EU News
Monthly Journal

Number 68,
May 2009

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,

The first day of April marked the mid-point of the period allocated to the Czech Presidency. However, several days prior to this date, uncompromising fate brought a different and significantly more critical separator – a separator between the period during which the performance of the Czech Presidency was taken seriously, with a corresponding level of acknowledgement and one might say even respect, and the period during which the situation is exactly the opposite.

It is certainly not possible or even appropriate to overvalue our performance of the presidency within the framework of the first period in any exaggerated manner. On the other hand however, it would be an indication of false modesty to not even acknowledge the several competent accomplishments, such as finding tools to overcome the crisis, removing barriers, finding partnerships, adopting environmental standards and rules, and a number of others.

The difference between a full-blooded minister and one who is stepping down is becoming apparent in Council tasks more and more strongly with each passing day. The meeting in Mariánské Lázně, in which a total of seven out of twenty-seven ministers for regional development participated actively, can thus unfortunately now be used as an example of the approach and process that has become standard: let us wait until the end of the Czech Presidency, which, in its current configuration, cannot take on anything that is new, decisive, and, most importantly, beneficial, and then we can start working anew with the soon-to-arrive Swedish Presidency.

The development of the financial and economic crisis and its anomalous impacts on fiscal and monetary areas, together with the irresponsible gambling that is taking place with the stability of our executive branch's performance, will most likely lead to nothing new other than the fact that the Czech Republic's New Year's resolution to announce the timeframe for its entry to the Eurozone at the start of November won't be kept. This in spite of the fact that since the middle of last year the Czech crown has weakened considerably towards the euro and thus the crown value of export earnings has grown under otherwise identical conditions (not to mention that it has started to decrease due to the reduction of demand abroad), and the fact that the entrepreneurial sphere, including exporters, are not in any way stepping back from their wish to enter the Eurozone as quickly as possible. Maybe it is not voiced as loudly now, but this goal has definitely not been relinquished, as the elimination of exchange rate uncertainty with regard to almost 90% of our export area is very important for them even during times of relative exchange rate weakening.

In addition, striving for entry to the Eurozone should be a definite obligation of each member of the EU. It is certainly true that with a bit of active effort on the part of the appropriate national economic policy, the criteria for entry to the Eurozone can be met more easily during times of economic prosperity than during a crisis.

Petr Zahradník

In June's European Parliamentary elections, thirty-three political parties will be on the Czech Republic's candidate list. Reports published by the European Commission show that Slovakia's adoption of the Euro went smoothly and without any significant problems. The European Union has adopted a regulation that regulates the activities of rating agencies. The main point of the standard consists of the mandatory registration of agencies with the Committee of European Securities Regulators.

POLITICS

Thirty-Three Groups on CR's Candidate List for European Elections

The end of March marked the end of the timeframe for submitting candidate lists for the European Parliament elections. In the case of the Czech Republic, **there will be two parties more** participating in June's political joust as compared to five years ago. During the pre-election battle, certain parties will focus primarily on billboards, some on a broad membership base, while others will rely mainly on contact campaigning. Community servers are also on the list.

Candidates for the election to the European Parliament

No.	Party
1.	Libertas.cz
2.	Křesťanská a demokratická unie–Čsl. strana lidová
3.	Věci veřejné
4.	Občanská demokratická strana
5.	Suverenita
6.	Pravý Blok
7.	Sdružení pro republiku – Republ. strana Českosl.
8.	Česká strana národně socialistická
9.	Evropská demokratická strana
10.	Strana svobodných demokratů
11.	Demokratická Strana Zelených
12.	Česká strana národně sociální
13.	Národní strana
14.	SDŽ -Strana důstojného života
15.	Humanistická strana
16.	Moravané
17.	Spojení demokraté -Sdružení nezávislých
18.	Liberálové.CZ
19.	Strana demokracie a svobody
20.	Nejen hasiči a živnostníci s učiteli do Evropy
21.	Komunistická strana Čech a Moravy
22.	„Starostové a nezávislí – vaše alternativa“
23.	Strana svobodných občanů
24.	SNK Evropští demokraté
25.	Balbínova poetická strana
26.	Strana zelených
27.	Koruna Česká (monarch. str. Čech, Moravy a Sl.)
28.	Lidé a Politika
29.	„Strana soukromníků České republiky“
30.	Zelení
31.	Dělnická strana
32.	Nezávislí
33.	Česká strana sociálně demokratická

Source: Interior Ministry

By 31 March, the Ministry of the Interior had received a **total of 33 candidate lists** from individual political groups, who will fight it out on 5 and 6 June for the 22 seats reserved for Czech MEPs.

The campaigns of individual political parties have also taken off at full speed starting in April. The two strongest parties – ODS and ČSSD entered into the pre-election fray as early as in February in an effort to take advantage of not only volunteers but also popular internet servers, such as Facebook and YouTube, as much as possible. (A combination of these two methods has been successful for many campaigns, including the one of current American President Barack Obama.)

http://www.mvcr.cz/clanek/volby-do-evropskeho-parlamentu-2009.aspx

ECONOMY AND EURO

EC: Slovakia's Changeover to the Euro Went Smoothly

In the second half of April, the European Commission published a report according to which the **changeover to the euro in Slovakia went smoothly**.

The implementation of the euro in Slovakia at the start of January went well – as was also the case in Slovenia, Cyprus and Malta – using **the "Big Bang" scenario**, i.e., euro banknotes and coins were implemented on the same day that the euro became Slovakia's official currency.

The actual changeover to the euro was thoroughly prepared and completed smoothly in Slovakia. Thanks to experiences had by other countries, the Slovaks **successfully avoided some of the problems** (e.g., long queue waiting at banks to exchange currency, etc.).

Given the high volume of cash in circulation, the National Bank of Slovakia (NBS), acting in cooperation with commercial banks, adopted a number of measures to help deal with the immense number of extra tasks at the start of January. Over the course of the **sixteen days of the dual circulation of the euro and the Slovak crown**, the NBS and commercial banks were open on a daily basis and increased the number of their employees.

According to all accessible information, **no serious problems arose at the banks**. Automatic bank machines and bank information systems were modified quickly and the cash exchanges were completed in reasonable timeframes. Some smaller stores remained closed during the dual circulation period, but the majority was open for business

and retailers did not note any problems with the delivery of cash or transactions performed with the new currency.

Slovak authorities remained very active with regard to fighting the fears citizens had that prices would increase. The **mandatory dual display of prices in euro and Slovak crowns** will remain in force up **until the start of January 2010**. Compliance with this rule is carefully monitored by the Slovak Trade Inspection (STI): as of the end of February, STI performed 25,000 inspections and of 420 complaints filed by citizens pertaining to increases in prices, only one proved to be justified.

Public opinion is the best proof of the successful changeover to the euro. According to a Eurobarometer public opinion survey, **nine out of ten Slovaks consider the implementation of the euro to have gone smoothly** and efficiently in Slovakia.

http://ec.europa.eu/economy_finance/thematic_articles/article14757_en.htm

IMF Calls Out to the East: Adopt the Euro Quickly

Based on information published in the Financial Times, within an internal study that it has completed the International Monetary Fund is urging the countries of **Central and Eastern Europe to speed-up adoption of the euro**. The path could lead through partial membership in the Eurozone.

"For countries in the EU, 'euro¬isation' offers the greatest benefits in terms of resolving the foreign currency debt overhang [accumulation], removing uncertainty and restoring confidence. … Without 'euroisation', addressing the foreign debt currency overhang would require massive domestic retrenchment in some countries, against growing political resistance," states the IMF report.

The IMF recommends that the members of the Eurozone accede to relaxing the rules for entry and thus make adoption of the common currency accessible to the states of Central and Eastern Europe, which would otherwise not be able to attain the euro. If however the strict requirements were not met, according to the IMF these countries could not rely on being represented in the European Central Bank – the document specifically **uses the term "quasi-membership"**.

The International Monetary Fund is right. If it were possible to implement the euro in the Baltic States, Hungary, and Romania without having to fulfil the Maastricht Criteria, it would help the economies in these states during the current period of highly turbulent financial markets. For the aforementioned countries, **it would be easier to obtain external financing for public finance deficits and for covering imbalances in payment budgets**. From the long-term perspective however, the structural problems in these countries would not be resolved. The primary negative would however be the fact that the trustworthiness of the euro would be undermined as a whole. If the Eurozone serves as the last refuge for problem economies, the credibility of the entire project of implanting a common currency throughout the EU would suffer a serious rift.

Due to the close interconnectivity of the mentioned problem economies and the Eurozone however, even their worsening economic problems could have a serious impact. A more advantageous option than prematurely expanding the Eurozone to include economies that are facing difficulties would be to **provide them with rescue loans**, whether directly or through international institutions such as the IMF.

The European Commission and the European Central Bank both oppose the IMF's alleged proposal.

http://www.ft.com/cms/s/0/c40f80a0-2209-11de-8380-00144feabdc0.html?nclick_check=1

FINANCE

EU to Tighten Regulation of Ratings Agencies

The European Union's lawgivers have adopted rules that will **tighten the regulation of ratings agencies**, who have been accused of not being able to properly evaluate the risk levels associated with derivative investments and have thus contributed to the financial crisis.

The key point revolves around the issue of **registration and supervision of ratings agencies**. The Committee of European Securities Regulators (CESR), which comprises representatives from national regulatory authorities, will be responsible for their registration. Once an application for registration is received, the committee will notify the competent member state. The state's internal bodies will then accept the decision on registering a ratings agency and its compliance with valid regulations. If any specific agency breaches these regulations, the state will have the jurisdiction to revoke its registration.

