



EU News

Monthly Journal

Number 56,
May 2008

- | | |
|----------------|--|
| Page 2 | Budget reform is among the topics of Czech presidency |
| Page 2 | EC's Outlook: GDP growth in the EU is expected to ease |
| Page 5 | The EU and Serbia have signed a key agreement |
| Page 6 | EU tighten up air quality regulations |
| Page 11 | Topic of the Month: Report on the National Euro Changeover Plan for the CR |



EU OFFICE

Česká spořitelna, a.s.
Poláčkova 1976/2
140 00 Praha 4
tel.: +420 261 073 308
fax: +420 261 073 004

EU_office@csas.cz
<http://www.csas.cz/eu>

Petr Zahradník
Head of EU Office
+420 261 073 019
pzahradnik@csas.cz

Jan Jedlička
+420 261 073 484
jjedlicka@csas.cz

Alena Smolíková
+420 261 073 308
asmolikova@csas.cz

under the auspices of Pavel Kysilka
member of the Board of ČS

Dear readers,

Considering this April in terms of European integration, we could dare to say – naturally with a certain degree of intended simplification – that it was governed by the single Euro currency, from our point of view as well as from the point of view of the EU as a whole. Consider the update of the Euro Changeover National Plan of the Czech Republic, Slovakia's impressive finish marked with assessments and evaluations that increase the value of the Slovak crown. And finally, the first information was provided on how the changeover in Cyprus and Malta has succeeded. If you are interested in extensive and analytical documents, we recommend the current issue of the European Economy, a long-term series, which focuses particularly on the impact of the economic and monetary union on economic growth and employment.

April's events also paved the way to the Euro area for Slovakia within the horizon of the beginning of next year, as Slovakia received welcoming and positive references from the European Commission and the European Central Bank, and thus it finds itself actually at the beginning of the final straight which it is expected to definitely finish within the following two months.

The currency issue was also discussed by the European Parliament in terms of stability of the monetary union as a whole, and the discussions to some extent outline the decline of the economic cycle phase. This is exactly when it is customary to use instruments such as value added tax (or consumption tax) in order to decrease fuel prices at the moment when they are growing disproportionately, to pay attention to the impacts of the "wage infection" and to consider what wage growth is still justified in this period, or ask resignedly whether interest rates can solve all the problems.

There were, however, more issues attracting attention in the EU. There were some personnel changes in the "Cyprus Portfolio" within the European Commission when Commissioner Kyprianou resigned (and meanwhile became the Cypriot Minister of Foreign Affairs) and was replaced by new Commissioner Androula Vassiliou.

Another thing worth mentioning is the development on the waiting list of membership applicants. Serbia entered into the Stabilisation and Association Agreement with the EU with a transition target to obtain candidate country status; Croatia, on the other hand, as an official candidate and the most probable new member of the EU discussed specific points to be completed within the accession talks within the respective forum.

Considering the international relations of the EU we should obviously mention further development and attitudes towards China and Tibet.

Petr Zahradník



Marek Mora Deputy Minister of European Affairs presented the economic issues of the coming Czech presidency of the EU authorities. According to this spring's prognosis of the European Commission the GDP growth in the EU is expected to ease. Inflation, on the other hand, is expected to remain relatively high. The European Court of Justice decided that the requirements to set minimum wages for workers posted abroad to perform public contracts are illegal.

POLITICS

Budget reform to be included among the topics of Czech presidency

Marek Mora, Deputy Minister for European Affairs presented **economic issues included in the newly-formed priorities of the Czech presidency** of the Council of the EU in a seminar focused on European economy. Following France, the Czech Republic is due to take up the presidency in the first half of 2009.

Mora noted that the Czech government had been concerned with the aspects of its presidency since February 2007 and a new document on the prepared priorities should be published in June this year. At present, there are five priorities that form the more generic topic of **“Europe without Barriers”**, which was selected by the government to be the motto of the Czech presidency:

1. **A competitive and open Europe** – this issue is related to the Lisbon strategy (particularly support for research, development and innovations), competition and the removal of administrative barriers. The government may also initiate a discussion on the implementation of the Directive on Services and its consequences.
2. **Sustainable and safe energy** – the Czech Republic will focus primarily on the safety of energy supplies and the operation of internal energy markets as well as a pan-European transfer network. Mora said that a common energy policy would be advantageous for the Czech Republic. Considering climate change, Mora admitted that this would be a major challenge as the government seeks a consensus, although such a consensus is difficult to reach.
3. **A budget for the future of Europe** – the Czech presidency focuses on initiating discussions on the budget. The Czech Republic would like to direct the discussion towards the question of which policies make more sense within the EU and whether there are better means for funding than using the EU budget.
4. **Europe as a global partner** – the presidency will focus in particular on transatlantic cooperation (mainly economic and business cooperation), the Western Balkans and Eastern Europe.
5. **A secure and free Europe** – in terms of the economic framework of this issue the Czech presidency intends to focus on the regulation of economic migration from outside the EU.

It is a positive fact that within the EU the Czech Republic presents itself as a pro-liberal state. It will, however, be

rather **difficult to put its ideas through** – also due to the fact that just before the Czech Republic France will hold the presidency, and France backs exactly the opposite opinions in a number of areas.

<http://www.vlada.cz/cs/eu/predsednictvi/predsednictvi/default.html>

ECONOMY AND EURO

Inflation increases, GDP growth in the EU is expected to ease

The European Commission's report projects a **lower GDP growth, record inflation and a growth of public debt** in the European Union. This is implied by the latest estimates of the development of the European economy.

Economic growth in the European Union is expected to decrease from 2.8% last year to 2% this year and 1.8% in 2009. The **most recent estimates are half a percentage point lower than the previous estimates** from last autumn, said Joaquín Almunia, the Economic and Monetary Affairs Commissioner.

Further slowdown of the EU economy results from **“less favourable global circumstances”**. This in particular includes a threatened recession in the United States, the ongoing turmoil in the financial markets, and growing energy prices. According to Almunia, the outlook of the EU economy, however, remains far better than the outlooks of leading EU competitors – the United States and Japan.

Joaquín Almunia also stated that **higher inflation reflecting an increase in food and energy prices**, likely to reach 3.6% this year, is a serious problem for further economic growth. On the other hand, Almunia claimed, inflation is expected to decrease to 2.4% in 2009.

European Commission's Spring Economic Outlook

| Indicator (%) | EU-27 | | | ČR | | |
|--------------------------------------|-------|------|------|------|------|------|
| | 2007 | 08 | 09 | 2007 | 08 | 09 |
| GDP yoy growth | 2.8 | 2.0 | 1.8 | 6.5 | 4.7 | 5.0 |
| inflation | 2.4 | 3.6 | 2.4 | 3.0 | 6.2 | 2.7 |
| public finance deficit ^{*)} | -0.9 | -1.2 | -1.3 | -1.6 | -1.4 | -1.1 |
| unemployment rate | 7.1 | 6.8 | 6.8 | 5.3 | 4.5 | 4.4 |

Source: European Commission, *) as of GDP

The expected slowdown is very likely to have a **negative impact on public debts** of the Member States.

The Commission's **forecast for growth in the Czech Republic has decreased to 4.7%** for this year following last year's growth of its national economy at an unrecorded pace

of 6.5%. According to the most recent estimates, inflation is expected to reach 6.5% this year compared to the previously expected 3.8% estimated in autumn 2007. The increase is, however caused in particular by the growth of food and fuel prices at the end of last year and certain administrative measures such as an increase of the GDP from 5% to 9% or introducing the environmental tax. The Commission estimates that inflation will fall to 2.7% in 2009.

In terms of public finance deficit in the Czech Republic, the Commission is rather optimistic compared to autumn. Last year, it expected a deficit of 2.8% of the GDP for this year while now it estimates a deficit of 1.4% and only 1.1% of the GDP in 2008 and 2009, respectively.

<http://europa.eu/rapid/pressReleasesAction.do?reference=IP/08/649>

ENTERPRISE

Small Business Act to support job creation

The EU Ministers called upon the Commission to prepare a “Small Business Act” in a form which would **support small and medium-sized enterprises in creating new jobs**. The Ministers are concerned that due to competition from countries where labour costs are lower, Europe may lose a number of jobs presently available in large industrial enterprises.

According to Commissioner Günter Verheugen, responsible for enterprise and industry policy, we may expect that the number of jobs in large industrial enterprises in the EU will be reduced because there is growing **competitive pressure from low-cost economies** to move heavy industry outside Europe. “The only way to compensate for this loss is to create a sufficient amount of quality and stable jobs in small and medium-sized enterprises.”

The Ministers agreed that the initiative should aim at supporting small innovative European enterprises in their growth by **eliminating obstacles such as insufficient funding** or difficulties when exercising exclusive rights related to their own innovations. Competition Commissioner Neelie Kroes said that the Small Business Act would also facilitate state aid to SMEs and set up policies to involve a higher percentage of women in SMEs.

“I can promise that **this significant package** shall include a number of legislative drafts, political measures to be adopted within the EU as well as in each Member State,” said Verheugen after the meeting of Ministers.

Small and medium-sized enterprises in the EU create approximately 70% of all jobs; their effort to support and maintain jobs seems legitimate. Those enterprises need

primarily a simple and stable legislative environment. Their competitiveness is **hindered by unnecessary bureaucracy and constantly changing regulatory standards**. We are concerned whether the “act” under debate will be of any benefit in this context.

