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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,

In November, the European integration activities focused on issues that, perhaps for the first time this year, overshadowed the current hot topic, i.e. the EU regional policy and the process of preparation for the use of the EU funds in the next programming period 2007 - 2013.

What were those issues about? The first one was not significant from an economic point of view, but it attracted a lot of attention in the media in the Czech Republic. The EU Council (chaired by Finland) proposed to revalue the excise tax rates, within the process of harmonisation in the EU, which would primarily affect the price of beer in the Czech Republic. This started a debate with a wide range of arguments. Its supporters tried to promote the convergence of excise tax rates as a fundamental parameter for standardizing conditions within the Single Internal Market. Its opponents, on the other hand, argued that such measure would not respect certain specific national features related to the consumption of goods subject to the excise tax, which – in the Czech Republic – primarily means beer. Typically, the debate did not end in November and so far the winner is not known.

The other issue is rather more significant from an economic point of view. It concerns the possibility to enable free movement of services within the EU, which is an industry generating about 70% of GDP on average, out of which only 5% is provided as cross-border services. This involves infighting between the old and the new EU Member States, which makes the situation even more difficult. The EU-15 believes that making access to their territory easier for service providers from the EU-10 would bring about considerable competition. That is why the rather simple and unambiguous principle of the country of origin, which would enable the export of services under the same terms and conditions as in the home country, was not adopted. Instead, a partial insufficient compromise has been accepted, imposing the duty to remove certain barriers for service providers from other Member States, but allowing the application of national procedures to the provision of services, which makes the situation complicated particularly for service providers exporting their services into several Member States.

The third significant event came at the very end of November and it made Turkey's position even more complicated in terms of its specific candidacy. The reason may perhaps be a momentary frustration of Turkish nationals regarding the integration of their country into Europe, which has been widely unpopular in Turkey lately. The reason for Turkey's divergent procedure, which has resulted in suspension of the accession talks with Turkey, was its resolution on air traffic in relation to Cyprus (i.e. both parts of the divided island of Cyprus), which further complicated the process of unification of the Republic of Cyprus.

European integration, however, deals with dozens of other interesting procedures that are regularly discussed in our EU News Monthly Journal. We hope you will be inspired by studying the news presented here. And also, we wish you Merry Christmas and Happy New Year 2007.

Petr Zahradník

The CR confirmed the growing self-confidence of the "new" Member States, and was the only state in the EU Council to block the proposed increase of excise duty on alcohol because this would affect beer as well. The main event, however, was the adoption of the controversial Directive on services in the internal market by the MEPs. The original draft of ex-Commissioner Bolkenstein proposed more extensive opening of the service market, but even the currently adopted version should improve the situation.

TAXATION AND CUSTOMS UNION

The Czech Republic puts a veto on raising excise duty on beer

The Czech representative in the EU Council for economic and financial affairs Vlastimil Tlustý, Minister for Finance, **blocked the European Commission's proposal for the raising of excise duty on beer**. The proposal featured an alteration to excise duty on beer that was unacceptable for the Czech Republic. Minister Vlastimil Tlustý did not accept presiding Finland's compromising proposal suggesting a growth of excise duty on beer by a reasonable 4.5% compared to the Commission's original proposal of up to 31%. The rejected proposal, however, included a scheme under which excise duty would be raised by inflation every three years, and raising of excise duty on other alcohol (e.g. by 31% for fortified wines such as port).

Some other states, such as Germany, also opposed the initial proposal of the European Commission. After the failure to adopt the compromise suggested by Finland, the Czech Republic **remains the only state** with a negative opinion. The EU can only pass tax laws by unanimous agreement; a single Member State veto results in rejecting the proposal as a whole. Further discussions on excise duties on alcohol are to be postponed for a long time. The Ministers determined that the Commission's experts would prepare a paper and the issue would be discussed again in the first half of 2007 at the earliest.

Minister Vlastimil Tlustý explained the veto by the fact that **increasing the price of beer** through raising excise duty would further put beer, the Czech national drink, at a **disadvantage compared to wine**, since there is zero tax on non-sparkling wine in the EU.

The critics opposing the Czech approach argue that raising the minimum excise duty on beer to a total of 0.78 euro per 1 hectolitre is still lower than the currently applicable tax rate in the Czech Republic of 0.84 euro; the price of beer would not rise immediately. It is also questioned whether such a strong instrument – a veto against all the other Member States – should be applied in this case. We, however, believe that **Minister Vlastimil Tlustý proceeded correctly**. The European regulations have already been "polluted" by a number of exceptions (e.g. tax on beer but not on wine) and adoption of the proposal would only widen the differences between various types of alcohol. Applying the veto also illustrates the **growing self-confidence of the Czech Republic**, as it wants to be perceived not as a newcomer but as a standard Member State whose interests must be taken into account.

http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/ecofin/91899.pdf

SINGLE INTERNAL MARKET

European Parliament adopted the Services Directive

The controversial Directive on services in the internal market passed through the crucial second reading in the European Parliament with the majority of the MEPs giving affirmative votes. The Services Directive aims at **facilitating the provision of cross-border services** within the single internal market by removing discrimination and bureaucratic obstacles. The Directive has to be formally adopted by the EU Council at its December meeting to become effective. The Member States will have three years to implement the Directive in their respective national legislation.

Key points of the adopted Directive:

"Freedom to provide services" instead of "country of origin principle"

The key term "country of origin principle" (providers of cross-border services would be subject to their domestic law even abroad) has been replaced with the term "**freedom to provide services**". The MEPs determined that the service providers would be regulated by the legislation of the host country. Further, they expanded the list of reasons allowing Member States to restrict the freedom of a service provider from another Member State to provide services on their territory. The new version also expressly states that the Directive does not affect labour law. The passages related to the posting of workers were also omitted and are regulated in another directive. Compared to the Commission's proposal, the Parliament imposed restrictions on the effect of the Directive that is to apply to fewer sectors.

Examples of services covered by the Directive

a) **Services provided to businesses**: management consultancy, certification and testing, facilities management including office maintenance, advertising, recruitment services, services of commercial agents.

b) **Services provided to businesses and to consumers**: legal or fiscal advice, real estate services (e.g. estate agencies), construction including the services of architects, distributive trades, the organisation of trade fairs, car rental, travel agencies.

c) **Services provided to consumers**: services in the field of tourism including tour guides, leisure services, sports centres and amusement parks, household support services, e.g. help for the elderly.

These services may involve services requiring the proximity of the provider and recipient, services requiring travel by the recipient or the provider and services that may be provided from a distance including via the Internet.

Limitations on the services covered by the Directive

The Directive does not deal with **liberalisation of economic services of general interest** that are within the responsibility of each Member State. Those services include for instance postal services, services in the field of electricity, gas, distribution and supplies of water, waste processing, personal data processing, services of lawyers and auditors, etc.

Further, the Directive **shall not apply to the following activities**:

- Non-economic services of general interest,
- Financial services,
- Electronic communications services and networks and associated facilities and services,
- Services in the field of transport including port services,
- Services of temporary work agencies,
- Healthcare services,
- Audiovisual services including cinematographic services and radio broadcasting,
- Gambling games including lotteries and betting transactions,
- Activities that are connected with the exercise of official authority,
- Social services related to social housing, childcare and support of families and people in need,
- Private security services,
- Services provided by notaries and bailiffs.

The Directive shall not apply to the field of taxation.

Free movement of services and related exceptions

Member States shall respect the providers' right to provide services in a Member State other than the state of their residence. The host state will guarantee free access to and free exercise of a service activity within its territory. Member States must not apply any requirements to the provision of services that would be contrary to the following principles:

- **Non-discrimination** – the requirements must not be directly or indirectly discriminatory on grounds of nationality or on grounds of the resident Member State, in the case of legal entities,
- **Necessity** – the requirements must be based on grounds of public policy, public security or protection of health or the environment,
- **Proportionality** – the requirements must be appropriate for achieving the given objective and must not exceed the extent necessary to achieve it.