CESR will also establish and administer a database containing information on the past results of ratings agencies active in the EU, in order to provide **greater transparency and ease of comparison**. According to the new regulation, every ratings agency will be obligated to publish the methodology it applied for calculating its ratings.

Ratings agencies will have to publish the names of all companies that they evaluate and which contribute more

The Czech Presidency and Europarliament representative have agreed on the form of the revision to the Capital Requirements Directive. European Parliament has approved a directive on access to insurance and reinsurance activities and their performance (known as Solvency II), which is a key legal standard for the insurance sector. The EU ministers of finance expressed their dissatisfaction with the divergence between accounting rules that are in place for the financial sectors in the EU and the USA.

than 5% of their total income. With the goal of **eliminating potential conflicts of interest**, agencies will be forbidden from evaluating companies whose shares or financial products their analysts own. In addition, analysts will have to rotate on a regular basis.

Ratings published by agencies in third countries will only be able to be used in the European Union **if they are confirmed by the agencies registered in the EU**.

The regulation will be directly applicable throughout the entire EU twenty days after it is published in the EU's Official Journal. Member states will then have **six months to adopt the measures that are required in order to implement the relevant provisions**. In the case of ratings from companies outside of the EU, an eighteen-month transition period will be established.

Only time will tell if the adopted EU regulation will **truly return confidence in the ability of ratings agencies** to evaluate the credibility of the most various credit instruments and their issuers.

http://www.eu2009.cz/en/news-and-documents/news/draft-deal-on-regulation-of-cra-17576/

http://www.europarl.europa.eu/news/expert/infopress_page/042-54188-111-04-17-907-20090422IPR54187-21-04-2009-2009-false/default_en.htm

Presidency Agrees on Future Form of Bank Regulation

The Czech Presidency informed member states on the status of negotiations on the amendment to the **Capital Requirements Directive** (CRD). A preliminary agreement has been reached between the Presidency and European Parliament representatives on all important political issues.

The amendment to the aforementioned directive is the first important contribution towards a thorough revision of banking regulation with the goal of removing its significant deficiencies, which became apparent over the course of the financial crisis. It creates tighter rules for large exposures of banks, greater harmonisation of hybrid capital instruments and a substantial revision of the securitisation framework. The amendment implements **stricter rules for larger exposures**, greater harmonisation of hybrid instruments, and a substantial revision of the regulatory framework for securitisation.

"By adopting this important piece of legislation, Europe has an historic opportunity to lead the world in the repair of the global financial system. This is especially the case for securitisation, where the **five percent retention requirement for securitised instruments on the part of their originators** will align the interests of those who create complex financial instruments and those who buy them," said Klára Hájková, Deputy Finance Minister of the Czech Republic.

Amongst other things, the legislation also limits the volume of resources that banks lend to one client, including on the interbank market. The **exposure towards one client or group of clients will be limited to 25% of capital**. It will be possible to exceed this limit only in the case of exposure between two banking institutions and the total limit of the exposure cannot be higher than EUR 150 million.

Supervision over banks, which operate in more than one state, will also be changed significantly. Currently, regulators address primarily the domestic banking market. In the future though, it will be easier for them to also access information from other EU member states. The Union plans to create **"colleges of supervisors", comprised of national regulators** – in the case of the Czech Republic, the CNB. These colleges should monitor and ensure that financial market rules are applied in all member states of the EU and are not breached.

Thus far, European parliament has approved the amendment to the directive. Now it is up to the Council of the EU. Member states will be obligated to **incorporate the directive in their national legislation by 31 October 2010** and implement it in full by the end of that same year.

http://www.eu2009.cz/en/news-and-documents/press-releases/czech-presidency-hopes-for-a-smooth-confirmation-of-agreement-on-crd--17827/

European Parliament Approves Solvency II

European Parliament adopted a proposed **directive on access and performance to insurance and reinsurance activities**, which is known as the Solvency II directive. This is one of the key legislative proposals that aim to strengthen financial stability in the insurance sector.

The objective of the proposed Solvency II Directive is to **contribute towards better financial stability on the part of insurance and reinsurance companies** by implementing more detailed solvency requirements, which will take better account of the risks faced by these companies, i.e., actual insurance risks, as well as market, credit, and operational risks.

The provisions pertaining to the relationship between the two main criteria for the amount of capital insurance companies should hold, specifically **solvency capital requirement** (SCR) and **minimum capital requirement** (MCR), appears to be key. The solvency capital requirement will be calculated according to a risk-based approach: if capital goes below a specified limit, supervisory intervention will be required. The minimum capital requirement establishes the lowest possible level, below which a company's financial resources should not fall.

In addition, the legislation also defines absolute minimum levels of MCR for different types of companies, whereby **MCR should attain a level equal to 25-45% of the applicable company's SCR**. The exact amount is calculated using variable data, which show whether the company in question is capable of continuing operations.

The new legislation changes the approach and procedures on the part of supervisory authorities, which will focus on more **active supervision of risk management at individual companies** on the basis of a set of specific principles.

The directive further establishes a new **unified system for supervision over groups of insurance companies** through authorising one of the appropriate national authorities for performing supervision over the group. This body will be responsible for monitoring cross-border companies and will include all supervisory entities in the decision-making process with regard to the group's matters.

Member states will be obligated to **incorporate the directive in their national legislation by 31 October 2012**. Two years after it enters into force, the Commission will submit a legislative proposal for improving certain aspects of the directive as required, including cooperation between supervisory bodies within the framework of colleges.

http://www.europarl.europa.eu/news/expert/infopress_page/042-54087-111-04-17-907-20090421IPR54086-21-04-2009-2009-false/default_en.htm

Ecofin: Accounting Standards must be Uniform

The ministers of finance and the governors of the central banks have agreed to reform supervision over financial institutions in the EU. A **new supervisory body will be established for monitoring macroeconomic stability**. Its primary task will be to issue warnings with regard to possible risks.

The **European Systemic Risk Council** (ESRC) would thus not be concerned with individual institutions on the financial market, which the competent national bodies would continue to supervise. These bodies should nevertheless be strengthened by the European System of Financial Supervision, which will be created through transforming several committees (CEBS, CESR and CEIOPS) into new institutions. The entire reform process will be completed most likely some time around 2012.

From the subsequent discussion between the individual minister and governors, it came to light that the majority of them consider the main weakness of the current system to be excessive focus on controlling individual subjects on the financial market. Conversely, **systemic risks are neglected**. From this perspective, the participants in the discussion agreed that, in order to ensure the ESRC functions smoothly, its intense cooperation with central banks will be most important. Harmonising supervision rules at the national level should also lead to greater transparency and consequently renewed confidence on the part of investors.

One of the main points of the ECOFIN became the **harmonisation of accounting standards on both sides of the Atlantic**. According to Miroslav Kalousek, the changes in American accounting that are currently underway present a "serious problem" for some of the Union's member states. As a result of pressure placed by Congress, the American Federal Accounting Standards Bureau (FASB) implemented changes in accounting standards in order to make the way out of the crisis easier for certain banks. Specifically, according to the new rules, banks will not have to report certain non-liquid assets at their market value (which is currently often very low), i.e., following the **mark-to-market principle**, but will be able to consider their "actual and fair" value, i.e., attempt to estimate how much an asset would cost if there were no crisis underway. The justification for the new rule states that after applying the new rule companies on the financial market would not suffer such enormous losses.

http://www.eu2009.cz/en/news-and-documents/news/ministers-and-governors-agree-on-principles-for-financial-supervision-reform-15504/

Brussels Wants Stricter Rules for Compensation at Banks

The European Commission has accepted a **recommendation on remuneration paid in the financial**

The European Commission presented a proposed directive on alternative investment fund managers, which is intended to create a regulatory framework for hedge fund and private capital fund activities. The European Commission has come up with an initiative to improve payment morale on the part of public administration authorities. If it is approved, public authorities will have to pay their contractual partners within a timeframe of no more than thirty days.

services sector and a **recommendation on the pay received by members of statutory bodies**. Its justification is that this is an effort to ensure a better relationship between compensation paid to bank managers and actual performance.

The recommendations call upon the member states to adopt measures in four areas:

- **Structure of pay**: Remuneration policies for risk-taking staff should comply with sound and effective risk management. Financial institutions should thus establish an appropriate balance between the level of the core pay and the level of bonuses. Payment of the major part of the bonus should be deferred, in order to take into account risks associated with the course of the economic cycle and the long-term performance of financial institutions. Financial institutions should also be able to claim back already paid bonuses;
- **Governance**: Remuneration policy should be transparent, clear and properly documented and should contain measures to avoid conflicts of interest. Board members and other staff involved in the design and implementation of remuneration policies should be independent;
- **Disclosure**: Remuneration policy should be adequately disclosed to shareholders this disclosure should include core elements of the remuneration policy, its structure and its application;
- **Supervision**: supervisors should ensure that the remuneration policies in place at financial institutions are consistent with effective risk management.

A recommendation is not a legally binding act. The EU's Internal Market Commissioner Charlie McCreevy has however made himself heard and has stated that a **legislative proposal**, in the form of another revision to the Capital Adequacy Directive, **will be following the recommendation**.