<http://europa.eu/rapid/pressReleasesAction.do?reference=IP/08/165>

EMPLOYMENT AND SOCIAL POLICY

Court of Justice against minimum wage for posted workers

The European Court of Justice has decided that **claims that require setting a minimum wage for workers posted abroad** to perform public contracts are illegal.

The laws of the German Federal State of Lower Saxony require that public order contractors comply with labour conditions and minimum wage levels as stipulated in concluded collective agreements. The same conditions apply to subcontractors.

The construction company Objekt und Bauregie GmbH & Co, which won a tender for the construction of a local prison, engaged a Polish undertaking as a subcontractor, which employed workers at half of the minimum wage agreed for the given region and sector. The client of the public contract – the Federal State of Lower Saxony – claimed a penalty from Objekt und Bauregie for breaching the law. The case was presented to the regional court which **referred it to the European Court of Justice with a request** for a preliminary ruling on whether the Lower Saxony act is, in this case in conflict with European legislation.

The ultimate judicial body in the EU decided that the legislation of Lower Saxony, which requires that public contract contractors comply with local collective agreements, **is in conflict with the EU directive on the posting of workers**. The judges in Luxembourg admitted that Member States are entitled to require that foreign companies pay at least minimum wage to posted workers. However, in this specific case, the limitation of freedom to provide services was not justified by the social protection of workers.

On the date when the ECJ adopted this decision, the European Commission passed a **recommendation regarding a solution for a growing number of problems related to posting workers abroad**. It focuses mainly on a more effective exchange of information between the Member States and on better access to such information.



In terms of agriculture, the Council of the EU ultimately adopted a reform of the wine industry in the European Union. The adopted reform represents a good compromise that does not harm any Member States. Croatia expressed strong interest in completing accession talks next year and access the EU as soon as 2010. We believe this is too optimistic a deadline. Serbia took an important step on its long journey to the European Union. It signed the Stabilisation and Association Agreement with Brussels in April.

The ECJ proved that the free movement of services and persons is a very important aspect of EU integration, which should be **defended against the Member States' protectionist practices**. In this respect, the ECJ deserves appreciation.

<http://curia.europa.eu/jurisp/cgi-bin/gettext.pl?where=&lang=en&num=79919596C19060346&doc=T&ouvert=T&seance=ARRET>

<http://europa.eu/rapid/pressReleasesAction.do?reference=P/08/514>

ENERGY AND TRANSPORT

Transport Ministers come closer to cabotage agreement

The Member States came closer to an agreement that would put a halt to the present practice when – because of their protectionist efforts – **empty lorries are driven on EU roads**.

The key objective of the discussed road transport package is to enable, by abolishing a number of national restrictions, lorries from one Member State to **transport goods within another Member State** (i.e. cabotage).

As a preliminary compromise, the Member States agreed to allow haulage contractors **three journeys to pick up and deliver local goods in the country of unloading**. However, they will still not be allowed to carry goods without limitation on their return journey or deliver goods to third countries.



The compromise follows a dispute between the liberal states demanding the opening of the haulage market (**Germany, Belgium, Netherlands, Luxembourg, Czech Republic**), and other states headed by the United Kingdom concerned that stronger low-cost economies could impair competition.

Considering that the major topics of the European Union include energy safety and the fight against climate change, **enabling cabotage seems to be a clear and logical measure**. The existing practice, when lorries return empty to their countries of origin results in completely pointless exhaust gas emissions, heavy traffic, increased noise etc. A number of countries, however, seem to be focused solely on their private national ground; they deem global issues rather unimportant and their politicians prefer to support the interests of local haulage groups. We hope for a victory of common sense, which will result in opening of the haulage market. Unfortunately, the published compromise is just a small step forward.

http://www.consilium.europa.eu/uedocs/cms_Data/docs/pressdata/en/trans/99802.pdf

http://www.eu2008.si/en/News_and_Documents/Press_Releases/April/0407TTE_cestni_paket.html

AGRICULTURE

The Council of Ministers has adopted wine reform

Wine reform was adopted by the Agriculture Ministers of the Member States after an exhausting three days of negotiations last December. The reform was formally adopted by the Council yesterday and it is **projected to become effective from the beginning of August 2008**.

The changes should bring balance to the wine market, **phase out existing wasteful measures** and allow advantageous investment of funds saved in this manner to boost the competitiveness of European wines.

The main points of the reform include:

- **National financial frameworks:** Member States will be able to adapt measures to the particular situation in their territory. The promotion of wines in third countries expected to form a compulsory part of producers' expenses thus becomes voluntary.
- **Planting rights** will be abolished gradually by the end of 2015 (with the possibility to continue them until 2018)
- **Emergency distillation** will be abolished at Member States' discretion during 2011-2012, the maximum expenditure to be reduced gradually from now on.
- Similarly to other agricultural sectors in the EU, the **Single Farm Payment shall be introduced**.
- There will be a **three-year voluntary grubbing-up scheme**. The total area for grubbing-up is 175,000 hectares of vineyards. Certain criteria have been adopted to stop extending the grubbing-up in the Member States.



- The **labelling of wines** will be easier; the quality wine concept will be based on wines with protected geographical and place of origin designations.
- **Enrichment with sugar** will be permitted but the maximum levels will be reduced. For exceptional reasons, Member States may request an increase of the level of enrichment.

The adopted reform represents a good compromise that approximates the European wine industry towards the reality of a competitive environment.

<http://europa.eu/rapid/pressReleasesAction.do?reference=P/08/656>

RESEARCH

EU to support the research and development of SMEs

By a vast majority, the MEPs adopted a legislative draft of a decision recommending that the EU **co-finance the EUROSTARS research programme** for small and medium-sized enterprises. The funds from the EU budget are expected to be EUR 100 million. Considering the agreement negotiated with the Council beforehand, the decision may become effective shortly.

EUROSTARS was established by an **intergovernmental network for industrial development called EUREKA**. It will primarily fund research and development activities of SMEs. However, universities, research organisations and large companies can also participate in the programme. The funding will be provided by public as well as private resources. The European Union is to co-finance it with EUR 100 million from the Seventh Research Framework Programme, and another EUR 300 million will be provided by the 30 participating states. In addition to the 25 EU Member States, Norway, Switzerland, Iceland, Turkey and Israel will participate in the programme.

The European Commission expects further funding of EUR 133 to 400 million to be provided by the private sector (depending on the rate of co-financing), according to the Commission's estimates.

The overall **funds related to this programme may be expected to reach EUR 533 to 800 million**. "Each project should receive approximately EUR 1.5 million," said Luuk Borg, EUREKA representative.

http://www.europarl.europa.eu/news/expert/infopress_page/057-26196-100-04-15-909-20080408IPR26047-09-04-2008-2008-false/default_en.htm

ENLARGEMENT

Croatia will do "whatever it takes" to join the EU in 2010

Croatia's Foreign Minister Gordan Jandrović believes that his country will meet the deadline (June 2008) for the completion of the eleven criteria set by Brussels as a condition for **opening accession talks with Croatia**.

Enlargement Commissioner Olli Rehn said that negotiations with Croatia had been advancing well and that **Croatia could join the EU in 2010** provided it met all the criteria by June 2008. "Croatia has good prospects for progress but also plenty of work ahead, particularly on judicial and public administration reform and in the fight against corruption," said Olli Rehn.

"I hope that Croatia will soon be able to meet the outstanding criteria in the negotiations so that some of the more difficult chapters, such as competition policy and public procurement, can be opened," Rehn said. If the country misses the June deadline, Rehn warned that the technical timetable for the conclusion of negotiations in 2009 would become **"almost impossible to achieve"**.

Croatia's Foreign Minister responded: "It will be hard work but I believe we will be ready by 2010. We're ready to do it and we will do it."

Zagreb's clear pro-European focus cannot be doubted. We believe however that the 2010 deadline for Croatia's accession to the EU is rather optimistic. Please note that the EU has not yet adopted the corresponding legal framework. The Lisbon Treaty, which would enable further enlargement has been undergoing a ratification process and was ratified by only 11 out of 27 Member States as of the beginning of May. Moreover, Croatia had opened only 18 of 35 accession chapters by the end of April and had managed to complete only two of them – science and education. Therefore, we believe that **Croatia's accession is more likely in 2011 or 2012**.

http://ec.europa.eu/enlargement/candidate-countries/croatia/index_en.htm

The EU and Serbia have signed a key agreement

The Ministers of Foreign Affairs of the EU Member States and pro-European Serbian President Boris Tadić have **signed the long-postponed Stabilisation and Association Agreement**. Serbian Prime Minister Vojislav Koštunica, however, claimed the Agreement illegal and stated that the next government would annul it. With respect to the EU, the



There is an increasing number of biofuel opponents who point out that the use of biofuels results in the destruction of rain forests and a worldwide increase of food prices. These critics were joined by the European Environment Agency. The Council adopted a new directive introducing binding limits for the emissions of fine dust particles in the atmosphere. The European Commission is performing the necessary legal steps required to enable in-flight mobile phone use.

Serbian government was divided even before the signing of the Agreement. The Prime Minister's nationalist party deems such step an approval of Kosovo's independence.

The present government fell apart particularly due to overwhelming divergences of opinion regarding Kosovo and further approximation to the EU. Therefore, Serbian President Boris Tadić announced **early parliamentary elections for 11 May 2008**.

