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Dear readers,

In terms of European integration, this October represented a really overflowing well of events that are quite important both for the development of the Union as such and also for us.

First of all, a significant breakthrough occurred in the form of an institutional reform of the Union when member states reached an agreement over the text of the Reform Treaty, newly called the Treaty of Lisbon, which should become a more practical substitute for the as yet failing project of the Constitution for Europe. The Portuguese presidency has performed lots of work in this regard. The forthcoming period of time will be under the sign of ratification of this considerably compromised document, whose main purpose is for the EU of 27 members not to lose its decision-making capability, with a realistic view of future enlargement.

The Common Internal Market barriers slowly continue to open, this time once more in the area of free movement of workers. Luxembourg became the next EU-15 country to announce that in future it will treat workers from the majority of 2004 newcomers in the same manner as its own workers or workers from other EU countries.

Liberalization of space on the labour market for the Czech Republic and other 2004 newcomers corresponds in very concrete terms with the completion of final preparations for their joining the Schengen area. Free movement of workers followed by cancellation of regular border checks can be perceived not only symbolically but also practically as proof of a gradual removal of differences between newcomers and those who joined the integration process earlier.

Open Days – the largest event dedicated to applications of EU regional policy gradually developed into an event of gigantic dimensions. In the light of the Open Days it may be appropriate to mention the fact that seven prepared Regional Operational Programmes are on the verge of their final sanctification.

From our perspective, preparation works related to our presidency of the Council in the first half of 2009 advanced significantly; in the media, the most visible step in this context was the opening of the Český dům in Brussels.

Activities of our new co-ordinator for implementation of the Euro currency in the Czech Republic found expression in a significantly increased intensity of debates on this topic.

It can be assumed that October events were very rich and substantial, although many of them will continue in the following months. So, the European integration activities are an endless show with many important appearances that are yet to happen at the close of the year. I wish you pleasant moments in their company over the pages of our Měsíčník EU aktualit.

Petr Zahradník

More smoothly than expected prime ministers of the EU member states' governments agreed on the wording of the new Lisbon Treaty. The treaty should facilitate unavoidable institutional changes of the EU and make its operation more efficient. The Council of Ministers of Finance recommended that the Czech government bring the deficit of public budgets down below the critical 3% of GDP threshold as early as next year and not only in 2009 as our Convergence Programme envisages.

POLITICS

EU will have the Treaty of Lisbon

Leading representatives of the member states reached an agreement regarding the final version of the new Treaty of Lisbon, formerly called the Reform Treaty, at an informal EU summit. The new treaty will bring EU institutional changes **enabling the Union to function more efficiently** and will accommodate its institutions to the reality of 27 member states. Unlike the draft Euroconstitution refused by French and Dutch voters in 2005 referenda, it does not replace EU foundation treaties – it only supplements them.

The treaty was **negotiated almost surprisingly quickly**. Just before the summit was opened, Mr. David Milliband, British Foreign Secretary said that the United Kingdom would support the treaty. Poland in turn succeeded with its requirement that a minority of member states had a possibility to block the Council's decisions for a certain time.. Similarly, Italy finally won one extra deputy mandate as compared with the European Parliament suggestion, i.e. altogether 73 mandates. Austria maintained its right of quotas for foreign students attending local universities, while the Commission agreed not to take any legal measures against Austria during the next five years. Bulgaria was granted the possibility to write the name of the common European currency, the "euro", in the Bulgarian alphabet "evro".

Another important change brought in by the Treaty of Lisbon is the post of the EU Council chairperson. He/she will chair summits, participate in their preparation and represent the EU on the international scene. This arrangement will replace the principle of a rotating presidency, which is to be preserved in the Council of Ministers. The chairperson will be elected by the qualified majority for two and a half years with one re-election possible.

What is also going to be strengthened based on the Treaty of Lisbon is the position of the EU High Representative for the Common Foreign and Safety Policy (CFSP). Newly, the CFSP representative should, among other things, **chair sessions of the Council for Foreign Affairs**, where foreign ministers of the EU member states will meet.

The Treaty of Lisbon will be officially signed at the EU summit in December giving the member states the whole **following year for its ratification**. The Treaty of Lisbon should come into effect prior to the European elections in June 2009.

The primary law of the European Union based on the several times updated Treaty on the EC and Treaty on the EU is certainly not prepared for 27 and more member states. Hence, **we welcome the conclusion of the Treaty of Lisbon** as enabling necessary institutional reforms and enhancing the effectiveness of decision-making in the EU. Regrettably, the method of "patching up" of existing treaties is still used instead of adoption of a single complex treaty.

http://www.eu2007.pt/UE/vEN/Noticias_Documentos/20071018noticiasocrates2.htm

European Parliament supported a proposal of future distribution of seats

MEPs adopted the proposal of distribution of seats in the European Parliament after the 2009 elections. At the same time, they called for a **revision of this distribution for the following 2014 – 2019** term so that it would respect current demographic changes.

Proposed distribution of MEPs among member states

Country	2004-2009	2009-2014	change
Germany	99	96	-3
France	78	74	-4
UK	78	73	-5
Italy	78	72	-6
Spain	54	54	0
Poland	54	51	-3
Romania	35	33	-2
Netherlands	27	26	-1
Greece	24	22	-2
Portugal	24	22	-2
Belgium	24	22	-2
CR	**24**	**22**	**-2**
Hungary	24	22	-2
Sweden	19	20	1
Austria	18	19	1
Bulgaria	18	18	0
Denmark	14	13	-1
Slovakia	14	13	-1
Finland	14	13	-1
Ireland	13	12	-1
Lithuania	13	12	-1
Latvia	9	9	0
Slovenia	7	8	1
Estonia	6	6	0
Cyprus	6	6	0
Luxembourg	6	6	0
Malta	5	6	1
EU-27	**785**	**750**	**-35**

The proposed distribution corresponds with rules stipulated at the European Council's session in June 2007, which

asked the European Parliament to submit a relevant proposal by October. The European Council specified that the **EP is limited to a total of 750 seats** and no member state should have more than 96 and less than 6 seats. It also stated that the distribution should follow the "digressive proportionality" principle. That means that member states with the highest numbers of inhabitants agree to accept fewer seats than they would receive if the population size were taken into account, so as to allow for better representation of less-densely populated states.

The EP decided not to consider future Member States, such as Croatia, when allocating seats so as to avoid pre-judging future enlargements. Nevertheless, it proposed that future accessions may be accompanied by a **temporary increase over and above the 750-seat ceiling**, as was done for Bulgaria and Romania.

According to the Treaty of Lisbon, a new composition of the EP will be **unanimously decided on by the European Council** based on a proposal and with consent of the Parliament. MEPs call for the member states to adopt the proposal immediately after the new treaty comes into effect.

http://www.europarl.europa.eu/news/expert/infopress_page/008-11449-283-10-41-901-20071008IPR11353-10-10-2007-2007-false/default_en.htm

ECONOMY AND EURO

The Council: CR should bring its deficit below the 3% of GDP in the next year

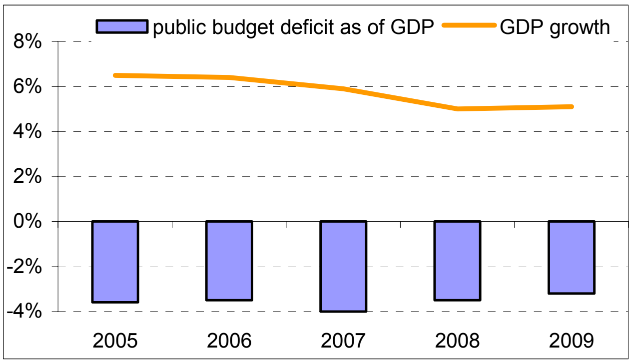
The Council of Ministers of Finance approved budgetary recommendations for the Czech Republic. According to them, the CR should **stick to its initial plan to bring the public finance deficit below 3% of GDP by 2008** and not by 2009 as the Czech government has projected in an updated version of the convergence programme.