If the contents of the recommendation are incorporated in a legally binding standard, it would be an **unprecedented breach of basic market economy principles**. Without regard to the field of activity, salaries and remuneration systems in private companies should be determined by the owners.

http://europa.eu/rapid/pressReleasesAction.do?reference=IP/09/674

Commission Proposes Regulating Hedge Funds and Private Equity

With the objective of eliminating the impact of a comparable financial crisis in the future, the European Commission has proposed creating **comprehensive regulatory rules for alternative financial investments, such as hedge funds**, private capital funds, real estate funds, and commodity funds. Specifically problems associated with some of them were one of the catalysts of the financial crisis.

The proposed **Directive on Alternative Investment Fund Managers** (AIFM) requires their mandatory registration and compliance with harmonised regulatory standards. One of these is fulfilling the information obligations pertaining to their own finances, which should increase transparency and allow for improved supervision of the entire sector.

The new rules would apply only to the **managers of funds that administer assets in excess of EUR 100 million**. A higher threshold of EUR 500 million would apply to those who do not use financial leverage and investors invest resources for a minimum of 5 years (e.g., private equity funds). AIFM who administer lesser assets do not represent as much of a systemic risk for the entire financial market. From this it ensues that regulation will apply to 0% of all hedge funds in the EU, which administer approximately 90% of resources invested in these funds.

Based on the proposed directive, it should also ensure that alternative investment funds use **corresponding management standards** (corporate governance) and have a **quality system for managing risk, liquidity and conflicts of interest**.

AIFM from abroad would also have access to the EU market after a three-year transitional period, during which the responsible authorities would verify that **similar regulatory and supervisory standards apply to them in their home countries**; that sufficient exchange of information will be provided with regard to taxes, etc.

The directive will enter into force only if it is **approved by European Parliament and representatives of the member states in the Council**. Here it is more likely that a battle will ensue between amongst the states that hold a significant share of the alternative investment funds sector (e.g., the UL) and states that support a harder approach (namely France).

http://europa.eu/rapid/pressReleasesAction.do?reference=IP/09/669

ENTERPRISE

If Authorities do not Pay SMEs within 30 Days, They Will be Penalised

Public **administration authorities will have to pay their contractual partners within no more than 30 days** or else

face financial sanctions. This provision is included in the addenda to the amendment to the Late Payments Directive, which was submitted by the European Commission. It does not apply to entities in the private sector. The amendment to the Late Payments Directive is one of four legislative proposals included in the **Small Business Act**.

The proposal should help small- and medium-sized enterprises who win a bid for a public contract and then, due to delayed payments on the part of a payer from the public sector, might find themselves in financial difficulty.

If the proposal is approved by European Parliament and the member states, state authorities, governments and European agencies will have to pay small- and medium-sized enterprises **compensation for any incurred expenses and a flat rate of interest equal to 5%** of the amount due as of the first day of delay.

According to the European Commission, late payments are a problem throughout all of Europe, and thus public authorities are being asked **to act as an example to other debtors and to settle all obligations within a timeframe of 20 days**. However, in "objectively justified" situations, public institutions will be able to extend payment conditions.

European Commission Vice-President Günter Verheugen, responsible for Enterprise and Industry, is convinced that these measures **will help small companies alleviate some of the pressure that is appearing in relation to the financial crisis**.

In a number of countries – and unfortunately the Czech Republic is one of them – **the state and its authorities rank amongst the entities with the worst payment morale**. The adoption of this directive would limit this unfortunate situation quite significantly. The question remains however as to how the member states will approach this situation and whether or not a short-term selfish perspective will prevail.

http://europa.eu/rapid/pressReleasesAction.do?reference=IP/09/552

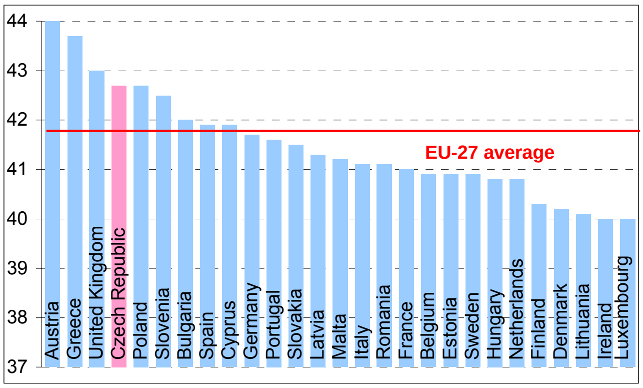
EMPLOYMENT AND SOCIAL AFFAIRS

Negotiations on Working Time Directive at a Deadlock

MEPs and the representative of the member states **were not successful in reaching a compromise agreement on the new Working Time Directive**. As a result, more than five years of discussion on the text of the directive came to nothing and negotiations will be restarted after a new Parliament and Commission are elected. Discussions reached a dead end with regard to allowing exceptions ("opt-outs"), on-call time, and working time accumulated on the basis of multiple employment contracts.

Working time is a topic that has long been discussed in the European Union. In 1993, a directive entered into force that established that employees can, on average (over a course of four months) work no more than 48 hours a week. The directive however allowed a number of exceptions from this rule and, in addition, there were many changes to it thanks to several decisions passed down by the European Court of Justice (ECJ). As a result, the Commission decided to submit a **new version of the directive in 2004**.

Hours worked per week of full-time employment in 2008



Source: Eurostat

The main stumbling block as of the very beginning lies in the opt-outs. The original directive from 1993 (which continues to be in force) did establish **maximum working time of 48 hours per week**, but it also allows for a number of opt-outs (i.e., exceptions), from this rule. The problem remains that similar exceptions are now applied in up to fifteen of the twenty-seven member states and with all indications that this number will continue to increase. The MEPs do not however agree with the opt-outs, which are being promoted primarily by Great Britain, but also by several other countries.

The opt-outs are not the only rotten apple though – **other points of dispute include calculating on-call time** and working hours accumulated by one employee on the basis of multiple employment contracts. MEPs continue to assert that overtime and working hours from different jobs should be added together (whereby the total cannot exceed 48 hours per week); however this is entirely unacceptable for a number of member states.

The fact that the directive was not approved is by no means an economic tragedy. On the one hand, a number of entrepreneurs have warned that the **approval of this**

The European Commission presented a proposed directive on alternative investment fund managers, which is intended to create a regulatory framework for hedge fund and private capital fund activities. The European Commission has come up with an initiative to improve payment morale on the part of public administration authorities. If it is approved, public authorities will have to pay their contractual partners within a timeframe of no more than thirty days.

directive would tangle legal employment conditions significantly and ultimately would undermine the competitiveness of European companies. On the other hand though, the existing provisions in force, which are based on a number of exceptions, special schedules and precedent rulings passed down by the ECJ, are not an ideal solution either.

http://www.europarl.europa.eu/news/expert/infopress_page/048-54485-117-04-18-908-20090427IPR54484-27-04-2009-2009-false/default_en.htm

Parliament Adopts New Anti-Discrimination Directive

Europe's parliamentary members have approved a proposed directive that should **limit direct and indirect discrimination** on the basis of religious beliefs or faith, age, disability, or sexual orientation. This new legislation will supplement three directives that are already in force:

- the directive on discrimination on the basis of race or ethnic origin, with regard to both the labour market as well as outside of it;
- the directive on discrimination on the labour market; and
- the directive on equality between men and women.

The directive will **apply to social security and healthcare, education, and access to goods and services, including housing**. Conversely, it will not apply to transactions concluded between private parties, the advertising and media sectors.

The new directive will not have any impact on the distribution of power between the Union and member states and will not affect national legislation pertaining to marital rights. Member states will continue to be responsible for organising their education systems and the contents of teaching materials. The directive will also not affect regulations pertaining to the separation of church and state. Member states will however have the ability to adopt measures that will allow them to avoid disadvantages or compensate them (e.g., **in the form of affirmative action or quotas**).

Member states will be **able to allow differences in treatment with regard to access to educational institution on the basis of religious beliefs or faith**, in order to maintain the specific nature of these facilities and the plurality of the educational system, under the condition that this not interfere with the right to receive an education and does not justify discrimination for any other reason.

The risk factors associated with health condition and age, which are currently applied in banking and the insurance sector will not be considered as discrimination, as **these are decisive factors for evaluating risk**. Nevertheless, providers of these services will have to be able to clearly prove the aforementioned risk. Difference in treatment on the basis of age is also acceptable in situations such as the sale of alcoholic beverages, weapons and the issuance of driving licences.

http://www.europarl.europa.eu/news/expert/infopress_page/019-53201-091-04-14-902-20090401IPR53200-01-04-2009-2009-false/default_en.htm

ENERGY AND TRANSPORT

Liberalisation of the Energy Market can Definitely Start

At its plenary session, European Parliament **approved the liberalisation of the Union's electricity and natural gas markets**. The compromise solution did not have an easy birth and is the result of a significant contribution on the part of the Czech Presidency, which had already agreed on it with the parliamentary delegation at the end of March.

In the end, MEPS gave a green light o the proposal, which relies on the fact that each member state will elect the most acceptable form of liberalisation for its natural gas and electricity markets. **They have three options to select from**.

Firstly, they can adopt the Commission's original idea and order **full ownership unbundling for the production and distribution of energy**. This approach has been in place in the Czech Republic since the start of the millennium when it comes to the electricity market, whereby ČEZ is responsible for the production of electricity and the distribution networks are owned by ČEPS.

The second option consists of allowing states, which do not wish to tear apart their energy giants, to place the governance of distribution networks in the hands of an **Independent System Operator (ISO)**, whilst ownership would remain with the energy company.

