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under the auspices of Pavel Kysilka
CEO of ČS

Dear readers,

April saw yet another quite significant rupture in the economic stability of the eurozone and the EU overall: Portugal joined the ranks of countries that have requested stabilisation assistance. Greece, Ireland and now Portugal are seen as three "problem" states. There are different underlying causes buried within the common denominator of an unsustainable deficit that cannot be financed, and the malignant growth of public debt.

In the case of Greece, they consist primarily of unbelievable amounts, financed through public expenditure, for purposes that are entirely unproductive, ineffective and essentially undesirable. This particular problem did not exist in Ireland, where the public sector has long been cleaned up and was functioning very effectively, except for the fact that the supervisory and regulatory authorities were not able to halt the unsustainable and unrealistic boom of irresponsible behaviour on the part of financial institutions and their clients. This culminated in the total collapse of some of them and a truly colossal amount of public expenditure that was required in order to come to their rescue. However, the one common factor that played a role in Greece, as well as in Ireland was that over the course of the past decade, these two countries represented the fastest growing economies in the subset consisting of the EU-15.

The same does not apply to Portugal. This particular country, once an exemplary pupil of the EU, with a high growth rate and improving institutions since the 1990s, started to deteriorate over the past decade. This was a period of stagnation for the country. Another problem faced by Portugal was its extraordinarily weak real economic performance, which became most apparent when the income side of the country's budget could not be met (combined with the logical unwillingness to reduce the expense side, which, however, was not filled with such horrors as in the case of Greece). This led to a general excessive deficit.

We can clearly see that there are different diagnoses hidden under the same guise, which can significantly lead to uncertainty on the part of investors as to which country might be next in line to face the music. There is a broad range of ailments that can arise. In the case of Spain, it is the extraordinarily high unemployment rate, which requires just as much of an extraordinary share of expenditure to offset it and to decrease the impact. This significantly contributes to the deteriorating development of public finances and is combined with the risks present in the country's banking and financial sector. Who might be next? Belgium? or Italy? Both provide additional examples of negatively inclined "marked stars" in the form of extraordinarily high public debt (at a level that exceeds 100% of GDP), accompanied by a politically unstable environment.

At this time, there does not seem to be any other country on the "short list". We do sincerely hope that there will be no one else. On the other hand, it is quite possible that yet another victim will fall into the trap, but we think that all of the leading candidates have already been mentioned.

Petr Zahradník

Following in the steps of Greece and Ireland, Portugal has become the third eurozone country to request a helping hand from the European Commission and the International Monetary Fund. The assistance will be provided in the form of a loan totalling CZK 78 billion. For the most part, the representatives of the member states are refusing the European Commission's proposal that recommends a common European budget which includes a 4.9% increase as compared to 2011.

ECONOMY AND EURO

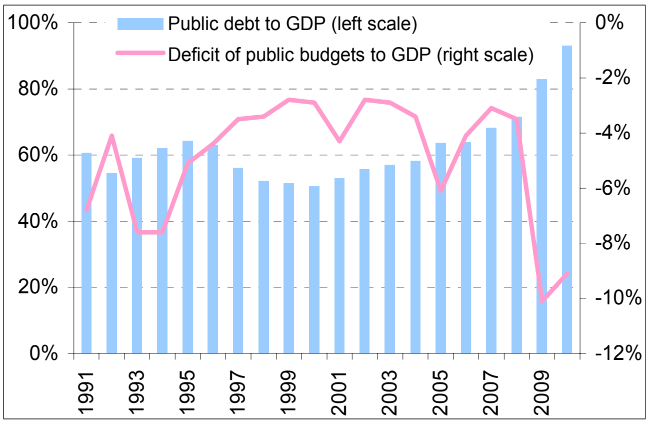
Portugal Requests Lifeline from EU and IMF

Portugal is the **third country that will receive assistance from the rescue package for the eurozone states.** The departing Portuguese Prime Minister José Sócrates requested the European Commission for this assistance at the start of April.

The departing prime minister's message was delivered shortly after it became apparent that **Portugal will not be able to meet its debt obligations** and that a crash might occur even prior to the early elections scheduled to take place in June. Although Lisbon did successfully sell some state bonds (short-term obligations with a maturity of up to one year), the interest rates climbed so high that financing the debt would be unsustainable over the long-term.

Speculations have been circulating for quite some time that Portugal will require financial assistance. Until now the socialist government headed by José Sócrates has voiced strong protests against any mention of activating the rescue mechanism. However the situation became much more complicated after the **opposition swept the government's plan for savings measures off the table, consequently leading to the fall of the cabinet.**

Portugal's public finances



Source: Eurostat

Shortly after the request was announced, Portugal started negotiations on the conditions for the loan with representatives from the European Commission, the ECB and the IMF. The negotiations were successfully closed at the start of May with an agreement whereby **Portugal will receive a three-year loan of EUR 78 billion,** of which 12 billion will serve to recapitalise the country's banks.

The primary conditions for receiving the aid consist of continuing to decrease the deficit; a **comprehensive plan for economic reforms,** including measures to privatise state holdings; changes to the labour market; and measures to support the banking sector.

The main scenario that we envision is **that Portugal will be the last country forced to ask the European Union for a helping hand.** Nevertheless, it is not possible to exclude the possibility that Spain will be next in line. Should this be the case, the foundations of the entire eurozone would truly be on shaky ground.

http://europa.eu/rapid/pressReleasesAction.do?reference=MEMO/11/227

Is Hungary Heading Towards an Unequivocal Refusal of the Euro?

After the government of Prime Minister Viktor Orbán, which holds a constitutional majority, **awarded the forint the status of "the only legal tender in Hungary",** it seems that Hungary is aiming for a definitive opt-out from the eurozone. This information was provided by the Hungarian EurActiv news portal.