Member States must not restrict the free movement of services regarding providers established in other Member States upon **applying any of the following requirements**:

- Duty to be established or to open an office in their territory,
- Duty to obtain permission from their competent bodies (e.g. to register in a register or with a professional body),
- Prohibition to establish a certain form or type of infrastructure (e.g. offices, storehouses) necessary for provision of the respective services,
- Application of special contractual arrangements between the provider and recipient that prevent or limit the provision of services by freelancers,
- Duty to hold an identity card issued by the competent authorities.

The host Member State may, however, set out **requirements on the provision of services** based on public policy, public security, public health or environmental protection.

Simplified administration

All Member States shall establish **Points of Single Contact** through which service providers can complete all necessary procedures and formalities in order to provide services. In those Points, all information on the respective requirements shall be available.

We believe that there could have been a more sophisticated directive to liberalize the free movement of services within the EU. The currently adopted Directive, however, brings **considerable improvement compared to the present state** of matters and its adoption is welcomed. It is the first significant step towards establishing the single internal market for services within the EU; potential attempts at further liberalisation in the future are not out of question.

Since services form about **70 % of GDP within the EU**, the implementation of the Directive may result in a development impulse for the EU economy as a whole.

http://www.europarl.europa.eu/news/expert/infopress_page/056-12653-317-11-46-909-20061113IPR12540-13-11-2006-2006-false/default_cs.htm

The main associations of the European securities exchanges approved a voluntary Code of Conduct for clearing and settlement of financial instrument transactions. Commissioner McCreevy welcomed the initiative and said that if the Code were to be observed, no special directive would be needed in this area. Ministers of Labour and Social Affairs failed to agree on an amendment to the Directive on working hours.

European Parliament promotes EU mortgage market

The European Parliament urges on the **development of the EU retail mortgage market**, so far facing a number of obstacles. Integration of mortgage markets in individual Member States would bring benefits to consumers. It is stated in an approved report drawn up by MEP John Purvis in response to the Commission's Green Paper on mortgage.

Key points of the report:

Code of conduct and pre-contractual information

It is advisable to harmonise the provisions for **pre-contractual information** required for clients to make an informed decision on a potential mortgage contract. Apart from precise information on the annual interest rates, the bank shall present information on any other type of fees or expenses that may occur. The Commission should consider making the existing voluntary Code of Conduct mandatory if early compliance is not forthcoming.

Funding and removing obstacles

MEPs stress the importance of a **single, open and compatible funding market** as the first priority as it will "boost efficiency, allow international diversification of credit risks, optimise funding conditions and capital allocation, and reduce borrowing costs".

MEPs urge the Commission to **examine the legal and technical barriers** to the development of the EU mortgage market. They also support action to abolish tax obstacles such as different fiscal treatment of local and foreign lenders. They support the Commission's action to facilitate cross-border mergers and acquisitions in financial services.

Mortgages rank among the most dynamic industries. The average growth over the last five years reached 8.5%. The value of outstanding mortgages reached 4.7 billion euros two years ago (45% of GDP for the whole EU) out of which only **1% was provided as cross-border services**.

More detailed objectives of the Commission in this area are to be published in the **White Paper** in spring 2007.

http://www.europarl.europa.eu/news/expert/infopress_page/042-12641-317-11-46-907-20061113IPR12526-13-11-2006-2006-false/default_cs.htm

Securities Exchanges approved new Code of Conduct

The main associations of the European securities exchanges, FESE, EACH and ECSDA, approved **a Code of Conduct for clearing and settlement of financial instrument transactions**. Its objective is to contribute to an integrated and efficient post-trading market in the EU. The measures detailed in the Code aim at enhancing transparency and increasing competition in the post-trading sector.

The European Commission has welcomed the new Code of Conduct. This means that if the Code is observed, the Commission **will not publish any mandatory legal standards** such as directives.

The measures detailed in the Code address the following three main issues:

i) **transparency of prices and services** – costs of all services will be itemized instead of charging a single fee for a completed transaction,

ii) **access and interoperability** of individual security exchange systems,

iii) **unbundling** of services (securities transactions) and accounting separation (clearing and settlement).

For each group of measures the Code sets a specific deadline for implementation. Some of the measures will have to be implemented shortly after the signing of the Code, while for the more complex measures more time will be granted. Thus price transparency will need to be implemented by the end of 2006, interoperability and access by the end of June 2007, and division of services and accounting separation **by 1 January 2008**. A strict monitoring mechanism will be set up to ensure that all the measures are implemented properly and on time.

Initially, the Code will apply exclusively to shares. Within the Code implementation process, the Commission expects the scope of the Code to be gradually **extended to also include bonds and derivatives**. The signatories may, however – and the Commission encourages them to do so – apply all or some of the provisions of the Code to most or all financial instruments from early on.

Commissioner McCreevy **prefers regulation within the industry itself to regulation by the EU** and this is a considerably sensitive approach. It will be interesting to see whether the Commission keeps such an approach in other areas of the financial market too (such as the Single European Payment Area project).

http://www.europa.eu/rapid/pressReleasesAction.do?reference=IP/06/1517

White Paper outlines the future of EU investment funds

The European Commission has published a White Paper presenting its vision for the **modernisation of the EU**

framework for investment funds. The White Paper aims at starting an expert discussion and, if adopted, it will be followed by specific proposals for a revision of the current regulatory framework for investment funds – a directive on the undertakings for collective investment in transferable securities (UCITS) – approximately in autumn 2007.

Its current version addresses the current tasks of the industry insufficiently; it brings about unnecessary expenses related to compliance and may result in missed investment opportunities.

The White Paper proposes to **simplify the notification procedures**, and to create a framework for the cross-border merger of funds and a framework for asset pooling. Fund managers could manage funds domiciled in other Member States, the quality and relevance of the key disclosure documents to the end investor would improve and the supervisory cooperation to monitor and reduce risk of cross-border investor abuse would strengthen. The White Paper also proposes to review options for establishing a European “private placement regime” allowing financial institutions to offer investment opportunities to qualified investors across the EU.

Future regulation should, however, **not apply to hedge funds** since their activities are sufficiently regulated in national legislation and excessive harmonisation could jeopardize their development, according to the European Commission.

http://europa.eu/rapid/pressReleasesAction.do?reference=IP/06/1569

ENTERPRISE

EU officials to gain experience in enterprises

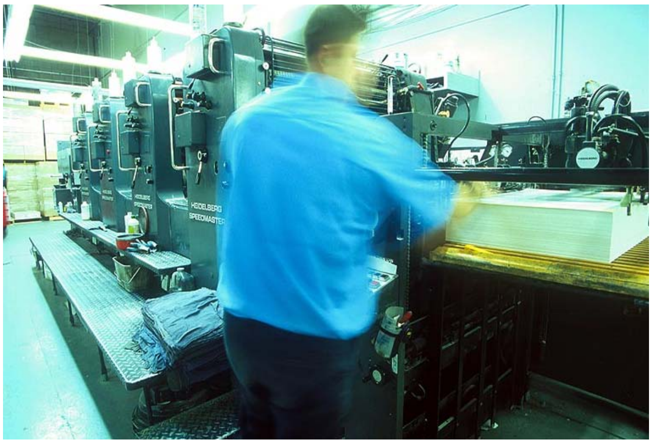
By the end of 2009, 350 officials from the Directorate General for Enterprise (DG Enterprise) will have spent a **week in an enterprise** and this should help them to propose regulatory rules that would be friendlier to small and medium-sized enterprises (SME).

During this short period the officials will experience the daily needs and work circumstances of the industry. Thus they **will become better regulators** and will propose legislation orientated on economic growth and creation of jobs.

The Commission has already announced destinations for the first 50 officials. Not later than by Easter they will take a key function in some of the enterprises in sectors such as **aerospace**, **pharmaceuticals**, **machinery**, **chemicals** and **textiles** etc. The first placements will take place in Austria, Germany, Greece, Hungary, Italy, Portugal, Romania, Spain, Slovenia and Cyprus.

