUBREF=-//EP//TEXT+PRESS+NR-20050119-1+0+DOC+XML+V0//EN&L=EN&LEVEL=2&NAV=X&LSTDOC=N#SECTION1

Air Passenger Rights in the European Union:
http://www.europa.eu.int/comm/transport/air/rights/info_en.htm

21 JANUARY

How to make REACH more workable: many experts in search of answer:
http://www2.europarl.eu.int/omk/sipade2?PUBREF=-//EP//TEXT+PRESS+NR-20050120-1+0+DOC+XML+V0//EN&L=EN&LEVEL=2&NAV=X&LSTDOC=N#SECTION1

Restructuring has made industrial relations more important in the EU - new Commission report:
http://www.europa.eu.int/comm/employment_social/news/2005/jan/industrial_relations_2004_report_en.html

European Central Bank: Geographical breakdown of euro area balance of payments and international investment position statistics:
http:/www.ecb.int/press/pr/stats/bop/html/pr04Q3bop.en.html

24 JANUARY

National reports on use of biofuels or other renewable fuels for transport:
http://www.europa.eu.int/comm/energy/res/legislation/biofuels_members_states_en.htm

Industry agreement for introducing digital high-definition TV to Europe confirmed:
http://www.europa.eu.int/information_society/newsroom/cf/itemlongdetail.cfm?item_id=1648

Research: Why women live longer than men!:
http://www.europa.eu.int/comm/research/headlines/news/article_05_01_21_en.html

Central government debt more than 80% of total government debt in most EU Member States:
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_01/2-21012005-EN-AP.PDF

25 JANUARY

Committee of the Regions: Cohesion policy must not be an 'adjustable variable' in EU budget, says Minister:
http://www.cor.eu.int/en/press/press_05_01115.html

Eurostat Press release - GDP per capita of the EU25:
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_01/2-25012005-EN-AP.PDF

26 JANUARY

Open Consultation - The Trans-European Transport Networks "TEN-T":
http://www.europa.eu.int/comm/ten/transport/2005_03_31_tent_consultation/index_en.htm

Trade: EU tables revised requests in services negotiations under the Doha Development Agenda of the WTO:
http://www.europa.eu.int/comm/trade/issues/sectoral/services/pr250105_en.htm

27 JANUARY

Implementation of the 2003 - 2005 Broad Economic Policy Guidelines:
http://www.europa.eu.int/comm/economy_finance/publications/european_economy/implement2004_en.htm

Second Implementation Report of the Internal Market Strategy 2003-2006:
http://www.europa.eu.int/comm/internal_market/en/update/strategy/index.htm

Preparatory work underway for European Research Council:
http://www.europa.eu.int/comm/research/press/2005/pr2501-2en.cfm

28 JANUARY

Economic and Financial Affairs: Annual report on structural reforms 2005 "Increasing growth and employment":
http://www.europa.eu.int/comm/economy_finance/epc/epc_publications_en.htm#lisbon

Eurostat Press release - Tax burden in 2003 ranged from 29% of GDP in Lithuania and Latvia to 51% in Sweden:
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_01/2-28012005-EN-AP.PDF

Tax burden a structure of taxes in 2003

	Total taxes 1)	Indirect taxes	Direct taxes	Social security contribution
	% of GDP	% of total tax burden		
EU25	41.5	33.8	31.6	34.5
EU15	41.8	33.4	32.2	34.4
Euro-zone	42.2	32.8	29.0	38.2
CR	36.2	31.4	27.0	41.6
Estonia	33.4	39.3	26.1	34.5
Cyprus	34.3	49.4	29.4	21.2
Latvia	29.1	39.4	29.1	31.5
Lithuania	28.7	41.5	28.2	30.3
Hungary	39.2	42.3	25.0	32.7
Malta	34.2	40.8	35.5	23.8
Poland	35.8	41.8	19.7	38.5
Slovenia	40.3	41.6	20.8	37.6
Slovakia	30.9	36.9	23.2	39.8