Orbán informed the Hungarian press that it is "written in the stars" **that Hungary will not join the eurozone earlier than in 2020** because the Pact is not acceptable" for his country.

In 2004 and 2010, all of Hungary's parliamentary parties voiced external support for the euro, even though the country's economic policy at that time led to a deeper deficit and the long-term application of a long-term excess deficit procedure, which have consequently resulted in **a closed door preventing Hungary from entering the first phase of the conversion to the common currency** – joining the exchange rate mechanism (ERM II).

As is the case with the Czech Republic, Hungary did not join in **the new version of the Competitiveness Pact, known as the Euro Plus Pact,** at this year's March European Council Summit.

Hungary's reason for not doing so became quite clear the next day, when State Secretary Mihály Varga announced that the draft of the new Hungarian Constitution will include an addendum stating that **the forint is Hungary's legal tender.** In the future, the decision on adopting the euro would be subject to a two-thirds parliamentary majority.

In its current condition, Hungary, which was rescued from the mire only by an IMF rescue package, **truly cannot even consider entering the eurozone right now.** In

addition, at a time when the eurozone itself is facing a situation in which it must find a solution to its immediate future, plans for expansion are not on the daily agenda. Nevertheless, this is a significant economic-political signal that is only one of a series of controversial steps taken by the new Orbán government, which are all leading to a continued decrease of Hungary's popularity in the eyes of foreign investors.

http://www.euractiv.cz/ekonomika-a-euro/clanek/smeruje-madarsko-k-definitivnimu-odmitnuti-eura-008648

BUDGET

CR Not Against EU Budget Increase, but Wants It to be Lower

The European Commission published the EU draft budget for 2012, which anticipates that expenditure will increase to EUR 132.7, **a level corresponding to 4.9% growth as compared to 2011.** A number of EU member states are criticising the draft however. The Commission is defending the draft as being a balance between savings and the necessity to invest in supporting economic growth.

Net payers, led by Great Britain, **also protested against the draft,** stating that the proposed increase is "not acceptable" to them. As confirmed by Dutch Finance Minister Jan Kees de Jager, the Netherlands intends to push through a budget that is "significantly lower".

The Czech Republic (which belongs to the group of net beneficiaries) also believes that the proposed increase is too high and will seek to have it decreased. On the other hand, however, **the Czech Republic will not join the group of countries who are requesting that the budget increase be lower than the current inflation rate,** which is currently at a level of approximately 2.7% in the Union.

European Union Budget Commissioner Janusz Lewandowski is defending the budget increase on the basis of previous commitments. "The main reason for the increase is that we must pay the bills coming from projects across Europe," he said in reference to the projects financed from the European funds and expenditure for research and development.

Currently two-thirds of the European Union's budget **consists of expenditure associated with Common Agricultural Policy** and support for poorer regions. According to Lewandowski, the Commission tried to minimise the budget increase. For this reason, the financing provided to programmes that are not effective will be limited and administrative spending will be frozen.

The Commissioner says that it **is impossible to avoid the increase.** Next year will be the penultimate year of the EU budget period and financial obligations will increase. According to the Commission, were the increase to be lower than 4.9%, it would lead to a breach of existing contractual obligations.

The European budget must be approved by both the European Parliament and the Council of the EU.

http://europa.eu/rapid/pressReleasesAction.do?reference=IP/11/499

Draft budget 2012 at a glance (mil. euro)

	2012*	2011	Diff
1. Sustainable Growth	**57 700.9**	**53 279.9**	**8.3%**
— Competitiveness for growth and employment	*12 566.1*	*11 627.8*	*8.1%*
— Cohesion for growth and employment	*45 134.8*	*41 652.1*	*8.4%*
2. Preservation and Management of Natural Resources	**57 948.4**	**56 378.9**	**2.8%**
3. Citizenship, Freedom, Security and Justice	**1 514.0**	1 460.3	3.7%
— Freedom, security and justice	*868.3*	*813.3*	*6.8%*
— Citizenship	*645.7*	*647.1*	*-0.3%*
4. EU as a Global Player	**7 293.7**	**7 238.7**	**0.8%**
5. Administration	**8 281.7**	**8 170.1**	**1.4%**
TOTAL	**132 738.7**	**126 546.7**	**4.9%**
as % of GNI	**1.01 %**	**0.99 %**	-

Source: European Commission, appropriations for payments (not for commitments)

TAXATION AND CUSTOMS UNION

European Commission Proposes Revising Fuel Taxes

The European executive branch proposed that the out-dated regulations for the taxation of energy products in the EU be revised. The aim of the new directive is to **change the way in which energy products are taxed** in order to remove the existing imbalances and to take into account both the CO2 content of the products as well as their energy content. The intent is to support energy efficiency improvements and the use of more environmentally friendly products.

Brussels has proposed that the taxation structure for energy products be changed in order to introduce a higher level of fairness. The European Commission has published a Green Paper on corporate governance. One of the key points is the possibility of introducing a quota for the number of women who hold management positions. Another is to increase the influence of shareholders.

The existing energy taxes would be separated into two components that would determine the final tax rate for each product in question:

1. **The first would be based on the CO2 emissions** of the energy product and would be set at EUR 20 for each tonne of CO2.
2. **The second would be based on the energy content,** i.e. the actual amount of energy that the product generates as measures in gigajoules (GJ). The minimum tax rate would be EUR 9.6 per GJ for motor fuels and EUR 0.15 per GJ for heating fuels. The specified rates will apply to all fuels used for transport and heating.

Social aspects are taken into consideration and the member states have the option of completely exempting the energy consumed by households for heating, no matter what energy product is used. Nevertheless, if the proposed changes are accepted as they currently stand, it would most likely mean that diesel fuel prices would increase, as they are currently taxed at a lower rate in spite of their higher CO2 content.