Host companies can be in any of the 25 Member States and will **not have more than 250 employees** (the minimum size is not determined). Particular attention will be given to the 27 sectors of manufacturing industry. Ideally the officials will be located in places where the trainee can establish contact with the wider business community and so broaden the training experience.

http://europa.eu/rapid/pressReleasesAction.do?reference=IP/06/1510



EMPLOYMENT A SOCIAL AFFAIRS

EU has not approved Working Time Directive

Member States’ Ministers for Labour **failed to agree on the working time directive** at their November meeting. The British exception from the maximum weekly working time of 48 hours remains applicable and the Commission is preparing actions against 23 Member States.

The need to amend the Directive originates from a judgement of the European Court of Justice, which is not in accordance with national legislation of the majority of Member States; therefore the Commission intends to initiate disciplinary procedures against them. The Court in Luxembourg decided that according to the current Directive, **the hours spent by doctors on calls** should be counted as part of their working time. With the aim of avoiding a radical increase of wage costs in the healthcare sector, the majority of Ministers struggled to make a revision of the current Directive. There was another problem, however, that prevented them from reaching an agreement: whether to allow for exemptions from the maximum weekly working time of 48 hours (on average in six months). This was supported by the **United Kingdom** because the United Kingdom had been the only one to enforce such exemption at the moment of the adopting of the Directive, and by the

The European Parliament adopted the 7th Framework Programme for research and technological development. European development will receive 40% more funds from the Programme in the next programming period compared to now. Blocked access of Cypriot ships and planes to Turkey resulted in the European Commission proposing to suspend the accession talks with Ankara. A special group of experts is preparing a report on possible adjustments to the CO2 emissions trading scheme in the EU.

majority of the EU-10. **France**, Italy, Spain, Greece and Cyprus opposed amendments to the Directive and finally blocked them.

Also a **compromise proposed by Finland was unacceptable**, according to which Member States would have an option to extend the maximum weekly working time from 48 hours to 60 hours (again in 6 months on average) or to keep the 48-hour limit and extend the reference period applicable to the average from 6 to 12 months. That would primarily help seasonal jobs.

It is not expected that Germany, to preside over the EU in the next six months, will bring the revision of the Directive forward.

Failure to agree on the maximum working hours is **another sequel to the dispute between the liberal and protective Member States**. The liberal camp led by the United Kingdom argues that there is a need not to limit the flexibility of labour markets; while the camp led by France fears "social dumping" and further erosions related to the social rights of workers. In light of more intense competition with the USA, China and entering India we believe that the first option is more advantageous for the EU's ability to compete.

http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/lsa/91539.pdf

AGRICULTURE AND FISHERIES

Government adopted a programme for EU fisheries subsidies

At the beginning of November the government adopted a **fisheries operational programme draft** under which the domestic fishermen should get subsidies of more than one billion CZK within the next seven years, out of which three quarters will be from the European Fisheries Fund. The share from the European Fisheries Fund is EUR 27.1 mil and corresponds to 75%. The remaining part of the funds will come from national resources. The final version of the programme must be approved by the European Commission.

The programme comprises **investments supporting fisheries production** (such as construction or renovation of production plants or removal of mud from ponds). The subsidies should also go into the processing of fish and launching products on the market. The programme will provide financial aid to the fishermen in terms of searching for new markets, promoting production and increasing consumer awareness.

Further funds are intended for implementation of manufacturing methods that reduce the adverse impact of production on the environment. The programme will also focus on protection of aquatic animals and plants and it includes, among other things, renewal of spawning places and migration paths for migratory fish or construction of hatcheries. It will also include subsidies for increasing the quality and safety of foodstuffs, and for education and cooperation between enterprises, schools and scientific institutes.

Outline of separate measures:

1.1. Investments in aquaculture production

1.2. Compensatory payments for improvement of the water environment

1.3. Investments in processing and introducing on the market

2.1. Improvement of foodstuffs and reorganisation of enterprises

2.2. Protection and development of water animals and plants

2.3. Development of new markets

2.4. Pilot projects in aquaculture

3.1. Technical aid

http://www.mze.cz/Index.aspx?ch=270&typ=1&val=38109&ids=0

RESEARCH

Parliament adopted the 7th Framework Programme

In the second reading, the European Parliament adopted the **7th Framework Programme for research and technological development** and demonstrations, and for nuclear energy for the period of 2007-2013 as well as the rules for their implementation. MEPs supported a compromise agreed with the EU Council.

The main tool to support research from the EU budget in 2007-2013 could therefore become effective on 1 January. The overall **budget planned for the programmes is EUR 54.6 billion**.

EUR 50.5 billion is for the European Community programmes and EUR 2.75 billion for the European Atomic Energy Community (EURATOM) programme for 2007-2013. The remaining EUR 1.3 billion is planned for the EURATOM programme for 2012-2013. Compared to the 6th Framework Programme, this represents an **increase of 40% in real prices**.

A compromise was also found for the **European Research Council**, a new body aiming at the development of “frontier research”. For the **Risk Sharing Finance Facility** (RSFF) designed to encourage bank lending to research projects, the Council had originally planned an allocation from the programme of up to EUR 1 billion, which is to be matched by an equal amount from the European Investment Bank (EIB). The Parliament decided to divide the amount and release 500 million by 2010 and a further 500 million after an evaluation process.

The 7th FP will ultimately become valid upon an **approval of the EU Council**. Considering the agreed compromise, this should be just a formality.

Budget of the 7^{th} FP approved by the European Parliament in mil. €

Cooperation	32413
- Health	*6100*
- Food, Agriculture and Fisheries, Biotechnology	*1935*
- Information and Communication Technology	*9050*
- Nanociences, Nanotechnologies and new Production Technologies	*3475*
- Energy	*2350*
- Environment (including Climate Change)	*1890*
- Transport (including Aeronautics)	*4160*
- Socio-economic Sciences and the Humanities	*623*
- Security	*1400*
- Space	*1430*
Ideas	7510
People	4750
Capacities	4097
- Research Infrastructures	*1715*
- Research for the benefit of SMEs	*1336*
- Regions of Knowledge	*126*
- Research Potential	*340*
- Science in society	*330*
- Coherent development of research policies	*70*
- Activities of International Cooperation	*180*
Non-nuclear activities of the Joint Research Centre	1751
TOTAL	50521

http://www.europarl.europa.eu/news/expert/infopress_page/057-734-333-11-48-909-20061129IPR00712-29-11-2006-2006-false/default_en.htm

ENLARGEMENT

Commission to block Turkey’s accession talks

The Commission acted in a surprisingly radical way when, in late November, it **recommended partially suspending Turkey’s accession talks** due to the inability to settle the Cyprus issue. Ankara keeps preventing Cypriot ships and planes from entering its harbours and airports.

Turkey has signed the Ankara Protocol regulating the free movement of goods with the Member States, but **it has not been complying with it in relation to Cyprus**.

Enlargement Commissioner Olli Rehn said the negotiations on **eight out of 35 chapters had been suspended**, not discontinued. The chapters concerned relate to the free movement of goods, services, financial services, agriculture, fisheries, transport, customs union and external relations. The chapters will be suspended until Turkey has fully implemented its commitments. According to its Prime Minister Erdogan, however, Turkey is not about to do so shortly. Talks with Turkey are ongoing but at a slower pace.

Formal talks with Turkey on its accession to the EU commenced on 3 October last year and the only chapter successfully completed so far is “**science and research**”.

The Commission’s decision could have been anticipated already upon the **regular progress report that was rather critical towards Turkey**. Deceleration of reforms, no progress in human rights and particularly the unsettled Cypriot issue were among the key points of the report.