The third – and mildest – form of liberalisation, promoted primarily by Germany and France, is the establishment of an **Independent Transmission Operator (ITO)**, who would manage the distribution network, but the energy producers would still maintain a certain level of influence with regard to their functionality.

The legislative package also takes into account the "predators" (primarily the Russian Gazprom), and thus, under certain conditions, member states **will be able to refuse purchasers of energy networks who are not based in the European Union**. This applies mainly to the fulfilment of certain requirements for ownership unbundling

and if the entry of the relevant entity on the market poses a threat to the energy security of any individual member state of the Union or the entire EU-27.

The proposal also includes provisions for **improved consumer protection**. To name a few, consumers will have the right to change natural gas or electricity distributors free of charge within a timeframe of three weeks; the right to receive better information; and access to “independent services for processing complaints and an alternative system of remedies”.

http://www.europarl.europa.eu/news/expert/infopress_page/051-54057-111-04-17-909-20090421IPR54056-21-04-2009-2009-true/default_en.htm

ENVIRONMENT

EU Concludes Climate-Energy Package

At the summit that was held in April, a number of ministers approved the final version of the Climate-Energy Package. It was agreed on at last year’s December summit, but it was only during the Czech Presidency that the agreement on the final form of the adopted legislation was confirmed formally. With the assistance of this package, **by 2020 the European Union should decrease greenhouse gas emissions by 20% as compared to 1990 and increase renewable resources to 20%.**

The package consists of six measures. In 2013, a **change will be implemented to the European Emissions Trading System (ETS)**. As of that year, electricity producers will have to purchase all their emission permits through auctions and will no longer receive them free of charge. Auctions will be implemented gradually throughout all other sectors included in the ETS. In 2013, all operations that use high levels of energy will have to purchase 20% of their emission permits and this amount will be increased to 70% in 2020. Full “auctioning” of permits should occur no earlier than 2027. Member states that are heavily dependent on the production of electricity from coal (including the Czech Republic), have succeeded in being granted exceptions for sectors that could face the threat of loss of competitiveness and the subsequent transfer of operations to countries outside of the EU.

In the case of those sectors that are most often included in the ETS (e.g., transport and agriculture), the package includes a **decision on “joint effort” to decrease CO2 emissions**. The decision made on the part of each individual member state establish a clear goal in relation to its possibilities, which specifies the amount by which emissions should be decreased in order to ensure that overall emissions are decreased by 10% by 2020.

The package also implements a legal framework for the **public support of carbon capture and underground storage (CCS) technologies**. It also includes a directive supporting energy from renewable resources, which establishes the levels by which member states should increase energy production from renewable resources by 2020 in order to ensure that they meet the common 20% goal.

In addition, each member state should **attain a 10% share of renewable resources in the transport sector** and criteria for the sustainable use of bio-fuels are also implemented. The remaining measures include stricter CO2 emission limits for new automobiles and implement a fuel quality standard.

http://www.consilium.europa.eu/uedocs/cms_Data/docs/pressdata/en/misc/107136.pdf

National targets for share of energy from renewable sources

	Current Share in 2005	Target for 2020
Sweden	39.8%	49.0%
Latvia	32.6%	40.0%
Finland	28.5%	38.0%
Austria	23.3%	34.0%
Portugal	20.5%	31.0%
Denmark	17.0%	30.0%
Estonia	18.0%	25.0%
Slovenia	16.0%	25.0%
Romania	17.8%	24.0%
France	10.3%	23.0%
Lithuania	15.0%	23.0%
Spain	8.7%	20.0%
Germany	5.8%	18.0%
Greece	6.9%	18.0%
Italy	5.2%	17.0%
Bulgaria	9.4%	16.0%
Ireland	3.1%	16.0%
Poland	7.2%	15.0%
United Kingdom	1.3%	15.0%
The Netherlands	2.4%	14.0%
Slovakia	6.7%	14.0%
Belgium	2.2%	13.0%
CR	**6.1%**	**13.0%**
Cyprus	2.9%	13.0%
Hungary	4.3%	13.0%
Luxembourg	0.9%	11.0%
Malta	0.0%	10.0%

Source: European Commission, share of energy from renewable sources in gross final consumption of energy

The Council of the European Union for the Environment approved the final version of the climate-energy package. According to it, by 2020 the European Union should limit the emission of greenhouse gases by 20% as compared to 1990 levels. The validity of the Roaming Regulation, which regulates fees for the use of mobile telephones abroad, will be extended up thought the period following 2011.

More Environment-Friendly Filling Stations

The Czech Presidency has led the EU institutions to a compromise solution, on the basis of which European filling stations must, over the course of the next few years, install equipment that will **capture petrol fumes** at the time that cargo vehicles, automobiles, and motorcycles are tanked up. The negotiated compromise is yet to be formally confirmed by members of European Parliament and the ministers of the EU member states.

The equipment for capturing petrol fumes is intended to **improve both air protection and human health as well as to promote fuel savings**. At the time that petrol is tanked up, air saturated with petrol fumes is forced out of the fuel tank. These fumes contain fluid organic compounds that are cancer-causing and thus harmful to people and the environment alike.

This equipment for capturing petrol fumes is also advantageous from the economic perspective, as there will be no more losses resulting from the emission of petrol fumes into the air. As a result, the investments that have to be paid out in order to install the mandatory equipment will be returned after a certain period of time. **The equipment should capture up to 85% of all petrol fumes**.

Capturing fumes will not bring significant benefits for environmental protection at nationwide level or even at city level, but **it will be important for the local area in which a filling station is situated**. This pertains primarily to the immediate area, but is also of importance to filling station employees, who come into contact with petrol fumes on a daily basis. According to the representatives of the largest companies in the Czech Republic, all of their filling stations already have this equipment.

Based on the agreement, **as of 1 January 2012 all new and reconstructed filling stations throughout the entire EU will be required to have this equipment**. An exception is in place only for small filling stations that serve only a few automobiles every day. The deadline by which all filling stations must install petrol fume capture equipment is December 2018. Implementation of these measures is currently underway in several member states.

http://www.eu2009.cz/scripts/file.php?id=34024&down=yes

INFORMATION SOCIETY

Roaming: Further Decreases in Calling and SMS Prices

Thanks to the compromise negotiated by the Czech Presidency, which was subsequently accepted and **extends the validity of the 2007 "Roaming Regulation",** as of 1 July 2009 the prices for international calls and SMS text messages that take place using mobile telephones will be decreased. The tariffs charged for accessing the Internet via mobile telephone will be limited in the same way.

The compromise does not establish the pricing for roaming services on the basis of European tariffs, **but rather it defines the ceilings** within the framework of which telephone operators can compete for lowest prices amongst themselves.

Maximum prices for retail tariffs (in EUR per minute and not including VAT)

	outgoing calls	incoming calls
As of 1 July 2009	0.43	0.19
As of 1 July 2010	0.39	0.15
As of 1 July 2011	0.35	0.11

Source: European Parliament: Solely for cross-border calls

Starting on 1 July 2009, **operators will be obligated to charge per second prices**; however they can designate a minimum conversation length of 30 seconds.

MEPs and the Czech Presidency of the Council agreed with the Commission that that SMS text messages made within the framework of roaming services will cost no more than EUR 0.11 (not including VAT) starting as of 1 July 2009.

Other data roaming services (e.g., sending e-mails or photographs, mobile internet services, etc.) **will be regulated at the wholesale level**, i.e., limits will be established for the prices that host operators charge domestic operators of customers who use roaming services:

- As of 1 July 2009: no more than EUR 1.00 per megabyte (not including VAT);
- As of 1 July 2010: no more than EUR 0.80 per megabyte (not including VAT); and
- As of 1 July 2011: no more than EUR 0.50 per megabyte (not including VAT).

By no later than mid-2011, the European Commission will complete a study evaluating the level to which actual consumer expenses have decreased and the situation with regard to smaller, independent, and new operators from the perspective of their competitiveness. The validity of the new regulation will expire on 30 June 2012. Otherwise, the validity of the existing regulation on roaming services would have expired in June 2010.

http://www.europarl.europa.eu/news/expert/infopress_page/052-54063-111-04-17-909-20090421IPR54062-21-04-2009-2009-false/default_en.htm

In addition to the aforementioned events, we would like to bring attention to the decisions made by the governments of Belgium and Denmark, specifically that they will not strive to extend their derogations from 2004 with regard to the free movement of workers from the new member states. European Parliament has approved revisions to the regulation on cross-border payments and the directive on electric money with the goal of taking current demand into account.