The energy sector will be provided with sufficient time **– up to the end of 2023 – to adapt to the new taxation structure.** Thanks to the long transitional period, it will be possible to bring the taxation of energy content into full alignment with the directive. The directive is subject to the joint decision-making process. In order for it to enter into force, it must be approved by the European Parliament and the Council of the EU (unanimously in this case). However, strong opposition is already being voiced.

http://europa.eu/rapid/pressReleasesAction.do?reference=IP/11/468

INTERNAL MARKET

Social Issues Will Apparently Slow Down Completion of the EU Internal Market

The European Commission has published twelve proposed measures that aim to **remove the obstacles to a functional EU single internal market** and improve the competitive strength of the European economy.

The package is a mix of familiar old proposals and new measures:

1. **Access to financing for small and medium-sized enterprises** – the creation of a common set of rules for venture capital funds;
2. **Worker mobility in the Single Market** – the modernisation of the rules that acknowledge professional qualifications and the introduction of a European Professional Card;

3. **Intellectual property rights** – protection for inventions at the Union level through the introduction of a single European Patent;
4. **Consumers: Single Market players** – the development of alternative approaches to dispute resolution and the introduction of non-judicial means of redress;
5. **Services: strengthening standardisation** – the expansion of the European standardisation system in place for services;
6. **Stronger European networks** – the identification of strategic projects of European interest for energy and transport infrastructures;
7. **Digital Single Market** – the mutual acknowledgement of electronic identification and authentication throughout all of Europe;
8. **Social entrepreneurship** – a European framework for mutual investment funds;
9. **Taxation** – revisions to the energy taxation structure with the aim of taking better account of both the energy content of products as well as the level of CO2 emissions they produce;
10. **More social cohesion in the Single Market** – the strengthened application of the Posting Workers Directive in order to prevent the abuse or circumvention of the rules;
11. **Regulatory environment for business** – the simplification of the directives on accounting standards and a reduction of administrative restrictions; and

12. **Public procurement** – the modernisation of the legislative framework for awarding public contracts.

The Commission would like to **see all twelve projects completed by the end of 2012.** At this time we can look forward to seeing the proposals of the specific directives and regulations that will codify all of the aims specified above.

http://europa.eu/rapid/pressReleasesAction.do?reference=IP/11/469

ENTERPRISE

EU Has Highest Number of Protected Trademarks

The European countries, with Germany at the forefront, lead the world as far as the number of filings for protected trademarks is concerned. They have allowed only the USA a place amongst the first five; China, together with Japan and Russia, has been pushed back but all three remain amongst the first ten. This information is provided in the updated report published by the World Intellectual Property Organisation (WIPO).

The number of applications **reflects the recovery from the global financial and economic crisis.** Whilst the number of applications decreased by 16% in 2009, in 2010 it increased by 12.8 %.

According to WIPO Director General Francis Gurry, **"International trademark activity has rebounded and has nearly recovered the ground lost in 2009."**

Although the European countries have led the pack over the long-term, China has started to vie for the leading position. Last year, within the framework of the international registration system used by eighty-five countries, China **increased its number of filings for protected trademarks by an unbelievable 42%.**

China submitted a total of 1,928 applications in various industrial sectors. This number corresponds to 4.9% of all filings made from around the world.

The number of applications from the United States of America increased last year as well. With an increase of 29.6% and a total of 4,147 filings**, the USA placed third following Germany** with 5,006 filings and the EU Office for the Harmonisation of the Internal Market (OHIM) with 4,047 filings.

Within the framework of the EU, the majority of the member states submit applications to WIPO independently through their national systems. Together with the applications that are filed through OHIM, **the EU submitted a total of 22,403 applications,** which is more than a half of all applications.

Germany, which is the most active trading country in the world, submitted 12.6% of the total number of filings from around the world. However, when compared to 2009, this is an increase of only 4.4%.

http://www.wipo.int/pressroom/en/articles/2011/article_0012.html

EU Considers Stricter Rules for Companies Listed on Stock Exchanges

If the proposals published by the Commission in its consulting materials obtain sufficient support, **large companies would be obliged to adhere to national codes of ethics,** the remuneration received by their directors would have to be approved by the shareholders and the number of women holding top management positions would increase.

The European Commission has launched a consultation that could lead to a change in the rules for the corporate governance of companies whose shares are listed on the stock exchanges. The codes of ethics that should govern company activities are not currently mandatory and Brussels would like to know why stricter compliance should not be enforced. At the same time, **the Commission would like to see a strengthening of the influence shareholders have on corporate governance.**

According to one of the proposed measures, **the remuneration received by the members of the board of directors would have to be approved by the shareholders in the future.** In addition, the non-executive members of the board would not be able to hold a comparable position in a higher number of companies and the scope of their activities should be defined in more detail.

Another measure that the Commission is opening for consideration is **the possibility of introducing quotas for the number of women holding positions in the statutory organs of large companies.** According to research and studies, women currently make up only 3% of the members of the board of European companies.

The European Commission will accept suggestions from interested groups until 22 July and will respond to them in the autumn. The Commission's representatives have said that **they are open to all proposals.**

The Commission's representatives would like to see the document lead to a **common set of European rules for transparency**. According to them, institutional shareholders

The wave of refugees from Tunisia has spurred a debate on the sustainability of the current semblance of the Schengen border-free area. The initiators are Italy and France. Mainly as a result of the economic crisis, CO_2 emissions in the European Union decreased by a record-breaking 7.2% in 2009. This is the fifth time running that the volume of emissions has declined and there is now a hope of meeting the goal to reduce carbon dioxide emissions by 20% as compared to 1990 levels.