31 JANUARY

European Commission proposes additional €200 million for Iraq:
http://www.europa.eu.int/comm/external_relations/iraq/news/ip05_106.htm

Expected events

In February we will also witness a number of meetings by the top decision-making bodies of the European Union. Foreign policy will however be the centre of attention. On February 22, George W. Bush, the President of the United States, will arrive in Europe for the first time since his re-election. The agenda of his meetings with top representatives from the European Union will primarily involve the rectification of relationships, which suffered a major rift as a result of the war with Iraq.

31.1.-1.2.2005	**Brussels, Belgium**
- General Affairs / External Relations Council	
1.-2.2.2005	**Brussels, Belgium**
- Transport Committee meeting	
1.-2.2.2005	**Brussels, Belgium**
- Committee on the Internal Market and Consumer Protection	
2.-3.2.2005	**Brussels, Belgium**
- Committee on the Environment, Public Health and Food Safety	
17.2.2005	**Brussels, Belgium**
- ECOFIN Council	
21.-24.2. 2005	**Strasbourg, France**
- European Parliament plenary session	
22.2.2005	**Brussels, Belgium**
- Visit George W. Bush to EU and NATO	
24.2.2005	**Brussels, Belgium**
- Transport, Telecoms, Energy Council	
24.2.2005	**Brussels, Belgium**
- Justice and Home Affairs Council	

The main priorities of the forthcoming EU Luxembourg Presidency include reaching an agreement on the Financial Perspective for the 2007-2013 period. According to the proposal submitted by the European Commission, the position of the Czech Republic as a net receiver of funds from the European budget will strengthen significantly. A group consisting of the highest net payers into the common European cash box does not however agree with the European Commission's proposal.

EU FINANCIAL PERSPECTIVE FOR 2007-2013 AND THE FUTURE POSITION OF THE CZECH REPUBLIC

The European budget is the primary financial tool used for implementing European Union policies and fulfilling its mission. Until 1967 there were actually three budgets for the three communities (the European Economic Community, the European Coal and Steel Community, and Euroatom). It was not until the ratification of the Association Agreement that all three budgets were merged into one.

It is significantly different from the budget of sovereign states however, both on the basis of structure as well as size. Its expenses are more reminiscent of a specifically oriented fund that focuses primarily on providing support for agriculture and increasing the cohesion between regions that are often incohesive. Its income is of a significant contributory nature, i.e., traditional self-generated resources make up only a small portion. From the perspective of the size of the European Union, the budget is slightly more than 1% of the Gross National Income, whereas the member states have budgets that are equal to almost 50% of GDP.

Since 1988, the annual EU budgets have been prepared in the form of Financial Perspectives – financial frameworks for multiple years. The first Financial Perspective was for five years and applied to the period of 1988-1992 and was followed by two seven-year perspectives for the periods of 1993-1999 and 2000-2006. The Financial Perspective establishes the expenditure limits for individual budget headings for each year. During the course of the applicable period, the expenses are adjusted on the basis of actual economic data and expectations. One of the primary principles of the European budget is the principle of balance – the incomes and expenses must be equal.

CURRENT FINANCIAL PERSPECTIVE FOR 2000-2006

The current Financial Perspective applies to the period from the start of 2000 through the end of 2006. Its final version was approved at the EU Summit held in Berlin in 1999. The ceiling for self-generated budgetary income was set at 1.24 of the Community's Gross National Income and expresses expenses in constant prices from 1999. The Financial Perspective has eight headings. There were originally seven headings, but they were subsequently expanded by the eighth heading – "Expenses for Expansion", which includes budgeted compensation to new member states (other expenses for expansion were distributed among individual headings.