The Czech Republic sent the updated version of its convergence programme to the European Commission only in mid-March, after delays caused by lengthy establishment of a new government. The document comprising both the present as well as the projected development of the Czech economy serves as a **basis for appraisal of the level of member states' readiness to adopt the Euro currency**.

According to the current March version the Czech Republic is counting on its excessive deficit to fall **below 3% of GDP only after 2009**, depending on adopted reforms of public finance. This May, however, the European Commission expressed its dissatisfaction with the updated programme and recommended that the Czech Republic stick to its original convergence programme from 2004. The programme expected that the public finance deficit would fall below the 3% threshold as soon as by 2008.

At the October session, the Ministers of Finance of member states came to an agreement that there was no reason to extend the deadline for a correction of the deficit below the 3% threshold further behind the 2008 horizon. This means that the Czech Republic should correct its deficit by next year and compared with this year it should decrease by a 0.75 percentage point at least. In addition, the ministers recommended that an **intermediate goal of 1% of GDP be reached by the Czech Republic by 2012**.

Convergence programme of the CR – March 2007



Source: public budget deficit - CP of the CR (March 2007), GDP growth - European Commission prediction (October 2007)

Minister of Finance **Miroslav Kalousek has agreed with the Council's attitude**. At the same time, he guaranteed that the Czech Republic would correct its deficit by 2008 and decrease it in accordance with the Council's recommendation by a 0.75 percentage point at least.

It is really alarming that while GDP continues to grow by 6% the Czech economy is managed with excessive deficits of public finance. In the current economic situation the Czech **state budget should be balanced or even in a surplus** instead of in a chronic deficit. Although the reform of public finance adopted in the summer is a step in the right direction, a fundamental sustainable change in the recovery of the state economy will need even braver measures.

http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/ecofin/96375.pdf

FOREIGN TRADE

The Union will abolish quotas for import of Chinese textiles

The European Union announced that it would not renew quotas on import of textiles and clothing from China, which as a consequence **will expire by the end of the year**.

More smoothly than expected prime ministers of the EU member states' governments agreed on the wording of the new Lisbon Treaty. The treaty should facilitate unavoidable institutional changes of the EU and make its operation more efficient. The Council of Ministers of Finance recommended that the Czech government bring the deficit of public budgets down below the critical 3% of GDP threshold as early as next year and not only in 2009 as our Convergence Programme envisages.

Quotas were introduced more than two years ago in order to protect European textile plants against cheap Asian competition. According to the EU Commissioner for Foreign Trade Peter Mandelson quotas have already fulfilled their purpose, giving European textile producers the time they needed to cope with new levels of competition, restructure their plants and switch to goods with a higher added value.

Replacing import quotas, a **double-checking system will be launched** to secure the tracking of licences for export issued in China and licences for import issued in the EU. The system will just monitor, not limit the amount of imported Chinese textiles. It will cover eight of the ten most important textile categories: T-shirts, pullovers, trousers, blouses, dresses, bras, bed linen and flax yarn. Renewal of import quotas is rather unlikely.

The cancellation of quotas that were perceived very controversially even when they were introduced is a step in the right direction **contributing to vital global trade liberalization**.

http://ec.europa.eu/trade/issues/sectoral/industry/textile/pr091007_en.htm

INTERNAL MARKET

EU put through liberalization of postal services

The member states reached a compromise concerning **liberalization of postal services in the EU by 2011**; Luxembourg and ten new member states (including the Czech Republic) were granted an exception until 2013.

In the course of the past ten years, European postal services were substantially liberalized. However, national providers of postal services retained for themselves a **profitable monopoly on delivery of letters in the so-called reserved area** (delivery of letters under 50 grams) in exchange for the provision of a five-days-a-week delivery service even for citizens living in remote areas.

The text of a compromise proposal reflects an attitude that the MEPs arrived at during the first reading in July this year. It included the following elements:

- **Full liberalization of postal services by 2011** (instead of 2009 preferred by the Commission) including delivery of letters under 50 grams;
- Besides Luxembourg, **an exception by 2013 was granted to ten more member states** – the Czech Republic, Hungary, Slovakia, Poland, Lithuania, Latvia, Cyprus, Greece, Malta and Romania;
- Based on the so-called **reciprocity clause** the member states that will open their markets by 2011 will be allowed to refuse access to firms from the member states that have decided to postpone liberalization;
- **The obligation of universal service** – member states will be allowed to impose a uniform tariff both for town and country; sufficient access to postal offices; minimum requirements for delivery. Universal service can be funded either from the Treasury or from a common fund contributed to by postal service operators.

Extension of competition even as regards delivery of letters under 50 grams **will enhance quality of the service** for every consumer. At the same time it will speed up the process of restructuring of postal enterprises that are recently forced to cope with the increasing importance of electronic communication.

The coming into force of the directive requires that the proposal be approved in the second reading in the European Parliament.

http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/trans/96221.pdf

EU agreed on the possibilities of preventing future financial crises

Ministers of Finance of the EU came to an agreement on a **revision of financial rules** and enhancement of procedures in situations when banking crises overstepping borders of the member states occur. The objective of such measures is to prevent confusion similar to that taking place on European financial markets following the mortgage market crisis in the US.

From the beginning of the crisis, **banks started to behave exceptionally carefully** while providing interbanking loans, fearing that other banks could be overburdened with bad loans.

Many financial institutions also found that they were risking more than they thought as **low-quality mortgage loans were a part of non-transparent** and at the same time complex financial tools that gave an impression of less risky assets.

The EU financial ministers agreed on a fifteen-month "**road map**", on the basis of which they are going to investigate whether the change in financial rules is a necessity.

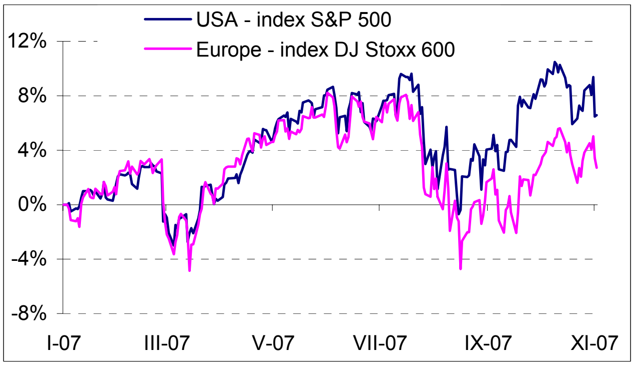
The programme will concentrate on four areas:

- **Strengthening of transparency**, particularly with regard to complex financial tools, especially in view of rules for the compulsory provision of information;
- **Improvement of the manner in which investments are assessed** via an agreement on common standards;
- **Strengthening of supervisory mechanisms** via a better exchange of information between national bodies

and the development of cross-border cooperation agreements;

- Improvement of the market operability with a **special focus on rating agencies**. They are accused of a potential conflict of interests because they provide advisory services to the banks whose ratings they create.

Stock markets development in Europe and USA



Source: Bloomberg

We believe that the whole problem is based on **incorrect risk assessment**. Investors had to really singe their feathers in order to be more careful in their investment activities. No regulation can solve the problem but as for the potential conflict of interests and failure on the rating agencies' part, the EU is right in this case.

http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/ecofin/96351.pdf

Commission wishes to open the EU internal market with medical care

The European Commission is working on a draft of a directive that should secure protection of basic rights of patients **wishing to undergo medical treatment in another member state**.

If a tourist falls ill in another member state, his/her expenses are covered by means of a European health care insurance card. Provided that the patient is authorized to do so by his/her domestic insurance company, he/she can also cover the cost of medical care abroad from his/her domestic policy. But this does not apply if a patient was not granted such an authorization or if he/she *bona fide* failed to apply for it. The issue of **compensation for medical care** is also of an urgent nature for patients with rare illnesses that can be cured by only a few specialists in Europe.