(banks, investment and pension funds, etc.) would have to justify their voting within the framework of a company's managing authorities. Additionally, measures should be adopted against the short-sighted actions undertaken by some asset managers who are responsible for handling the accounts of institutional investors.

The consultation includes the key question of whether the European Commission will promote its ideas through softer non-legislative means (i.e. in the form of recommendations) **or if it will issue a proposal for a European-wide regulation or directive.**

http://ec.europa.eu/internal_market/company/docs/modern/com2011-164_en.pdf

EMPLOYMENT AND SOCIAL POLICY

Germany and Austria Open Labour Markets

Starting on 1 May 2011, the **citizens of the new member states can freely seek jobs in Germany and Austria.** Until now, these two countries have taken advantage of the transitional period that limited the free movement of workers.

Experts do not fear a massive influx of workers from the new EU member states, salary dumping or even the loss of jobs to migrants. Berlin already partially **opened its labour market for certain qualified professions at an earlier date.**

Klaus Zimmermann, the Director of the Bonn office of the Institute for Employment Research, has voiced his criticism of the former limitations on the labour market. In his opinion, qualified workers always lead to higher productivity**. More liberal countries, such as Great Britain, Ireland and Sweden, have been taking advantage of these benefits since 2004,** at which time the EU was expanded. According to Zimmerman, Germany has lost out on this potential thus far.

Austrian experts and employers also have positive expectations. Christoph Leitl, President of Austria's Chamber of Commerce, believes that no one should have any fear or anxiety. According to him, migration from the new member states **will help resolve the problems that exist as a result of a lack of qualified workers.**

The Austrian Labour Service (AMS) expects that the **majority of newcomers will head to Vienna, Lower Austria, the Burgenland and Styria,** which are located in the southeast. In addition, the Labour Service expects that the large majority of the workers will consist of migrants who will commute to their jobs in Austria.

Poland, which is the largest of the new member states, **does not expect that there will be any significant migration to find employment,** as stated in the study performed by the Polish Institute of Social Affairs.

The official **final opening of the labour markets in Germany and Austria is actually more symbolic in nature.** The citizens of the new member states that joined the union in 2004 no longer have to feel like "second class citizens". We also do not expect any great outflow of workers from the Czech Republic. Anyone who wanted to work abroad has left long ago.

http://europa.eu/rapid/pressReleasesAction.do?reference=IP/11/506

Commission Wants to See Roma Children in Schools

One of the EU's main priorities for national strategies for Roma integration states that **all Roma children in Europe should attend schools.** The framework for these strategies was presented by Viviane Reding, the EU Commissioner for Justice, Fundamental Rights and Citizenship.

Six to seven million Roma live in the European countries. They make up 10% of the population in Bulgaria, 9% in Slovakia, 8% in Romania, and 7% in Hungary. In Greece, Spain and the Czech Republic they represent 1.5-2.5% of the population.

Although the integration of the Roma into mainstream society falls within the competency of the individual member states, the **European Commission has the ability to coordinate the steps undertaken by the individual member states.**

For this reason, Viviane Reding, the EU Commissioner for Justice, Fundamental Rights and Citizenship, presented a **general framework for the national strategies for the social integration of the Roma.** It assigns the member states certain goals that should be met with regard to education, employment, healthcare policy and housing. The member states are obliged to submit their national strategies by the end of 2011.

The main priority of the national strategies should be to ensure **equal access of Roma children to education.** In some of the EU member states, only approximately 42% of all Roma children complete primary school. This is related to the issue of their problematic employability, i.e. the higher level of unemployment amongst the Roma population.

Another priority is in the field of healthcare. Europe's Roma have a higher infant mortality rate and a shorter average lifespan than the rest of the population.

The Commission also committed itself to cooperate more with the national governments and regional representatives in order to ensure that **the financing from European funds is better utilised for projects** associated with the integration of the Roma community into mainstream society.

http://europa.eu/rapid/pressReleasesAction.do?reference=IP/11/400

ENVIRONMENT

Economic Recession Causes 7.2% Decrease in EU's CO2 Emissions

As a result of the economic crisis, **CO2 emissions in the European Union decreased by a record 7.2% in 2009.** This has helped the member states realise their objectives for reducing greenhouse gas emissions with room to spare. This information was released by the European Environment Agency (EEA).

The published report states, "The exceptionally deep recession in 2009 affected all economic sectors in the EU." The EEA has found that the **consumption of fossil fuels, coal in particular, decreased in comparison to previous years.**

In 2009 the European Union **released emissions equal to 4.6 billion tonnes of carbon dioxide into the atmosphere.** In 2008, the volume was 4.96 billion tonnes.

This reflects a 7.2% decrease in emissions (354 million tonnes), which is almost the amount that is released by one of the larger countries such as Spain or Poland. **This is the steepest reduction since 1990,** when the world's more developed countries started measuring their CO2 emissions.

The report does not however include any information as to how the volume of emissions has balanced out since then (the EU's economy started showing signs of recovery in 2010). The numbers show that the **quantity of emission permits used on the European market has increased by 3.5% since 2010.**

In its report, the EEA states only that **"the 2009 recession accelerated the decline in greenhouse gas emissions".**

Greenhouse gas emissions decreased for a fifth time running and are therefore 17.6% lower than the 5.59 billion tonnes released by Europe into the atmosphere ion 1990.

This decrease comes closer to the **European goal, which expects a 20% decrease in CO2 emissions by 2020.**

Formally, the European Union supports the stand that it **will increase its obligation to as much as 30%** if other world polluters join the effort to decrease greenhouse gas emissions.

http://www.eea.europa.eu/

JUSTICE AND HOME AFFAIRS

France and Italy Agree: Let's Rewrite Schengen

French President Nicolas Sarkozy and Italian Prime Minister Silvio Berlusconi have requested Brussels to **open a debate with regard to possible changes to the agreement that established the border-free Schengen area.** According to both politicians, the revisions would strengthen the role of the member states to the detriment of the Union's institutions.