FINANCIAL PERSPECTIVE (EU-25) ADJUSTED FOR ENLARGEMENT, million € at 1999 prices

commitment appropriations	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**
1. Agriculture	40920	42800	43900	43770	44650	45675	45805
1a CAP	36620	8480	9570	9430	38740	39611	39622
1b Rural development	4300	4320	4330	4340	5910	6064	6183
2. Structural actions	32045	31455	30865	30285	35718	36578	38052
Structural funds	29430	28840	28250	27670	30571	31899	32703
Cohesion fund	2615	2615	2615	2615	5147	4680	5349
3. Internal policies	5930	6040	6150	6260	7841	7922	7986
4. External actions	4550	4560	4570	4580	4590	4600	4610
5. Administration	4560	4600	4700	4800	5403	5558	5712
6. Reserves	900	900	650	400	400	400	400
Monetary reserve	500	500	250	0	0	0	0
Emergency aid reserve	200	200	200	200	200	200	200
Guarantee reserve	200	200	200	200	200	200	200
7. Pre-accession aid	3120	3120	3120	3120	3120	3120	3120
Agriculture	520	520	520	520			
Pre-accession structural instruments	1040	1040	1040	1040			
PHARE (applicant countries)	1560	1560	1560	1560			
8. Compensation					1273	1173	940
Total approps for commitments	**92025**	**93475**	**93955**	**93215**	**102995**	**105027**	**106625**
Total approps for payments	89600	91110	94220	94880	100800	101600	103840
Ceiling, approps for payments to GNI	**1.07%**	**1.08%**	**1.11%**	**1.10%**	**1.08%**	**1.06%**	**1.06%**
Margin for unforeseen expenditure	0.17%	0.16%	0.13%	0.14%	0.16%	0.18%	0.18%
Own resources ceiling	**1.24%**	**1.24%**	**1.24%**	**1.24%**	**1.24%**	**1.24%**	**1.24%**

Source: EC, Note: (including budgetary implications of a political settlement in Cyprus

This financial framework expected the accession of six new member states (Czech Republic, Poland, Hungary, Cyprus, Slovenia, and Estonia). The accession negotiations however resulted in expansion by ten countries as of May 2004. As a result, the financial framework for the 2004-2006 period had to be adjusted – the adjustments were approved at the EU Copenhagen Summit in December 2002.

Discussion on the adjustments to the Financial Perspective were not at all simple. The negotiators from the new member states were interested in obtaining as many advantages as possible for their own countries. On the other hand, representatives from the "older" member states were more interested in savings during a time of economic stagnation.

A serious stumbling block proved to be the largest budget heading – Expenses for a Common Agricultural Policy, primarily the direct payment to agriculturists. It was agreed that they would be introduced gradually. In 2004, agriculturists in the new member states will receive 25% of the amount of the direct payments received in the EU-15 and will not attain full value until 2013.

The negotiators from the new member states likewise visualized higher amounts in the expenses for structural operations. The Commission used the argument of a decreased absorption capacity in the new member states, which did not have sufficient experiences. In comparison to the EU average, the new member states received a relatively larger amount of finances from the Cohesion Fund than from the Structural Fund. The income received from the European budget for internal policies is intended firstly for continuing financial programs at the community level (i.e., science), for building institutions (i.e., strengthening the judicial system, protecting the Community's financial interests, and the fight against fraud). For some of the new member states, with the exception of the Czech Republic, the financial aid is also provided for the removal of nuclear power plants and a contribution towards building the Schengen System. A special chapter in and of itself is comprised of the current budget compensations that should prevent the new members from becoming net payers into the European budget during their first years as EU members.

