



EU News

Monthly Journal

Number 40,
January 2007

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Dear readers,

The turn of the year 2006 witnessed such a large number of important events related to European integration that perhaps even the topic we dealt with most often in 2006 was temporarily forgotten, i.e. the beginning of the new programming period for using the EU structural funds until 2013, which started on 1 January 2007.

The December meeting of the EU Council had good news for the Czech Republic and the other EU-10 (except for Cyprus) related to their accession to the Schengen system, which removes internal borders within the EU Member States, by 31 December 2007, and it means that even in our country there will be no regular border checks anymore. Until then, however, the new members to the Schengen procedure will be carefully tested on their compliance with the relevant requirements.

Also, in December the long discussed obligation of the EU in terms of compliance with the Kyoto protocol was met with the adoption of the REACH directive on the maximum demands on chemical composition of products with regard to potential pollution of the environment.

Germany assumed the rotating presidency of the EU Council on 1 January; the topics to be considered under the baton of Germany will surely affect the EU integration process and its orientation to a considerable degree. Germany for instance intends to solve the EU institutional arrangement related to the so-far frozen process of adoption of the Treaty establishing a Constitution for Europe. This issue is to be re-opened. Germany also focuses on the energy policy issues within the EU context.

And finally, it should of course be mentioned that Romania and Bulgaria acceded to the European Union on 1 January and there are now 27 Member States in the European Union. The new Member States have a great chance to apply their significant development potential within the EU.

Slovenia moved one step further on 1 January, because as the thirteenth Member State and the first of the EU-10 it met the qualification criteria for entering the euro zone and adopted the euro currency as its legal tender. The lesson to take from Slovenia is: if a country as a whole wants to meet a demanding objective and it is committed and pursues the relevant activities, it can manage anything. This may, however, be used as proof that the current Czech "effort" to adopt the euro will fail entirely.

Just a brief summary of events from the turn of the year 2006 shows that the year to come will be rather rich in events related to the forthcoming EU integration. On behalf of the EU Office I wish you a successful New Year. I also hope that you, our readers, will consult our EU News Monthly Journal more and more often any time you need to learn something new about EU integration.

Petr Zahradník



Events

Germany is to preside over the EU institutions in the first half of 2007. Its main priorities include re-opening of the so-far blocked ratification of the Treaty establishing a Constitution for Europe or a similar document. The Convergence Reports published by the European Commission and the European Central Bank confirmed that the Czech Republic fails to meet all convergence criteria and the issue of accessing to the euro is therefore not in the current agenda.

POLITICS

Priorities of the German EU presidency

The imaginary presidency sceptre was assumed by the **largest Member State – Germany** – on 1 January. The priorities of its presidency reflect the current problems and challenges of EU integration: how to adapt individual policies so that the competitiveness of the EU economic and social model is preserved in the light of the ongoing globalisation. Specific priority areas are based on this essential idea.

Progress with the EU constitutional process

One of the key priorities of the German presidency will be to progress with the adoption of the European Constitution or a similar treaty. The EU needs a foundational document that clearly defines its structures and decision-making mechanisms. The current version of the EU Constitutional Treaty seems the best basis for further discussion.

The key document will be the “**Berlin Declaration**” to be adopted by the heads of the Member States at the EU summit in March. Its objective is to provide guidelines related to the values and objectives of the EU. “An agreement on the historical and cultural foundations of the European idea and European interests, based on shared values and convictions, will help to strengthen our sense of unity”, comments the German presidency.

More growth and employment

Providing **support for the economic competitiveness** of the EU without giving up its social and environmental achievements is another priority of equal importance. Emphasis will be put on adoption of better legislation aimed at strengthening the competitiveness of European enterprises among global competition. Research and innovation should be strengthened, as they are essential for the growth of the economy and employment.

A more serious approach to climate change

The EU has assumed a leading role in the global effort to counteract climate change. The German presidency will seek to establish the policy for the period after 2012. The priority is to reach an agreement on the **targets for reduction of further greenhouse gas emissions** and to include major EU emission producers in a similar scheme.

Safeguarding energy for the future

A safe, economical and environmentally friendly energy supply is essential for further development of the EU. The German presidency will focus on increasing energy

efficiency, expanding the use of renewable energies and closer cooperation with supplier or transit countries. An ambitious **energy action plan** is to be adopted at the Council meeting in March.

Security depends on cooperation

Any Member States may be affected by **terrorist attacks or organized crime**. Therefore, closer cross-border cooperation between police forces and offices of public prosecution within the EU is necessary. Refugee flows and illegal immigration require a common European response. The EU must not lose sight of the need to respect human rights and personal freedoms.

Active foreign policy

The German presidency will endeavour to apply the EU's weight towards foreign policy conflicts. It is important to continue **to stabilize the Western Balkans** and to draw the region closer to Europe. It is necessary to strengthen relations with Russia and the countries of Central Asia and the Middle East.

New “trio” format

Over the next 18 months Germany will be cooperating closely with the follow-on presidencies, held by **Portugal and Slovenia**, in a new “trio” format aimed at improving the continuity of EU policy. The aforementioned German priorities have been formulated in cooperation with the representatives of the two countries.

http://www.bundesregierung.de/Content/EN/Artikel/2006/11/2006-11-30-europa-gelingt-gemeinsam_en.html

ECONOMY AND EURO

Convergence Report: uneven progress towards the adoption of the euro

The 2006 Convergence Report shows uneven progress towards the adoption of the euro in the new Member States. While **Slovenia** was found to meet all the criteria in June and the euro will be used as its currency in January, the other countries (**the Czech Republic, Estonia, Cyprus, Latvia, Hungary, Malta, Poland, Slovakia and Sweden**) have advanced at different paces.

At least once every two years, or at the request of a Member State, the **European Commission** and the **European Central Bank** are required to report to the Council of Ministers on the progress made by the EU countries “with a derogation from the 3rd EMU stage” in preparation for the adoption of the euro.

Lithuania and Slovenia are not included in the regular report as their convergence process was assessed in an extra Convergence Report in May this year.

Key points of the Convergence Report of the European Commission

Price criterion – only in four countries (the Czech Republic, Cyprus, Poland and Sweden) were the average inflation rates within one year below the reference value, which stood at 2.8% in October 2006.

Public finances criterion – this is met when the country is not the subject of a procedure on an excessive deficit. At present, four of the nine Member States examined fulfil the criterion (Estonia, Cyprus, Latvia and Sweden).

Exchange rate criterion – out of the nine countries examined, Estonia is the one that has been longest in the ERM II and the only one that fulfils the criterion. The other countries in the ERM II are Cyprus, Malta and Latvia since 2 May 2005, and Slovakia since 28 November 2005.

Interest rates criterion – only Hungary has not met this, as its average long-term interest rates exceeded the reference value of 6.2% (as of October 2006).

Legal compatibility – at the time of the processing of the report, the compatibility requirements for a Member State's legislation including the statutes of its national central bank with the required articles of the EU Treaty and the Statute of the ESCB were met only by Estonia.

Fulfilment of nominal convergence criteria by the CR

| | value for CR | threshold |
|--|---------------|-----------|
| price criterion ¹⁾ | 2.2 % | 2.8 % |
| public finances crit. – budget ²⁾ | 3.6 % to GDP | 3.0 % |
| public finances crit. – debt ²⁾ | 30.4 % to GDP | 60.0 % |
| exchange rate criterion | n/a | n/a |
| interest rate criterion | 3.8 % | 6.2 % |

Source: ECB Convergence report, 1) as to October 2006, 2) in 2005

<http://www.europa.eu/rapid/pressReleasesAction.do?reference=IP/06/1681>

<http://www.ecb.int/pub/convergence/html/index.en.html>

BUDGET

Parliament adopted the EU budget for 2007

The European Parliament adopted the EU budget for 2007 in a second reading. The budget amounts to **EUR 126.5**

billion in commitment appropriations, which is an increase of 5% compared to 2006. For payment appropriations it is EUR 115.5 billion, which is an increase of 7.6% in nominal terms. The EU budget is always drafted as balanced.