The Stabilisation and Association Agreement provides Serbia with **improved business relations and enables easier travelling** within the EU. Entering into the Agreement is deemed a key step on Serbia's way to accession to the EU.

It was only possible to sign the Agreement after the Dutch and Belgian Foreign Ministers waived the condition that the Agreement would not be signed or it would be of no benefit to Serbia, until Serbia proved **active assistance to the International Criminal Tribunal for the former Yugoslavia (ICTY)**.

The Stabilisation and Association Agreement is a necessary milestone preceding accession to the EU which, however, is quite unlikely for Serbia to be part of the agenda in the years to come. Serbia has not yet been granted official candidate country status, which has been granted only to Croatia, the Former Yugoslavian Republic of Macedonia (FYROM) and Turkey. **Serbia, therefore, is not likely to join the EU earlier than 2015.**

http://www.eu2008.si/en/News_and_Documents/Press_Releases/April/0429Gaerc_ZBalkan.html

ENVIRONMENT

Will EU cease to support biofuels?

The European Union should **reassess its target to increase the share of biofuels used in transport to 10%** until a comprehensive scientific study on the environmental risks has been processed, the states European Environment Agency (EEA).

In March of last year the EU leaders agreed to **increase the share of biofuels from the present 2% to 10% by 2020**. This was based on concerns regarding the increase of oil prices, energy safety and climate change. The target was transferred to a legislative draft in January 2008 as a part of a more general Directive on Renewables.

The EEA Scientific Committee responded to a number of critics and claimed this target **too ambitious an experiment**, with side effects that would be difficult to predict and control. The EEA Report doubted the benefits of first-generation biofuels made from agricultural crops for fossil fuel savings and the reduction of greenhouse gas emissions.

The EEA also warns that the land required to meet the 10% target **exceeds the available land area in the EU**. Imports of biofuels could help, but that would accelerate the destruction of rain forests. Another negative feature related to the spread of biofuel use is an unrecorded worldwide increase of food prices, which in some poor areas results in massive starvation of the population.

The EEA thus joins other critics (lately for instance the World Bank, French Minister of Agriculture Michel Barier and British Prime Minister Gordon Brown) who claim that in terms of the environment as well as the society, first-generation biofuels have more negative than positive aspects. This may perhaps be improved by **second-generation biofuels** made from waste biomass, grass and wood. Czech Minister of the Environment Martin Bursík noted that second-generation biofuel production should commence in the Czech Republic within four years.

<http://www.eea.europa.eu/highlights/suspend-10-percent-biofuels-target-says-eeas-scientific-advisory-body>

EU tighten up air quality regulations

The Council adopted a new directive introducing new compulsory **limits for the emission of fine particles** that cause respiratory problems and are estimated to shorten average life expectancy by up to three years.

According to the European Commission, diseases linked to air pollution in Europe result in some 370,000 premature deaths each year, of which 350,000 are **due to atmospheric microparticles or dust** of a diameter of less than 2.5 micrometers, known as PM2.5 which originates from transport exhaustion gases. Those particles are also generated in agricultural production and in small-sized industrial plants.



The **air quality directive merges five existing measures into one** and focuses on reducing the emissions of major airborne pollutants, in particular fine dust particles.

The directive obliges the Member States to **reduce the concentration of PM2.5 fine particles in urban areas** by an average of 20% by 2020 compared to the 2010 levels. The concentration of fine particles should be reduced below 20 by 2015. In other areas the Member States will have to respect the PM2.5 limit value set at 25 mg/m³ (by 2010 at the earliest and by 2015 at the latest).

In a statement annexed to the directive the European Commission announces a **list of new legislative proposals** it plans to put forward in 2008 for improved air quality. These include further reduction of the Member States' permitted national emissions of key pollutants, the reduction of emissions associated with refuelling cars at service stations, and the need to address the sulphur content of fuels.

<http://europa.eu/rapid/pressReleasesAction.do?reference=P/08/570>

INFORMATION SOCIETY

In-flight mobile phone use to become a reality soon

The Commission has paved the way for the use of mobile phone services during flights all over Europe.

With some exceptions, consumers could not use mobile phones on board aircrafts because their signal affects the safety of aircraft navigation systems. The new system will prevent phones from connecting directly to mobile networks on the ground. **Communication will be realised via satellites** connecting to the normal networks. Travellers will have to postpone making a phone call or sending a message until the plane reaches a certain minimum height.

Every aircraft will have to be equipped with a mobile phone network; therefore in-flight mobile phone use is expected to be subject to additional charges. **The rates, in contrast to roaming, will not be regulated for the time being**, but only up to the moment when the Commission declares that they are unreasonably high.

Commissioner Viviane Reding commented on the Commission's decision: "Pan-European telecom services, such as in-flight mobile telephony, need a regulatory 'one-stop shop' to operate throughout Europe and that is why the Commission has adopted this measure. One regulatory decision for all European airspace was required for this new service to come into being."

The harmonisation of licensing requirements for airlines within the European Union will ensure smooth operation of the system. **Licences granted to operate new networks nationally will apply throughout the EU**. Otherwise, if the

licensing systems were different in every Member State, for instance Air France would be required to obtain a Hungarian licence when flying over Hungary.

The first in-flight mobile phone services should be provided as early as this year.

<http://europa.eu/rapid/pressReleasesAction.do?reference=P/08/537>

The European Parliament has approved the Galileo navigation system

The MEPs and Transport Ministers of the Member States have approved a compromise draft of the **regulation establishing the Galileo satellite navigation system**. The aim of the project is to make Europe independent of the existing navigation systems: the United States' GPS and the Russian Glonass.

In addition to the EU Member States, the **USA, China, Israel, Ukraine, India, Morocco and South Korea** participate in the Galileo satellite navigation project.

Galileo will be implemented in two stages. **The first – the deployment phase** – will commence this year and last until 2013. Then the **second – the exploitation phase** – will follow, during which the management, standardisation, maintenance and marketing activities are supposed to take place.

The first phase of the implementation of Galileo will be funded entirely by the EU, **particularly with EUR 3.4 billion**. According to the directive, in 2010 the Commission should present a proposal on the system funding after 2013.

The system infrastructure will be built upon public tenders and procurements and the infrastructure will be split into six main work packages:

- System engineering support,
- Ground mission infrastructure completion,
- Ground control infrastructure completion,
- Satellites,
- Launchers,
- Operation

Legislation on the new navigation system, which is expected to be **more precise than the United States' GPS**, also establishes an agency for the Galileo management. Prague is among the places that have offered to become its main office.

http://www.europarl.europa.eu/news/expert/infopress_page/052-27280-112-04-17-909-20080422IPR27268-21-04-2008-2008-false/default_en.htm



In relation to violent repressions by Chinese armed forces in Tibet, the European Parliament called upon the EU to adopt a common approach to the participation of leading European representatives at the opening ceremony of the Olympic Games in Beijing. A DG Ecfm study showed that the introduction of the Euro had a positive impact on their economic performance. The results are, however cast in doubt due to the fact that the provided data cover a relatively short period. the Euro was established only in 1999.

1 APRIL

Instrument for Stability - Annual Action Programme 2008 adopted: http://ec.europa.eu/external_relations/cfsp/doc/si_action_prog_2008.pdf

WTO condemns US and Canadian sanctions on EU goods in hormone-treated meat dispute: http://ec.europa.eu/trade/issues/respectrules/dispute/pr310308_en.htm

2 APRIL

Oil bulletin - Weekly prices 2008: http://ec.europa.eu/energy/oil/bulletin/2008_en.htm

3 APRIL

EU wants a "boring Western Balkans", Rehn tells Foreign Affairs Committee: http://www.europarl.europa.eu/news/expert/infopress_page/030-25655-092-04-14-903-20080403IPR25654-01-04-2008-2008-false/default_en.htm

Commission presents White Paper on compensating consumer and business victims of breaches of the competition rules: <http://ec.europa.eu/comm/competition/antitrust/actionsdamages/index.html>

4 APRIL

Poland's immigration detention centres open to MEPs: http://www.europarl.europa.eu/news/public/story_page/018-25228-168-06-25-902-20080331STO25215-2008-16-06-2008/default_en.htm

7 APRIL

Hearing told of high levels of child poverty in Europe: http://www.europarl.europa.eu/news/public/story_page/047-25411-091-03-14-908-20080401STO25410-2008-31-03-2008/default_en.htm

Prospects for agricultural markets and income 2007-2014: <http://ec.europa.eu/agriculture/newsroom/en/286.htm>

Research: Smoking genes? European scientists discover first case of genetic dependence to nicotine: <http://ec.europa.eu/research/index.cfm?pg=newsalert&lq=en&year=2008&na=na-030408>

8 APRIL

2861st Transport, Telecommunications and Energy Council meeting: http://www.consilium.europa.eu/cms3_applications/applications/newsroom/loadDocument.ASP?cmsID=221&LANG=en&directory=en/trans/&fileName=99802.pdf

Combating cancer on plenary agenda Wednesday: http://www.europarl.europa.eu/news/public/story_page/066-25819-099-04-15-911-20080407STO25818-2008-08-04-2008/default_en.htm