The Commission’s recommendation **must be approved by the Member States** at the general affairs and external relations Council of the EU meeting on 11 December and the European Council meeting on 14 - 15 December. Although Member States are split with respect to their respective approach towards Turkey, they are likely to approve the Commission’s recommendation.

If Turkey wishes to access the EU it must obviously not discriminate against any Member State, let alone the small island of Cyprus. The Commission’s recommendation clearly indicates that it would **support all Member States within the negotiation process**. We believe the “European future” for Turkey is beneficial but in our opinion Turkey will not gain access to the EU before 2015.

http://europa.eu/rapid/pressReleasesAction.do?reference=IP/06/1652

Events

The government finally approved the Operational Programmes for the period of 2007-2013. The majority of the funds will go to the field of transport and the environment. The Programmes are subject to the European Commission's approval. The current rules for receiving funds from structural funds should become more simple and efficient in the new programming period.

Croatia should speed up

The regular progress report on Croatia related to its struggle for full EU membership shows that although it has a functional market economy and an improved political situation, **improvements are necessary in a number of other areas**.

Political criteria

Zagreb has to progress with the public administration reform and its further decentralisation and with solving the conflict of interests. The judiciary has not yet achieved the required independence and efficiency. Corruption is mentioned as a serious problem seen as one of the major challenges. Another problem is adoption of legislation on the protection of minorities as well as low representation of minorities in public administration, the judiciary and police.

Economic criteria

The economy is powered by extensive private investments and is growing at a considerable pace, but problems remain in many areas. One of the significant ones is a relatively high unemployment rate and low number of new jobs. The public finance reform has been initiated, but still there are considerable fiscal risks and the public indebtedness management is also a weak point.

Other

The report also mentions insufficient progress in adjustment of Croatian legislations to the fundamental EU principles in the field of free movement of goods. Zagreb should put more effort into the development of administrative capacity for social security systems coordination. With respect to the free movement of capital the current legislation against money laundering, which is not sufficiently efficient, should be amended. Improvement in the protection of the environment was praised however.

Macedonia

A separate progress report was also prepared for another candidate state – Macedonia (The Former Yugoslav Republic of Macedonia, FYROM). According to the Commission, FYROM has been approaching the fulfilment of political criteria and a functional market economy, even if rather slowly. FYROM should also reform its police and judiciary; another problem is the rather high level of corruption and low degree of legal certainty. Widespread grey economy is another negative feature.

http://europa.eu/rapid/pressReleasesAction.do?reference=MEMO/06/411

ENVIRONMENT

The emissions trading scheme is to improve

Under the auspices of the European Commission a special working group is preparing a **revision of the greenhouse gas emissions trading scheme** within the EU applicable from 2013.

The current scheme, applicable from January 2005, provides for the option to purchase (sell) allowances for CO2 emissions on the market if the enterprise holds more (less) allowances than its actual emissions.

Last year, more than **320 million allowances worth more than EUR 6.5 billion** were reported, but their price was considerably unstable due to excessive allocation of emission allowances in some Member States. Low predictability of prices is seen as a disadvantage and the whole scheme should be simplified.

Therefore, a separate Working Group was established which, by the end of the first half of 2007, will publish a **report with proposals for the emissions trading scheme** in the period after 2012. The key issues to be addressed:

- **Expanding the scheme to other greenhouse gasses** (nitrous oxide from ammonia production and methane from coal mines) **and other sectors** except for power supply and heavy industry. This includes air transport, and also other sectors with relatively low emissions could be included. According to the most recent reports, air transport could be included in the current scheme as soon as by 2011. The proposed measure will apply to all domestic flights within the EU as well as all international flights to or from the EU. Exceptions will be granted to state flights and military

and commercial aircraft with capacities lower than 20 passengers. The emission allowances will be purchased and sold throughout all the involved sectors.

- **Further harmonisation** with the aim of preventing differences in national allocation plans in separate Member States. It is also possible to create a single allocation plan for the whole EU.
- **Improved implementation of rules** regulating trading, monitoring and assessment that could result in better compliance and enforcement. The scheme could cover a more extensive period than five years (the second trading stage covers the period of 2008-2012).
- **Linking the European trading scheme** to existing or future schemes in the world (such as California in the USA) or developing countries.

http://europa.eu/rapid/pressReleasesAction.do?reference=IP/06/1548

Automobile manufacturers to reduce CO2 emissions

The Commission plans to propose legislation that would **force automobile manufacturers to reduce CO2 emissions**, according to the ČTK agency. This warning is not new. The Commission has been warning for a long time already that if manufacturers do not reduce CO2 emissions to 140g/km by 2008 and 120 g/km by 2012, as they committed to in an agreement from 1998, it will propose mandatory legislation.

Achieving the emission limit for 2008 seems improbable at present; therefore the Commission is to take the initiative. Environment Commissioner Stavros Dimas said: “It looks like there is no way manufacturers will meet the 140 g/km target in time”, according to ČTK. Those statements were **confirmed by Stavros Dimas’ spokesperson**.

Naturally, **automobile manufacturers are not happy** about the situation and they encourage politicians to try to change the consumers’ behaviour, for instance by offering special tax incentives for the purchase of cars with lower emissions. Automobile manufacturers argue that high emissions are the result of the increased weight of cars due to requirements for passengers’ safety (such as airbags, reinforced frames etc.).

http://ec.europa.eu/environment/co2/co2_home.htm

REGIONAL POLICY

Government adopted Operational Programmes for 2007-2013

At its meeting, the government adopted the separate Operational Programmes for 2007-2013, bringing funds to the Czech Republic from the EU Structural Funds and the Cohesion Fund. According to the terms of the agreed financial outlook, Czech entities may obtain up to CZK 750 billion for the whole seven-year programming period. The majority of the funds are intended for transport (22.25% of the overall allocation) and environment (19%).

Allocation of funds for Operational Programmes for 2007-2013

Operational Programme	In EUR billion	Share in %
Environment	4.918	19.00
Transport	5.759	22.25
Enterprise and innovation	3.041	11.75
Research and develop. for innovations	2.071	8.00
Human resources and employment	1.812	7.00
Education and competitiveness	1.812	7.00
Integrated operational programme	1.553	6.00
Regional operational programmes	4.659	18.0
Technical assistance	0.259	1.00
Total	**25.883**	**100.0**

Allocation of EU funds for 2007 among regions

Regional operational programme	In EUR million	Share in %
Central Bohemia	69.4	10.9
South-West Region	76.9	12.1
North-West Region	92.5	14.6
South-East Region	87.4	13.8
North-East Region	81.4	12.9
Moravia-Silesia	88.8	14.0
Central Moravia	81.6	12.9
Prague – Competitiveness	39.7	6.3
Prague – Adaptability	16.3	2.3
Total	**634.0**	**100.0**

The approved Operational Programmes should be presented to the **European Commission for approval**. The overall system should have **simpler and more efficient**

The referendum in Switzerland approved CHF 1 billion for the support of regional development in the new Member States. For the Czech Republic, this means CHF 110 million.

rules so that the funds can be used to the full extent. One of the measures is to change the current re-financing scheme, under which the funds are paid after the completion of the project, to a scheme under which funds would be **provided for each phase of the project**. This would enable the provision of the subsidies after the completion of each project phase.

The process of **application assessments should also be simplified** so that the required time is reduced from several months to several weeks. This should primarily apply to projects with lower budgets. At present, the project applications are processed in the same way regardless of the sum required.