French President Nicolas Sarkozy met with Silvio Berlusconi, the head of the Italian government, in Rome on the occasion of their regular bilateral meeting.

The agenda for the meeting was quite clear beforehand. The meeting was overshadowed by **the recent disputes between the two countries with regard to the immigrants, who, since the end of last year, have arrived on the Italian shores in hordes from North Africa** and to whom the Italian authorities have started granting temporary residence permits. These permits allow them to exercise the right of free movement and they have travelled to other countries of the Schengen Area, which has removed the borders between all of the EU states with the exception of Ireland, Romania, Bulgaria and Great Britain. The Schengen Agreement has also been joined by some countries that are not Union members, specifically Iceland, Norway and Switzerland.

The refugees, who, for the most part, are from Tunisia, **have started to head to France,** a country close to them for cultural and historic reasons.

Paris however baulked at their mass arrival. For this reason, at their meeting Sarkozy and Berlusconi formulated a letter to "European President" Herman Van Rompuy and to the President of the European Commission José Manuel Barroso, in **which they expressed the reservations they have with regard to the current functionality of the Schengen Area.**

They jointly proposed that the rules be changed in order to make it easier for the Schengen members to implement controls at their internal borders. The way things currently stand, a country can only implement such measures if there is a serious threat to public order. In addition, any measures that are implemented can be of only a temporary nature.

The Commission held a press conference at the same time as the French-Italian summit was in progress, at which the European executive branch made it quite clear that it is **open to discussion on possible amendments to the Schengen Agreement.**

http://ec.europa.eu/luxembourg/news/frontpage_news/334_2010_fr.htm

CONSUMER PROTECTION

European Parliament Supports Mandatory Food Labelling

The European Parliament's Environment, Public Health and Food Safety Committee have **approved the mandatory inclusion of country of origin,** nutritional information and trans-fat content on food product labels.

For example, the MEPs are insisting that the country of origin must be included for several types of meat. In addition to beef, for which this requirement is already in place, consumers can expect to find this information for fish, poultry, lamb and mutton. The country of origin must also be **newly specified on labels for, amongst others, fruit, vegetables, honey and olive oil.**

Another measure approved by the MEPs consists of the **mandatory inclusion of the nutritional value of products** and the "date of first freezing" for products that were frozen and subsequently defrosted. They agreed that the nutritional value should be specified per 100 grams, 100 millilitres or "portions".

During the discussion on the final version of the document, the MEPs had to compromise in a number of cases. The compromise also dealt with the originally proposed three millimetre size of the lettering that will specify the contents of a product. Ultimately, an agreement **was reached to reduce it to 1.2 mm.**

Manufacturers have long been against the inclusion of a large amount of mandatory information on product packaging. They would rather publish information only on caloric content. Any increase in the data that must be provided on the front of a package, whether it be nutritional value, information on genetic modification or bio origin, is needless in their opinion. Consumers can always find more detailed information on the back of the package.

The European Parliament plenum will discuss the proposed legislation in July. **Until** that time, **both the Commission as well as the Council will have an opportunity to state their opinions.**

As soon as the legislation enters into force**, manufacturers will have three years to adapt to the new rules.** They will have another two years to prepare for the new method of providing information on the nutritional value of a product.

http://www.europarl.europa.eu/cs/pressroom/content/20110418IPR18101/html/Food-labelling-Environment-Committee-sets-out-clearer-rules

Another two chapters of the negotiations underway for Croatia's accession to the European Union were closed in April. Specifically these are the chapter on "Agriculture and Rural Development" and the chapter on "Regional Policy and the Coordination of Structural Instruments". The European Commission has decided to break down the distribution of CO_2 emission permits after 2012. More free permits will go to sectors that are facing the threat that production might relocate outside of the European Union.

APRIL 1

10 years of euro banknotes and coins: http://ec.europa.eu/economy_finance/articles/euro/2011-03-31-euro-coin-comp_en.htm

The Enterprise Europe Network helps SMEs profit from the single market: http://europa.eu/rapid/pressReleasesAction.do?reference=IP/11/384

Mortgages - better protection for European consumers: http://europa.eu/rapid/pressReleasesAction.do?reference=IP/11/383

APRIL 4

EU and Brazil launch policy dialogue on higher education and culture: http://ec.europa.eu/culture/news/news3218_en.htm

Easing administrative procedures for car registration: http://ec.europa.eu/enterprise/magazine/articles/single-market/article_10992_en.htm

APRIL 5

A new space policy for Europe - Independence, competitiveness and citizen's quality of life: http://europa.eu/rapid/pressReleasesAction.do?reference=IP/11/398

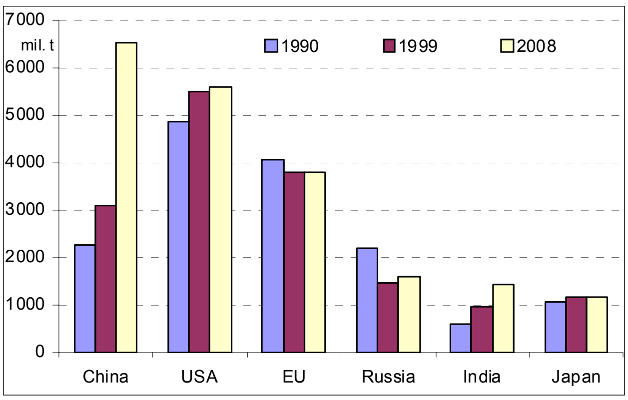
Commission reviews Member States' protection against cyber attacks: http://europa.eu/rapid/pressReleasesAction.do?reference=IP/11/395