PROPOSED FINANCIAL PERSPECTIVE FOR 2007-2013

The first draft of the future Financial Perspective appeared in February 2004, at which time the European Commission published a Communication titled "Building Our Common Future – Policy Challenges and Budgetary Means in the Enlarged Union 2007-2013". In this document, the Commission defines the priorities for the development of the EU for the applicable period and assigns the planned financial resources for them. Proposed EU priorities:

1. Integration of the common market into a wider goal of sustainable development and mobilization of economic, social, and environmental policies. The goals of this

FINANCIAL FRAMEWORK 2007-2013, million € at 2004 prices

commitment appropriations	2006	2007	2008	2009	2010	2011	2012	2013
1. Sustainable growth	46621	58735	61875	64895	67350	69795	72865	75950
1a. Competitiveness for growth and employment	8791	12105	14390	16680	18965	21250	23540	25825
1b. Cohesion for growth an employment	37830	46630	47485	48215	48385	48545	49325	50125
2. Preservation and management of natural resources	56015	57180	57900	58115	57980	57850	57825	57805
of which : Agriculture - Market related expenditure and direct payments	43735	43500	43673	43354	43034	42714	42506	42293
3. Citizenship, freedom, security and justice	2342	2570	2935	3235	3530	3835	4145	4455
4. The EU as a global partner	11232	11280	12115	12885	13720	14495	15115	15740
5. Administration	3436	3675	3815	3950	4090	4225	4365	4500
Compensations	1041	1041	120	60	60	-	-	-
Total appropriations for commitments	**120668**	**133560**	**138700**	**143140**	**146670**	**150200**	**154315**	**158450**
Total appropriations for payments	114740	124600	136500	127700	126000	132400	138400	143100
Appropriations for payments to GNI	**1.09%**	**1.15%**	**1.23%**	**1.12%**	**1.08%**	**1.11%**	**1.14%**	**1.15%**
Margin available to GNI	0.15%	0.09%	0.01%	0.12%	0.16%	0.13%	0.10%	0.09%
Own resources ceiling to GNI	**1.24%**	**1.24%**	**1.24%**	**1.24%**	**1.24%**	**1.24%**	**1.24%**	**1.24%**

Note: 2006 expenditure under the current financial perspective has been broken down according to the proposed new nomenclature for reference and to facilitate comparisons.

priority, which will be financed from new budget headings 1 and 2, are competitiveness, cohesion, and the protection and management of natural resources.

2. Adding actual purpose to the concept of European citizenship by completing the creation of a territory of freedom, justice, security, and access to basic public goods and services – to be financed for new budget heading 3.
3. Introducing the active role of Europe as a global partner – realizing regional responsibility, supporting sustainable development and contributing to civil and strategic security. Financing from new budget heading 4 is expected.

In the Commission's subsequent Communication published last July, the European executive branch lists specific proposals. The Communication is accompanied by a number of actual legislative proposals linked to the future financial framework and related to common agricultural and fishing policies, rural development, structural and cohesion policies, employment and social policies, education, and transportation.

The main points of the European Commission's proposal:

- expenses are divided into larger expense categories termed spheres (headings) for each year of the 2007-2013 period;
- maximum amounts, termed ceilings, are established in the financial framework table for the 2007-2013 period for expense entries and for each sphere;
- the total annual amounts are expressed for both obligation as well as payment entries;
- the annual ceiling for payment entries must conform to the ceiling for self-generated resources, which has currently been set at 1.24% of the EU's Gross National Income (GNI).

One of the main characteristics of the newly proposed financial framework is simplification – it should consist of only five headings as opposed to eight. A smaller number of budgetary headings also means a more flexible system.

The ceiling for self-generated resources is equal to 1.24% of GNI, which is the same as for the current Financial Perspective for 2002-2006. However, the average ceiling of allocations for payments represents 1.12% of the Union's GNI. The actual use within the framework of the current budgetary framework is at approximately 1%. The Commission defends this increase by the accession of ten new, poorer countries and increased demands for fulfilling the EU's primary challenges, such as the Lisbon Strategy and the creation of a territory of freedom, security, and justice. A group consisting of the largest net payers into the European budget – the so-called "gang of six" (Great Britain, Germany, France, Sweden, Netherlands, and Austria) have voiced their opposition and Cyprus has added its voice to this group's opinion. These countries request that the current ceiling for actual expenses in the amount of 1.0% of GNI be maintained. It can be expected that the final solution will be a compromise.