[25819-099-04-15-911-20080407STO25818-2008-08-04-2008/default_en.htm](http://www.europarl.europa.eu/news/public/story_page/066-25819-099-04-15-911-20080407STO25818-2008-08-04-2008/default_en.htm)

Eurostat: Micro enterprises accounted for 30% of those employed in the non-financial business economy: http://epp.eurostat.ec.europa.eu/pls/portal/docs/PAGE/PGP_PRD_CAT_PREREL/PGE_CAT_PREREL_YEAR_2008/PGE_CAT_PREREL_YEAR_2008_MONTH_04/4-08042008-EN-AP.PDF

Share of total employment in the SMEs:

| | | | |
|------------|------|-------------|------|
| Cyprus | 84.2 | Austria | 67.4 |
| Greece | 82.0 | Netherlands | 67.3 |
| Portugal | 82.0 | EU-27 | 67.0 |
| Italy | 81.2 | Belgium | 66.6 |
| Spain | 78.8 | Slovenia | 66.4 |
| Estonia | 78.1 | Denmark | 66.1 |
| Latvia | 75.6 | Sweden | 63.2 |
| Lithuania | 73.0 | France | 61.4 |
| Bulgaria | 72.6 | Romania | 60.9 |
| Hungary | 70.9 | Germany | 60.2 |
| Luxembourg | 70.8 | Finland | 58.5 |
| Poland | 69.9 | UK | 54.0 |
| CR | 68.9 | Slovakia | 53.9 |
| Ireland | 67.5 | Malta | n/a |

Source: Eurostat, for 2005

9 APRIL

Free-trade agreement with ASEAN: conditional backing from Trade Committee: http://www.europarl.europa.eu/news/expert/infopress_page/026-25904-099-04-15-903-20080407IPR25903-08-04-2008-2008-false/default_en.htm

10 APRIL

Transport: Commission initials civil aviation agreements with India: http://ec.europa.eu/transport/air_portal/international/pilars/global_partners/india_en.htm

11 APRIL

Tibet: MEPs urge joint EU stance on Olympic Games opening ceremony: http://www.europarl.europa.eu/news/expert/infopress_page/030-26208-100-04-15-903-20080408IPR26107-09-04-2008-2008-true/default_en.htm

14 APRIL

Expenditure of the Institutions in 2009: http://www.europarl.europa.eu/news/expert/infopress_page/034-26202-100-04-15-905-20080408IPR26053-09-04-2008-2008-false/default_en.htm



Employment, Social Affairs and Equal Opportunities: Social Europe can take on globalisation:
http://ec.europa.eu/employment_social/emplweb/news/news_en.cfm?id=385

15 APRIL

2862nd Agriculture and Fisheries Council meeting:
http://www.consilium.europa.eu/cms3_applications/applications/newsroom/loadDocument.ASP?cmsID=221&LANG=en&directory=en/agricult/&fileName=99883.pdf

16 APRIL

Trade: EU and Montenegro sign bilateral WTO accession agreement: http://ec.europa.eu/trade/issues/bilateral/regions/balkans/pr150408_en.htm

17 APRIL

Research: Impact of climate change on marine algae:
http://ec.europa.eu/research/headlines/news/article_08_04_16_en.html

Economic papers - The Impact of the introduction of the euro on Growth and Employment:
http://ec.europa.eu/economy_finance/publications/publication_summary12415_en.htm

EU launches dialogue with Brazil to improve social cohesion: http://ec.europa.eu/employment_social/emplweb/news/news_en.cfm?id=386

18 APRIL

More cross border financial services under consideration:
http://www.europarl.europa.eu/news/public_story_page/008-26640-168-06-25-901-20080415STO26629-2008-16-06-2008/default_en.htm

Better Regulation - Commission cuts unnecessary administrative burdens in EU company law:
http://ec.europa.eu/enterprise/newsroom/cf/itemlongdetail.cfm?item_id=1409

21 APRIL

2863rd Justice and Home Affairs Council meeting:
http://www.consilium.europa.eu/cms3_applications/applications/newsroom/loadDocument.ASP?cmsID=221&LANG=en&directory=en/jha/&fileName=99991.pdf

Commissioner Mandelson urges closer EU-Japan ties:
http://ec.europa.eu/trade/issues/bilateral/countries/japan/pr210408_en.htm

22 APRIL

Foreign Affairs Committee urges faster pace of reform in Turkey: http://www.europarl.europa.eu/news/expert/infopress_page/030-27142-112-04-17-903-20080421IPR27141-21-04-2008-2008-false/default_en.htm

23 APRIL

New brochure - "Investing in our future. The European Union's Financial Framework 2007-2013":
http://ec.europa.eu/budget/library/publications/financial_publications/investing_2007-2013_en.pdf

How to fight organ shortages and "transplant tourism":
http://www.europarl.europa.eu/news/expert/infopress_page/066-27086-112-04-17-911-20080418IPR27078-21-04-2008-2008-true/default_en.htm

2006 budget discharge: Better supervision of the Structural Funds: http://www.europarl.europa.eu/news/expert/infopress_page/035-27089-112-04-17-905-20080418IPR27081-21-04-2008-2008-false/default_en.htm

24 APRIL

Drugs policy: civil society can play a key role say MEPs:
http://www.europarl.europa.eu/news/expert/infopress_page/019-27278-112-04-17-902-20080422IPR27266-21-04-2008-2008-true/default_en.htm

25 APRIL

Immigration: local and regional authorities demand to be heard!: <http://www.cor.europa.eu/pages/PressTemplate.aspx?view=detail&id=7f4e7731-ff56-40c3-b31d-bbb0988d5f6d>

28 APRIL

Commission and Russia agree to strengthen dialogue on fisheries: http://ec.europa.eu/fisheries/press_corner/press_releases/2008/com08_34_en.htm

EU and China start high-level economic and trade talks:
http://ec.europa.eu/trade/issues/bilateral/countries/china/pr250408_en.htm

29 APRIL

Research: ACTIVE promotes knowledge across Europe:
http://ec.europa.eu/research/infocentre/article_en.cfm?id=research/headlines/news/article_08_04_28_en.html&item=Infocentre&artid=7153

30 APRIL

2865th General Affairs and External Relations Council meeting: http://www.consilium.europa.eu/cms3_applications/applications/newsroom/LoadDocument.asp?directory=en/gena/&filename=100227.pdf

Committee of the Regions: OPEN DAYS 2008: 'Regions and cities in a challenging world':
<http://www.cor.europa.eu/pages/PresentationTemplate.aspx?view=detail&id=2eab20ca-54d7-4532-bb4c-7c3812aba2fa>



Information service

The beginning of May will be significant especially for Slovakia as it, with close attention, awaits the recommendation of the European Commission and the European Central Bank whether its economy is ready to adopt the Euro in the following year. Considering historical experience we may assume that although this is just a recommendation, the Finance Ministers of Member States who are to make the ultimate decision on the introduction of the Euro in Slovakia, are likely to follow the recommendation.

Meeting of the key EU institutions

| | | |
|----------------------|---------------------------|---|
| 5.-6.5.2008 | Brdo, Slovenia | - Informal Meeting of Transport Ministers |
| 7.-8.5.2008 | Brussels, Belgium | - EP Plenary Part-Session – Appearance of the EU Council representative before the EP |
| 15.-5.2008 | Brussels, Belgium | - Economic and Financial Affairs Council (ECOFIN) |
| 19.-20.5.2008 | Brussels, Belgium | - Agriculture and Fisheries Council |
| 20.-21.5.2008 | Strasbourg, France | EP Plenary Part-Session – Appearance of the EU Council representative before the EP |
| 21.-22.5.2008 | Brussels, Belgium | - Education, Youth and Culture Council (EYC) |
| 25.-27.5.2008 | Brdo, Slovenia | - Informal Meeting of Agriculture Ministers / Meeting of the Special Committee on Agriculture |
| 26.-27.5.2008 | Brussels, Belgium | - General Affairs and External Relations Council |
| 29.-30.5.2008 | Brussels, Belgium | - Competitiveness Council |

Public consultation on EU legislation

| Topic of the consultation | Organiser | Deadline |
|---|------------------|-----------------|
| Implementation of The Marco Polo II programme | DG TREN | 30.5.2008 |
| Potential refinements to the Capital Requirements Directive | DG MARKT | 16.6.2008 |
| Possible revision of the existing legislation on emergency oil stocks | DG TREN | 17.6.2008 |
| Recasting of the Energy Performance of Buildings Directive | DG TREN | 20.6.2008 |
| EU Action to promote Offshore Wind Energy | DG TREN | 20.6.2008 |



Main topic

In April 2008, the Czech Government approved the Report on the Performance of the National Euro Changeover Plan for the Czech Republic, upon which it complied with its duty to update the Plan regularly. The Report is important because – although no date has been fixed yet for when we should enter the Euro area – a number of key procedural issues related to the process will be further developed and is expected to help the Czech Republic and all its entities to become ready for the future Euro changeover.

REPORT ON THE PERFORMANCE OF THE NATIONAL EURO CHANGEOVER PLAN FOR THE CZECH REPUBLIC

The adopted Report on the Performance of the National Euro Changeover Plan for the Czech Republic describes the situation regarding the performance of the tasks stipulated in the National Plan and sets out new tasks for this year and for the beginning of 2009. It recommends focusing on the following areas:

- Preparing instruments protecting consumers from unjustified price increases during the Euro changeover,
- Developing recommended procedures for small and medium-sized enterprises in terms of preparations for the Euro changeover,
- Focusing on methodical preparation of the financial sector for the Euro changeover.