Immediately after the voting at the plenary session of the Parliament in Strasbourg, the new EU budget was signed by the representatives of the EP, the Finnish presidency of the EU Council and the European Commission.

The budget was drafted in accordance with the new EU financial framework for 2007 – 2013.

The 2007 EU budget in commitment appropriations

| Budgetary chapters | EUR bn | y-on-y change |
|---|----------------------|---------------|
| 1. Sustainable growth | 54.9 | +15.4% |
| 2. Preserv. and manag. of natural resources | 56.3 | +1.0% |
| 3. Citizenship, freedom, security and justice | 1.2 | +6.5% |
| 4. The EU as a global partner | 6.8 | +4.5% |
| 5. Administration | 6.9 | n/a |
| 6. Compensations | 0.4 | n/a |
| Total appropriations (% as of GDP) | 126.5 (1.08%) | +5.0% |

Source: European Commission, DG Budget

The chapter “**Preservation and management of natural resources**” provides for the financing of the controversial common agricultural policy. Minor amounts are intended for rural development or multi-annual programmes for protection of the environment such as LIFE.

The largest increase is in the first budget chapter “**Sustainable growth**”. It is divided into two sub-chapters:

- **Competitiveness for growth and employment** – the highest expense items include research (EUR 5.5 billion), the trans-European transport and energy network (EUR 1 billion) and education and training (EUR 0.9 billion).
- **Cohesion for growth and employment** – a more significant amount (EUR 45.5 billion); it is used to finance the structural and cohesion policy in underdeveloped regions and countries.

<http://europa.eu/rapid/pressReleasesAction.do?reference=P/06/1810>

After several years of fierce discussions, the EU adopted the chemical legislation package regulating registration, evaluation, authorization and limitation of chemicals (REACH). The recent report of the Commission shows that the Czech Republic reached only limited progress in meeting the challenges under the Lisbon strategy. Most criticised was the lack of key reforms of public finance related to population ageing.

TAXATION AND CUSTOMS UNION

Commission proposes coordination of tax systems

The commissioner responsible for taxation László Kovács presented plans for **improving coordination of national tax rules** with the aim of reducing the costs entrepreneurs have to face to comply with various tax regulations within cross-border activities, to **prevent double taxation** and to prevent tax abuse.

The cooperation should also involve **recognition of tax relief** in case of losses related to branches in other Member States or taxation of accrued capital gains when taxpayers transfer their activities to another Member State (the exit tax).

The draft in the form of a communication represents the first step within Kovács' intention to establish a **Common Consolidated Corporate Tax Base (CCCTB)**. The common tax base, however, does not mean a common tax rate; the tax rate will remain within the competence of each Member State.

We are not optimistic that the idea of a common consolidated corporate tax base could become a reality. The tax issues are decided unanimously in the EU Council, while **each Member State has the right of veto**. Some of the Member States, such as the United Kingdom and Ireland, have already stated their negative response to such project. Several states with low corporate tax are concerned about the CCCTB project as they expect it to be followed by plans to set out a minimum tax rate or its complete harmonisation.

<http://europa.eu/rapid/pressReleasesAction.do?reference=P/06/1827>

INTERNAL MARKET

EU for more competitiveness in the defence industry

The key pillar of EU economic integration – the single internal market – is not yet fully functioning in a number of areas. One such area is the **defence equipment market** with an annual volume of EUR 80 billion. Badly functioning cross-border competition in this field results in more expensive goods and in the fact that the European defence equipment market gradually lags behind. Commissioner Charlie McCreevy is therefore making an effort to open up the less sensitive segments of the defence equipment market to competition from abroad.

The communication of the European Commission aims at preventing the Member States **from excessive derogations from the EU rules for public procurements**. The derogation is defined in Article 296 of the EC Treaty and is applicable in cases of essential defence interests of the relevant Member State.

At present, however, it also applies to public purchases of uniforms, provision of catering or non-military means of transportation. With the aim of avoiding abuse of such derogation, the European Commission publishes guidelines on how to apply the article in practice. The derogation should be applied only in cases of essential security interests for the Member State.

In parallel, preliminary work will begin towards a **mandatory legal regulation** – perhaps a directive – that would regulate procedures for defence procurement in cases where the derogation is not applicable or a Member State chooses not to take advantage of it.

<http://europa.eu/rapid/pressReleasesAction.do?reference=P/05/1534>

ENTERPRISE

REACH regulation for chemicals adopted

The European Parliament adopted the proposed regulation and directive on **registration, evaluation and authorisation of chemicals (REACH)**. The compromise was approved with 529 MEPs in favour, 98 against and 24 abstentions. It was finally approved unanimously by the Ministers of the Environment at the EU Council December meeting. REACH is considered one of the most extensive legislative drafts in the history of the European Union. It aims at **protecting public health and the environment**, in particular by replacing dangerous substances and applying the producers' responsibility principle.

Producers and importers will be obliged to register all chemicals produced or imported above a total quantity of 1 tonne. The **mandatory registration** covers about 30,000 chemicals, the authorisation process about 3,000 substances considered more dangerous. For more hazardous chemicals, their producers or importers will have to submit a substitution plan to **replace them with safer alternatives**. When no alternative exists, they will have to present a research and development plan aimed at finding one.

The regulation will **enter into force progressively from June 2007**. The registration process of all substances will take 11 years to complete. The schedule for registration depends on the risk of the substance or the quantity

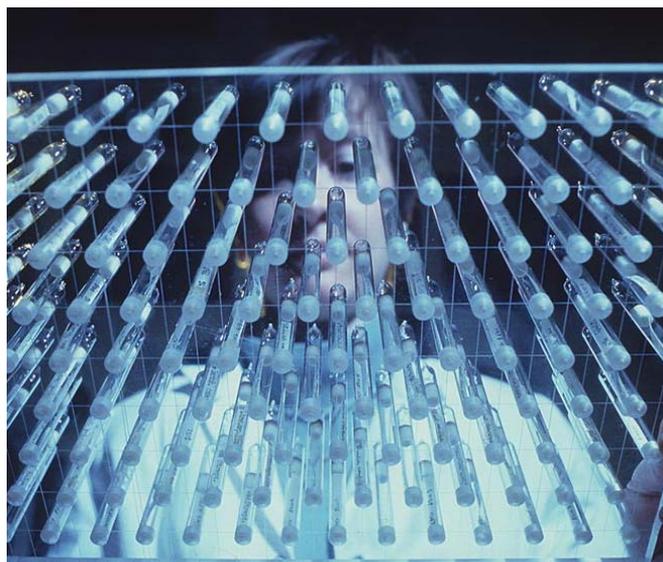


produced or imported. All covered substances will have to be registered by 2018. REACH also creates a new **European Chemicals Agency**, which will be responsible for the registration process. The legislative package also includes safeguards to avoid duplication of animal testing and support alternative testing methods.

REACH will replace the existing dual system distinguishing:

- “**new**” **chemicals**, i.e. approximately 3,000 substances introduced to the market after 1981, as since then the EU legislative requires formal authorisations, and
- “**existing**” **chemicals**, i.e. approximately 100,000 substances introduced to the market prior to 1981.

REACH introduces a common system of registration, assessment, authorisation and limitation of chemicals and it will replace over 40 existing legislative rules.



We believe that the adoption of REACH is a good step towards mapping out thousands of various chemicals and replacing the most hazardous ones including carcinogenic chemicals or chemicals causing hereditary diseases, which will **result in decreasing their health risk** for the general public and savings in the healthcare industry.

A negative result will be the increase in administrative costs for the European chemicals industry. An acceptable price to pay for more information on chemicals is a further **increase of the EU bureaucracy**.

http://www.europarl.europa.eu/news/expert/infopress_page/064-1496-345-12-50-911-20061213IPR01493-11-12-2006-2006-true/default_en.htm

Slight progress of the CR towards complying with the Lisbon strategy

According to the European Commission's analysis, the Czech Republic made limited **progress in implementing the National Reform Programme** for growth and employment. The analysis is included in the Commission's recent annual report on the progress in complying with the Lisbon Growth and Jobs Strategy by Member States. The report will be presented to the EU representatives at the **spring meeting of the European Council** in March 2007, where the Member States' leaders will be encouraged to adopt recommendations to improve the situation in individual Member States.