According to the estimates made by Jan Kohout, the Czech Ambassador to the EU, the final compromise might be in the range of 1.08 to 1.10% of GNI. If the richer states are successful in putting through a more conservative version of the budget, it will impact primarily structural policies. The member states have already agreed on the expenses for a common agricultural policy. According to Kohout, during the budget negotiations Prague will support the stance that deletions should not be made straight across the board for all states within the framework of savings. In practice, this argument leads towards putting forth a request that the planned subsidies for the new member states not be changed and the deletions should be made for the older members. This would lead to rivalry between the new members on one side and Spain, Portugal, and Greece on the other side.

Estimated net budgetary balances (average 2008-2013)

	Without correction	EC Proposal
Belgium (*)	1.32%	1.26%
Czech Republic	3.26%	3.20%
Denmark	-0.20%	-0.26%
Germany	-0.52%	-0.49%
Estonia	3.85%	3.78%
Greece	2.25%	2.19%
Spain	0.32%	0.25%
France	-0.27%	-0.34%
Ireland	0.56%	0.50%
Italy	-0.29%	-0.36%
Cyprus	-0.28%	-0.34%
Latvia	4.51%	4.44%
Lithuania	4.50%	4.43%
Luxembourg (*)	5.89%	5.83%
Hungary	3.15%	3.09%
Malta	1.16%	1.09%
Netherlands	-0.55%	-0.50%
Austria	-0.37%	-0.41%
Poland	3.85%	3.79%
Portugal	1.60%	1.53%
Slovenia	1.40%	1.33%
Slovakia	3.36%	3.30%
Finland	-0.14%	-0.20%
Sweden	-0.47%	-0.46%
United Kingdom	-0.62%	-0.46%

Source: European Commission, *) When excluding administrative expenditure, Belgium and Luxembourg would appear as net contributors.

In addition to disputes about money between the new members and the EU-15, a fierce battle can also be expected regarding the British “discount” from the contributions to the EU budget. This was put through by British Prime Minister Margaret Thatcher at the 1984 summit in Fontainebleau. The main argument at that time was the relatively poorer position of Great Britain as compared to the EU average and a lower amount of agricultural subsidies received compared to the other counties, primarily France.

According to the Commission’s proposal, the British discount should be gradually eliminated by 2011. At the same time, a corrective mechanism for all of the richer countries should come into effect immediately when the net contribution of any country reaches 0.35% of GNI. The EU would return 66% of the amount that is paid above this limit, however not more than 7.5 billion Euro annually.

If the member states agree with the European Commission’s proposals, the Netherlands would contribute the most to the EU budget (a negative balance of 0.5% of GNI). Lithuania would obtain the most benefit from membership (plus 4.44% of GNI). The Czech Republic would be a net receiver at a level of 3.20% of GNI.

If the situation remains unchanged, and the British discount remains in place, the Netherlands would again pay most for EU membership (0.56% GNI), Britain would lose only 0.25%. The Czech Republic would obtain an average annual amount equal to 3.17% of its GNI.

Reaching an agreement on the final version of the Financial Perspective for 2007-2013 is one of the priorities of the EU Luxembourg Presidency. During the second half of the year, the presidential country will be Great Britain, from which no great will towards making a compromise can be expected. The last possible date for approval will thus be the first half of 2006, when the presidential sceptre is transferred to Austria. At least six months are needed from transforming the agreement and the programs ensuing therefrom into European legislation. Pessimists believe that not even six months is a sufficiently long period.