The first invitations could apply to projects in the areas where **experience has already been gained in the current period** 2004-2006, such as aid to entrepreneurs and construction of traffic infrastructure. Optimistic scenarios state the first quarter of 2007.

http://www.mmr.cz/index.php?show=001021546

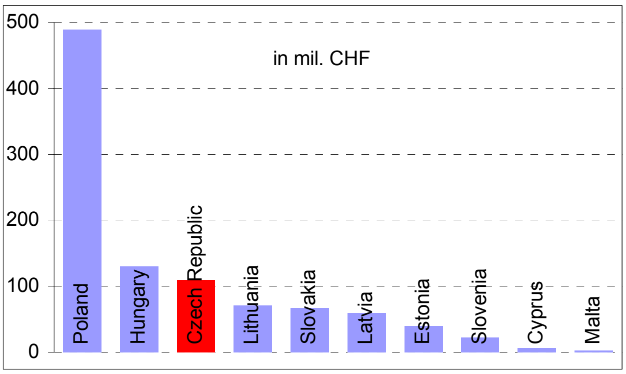
http://www.mmr.cz/index.php?show=001021545

Switzerland to contribute to regional development of EU-10

In a nationwide referendum in Switzerland, a majority (53%) was in favour of the decision to allocate CHF 1 billion (645 million euro) in order to **support regional development of the EU-10**. The first payment will be provided at the beginning of 2007.

The financial package is a compensation for admitting Switzerland to the enlarged EU Single Internal Market and its participation in a number of EU policies, even though it is not a Member State. Similar aid is provided by countries from the European Economic Area – Norway, Iceland and Liechtenstein – in the form of the **EEA/Norway Financial Mechanism**.

Switzerland's payments to new EU member states



Source: European Commission

CHF 110 million (approximately CZK 2 billion) will be available for the Czech Republic in the coming five years. About 50% of the aid will be provided through the Swiss Agency for Development (SAD) and the other half through the Swiss Ministry of Economy.

SAD intends its aid particularly for regions, with a focus on the following four key priorities:

- **Regional development** (small and medium-sized enterprises etc.),
- **Health** – care for the elderly, operation of non-profit organisations in regions,
- **Environment**,
- **Culture**.

The focus of the other part of Switzerland's aid will be discussed later.

Projects eligible for funding will be selected by Switzerland in cooperation with the researcher's Member State.

http://europa.eu.int/rapid/pressReleasesAction.do?reference=IP/06/234

http://www.mfcr.cz/cps/rde/xchg/mfcr/hs.xsl/fin_pomoc_svyc.html

HEALTH AND CONSUMER PROTECTION

EU to ban mercury thermometers

The European Parliament supported the draft directive that **bans the sale of new measuring devices containing mercury** such as thermometers, manometers and blood pressure measuring devices. This is based on the fact that mercury emissions seriously endanger human health and the environment.

According to the MEPs, the ban should not apply to measuring devices that are more than 50 years old, because they are often antiques. Another **exception shall apply to barometers**, which should be licensed by the Member States in order to ensure that the objectives of the directive are not undermined. Immediate limitations should apply only to devices intended for the general public and to all medical (fever) thermometers within the EU. Export from the EU should not be affected by the directive.

The draft directive will be passed to the Council for the first reading and it is likely to return to the European Parliament for further discussion.

http://www.europarl.europa.eu/news/expert/infopress_page/064-12640-317-11-46-911-20061113IPR12525-13-11-2006-2006-false/default_cs.htm

The Commission rejected 10 out of 11 national allocation plans for the CO2 emission allowances for 2008-2012 since there were too many emission allowances. The Commission initiated disciplinary procedures against six states (including the Czech Republic) for failing to present the allocation plan which was due by the end of June. Eurostat has announced that more than half of the EU population uses the Internet at least once a week.

2 NOVEMBER

Erasmus Mundus - list of selected Masters Courses: http://ec.europa.eu/education/programmes/mundus/projects/index_en.html

21 Best LIFE-Environment projects 2005-2006 - brochure: http://ec.europa.eu/environment/life/project/bestlifeenv_0506.htm

3 NOVEMBER

Community strategic guidelines on cohesion published in the Official Journal: http://eur-lex.europa.eu/JOHtml.do?uri=OJ:L:2006:291:SOM:CS:HTML

6 NOVEMBER

High roaming charges are deterring Europeans from using their mobile phone abroad, says new Commission survey: http://ec.europa.eu/information_society/newsroom/cf/itemlongdetail.cfm?item_id=2971

7 NOVEMBER

Latest world investment report shows 37% rise in foreign direct investment to developed countries: http://ec.europa.eu/regional_policy/newsroom/index_en.htm

Former Yugoslav Republic of Macedonia - EU provides more support for new judicial training academy: http://www.ear.europa.eu/publications/main/EAR-PressRelease-formerYugoslavRepublicofMacedonia-06112006.htm

8 NOVEMBER

2759th Economic and Financial Affairs Council meeting: http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/ecofin/91540.pdf

Employment, Social Policy, Health and Consumer Affairs Extraordinary Council meeting: http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/lsa/91539.pdf

Council approves EUR 2 billion financing instrument for the promotion of stability under the EU's external relations policy: http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/misc/91518.pdf

9 NOVEMBER

EU-Uzbekistan Cooperation Council - Seventh meeting: http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/er/91549.pdf

International biodiversity experts call for independent advisory body: http://ec.europa.eu/research/infocentre/article_en.cfm?id=/research/headlines/news/article_06_11_08_en.html&item=&artid=2633

10 NOVEMBER

Fourth report on the practical preparations for the future enlargement of the euro area: http://ec.europa.eu/economy_finance/publications/euro_related/2006/eurorelated_enlargement_euroarea_en.htm

Eurostat: Nearly half of individuals in the EU25 used the internet at least once a week in 2006: http://epp.eurostat.ec.europa.eu/pls/portal/docs/PAGE/PGP_PRD_CAT_PREREL/PGE_CAT_PREREL_YEAR_2006/PGE_CAT_PREREL_YEAR_2006_MONTH_11/4-10112006-EN-AP.PDF

Internet access by households and enterprises in 2006

%	House-holds	Enter-prises	%	House-holds	Enter-prises
Netherlands	80	97	Latvia	42	80
Denmark	79	98	France	41	94
Sweden	77	96	Italy	40	93
Luxembourg	70	93	Spain	39	93
Germany	67	95	Cyprus	37	86
Finland	65	99	Poland	36	89
UK	63	92	Lithuania	35	88
Belgium	54	95	Portugal	35	n/a
Slovenia	54	96	Hungary	32	n/a
EU-25	**52**	**94**	Slovakia	27	93
Austria	52	98	Greece	23	n/a
Ireland	50	94	**CR**	**n/a**	**95**
Estonia	46	n/a	Malta	n/a	n/a

13 NOVEMBER

Council conclusions "Global Europe: Competing in the World"- General Affairs and External Relations: http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/gena/91614.pdf

Health and Consumer Protection: New publications on "nutrition and Obesity": http://ec.europa.eu/health/ph_determinants/life_style/nutrition/pubs_nutrition_en.htm

14 NOVEMBER

2761st External Relations Council: http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/gena/91668.pdf

2760th General Affairs Council meeting: http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/gena/91667.pdf

2762nd Education, Youth and Culture Council meeting: http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/educ/91666.pdf

15 NOVEMBER

New study highlights contribution of the cultural and creative sectors towards the Lisbon Agenda: http://ec.europa.eu/culture/eac/sources_info/studies/economy_en.html

European Neighbourhood Policy (ENP) Action Plans for Armenia, Azerbaijan & Georgia: http://ec.europa.eu/world/enp/documents_en.htm#3

16 NOVEMBER

7th meeting of the EU-South Africa Cooperation Council: http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/er/91750.pdf

Economic and Financial Affairs: What do the sources and uses of funds tell us about credit growth in CEE?: http://ec.europa.eu/economy_finance/publications/occasional_papers/2006/occasionalpapers26_en.htm

17 NOVEMBER

Budget: Sound financial Management - the four most common myths about the EU's accounts: http://ec.europa.eu/budget/sound_fin_mgt/index_en.htm

20 NOVEMBER

WTO Dispute Settlement - EU to request WTO consultations on India's import regime for spirits and wines: http://trade.ec.europa.eu/doclib/docs/2006/november/tradoc_131216.pdf

List of regions and areas eligible for funding from the European Regional Development Fund: http://ec.europa.eu/regional_policy/newsroom/index_en.htm