According to the report, the reform process (public finances consolidation, increased support to research and innovations, enhancing the business environment) in some countries has brought **positive results and accelerated economic growth. The progress towards meeting the strategy has been limited in the Czech Republic.** Although there is strong economic growth, some reforms have been postponed and others have not been initiated. There are certain risks in the macro-economic area, particularly for medium-term budgetary consolidation and the long-term sustainability of public finances in the context of an ageing population.

Although the Czech Republic is generally moving ahead relatively well in the micro-economic field, **progress on research and development is moderate.** In the employment area more efforts are required to respond to the key challenges of improving labour market flexibility.

The Commission identifies as **strengths of the reform process** in the Czech Republic positive measures focused on: increase of the control and transparency of public finances; improvement of regulation and the business environment; reform of curricula for primary education and stimulation of participation in higher education.

Key recommendations of the Commission according to the report:

- to take measures to **implement reforms of the pension and healthcare systems** and fix a timetable for their implementation,
- to strengthen efforts to **improve cooperation between business and public institutions for research and development** while keeping up the pace of increasing public investments into research and development,
- to **modernise employment protection** including legislation and tax and benefit systems, improve



Events

education and training systems, and provide incentives to invest in training,

- to focus on improving the system for patenting and **protection of intellectual property rights**,
- to **speed up progress in the ICT area** by creating a legal environment fully enabling e-government,
- to **reduce the administrative burden** on enterprises,
- to facilitate access to **finance for innovative companies**.

<http://europa.eu/rapid/pressReleasesAction.do?reference=P/06/1745>

Commission adopted de minimis regulation on state aid

The rules for state aid for the business sector changed from 1 January 2007. The Commission adopted a regulation exempting **small state subsidies for businesses** from the obligation to notify the Commission in advance. Small subsidies are defined as an **aid up to EUR 200,000** granted over any period of three years, which is an amount not in conflict with the competitiveness rules in the single internal market. The original limit was EUR 100,000.

The regulation also applies to **state aid in the form of loan guarantees** regarding commercial loans if the guaranteed part of the loan does not exceed EUR 1.5 million. Forms of aid for which the aid amount cannot be calculated in an easy manner (**so-called non-transparent aid**) have been **excluded from the regulation**. Similarly, the regulation does not apply to aid to firms in difficulty. The regulation will also apply to the transport sector (the limit for road transport is EUR 100,000) and partially to the processing and marketing of agricultural products.

The regulation forms part of the **State Aid Action Plan** adopted in June 2005 and focuses on a reform of state aid rules.

<http://europa.eu/rapid/pressReleasesAction.do?reference=P/06/1765>

ENERGY AND TRANSPORT

Infringement procedure against the CR related to energy continues

The infringement procedure against 16 Member States, including the Czech Republic, that **fail to transpose the EU regulations on the opening of the gas and electricity markets** reached its second stage as the Commission decided to send the reasoned opinions.

The Commission's new regulation raised the de minimis limit for state aid to EUR 200,000. The EU foreign ministers followed the Commission's recommendation and partially suspended Turkey's accession talks regarding 8 out of 35 negotiation chapters. The reason is that Ankara is not willing to open its ports to trade from Cyprus. According to the last draft directive, air transport will be included in the EU Emissions Trading Scheme (EU ETS) with CO2 emission allowances.

Key problems pointed out by the European Commission:

- **persistence of regulated supply tariffs** for eligible clients, which blocks the arrival of newcomers and prevents the free choice of supplier,
- **insufficient separation** between the vertically integrated network operators and production and supply activities, especially as regards functional separation,
- **discriminatory access of third parties** to the network, and especially maintained preferential access for the dominant operators' historical contracts,
- **insufficient regulator competencies**, especially as regards network access and tariffs,
- **absence of notification** of public service obligations,
- **insufficient indication of the origin** of the electricity.

Upon receipt of the reasoned opinions the Member States have two months to submit their comments to the Commission, which can then decide to bring the case before **the European Court of Justice**.

Considering the rather common breach of the EU directives on energy markets the Commission has conducted in-depth studies in each country to analyse the efficiency of the legislative measures designed to open up the markets. The Commission will publish a **report containing the results of its analysis in the competition sector** at the beginning of 2006.

<http://europa.eu/rapid/pressReleasesAction.do?reference=P/06/1768>

AGRICULTURE

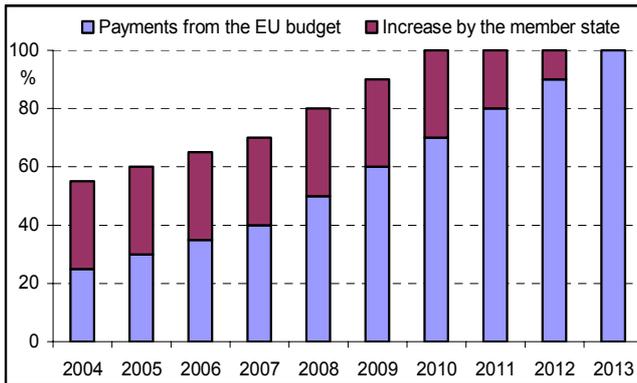
Direct payments for Czech farmers to grow to 70%

In 2007, it will be possible to **even up the direct payments to domestic farmers to the highest possible level** agreed in the Accession Treaty, i.e. 70% of the EU-15. The Chamber of Deputies approved the amount of CZK 1.9 billion to be provided for direct payments within the budget adoption process, states the CTK agency. Direct payments are expected to grow to approximately CZK 20 billion in total in 2007.

Czech farmers will receive direct payments from the EU budget this year to be paid as **single payments per hectare** in the amount of 40% compared to their colleagues in the EU-15. The **state may increase them by 30 percentage points**, i.e. up to a maximum of 70%. The subsidies were evened up to the maximum amount last year for the first time when they reached 65% of the

corresponding level in the EU-15. Czech farmers will receive 100% of direct payments from the EU in 2013.

Direct payments to agriculture



Source: Accession Treaty

ENLARGEMENT

European Union suspended accession talks with Turkey

The EU foreign ministers followed the Commission's recommendation and partially **suspended Turkey's accession talks** at the EU Council meeting.

The Commission gave its recommendation at the end of November to **suspend talks on eight of the 35 negotiation chapters** due to the fact that Turkey failed to implement the Ankara Protocol and open its ports and airports to ships and planes from Cyprus. Turkey offered to open one port and one airport to trade from Cyprus, but the Member States consider it insufficient. The proposed deadline for Turkey to open its ports and airports to trade from Cyprus was not adopted. Each of the eight negotiation chapters **may be re-opened at any time** if agreed upon by all Member States.

Thanks to this compromising solution the issue of Turkey did **not become the main topic of the December EU summit**.

The Council's decision will be **re-opened and discussed under the German presidency in January 2007**. It should also involve provisions focused on putting an end to the economic isolation of Northern Cyprus, which is controlled by Ankara.

http://www.eu2006.fi/news_and_documents/other_documents/vko50/en_GB/1165866274490/

ENVIRONMENT

Air transport to be included in the Emissions Trading Scheme?

The European Commission proposed a directive to **bring greenhouse gas emissions from civil flights into the EU Emissions Trading Scheme (EU ETS)**. Air transport is a dynamically developing industry and lack of CO2 emission regulation could be negative for the fight against global warming.

The proposed directive will cover emissions from **flights within the EU from 2011 and all flights to and from EU airports from 2012**. Both EU and foreign aircraft operators will be covered.

If airlines reduce their emissions, they will – similarly to the industrial companies already covered by the EU ETS – be able to sell surplus allowances and make a profit. If their emissions grow, they will need to buy additional allowances on the market. According to the Commission's assessment the price of a typical return flight within the EU will **rise by between EUR 1.8 and EUR 9** due to the system.

The overall amount of emission allowances will correspond to the **average emissions level in 2004-2006**. Some allowances will be auctioned by Member States but the overwhelming majority will be issued for free on the basis of harmonised efficiency criteria reflecting each operator's historical share of traffic. The directive will not apply to very light aircraft.