So the Commission has started to prepare a directive that is to deal with rights of citizens "**travelling to another member state for the purpose of obtaining medical care**". Key elements of the directive include:

- **Provision of medical care** – patients should obtain medical care similar to that which they are entitled to in their home country at least.
- **Cost** – the patient's home country should bear the cost of medical care abroad up to the amount that it would be obliged to refund if the patient were given the treatment in his/her home country at least.
- **Authorization** – patients will continue to have to ask to be granted authorization to seek medical care abroad, yet, they cannot be refused such care provided that it is considered "reasonable".
- **Information** – member countries should provide all relevant information concerning availability, prices and results of medical care that they provide.

The directive should be **approved by the board of Commissioners** by the end of the year. After it is approved, it will be submitted to the Parliament and the Council, which have to approve it within the scope of a co-decision procedure.

http://www.euractiv.cz/socialni-politika/clanek/komise-chce-otevrit-vnitrni-trh-se-zdravotni-peci

Commission abandoned the proposal for portability of pensions

Yesterday, the European Commission adopted a modified proposal of the directive on supplementary pension rights of workers, removing from it conflicting **measures regarding the cross-border transfer of pension systems**.

The European Commission modified the directive proposal **in a response to the EP voting** in June 2007, when MEPs removed all measures concerning transferability of supplementary pension rights from one company to another.

The vote of the Parliament was influenced by criticism on the part of small and medium-sized firms that called **the portability "unrealistic"**.

The "Proposal for a directive on the minimum requirements for enhancing worker mobility by improving the acquisition and preservation of supplementary pension rights" includes a measure on the basis of which the portability issue should be **reviewed every five years** following the directive coming into force.

Now, the modified directive has to be unanimously approved by the Council and voted for by the Parliament in the second reading.

http://europa.eu/rapid/pressReleasesAction.do?reference=IP/07/1461

Efforts of particular member states to attract highly qualified workers from abroad are being shifted to an all-European level. The European Commission presented a proposal on introduction of the so-called "blue card" system that should help solve the shortage of labour power in the EU. Montenegro signed the Stabilization and Association Agreement with the EU and so took an important step on its still long journey towards future membership.

Law on Volkswagen violates EU rules

The European Court of Justice ruled that the 1960 German law on Volkswagen **conflicts with European rules** guaranteeing free movement of capital and therefore it must be modified at least.

The European Commission lodged a complaint against the Volkswagen law because it contains a number of measures that **guarantee permanent influence on the car factory management** both for the German federal government and the Land of Lower Saxony, regardless of the percentage of shares held by them in the company. The main point of the law:

- Federal and Land governments are entitled to **two representatives in the company Supervisory Board**;
- Voting rights of remaining shareholders are **limited to 20% at most** even if the percentage of shares held by them is larger;
- The general meeting session may adopt a decision only if it is approved by shareholders **holding 80% of voting rights** – by 5% more than the German commercial law generally anticipates.

The German federal government has already sold its 20% block of shares but it still has its representative in the Supervisory Board. The Land of Lower Saxony continues to hold its 20.8% interest in the company, which means that **it can block any decision of the general meeting**.

The European Court of Justice expressed its consent to the Commission's opinion that the law restricts the free movement of capital as it **limits the possibilities of investors to participate in the management of the company**. According to the highest judicial authority in the EU the gold share and the right of participation of the state in the Supervisory Board discourages investors from other member states because they enable governmental bodies to influence the firm's activities to an extent not corresponding with their percentage of shares.

Admittedly, every member state is allowed to limit the free movement of capital but only if it is able to **offer a viable justification**, which did not happen in this case.

Even the largest European car manufacturer in the EU **is not a strategic firm where the state would have to maintain its influence**, and moreover in such an "unfair" manner. Therefore the decision is an appropriate and, from the economic point of view, a logical step.

http://curia.europa.eu/en/actu/communiques/cp07/aff/cp070074en.pdf

ENTERPRISE

Commission abandons reform of voting rights of shares

European Commissioner for Internal Market and Services Charlie McCreevy announced that he had **abandoned controversial plans to introduce a system of equal voting** rights for every single share and would not promote their enforcement in practice.

The proposed reform of voting rights of shares was strongly opposed by countries like France, Sweden and Spain, where e.g. shares held by the state or long-standing shareholders have a greater voting power. Commissioner McCreevy formerly reasoned that such a system is not in accordance with effective management of companies and creates a barrier against winning new investors. But a study that the Commission asked to be developed in May 2007 found **no evidence of a causal link between the voting system and the economic performance** of companies. Afterwards, Commissioner McCreevy came to the conclusion that no regulatory action is needed in this area.

On the other hand, the Commissioner announced that by mid-2008 the Commission will present a legislative proposal for a European Private Company (EPC) which should facilitate cross-border operation for small and medium-sized businesses. The main incentive should be the unification of the enterprise regulatory framework in the whole EU, which would **save entrepreneurs a large portion of their administrative costs**. Currently, if a small or a medium-sized firm wants to run a business in all 27 Member States, it must harmonize its status with 27 different legal systems.

http://europa.eu/rapid/pressReleasesAction.do?reference=SPEECH/07/592

EMPLOYMENT AND SOCIAL AFFAIRS

Barroso: "Highly qualified people from all over the world are welcome in the EU"

The Commission presented a proposal for introducing the so-called blue card system that would **facilitate access of highly qualified workers** to the EU labour market.

The EU member states face an increasing shortage of qualified labour power. The Commission tries to **enhance the EU's competitiveness** by supporting legal immigration, which corresponds with the Lisbon strategy objectives.

In its proposal yesterday the Commission presented a model of the so-called blue cards that an immigrant could win based on at least a one-year employment agreement

concluded in the member state. Another condition would be a **financial income amounting to three times the minimum wage** in a given member state. So, the blue card would speed up the granting of a long-stay permit for its holder, facilitate his/her family members' arrival and make it possible for him/her to move to another member state after a two-year period of time.

The proposal **corresponds with the Commission's efforts to enhance the attractiveness of the EU** as an immigration destination for highly qualified workers. Statistical findings show that with its 1.7% of third-country highly qualified workers the EU lags primarily behind Australia (9.9%) and Canada (7.3%). Several member states have already introduced measures that make gaining access to the labour market for qualified workers from other countries easier. Germany has special conditions for information science specialists, Great Britain for specialists in the field of health care.

Due to significant demographic changes Europe increasingly **proves its nick name "the old continent"**. The solution lies in a broad scope of measures, from involving older people in the working process to making the labour market more flexible via liberalization of laws, to attracting qualified workers from third countries. Therefore we consider the proposal for introduction of blue cards for the entire EU to be positive.

http://www.europa.eu/rapid/pressReleasesAction.do?reference=MEMO/07/423

ENERGY AND TRANSPORT

EU wants to shift freight transport to rails and water

The European Commission released its plans for more sustainable and efficient freight transport. The goal should be reached via **improvements of logistics and support of the rail, maritime and inland waterway transport**. Currently, the majority of goods are transported along European roads, which is giving rise to a number of problems. So the Commission introduced many initiatives focused on enhancing the attractiveness of rail and waterways transport.

More efficient supply chains

The action plan for logistics in freight transport focuses on measures intended to **facilitate the use of several means of transport in the course of a single journey**. The aim should be reached by building modern reloading facilities, creating common European standards for transport units and creating a unified transport document.

A helping hand for railways

Key measures for supporting railways include harmonisation of the length of trains and their load so that **interoperability between the member states would increase** and trains would not have to stop at the border and be delayed just because of different standards.

In addition, the Commission would like to end the current practice, when, if a line is overloaded, passenger trains are given way over freight trains.

Creation of a unified zone for sea transport

Sea transport, which is the most environmentally friendly and energy-saving mode of transport, **deserves special attention**, too. Proposals calculate with an increase in capacity of ports, elimination of some lengthy administrative procedures, including document checking, and physical checks on the customs, hygienic, veterinary and immigration bodies' part.

Shall we allow bigger trucks?