21 NOVEMBER

2763rd Agriculture and Fisheries Council meeting: http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/agricult/91809.pdf

Outcome of the Nairobi United Nations ministerial conference on climate change: http://ec.europa.eu/environment/climat/nairobi_06.htm

22 NOVEMBER

2764th Economic and financial Affairs/Budget Council: http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/ecofin/91818.pdf

Animal welfare - adopted proposal to ban the the import, export and sale of cat and dog fur in the EU: http://ec.europa.eu/food/animal/welfare/fur_cats_dogs_en.htm

A new strategy to simplify laws could see the end of many of them: http://www.europarl.europa.eu/news/public/story_page/008-122-324-11-47-901-20061121STO00121-2006-20-11-2006/default_cs.htm

23 NOVEMBER

Council conclusions on the action plan on energy efficiency - Transport, Telecommunications and Energy Council: http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/trans/91835.pdf

24 NOVEMBER

EU – Russia Summit - Helsinki, 24 November 2006: http://ec.europa.eu/comm/external_relations/russia/summit_11_06/index.htm

27 NOVEMBER

EU-Russia Summit resolves Siberian Overflight issue: http://ec.europa.eu/trade/issues/bilateral/countries/russia/pr241106_en.htm

28 NOVEMBER

Summary of hearing of Meglena Kuneva, Commissioner-designate for Consumer Protection: http://www.europarl.europa.eu/news/expert/infopress_page/008-328-331-11-48-901-20061127IPR00311-27-11-2006-2006-false/default_en.htm

Summary of hearing of Leonard Orban, Commissioner-designate for Multilingualism: http://www.europarl.europa.eu/news/expert/infopress_page/008-329-331-11-48-901-20061127IPR00312-27-11-2006-2006-false/default_en.htm

29 NOVEMBER

2766th Economia and Financial Affairs Council meeting: http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/ecofin/91899.pdf

EU and Thailand agree on new EU import regime for cooked and salted poultrymeat: http://ec.europa.eu/trade/issues/sectoral/agri_fish/agri/pr281106_en.htm

30 NOVEMBER

MEPs debate EU-Russia relations: http://www.europarl.europa.eu/news/expert/infopress_page/030-732-333-11-48-903-20061129IPR00710-29-11-2006-2006-false/default_en.htm

First set of decisions on national allocation plans submitted under Directive 2003/87/EC: http://ec.europa.eu/environment/climat/2nd_phase_ep.htm

The main December event will surely be the regular meeting of the European Council. Disagreement is expected regarding the decision on whether to accept the Commission's recommendation and suspend the accession talks with Turkey. The progress in The Hague procedure is another point on the agenda, i.e. the building of a single area of freedom, safety and justice. The Member States' leaders will also discuss the EU policy in the power sector and external relations.

Meeting of the key EU institutions

30.11.-1.12.2006	**Brussels, Belgium**
- Employment, Social Policy, Health and Consumer Affairs Council (EPSCO)	
4.-5.12.2006	**Brussels, Belgium**
- Competitiveness Council	
4.-5.12.2006	**Brussels, Belgium**
- Justice and Home Affairs Council	
11.-12.12.2006	**Brussels, Belgium**
- General Affairs and External Relations Council	
11.-12.12.2006	**Brussels, Belgium**
- Transport, Telecommunications and Energy Council	
11.-.14.12.2006	**Strasbourg, France**
- EP Plenary	
14.-15.12.2006	**Brussels, Belgium**
- European Council	
18.12.2006	**Brussels, Belgium**
- Environment Council	
19.-21.12.2006	**Brussels, Belgium**
- Agriculture and Fisheries Council	

Public consultation on EU legislation

Topic of the consultation	Organiser	Deadline
The use of certain hazardous substances in electrical equipment	DG ENV	10.1.2007
The EU's Market Access Strategy in a changing global economy	DG TRADE	12.1.2007
Modernising the Value Added Tax treatment of vouchers	DG TAXUD	12.1.2007
Better Road Safety Enforcement in the European Union	DG TREN	19.1.2007
The enforcement of judgments in the EU: the attachment of bank accounts	DG JHA	31.3.2007

The regular autumn economic forecast of the European Commission confirmed that the EU economy has slightly improved. This year, the GDP in the EU is expected to grow by 2.8% on a year-to-year basis, and the economic activity should ease somewhat in the next two years, reflecting in particular the slowdown of economic activities in the United States. Stable dynamics are also expected for the Czech economy. This year the rate will be 6.1% and unemployment will drop.

COMMISSION'S FORECAST: EU ECONOMIC GROWTH TO SLOW DOWN IN 2007

ESTIMATES FOR THE EU

According to the Commission's regular autumn economic forecast the **economic growth in the EU in 2006 is set to reach 2.8%**, up by 1.1% compared to 2005. The main impulse will be robust growth in domestic demand, especially investments that grew by 6% on a year-to-year basis in the first half of 2006 and should remain stable due to a stable increase of capacity utilisation, improvement of enterprise balances, favourable financial conditions and wide margin. The boom will be supported by export, which has been backed by a strong worldwide economy. Consumer costs will increase only gradually depending on better conditions in the labour market.

A slowdown is, however, expected in the next two years. The economic activity within the EU should ease somewhat in 2007 and 2008 reflecting in particular the slowdown of economic activities in the United States. Yet, GDP growth is projected to remain around the potential in the next two years, i.e. 2.4%.

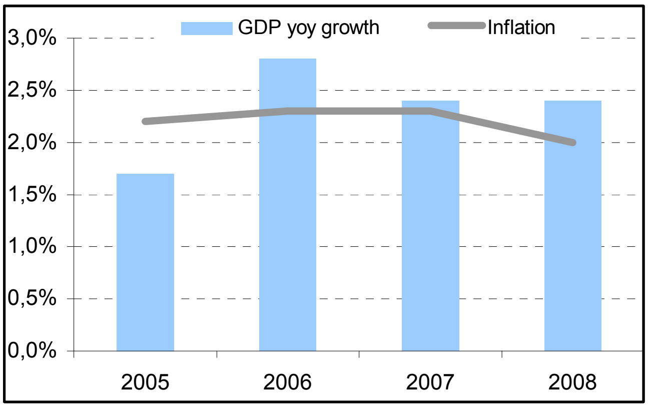
Due to the beneficial effects of the structural reforms in the labour market and a renewed confidence in the economy there has been sufficient growth of the economy in 2006 with **accelerated employment growth**. Overall, the Member States are expected to create 7 million new jobs over the period of 2006-2008, including 5 million in the euro zone. According to this scenario, the rate of job creation in the EU will be 75% higher than in the previous three-year period. As a result, the employment rate is expected to reach 65.5% in 2008, up from 63.75% in 2005. After peaking at around 9% in 2004, the unemployment rate in the EU is set to decline in 2006 to around 8% and to fall further to 7.3% by 2008.

Inflation has remained remarkably stable in 2006 – it remains at the expected 2.2% in the euro zone, while in the EU it raised from 2.2% to 2.3%. Also core inflation remains subdued, indicating that the oil price hikes have not had any significant secondary effects. As the Commission's forecast assumes that such effects will continue to be largely absent, the overall inflation is projected to stay just above 2% over the forecast period in the EU and in the euro zone in 2007 and to decline below 2% in 2008 in the euro zone.

The autumn economic forecast is also **positive in the field of public finances** that turn out to be better than expected in the spring mainly as a result of higher tax revenues than expected. The Commission's forecast estimates the public budgets deficit to be 2.0% while it was 2.3% in 2005. A further improvement of 1.6% and 1.4% is projected for 2007 and 2008, respectively.

Also potential risks are mentioned explicitly in the Commission's report. A more marked **slowdown in the USA could have a negative impact** on growth in the EU. A disorderly unwinding of global current account imbalances also remains a risk. But there are also chances of an unexpectedly better outcome. World trade could prove to be more dynamic, especially in Asia. On the domestic side, the labour market performance in particular could improve more strongly than forecast, giving an extra boost to private consumption. Unpredictable oil prices in the world could go both ways.