Air transport emissions form approximately 3% of the overall greenhouse gas emissions in the EU, but they are growing fast, i.e. by 87% since 1990. The Commission gives an example: someone flying from London to New York and back generates roughly the same level of emissions as the average person in the EU does by heating their home for a whole year.

<http://europa.eu/rapid/pressReleasesAction.do?reference=P/06/1862>

Vehicles to be covered by stricter standards on emissions

The current standards regulating motor vehicle emissions, the Euro 4 standards, which have applied since 2005, will be made more restrictive. MEPs adopted the new standard known as **Euro 5**, which requires manufacturers to make information on vehicle repairs easily available to dealers. Motor vehicle CO2 emissions are covered by a special directive.



A compromise proposed by Portugal gave chances to the EU-10 to gain access to the Schengen borderless zone by the end of 2007. For more information see our main topic. The more than 110 existing different driving licence models in the EU will be replaced by a single driving licence model from 2013. The approval procedure of the amended Television without Frontiers directive has commenced. It should allow more frequent advertisement broadcasting and product placement.

Euro 5 limits the NO_x emissions to 60 mg for petrol and 180 mg for diesel engines. The particulate matter (PM) will be reduced by 80% compared to Euro 4 from 25 mg to 5 mg. The CO₂ emission limit for petrol engines is 75 mg; the CO₂-NO_x emission limit for diesel engines is 230 mg. **Euro 5 will apply from 1 January 2009 for private cars** (M1 class). An exemption is proposed for vehicles designed for "special social needs" (ambulances, transport for disabled persons, etc.), which will be applicable **until 2012**.

The European Parliament proceeded even further and adopted a recommendation to introduce the even stricter **Euro 6 standard**. It is projected to become **effective in 2014** and to limit CO₂ emissions to 80 mg for diesel engines while the limit for petrol engines is to remain at the Euro 5 level. The limit value for CO₂-NO_x emissions is to be reduced by 27% to 170 mg compared to Euro 5. Tax relief applicable to vehicles pursuant to Euro 6 should be allowed already from introducing Euro 5.

The standard will become effective upon its **approval by Member States in the EU Council**.

http://www.europarl.europa.eu/news/expert/infopress_page/062-1361-345-12-50-910-20061207IPR01151-11-12-2006-2006-false/default_en.htm

Groundwater Protection Directive finally approved

The draft directive on groundwater protection against pollution was finally approved by the MEPs in a third reading without further alterations of the **joint draft presented by the Parliament and the EU Council**.

The new legislation stipulates criteria and procedures to assess the chemical condition of groundwater, to detect important and permanently progressive trends, the basis for trend alterations and measures to **prevent or limit inputs into groundwater of any pollutants**.

Key points of the Directive:

Nitrates – for the Groundwater Directive and Directive No. 91/676/EEC on nitrates, the provisions to reach quality standards applicable to nitrates will be similar to the ones in the EU Water Framework Directive and in the new Groundwater Directive.

Input of hazardous substances – Member States are obliged to adopt any required measures to prevent or limit inputs of hazardous substances into groundwater.

Compensation for agriculture – loss of income incurred by the agriculture sector within land management as a result of expenses related to groundwater protection can be

compensated pursuant to regulation 1698/2005/EC on support for rural development.

More restrictive national measures – without prejudice to anything already stipulated in the agreements, each Member State is entitled to adopt more restrictive national measures.

Review clause – the Commission will pursue a check on the compliance with the Groundwater Directive regularly every six years.

Regulations on groundwater protection against pollution form part of the Groundwater Directive No. 80/68/EEC and the Water Framework Directive No. 2000/60/EC. The Water Directive from 1980 will however be cancelled in 2013 because the new Groundwater Directive will cover the relevant area.

http://www.europarl.europa.eu/news/expert/infopress_page/064-1356-345-12-50-911-20061207IPR01146-11-12-2006-2006-false/default_en.htm

JUSTICE AND HOME AFFAIRS

We are to access the Schengen area by the end of 2007

The Schengen area without internal border controls will be enlarged by the EU-10 by the end of 2007 provided that the new Member States **fulfil the safety and technical prerequisites**. This was decided by the EU home affairs ministers at their December meeting.

Originally, the EU-10 was expected to access the Schengen area **by October 2007**. This was conditioned by launching the **new SIS II (Schengen Information System)**, i.e. an extensive database of wanted persons, stolen cars etc. According to the EU-15, technical problems prevented the information system from being launched on time and postponing it to 2008-2009 was considered. The EU-10 leaders, however, deemed this an excuse and believed the main cause was the **unwillingness of the EU-15 to enable the enlargement** of the Schengen area.

The blocked situation has been solved upon Portugal's proposal under which the **current SIS I is to be temporarily extended** to incorporate data and information from the EU-10. In parallel, works on launching the modern SIS II will continue.

The major obstacle to the enlargement of the Schengen area was thus removed. **Land and sea border controls will be lifted by 31 December 2007**, and air border controls by 29 March 2008 at the latest. The EU Justice and Home



Affairs Council will assess the readiness of the new Member States to access the system.

The Schengen area without internal borders currently covers **13 old Member States** (excluding the United Kingdom and Ireland) **and non-Member States Norway and Iceland**.

http://www.eu2006.fi/news_and_documents/press_releases/vko49/en_GB/177677/

EU to issue uniform driving licence

The more than **110 existing different models in the EU will be replaced by a single driving licence** model in a credit card format with limited validity as approved by the European Parliament. It will be obligatory to issue driving licences under the single model throughout the EU from 2013. Member States have to ensure that every licence in circulation is replaced within 26 years of entry of the directive into force.

Limited validity of the new licences of 10 to 15 years will enable updating of the provided data and photos and regular introduction of new safety features. Member States will retain the power to decide on re-examining, medical exams or eye-checks. Member States will be entitled to incorporate a microchip into the driving licences.

One of the objectives of the new directive is to put a **stop to "driving licence tourism"** of persons whose driving licence was seized and who seek to obtain one in another Member State. The Parliament stipulated that Member States must refuse to issue a driving licence to an applicant whose permit has been restricted, suspended or seized in another Member State.

With the aim of increasing road traffic safety, the principle of **progressive access for motorcycle driving licences** will apply – this means that drivers must accumulate experience on smaller motorcycles before moving up to larger engines. A new category, AM, is to be established for small motorcycles (mopeds) including at least one theory exam.

http://www.europarl.europa.eu/news/expert/infopress_page/062-1364-345-12-50-910-20061207IPR01154-11-12-2006-2006-false/default_en.htm

INFORMATION SOCIETY

Television without Frontiers Directive will be amended

The European Parliament adopted **new rules for TV advertisements**, including product placement. The

Parliament agreed to allow breaks for commercials in broadcasting every 30 minutes instead of the current 45 minutes. The Parliament also backed legalisation of product placement but only in certain programmes and in accordance with further limitations. The amended Television without Frontiers Directive shall apply to audiovisual media service providers and new means of broadcasting.

Member States will have an option to **adopt stricter** but duly justified rules to fight abuses or frauds by audiovisual media service providers based in other European countries.

The amended directive aims to update the rules from 1997. The new legislation should **reflect the development of current and new audiovisual media services**. It also aims at creating equal conditions for public and private media service providers and independent producers. And it aims to widen the scope of the directive to include new media.

The approval procedure of the **amended directive has only commenced**. The EU Council will vote on the draft in May. It is highly probable that the directive will return to the Parliament for a second reading. The final adoption of the directive is expected in 2008; then the Member States will have two years to transpose it into national law and the adopted measures should therefore come into force from 2010.



http://www.europarl.europa.eu/news/expert/infopress_page/039-1359-345-12-50-906-20061207IPR01149-11-12-2006-2006-false/default_cs.htm



Diary

The main achievement of the December summit between the EU and Russia was an agreement on reduction of fees stipulated for EU airlines for flights of their aircraft over Siberia. The European Central Bank increased the key interest rate by 25 basic points to 3.50%. The European Parliament approved Bulgarian and Romanian candidates for the posts of EU Commissioners. Following the January enlargement by Bulgaria and Romania the EU population grew by nearly 30 million to 492.8 million in total.