The logistics action plan also suggests "assessing the need for reviewing existing restrictions on the weight and dimensions of trucks". This would allow **access to roads for vehicles 25 metres long and weighing 60 tons**, now banned in the majority of the member states.

http://europa.eu/rapid/pressReleasesAction.do?reference=IP/07/1550

ENLARGEMENT

Montenegro took the first steps on its path to EU membership

Yesterday, the European Union and Montenegro **signed the Stabilisation and Association Agreement**. So, Montenegrins' chances for full EU membership significantly increased.

The European Commission allocated allowances for emissions of CO2 amounting to 2.08 billion tonnes for the entire 2008 – 2010 period. From the total of 24, the European Commission approved the first three Czech operational programmes through which subsidiaries flow into the Czech Republic from European funds and from the Cohesion Fund. The approved operational programmes are: Human Resources OP, Education for Competitiveness, Prague – Adaptability OP.

Although the agreement sends a clear positive signal to Montenegro, it will take many years for Montenegro to become a member of the EU. The country has not even formally asked for membership. As for accession to the EU, the only official candidate states are **Croatia, Turkey and Macedonia** (FYROM).

The ministers of member states diplomatically welcomed the conclusion of the agreement as an "important step for the country on its path towards the EU". The small post-Yugoslavian country is called in the declaration **to proceed with reforms** and adopt "a constitution that will comply with international standards".

Ministers especially emphasized that it is necessary to make progress "in the field of rule of law, including the fight against organized crime and corruption, as well as the establishment of an independent and accountable judiciary."

Montenegro wants to fully participate in the European integration process, which is documented also by its decision from 2002 when the country unilaterally adopted the Euro as its local currency. But enormous optimism is not without its discouragements. The **European Union still did not properly absorb the last two enlargement rounds**, when its ranks increased by 12 poorer Eastern and Southern European countries. There is not sufficient political will in the EU to accept new members. The chances are that Croatia will enter the Union soon after 2010. But we believe that this will be followed by an interlude of several years.

http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/gena/96528.pdf

ENVIRONMENT

Commission toughens conditions for trading with emissions

Trying to avoid another collapse on the emission market, the European Union set limits for CO^2 emissions in the entire EU **for 2008 – 2012 equalling 2.08 billion tonnes**. Member states were allotted allowances on average by 10% lower than the amounts they asked for for the second trading period.

Seven member states (Hungary, Latvia, Lithuania, Malta, Poland and the Czech Republic) have lodged a **complaint against the European Commission**. The countries claim that the maximum amount of emissions set by the Commission for 2008 – 2012 will harm their industries enormously.

A resulting overall EU emission limit amounting to 2.08 billion tonnes for 2008 – 2012 will lead to "a robust market with real emission reductions which will constitute an important contribution to meeting our Kyoto target", stated Environment Commissioner Stavros Dimas in a press release.

The system of trading with allowances for CO^2 emissions **will also embrace Norway, Iceland and Lichtenstein** which the Commission declared "the first international agreement of this kind on trading with allowances".

Annual allocation of CO2 emission allowances

million tonnes	2005-07 cap	2005 emissions	2008-12 proposed cap 1)	2008-12 allowed cap
Germany	499.0	474.0	482.0	453.1
UK	245.3	242.4	246.2	246.2
Italy	223.1	225.5	209.0	195.8
Poland	239.1	203.1	284.6	208.5
Spain	174.4	182.9	152.7	152.3
France	156.5	131.3	132.8	132.8
CR	**97.6**	**82.5**	**101.9**	**86.8**
Netherlands	95.3	80.4	90.4	85.8
Greece	74.4	71.3	75.5	69.1
Romania	74.8	70.8	95.7	75.9
Belgium	62.1	55.6	63.3	58.5
Bulgaria	42.3	40.6	67.6	42.3
Portugal	38.9	36.4	35.9	34.8
Austria	33.0	33.4	32.8	30.7
Finland	45.5	33.1	39.6	37.6
Denmark	33.5	26.5	24.5	24.5
Hungary	31.3	26.0	30.7	26.9
Slovakia	30.5	25.2	41.3	30.9
Ireland	22.3	22.4	22.6	22.3
Sweden	22.9	19.3	25.2	22.8
Estonia	19.0	12.6	24.4	12.7
Slovenia	8.8	8.7	8.3	8.3
Lithuania	12.3	6.6	16.6	8.8
Cyprus	5.7	5.1	7.1	5.5
Latvia	4.6	2.9	7.7	3.4
Luxembourg	3.4	2.6	4.0	2.5
Malta	2.9	2.0	3.0	2.1
EU-27	**2298.5**	**2122.2**	**2325.3**	**2080.9**

Source: European Commission, 1) proposal by Member state

It goes without saying that if an excessive amount of allowances were issued for the 2008 – 2012 period, the system would lose its sense. Therefore it is correct to tighten it. Nevertheless, we appreciate objections of certain member states whose proposals for allowances were reduced the most. **The system is not fair** because no official, however intelligent, informed or educated, is

able to distribute the allowances among particular member states or even particular sources of pollution in an ideal way. The only really fair solution is to allow the business onto the market – enterprises should not be given allowances for free but **should buy them via auctions**. This is the only way to avoid complaints, often well justified, that one entity was given more than another.

In January 2008 the European Commission is expected to present a legislative **proposal for trading with emissions after 2013**. Hopefully, allocation of allowances via auctions will be included.

http://europa.eu/rapid/pressReleasesAction.do?reference=IP/07/1614

REGIONAL POLICY

The Commission approved the first three operational programmes of the CR

On Friday 12 October the European Commission approved the first three operational programmes (OP) of the Czech Republic through which applicants will draw funds from the European Social Fund (ESF).

The Czech Republic can withdraw a total of 720 billion Czech crowns from European funds in the current 2007 – 2013 programming period. So that the Czech Republic can use the money from structural funds and the Cohesion Fund, the **National Strategic Reference Framework** (NSRF) and all of the 24 operational programmes must be approved by the European Commission. NSRF was finally approved at the end of July, the first three OPs only in mid-October.

Human Resources and Employment OP

The steering body for this operational programme is the **Ministry of Labour and Social Affairs**. Projects included in this programme will be implemented with the help of a sum amounting to about 1.84 billion Euros earmarked from the ESF. Another 0.32 billion Euros should come from the Czech Republic's public sources.

The programme has eight priority axes altogether and is focused on supporting adaptability of employees and employers, further education, employment issues, integration of groups endangered by social exclusion, equal opportunities as well as on modernization of public administration and public services and international cooperation regarding the development of human resources and employment.

Education for Competitiveness OP

The programme falls under the control of the **Ministry of Education, Youth and Sports** and funds allocated to it from the ESF amount to about 1.83 billion euro; other funds from Czech sources amount to 0.32 billion euro.

The programme has five priority axes altogether, within the scope of which it will support activities focused on "enhancing the quality and modernization of initial, secondary, tertiary and further education systems, their interconnection into a comprehensive system of life-long learning and improvement of conditions in research and development".

OP Prague – Adaptability

The steering body here is the Magistrát hl. m. Prahy (**Municipality of the Capital City of Prague**). The programme has at its disposal a sum amounting to 108.39 million euro from the ESF and 19.13 million euro from national sources allocated for implementation of the projects.

It is divided into four priority axes. Projects supported within the scope of the programme will be non-investment projects that will be realized within the capital city boundaries and will concern education, social integration, employment support and development of human resources in the research and development area.

A positive point here is the fact that, at last, the first three programmes were successfully approved. Even though for those interested in subsidies announcements of calls for submission of project applications are of greater importance.

According to the European Commission, seven regional operational programmes (ROP) are on the right track and should be approved by mid-December. The media, on the other hand, are musing over a possible failure regarding approval of the Research, Development and Innovation OP, the Integrated OP, the Technical Assistance OP and seven operational programmes within the framework of the European Territorial Cooperation goal.

http://ec.europa.eu/employment_social/esf/news/article_6350_en.htm

Allocation for the first 3 Czech operational programmes for 2007-2013

Operational programme	EUR bn	CZK bn
Human Resources and Employment	1.84	48.92
Education for Competitiveness	1.83	48.92
Prague – Adaptability	0.11	2.93
Total	**3.77**	**100.77**

In the first half of October, Brussels was a venue of a regular meeting of European regions and cities – Open Days 2007. The European Commission proposed a single maritime policy for the whole of Europe. European culture employs almost 5 million workers, which makes 2.4% of all employees. The highest number of people working in culture is in the Netherlands (3.8%), while the number is lowest in Romania (1.1%). The Czech Republic ranks among below-average countries (2.0%) in this respect.