European Investment Bank - NER 300: http://www.eib.org/about/news/ner-300.htm?lang=en

APRIL 6

Statistics: Climate change - driving forces: http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Climate_change_-_driving_forces

CO_2 emissions of world's largest emitters (million tonnes)



Source: Eurostat; from energy use only

The intermediary banks and financing institutions for credit lines: http://www.eib.org/about/news/the-intermediary-banks-and-financing-institutions-for-credit-lines.htm?lang=en

APRIL 7

Statistics: The 9 poorest countries catching up on income per capita: http://epp.eurostat.ec.europa.eu/cache/ITY_OFFPUB/KS-SF-11-016/EN/KS-SF-11-016-EN.PDF

Single market - time to act: http://www.europarl.europa.eu/en/pressroom/content/20110406IPR17108/html/Single-market-time-to-act

MEPs adopt estimates for Parliament's 2012 budget: http://www.europarl.europa.eu/en/pressroom/content/20110406IPR17116/html/MEPs-adopt-estimates-for-Parliament's-2012-budget

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APRIL 8

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APRIL 11

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APRIL 13

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APRIL 14

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Roma in Europe - How to fight social exclusion through education: http://www.etf.europa.eu/web.nsf/opennews/2BC1975CA4D9E7A2C125787100472B0F_EN?OpenDocument

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2,834 former workers of General Motors Belgium to get help worth €9.6 million from EGF: http://ec.europa.eu/social/main.jsp?langId=en&catId=89&newsId=1018&furtherNews=yes

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Commission to recover € 530 million of CAP expenditure from the Member States: http://europa.eu/rapid/pressReleasesAction.do?reference=IP/11/476&

Statistics: Earnings statistics: http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Earnings_statistics

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Conclusion of negotiations between the EU and Moldova on the protection of Geographical Indications: http://europa.eu/rapid/pressReleasesAction.do?reference=IP/11/481

Digital Agenda - Children using social networks at a younger age; many unaware of basic privacy risks, says survey: http://europa.eu/rapid/pressReleasesAction.do?reference=IP/11/479

Commission evaluates the Directive on retention of telecommunications data: http://ec.europa.eu/home-affairs/news/intro/news_intro_en.htm

Statistics: A new step reinforcing the quality of European statistics: http://europa.eu/rapid/pressReleasesAction.do?reference=IP/11/482

APRIL 20

Food labelling - Environment Committee sets out clearer rules: http://www.europarl.europa.eu/en/pressroom/content/20110418IPR18101/html/Food-labelling-Environment-Committee-sets-out-clearer-rules

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APRIL 21

EU draft budget 2012 - For 500 million Europeans in times of austerity: http://europa.eu/rapid/pressReleasesAction.do?reference=IP/11/499

APRIL 27

Gold(en) boost for organic solar cells: http://ec.europa.eu/research/headlines/news/article_11_04_26_en.html

APRIL 28

Emissions trading - Commission adopts decision on how free allowances should be allocated from 2013: http://europa.eu/rapid/pressReleasesAction.do?reference=IP/11/505

APRIL 29

Young, bright....unemployed?: http://www.europarl.europa.eu/en/headlines/content/20110415STO17916/html/Young-bright%E2%80%A6unemployed

European Commission to reinforce industrial co-operation between Japan and the EU: http://ec.europa.eu/enterprise/newsroom/cf/itemlongdetail.cfm?item_id=5078&lang=en&tpa=0&displayType=news

The attention of the financial markets will be focused primarily on the ECOFIN meeting in May. The summit of the finance ministers from the EU member states will meet in mid-May and reach a final decision on the conditions for the rescue loan that will be provided to Portugal, in particular the interest rate that will be applied. The meeting of the EU Council for Employment, Social Policy, Healthcare and Consumer Protection will mainly be discussing strategies for Roma integration.

Meeting of the key EU institutions

2. – 3. 5. 2011	**Gödöllő, Hungary**
- Informal Meeting of Energy Ministers	
9. – 12. 5. 2011	**Strasbourg, France**
- EP Plenary session	
13. 5. 2011	**Brussels, Belgium**
- Foreign Affairs Council	
16. 5. 2011	**Brussels, Belgium**
- Eurogroup	
16. – 17. 5. 2011	**Brussels, Belgium**
- Agriculture and Fisheries Council	
17. 5. 2011	**Brussels, Belgium**
- ECOFIN	
19. 5. 2011	**Gödöllő, Hungary**
- Informal Meeting of Cohesion policy Council	
19. 5. 2011	**Gödöllő, Hungary**
- Informal Meeting of Regional Development Ministers	
19. 5. 2011	**Brussels, Belgium**
- Employment, Social Policy, Health and Consumer Affairs Council	
19. – 20. 5. 2011	**Brussels, Belgium**
- Education, Youth and Culture Council	
23. 5. 2011	**Brussels, Belgium**
- General Affairs Council	
24. 5. 2011	**Brussels, Belgium**
- Foreign Affairs Council	
27. 5. 2011	**Brussels, Belgium**
- Transport, Telecommunications and Energy Council (Telecom)	
30. – 31. 5. 2011	**Debrecen, Hungary**
- Agriculture and Fisheries Council - informal meeting	

In the previous issue of the EU Monthly, we focused our attention on the EU's strategic plans for transport up to 2050. In this issue, we continue by looking at the concurrently published Transport White Paper. In order to demonstrate the importance of the transport sector within the conditions present in the Czech Republic, we will also present a case study showing the significant role that transport infrastructure currently holds in the CR

EU TRANSPORT WHITE PAPER AND A CASE STUDY FOR TRANSPORT INFRASTRUCTURE IN THE CZECH REPUBLIC

EUROPEAN COMMISSION'S WHITE PAPER ON TRANSPORT

The White Paper presents a road map for the practical application of the EU Transport Strategy 2050. Its primary aim is to support Europe's competitiveness through sustainable resource-efficient transport systems.