1 DECEMBER

Employment, Social Policy, Health and Consumer Affairs Council: http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/lsa/91942.pdf

"EMU Governance and euro changeover: Cyprus on the path to the adoption of the euro" - conference presentations: http://ec.europa.eu/economy_finance/events/2006/events_cyprus_301106_en.htm

EU-Russia Energy Dialogue - Seventh joint progress report: http://ec.europa.eu/energy/russia/joint_progress/index_en.htm

4 DECEMBER

Development cooperation - priority to the Millennium Goals: http://www.europarl.europa.eu/news/expert/infopress_page/028-336-334-11-48-903-20061127IPR00321-30-11-2006-2006-false/default_en.htm

EU and Russia agree on abolition of € 300 million Siberian overflight payments: http://ec.europa.eu/transport/air_portal/international/pillars/common_aviation_area/russia_en.htm

EuroPol: Organised crime against the elderly - a growing trend!: <http://www.europol.europa.eu/index.asp?page=news&news=pr061129.htm>

5 DECEMBER

Justice and Home Affairs Council meeting: http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/jha/91997.pdf

Competitiveness (Internal Market, Industry and Research) Council: http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/intm/91996.pdf

Culture: Council names Essen, Pécs and Istanbul "European Capital of Culture 2010" (see right menu): http://ec.europa.eu/culture/eac/ecocs/cap_en.html

6 DECEMBER

Stability and Growth Pact (SGP) and fiscal surveillance: http://ec.europa.eu/economy_finance/about/activities/sgp/scplist_en.htm

EU's new integrated programme for employment and social solidarity: http://ec.europa.eu/employment_social/emplweb/news/news_en.cfm?id=197

Bulletin of the European Union - September 2006: <http://europa.eu/bulletin/en/200609/somma00.htm>

State aid decisions taken by the Commission in the areas of transportation and coal: http://ec.europa.eu/dgs/energy_transport/state_aid/decisions/dg_tren_en.htm

7 DECEMBER

Utilisation of budget appropriations (11/2006): http://ec.europa.eu/budget/execution/utilisation_2006_en.htm

Information on social security for citizens moving around EU: http://ec.europa.eu/employment_social/emplweb/news/news_en.cfm?id=196

Consumer Policy Strategy and Programmes - including 2006 Work Programme (amended): http://ec.europa.eu/consumers/overview/cons_policy/index_en.htm#programmes

8 DECEMBER

Second meeting of the Permanent Partnership Council on Energy between the EU and Russia: http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/er/92064.pdf

European Central Bank: Monetary policy decisions: <http://www.ecb.eu/press/pr/date/2006/html/pr061207.cs.html>

11 DECEMBER

Council conclusions on UN Reform: http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/gena/92089.pdf

Cooperation between employers and trade unions has increasing role in European workplace: http://ec.europa.eu/employment_social/emplweb/news/news_en.cfm?id=198

12 DECEMBER

MEPs approve the Bulgarian and Romanian Commissioners-designate: http://www.europarl.europa.eu/news/expert/infopress_page/008-1357-345-12-50-901-20061207IPR01147-11-12-2006-2006-false/default_en.htm

External Relations Council meeting: http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/gena/92123.pdf

General Affairs Council meeting: http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/gena/92122.pdf

Transport, Telecommunications and Energy Council meeting: http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/trans/92120.pdf

Projects proposed for Community funding in the area of Consumer Policy in 2006: http://ec.europa.eu/consumers/tenders/information/grants/approved_en.htm



13 DECEMBER

Aliaksandr Milinkevich - 2006 Sakharov Prize Winner for Freedom of Thought:

http://www.europarl.europa.eu/news/expert/infopress_page/015-1358-345-12-50-902-20061207IPR01148-11-12-2006-2006-true/default_cs.htm

26th meeting of the EEA Council meeting:

http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/er/92131.pdf

14 DECEMBER

EU commissioner McCreevy: European Progress on Financial Integration:

http://ec.europa.eu/unitedkingdom/press/media1_en.htm

Celebrating Bulgaria's and Romania's accession to the EU:

http://ec.europa.eu/enlargement/press_corner/welcome_proq_en.htm

15 DECEMBER

European experts point to diet, allergy link; call for wider research:

http://ec.europa.eu/research/infocentre/article_en.cfm?id=research/headlines/news/article_06_12_14_en.html&item=&artid=2953

18 DECEMBER

Services directive - ready to be put in service!:

http://www.europarl.europa.eu/news/public/story_page/056-1568-345-12-50-909-20061215STO01567-2006-11-12-2006/default_en.htm

Brussels European Council - Presidency Conclusions:

http://www.consilium.europa.eu/cms3_applications/Applications/newsRoom/related.asp?BID=76&GRP=11225&LANG=1&cmsId=339

Council approves EU research programmes for 2007-2013:

http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/misc/92236.pdf

Evaluation of the Economic Research Activities of DG for Economic and Financial Affairs:

http://ec.europa.eu/economy_finance/about/evaluation/evaluation_research_en.htm

Working documents on evaluation for Cohesion Policy:

http://ec.europa.eu/regional_policy/sources/docoffic/working/sf2000_en.htm

19 DECEMBER

Environment Council meeting:

http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/envir/92249.pdf

Statistical pocketbook "EU Energy & Transport in Figures:

http://ec.europa.eu/dgs/energy_transport/figures/pocketbook/2006_en.htm

The new EU of 27 and euro area of 13 – basic statistics:

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_12/1-19122006-EN-AP.PDF

| | Population in mil. ¹⁾ | GDP - composition by sector in % ²⁾ | | |
|----------|-------------------------------------|--|----------|----------|
| | | agriculture | industry | services |
| EU-27 | 492.8 | 2.0 | 26.3 | 71.6 |
| Bulgaria | 7.7 | 9.3 | 30.7 | 60.7 |
| Romania | 21.6 | 10.1 | 35.0 | 54.9 |
| EU-25 | 463.5 | 1.9 | 26.2 | 71.9 |

Source: Eurostat, 1) as of 1/1/2006

20 DECEMBER

Competition for national railways as from 2017:

http://www.europarl.europa.eu/news/expert/infopress_page/062-1615-352-12-51-910-20061218IPR01607-18-12-2006-2006-false/default_en.htm

Council adopted a European fund to face the consequences of globalisation:

http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/misc/92269.pdf

Agriculture and Fisheries Council meeting:

http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/agricult/92275.pdf

Environment Council meeting:

http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/envir/92249.pdf

21 DECEMBER

MEPs back action against cat and dog fur trade:

http://www.europarl.europa.eu/news/public/story_page/063-1560-345-12-50-911-20061214STO01559-2006-11-12-2006/default_cs.htm

Specific Annual Reports of the EU Agencies for the financial year 2005:

http://www.eca.europa.eu/audit_reports/specific_reports/specific_reports_index_cs.htm

22 DECEMBER

Second meeting of the Accession Conference at deputy level with Croatia:

http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/er/92286.pdf



Information service

The German Chancellor, Angela Merkel, will present the German presidency's priorities at the plenary meeting of the European Parliament in mid January. An informal meeting of the EU ministers of justice and home affairs will deal with the EU home affairs policy after 2010. An interesting public consultation focuses on the option of attaching bank accounts on a cross-border basis with the aim of facilitating enforcement of judicial decisions across the EU.