1 OCTOBER

European Police Office: Fight against Child Sexual Exploitation: http://www.europol.europa.eu/index.asp?page=news&news=pr071001.htm

2 OCTOBER

Brochure published on best LIFE Projects 2006-2007: http://ec.europa.eu/environment/life/publications/lifepublications/bestprojects/documents/bestenv07.pdf

3 OCTOBER

EP ready to set tone for Turkey talks: http://www.europarl.europa.eu/news/public/story_page/030-10914-267-09-39-903-20070927STO10901-2007-24-09-2007/default_en.htm

Transport, Telecommunication and Energy Council meeting: http://www.consilium.europa.eu/cms3_applications/applications/newsroom/loadDocument.ASP?cmsID=221&LANG=en&directory=en/trans/&fileName=96265.pdf

The Commission approves the strategy chosen by Belgium to implement the 2007-2013 Cohesion Policy: http://ec.europa.eu/employment_social/emplweb/news/news_en.cfm?id=295

4 OCTOBER

Celebration of Bulgaria and Romania joining Europol: http://www.europol.europa.eu/index.asp?page=news&news=pr071004.htm

MEPs wish to see EU law enforced: http://www.europarl.europa.eu/news/expert/infopress_page/021-11023-276-10-40-902-20071001IPR11002-03-10-2007-2007-false/default_en.htm

5 OCTOBER

MEPs take "a critical look" at the administrative reform: http://www.europarl.europa.eu/news/expert/infopress_page/035-11142-276-10-40-905-20071003IPR11141-03-10-2007-2007-false/default_en.htm

Prague has the highest concentration of students compared to the youth population: http://epp.eurostat.ec.europa.eu/pls/portal/docs/PAGE/PGP_PRD_CAT_PREREL/PGE_CAT_PREREL_YEAR_2007/PGE_CAT_PREREL_YEAR_2007_MONTH_10/1-05102007-EN-AP.PDF

8 OCTOBER

Australia ratifies cooperation agreement with Europol: http://www.europol.europa.eu/index.asp?page=news&news=pr071005.htm

Opening Session of the European Week of Regions and Cities - OPEN DAYS 2007: http://ec.europa.eu/regional_policy/conferences/od2007/index.cfm

9 OCTOBER

National governments to give regions and cities bigger role in EU strategy for jobs and growth: http://www.cor.europa.eu/en/press/press_07_10110.html

10 OCTOBER

Economic and Financial Affairs Council meeting: http://www.consilium.europa.eu/cms3_applications/applications/newsroom/loadDocument.ASP?cmsID=221&LANG=en&directory=en/ecofin/&fileName=96375.pdf

Council approves EU Health Programme for 2008-2013: http://ec.europa.eu/health/ph_overview/pgm2008_2013_en.htm

11 OCTOBER

Committee of the Regions calls for responsible energy use: http://www.cor.europa.eu/en/press/press_07_10113.html

12 OCTOBER

Commission proposes Integrated Maritime Policy for the EU: http://ec.europa.eu/maritimeaffairs/press/press_rel101007_en.html

15 OCTOBER

Green light to the EU-US "open skies" air transport agreement: http://www.europarl.europa.eu/news/public/story_page/008-11325-283-10-41-901-20071008STO11300-2007-10-10-2007/default_en.htm

16 OCTOBER

General Affairs and External Relations Council meeting: http://www.consilium.europa.eu/cms3_applications/applications/newsroom/loadDocument.ASP?cmsID=221&LANG=en&directory=en/gena/&fileName=96535.pdf

Immigration and European borders: cities and regions in the front line: http://www.cor.europa.eu/en/press/press_07_10123.html

Commission welcomes action against illegal fishing in South East Atlantic: http://ec.europa.eu/fisheries/press_corner/press_releases/com07_66_en.htm

17 OCTOBER

Euro-Mediterranean partnership - Competitiveness and social cohesion must go hand in hand:

http://eesc.europa.eu/activities/press/cp/docs/2007/communique-presse-eesc-100-2007-en.doc

18 OCTOBER

MEPs gear up to scrutinise 2008 jobs and growth budget:
http://www.europarl.europa.eu/news/public/story_page/034-11640-288-10-42-905-20071012STO11627-2007-15-10-2007/default_cs.htm

European Commission Budget Implementation Reports:
http://ec.europa.eu/budget/execution/rapports_exec_en.htm

19 OCTOBER

EU leaders and social partners discuss how the Reform Treaty and Lisbon Strategy can boost labour markets:
http://ec.europa.eu/employment_social/emplweb/news/news_en.cfm?id=304

22 OCTOBER

New Treaty - a great success for the European Parliament and for EU citizens:
http://www.europarl.europa.eu/news/expert/infopress_page/010-11910-291-10-42-901-20071019IPR11909-18-10-2007-2007-false/default_en.htm

23 OCTOBER

Signing of Cooperation agreement between Europol and CEPOL:
http://www.europol.europa.eu/index.asp?page=news&news=pr071022_2.htm

24 OCTOBER

Council agrees to full disclosure of CAP recipients:
http://ec.europa.eu/agriculture/newsroom/en/274.htm

25 OCTOBER

Call for EU-wide ban on smoking in the workplace:
http://www.europarl.europa.eu/news/expert/infopress_page/066-12157-295-10-43-911-20071023IPR12111-22-10-2007-2007-true/default_en.htm

2825th Agriculture and Fishing Council meeting:
http://www.consilium.europa.eu/cms3_applications/applications/newsroom/LoadDocument.asp?directory=en/agricult/&filename=96806.pdf

26 OCTOBER

First-reading vote on the 2008 draft budget:
http://www.europarl.europa.eu/news/expert/infopress_page/034-12046-295-10-43-905-20071019IPR11938-22-10-2007-2007-false/default_en.htm

EU steps up the fight against undeclared work:
http://ec.europa.eu/employment_social/emplweb/news/news_en.cfm?id=307

29 OCTOBER

EU and Russia sign trade agreement on steel products:
http://ec.europa.eu/trade/issues/bilateral/countries/russia/pr261007_en.htm

Eurostat Press Release: The cultural economy and cultural activities in the EU27:
http://epp.eurostat.ec.europa.eu/pls/portal/docs/PAGE/PGP_PRD_CAT_PREREL/PGE_CAT_PREREL_YEAR_2007/PGE_CAT_PREREL_YEAR_2007_MONTH_10/3-29102007-EN-AP.PDF

Cultural employment (% of total employment)

Netherlands	3.8	Cyprus	2.2
Sweden	3.5	Belgium	2.1
Finland	3.3	Greece	2.1
Estonia	3.2	Spain	2.1
UK	3.1	Italy	2.1
Denmark	3.0	Hungary	2.1
Germany	2.8	**CR**	**2.0**
Latvia	2.7	France	2.0
Ireland	2.5	Bulgaria	1.8
Lithuania	2.5	Luxembourg	1.8
EU-27	**2.4**	Slovakia	1.8
Austria	2.4	Poland	1.7
Malta	2.3	Portugal	1.4
Slovenia	2.3	Romania	1.1

Source: Eurostat, in 2005

30 OCTOBER

"The main platform of Europe is culture and language is its key pillar":
http://eesc.europa.eu/activities/press/cp/docs/2007/communique-presse-eesc-105-2007-en.doc

DG Ecfin: Price and Cost Competitiveness report:
http://ec.europa.eu/economy_finance/publications/priceandcostcompetiteveness_en.htm

31 OCTOBER

2826th Environment Council meeting:
http://www.consilium.europa.eu/cms3_applications/applications/newsroom/loadDocument.ASP?cmsID=221&LANG=en&directory=fr/envir/&fileName=96900.pdf

EU and North-Atlantic coastal states agree on 2008 fishing possibilities on 3 major shared stocks:
http://ec.europa.eu/fisheries/press_corner/press_releases/com07_77_en.htm

November will see several important sessions of the EU's supreme decision-making bodies. Attention should be paid to two sessions of the Council for Economic and Financial Affairs. The second of the sessions will primarily discuss next year's budget. As for currently opened public consultations, we should like to draw your attention to a consultation on a future form of the European regional policy, the issues of which are based on the 4th Cohesion Report.