INITIAL CONDITIONS OF THE NATIONAL PLAN UPDATE

The National Plan was approved in a resolution of the Czech government in April 2007. It presents an outline and sequencing of the required steps and tasks in various areas of the Czech economy necessary for a successful Euro changeover in the Czech Republic. Some essential ideas have already been formulated in this respect. These include e.g. a single-step transition to the Euro (the “Big Bang”), an institutional provision for the entire process or basic principles to be complied with during the Euro changeover (continuity of legal instruments, consumer protection against unjustified price increase, minimization of costs for the private and public sectors, not harming the citizens etc.).

The presented Report on the Performance of the National Euro Changeover Plan for the Czech Republic aims at two key areas:

- 1) **It recommends that the government make a decision on the adaptation of the legislation regarding the Euro changeover on the basis of independent material.**
- 2) **it quantifies the rough budget impacts required to formulate the government’s political approach to the principle of not harming the citizens during the Euro changeover within public administration.**

An updated version of the National Plan will become reasonable only after the compulsory date for the Euro changeover will have been determined as this will enable making a revision of all the performed works and preparing

a time schedule for all the remaining tasks. The Report emphasizes important characteristics of the update, i.e. a single determination of the working groups’ tasks in a general format $\text{€} \pm n$, where n is the number of months prior to or after the Euro changeover.

The Report is based on the opinion that **there is a number of activities related to the Euro changeover which it is possible and advisable to perform even without knowing the compulsory deadline for the Euro changeover.** These include mainly methodical activities that are of a general nature and therefore not in conflict with the principle to spend funds purposefully.

COMPLETED OR NEARLY COMPLETED TASKS

Main principles of the General Act

The National Plan projects the adoption of a **General Act on the Introduction of the Euro**. The Act is linked to the essential directive of the EC on the introduction of the Euro and forms the main legal regulation governing the introduction of the Euro in the Czech Republic.

The main principles underlying the future legislation included in the document are **the principle of continuity of legal liabilities, the principle of not harming the citizens and the neutrality principle**. It also points out which instruments should be used to implement the principles and mentions the problems to be faced in the future. The main instruments include the application of rounding rules in conversion from national currency to euros pursuant to European legislation, launching a transparent system of dual display of prices, stipulating the conditions of dual circulation of the Czech crown and the Euro and the rules for the conversions of funds in bank accounts or nominal values of securities.

Among **unresolved problems** there is the selection of **legislation techniques in terms of amendments to the existing regulations and selection of the most suitable method and scope of the regulation in terms of rounding financial amounts after their conversion to euros**. The document therefore stipulates certain tasks, the solution of which needs to be developed further, and other steps necessary to ensure a trouble-free Euro changeover in the Czech Republic in terms of legislation.



Main topic

Preparation of the new Act on the Czech National Bank

The preparation of the new Act on the CNB results from the **need to fully harmonise the legislation of the central bank with European legislation**. The harmonisation should be achieved by the date of accession of the Czech Republic to the European Union on 1 May 2004. The incomplete harmonisation was criticized in the Convergence Reports of the European Commission and the European Central Bank in 2004 and 2006.

The applicable Act on the CNB will harmonise the legislation regulating the standing of the national central bank within the European system of central banks, which will show clearly that the Czech Republic is ready to have this legislation in effect on the date of the introduction of the Euro.

A significant portion of the existing CNB powers will be transferred to the competence of European institutions and will be regulated directly by applicable European legislation after the Euro changeover, but the new Act on the CNB will still be in effect at the same time.

In terms of completeness and legal certainty, the Euro should be introduced as the Czech currency, even though this is unnecessary according to the statement of the European Central Bank because the Euro is introduced in the Member States upon the decision of European authorities. Therefore, the European law priority principle applies.

The new Act on the CNB will not itself govern the legal aspects of introducing the Euro in the Czech Republic. The Euro will be introduced in the Czech Republic by an alteration to the Directive of the Council (EC) No. 974/98 on the introduction of the Euro, and Directive of the Council (EC) No. 2866/98 on the conversion coefficients between the Euro and the currencies of the Member States adopting the Euro.

Rounding and adjusting methods

The rounding method is important because conversions of monetary amounts from Czech crowns to euros and vice versa will bring about very extensive operations which will have a significant impact on the private and public sectors. Their importance therefore requires thorough preparation in terms of legislation, technology and information. The issue is even more complex because the conversion may – apart from the generally binding legislation of the EC – be subject to various national particularities and market conventions.

The specific purpose for preparing the relevant method entitled **Basic rules for conversion, rounding and adjusting of monetary amounts during the Euro changeover** was to provide initial complete information which would familiarize the concerned entities in advance with the principles for converting monetary amounts from Czech crowns to euros during the Euro changeover, and with other closely related issues.

The method defines the **basic terms** to be used by all entities during the Euro changeover (conversion coefficient, rounding, adjusting or dual display of prices). **It introduces the European rules** for converting monetary amounts and illustrates examples of the use of the conversion coefficient (not known yet) between euros and Czech crowns. It then specifies in detail the **rounding of amounts in euros**, resulting from the **use of the conversion coefficient, to the nearest cent**, including special cases when it is appropriate to use more precise rounding. At the same time, it clearly distinguishes the process of rounding individual items from rounding the resulting amounts to be paid or recorded in the books.

The method also focuses on **adjusting**. This means that except for complying with the binding European rules for rounding monetary amounts, in justified cases other immediate adjustments may be made. The adjusting is justified in particular if:

- it is technically unavoidable (vendor machines which accept e.g. five-cent coins as the smallest);
- it removes inconsistencies (e.g. between the linked income ranges);
- it reflects the established practice to state the amounts without decimal places (duty stamps, fines etc.);
- it is related to the implementation of a general principle (e.g. the “not harming the citizens” principle);
- it eliminates any other “inconvenient” amounts (resulting from rounding to two decimal places).

The method deals with the statutory duty to provide **dual display of prices**, which will be important in terms of the rules for the conversion of prices and monetary amounts. The duty means that prices or monetary amounts should be displayed in crowns and in euros at the same time half a year prior to and one year after the introduction of the Euro, according to the Commission’s recommendation. This duty will apply in cases where one of the entities is a citizen, i.e. in retail and services, on payslips, in pensions and social benefits etc. The purpose is to facilitate the new currency to the public and ensure that the Euro changeover is not misused by retailers for unjustified price increases.

Calculation of the impact of various methods of rounding on the budget

The preparation of these assessments is necessary in particular because – after converting monetary amounts in crowns to euros and rounding them to the nearest Euro cent – it will be necessary to respect the “not harming the citizens” principle. A “citizen” specifically means natural persons as well as all private sector entities. Rounding down monetary amounts will therefore result in a decrease of public budget incomes in a number of areas (legal entity income tax, customs duties etc.). In all other cases it will be necessary to round monetary amounts upward. Due to rounding, the state budget expenses (wages of civil servants, pensions etc.) will increase to the benefit of the citizens.

The “not harming the citizens” principle may be applied with various levels of political generosity and the corresponding impact on public budgets. **The document considers rounding to cents, tens of cents and whole euros.** The option of rounding to whole euros is naturally the most demanding for the budget and would result in additional budget expenses (loss of incomes and increase of expenses) in the first year of the introduction of the Euro, corresponding to approximately CZK 2.6 billion.

The recommendations of individual experts, however, make it clear that **in most areas it will generally be possible to round the monetary amounts of budget incomes to cents. For budget expenses the experts recommend rounding the amounts to whole euros.** This option will also, however, result in significant additional costs.

PRIORITY TASKS TO BE COMPLETED DURING 2008

Instruments for consumer protection against unjustified price increases

Particular attention paid to instruments preventing any **misuse of the Euro changeover for unjustified price increases** is based on the experience of countries that have already undergone the process. Although the Euro changeover in these countries did not result in any significant increase of the officially assessed inflation, even though there was an increase of the prices of certain common consumption products, many citizens believe that the Euro increased overall inflation and supported the increase of prices. Such feelings that have a negative impact on the perception of the single European currency by the general public should be addressed efficiently. The

purpose of those instruments is to enable a quick comparison of monetary amounts (prices, wages, pensions etc.) expressed in euros to the original amounts expressed in crowns, which helps consumers to get used to the new currency. At the same time, the instruments enhance consumer confidence in the neutral impact of the Euro changeover on inflation.

Essential instruments that facilitate the Euro changeover include the **dual display of prices** that imposes a duty on goods and services providers to display prices in crowns and euros simultaneously.

Another important instrument that enhances consumer confidence is **to provide more information on price development**. It will be the duty of the Czech Statistical Office to propose and implement appropriate forms of such information. In addition to the common monitoring of total price level development it is also possible to prepare a temporary price index for a basket comprising items of daily consumption. More detailed monitoring of prices should be performed from the moment of the announcement of the official conversion coefficient.



Many countries also used a **code of ethics**. This is a type of affirmation in which the entrepreneur undertakes not to use the Euro changeover to increase prices in an unjustified manner and to facilitate the introduction of the Euro for its customers. This entrepreneur will be listed in a public list of signatories to the code of ethics and will be entitled to place a logo confirming its commitment on display in its POS. This instrument should be prepared in detail in terms of the Czech economy so that it regulates the ethical conduct of entrepreneurs and provides consumers with significant information on the retailers' approach to the Euro.