1 APRIL

Transport, Telecommunications and Energy Council meeting: http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/trans/107025.pdf

Statistics: China passes the EU in High-tech exports: http://epp.eurostat.ec.europa.eu/cache/ITY_OFFPUB/KS-SF-09-025/EN/KS-SF-09-025-EN.PDF

Trade mark protection in the EU gets much cheaper and easier to obtain: http://europa.eu/rapid/pressReleasesAction.do?reference=IP/09/506

2 APRIL

Adapting to climate change: the European Union must prepare for the impacts to come: http://europa.eu/rapid/pressReleasesAction.do?reference=IP/09/519

Antitrust: Commissioner Kroes takes note of MasterCard's decision to cut cross-border Multilateral Interchange Fees (MIFs) and to repeal recent scheme fee increases: http://europa.eu/rapid/pressReleasesAction.do?reference=IP/09/515

3 APRIL

First European airlines offering in-flight use of mobile phones thanks to EU-wide ground rules: http://europa.eu/rapid/pressReleasesAction.do?reference=IP/09/526

Statistics: EU Agricultural Income down by 3.5% in 2008: http://epp.eurostat.ec.europa.eu/pls/portal/docs/PAGE/PGP_PRD_CAT_PREREL/PGE_CAT_PREREL_YEAR_2009/PGE_CAT_PREREL_YEAR_2009_MONTH_04/5-02042009-EN-AP.PDF

Change in real agricultural income per worker1 in 2008

Bulgaria	28.9%	Germany	-6.6%
Romania	28.4%	Greece	-8.0%
Hungary	18.6%	Ireland	-8.7%
GB	16.5%	Slovenia	-9.2%
Slovakia	9.7%	France	-10.3%
Portugal	3.7%	Netherlands	-12.4%
CR	2.4%	Luxembourg	-12.5%
Italy	1.7%	Malta	-13.0%
Sweden	-1.3%	Finland	-13.1%
Cyprus	-2.0%	Poland	-17.7%
Spain	-2.5%	Latvia	-19.4%
EU-27	-3.5%	Belgium	-22.6%
Austria	-4.1%	Estonia	-23.0%
Lithuania	-5.1%	Denmark	-24.7%

Source: Eurostat

6 APRIL

The European Central Bank reduces the key interest rates by a further 25 basis points: http://www.ecb.int/press/pressconf/2009/html/is090402.en.html

The Prague meeting of EU Heads of State and Government: http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/er/107130.pdf

EU and Africa join forces to develop aviation cooperation: http://europa.eu/rapid/pressReleasesAction.do?reference=IP/09/541

Information Society: .eu: three years on, three million domain names: http://europa.eu/rapid/pressReleasesAction.do?reference=IP/09/536

7 APRIL

How to assess employment and social impacts of European Commission policy proposals: http://ec.europa.eu/social/main.jsp?langId=cs&catId=89&newsId=485&furtherNews=yes

8 APRIL

Employment, Social Affairs and Equal Opportunities: The financial crisis has put a sharper focus on pensions systems: http://ec.europa.eu/social/main.jsp?langId=cs&catId=89&newsId=486&furtherNews=yes

EIB Board approves further EUR 866m in loans for cleaner cars: http://europa.eu/rapid/pressReleasesAction.do?reference=BEI/09/59

9 APRIL

Commission sets harder targets for faster payments of EU grants and contracts: http://europa.eu/rapid/pressReleasesAction.do?reference=IP/09/551

14 APRIL

Commission raises overall ceiling in balance-of-payments assistance facility: http://europa.eu/rapid/pressReleasesAction.do?reference=IP/09/559

15 APRIL

Telecoms - Commission launches case against UK over privacy and personal data protection: http://europa.eu/rapid/pressReleasesAction.do?reference=IP/09/570

16 APRIL

Helping developing countries during the financial crisis: http://europa.eu/debateeurope/financial-crisis/index_en.htm

17 APRIL

Compensation for bus and ferry passengers: http://www.europarl.europa.eu/news/public/story_page/062-53654-103-04-16-910-20090414STO53647-2009-13-04-2009/default_en.htm

20 APRIL

Instrument for Stability - The EU's response to some of today's global threats: http://europa.eu/rapid/pressReleasesAction.do?reference=MEMO/09/164

Extend maternity leave to 20 weeks, says Women's Rights Committee: http://www.europarl.europa.eu/news/expert/infopress_page/014-53680-104-04-16-902-20090414IPR53679-14-04-2009-2009-false/default_en.htm

Economic recovery plan - MEPs reach deal with Council Presidency on energy projects: http://www.europarl.europa.eu/news/expert/infopress_page/051-53786-106-04-16-909-20090416IPR53785-16-04-2009-2009-false/default_en.htm

21 APRIL

Agriculture and Rural Development: Commission publishes 2008 report on the agricultural situation in the EU: http://ec.europa.eu/agriculture/newsroom/en/338.htm

22 APRIL

EU budget estimates spot on: http://europa.eu/rapid/pressReleasesAction.do?reference=IP/09/584

Less Favoured Areas: Commission intensifies cooperation with national authorities to simplify and better target the aid: http://europa.eu/rapid/pressReleasesAction.do?reference=IP/09/609

23 APRIL

All EU Member States now signatories to the agreements to combat illicit trade in tobacco products: http://europa.eu/rapid/pressReleasesAction.do?reference=IP/09/610

European Union makes it easier for crime victims to obtain compensation: http://europa.eu/rapid/pressReleasesAction.do?reference=IP/09/548

24 APRIL

How European students see higher education in Europe: http://ec.europa.eu/education/news/news1330_en.htm

European Parliament votes to support new rules strengthening the EU internal energy market: http://europa.eu/rapid/pressReleasesAction.do?reference=IP/09/622

27 APRIL

Agriculture and Fisheries Council meeting: http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/agricult/107359.pdf

EU finances in good shape: Parliament approves Commission's management of the EU budget: http://ec.europa.eu/budget/other_main/what_new_en.htm

Safer and easier e-money transactions: http://www.europarl.europa.eu/news/expert/infopress_page/042-54265-111-04-17-907-20090422IPR54264-21-04-2009-2009-false/default_en.htm

28 APRIL

Commission insists that all Member States publish recipients of CAP payments by 30th April, as set out in EU law: http://europa.eu/rapid/pressReleasesAction.do?reference=IP/09/632

General Affairs and External Relations Council meeting: http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/gena/107419.pdf

http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/gena/107418.pdf

29 APRIL

EU-Canada: Green light for the Commission to negotiate new free trade and economic agreement: http://europa.eu/rapid/pressReleasesAction.do?reference=IP/09/648

European Commission welcomes the decisions by Belgium and Denmark to open their labour markets: http://ec.europa.eu/social/main.jsp?langId=en&catId=89&newsId=501&furtherNews=yes

30 APRIL

Taxation: European Commission proposes actions to improve transparency, exchange of information and fair tax competition: http://ec.europa.eu/taxation_customs/resources/documents/common/whats_new/COM(2009)201_en.pdf

Discussion in EP: Mums and dads at home with newborns: how long should they have off?: http://www.europarl.europa.eu/news/public/story_page/048-54431-117-04-18-908-20090424STO54408-2009-27-04-2009/default_en.htm

Competition: State aid: Commission adopts Simplification Package to accelerate state aid decisions: http://europa.eu/rapid/pressReleasesAction.do?reference=IP/09/659

In May, we will be witness to several formal and informal meetings of EU Councils. Unfortunately, as is shown by the experiences from the preceding period up until the fall of Topolánek's government, loss of respect will be reflected negatively even on our abilities to properly perform the presidential function. It is worth mentioning the EU's External Relations and General Affairs Council meeting, at which the EU's military operations abroad and cooperation with strategic partners will be discussed.

Meeting of the key EU institutions

3.-5.5.2009	**Prague, Czech Republic**
- Informal Meeting Competitiveness Council	
4.5.2009	**Brussels, Belgium**
- Eurogroup	
4.-7.5.2009	**Strasbourg, France**
- EP Plenary	
5.5.2009	**Brussels, Belgium**
- Economic and Financial Affairs Council	
11.-12.5.2009	**Brussels, Belgium**
- Education, Youth and Culture Council	
18.-19.5.2009	**Brussels, Belgium**
- General Affairs and External Relations Council	
18.-19.5.2009	**Brussels, Belgium**
- Association Council EU - Israel	
25.-26.5.2009	**Brussels, Belgium**
- Agriculture and Fisheries Council	
28.-29.5.2009	**Brussels, Belgium**
- Competitiveness Council	
31.5.-2.6.2009	**Brno, Czech Republic**
- Informal Meeting of Agriculture and Fisheries Ministers	

Public consultation on EU legislation

Topic of the consultation	Organiser	Deadline
Call for evidence on Market Abuse Directive	DG MARKT	30.5.2009
The Retail Market monitoring exercise	DG MARKT	5.6.2009
Harmonisation of Securities Law	DG MARKT	11.6.2009
Administrative Burdens Reduction	DG ENTR	running

The first day of May will see the fifth anniversary of our accession to the European Union, which more than likely represents the most important confirmation of positive post-November development in the Czech Republic and the post-revolution development in our partners' countries. Five years is a sufficiently long enough period of time to identify the most significant, at least medium-term, effects. The main topic of this EU News Monthly Journal is devoted to this anniversary.

THE CZECH REPUBLIC AND CENTRAL AND EASTERN EUROPE: FIVE YEARS OF EU MEMBERSHIP

In spite of the fact that five years of membership in the EU does not by far remove our label of "Union newbie", a number of the effects and benefits of our membership are starting to be perceived as a certainty. On the one hand, this is obvious proof of the fact that we are becoming more and more of a "normal" society. On the other, it could tempt us to perform a certain undervaluation of the enormous progress that our country has made over the past twenty years, up to the point of not taking seriously, and thus contribute to "memory loss" with regard to the atrophy and abnormal situation from which we set out on this path.

"Our" enlargement, which included another nine newbies and was the fifth in the entire history of European integration (if we do not count the reunification of Germany, which is an expansion of its own), was to a certain degree a breakthrough enlargement from the perspective of the reunification of all of Europe. If, in addition, we add to this the latest enlargement from 2007 (although just our "own" would suffice amply), we can speak of the most extensive enlargement round if we take into account the number of newly acceding countries and their populations. It is easy to believe that its size will remain a record, as it is difficult to imagine another 10 countries that would become a part of the EU "all at once".