Meeting of the key EU institutions

| | |
|---|---------------------------|
| 8.1.2007 | Brussels, Belgium |
| - Agriculture and Fisheries Council | |
| 14.-16.1.2007 | Dresden, Germany |
| - Informal Meeting of Ministers for Justice and Home Affairs | |
| 17.1.2007 | Strasbourg, France |
| - EP Plenary – Presentation of German Presidency Programme | |
| 18.-20.1.2007 | Berlin, Germany |
| - Informal Meeting of Employment and Social Affairs Ministers | |
| 22.-23.1.2007 | Brussels, Belgium |
| - General Affairs and External Relations Council | |
| 29.1.2007 | Brussels, Belgium |
| - Agriculture and Fisheries Council | |
| 30.1.2007 | Brussels, Belgium |
| - Economic and Financial Affairs Council (ECOFIN) | |
| 31.1.2007 | Brussels, Belgium |
| - EP Plenary | |

Public consultation on EU legislation

| Topic of the consultation | Organiser | Deadline |
|--|-----------|-----------|
| Better Road Safety Enforcement in the European Union | DG TREN | 19.1.2007 |
| Consultation regarding Community action on health services | DG SANCO | 31.1.2007 |
| Patient mobility in EU | DG SANCO | 31.1.2007 |
| Bottlenecks and their solutions in Freight Transport Logistics | DG TREN | 15.2.2007 |
| European Credit system for Vocational Education and Training | DG EAC | 30.3.2007 |
| The enforcement of judgements: The Attachment of Bank Accounts | DG JHA | 31.3.2007 |
| Green Paper on Labour Law | DG EMPL | 31.3.2007 |



The Czech Republic will access the Schengen system at the end of 2007; travelling within the EU will become easier and there will be no border controls for Czech citizens. Three months later, in March 2008, border controls are to be lifted for flights within the Schengen system at international airports in the Czech Republic. Opening of the Schengen system for the Czech Republic will be symbolic as well as practical and will be enabled upon a decision of the EU Council adopted at its December meeting.

THE CZECH REPUBLIC AND OTHER NEW EU MEMBER STATES HEADING FOR THE SCHENGEN AREA

The Czech Republic will access the Schengen system by the end of 2007; it will **become significantly easier for Czech citizens to travel across the European Union** since border controls are to be lifted when travelling abroad. Three months later, in March 2008, border controls at international airports in the Czech Republic will also be lifted for travelling to other countries included in the Schengen system.

The opening of the Schengen system for the Czech Republic, among others, will **be symbolic as well as practical** and will be enabled upon a decision of the EU Council adopted at its meeting at the beginning of December 2006.

In 2004, when the new Member States acceded to the EU, the opening of the Schengen area **was scheduled to happen within three years following their accession**. At first it seemed that the promise would be kept without problems, but some of the EU-15 Member States as well as the European Commission warned with growing intensity in 2006 about the need to postpone the enlargement of the Schengen area **for the period after 2008**; the reason allegedly was the problems related to establishing and using the SIS, one of the essential building blocks of the whole arrangement.

Although we consider the December decision of the EU Council good news for the new Member States, the Schengen Agreement should be re-considered and should be subject to an explanatory analysis.

Schengen Agreement and Schengen Treaty: background of the Schengen process

The Schengen Agreement was signed in the **town of Schengen in Luxembourg** on 14 June 1985 between the governments of some EC Member States but it remained outside the EC legislative and institutional framework. The Agreement was signed by **Belgium, France, Luxembourg, Germany and the Netherlands** and they agreed to remove border controls at their common borders and to introduce freedom of movement for all citizens of the Member States that were the signatories of the Schengen Agreement, of other Member States or third parties.

The short-term objective of the Schengen Agreement was not to entirely lift the internal border controls within the Member States; the aim was just to limit such controls. From

the long-term point of view, it still anticipates **gradual lifting of controls** and transfer of controls to the external borders of the system, harmonization of visa and immigration policy and further indirect tax consolidation.

The Schengen Agreement was however just a general framework that gradually incorporated specific detailed arrangements. It came into force after its ratification by all contracting parties, which **took another 10 years** (see below).

The Schengen Agreement was gradually incorporated in the EC structures during 1987 when the **Single European Act** also came into force. It introduced a coordinated effort to establish the Single Internal Market as a territory without internal borders in pre-defined areas where the four economic freedoms principle would be complied with. And this may be the first overlap with the features of the Schengen system (e.g. minimization, limitation and lifting of border controls).

The Schengen system objectives are as follows:

- to **facilitate international movement of citizens** upon lifting EU internal border controls (to make citizens' life easier, increase mobility and remove certain obstacles in business relations among the contracting parties);
- to **minimize risk factors** related to the lifting of internal border controls (such risk factors include facilitation of business transactions with commodities within the "grey" or "black" economy, illegal migration, easier movement of criminals throughout the Schengen area);
- to **avoid escalation of structural conflicts** within the then EC; at that time – the end of the 80s and the beginning of 90s – not all Member States were interested in lifting border controls; therefore, the whole process started beyond the EC official framework and it was consequently incorporated into the EU structures.

The Convention implementing the Schengen Agreement signed on 19 June 1990 defines the specific form of the freedom of movement implementation among the signatory countries. The implementing convention shows how broad the Schengen agenda gradually became, as it regulates the following:

- lifting the internal border controls;



Main topic

- visa, asylum and residence policy;
- police cooperation among the signatory states;
- adjustment and convergence of regulations applicable to possession of weapons and harmonisation of criminal legislation;
- establishment of the Schengen Information System;
- easier international goods transportation.

The Convention implementing the Schengen Agreement established an institutional framework – **the Executive Committee** – and defined the relation between the Schengen process and the European integration process regulated by the EC institutions and instruments stating that in the case of a conflict between the Schengen process standards and the EC law, the EC legal instrument will prevail. Gradual incorporation in the official EC processes was anticipated also in the original deadline for the Schengen system, i.e. 1 January 1993 when the Single Internal Market was expected to be (and was) launched. The deadline was not however met for the Schengen process and the **system was launched more than two years later**, on 26 March 1995.

Meanwhile, other countries joined the original five countries that initiated the Schengen process, as **Italy** signed the Agreement in 1990, **Spain** and **Portugal** in 1991, **Greece** in 1992, **Austria** in 1995 and **Denmark, Sweden** and **Finland** one year later. Of the EU-15, the **United Kingdom** and **Ireland** remain outside the Schengen area due to their geographic position, which they claim requires different border protection than mainland Europe. Furthermore, it is not obligatory in the United Kingdom to hold an ID card. **The UK and Ireland are not active even in the process of incorporating the Schengen system** into the EU official institutional structures.

It should, however, be noted that the UK and Ireland apply the Schengen rules on a bilateral basis: there are no border controls between the two countries as opposed to border controls applicable to countries in mainland Europe. The position of Denmark is rather specific in terms of certain EU integration areas, including the Schengen system based cooperation: **Denmark is a signatory to the Schengen acquis** but it reserved the right to implement or refuse any new decision adopted under the acquis.

Special characteristics apply to **all five Scandinavian countries** within their **Nordic Passport Union** established in the 50s under which their citizens' passports are not checked at the borders between the five countries. Therefore, when the Scandinavian Member States (Denmark, Finland and Sweden) acceded to the Schengen area, the question was how to keep the Nordic Passport

Union in relation to Norway and Iceland. The solution was that the two countries joined the Schengen rules (see below).

But even the UK and Ireland have not been ruled out from the Schengen process. According to **the protocol to the Treaty of Amsterdam** (see below) they may participate in some or all provisions of the Schengen acquis provided it is unanimously approved in the EU Council by all 13 states presently included in the Schengen system and by a representative of the relevant country, i.e. Ireland and/or the United Kingdom.

In 1999, for instance, the UK applied **to participate in certain areas of the Schengen system under this principle** (e.g. police and judicial cooperation in criminal matters, the fight against drugs or issues of the SIS). Ireland used the same option in 2000 and 2001 (namely in the field of implementation and functioning of the SIS).

On the other hand: two non-Member States – **Norway** and **Iceland** – voluntarily joined the Convention to implement the Schengen Agreement in May 1999.

The Schengen Agreement and the Schengen Convention plus the relevant adopted rules and standards and consequential agreements form the Schengen acquis. The end of the 90s was significant as it was the period when the Treaty of Amsterdam was created and adopted in 1997 and it came into effect in May 1999. The benefits of the Treaty of Amsterdam in terms of the Schengen area are in particular:

- **introducing flexibility and closer cooperation**; this enables the majority of Member States to proceed with their mutual integration in a faster and more intense manner than the remaining Member States that are not allowed to prevent such faster and more intense integration;
- **the issues of visa, asylum and immigration policy** were so far included in the third EU pillar; based on the Treaty of Amsterdam, they **are moved to the first multinational pillar**;
- the Treaty of Amsterdam **contains the Schengen protocol** anticipating full incorporation of the Schengen system into the EU structures and institutions.