Expectations for the EU-25's economy



Source: European Commission

ESTIMATES FOR THE CZECH REPUBLIC

The chapter dealing with the Czech economy is optimistically called "**Sustainable growth and improving the labour market**". The gross domestic product has grown strongly since the beginning of the year, fuelled by increasing domestic demand, investments and net export. The increase of household consumption is based mainly on an increase of household incomes and more popular use of consumer loans and mortgages. Fixed capital creating and indirectly also **exports are fuelled by foreign direct investments**. In 2006, the Czech economy

is projected to grow at least at the same pace as in 2005, i.e. 6%.

Stable dynamics are expected to continue in the next two years with a slight slowdown as the GDP growth is projected to be approximately 5%. The growth structure will not change; a slight decrease is expected in net exports, slowing due to increasing imports. **Government consumption is very unclear** as it is negatively affected by the lack of transparency when using various reserve funds from previous budgets.

Strong expansion of the economy also brings benefits in the labour market. **Employment has been growing particularly in the secondary and tertiary sector**. The long-term unemployment share has been decreasing at an insufficient pace so far. Further growth of employment is prevented by structural problems and this trend is not set to change in the near future. The unemployment rate expected to reach 7.4% this year will, however, be lower than the EU average. It is expected to drop to 6.9% in 2008.

The expected increase in wages will be largely balanced by accelerated labour productivity that is to **help to exert pressure on inflation**. Inflation is projected to grow from 2.5% this year to 2.7% and 2.9% in 2007 and 2008, respectively. The reason is an outcome gap that used to be negative and gradually turns into positive values.

The Czech Republic will not be able to fulfil the Maastricht criteria on budgets by 2008. The public finances deficit is expected to reach 3.5% of GDP this year, which is slightly less than the level stipulated in the Convergence Fund of the Czech Republic (i.e. 3.8%). The Commission anticipates a slight decrease to 3.6% of GDP in 2007. The reason is the increased social benefits approved prior to the elections this year. Continuing strong growth and lack of material political interference or reforms will result in a slight decrease of the public finances deficit to 3.2% of GDP, according to the Commission's report.

EC's Economic Forecast – autumn 2006 for the CR

	2005	2006	2007	2008
GDP – y-on-y growth	6.1%	6.0%	5.1%	4.7%
Unemployment rate	7.9%	7.4%	7.1%	6.9%
Inflation	1.6%	2.5%	2.7%	2.9%
Public budget as of GDP	-3.6%	-3.5%	-3.6%	-3.2%
Public debt as of GDP	30.4%	30.9%	30.8%	31.0%

Source: European Commission

SHORT CHARACTERISTIC OF OTHER MEMBER COUNTRIES

- **Belgium**: The balanced budget under strain
- **Denmark**: Capacity constraints buiding up
- **Germany**: Stronger growth ahead, with quarterly volatility reflecting budgetary measures
- **Estonia**: Booming activity on the verge of overheating
- **Greece**: Investment is back again
- **Spain**: Stronger activity, receding imbalances
- **France**: Robust growth in the years ahead
- **Ireland**: Strong domestic expansion, but some risks ahead
- **Italy**: A recovery driven by domestic demand
- **Cyprus**: Healthy growth and continued fiscal consolidation
- **Latvia**: Stabilisation remains elusive
- **Lithuania**: Inflationary pressures and tightening labour market
- **Luxembourg**: Strong growth in 2006, mild slowdown in 2007 and 2008
- **Hungary**: Overdue fiscal consolidation after major slippages
- **Malta**: Modest domestically-led recovery confirmed
- **The Netherlands**: Firm economic recovery
- **Austria**: Balanced growth exceeding the euro-area average
- **Poland**: Investment boom supports growth
- **Portugal**: Gradual recovery, mainly relying on exports
- **Slovenia**: Economy thrives in the run-up to euro adoption
- **Slovakia**: Growth contribution of net exports expected to turn positive again
- **Finland**: Activity to peak in 2006, but will remain high
- **Sweden**: Economic activity to remain strong
- **The United Kingdom**: Rebalancing ahead

At present, the success of social and economic reforms in the Baltic States is the most pronounced in Estonia, but we should bear in mind that all the reforms in this region originated in Lithuania in the early 90s. Lithuania and its vehement struggle for independence from the ex-USSR became an example for the other two Baltic States.

LITHUANIA

Government type/chief of state	republic / president Valdas Adamkus
Area (share of EU)	65 200 km2 (1.64%)
Population (share of EU)	3 403 300 (1.79%)
Age structure	0-14 years: 17.1%, 15-64 years: 67.8%, over 65 years: 15.1%
Total GDP (share of EU)	20.6 EUR bn (0.19%)
GDP per capita in PPS	52.1% of EU-25 average
GDP - composition by sector	agriculture: 5.7%, industry and constr.: 34.3%, services: 60.0%
Average inflation	2.7%
Average unemployment	8.2%
GDP growth	7.6%
General govern. balance	-0.5% of GDP
General government debt	18.7% of GDP
Number of NUTS2	1 NUTS2, Lithuania 52.1%

Note: the figures are for 2005, source: EU, CIA

The economic features of Lithuania correspond to the generic model of typical economic features shared within the Baltic region: very strong economic growth, resolute reforms in the field of the institutional framework of economy and enterprising, exceedingly high rate of economic openness or preferred stable nominal exchange rate of the national currency (litas) permanently fixed at LT 3.4528 to 1 EUR. Lithuania is also characterised by a very high level of fiscal discipline resulting in a low rate of annual budget deficits to GDP (and often in budget surpluses) and in relatively low public indebtedness.

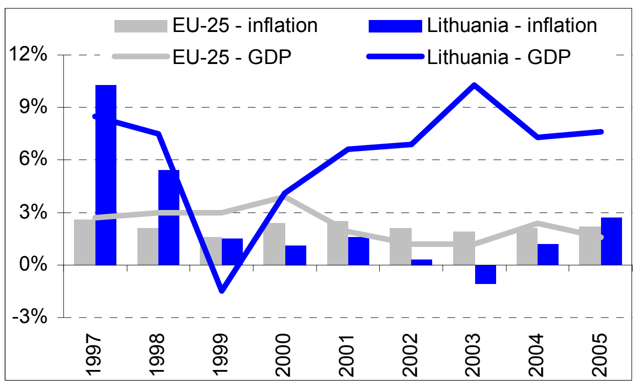
The fixed exchange rate, on one hand, and the need to adjust the price level of the Lithuanian economy proportionately to its growing prosperity and wealth, on the other hand, have recently – in the last few years – brought a higher level of inflation than usual in Europe. The slightly increased inflation resulted in an outcome that drew the attention of the EU institutions to Lithuania in late summer this year and which, unfortunately, had an adverse effect. We, along with the other applicants queuing to enter the euro zone, should learn a lesson from the story.

So what was the story about? Since its accession, Lithuania has been declaring its readiness (political, economic and institutional) to access the euro zone and to adopt the euro as soon as possible. The commitment was to do so in January 2007; therefore, Lithuania's readiness was assessed this year. Lithuania convincingly complied with the given criteria except for one – the inflation criterion, in which it failed very narrowly by only one tenth of a percentage point. Even the otherwise exemplary results in other "subjects" did not help Lithuania and its accession to the euro zone will be delayed by at least two years. Considering the much more benevolent attitude of the competent EU institutions towards the constituent members of the euro zone, Lithuania may rightfully be seen as a scapegoat. The measurement standard and its strict application also indicate the level of demands that will apply to us.