Meeting of the key EU institutions

8.-.9.11.2007	**Brussels, Belgium**
- Justice and Home Affairs Council (JHA)	
12.-13.11.2007	**Brussels, Belgium**
- ECOFIN Council	
15.-16.11.2007	**Brussels, Belgium**
- Education, Youth and Culture Council	
19.-20.11.2007	**Brussels, Belgium**
- General Affairs and External Relations Council	
22.-23.11.2007	**Brussels, Belgium**
- Competitiveness Council	
23.11.2007	**Brussels, Belgium**
- ECOFIN Council	
26.-27.11.2007	**Brussels, Belgium**
- Agriculture and Fisheries Council	
29.-30.11.2007	**Brussels, Belgium**
- Transports, Telecommunications and Energy Council	

Public consultation on EU legislation

Topic of the consultation	Organiser	Deadline
Doorstep Selling Directive	DG SANCO	4.12.2007
Establishing an Infrastructure for Spatial Information	DG RTD	21.12.2007
A draft to introduce settlement procedure for cartels	DG COMP	21.12.2007
Europe's Social Reality	BEPA	31.12.2008
"Substitute" retail investment products	DG MARKT	18.1.2008
Growing regions, growing Europe	DG REGIO	31.1.2008

The subject matter of this EU Monthly News Journal is a brief description of the development of relevant parts of tax harmonisation in the EU, followed by the description of the forthcoming harmonisation directive, summary of views on the process of tax competition and it is concluded with closing insights and an attempted integration into a more general context.

THE FUTURE OF CORPORATE TAXATION IN THE EU: POSSIBILITIES FOR HARMONIZATION

Development of relevant areas of tax harmonization in EU

European economic integration started in fact in the early '60s. After two world wars, it was reflected that the main goal of the process of Europe's integration, the dominant part of which was also the newly created European Economic Community, should be the securing of conditions for maintenance of the fragile peace at that time. At that time, creators of tax policy on the communitary level concentrated on promotion of free mobility of **goods** as "the free movement of goods was much more advanced at that time than the demand for freedom to establish branches in other countries of the then ES-6 or the demand for the free movement of capital", wrote Pieter VerLoren van Themaat, Head of the DG of the Commission for taxation and the customs union.

The EEC member states were most interested in the process of standardization of taxes involving products – i.e. the value added tax and other special consumption taxes.

By all means, the freedom of movement of entrepreneurs and capital across borders should not be restricted by double taxation at least. European harmonization measures aimed at securing this goal. Since the end of the '90s rulings of the European Court of Justice distinctly speeded up its fulfilment.

Such a development contributed to the restriction of a possibility to practise the strategy of avoiding multinational companys' taxation ("tax optimization") by means of diversity of tax laws of individual national states. Nevertheless, member states responded to these circumstances by developing a process of tax competition (as some object, instead of by cooperating). In particular, smaller member countries as well as those favourably inclined towards reforms consider tax competition advantageous for their economies.

Measures to eliminate double taxation on the Single Internal Market

As early as the '60s, the European Commission exerted quite successful pressure on member states so that they concluded bilateral agreements on double taxation in accordance with the **Treaty of Rome**.

In order to eliminate double taxation member states conclude bilateral agreements that reciprocally restrict their overlapping tax requirements and through that partly share their tax revenues. These agreements were supplemented with European legal procedures intended to regulate cross-border tax matters so as they did not further restrict the freedom of entrepreneurs to transfer capital or establish branches anywhere on the Single Internal Market.

Almost all European directives in the corporate taxation area pursue precisely this sense. The 1990 Parent Subsidiary Directive (**Directive No. 90/435/EEC**) was intended to simplify multinational mergers. The **Arbitration Convention 90/436** EEC created a procedure that had to be followed in case no mutual understanding was found as to which of the member states had the right of taxation on the basis of double-taxation agreements and European directives.

From 2003, a common tax decree on payments of interest and licence fees between mutually interconnected companies from different member states further guaranteed that such an income will be taxed only once – i.e. in the state where a given parent company has its registered office (**Directive No. 3/49/EC**). These tax measures were a part of European efforts to enable the free movement of capital within the Single Internal Market. They were constituted already in the Treaty of Rome from 1957 but in practice they became efficient only after capital controls were removed in the nineties.

Full liberalisation of capital movements in the EU was adopted in 1988 (**Directive No. 88/31/EEC**) and since 1990 it has come into effect in the majority of member states. Special transition measures were adopted for certain countries. Up to the mid-'90s, capital movement was restricted in practice by the fact that many financial transactions with counterparts in other member states required permission from national authorities within the scope of customs controls.

Liberalization of capital movements followed immediately after the creation of an institutional framework for the Economic and Customs Union and was included in its final form in the **Treaty of Maastricht** (1991 – 1992), which came into effect in November 1993.

The measure removing restrictions of freedom for entrepreneurs to establish branches brought practical sense in the '90s when the number of mergers radically increased. According to the European Commission's data from the beginning of the decade – 2001, the number of multinational companies in the EU-15 increased from about 7,000 parent companies at the end of the '60s to about 40,000 companies at the end of the '90s. Consequently, more opportunities

opened up for multinational companies to carry out cross-border transfers motivated by “tax optimisation”.

The European Court of Justice’s judgements play an important role in this development. From the end of the ‘90s, the European Court of Justice was more frequently asked by national courts to give its opinion regarding lawfulness of processes of internationally operating companies and to interpret stipulations of European treaties.

The European Court of Justice and its verdicts

The European Court of Justice has already made about 70 judgements concerning tax matters, from which about 60 were adopted during the past ten years. More than 50 legal cases concerning direct taxation, most of them having budgetary consequences in the member states, remained unadjudicated at the beginning of 2006.

The European Court of Justice often emphasizes in its sentences that “although direct taxation as such does not fall under the competency of the Community, authorizations held by member states must be investigated consistently with communitary law”.

The result of the European Court of Justice judgements is that national measures against lawful forms of “tax optimisation” practiced by companies become less and less possible. It is exemplified by two recent cases. The first case involves elimination of the corporate tax by means of profit transfer (Cadbury Schweppes); the other is a transfer of losses (Marks & Spencer) within the Community. Both precedents influence not only the case that was handled by the European Court of Justice but similar rules may be found in many member states and will have to be modified accordingly.

As for the Cadbury Schweppes case, the judgement means that the establishment of a branch with **the explicit goal** of avoiding taxation and gaining the advantages of a statutory measure is not a breach of freedom to establish a branch within the Single Internal Market. Companies will only have to prove that the establishment is not just a mailbox. Proof of a certain personnel and office background must be provided. According to this pattern companies should have no problems or difficulties with profit transfer in future.

The European Court of Justice’s judgement in the Marks & Spencer case results also in the fact that the “loss transfer” within the Community will not be restricted but, if a contrary directive of the Community is not adopted, it may continue to grow.

Based on the European Court of Justice’s judgements member states have to consequently remove their national legislation regarding tools against tax elimination. The conclusion is that tax systems of member states cannot be further seen in isolation and that the tax autonomy of member states is limited in practice.

To sum up, since early ‘90s, increased capital mobility, changes in the companies structure – supported by tax measures on the European level – and the European Court of Justice precedents educated the effectiveness of the national regulation, the result being that member states cannot – *de facto* – carry on maintaining measures of an exclusively national nature. They either have to agree with common regulatory rules on the communitary level or give up their powers to create their own tax systems and throw them to the Single Internal Market imperatives.