Schengen acquis

The legal base for incorporation of the Schengen acquis provides for its division between:

- **the first EU pillar** (the Treaty establishing the EC – visa, asylum and immigration policy and matters related to free movement of persons) and

- **the third pillar** (police and judicial cooperation in criminal matters).

Institutions were integrated at the same time. The powers of the Schengen Executive Committee were passed to the EU Council and the Schengen Secretariat agenda is controlled by the General **Secretariat of the Council**.

The Treaty of Amsterdam also stipulates that the candidate countries are obliged to accept the Schengen acquis and the regulations adopted by the relevant institutions under the acquis in their entirety. The EU Council decides which of the candidates or new Member States are to become parts of the Schengen system upon a very thorough assessment.

Key parts of Schengen system

1. Schengen Agreement from 14 June 1985
2. Convention from 19 June 1990 implementing the Schengen Agreement of 14 June 1985 between the governments of the States of the Benelux economic union, the Federal Republic of Germany and the French Republic on the gradual abolition of checks at their common borders (art. 2, 3, 4, 5, 6, 7)
3. Protocols and agreements on the accession of Italy, Spain and Portugal, Greece, Austria and Denmark, Finland and Sweden
4. Joint manual of 24 July 2002 (No. 10804/02), particularly part II, par. 3.3 "Controls in international civil transport"
5. The decisions and declarations adopted by the Executive Committee and implementing acts issued by bodies authorized by the Executive Committee
6. List of recommendations for applying the Schengen acquis and best examples.

Content

It is clear that the concept of lifting border controls is a very important step within the long-term **process of removing various non-essential barriers** within the EU and it represents an obvious amendment or lately even an integrated part of processes implemented in the framework of the Single Internal Market. It is, however, necessary not to underestimate the other side of the same coin: more open space may **encourage transactions and activities directly or indirectly in conflict with the law**. The Schengen system must therefore incorporate a mechanism to combat such activities, cooperation of Member States in implementation of such mechanism, use of an efficient information system and well managed educational,

explanatory and informative functions towards the general public.

The Schengen acquis comprises in particular the following:

1. Tightening controls at the external borders

Due to the lifting of regular and permanent border controls, the external borders of the Schengen area became the last barrier preventing the entry of unwanted persons, commodities or activities to the area. Financial, technical and human resources not used at the internal borders are thus transferred to the external borders.

This is a service for the benefit of all countries participating in the Schengen system including countries with only internal borders. Therefore, countries with external borders receive financial and other compensation for being in "the front line".

2. Temporary renewal of internal border controls

The lifting of internal border controls is not absolute. For instance, police or customs authorities may randomly check suspicious vehicles or pursue standard border controls if need be.

This measure was applied during the European and World Football Championships in Belgium and the Netherlands in 2000 and Germany in 2006. The controls were aimed at preventing certain persons who had already caused disturbances or committed crimes during similar events in the past. Controls are applied for short periods of time and in limited territories when chasing escaped prisoners.

3. Adjustments to the position and arrangement of international airports

When travelling within the Schengen area, travellers should not undergo any other type of control than controls ensuring flight safety. Considering that international airports accommodate internal as well as external flights, the specific procedure and organisation is far more complicated than at land borders. Police and customs checks are kept to the full extent for external flights. Passengers travelling internally must not be mixed with external passengers.

4. Visa and asylum policy principles

The main visa and asylum policy principles remain within the competence of Member States that are to decide whom they will allow to enter their territory. Since the internal border controls have been lifted, if any person obtains a visa from a Schengen Treaty signatory country it is sufficient for



Main topic

free movement within the other states. There are the following two solutions:

- a) **complete harmonisation** of the essential visa and asylum policy principles containing a common procedure for issuing visas and harmonizing the countries,
- b) **selection of harmonisation rules** to include those that would provide entitlement to the veto right regarding issuance of a visa within the Schengen area (the Schengen area would be forbidden for any person that would be unwanted in any Member State).

5. Police cross-border cooperation

An open space without border controls is “favourable” for criminals who intend to cross the borders, if the police competence is limited by such borders. Therefore, it is necessary to coordinate the police activities throughout the Member States. Consistent sharing of information is particularly important.

A new feature in the Schengen system is limited power of the police to follow suspects to the territory of another state. Detention of suspects or their transfer over the borders is even more complicated because such powers are primarily delegated to the police in the country where the suspect was caught.

6. Judicial cooperation among Member States

Cooperation and sharing of information among police forces is directly linked to cooperation of judicial bodies. The majority of the powers stay with the judicial bodies of the relevant Member State and cooperation involves additional activities such as:

- simpler procedure for **servicing of summons** and other documents between any two Member States,
- **accepting judicial decisions** awarded by foreign judicial bodies,
- **prosecution of illegal activities**, exceeding the limits of a Member State (e.g. dealing with narcotic substances, drugs etc.).

There are several instruments available for judicial cooperation, such as joint action, joint attitude and convention. The Treaty of Amsterdam defined the key objective regarding justice and home affairs: to establish a space of freedom, safety and law. The Treaty of Nice requires qualified majority voting in certain areas of justice and home affairs included in the Community framework (the first EU pillar). Matters covered by the third pillar still require unanimous voting.

7. Schengen Information System (SIS)

SIS is a large database of information comprising the minimum information quota required to ensure the SIS objectives. SIS is formed by the technical support section (CSIS) and national sections (NSIS). The SIS database includes:

- **personal data** – e.g. data on persons prohibited from residence in any Member State, on missing persons, on suspects prosecuted for serious crimes,
- **data on objects** – e.g. a list of stolen vehicles and trailers, but also weapons and other commodities or cash.

SIS has integrated systems previously created and managed by individual Member States; the sharing of information used to be rather random. The enlargement of the Schengen area by new Member States acceding to the EU in 2004 is subject to creating a new modern information system – SIS II – that is to replace the current one. SIS II is needed primarily in order to extend the information capacity and the database by information from the EU-10.





A brief description of Latvia in the present summary is the final sequel to describing the region of the three Baltic States. To avoid stereotypes in perceiving the Baltic States, let's start listing their characteristics in a simplified manner by stating their favourite sports.

| LATVIA | |
|--------------------------------|---|
| Government type/chief of state | republic / president Vaira Vike-Freiberga |
| Area (share of EU) | 64 589 km2 (1.62%) |
| Population (share of EU) | 2 294 600 (0.5%) |
| Age structure | 0-14 years: 14.8%, 15-64 years: 68.6%, over 65 years: 16.6% |
| Total GDP (share of EU) | 12.8 EUR bn (0.12%) |
| GDP per capita in PPS | 48.0% of EU-25 average |
| GDP - composition by sector | agriculture: 4.1%, industry and constr.: 22.1%, services: 73.8% |
| Average inflation | 6.9% |
| Average unemployment | 8.8% |
| GDP growth | 10.2% |
| General govern. balance | +0.1% of GDP |
| General government debt | 12.1% of GDP |
| Number of NUTS2 | 1 NUTS2, Latvia 48.0% |

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

Even though athletics are deemed the favourite and most successful sports genre in all those countries, Estonia favours skiing, Lithuania basketball and Latvia – to be introduced now – is known worldwide for its contribution to ice hockey with Arturs Irbe and Sandis Ozolinsh undoubtedly included among the leading hockey figures at least in the 90s. Latvia was successful in organizing the recent hockey championship and Latvian fans in purple costumes guarantee frenetic yet polite cheering.

The socio-economic description of Latvia will not significantly differ from the descriptions already used for the other Baltic countries. Latvia also started its struggle for autonomy and an independent economic system in 1991 in relation to the events following the collapse of the Soviet Union. Also the first years of Latvian independence brought a very fast drop in economic activity caused by difficult initial stages of adopting the market economy and strong reduction of economic activities with the former Soviet Union territories. This difficult period witnessed the real GDP drop to roughly half of its previous value.