THE CZECH REPUBLIC’S POSITION FOR THE 2007-2013 PERIOD

The Czech Republic’s position in the current Financial Perspective

The total amounts for expansion were established by the European Council in Berlin on March 25, 1999 within the framework of the Financial Perspective for the current program period. They were established for the conditions related to the expansion of the EU by 6 countries in 2002. Development however led to further expansion (as of May 1, 2004) and by a larger number of countries (10). The limits established at the Berlin summit remained binding however. On January 30, 2002, the European Commission recommended a financial framework for expansion, wherein it proposed a total amount for the 10 candidate countries and its division into individual areas (agriculture, structural operations, internal policies). The proposal also contained a principle for not worsening the net budget position of the new member countries in comparison to the year just prior to their entry to the EU, a provision that was fulfilled by means of “budget compensations”. The definite version of the net positions of the new member states was approved at the EU Summit in Copenhagen in December 2002.

The Czech Republic’s position in the future Financial Perspective for 2007-2013

Currently, the only sure thing is that, regardless of the results of the negotiations on the future budgetary framework, the Czech Republic will remain in the position of net receiver. It is also more than likely that the net influx of monies from the European Union will increase, even multiply several times over.

Net budgetary position of the Czech republic, million €

	2004		2005		2006	
	1999 prices	current prices	1999 prices	current prices	1999 prices	current prices
pre-accession aid	181	201	153	173	98	112
agriculture	100	111	392	442	483	554
structural actions	169	186	355	400	427	490
internal actions	44	49	76	86	102	118
additional expenditures	7	8	9	10	9	10
compensation	300	332	270	304	177	203
total allocated expenditure	801	886	1255	1416	1296	1488
traditional own resources	-66	-73	-105	-119	-105	-121
VAT resource	-74	-82	-116	-131	-119	-137
GNP resource	-426	-472	-653	-738	-670	-772
UK rebate	-56	-63	-88	-99	-93	-108
total own resources	-623	-690	-963	-1087	-987	-1138
Net balance	**178**	**196**	**293**	**328**	**307**	**351**

Source: MF ČR, European Commission

In its proposal, the European Commission assigned the Czech Republic an average net position for the 2007-2013 period in the amount of 3.20% of GNI. As was specified above, at the same time the European Commission is counting on the elimination of the British discount and European budget expenses at the level of 1.14 % of the Community's GNI. It is fairly likely that this proposal will not be put through in full and the actual version will be a compromise, which will mean a slight worsening in the CR's net position (as compared to the Commission's proposal).

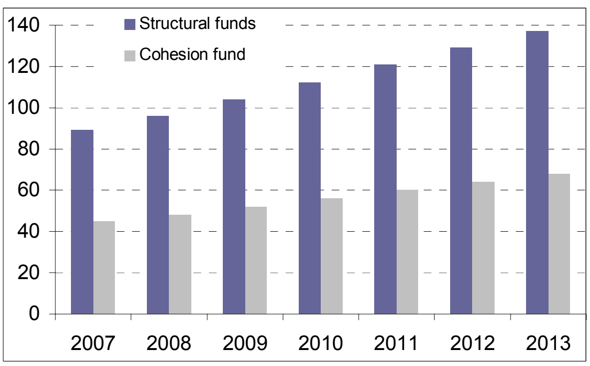
If we assume that the Commission's proposal is accepted and anticipate an average 3% increase in Gross National Income, the Czech Republic's net position in the future Financial Perspective for 2007-2013 should reach almost **three billion Euro** on average per year. This is an enormous increase as compared to the current situation.

The Ministry of Finance has a similar opinion. According to the calculations of the Ministry of Finance of the Czech Republic, 80 to 90 billion crowns should flow into the country from the European Union annually starting in 2007. The growth should reflect increasing direct payments to agriculturists, with the largest portion going to structural and cohesion policies. There will be no compensation payments – they will not be necessary.

Even in the future financial framework, it is most likely that an absorption limit (ceiling) will remain in place for the financial transfers for any member state within the framework of cohesion policies at the current 4% of GDP. It can be expected that the Czech Republic will receive 4% of GDP, with one-third of the resources coming from the Cohesion Fund and two-thirds from the Structural Funds (in the future, there will be only two: the European Fund for Regional Development and the European Social Fund).