In addition to the consumer protection instruments stated above, a number of countries (e.g. Slovenia and Malta, from among the new Euro area members) have used a **black list**.



Main topic

The black list is a publicly available list of corporate names and registered offices of entities in which price hikes were recorded during the Euro changeover. Please note, however, that this instrument will be used voluntarily by non-government consumer associations. It is advisable that the rules applicable to the black list are set out by consumer representatives in cooperation with entrepreneurs so that the instrument provides important information to consumers and at the same time it cannot be misused for unfair competition.

Recommended procedures for small and medium-sized enterprises in preparations for the Euro changeover

The National Plan assumes the **preparation of recommended procedures facilitating the Euro changeover for enterprises**. The introduction of the Euro will clearly bring a number of benefits to enterprises. Initially, it will, however bring significant expenses because it involves a complex step affecting many aspects of entrepreneurial activities such as accounting, information technology and marketing strategies. Companies should get ready in a timely and thorough manner in order to minimize the costs of their adaptation to the new conditions. This will be supported by recommended procedures during the preparations for the Euro changeover, which will summarize all aspects that should be considered by companies when planning the Euro changeover.

The recommended procedures will focus mainly on **small and medium-sized enterprises**. Experience from countries that have already introduced the Euro shows that small and medium-sized enterprises tend to underestimate the preparations for the Euro changeover and leave them to the last minute. This is often caused by a lack of the financial and human resources necessary to deal with the preparations. SMEs generally have insufficient experience with the Euro changeover in other countries. Large companies linked in terms of ownership and property to entities operating in the Euro area usually do not face similar limitations.

CURRENTLY PROCESSED AND NEWLY COMMENCED TASKS

Preparation of a legal framework for the Euro adoption

The Euro adoption will be linked to an extensive alteration of the legislation of the Czech Republic. In addition to the General Act and the new act on the CNB, the Euro adoption will **require amendments to a large number of legal regulations**. This issue has been addressed systematically

by the **Legislation Working Group** that prepared a representative list of the legal regulations necessary to be amended in relation to the Euro adoption. It is assumed that the Euro changeover will affect approximately 500 legal standards, of which there will be about 270 laws. As a separate group, there are generally binding bylaws and directives of regional administrative units that also need to be adjusted to the introduction of the Euro. This scope of necessary alterations requires paying attention to the problem in due time, and at present the respective steps should be chosen that would systematically prepare the legislative framework for the introduction of the Euro.

According to the National Plan, the legislation will be adjusted by means of the General Act to be accompanied by the Alteration Act. The General Act would regulate the basic legal aspects and principles for the Euro changeover while the Alteration Act would represent a set of direct amendments to legal regulations that require amendments related to the introduction of the Euro. The aim of this approach is to ensure legal certainty for the entities to whom the legal standards are addressed, and to avoid any mistakes the consequences of which, if any, would fall upon the citizens.

Preparation of the financial sector for the Euro adoption

The financial sector, as the cash flow provider, will play a **key role** in the Euro introduction process. It comprises a number of entities that provide miscellaneous and often sophisticated types of services and whose activities are governed by various regulations. Considering the new currency, all those entities will have to adjust their products and inform their clients of any changes, but they will also need to adapt their internal processes (particularly in terms of accountancy, information systems etc.). The financial sector will also play a significant role in the communication campaign focused on its clients. Due to all those reasons, its timely preparation is very important and should not be underestimated.

In the first phase, the financial sector tasks will be methodically prepared for individual activities, e.g. for the following areas

- Conversion of balances on accounts, including rounding
- Conversion of the value of the registered capital and securities, including rounding
- Conversion of interest rates
- Changeover from the crown to the Euro system of payments
- Measures during the exchange of money in circulation etc.



Methods for preparation of the state administration for Euro adoption

The methods for preparation of the state administration for Euro adoption should comprise all key aspects to be coordinated (legal standards, information and communication systems, forms, staff training, organizational issues), which need to comply with the functional links between the bodies to ensure consistent transition and to avoid any expensive improvisations. It should set out the levels of responsibility for the preparation and implementation of partial segments of the Euro changeover, for planning and budgeting, and for overall coordination and continuous checks. It should propose a comprehensive and standardised reporting system so that the information flow provides a clear outline of the status of the works and enables dialogue on the issues, changes and priorities between the various responsibility levels. Regular notices for the government on the progress of works regarding preparations of the state administration to the Euro adoption should be placed at the top of this pyramid.

Preparations for Euro adoption in the regional administration framework

The Euro adoption may be successful only if the regions and communities become important players in the process. The reason is that local officials and representatives of local communities in particular are in daily contact with the citizens and therefore they have the best opportunities to **provide information to various groups of citizens** quickly, precisely and timely. **Preparations of regional and local authorities** in terms of all their essential functions are of the same importance: as public administration entities, as founders of institutions receiving contributions from the state budget, as employers, as business entities, as founders of business companies. This important role is incorporated in the National Plan, which recommends wider involvement of the regional administrative units in order to provide successful communication campaigns as well as to get sufficient information for the introduction of the Euro on regional administration levels.

At present, since no binding deadline for the Euro changeover has been adopted yet, it is advisable to focus solely on the basic preparatory works. The aim of the first phase is to **arrange regular working contacts** with the representatives of regional administrative unit institutions. Such contacts should ensure continuous information for the regional administration representatives on the progress of the Euro changeover and on any issues related to the powers of regional authorities (e.g. the impact on public

budgets, changes in accountancy and reporting, financial planning programmes etc.).

Information systems preparation

Issues related to information systems preparation may be **divided into several phases** including, for instance outlining the ISs affected by the Euro adoption, preparation of a plan for ISs adjustments, the selection of an appropriate provider of required adjustments, the implementation and testing of ISs adjustments, and a number of other activities. Timely scheduling of the preparatory works is very important in this respect. It would be an equal mistake to neglect the preparations and fail to commence the ISs adjustments on time, as to commence too early. **The ISs serviceable life is approximately 5 years**, therefore there is no use to deal with ISs, the serviceable life of which will terminate prior to the Euro adoption. Even ISs with a serviceable life exceeding the moment of the Euro adoption should not, however be adjusted too far in advance because there is a risk that such adjustments may not correspond to the adopted legislation, technological standards etc. This means that the overwhelming majority of tasks related to the ISs preparation depends on the date of the Euro adoption. **The ISs preparations need to commence at least 3 years prior to the date of the Euro adoption and therefore it is necessary for the Euro adoption date to be announced no later than in the specified period.**

In terms of ISs, however, it is also possible to perform a number of preparatory works without a fixed date for the introduction of the Euro to the Czech Republic. This applies particularly to **gaining experience and studying experience related to the Euro changeover in IT in selected countries in the Euro area.**

Estimate of the budget expenses related to the “not harming the citizens” principle in the Euro changeover in the Czech Republic

This topic involves situations when – after the conversion of crowns to euros by means of the conversion coefficient and subsequent arithmetic rounding to the nearest cent – such operations result in inconvenient monetary amounts. Such generated amounts in euros (i.e. stated in two decimal places) could cause various technical and registration difficulties and could be in conflict with the existing conventions under which cash flows between economic entities have been stated. This, for example means the value of wages, duty stamps etc. in crowns presently expressed without decimal places. After the introduction of



Main topic

the Euro, this problem may be solved by additional operations – i.e. adjusting monetary amounts in euros.

In terms of financial flows linked to public budgets, the question of adjusting also involves the issue of possible harm to the citizens (or private sector entities). The adjusting methods applied need to respect the requirement to prevent any harm to the citizens. This means that within the public budget incomes it will generally be necessary to adjust monetary amounts downward (however, only if it is decided that the adjustment of the respective item is purposeful and arithmetic rounding to two decimal places is insufficient).

Adjusting downward will result in a budget income drop (particularly taxes and customs duties) in the year of the Euro adoption compared to the last year of the circulation of crowns as the legal tender. For budget expenses, on the other hand, in order to avoid any harm to the citizens, it will be necessary to adjust monetary amounts converted into euros upward (again, provided that a decision on adjusting applies to the item). Annual budget expenses (wages, pension benefits, health and social insurance benefits etc.) will therefore increase compared to the year prior to the introduction of the Euro.

In this respect, for the model of the development of selected public budget items there are three methods of adjusting (cents, tens of cents and whole euros). If, during the Euro changeover various exceptional valorisations, changes to the percentage of tax rates, adjustments to wage levels etc. are also adopted, these will be deemed additional fiscal effects beyond the scope of the adjusting which are not dealt with in the stated simulations.

In accordance with the EC legislative rules applicable to conversions of monetary amounts from national currencies to euros as of the date of the introduction of the Euro, in the overwhelming majority of cases (e.g. the purchase of goods and services, payments and clearings between private entities, conversion of receivables and liabilities between private entities) the procedure will be as follows:

1) Amount in crowns: conversion coefficient
(hypothetically we may assume a value of the conversion coefficient of 24.2 CZK/EUR, according to the relevant material of the Ministry of Finance)

2) Rounding the converted amount to the nearest cent

For instance:

1) CZK 10,000 : 24.2 = € 413.223...