Luckily, the Latvian government also showed considerable fighting power and Latvia followed the specific "Baltic" way of compact reform of the economy with a special emphasis on fiscal discipline, liberalisation of commercial and business parameters and privatisation. Later, following the decisive steps leading to economic reforms, Latvia focused on other aspects of quality, such as the institutional and legal framework reforms and introduction of an efficient social network.

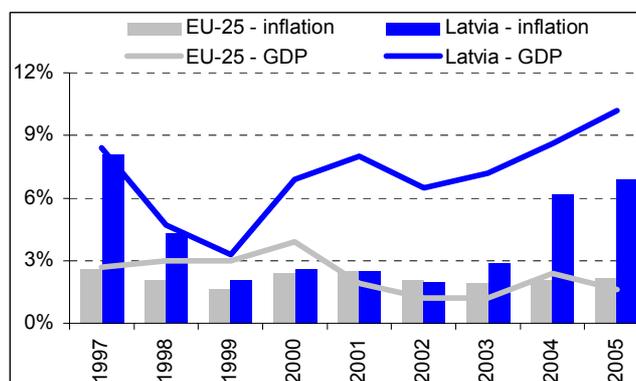
Latvia ranks among the poorer EU countries (though its standing is now relatively better due to the accession of even poorer Romania and Bulgaria) with its GDP per capita of less than 50% of the EU average, but it is the Member State with the fastest growing economy – the Latvian economy grew by more than 10% in 2005 and the average growth in the last five years was around 8% every year. Regardless of such exceptional economic growth, Latvia had a rather high unemployment rate of nearly 9% in 2005; and nearly 20% of the Latvian population lives under the poverty line according to comparative statistics. These were perhaps the reasons why a considerable part of the Latvian labour force left for other EU territories, which consequently caused a partial lack of qualified workers in the relevant labour market.



Also Latvia applies the policy of fixation of its currency (lat), in relation to SDR until 2004 and then in relation to the euro. The currency fixation creates considerable inflation tension, which is likely (similarly to Lithuania and Estonia) to postpone its accession to the Euro zone so far scheduled for the beginning of 2008; it seems more probable now that this will happen at least two years later. Another risk to the Latvian economy is the high rate of deficit of the current account of the balance of payments, which reached 12.4% of the GDP in 2005.

Regardless of such risks, development of the Latvian economy may, perhaps due to the fast pace of economic activities, be deemed positive and Latvia is rather successful in preparing its real convergence scenario, which results in fast catching up with the average level of the EU economic prosperity.

Inflation and GDP



Source: Eurostat



Statistical window

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

| in % | GDP growth y-on-y | | | Current account to GDP* | | | Unemployment rate | | | Inflation y-on-y average | | |
|--------------|-------------------|------|------|-------------------------|-------|-------|-------------------|-------|------|--------------------------|-------|------|
| | 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 | 8.2 | 8.2 | 1.9 | 1.7 | 2.0 |
| CR | 3.6 | 4.2 | 6.1 | -6.5 | -6.3 | -2.7 | 7.1 | 6.9 | 6.8 | 2.2 | 0.8 | 1.0 |
| Denmark | 0.7 | 1.9 | 3.0 | 3.2 | 2.3 | 2.9 | 3.5 | 3.3 | n/a | 1.5 | 1.4 | 1.8 |
| Estonia | 7.1 | 8.1 | 10.5 | -11.5 | -12.5 | -11.1 | 5.5 | 4.8 | 4.5 | 3.8 | 3.8 | 4.7 |
| Finland | 1.8 | 3.5 | 2.9 | 5.9 | 7.6 | 4.6 | 7.8 | 7.7 | 7.5 | 0.8 | 0.9 | 1.3 |
| France | 1.1 | 2.3 | 1.2 | 0.2 | -0.6 | -2.1 | 8.8 | 8.7 | 8.6 | 1.5 | 1.2 | 1.6 |
| Ireland | 4.3 | 4.3 | 5.5 | 0.0 | -1.0 | -3.1 | 4.2 | 4.2 | 4.2 | 2.2 | 2.2 | 2.4 |
| Italy | 0.0 | 1.1 | 0.0 | -0.9 | -0.5 | -1.1 | n/a | n/a | n/a | 2.4 | 1.9 | 2.0 |
| Cyprus | 1.9 | 3.9 | 3.8 | -0.9 | -5.3 | -5.7 | 5.1 | 5.1 | 5.0 | 2.2 | 1.7 | 1.3 |
| Lithuania | 10.3 | 7.3 | 7.6 | -6.8 | -7.9 | -6.9 | 6.2 | 5.7 | 5.6 | 3.3 | 3.7 | 4.4 |
| Latvia | 7.2 | 8.6 | 10.2 | -8.0 | -12.9 | -12.5 | 6.5 | 6.3 | 6.2 | 5.9 | 5.6 | 6.3 |
| Luxembourg | 1.3 | 3.6 | 4.0 | 6.4 | 10.6 | 9.7 | 4.8 | 4.8 | 4.8 | 2.0 | 0.6 | 1.8 |
| Hungary | 4.1 | 4.9 | 4.2 | -7.9 | -8.4 | -6.8 | 7.6 | 7.6 | 7.7 | 5.9 | 6.3 | 6.4 |
| Malta | -2.4 | 0.0 | 2.2 | -5.0 | -7.5 | -11.0 | 7.5 | 7.4 | 7.4 | 3.1 | 1.7 | 0.9 |
| Germany | -0.2 | 1.2 | 0.9 | 2.0 | 3.9 | 4.2 | 8.5 | 8.1 | 8.0 | 1.0 | 1.1 | 1.5 |
| Netherlands | 0.3 | 2.0 | 1.5 | 6.1 | 8.6 | 7.1 | 3.8 | 3.8 | 3.8 | 1.5 | 1.3 | 1.6 |
| Poland | 3.8 | 5.3 | 3.2 | -2.1 | -4.2 | -2.2 | 13.9 | 13.8 | 13.6 | 1.4 | 1.1 | 1.3 |
| Portugal | -1.1 | 1.2 | 0.4 | -6.5 | -7.8 | -9.5 | 7.2 | 7.1 | 7.1 | 3.0 | 2.6 | n/a |
| Austria | 1.1 | 2.4 | 2.0 | 1.7 | 2.1 | 2.9 | 4.7 | 4.6 | 4.6 | 1.3 | 1.3 | 1.6 |
| Greece | 4.8 | 4.7 | 3.7 | -10.0 | -9.5 | -9.2 | 8.7 | n/a | n/a | 3.1 | 3.1 | 3.2 |
| Slovakia | 4.2 | 5.4 | 6.0 | -2.1 | -2.5 | -7.9 | 12.8 | 12.6 | 12.3 | 4.5 | 3.1 | 3.7 |
| Slovenia | 2.7 | 4.4 | 4.0 | -0.8 | -2.6 | -2.0 | 5.7 | 5.6 | 5.6 | 2.5 | 1.5 | 2.4 |
| Spain | 3.0 | 3.2 | 3.5 | -4.0 | -5.9 | -7.5 | 8.2 | 8.4 | 8.4 | 2.9 | 2.6 | 2.7 |
| Sweden | 1.7 | 3.7 | 2.7 | 6.6 | 6.6 | 5.9 | n/a | n/a | n/a | 1.2 | 1.2 | 1.5 |
| UK | 2.7 | 3.3 | 1.9 | -1.3 | -1.6 | -2.2 | 5.5 | n/a | n/a | 2.4 | 2.4 | 2.7 |
| EU-25 | 1.3 | 2.4 | 1.7 | 0.2 | 0.3 | -0.4 | 7.8 | 7.8 | 7.7 | 1.9 | 1.8 | 2.1 |

| in % | Public budget to GDP* | | | Public debt to GDP | | | GDP per capita to Ø EU | | | Price level to Ø EU | | |
|--------------|-----------------------|------|------|--------------------|-------|-------|------------------------|-------|-------|---------------------|-------|-------|
| | 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

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