However, two aspects that made the possibility of reaching an agreement on common regulatory procedures at the communitary level difficult still exist: the change in the method of integration (preference to competition and the ‘multispeed’ Europe conception) and, quite specifically, the idea of helping and supporting healthier economic development by means of a tax policy which is applied namely by smaller and new member states.

We can assume that even though the strengthening of elements of competition will be criticized by conservative proponents of the process of European integration, nothing but competition represents the breath of fresh air that was initially brought from countries like Ireland and later on from the majority of newcomers of the recent process of enlargement and that can be a significant source of economic prosperity of the EU as a whole in global competition.

While the Commission’s recommendation for harmonisation of corporate taxation was originally based on the concept of binding tax harmonization, such a policy towards direct taxation was changed in 1990. The 1990 European Commission report emphasizes the subsidiarity principle for the area of direct taxes. According to this principle national systems could remain unchanged and regulatory measures on the communitary level could be applied only to measures essential for performance of the Single Internal Market.

Afterwards, the Commission started to justly positively appreciate aspects and impacts of the tax competition process. The report mentions not only positive impacts of tax competition on the economic performance (both for foreign investments due to the enhanced attractiveness of a given country and for the local entrepreneurial sector) but also reasons about the fact that tax competition could – ex-post and in a decentralised manner – bring a gradual rectification of the tax burden.

The truth is that such an opinion was circulated mainly in the economically and socially substantially more homogenous EU-12 environment; now, when the process of enlargement is underway, the Commission evaluates the process of tax competition more matter-of-factly and considers that it can be useful especially for heavily underdeveloped countries for which tax competition is an essential factor of a realistic convergence process.

Further it is emphasized that tax competition can lead to the strengthening of budgetary discipline and a faster implementation of certain fiscal reforms in particular member states and so lead to a healthy reduction of an overall tax burden.

Even so, nowadays it is difficult to find an official European document that does mention the positive points of tax competition and identify exemplarily working subsidiarity in this thematic area – especially in the form of particular member states' responsibility for various income taxes as a prerequisite or a starting point for tax competition.

Certain countries profit from so-called asymmetrical tax competition. As a rule smaller or reform-oriented countries win profit from a tax decrease because the resulting tax deficit from the domestic capital can be compensated by attracting foreign capital. From a small or reform-oriented country's point of view the lowering of a tax rate can lead to an influx of foreign capital, mainly from large or conservative countries, and so lead to a contribution to income and wealth on their behalf. Critics of the process of tax competition in particular highlight the fact that in such a situation smaller or reform-oriented countries grow wealthier while the wealth of larger countries decreases.

Probably the best example of a small country becoming a success due to tax competition is Ireland. Low rates in Ireland attracted a great number of foreign investments that are the main base for the dynamic economic modernization of the country that went on through the entire decade of the '90s and continues in the course of this decade. New member countries are anxious to repeat the Irish success and try to attract foreign investments, often from the EU-15 countries. Quite recently such a strategy was sharply criticised especially by Germany and France.

The process of tax competition can be manifested by means of the two following tables. The first of them presents a comprehensive review of corporate tax rates of all EU countries in 2006 and 2007. The second one exemplifies changes of nominal tax rates of selected countries between 1995 and 2006 in percentage points (for the purposes of completeness we also state an effective tax rate amount for 2006).

Table 1: Corporate profit tax in the EU member states in 2006 and 2007

	2006	2007
Belgium	33	33
Denmark	28	28
Germany	25	25
Finland	26	26
France	33.3	33.3
Greece	29	25
UK	30	30
Ireland	12.5	12.5
Italy	33	33
Luxembourg	22	22
Netherlands	29.6	25.5
Austria	25	25
Portugal	25	25
Sweden	28	28
Spain	35	32.5
EU-15	**27.6**	**26.9**
Bulgaria	15	10
Estonia	0	0
Latvia	15	15
Malta	15	15
Romania	16	16
Slovakia	19	19
Slovenia	25	23
CR	24	24
Poland	19	19
Hungary	16	16
Cyprus	10	10
EU-12	17.4	16.8
EU-27	23.3	22.6

Source: Eurostat, European Commission

Table 2 relatively distinctly identifies the most active subjects in the process of tax competition in Europe during a longer time horizon.

Table 2 Decrease in corporate tax rates (in percentage points) and effective rate in percentages

	Change of nominal rate (1995 – 2006)	Effective rate
Belgium	-6.2	29.7
Denmark	-6.0	25.2
Germany	-18.2	36.0
Finland	+1.0	24.6
France	-3.3	34.8
UK	-3.0	28.9

Ireland	-27.5	14.7
Italy	-15.0	32.0
Luxembourg	-11.3	26.7
Netherlands	-6.0	28.5
Austria	-9.0	23.1
Sweden	0.0	24.8
Slovakia	-21.0	16.7
Spain	0.0	36.1
CR	**-17.0**	**22.9**
Hungary	-2.1	17.9

Source: OSN, Eurostat

Possibilities of tax harmonisation

Spheres in which tax harmonisation can take place can be very diverse. Tax harmonisation can relate to the compliance of tax rates. This form of harmonisation is especially sensibly perceived by most EU states as a matter endangering their statehood and as such is usually refused by them. As far as its rates are concerned, no tax instrument is fully harmonised at the EU level; even in the case of most harmonized indirect taxes only minimum rate levels are *de facto* specified. More than that, differences between the member countries are further deepened due to the existence of mutually very heterogeneous exceptions.

Tax harmonisation can relate to the tax base. It means that the tax base is calculated in compliance with unified rules. Different tax burdens are then entirely a result of different tax rates.

And finally, tax harmonisation can relate to the entire tax system. This concept is the most coherent manifestation of harmonisation and involves not only unification of the tax base of all key tools of taxes but also rates and other tax parameters. Such a form is most probably a very long-term vision of development of fiscal systems in the EU, presently most certainly unattainable in reality, but it may manifest itself within the scope of a concept of fiscal federalism in the future.

CCCTB (Common Consolidated Corporate Tax Base) and what can it offer

The principal idea behind the CCCTB concept is the calculation of profit (loss) of a corporate group having branches or permanent plants in more than one member state on the basis of standardized rules. The concept would embrace a possibility of mutual compensations of profits and losses within the framework of an overall consolidated income. Afterwards, the total profit calculated in this manner would have to be allocated by means of a proportional system to the member states in which the corporate group is active. Member states would then apply their national tax rates toward the allocation and calculate the tax liability in this way. So, nominal tax rates would be an exclusive determinant of tax liability.

The key point of the concept is the determination of parameters of the proportional system that has not been carried out so far.

For the system to function it will also be important to clarify key implementation issues:

- definition of a common tax base;
- what companies may/must use CCCTB? Will entrepreneurial subjects be free to choose?
- what companies belong to a corporate group?
- how will the system be administered on the communitary level and national levels?
- how to solve a problem in the case that the corporate group is present also in non-member EU countries?

So it is obvious that on the one hand the given idea is certainly based on a current need to make the tax system in the EU just and transparent. On the other hand, it is clear that there are many questions that have to be answered before it can be set going and that these questions will be a subject matter of the creation of harmony between particular countries' stances.

Concluding remarks

The outlined problem is a part of a broader concept of coordination of economic policies within the framework of the EU. The reflection very closely relates to a distinct definition of the concepts of autonomy and subsidiarity in carrying out the fiscal and tax policies.

It is obvious that especially in the group of EU-12 newcomers tax conditions represent a key investment parameter of exceptional importance that, at least in an intermediate time horizon, can substantially influence their opportunities for development. The process of tax competition is a reflection of national political preferences; for the time being it does not lead to approximation of rates and a creation of "a unified European corporate rate".

A common action at the EU level reflecting a consensual standpoint of member states towards establishment of fair tax conditions would be highly desirable. Nevertheless, the debate must also include the issue of budgets.

A comprehensive tax harmonisation (exploiting principles of autonomy and subsidiarity) in the form of application of fiscal federalism, with a common source of income of the EU, national as well as regional budgets determined within its scope, can be seen as a very long-term vision.