2) € 413.223 ≈ € 413.22

According to these rules, the equivalent of CZK 10,000 would be € 413.22 in normal cases. Consider, however, that

this amount represented a monthly pension benefit paid to a Czech citizen in crowns until the introduction of the Euro. There are three problems related to this situation which cannot be solved solely by converting the amount from one currency to the other by means of the conversion coefficient and by subsequent rounding to the nearest cent:

(i) the citizen is slightly harmed by rounding the amount downward (i.e. the rounded amount in euros after being multiplied by the conversion coefficient is slightly less than the amount the citizen received in crowns);

(ii) the amount in euros is in conflict with the existing practice in the Czech Republic, where pension benefits have been paid in amounts rounded without decimal places;

(iii) regular cash payments of those benefits would be difficult due to the need to use the smallest coins, which would result in a number of difficulties and expenses. Similar problems require political solutions, considering that each such decision for the benefit of the citizen will result in an additional increase of the budget expenses in the year of the introduction of the Euro.

Monetary amounts may then be adjusted for the benefit of the citizens as follows:

€ 413.223 => € 413.23 (adjusting upward to the nearest cent)

€ 413.223 => € 413.30 (adjusting upward to the nearest ten cents)

€ 413.223 => € 414 (adjusting up to the nearest Euro)

Similarly, we can consider the budget incomes; adjusting downward without harming the citizens will be applied, which will result in an absolute year-to-year drop of the budget incomes in the year of the introduction of the Euro, particularly regarding taxes and customs duties. The principle of not harming the citizens by adjusting monetary amounts may naturally take the form of a number of other options with various levels of generosity (which may be e.g. adjusting to € 10 or even € 100).

EC legislation **does not regulate** adjusting monetary amounts to a similar extent as it does for rounding; it emphasizes solely the **principles of exceptionality, validity, case-by-case assessment, compliance with the legal certainty principle and sufficient awareness**. At the same time it is always required – by means of a legal regulation – to distinguish between a decision of a public body on the modification of the converted amount (i.e. adjusting) and simple conversion of the amount from national currencies to euros (i.e. rounding). Also, if a certain amount is adjusted and at the same time e.g. the consumption tax rate is altered, these two events should be distinguished clearly.

Except for the “not harming the citizens” principle, the adjustment procedure may be used **beyond public budgets**, particularly if it is technically unavoidable (vendor machines which accept e.g. five-cent coins as the smallest), if it reflects an established practice to state the amounts without decimal places, or it eliminates any other “inconvenient” amounts (resulting from rounding to two decimal places). Those broader estimates of expenses related to adjusting, unless they affect public budgets, are not explicitly processed in the presented material in the current preparation phase.

In any case it should be carefully considered whether the adjusting is actually **unavoidable** or only **desirable**, or if it is just **an option**, which is not necessary from a practical point of view. It shall always be performed transparently.

Estimates of budget expenses related to adjusting consider **adjusting to cents, tens of cents and euros**. The basis for the calculations regarding each item is the annual number of adjusting operations (i.e. the annual number of paid social benefits, the annual number of payments from tax payees, the annual number of paid wages etc.). The actual adjusting costs for each individual adjusting operation range from 0 to 1 cent, 1 to 10 cents, or 0 to 1 €. In terms of the estimates, each of the three adjusting ranges is therefore considered the average value of the adjustment zone (i.e. € 0.005, € 0.05 and € 0.5), which is multiplied by the total number of adjustments for each item. The result is then multiplied by the benchmark value of the conversion coefficient (24.2), which translates the costs of adjustment in euros to the costs of adjustments in crowns.

The key outcome is that the “not harming the citizens” principle applied when introducing the Euro by adjusting the monetary amounts results in considerable expenses. The expenses depend primarily on the selected level of generosity considering existing conventions used in the past to eliminate decimal places for amounts in crowns. Under the selected conditions, the relevant political decisions may be made within the relatively broad range of **CZK 26 million – CZK 2.6 billion**, which represents a differentiated impact of the adjusting to the public budget balance in the three selected ranges.

The actual form of the adjusting operations will probably represent a mixture of various approaches applicable at the moment of the introduction of the Euro in the Czech Republic, applying adjustments to cents, tens of cents and euros at the same time, and/or other procedures depending on political decisions or technical specifications in any of the respective areas. Some experts recommend **adjusting to cents for budget incomes and to euros for budget expenses** (with the main exception of health insurance

benefits, for which it is recommended to adjust to cents). The application of this approach would result in the total budget expenses related to the adjusting in the amount of approximately CZK 1 billion.

The future **decisions on the scope of the adjusting** should take into account the general **efficiency principle** as well as the **principles of exceptionality, validity and case-by-case assessment** established in the EC legislation in terms of the adjustment procedure. **According to its definition, adjusting is not needed for each item of the public budgets**. Where used in order to avoid harming the citizens, adjusting to cents should be considered first. Only if such a solution is provably prevented by technical reasons, or in the case of “inconvenient” amounts (particularly regarding financial flows realised, at least partially, in cash) or existing conventions, will a case-by-case consideration be required and a political solution have to be found.

Structure of impacts on public budgets due to adjusting

| Indicator (in CZK million) | Adjustment to | | |
|--------------------------------------|---------------|---------------|---------------|
| | cents | 10 cents | euros |
| I N C O M E S | | | |
| Personal income tax | 0.38 | 3.84 | 38.37 |
| Corporate income tax | 0.04 | 0.45 | 4.49 |
| Real estate tax | 0.45 | 4.52 | 45.21 |
| Gift tax | 0.00 | 0.02 | 0.20 |
| Inheritance tax | 0.01 | 0.12 | 1.15 |
| Real estate transfer tax | 0.06 | 0.65 | 6.48 |
| Road tax | 0.17 | 1.67 | 16.75 |
| Administrative and court fees | 0.01 | 0.13 | 1.28 |
| Other fees | 0.04 | 0.43 | 4.31 |
| Customs duty and similar payments | 0.07 | 0.69 | 6.93 |
| Tax refunds | 0.01 | 0.11 | 1.09 |
| Payment of fines | 0.03 | 0.27 | 2.68 |
| Security in customs procedure | 0.09 | 0.91 | 9.13 |
| Total income reduction | 1.38 | 13.81 | 138.06 |
| E X P E N S E S | | | |
| Wages | 0.68 | 6.81 | 68.10 |
| State social support | 3.80 | 37.96 | 379.64 |
| Social care | 0.68 | 6.79 | 67.95 |
| Health insurance benefits | 14.86 | 148.59 | 1486.0 |
| Pension insurance benefits | 4.81 | 48.06 | 480.64 |
| State debt and financial assets mngt | 0.00 | 0.00 | 0.03 |
| Total expenses increase | 24.82 | 248.23 | 2482.4 |
| TOTAL IMPACT ON THE DEFICIT | 26.20 | 262.04 | 2620.4 |