Its most fundamental systemic characteristic is the fact that this enlargement brought together countries that had undergone entirely different economic, social, and political development over the preceding decades. Thus it represents a milestone in the European reunification process (which can also be perceived as the peak of the transformation process in a significant portion of the central and eastern territories of the continent) after a number of years of the artificial separation that came about as a result of the circumstances that caused the Cold War.

Thanks to their dynamicity and the representative numerical size, the new member states without a doubt made the EU stronger and culturally richer. The enlargement process helped organise and adapt democratic rules in these countries after the liquidation of their former communist and socialist regimes. It strengthened European security through securing the key anchors of stability during a period of conflict and at a time that various tremors were becoming apparent in the peripheral parts of the European continent (primarily outside of the EU) and namely outside of Europe. The enlargement significantly strengthened the economies and improved the standard of living in the new member states, as a result of which even the old member states enjoyed a significant benefit, primarily as a result of new export and investment opportunities. Enlargement strengthened the Union economy as a whole through integration advantages and benefits within the framework of a more extensive internal market. Enlargement also allowed the EU to take greater advantage of the benefits of globalisation. An enlarged EU gains in weight and authority, as long as it represents itself as a leader in issues such as global climate change and the international financial and economic crisis.

The integration process did raise numerous issues, including fears about the capacity of the EU's institutions to absorb a wider variety of opinions, which should be considered during decision-making processes. Questions were placed with regard to enlargement expenses, when all of the newbies have lower (some of them significantly lower) levels of economic development (as measured by GDP or per capita income) than the average of the existing member states and the entire enlarged Union overall. It is also not a surprise that the citizens had mixed feelings about enlargement and saw certain risks in relation to their jobs, salaries, security, and identity. The global financial and economic crisis has added yet another dimension, which is creating tension with regard to integration and the level of convergence that has already been attained.

SUMMARY OF ENLARGEMENT EFFECTS

The 2004 enlargement (and the continuing trend strengthened the aforementioned characteristics even further in 2007) was different from all those preceding not only because it was the largest as measured by the number of states and inhabitants to which it pertained, but primarily due to the fact that, on average, the states to which the enlargement pertained had a significantly lower level of economic performance and income than the average of the states that had made up the EU up until that time when compared to the countries that had joined the EU in the past. This transformed the integration process into an enormous challenge for old and new member states alike while, at the same time, creating significant opportunities for both the individual countries as well as the EU as a whole.

In order to ensure that the preparations corresponded to such a massive enlargement, the entire process officially

started back in 1993, at which time the invitation to submit applications for EU membership were a part of the European Council's Copenhagen Summit, at which the Copenhagen Criteria were also formulated.

These included the economic, political, and legislative conditions that had to be met before a country's actual membership could be considered. These challenges were yet another reason why the support for enlargement on the part of citizens in the EU-15 tended to be more mixed and fluctuating both before as well as after the enlargement as compared to the conclusions of the economic studies, which generally presented positive results for this process.

While the new member states represent approximately 21% of the EU's population, their total contribution to the Union's GDP at that time was only 7%. As the economic growth in the new member states was significantly stronger as compared to the EU average, the original sizable income and performance gap with regard to the EU average is starting to become quite noticeably narrower.

Nevertheless, the benefits of enlargement do not primarily consist of the currently high economic weight of the EU-27 within the framework of global GDP (approximately 2.5% points based on standard purchasing strength), but mainly with regard to synergy and the potential for economic dynamics that have been monitored over the long-term and which this particular combination of member states helps make possible and feasible, thus making it possible to offer better-formulated responses to answer the challenges of globalisation.

Real convergence

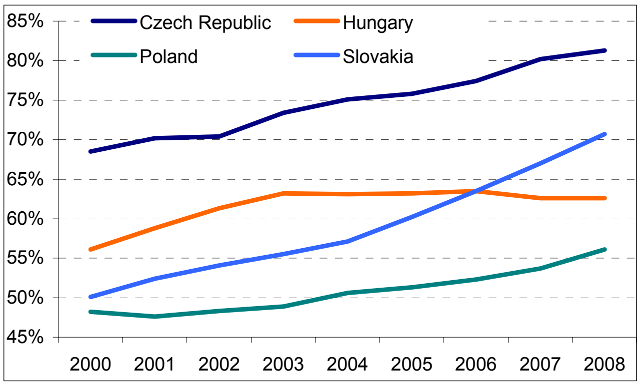
After the initial recession at the start of the 1990s, which was linked to the first transformation steps for removing the most glaring accompanying phenomena of the remnants of a centrally planned economy, the economies of the new member states subsequently stabilised and gained momentum for its economic growth during the second half of the 1990s (unfortunately, with the exception of the Czech Republic) and primarily for the most majority of this decade. One of the key inducements and reasons for this resounding economic recovery was in fact the "actual convergence game" in the form of signals on accession to the EU, which, during the second half of the 1990s, were finally gradually becoming a distinct possibility.

After the 2004 enlargement, this resounding economic advancement was the result of the mobilisation of economic activities and stimuli initiated in the new member states as a result of the EU's Single Internal Market environment, common and coordinated policies, and the removal of other nonessential obstacles to the development of trade and business transactions and projects across the borders between the individual members states of the expanding EU.

GDP growth further accelerated during the period just preceding and after the accession of these countries to the EU and was accompanied by the strong creation of new jobs in the majority of which accompanied the period of economic restructuring. Over the course of the five years following accession, the average real year-on-year growth of GDP in the new member states attained a value of more than 5.5% as compared to the 3.5% during the previously monitored five years (1999-2003), while growth in the old member states remained at an average of 2.2% (which was by the way during a period of relatively strong growth in these countries, and certainly also influenced by the enlargement of the EU itself).

Together with the gradual spread of what was at first a financial crisis and subsequently evolved into an economic recession, as early as in 2008 certain visible signs of a slowdown and even a decrease started becoming apparent and will continue during the following period. Amongst the new member states, these are primarily most visible in the Baltic States.

Real convergence - GDP/cap in PPS (EU-27 = 100 %)



Source: Eurostat

The key stimulators and accelerators for the growth process in the new member states were the openness of their economies, namely in the area of trade and direct foreign investments, an overall improvement of the institutional framework, towards which accession to the EU definitely contributed. These factors led to the sped-up growth of productivity, which is the basic requirement for permanent growth of the standard of living. On the basis of a growth regression analysis it is possible to estimate that every individual year during the period of 2000 to

2008 gave the new member states, on average, a sufficient growth impulse of up to 1.8%. Key factors that contributed to this development in a dominant manner were more than likely improved productivity resulting from direct foreign investments and the associated technology transfers.

Likewise, narrowing the interest range was a significantly important factor, which made it fundamentally easier for the real economic sector to obtain access to financial resources. In comparison to other developing economies with comparable underlying foundations, the new member states could take advantage of a range of 50 to 100 basic points, which contributed approximately an additional 0.3% to the growth rate. It is nevertheless proper to add that this particular advantage most likely will cease being valid in the very near future as a result of increased risk premiums as a reaction to the financial crisis and economic recession, primarily in countries that have deep structural problems.

Strong economic growth allowed the new member states to come significantly closer to the EU-15 average as reflected in per capita GDP. If five years prior to enlargement this value was at 40%, for 2008 we can, on average, use a figure of above 52% per capita GDP in the EU-15. The real convergence process in some countries was faster than in others and reflected the importance of the ability to promote appropriate economic policies in practice and implement them satisfactorily. The process of approaching the EU average, supported primarily by increased demand, seemed to be especially impressive in the Baltic States; however overheating combined with evident structural defects (excessive trade deficits, high inflation rates) gradually started collecting its dues starting in 2007.

On the other end, Malta and its growth were not sufficiently strong enough to narrow the income and performance gaps, which confirmed the fact that the advancement process and real convergence cannot be guaranteed solely on the basis of EU membership. Slovenia is an example of one of the countries where the growth trajectory in the desired direction of approaching the EU average was the smoothest and most stable.

Growth in the old member states during the same period were about less than half in comparison to the values monitored in the new members, which was the result primarily of weak growth performance in some of the larger and large countries, which cannot however in any way be linked directly to the enlargement process. On the other hand however, the old member states did acquire benefits from the growth poles formed in the countries of their “new neighbours”. Preliminary estimates prepared by the European Commission in 2001 specified a growth stimulus of 0.5% to 0.7% for the old member states for the period culminating the enlargement processes (207-2008). These numbers cannot be firmly confirmed as of this time; nevertheless it is clear that those EU-15 countries that are reporting higher growth with regard to their investments and business activities with the new member states are also enjoying greater increases in their real growth as reflected in per capita GDP.

Since 2000, the increase in per capita GDP in the new member states has been stronger than in some developing market economies in Southeast Asia, which went through a similar process of catching up and approaching the levels of developed economies and are the subject of the same or comparable global trends.

Other Positive Effects

Mainly from the angle of the EU perspective, it is significant that the EU has positive influence on the quality of institutions. In addition, membership in the EU helped overcome an insufficient level of saving in the new member states to help implement their development projects. This led to the creation of a “catch-up and convergence model”, founded on the massive import (influx) of capital, which, in some countries, contributed to a current account payment balance deficit (which in the case of performance balance also applied to the Czech Republic). In all countries it led to the improvement of the real exchange rates for their currencies.