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 %	2004	2005	2006	2004	2005	2006	VII-07	VIII-07	IX-07	VII-07	VIII-07	IX-07
Belgium	3.0	1.1	3.1	3.6	2.5	2.3	7.6	7.6	7.5	1.3	1.2	1.4
Bulgaria	6.6	6.2	6.1	-6.6	-12.0	-15.8	6.7	6.5	6.3	6.8	9.3	11.0
CR	4.2	6.1	6.1	-6.3	-2.7	-4.1	5.4	5.3	5.2	2.5	2.6	2.8
Denmark	2.1	3.1	3.1	3.1	3.6	2.5	3.3	3.3	n/a	1.1	0.9	1.2
Germany	1.2	0.9	2.7	3.9	4.2	4.7	8.3	8.3	8.1	2.0	2.0	2.7
Estonia	8.1	10.5	11.4	-12.5	-11.1	-14.2	5.4	5.5	5.7	6.5	6.1	7.5
Ireland	4.3	5.5	6.0	-1.0	-3.1	-3.3	4.8	4.8	4.8	2.7	2.3	2.9
Greece	4.7	3.7	4.3	-9.5	-9.2	-11.4	n/a	n/a	n/a	2.7	2.7	2.9
Spain	3.2	3.5	3.9	-5.9	-7.5	-8.5	8.0	8.0	8.0	2.3	2.2	2.7
France	2.3	1.2	2.0	-0.6	-2.1	-2.0	8.7	8.6	8.6	1.2	1.3	1.6
Italy	1.2	0.1	1.9	-0.5	-1.2	-2.0	n/a	n/a	n/a	1.7	1.7	1.7
Cyprus	4.2	3.9	3.8	-5.0	-5.6	-5.9	3.9	3.8	3.7	2.3	2.2	2.3
Latvia	8.7	10.6	11.9	-12.9	-12.6	-21.1	5.5	5.4	5.2	9.5	10.2	11.5
Lithuania	7.3	7.6	7.5	-7.5	-6.9	-10.7	4.3	4.1	4.1	5.1	5.6	7.1
Luxembourg	3.6	4.0	6.2	11.8	11.1	8.6	4.9	4.9	4.8	2.0	1.9	2.5
Hungary	4.9	4.2	3.9	-8.4	-6.8	-5.9	7.3	7.3	7.3	8.3	7.1	6.4
Malta	0.4	3.0	2.9	-6.4	-8.3	-6.3	6.3	6.3	6.3	-0.2	0.6	0.9
Netherlands	2.0	1.5	2.9	8.6	7.1	9.9	3.2	3.2	3.1	1.4	1.1	1.3
Austria	2.4	2.0	3.1	2.1	2.9	3.7	4.3	4.3	4.2	2.0	1.7	2.1
Poland	5.3	3.5	6.1	-4.4	-1.7	-2.3	9.4	9.1	8.8	2.5	2.1	2.7
Portugal	1.3	0.5	1.3	-8.0	-9.6	-9.8	8.2	8.3	8.3	2.3	1.9	2.0
Romania	8.5	4.1	7.7	-5.0	-8.7	-10.3	7.2	7.2	7.2	4.1	5.0	6.1
Slovenia	4.4	4.0	5.2	-2.6	-2.0	-2.7	4.9	4.8	4.7	4.0	3.4	3.6
Slovakia	5.4	6.0	8.3	-2.5	-7.9	-7.7	11.2	11.1	11.1	1.2	1.2	1.7
Finland	3.7	2.9	5.5	7.7	4.9	5.9	6.9	6.9	6.9	1.6	1.3	1.7
Sweden	4.1	2.9	4.4	6.5	5.8	7.0	5.6	5.7	5.8	1.4	1.2	1.6
UK	3.3	1.9	2.8	-1.6	-2.4	-3.4	5.3	n/a	n/a	1.9	1.8	n/a
EU	2.5	1.7	3.0	0.2	-0.5	-0.7	7.1	7.1	7.0	2.0	1.9	2.3

	Public budget to GDP*			Public debt to GDP			GDP per capita to Ø EU			Price level to Ø EU		
in %	2004	2005	2006	2004	2005	2006	2004	2005	2006	2004	2005	2006
Belgium	0.0	-2.3	0.2	94.3	93.2	89.1	119.3	118.0	117.7	104.4	104.0	104.1
Bulgaria	2.2	1.9	3.3	37.9	29.2	22.8	32.4	33.7	35.0	41.2	42.0	43.6
CR	-2.9	-3.5	-2.9	30.7	30.4	30.4	72.1	73.6	75.9	54.2	57.5	60.1
Denmark	2.0	4.7	4.2	44.0	36.3	30.2	119.4	121.7	122.0	137.9	138.7	137.9
Germany	-3.7	-3.2	-1.7	65.7	67.9	67.9	111.1	109.9	110.2	103.4	102.7	102.2
Estonia	2.3	2.3	3.8	5.2	4.4	4.1	53.4	59.7	65.0	62.0	63.6	66.3
Ireland	1.4	1.0	2.9	29.7	27.4	24.9	135.6	138.7	139.7	124.1	123.6	124.0
Greece	-7.9	-5.5	-2.6	108.5	107.5	104.6	81.4	84.0	85.1	86.2	87.4	88.2
Spain	-0.2	1.1	1.8	46.2	43.2	39.9	96.6	97.8	97.5	89.8	91.1	92.2
France	-3.6	-3.0	-2.5	64.3	66.2	63.9	107.6	108.4	107.1	109.2	106.5	106.0
Italy	-3.5	-4.2	-4.4	103.8	106.2	106.8	103.1	100.6	99.4	104.0	103.3	103.3
Cyprus	-4.1	-2.3	-1.5	70.3	69.2	65.3	87.6	88.8	88.4	89.5	88.2	88.5
Latvia	-1.0	-0.2	0.4	14.5	12.0	10.0	43.7	48.6	53.3	54.8	55.7	58.2
Lithuania	-1.5	-0.5	-0.3	19.4	18.6	18.2	49.0	52.0	54.8	52.5	54.0	55.8
Luxembourg	-1.2	-0.3	0.1	6.6	6.1	6.8	240.7	250.8	256.9	103.8	103.5	104.0
Hungary	-6.5	-7.8	-9.2	59.4	61.7	66.0	61.3	62.5	63.5	60.9	62.5	59.3
Malta	-5.0	-3.1	-2.6	73.9	72.4	66.5	72.0	71.6	71.4	71.9	72.0	72.7
Netherlands	-1.8	-0.3	0.6	52.6	52.7	48.7	124.6	125.4	125.5	104.7	103.5	103.1
Austria	-1.2	-1.6	-1.1	63.9	63.5	62.2	123.4	122.8	122.9	101.8	100.9	100.2
Poland	-5.7	-4.3	-3.9	45.7	47.1	47.8	48.6	49.7	51.2	52.6	61.1	62.2
Portugal	-3.3	-6.1	-3.9	58.2	63.6	64.7	72.1	71.6	70.4	85.7	84.1	84.6
Romania	-1.5	-1.4	-1.9	18.8	15.8	12.4	32.6	34.2	35.9	43.8	55.0	57.9
Slovenia	-2.3	-1.5	-1.4	28.9	28.4	27.8	79.9	81.8	83.6	74.5	74.8	75.0
Slovakia	-2.4	-2.8	-3.4	41.5	34.5	30.7	54.4	57.1	60.2	54.2	55.2	57.6
Finland	2.3	2.7	3.9	44.1	41.4	39.1	111.1	110.4	113.0	122.3	122.2	121.2
Sweden	0.8	2.1	2.2	52.4	52.2	46.9	115.4	114.6	115.7	120.3	117.3	116.6
UK	-3.1	-3.1	-2.8	40.3	42.2	43.5	118.0	117.5	117.0	106.7	108.0	109.1
EU	-2.7	-2.4	-1.7	62.5	63.3	62.2	100.0	100.0	100.0	100.0	100.0	100.0

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