Source: www.zavedenieura.cz



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 | | |
|-------------|-------------------|------|------|-------------------------|-------|-------|-------------------|-------|--------|--------------------------|-------|--------|
| | 2005 | 2006 | 2007 | 2005 | 2006 | 2007 | I-08 | II-08 | III-08 | I-08 | II-08 | III-08 |
| Belgium | 1.7 | 2.8 | 2.7 | 3.0 | 3.3 | 3.3 | 7.0 | 6.9 | 6.9 | 3.5 | 3.6 | 4.4 |
| Bulgaria | 6.2 | 6.3 | 6.2 | -11.5 | -16.3 | -22.0 | 6.1 | 6.0 | 5.9 | 11.7 | 12.2 | 13.2 |
| CR | 6.4 | 6.4 | 5.8 | -2.3 | -3.1 | -2.4 | 4.7 | 4.6 | 4.5 | 7.9 | 7.6 | 7.1 |
| Denmark | 2.5 | 3.9 | 1.8 | 4.4 | 2.6 | 1.1 | 3.2 | 3.1 | n/a | 3.0 | 3.3 | 3.3 |
| Germany | 0.8 | 2.9 | 2.5 | 4.7 | 5.2 | 6.9 | 7.6 | 7.4 | 7.3 | 2.9 | 3.0 | 3.3 |
| Estonia | 10.2 | 11.2 | 7.1 | -10.1 | -15.7 | -15.7 | 5.3 | 5.4 | 5.5 | 11.3 | 11.5 | 11.2 |
| Ireland | 6.0 | 5.7 | 5.3 | -3.5 | -4.2 | -5.0 | 5.2 | 5.4 | 5.6 | 3.1 | 3.5 | 3.7 |
| Greece | 3.8 | 4.2 | 4.0 | -13.4 | -14.4 | -16.2 | n/a | n/a | n/a | 3.9 | 4.5 | 4.4 |
| Spain | 3.6 | 3.9 | 3.8 | -7.5 | -8.8 | -10.0 | 9.0 | 9.1 | 9.3 | 4.4 | 4.4 | 4.6 |
| France | 1.7 | 2.0 | 1.9 | -1.7 | -2.2 | -2.6 | 7.9 | 7.8 | 7.8 | 3.2 | 3.2 | 3.5 |
| Italy | 0.6 | 1.8 | 1.5 | -1.2 | -2.0 | -1.7 | n/a | n/a | n/a | 3.1 | 3.1 | 3.6 |
| Cyprus | 3.9 | 4.0 | 4.4 | -5.9 | -5.9 | -7.3 | 3.7 | 3.7 | 3.7 | 4.1 | 4.7 | 4.4 |
| Latvia | 10.6 | 11.9 | 10.2 | -12.5 | -22.5 | -22.9 | 5.4 | 5.3 | 5.3 | 15.6 | 16.5 | 16.6 |
| Lithuania | 7.9 | 7.7 | 8.8 | -7.2 | -10.5 | -13.8 | 4.6 | 4.5 | 4.5 | 10.0 | 10.9 | 11.4 |
| Luxembourg | 5.0 | 6.1 | 5.2 | 10.9 | 10.3 | 9.1 | 4.6 | 4.7 | 4.5 | 4.2 | 4.2 | 4.4 |
| Hungary | 4.1 | 3.9 | 1.3 | -6.8 | -6.5 | -5.0 | 7.6 | 7.6 | 7.6 | 7.4 | 6.7 | 6.7 |
| Malta | 3.4 | 3.4 | 3.8 | -8.8 | -8.3 | -5.5 | 5.8 | 5.7 | 5.6 | 3.8 | 4.0 | 4.3 |
| Netherlands | 1.5 | 3.0 | 3.5 | 7.1 | 7.6 | 8.4 | 2.7 | 2.6 | 2.6 | 1.8 | 2.0 | 1.9 |
| Austria | 2.0 | 3.3 | 3.4 | 3.0 | 3.5 | 4.7 | 4.2 | 4.1 | 4.1 | 3.1 | 3.1 | 3.5 |
| Poland | 3.6 | 6.2 | 6.5 | -1.6 | -3.1 | -3.7 | 8.3 | 8.0 | 7.7 | 4.4 | 4.6 | 4.4 |
| Portugal | 0.9 | 1.3 | 1.9 | -9.8 | -9.8 | -9.8 | 7.5 | 7.5 | 7.4 | 2.9 | 2.9 | 3.1 |
| Romania | 4.2 | 7.9 | 6.0 | -8.9 | -10.4 | -13.9 | n/a | n/a | n/a | 7.3 | 8.0 | 8.7 |
| Slovenia | 4.1 | 5.7 | 6.1 | -2.0 | -2.8 | -4.8 | 4.5 | 4.4 | 4.3 | 6.4 | 6.4 | 6.6 |
| Slovakia | 6.6 | 8.5 | 10.4 | -8.5 | -7.7 | -5.4 | 10.1 | 9.9 | 9.8 | 3.2 | 3.4 | 3.6 |
| Finland | 2.8 | 4.9 | 4.4 | 3.9 | 4.9 | 4.4 | 6.4 | 6.3 | 6.3 | 3.5 | 3.3 | 3.6 |
| Sweden | 3.3 | 4.1 | 2.6 | 6.1 | 8.5 | 6.5 | 5.7 | 5.6 | 5.6 | 3.0 | 2.9 | 3.2 |
| UK | 1.8 | 2.9 | 3.1 | -2.5 | -3.9 | -4.2 | 5.1 | n/a | n/a | 2.2 | 2.5 | 2.5 |
| EU | 1.9 | 3.0 | 2.9 | -0.4 | -0.9 | -0.9 | 6.8 | 6.7 | 6.7 | 3.4 | 3.5 | 3.7 |

| in % | Public budget to GDP* | | | Public debt to GDP | | | GDP per capita to Ø EU | | | Price level to Ø EU | | |
|-------------|-----------------------|------|------|--------------------|-------|-------|------------------------|-------|-------|---------------------|-------|-------|
| | 2005 | 2006 | 2007 | 2005 | 2006 | 2007 | 2004 | 2005 | 2006 | 2004 | 2005 | 2006 |
| Belgium | -2.3 | 0.3 | -0.2 | 92.1 | 88.2 | 84.9 | 121.2 | 121.3 | 120.0 | 106.7 | 106.0 | 106.2 |
| Bulgaria | -3.6 | -2.7 | -1.6 | 29.2 | 22.7 | 18.2 | 33.9 | 35.4 | 36.8 | 42.0 | 43.1 | 44.8 |
| CR | -3.6 | -2.7 | -1.6 | 29.7 | 29.4 | 28.7 | 75.4 | 76.7 | 78.7 | 55.4 | 58.4 | 61.5 |
| Denmark | 5.0 | 4.8 | 4.4 | 36.4 | 30.4 | 26.0 | 126.1 | 126.8 | 126.0 | 139.6 | 139.6 | 139.2 |
| Germany | -3.4 | -1.6 | 0.0 | 67.8 | 67.6 | 65.0 | 116.8 | 115.3 | 114.3 | 104.7 | 103.7 | 103.3 |
| Estonia | 1.8 | 3.4 | 2.8 | 4.5 | 4.2 | 3.4 | 57.0 | 63.0 | 68.5 | 63.0 | 64.6 | 66.5 |
| Ireland | 1.6 | 3.0 | 0.3 | 27.4 | 25.1 | 25.4 | 142.1 | 143.9 | 145.7 | 125.9 | 124.8 | 124.9 |
| Greece | -5.1 | -2.6 | -2.8 | 98.0 | 95.3 | 94.5 | 94.0 | 96.3 | 97.4 | 87.6 | 88.4 | 89.1 |
| Spain | 1.0 | 1.8 | 2.2 | 43.0 | 39.7 | 36.2 | 101.4 | 103.1 | 105.1 | 91.0 | 92.0 | 93.3 |
| France | -2.9 | -2.4 | -2.7 | 66.4 | 63.6 | 64.2 | 110.5 | 112.1 | 111.1 | 109.9 | 107.4 | 107.3 |
| Italy | -4.2 | -3.4 | -1.9 | 105.8 | 106.5 | 104.0 | 107.1 | 105.3 | 103.5 | 104.9 | 104.0 | 104.1 |
| Cyprus | -2.4 | -1.2 | 3.3 | 69.1 | 64.8 | 59.8 | 90.6 | 92.7 | 92.1 | 91.2 | 89.7 | 90.1 |
| Latvia | -0.4 | -0.2 | 0.0 | 12.4 | 10.7 | 9.7 | 45.8 | 50.0 | 54.2 | 56.1 | 57.1 | 60.6 |
| Lithuania | -0.5 | -0.5 | -1.2 | 18.6 | 18.2 | 17.3 | 50.6 | 53.2 | 56.2 | 53.5 | 55.1 | 56.6 |
| Luxembourg | -0.1 | 1.3 | 2.9 | 6.1 | 6.6 | 6.8 | 253.6 | 264.6 | 279.6 | 103.0 | 102.7 | 103.2 |
| Hungary | -7.8 | -9.2 | -5.5 | 61.6 | 65.6 | 66.0 | 63.4 | 64.3 | 65.0 | 62.0 | 63.5 | 60.0 |
| Malta | -3.0 | -2.5 | -1.8 | 70.4 | 64.2 | 62.6 | 76.9 | 77.5 | 77.0 | 73.2 | 73.1 | 73.4 |
| Netherlands | -0.3 | 0.5 | 0.4 | 52.3 | 47.9 | 45.4 | 129.7 | 131.3 | 130.8 | 106.1 | 104.5 | 103.9 |
| Austria | -1.5 | -1.5 | -0.5 | 63.5 | 61.8 | 59.1 | 129.0 | 128.9 | 127.7 | 103.3 | 101.9 | 101.2 |
| Poland | -4.6 | -3.8 | -2.0 | 47.1 | 47.6 | 45.2 | 50.8 | 51.3 | 52.5 | 53.2 | 61.3 | 62.1 |
| Portugal | -6.1 | -3.9 | -2.6 | 63.6 | 64.7 | 63.6 | 74.9 | 75.5 | 74.6 | 87.4 | 85.3 | 85.7 |
| Romania | -1.2 | -2.2 | -2.5 | 15.8 | 12.4 | 13.0 | 34.1 | 35.5 | 38.9 | 43.3 | 54.3 | 57.0 |
| Slovenia | -1.5 | -1.2 | -0.1 | 27.5 | 27.2 | 24.1 | 85.4 | 87.0 | 88.0 | 75.5 | 75.8 | 75.3 |
| Slovakia | -2.8 | -3.6 | -2.2 | 34.2 | 30.4 | 29.4 | 57.3 | 60.6 | 63.8 | 54.9 | 55.8 | 58.3 |
| Finland | 2.9 | 4.1 | 5.3 | 41.3 | 39.2 | 35.4 | 116.7 | 115.3 | 117.1 | 123.8 | 123.3 | 121.7 |
| Sweden | 2.2 | 2.3 | 3.5 | 50.9 | 45.9 | 40.6 | 125.2 | 123.9 | 124.8 | 121.4 | 117.9 | 117.5 |
| UK | -3.4 | -2.6 | -2.9 | 42.1 | 43.1 | 43.8 | 122.2 | 119.4 | 118.1 | 108.5 | 110.2 | 110.8 |
| EU | -2.5 | -1.4 | -0.9 | 62.6 | 61.3 | 58.7 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

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

This publication is considered as a supplementary source of information provided to our clients. The information in the publication cannot be seen as incontrovertible or unchangeable. The publication is based on the best information sources in the time of publication, which are generally considered as reliable and truthful. However Česká spořitelna, a.s., and its branches or employees could not guarantee this. The authors view as a propriety, if by using the information from this publication, the potential user mention this source.

Some of the pictures used in the report were taken from Audiovisual Library of the European Commission.