Nevertheless, the strengthened currencies did not force down export performance in the new member states, as the influx of direct foreign investments allowed a qualitative move forward and a transformation in the form of output consisting of an export basket and structure in the new member states.

Overall, the relative gap in incomes and economic performance between the EU states is narrowing; however the distribution of the “dividends from enlargement” amongst countries and their regions is not being performed in an entirely proportional manner. Some regions are profiting from this process significantly more than others. This is also thanks to the fact that capital and a qualified workforce are showing a tendency to concentrate in a limited number of regions over the course of the initial pages of the catch-up process. When a subsequent certain level of development is attained, skills and knowledge start spreading in a spiralling manner, and the disadvantages of concentrated agglomerations (e.g., the lack of a sufficient workforce) start being obvious.

At that point, it is more than likely that a more balanced way of distribution will be achieved. Real convergence went hand in hand with the nominal convergence process, when inflation levels, interest rates, and government deficits started gradually adjusting to the levels in the old member states. Nevertheless, since mid-2007, both as an accompanying phenomenon as well as a consequence of the financial crisis, the macroeconomic stability is several new member states found itself under significant pressure. For example, Hungary and Latvia applied for support for ensuring their payment balance and overcoming liquidity problems.

Within developing economies, the resulting re-evaluation of risks directed at less favourable values has led to a significant compression of economic activities in many of the new member states. It is likely that in the case of those new member states in which the manifestations of the financial crisis are reflected most severely, even their real convergence game will be interrupted and these economies will report more of a divergent trend for a certain period of time. Conversely, in some of the other new member states, in which the dampening effect on their economic activities is not as strong as in the old member states, this crisis might, expressed in relative terms, even result in the convergence process being speeded up and permanent inclusion amongst certain of the old member states, if the criteria we choose to consider is the indicator of economic performance, i.e., per capita GDP.

The fifth wave of EU enlargement in 2004 was not only the historically most extensive with regard to the number of countries and size of the populations that became a part of the EU, but was also the most complex wave, as the EU became reality for countries whose economic, social, and political environments were very different. This wave of enlargement has had significant impact on the EU as a whole and on its position in the global economy. It is however objective to say that it called forth mixed reactions. While many citizens welcomed the arrival of new members as an opportunity for Europe to become stronger, more competitive, and better able to protect its interests on the world scene in this era of globalisation, others viewed enlargement as a thread to their identity, security, and employment positions.

MILESTONES OF THE 5TH ENLARGEMENT

It was already in 1991 that the European Communities signed their first European arguments with Hungary and Poland. Additional Central and East European countries soon followed, out of which slowly evolved the majority of candidate states for full membership. Cyprus and Malta had had their association agreements signed since the beginning of the 1970s. Thanks to these agreements, the conditions for trade were slowly and gradually liberalised, thus excluding one-time trade shocks both in May 2004 as well as in January 2007. The overall economic integration of the candidate countries was played out during the course of the 1990s and the start of this decade and, in principle, culminated by the accession date.

After individual states submitted their applications for membership over the course of the preceding period (the Czech Republic did so in 1996), accession negotiations officially started with six candidate countries in March 1998: the Czech Republic, Estonia, Hungary, Poland, Slovenia, and Cyprus. In October 1999, this number was expanded to include Bulgaria, Latvia, Lithuania, Malta, Romania, and Slovakia. The first ten acceding countries completed their negotiations by December 2002 (in Copenhagen) and signed their Accession Treaties in April 2003 (in Athens).

Negotiations with Bulgaria and Romania continued for an additional two years and were completed in December 2004. Their Accession Treaties were signed in April 2005. After the Accession Treaties of each of the acceding countries were approved and ratified within the legislation systems of existing member states, the official enlargement dates were established – 1 May 2004 for ten new member states and 1 January 2007 for Bulgaria and Romania. Four of these new member states have already become a part of the Eurozone during the period of time that has passed since their entry to the EU and the current time: Slovenia as of 1 January 2007, Cyprus and Malta a year later; and Slovakia as of 1 January 2009.

Negotiations covered 31 chapters of the acquis communautaire and, in addition to being comprehensive, were very complex. The key principle behind the negotiations was that no permanent damage ensuing from EU regulations should be accepted in any of the acceding countries. Due to technical and practical difficulties whilst implementing all the required adaptations and the not negligible expenses associated with this task, the transformation period for this adaptation was set for a period ranging from six months up to twelve years for full adoption of the validity of the acquis communautaire.

The primary areas to which this applied – and to which is some cases continues to apply – include the environment; agriculture; social and employment policies; transport; energy; and the free movement of workers, services, and capital. This transition period, and especially restrictions placed on the free movement of workers, collides with the smooth functionality of the Single Internal (at the current time, only Germany and Austria are applying these

provisional measures with regard to workers from the 2004 newbies). As far as the labour market is concerned, in the very beginning a “2+3+2 Rule” was applied, which required the individual states of the EU-15 to declare, first in 2006 and then again in May 2009, whether they wish to open their labour markets to workers from the new member states (as previously mentioned, with the exception of Germany and Austria – and in these cases, without any apparently rational reasons – all the other states have gradually opened their labour markets to workers from the new states without any subsequent obstacles). Exceptions were only applied for Cyprus and Malta, which were not a part of the plan and free movement applied to their workers from the very beginning.

A significant area covered by the negotiations and the accession process pertained to financial support for enlargement. The accessibility of EU funds – as one of the tools for economic policy, as well as and expression of solidarity within the framework of the EU – ensured sufficient opportunities for the new countries whilst helping to improve their competitiveness and strengthening the catch-up and convergence process. In addition, after accession the new member states receive benefits in the form of significant transfers in relation to agriculture and cohesion policy, as well as the offer of a wide range of programmes in various EU policy areas. For the 2004 to 2006 period, in December 2002 the European Council’s Copenhagen Summit adopted a resolution to allocate EUR 40.9 billion for the ten countries acceding at that time (approximately 2.3% of their annual GDP). In the updated New Financial Perspective, which covers the period of 2007 to 2013, the amounts allocated for the twelve new member states were increased to approximately 3% of their annual GDP.

Whilst these sums can be considered to be acceptable for the old member states, from the perspective of the recently acceding newbies, they actually represent very significant amounts. Just in 2007 alone, approximately EUR 17.8 billion was transferred for the benefit of the new member states, which represents exactly 2.1% of their GDP (EU-12) and only 0.2% of the GDP of the old EU-15 member states. It is obvious that the extent to which the new member states will be able to continue taking advantage of the synergic potential of transfers within the framework of the EU for the benefit of moving forward on the path to greater economic development over the long-term timeframe will depend on their absorption capacity and especially on the quality of their domestic economic policies.

As far as these are concerned, the accession of the new member states had visible impact on them – both prior to as well as after – the time at which they acceded to the EU. The prospect of membership provided a stimulus to implement reforms and set a firm economic and political direction aimed at the fundamental liberal, social, and democratic values that are shared throughout the EU. These values were embedded in the Copenhagen Accession Criteria. After enlargement, new and old member states alike underwent the experience of further redirection of economic activities, which led to significant benefits ensuing from the better allocation of resources.

The new member states obtain the benefit and advantages from the principles of solidarity that are shared in the EU in the form of the ability to use sizable transfers from the numerous EU funds. For the old member states, the size of the Single Internal Market was extended and they can also reap the benefits offered by the potentials of an expanded workforce. In addition, the obligation to adopt the common European currency requires focused and systematic efforts in order to attain nominal convergence in the new member states. Up until now, this approach has continued to positive and stabilised economic results, as can be confirmed by, amongst other things, by the countries that have already satisfied the relevant criteria and entered the Eurozone.

EXPECTATIONS

The results of a number of research and empirical studies that have been prepared, primarily with regard to the enlargement from May 2004, have been consistent in their conclusions, whereby they point out the significant benefits enjoyed by both the new as well as the old member states as a result of enlargement. As compared to the positive conclusions of economic research, the original public expectations and perceptions in relation to the anticipated benefits of the fifth enlargement were very mixed, up to the point of being constrained.

Support on the parts of the citizens of the EU-15 with regard to enlargement was variable both before as well as after enlargement. It was obvious that perceptions of enlargement were influenced not only by the intent to share common issues on the part of each individual respondent and their willingness to bring personal priorities and preferences closer to those of others, but also by additional less altruistic motives, in which a number of factors associated with personal wealth, satisfaction with life, and comfort played a role.

If we take a look at a Eurobarometer survey, performed amongst EU-15 citizens on the eve of enlargement with regard to their preferences for and against accepting individual candidates, we can see that they gave priority to relatively developed states (Cyprus, Malta, and the richest – at least according to their perceptions – economies from the former communist and socialist states). In addition, geographic and cultural closeness also seemed to play an important role and, in the case of more distant countries – i.e., Bulgaria and Romania – it represented a disadvantage. Likewise, the countries of former Yugoslavia seemed to be relatively unknown to the general public in the old member states, something which was confirmed in the weak support for Slovenia's accession to the European (in spite of the fact that it was and is the richest and most developed post-socialist country).

Public support for the EU accession of the new member (or candidate) states in EU-15 in spring 2004

in %	For	Against
Malta	52	28
Hungary	52	30
Poland	48	34
Cyprus	47	33
CR	**46**	**33**
Estonia	41	36
Slovakia	41	37
Latvia	40	37
Bulgaria	39	40
Slovenia	38	40
Romania	35	45
Turkey	32	49

Source: Eurobarometer, 2004, the answers „don't know" are not included

Sentiment with regard to enlargement was generally highly fluxional. Support for enlargement peaked at values of over 50% between autumn 2001 and autumn 2003. Subsequently, this support started to decrease, corresponding to the period of time that the EU economy started to enter a phase of slow growth and the actual time of enlargement neared. During the period just prior to enlargement, the number of those EU-15 citizens against even exceeded the number of backers.