According to the estimates of the Ministry of Finance, during the next Financial Perspective period of 2007-2013 we could obtain a total of 787 million crowns from the Structural Funds and 394 million crowns from the Cohesion Fund.

Estimate of inflow for regional policy to CR in 2007-13
CZK bn, current prices



Source: MF ČR

The problem arises as to where to obtain the required co-financing resources for these large amounts. The Commission's proposal relies on the EU providing 75% co-financing in the case of the Structural Funds and 85% for the Cohesion Fund. The difference required to bring the total to 100% must be secured by the member state from its own resources. The majority of the country's own resources will however be in the public budget. They will then be under dual pressure. On the one side, they will have to find resources for co-financing, and on the other, they will have to fulfil the Convergence Program and the Maastricht Criteria for accepting the Euro. The Ministry of Finance proposes eliminating or limiting non-effective programs and subsidies that are focused on the same areas as the funds from the EU. Some resort ministers do not agree. A decision should be made very soon, but refusing or not using the money from the EU just because resources for co-financing cannot be found would send a very bad signal to Brussels.

The consequences of the influx of monies from the EU on the domestic economy

In addition to starting the required development of less developed regions, which will show results only in the mid- to long-term timeframes, the influx of monies from the EU will also have an obvious immediate effect. On the financial markets, this should primarily become apparent in the strengthening of the currency exchange rate for the crown. The offer of "European" Euros and the resulting demand for crowns will also be obvious and permanent (at least until the time that the Euro replaces the crown – the 2010-2011 timeframe). The CNB could partially face this trend if, after reaching an agreement with the government, it limits the conversion of the Euro through the financial market and transfers the Euros directly into its foreign exchange reserves and issues crowns against Euros.

The influx of monies will also have an obvious impact on the immediate increase in the growth of GDP. The sudden increase in aggregate demand and the related multiplicative effect will pull the Czech economy upward. Faster economic growth will pull the standard of living upwards and will contribute to catching up with the more developed countries of the European Union. The boost in aggregate demand will lead to creating new employment positions, which will lead to decreased unemployment. A dark side might however result in the creation of inflationary pressures.

Regardless of how the negotiations and the subsequent Financial Perspective turn out, one thing is certain. From a purely accounting perspective, membership in the Union is paying off already and this will be multiplied even more during the period from 2007 through 2013.

Information service

February and the first half of March also provide persons interested in the expansive field of European integration with the opportunity to participate in a number of interesting workshops, seminars, and conferences. The events that we have selected this time are focused primarily on the areas of energy, transportation, and foreign relations. And those that are interested in the issues related to e-Government, waste management, payment relationships, or space exploration will also find something.

Date	Place	Name and Characteristic
12.-20.2.2005	Brussels, Belgium	Commission - Earth & Space Week: http://europa.eu.int/comm/space/esw/index_en.htm
14.2.2005	Brussels, Belgium	Friends of Europe - Is the EU doing enough to promote the cashless single market?: http://www.friendsofeurope.org/conf_ataglance.asp?ConfId=368
17.2.2005	Brussels, Belgium	European Centre for Public Affairs - The State of Public Affairs 2005: Putting the EU Jigsaw Together?: http://www.publicaffairs.ac/publicprogrammes/AC2005/
16.-18.2.2005	Barcelona, Spain	UITP - Conference on financing Public Transport: http://www.uitp.com/events/2005/barcelona/en/
24.-25.2.2005	Brussels, Belgium	UITP - Information and Initiative Days on the Training Directive: http://www.uitp.com/events/2005/brussels/en/
2.-4.3.2005	Bolzano, Italy	TCGOV 2005 - Electronic democracy: The challenge ahead: http://www.inf.unibz.it/tcgov2005/index.html
2.-4.3.2005	Wels, Austria	Austrian Energy Savings Federation: - World Sustainable Energy Days 2005: http://www.esv.or.at/esv/index.php?id=217&L=1
8.-10.3.2005	Barcelona, Spain	ATEGRUS - Spanish Technical Association for Waste Management and Environement - Conference on Hazardous Waste: http://www.ategrus.org/
10.-11.3.2005	Brussels, Belgium	Cogen Europe - "Cogen - Clean, Clever, Competitive. A Compelling Case for Changing Europe's Energy Market": http://www.cogen.org/events/Annual_Conference_2005.htm
14.3.2005	Brussels, Belgium	Friends of Europe - Mending Fences across the Atlantic: http://www.friendsofeurope.org/conf_ataglance.asp?Confid=373