Most importantly, the White Paper specifies the initial requirements and objectives for the long-term development of transport on the European Continent. It emphasises that transport is one of the cornerstones not only for our economy but also for our social life. Mobility is one of the most important factors for Europe's internal market and for the quality of the life led by its citizens, who can meet their full potential through the freedom to travel.

Transport helps generate economic growth and creates new jobs. It must be sustainable in the light of the new challenges our society faces. With the progress of time, transport has become a global phenomenon. As a result, effective activities and the steps that must be taken require a high level of international cooperation.

The future prosperity of our continent will depend on the ability of all of its regions to remain fully and competitively integrated in the global economy. Effective transport is one of the key instruments that will assist in meeting this requirement.

Currently, transport in the EU finds itself at multiple crossroads. A number of old challenges still remain and new ones are consistently appearing.

Many tasks must still be performed in order to ensure a true **internal transport market** as there continue to be certain serious limitations and obstacles. It is necessary to identify and redefine these points. It is necessary to respond more effectively to the needs and desires of EU citizens to travel and to our economic requirements to transport goods. At the same time, we anticipate that there will be increased tension with regard to resources and the environment. The **transport systems** in the eastern and western parts of Europe must be fully interconnected in order to respond to the transport needs of just about the entire continent and its 500 million inhabitants.

Over the coming decades **oil** will become scarcer and obtainable only under consistently more uncertain parameters on the supply side. As the International Energy Agency (IEA) recently noted, the less successful the world is with the decarbonisation process, the higher the increases in oil prices will be. In 2010, oil imports to Europe amounted to approximately EUR 210 billion. If we do not define this oil dependency, the ability of people to travel – as well as our economic safety and certainty – might be hard hit as a result in the form of inflation, impact on the balance of trade and the overall competitiveness of the EU economy.

The EU is currently calling out for the need to drastically **reduce the world's greenhouse gas emissions** (on the basis of the approval received at the level of the international community), with the goal of limiting climate changes. Overall, by 2050 the EU must reduce emissions to be 80-95% lower than 1990 levels. An analysis commissioned by the European Commission shows that whilst a greater reduction can be attained in other sectors of the economy, within the transport sector greenhouse gas levels must be decreased from 1990 levels by at least 60% by 2050, as this particular sector is a significant source of constantly increasing greenhouse gas emissions.

The current goal is to decrease greenhouse gas emissions from transport to a level that is approximately 20% lower than in 2008. Taking into account the significant increase in transport emissions over the past twenty years, even with this reduction the volume would remain 8% higher than in 1990.

Since the first major oil crisis forty years ago – without taking into consideration the technical advances that have been made, the potential for cost-effective improvement of energy efficiency and other efforts of economic policy with regard to transport – the transport system has, in principle, remained essentially the same. Although transport has become more energy efficient, the EU is still dependent on oil and oil products for 96% of its energy needs.

Specifically these areas are considered to be the key long-term challenges for transport in the EU. The Czech Republic, located as it is close to the geographic centre of the EU, is strongly dependant on the development of transport systems. The following case study presents a comparison of our current and long-term needs for transport development with the challenges that have been identified in the EU's strategic plan.

DEVELOPMENT OF CONSTRUCTION AND BUILDING THE TRANSPORT INFRASTRUCTURE IN THE CZECH REPUBLIC DURING THE CRISIS PERIOD

During the first full year of the crisis in 2009, the construction sector reported a visibly slower growth rate as compared to the industrial sector. This was reflected primarily in the area of **structural engineering**, in particular the construction of housing and office space. As opposed to structural engineering, specifically the construction of housing and the infrastructure associated with civic amenities, which started to decrease quite significantly in 2009 (-6.9% year-on-year), primarily as a result of the continuing construction of the transport infrastructure (financed to a large degree through EU funds and therefore not dependent on the economic cycle), **civil engineering** reported an almost unbelievable growth of 14.1% year-on-year. As a result, the decrease in construction overall was 0.9% in 2009 (as compared to the decrease in industry, which was 13.4% year-on-year).

If we consider that construction is traditionally labelled as somewhat of an indicator of the economic cycle, this particular case does not confirm its reputation. In particular, this is because, for the most part, the resources for financing construction were not and are not dependent on the development of the economic cycle. If we also take into account the fact that the development of the transport infrastructure is one of the few priorities that is not open to debate within the framework of budget policy and the policy in place for the allocation of EU funding, this fact played a role in the overall results for construction even during the crisis in 2009.

It is possible to say that this trend, in which the development of the Czech construction industry does not correspond to the development of the economic cycle, continued in 2010 (with a year-on-year decrease of 7.6%) and it will most likely continue, at least in 2011. However it will be the opposite case this time around. Whilst in 2009 the decrease in the Czech economy was significantly higher than the decrease in construction, in 2010 the growth in the Czech Republic's GDP was accompanied by a fairly apparent decrease in construction, although civil engineering did still successfully contribute with a significant volume of performance.

If we take into account that approximately CZK 150 billion (i.e. almost 3% of the national GDP) is invested in this area on an annual basis, then this is a positive contribution of true national economic significance. At the same time however, housing construction continued to be less intense, at least over the course of 2010, and thus a certain glimmer of hope in this construction sub-sector might be triggered only by a sign of recovery in the construction of commercial real estate (in particular, office space and possibly certain industrial zones).

This not very favourable development and perspective for construction in the Czech Republic corresponds to the development in the EU overall.