Regardless of this partial frustration, there is no reason for Lithuania to mourn; although it ranks among the four poorest countries of the EU-25, its pace in gradually approaching the EU average is very respectable. Also the change of its economic structure is considerable, even though Lithuania, similarly to the Czech Republic, is among the Member States with the highest share of industry in the GDP (over 30%) and a relatively low share of services (about 62%). Similarly to the Czech Republic, Lithuania has focused on an intense privatisation policy in the beginning of the 90s and on targeted incentives for direct investments from abroad since the mid 90s. Unlike the Czech Republic, the tax rates in Lithuania are very low, particularly for the business sector, with the basic corporate tax rate of 15%, and 13% for small and medium-sized enterprises. Income tax rates for natural persons are 15% and 17%.

The biggest business partners for Lithuania in business as well as investments are Russia, Germany and the Scandinavian countries, due to historical and geographical reasons.

Inflation and GDP



Source: Eurostat

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	VIII-06	IX-06	X-06	VIII-06	IX-06	X-06
Belgium	1.0	3.0	1.1	4.5	3.6	2.5	8.5	8.6	8.3	2.3	1.9	1.7
CR	3.6	4.2	6.1	-6.5	-6.3	-2.7	7.1	7.0	6.9	2.6	2.2	0.8
Denmark	0.7	1.9	3.0	3.2	2.3	2.9	3.7	3.5	n/a	1.9	1.5	1.4
Estonia	7.1	8.1	10.5	-11.5	-12.5	-11.1	4.4	4.2	4.2	5.0	3.8	3.8
Finland	1.8	3.5	2.9	5.9	7.6	4.6	7.9	7.9	7.9	1.3	0.8	0.9
France	1.1	2.3	1.2	0.2	-0.6	-2.1	9.0	8.9	8.8	2.1	1.5	1.2
Ireland	4.3	4.3	5.5	0.0	-1.0	-3.1	4.5	4.2	4.2	3.2	2.2	2.2
Italy	0.0	1.1	0.0	-0.9	-0.5	-1.1	n/a	n/a	n/a	2.3	2.4	1.9
Cyprus	1.9	3.9	3.8	-0.9	-5.3	-5.7	5.2	5.1	5.1	2.7	2.2	1.7
Lithuania	10.3	7.3	7.6	-6.8	-7.9	-6.9	5.8	6.1	5.7	4.3	3.3	3.7
Latvia	7.2	8.6	10.2	-8.0	-12.9	-12.5	7.2	7.0	6.8	6.8	5.9	5.6
Luxembourg	1.3	3.6	4.0	6.4	10.6	9.7	4.8	4.9	4.9	3.1	2.0	0.6
Hungary	4.1	4.9	4.2	-7.9	-8.4	-6.8	7.6	7.6	7.9	4.7	5.9	6.3
Malta	-2.4	0.0	2.2	-5.0	-7.5	-11.0	7.5	7.4	7.3	3.0	3.1	1.7
Germany	-0.2	1.2	0.9	2.0	3.9	4.2	8.5	8.6	8.2	1.8	1.0	1.1
Netherlands	0.3	2.0	1.5	6.1	8.6	7.1	4.1	3.9	3.9	1.9	1.5	1.3
Poland	3.8	5.3	3.2	-2.1	-4.2	-2.2	14.2	14.1	14.0	1.7	1.4	1.1
Portugal	-1.1	1.2	0.4	-6.5	-7.8	-9.5	7.2	7.2	7.2	2.7	3.0	2.6
Austria	1.1	2.4	2.0	1.7	2.1	2.9	4.8	4.7	4.7	2.1	1.3	1.2
Greece	4.8	4.7	3.7	-10.0	-9.5	-9.2	n/a	n/a	n/a	3.4	3.1	3.1
Slovakia	4.2	5.4	6.0	-2.1	-2.5	-7.9	13.1	12.9	12.7	5.0	4.5	3.1
Slovenia	2.7	4.4	4.0	-0.8	-2.6	-2.0	6.0	5.8	5.4	3.1	2.5	1.5
Spain	3.0	3.2	3.5	-4.0	-5.9	-7.5	8.4	8.3	8.4	3.8	2.9	2.6
Sweden	1.7	3.7	2.7	6.6	6.6	5.9	n/a	n/a	n/a	1.6	1.2	1.2
UK	2.7	3.3	1.9	-1.3	-1.6	-2.2	5.6	n/a	n/a	2.5	2.4	2.4
EU-25	1.3	2.4	1.7	0.2	0.3	-0.4	7.9	7.9	7.9	2.3	1.9	1.8

	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	2003	2004	2005	2003	2004	2005
Belgium	0.0	0.0	-2.3	98.6	94.3	93.2	117.9	118.7	117.7	104.0	104.2	104.3
CR	-6.6	-2.9	-3.6	30.1	30.7	30.4	68.3	70.5	73.8	55.5	55.0	57.8
Denmark	1.1	2.7	4.9	44.4	42.6	35.9	120.8	121.5	124.2	138.8	137.0	135.8
Estonia	2.0	2.3	2.3	5.7	5.2	4.5	50.3	53.0	60.1	63.2	62.9	64.2
Finland	2.5	2.3	2.7	44.3	44.3	41.3	112.6	113.7	113.3	125.9	122.9	122.0
France	-4.2	-3.7	-2.9	62.4	64.4	66.6	111.6	109.5	108.8	105.8	108.0	108.5
Ireland	0.3	1.5	1.1	31.1	29.7	27.4	133.7	135.8	137.5	126.6	123.1	123.4
Italy	-3.5	-3.4	-4.1	104.3	103.9	106.6	107.6	105.5	102.6	102.3	102.7	102.6
Cyprus	-6.3	-4.1	-2.3	69.1	70.3	69.2	79.8	82.6	83.3	96.5	93.3	94.3
Lithuania	-1.3	-1.5	-0.5	21.2	19.4	18.7	45.2	47.8	52.1	54.9	54.6	54.7
Latvia	-1.2	-0.9	0.1	14.4	14.5	12.1	40.8	42.8	47.2	55.4	56.4	56.8
Luxembourg	0.3	-1.1	-1.0	6.3	6.6	6.0	232.7	237.5	247.5	105.3	106.1	107.0
Hungary	-7.2	-6.5	-7.8	58.0	59.4	61.7	60.1	60.9	61.4	59.0	61.9	63.6
Malta	-10.0	-5.0	-3.2	70.2	74.9	74.2	73.7	70.2	69.5	74.4	74.9	74.0
Germany	-4.0	-3.7	-3.2	63.9	65.7	67.9	108.1	108.0	109.3	108.7	106.6	104.1
Netherlands	-3.1	-1.8	-0.3	52.0	52.6	52.7	124.7	124.4	124.2	106.6	105.2	105.2
Poland	-4.7	-3.9	-2.5	43.9	41.8	42.0	46.9	48.7	49.8	53.4	52.4	59.6
Portugal	-2.9	-3.2	-6.0	57.0	58.6	64.0	72.7	72.3	71.3	87.3	85.7	85.2
Austria	-1.6	-1.2	-1.5	64.6	63.8	63.4	120.3	121.7	122.5	105.7	103.6	102.9
Greece	-6.1	-7.8	-5.2	107.8	108.5	107.5	80.9	81.8	82.0	84.5	85.1	87.8
Slovakia	-3.7	-3.0	-3.1	42.7	41.6	34.5	51.9	52.9	55.0	50.5	54.9	57.6
Slovenia	-2.8	-2.3	-1.4	28.5	28.7	28.0	75.9	79.2	80.6	77.9	75.8	76.4
Spain	0.0	-0.2	1.1	48.7	46.2	43.1	97.4	97.7	98.6	86.6	87.4	90.0
Sweden	0.1	1.8	3.0	51.8	50.5	50.4	115.6	117.1	114.5	124.0	121.1	120.6
UK	-3.3	-3.2	-3.3	38.9	40.4	42.4	116.4	117.1	116.5	103.8	105.6	104.9
EU-25	-3.0	-2.7	-2.3	62.0	62.4	63.3	100.0	100.0	100.0	100.0	100.0	100.0

*Source: Eurostat, *) net balance, GDP per capita according to PPP*