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 %		
	X-04	XI-04	XII-04	X-04	XI-04	XII-04	X-04	XI-04	XII-04
EU	0.3	0.0	0.4	2.3	2.2	2.4	2.1	2.1	2.1
EU - minimum	-	-	-	-	-	-	0.6	0.7	0.7
CR	0.4	-0.1	0.0	3.1	2.6	2.5	2.3	2.4	2.6
Estonia	0.3	0.4	0.2	4.0	4.4	4.8	2.5	2.7	3.0
Cyprus	1.0	0.4	0.2	2.0	2.6	3.9	1.9	1.8	1.9
Lithuania	0.2	0.3	-0.1	3.1	2.9	2.8	0.5	0.8	1.2
Latvia	0.4	0.5	0.3	7.2	7.2	7.4	5.6	5.9	6.2
Hungary	0.5	0.0	0.0	6.4	5.7	5.5	6.8	6.8	6.8
Malta	0.0	-4.0	1.0	2.7	1.9	1.9	2.8	2.8	2.7
Poland	0.6	0.3	0.0	4.6	4.5	4.4	3.1	3.4	3.6
Slovakia	0.1	-0.2	-0.1	6.3	6.0	5.8	8.0	7.7	7.4
Slovenia	0.1	0.6	-0.5	3.4	3.8	3.3	3.9	3.8	3.7

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 %		
	2001	2002	2003	2001	2002	2003
EU-25	-1.2	-2.3	-2.8	62.1	61.6	63.2
CR	-5.9	-6.8	-12.6	25.3	28.8	37.8
Estonia	0.3	1.4	3.1	4.4	5.3	5.3
Cyprus	-2.4	-4.6	-6.4	64.3	67.4	70.9
Lithuania	-2.0	-1.5	-1.9	22.9	22.4	21.4
Latvia	-2.1	-2.7	-1.5	14.9	14.1	14.4
Hungary	-4.4	-9.2	-6.2	53.5	57.2	59.1
Malta	-6.4	-5.8	-9.6	62.0	62.3	70.4
Poland	-3.8	-3.6	-3.9	36.7	41.1	45.4
Slovakia	-6.0	-5.7	-3.7	48.7	43.3	42.6
Slovenia	-2.8	-2.4	-2.0	28.1	29.5	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	31.82	+6.0	-4.5	31.69	+5.6	-4.9
Estonia kroon	15.65	+0.0	+0.0	15.65	+0.0	+0.0
Cyprus pound	0.583	+1.3	-1.0	0.581	+1.0	-0.9
Lithuanian litas	3.453	+0.0	-0.0	3.453	+0.0	-0.0
Latvian lats	0.656	+6.3	-6.0	0.667	+3.1	-4.4
Hungarian forint	252.9	+4.0	-7.7	250.2	+2.6	-6.8
Maltese lira	0.428	+1.9	-1.6	0.428	+1.0	-1.5
Polish zloty	4.465	+10.2	-9.5	4.475	+10.4	-9.3
Slovenian tolar	236.9	+2.5	-1.3	239.3	+0.9	-0.3
Slovakian koruna	40.62	+6.4	-4.1	39.85	+4.4	-2.4

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 January 2005. Source: Eurostat