A positive trend once again started gaining strength during the remainder of 2004 year, at which time public opinion in EU-15 started acting more favourably and in the following weeks continued to reverse until the value of those in favour was above 50%. On the other end, over the longer term, these sentiments decreased and there was a slightly decreasing trend in the percentage of supporters. Until now, the lowest value for backers was recorded at the close of 2008.

Supporters and Opponents of 2004 EU Enlargement in EU-15 population

in %	supporters	opponents
2004	52	36
2005	48	40
2006	45	40
2007	47	38
2008	44	43

Source: Eurobarometer

Overall, it can be said that initial expectations with regard to the benefits of expanding towards the East was positive amongst both experts as well as the public. This applies primarily to research performed in the new member states. According to surveys completed in 2008, approximately one-half (48%) of the citizens of the EU-27 consider the enlargement of the European Union from 15 to 27 members as a manifestation of it becoming stronger. On the opposite end of the spectrum, a little over a third (36%) believe that enlargement weakened the Union. Enlargement is viewed very positively in the new member states, whereas in the old states perceptions are much more divided (44% "strengthened" vs. 40% "weakened").

The various benefits associated with the fifth wave of enlargement also partially ran into expenses for adaptation, which were further reflected into a phenomenon called "enlargement fatigue". Nevertheless, even taking these facts into account, enlargement policy continues to find support with a relatively large share of the EU's population, even at this time within the difficult context of economic decline and global financial stress and crisis.

The EU enlargement process has brought many additional conclusions and observations, to which we will devote ourselves intensively in future issues of the EU News Monthly Journal over the course of this year.

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-09	II-09	III-09	I-09	II-09	III-09
Belgium	1.7	2.8	2.7	3.0	3.3	3.3	7.1	7.2	7.3	2.1	1.9	0.6
Bulgaria	6.2	6.3	6.2	-11.5	-16.3	-22.0	5.3	5.6	5.9	6.0	5.4	4.0
CR	6.4	6.4	5.8	-2.3	-3.1	-2.4	4.9	5.2	5.5	1.4	1.3	1.7
Denmark	2.5	3.9	1.8	4.4	2.6	1.1	4.7	5.1	5.7	1.7	1.7	1.6
Germany	0.8	2.9	2.5	4.7	5.2	6.9	7.3	7.4	7.6	0.9	1.0	0.4
Estonia	10.2	11.2	7.1	-10.1	-15.7	-15.7	9.1	10.0	11.1	4.7	3.9	2.5
Ireland	6.0	5.7	5.3	-3.5	-4.2	-5.0	9.4	10.0	10.6	1.1	0.1	-0.7
Greece	3.8	4.2	4.0	-13.4	-14.4	-16.2	na	na	na	2.0	1.8	1.5
Spain	3.6	3.9	3.8	-7.5	-8.8	-10.0	15.7	16.5	17.4	0.8	0.7	-0.1
France	1.7	2.0	1.9	-1.7	-2.2	-2.6	8.4	8.6	8.8	0.8	1.0	0.4
Italy	0.6	1.8	1.5	-1.2	-2.0	-1.7	na	na	na	1.4	1.5	1.1
Cyprus	3.9	4.0	4.4	-5.9	-5.9	-7.3	4.4	4.6	4.9	0.9	0.6	0.9
Latvia	10.6	11.9	10.2	-12.5	-22.5	-22.9	13.2	14.6	16.1	9.7	9.4	7.9
Lithuania	7.9	7.7	8.8	-7.2	-10.5	-13.8	11.6	13.6	15.5	9.5	8.5	7.4
Luxembourg	5.0	6.1	5.2	10.9	10.3	9.1	5.7	5.9	6.1	0.0	0.7	-0.3
Hungary	4.1	3.9	1.3	-6.8	-6.5	-5.0	8.4	8.8	9.2	2.4	2.9	2.8
Malta	3.4	3.4	3.8	-8.8	-8.3	-5.5	6.3	6.5	6.7	3.1	3.5	3.9
Netherlands	1.5	3.0	3.5	7.1	7.6	8.4	2.7	2.7	2.8	1.7	1.9	1.8
Austria	2.0	3.3	3.4	3.0	3.5	4.7	4.3	4.5	4.5	1.2	1.4	0.7
Poland	3.6	6.2	6.5	-1.6	-3.1	-3.7	7.2	7.5	7.7	3.2	3.6	4.0
Portugal	0.9	1.3	1.9	-9.8	-9.8	-9.8	8.2	8.4	8.5	0.1	0.1	-0.6
Romania	4.2	7.9	6.0	-8.9	-10.4	-13.9	na	na	na	6.8	6.9	6.7
Slovenia	4.1	5.7	6.1	-2.0	-2.8	-4.8	4.3	4.6	5.0	1.4	2.1	1.6
Slovakia	6.6	8.5	10.4	-8.5	-7.7	-5.4	9.6	10.0	10.5	2.7	2.4	1.8
Finland	2.8	4.9	4.4	3.9	4.9	4.4	6.9	7.1	7.4	2.5	2.7	2.0
Sweden	3.3	4.1	2.6	6.1	8.5	6.5	7.3	7.6	8.0	2.0	2.2	1.9
UK	1.8	2.9	3.1	-2.5	-3.9	-4.2	6.6	na	na	3.0	3.2	na
EU	1.9	3.0	2.9	-0.4	-0.9	-0.9	7.8	8.1	8.3	1.7	1.8	1.3

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	2005	2006	2007	2005	2006	2007
Belgium	-2.3	0.3	-0.2	92.1	88.2	84.9	121.0	119.6	118.1	106.0	106.2	105.4
Bulgaria	1.8	3.0	3.4	29.2	22.7	18.2	35.3	36.7	38.1	43.1	44.8	46.0
CR	-3.6	-2.7	-1.6	29.7	29.4	28.7	76.5	78.5	82.0	58.4	61.5	62.6
Denmark	5.0	4.8	4.4	36.4	30.4	26.0	126.5	125.6	122.8	139.6	139.2	136.9
Germany	-3.4	-1.6	0.0	67.8	67.6	65.0	115.0	114.0	113.2	103.7	103.3	103.2
Estonia	1.8	3.4	2.8	4.5	4.2	3.4	62.8	68.3	72.1	64.6	66.5	71.3
Ireland	1.6	3.0	0.3	27.4	25.1	25.4	143.6	145.3	146.3	124.8	124.9	126.0
Greece	-5.1	-2.6	-2.8	98.0	95.3	94.5	96.1	97.2	97.9	88.4	89.1	88.6
Spain	1.0	1.8	2.2	43.0	39.7	36.2	102.9	104.8	106.9	92.0	93.3	93.0
France	-2.9	-2.4	-2.7	66.4	63.6	64.2	112.3	111.8	111.3	107.4	107.3	106.7
Italy	-4.2	-3.4	-1.9	105.8	106.5	104.0	105.1	103.2	101.4	104.0	104.1	102.9
Cyprus	-2.4	-1.2	3.3	69.1	64.8	59.8	92.5	91.8	92.7	89.7	90.1	87.7
Latvia	-0.4	-0.2	0.0	12.4	10.7	9.7	49.9	53.6	58.0	57.1	60.6	65.0
Lithuania	-0.5	-0.5	-1.2	18.6	18.2	17.3	53.1	56.1	60.3	55.1	56.6	59.7
Luxembourg	-0.1	1.3	2.9	6.1	6.6	6.8	264.0	278.9	276.4	102.7	103.2	105.1
Hungary	-7.8	-9.2	-5.5	61.6	65.6	66.0	64.1	64.9	63.5	63.5	60.0	65.7
Malta	-3.0	-2.5	-1.8	70.4	64.2	62.6	77.4	76.9	77.1	73.1	73.4	73.2
Netherlands	-0.3	0.5	0.4	52.3	47.9	45.4	131.0	130.4	130.9	104.5	103.9	103.1
Austria	-1.5	-1.5	-0.5	63.5	61.8	59.1	128.7	127.4	128.2	101.9	101.2	100.0
Poland	-4.3	-3.8	-2.0	47.1	47.6	45.2	51.2	52.4	53.6	61.3	62.1	63.4
Portugal	-6.1	-3.9	-2.6	63.6	64.7	63.6	75.4	74.4	74.7	85.3	85.7	84.6
Romania	-1.2	-2.2	-2.5	15.8	12.4	13.0	35.4	38.8	40.7	54.3	57.0	64.7
Slovenia	-1.5	-1.2	-0.1	27.5	27.2	24.1	86.8	87.7	88.8	75.8	75.3	76.9
Slovakia	-2.8	-3.6	-2.2	34.2	30.4	29.4	60.5	63.6	68.6	55.8	58.3	63.0
Finland	2.9	4.1	5.3	41.3	39.2	35.4	115.1	116.8	116.2	123.3	121.7	121.4
Sweden	2.2	2.3	3.5	50.9	45.9	40.6	123.6	124.4	126.2	117.9	117.5	116.4
UK	-3.4	-2.6	-2.9	42.1	43.1	43.8	119.1	117.8	115.9	110.2	110.8	112.3
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*