The development that occurred in 2010 thus represents a significant turning point in the development of construction when compared to 2009. Construction companies are losing their supply of contracts because new orders are being either postponed or cancelled. A possible problem can also be seen in the decreased demand for civil engineering projects – especially with regard to the future and, in particular, due to the activities underway for the construction of the transport infrastructure, which is dominated by public contracts (which are under a great deal of pressure as a result of budget cuts) and where the entry of private capital in the form of public private partnerships (PPP) is still in the embryonic preparatory stage.

According to an analysis of the information contained in the recently approved national budget for 2011 and in the 2011 budget for the State Fund for Transport Infrastructure, including the perspective for the long-term, **the situation in 2010 is only the initial start of a subsequent reduction in demand on the construction market that is valued at tens of billions of crowns**. Both 2010 and the period immediately following also show a much less intense level of demand for structural engineering activities in the private sector (both with regard to households as well as in the entrepreneurial segment). This unfortunate situation that currently exists and is also predicted for the near future might result in negative secondary impact on construction, specifically in the form of deterioration in payment behaviour within this sector and a decreased level of confidence as a result of the more prudent behaviour of the banking sector with regard to the construction industry.

It already became apparent in 2009 that, in spite of a very slight decline in construction, there was a drastic drop in the volume of public contracts during the same period (by almost 7% in a year-on-year comparison).

The volume of awarded public contracts, which contribute more than 50% to the demand for construction, continued to plunge downward. The total value of public contracts showed a year-on-year decrease of 44%. In the case of structural engineering, the decrease was 21%; as far as civil engineering is concerned, it was as much as 52%. Within

the field of civil engineering, the volume of public contracts for transport infrastructure projects decreased by as much as a very prohibitive 75% (from the perspective of construction).

DECREASE IN CONSTRUCTION ORDERS POSES A LONG-TERM THREAT TO THE DEVELOPMENT OF THE TRANSPORT INFRASTRUCTURE

Construction, both from the perspective of its development as well as in relation to its support, has a sizable impact on and important links with the other components of the national economy. In particular, construction investment in transport infrastructure and in industrial zones reflects a highly accelerative effect on future economic development. Public contracts and private investment in the construction industry have a **very strong impact on employment. According to some empirical studies that have been completed, each CZK 1 million invested in construction will, on average, result in the need for approximately three workers, not only in the field of construction itself, but also for associated activities in the industry and services sectors and other related activities.**

Another important aspect to consider is the **financial rate of return** for construction investments. Investments valued in hundreds of millions of crowns contribute more than CZK 55 million to the public budget, not to mention the important synergetic effects that the existence of a reliable high-capacity transport infrastructure has with regard to the development potential of the territories affected.

If we consider that the current share of public contracts to private contracts is 2.5:1, then it is possible to say that, particularly as far as transport infrastructure is concerned, the financial rate of return on public construction contracts is just about 100%, that is to say that, if we include the resulting synergetic effects, the public resources invested in the transport infrastructure will be returned to the public financing system, whether through direct channels (i.e. with immediate contribution to taxes) or indirectly (through increasing the economic potential of the affected area, which will contribute to taxes over a longer timeframe).

On the one hand, it is understandable that the current status of public finances does require restrictive savings measures. It is also possible to understand that the limited timeframe for preparing the national budget for 2011 resulted in across-the-board cuts without allowing for a more detailed assessment of their effectiveness. However, over the longer term budget perspective and taking into account the importance of the construction industry, the following principles should be respected:

- Thanks to both the direct as well as the intermediated financial rate of return for these investments, the state (i.e. the public sector) can use public construction contracts to directly **stimulate the national economy** (in a situation when domestic demand during the crisis period and immediate post-crisis period has been highly suppressed) without any great demands for imports **(a positive impact on the balance of trade);**
- A decrease in the investments made in construction results in a highly **adverse impact on employment;** on the basis of calculations and consultations, we estimate that decreasing construction investment by CZK 1 billion could, in an extreme case, result in a reduction of the employed workforce by 3,000-3,500. The anticipated reduction of CZK 30 billion could therefore lead to a reduction of up to 90,000 or even more than 100,000 employees in the construction industry and related fields, of which only a small portion could find jobs in other activities other than construction that are not affected by the continuing decrease in demand. This particular prediction however is based on an extreme scenario. The text that follows presents calculations for scenarios other than the above-specified extreme situation. We consider a much more realistic prediction to be the loss of 15,000 jobs or possibly a scenario with the loss of about twice as many jobs;
- Construction has a long-term positive effect on fulfilling the Czech Republic's economic potential. The development and modernisation of the transport infrastructure, together with connecting the motorway, rail and water transport systems to the European network, significantly contributes towards meeting the requirements for mobility in a modern day economy. Even in the Czech Republic and especially over the past ten years, these investments have had a positive effect. Not only have they led to an influx of foreign investors and the improved investment reputation of the Czech Republic, but they have also helped speed up regional development quite significantly;
- A number of the investments made in the construction industry contribute to the implementation of energy efficient and beneficial constructions, the ultimate effect of which will be reflected in reduced emissions and a better environment (which will consequently reduce the volume of resources spent on ecological projects). In addition, they will lead to the construction of an energy

infrastructure with the objective of ensuring its systematic renewal and strengthening national self-sufficiency with regard to energy sources, to the construction of facilities that will provide protection against natural disasters, and other similar activities. It is possibly to include these effects within the broader framework of the financial benefits that are of a more long-term nature.

In its Programme Declaration of 4 August 2010, the Government of the Czech Republic defines its intentions and priorities in the area of transport and the construction of the transport infrastructure.

The key points are as follows:

- To maintain the level of investment in the transport infrastructure;
- To increase the involvement of private financing sources through the development of PPP projects and to use them in addition to public resources;
- To improve the effectiveness of the State Fund for Transport Infrastructure (SFTI) and the investor organisations of the Ministry of Transport;
- To reduce the legislative limits in place in order to speed up the construction of the transport infrastructure (i.e., to improve the flexibility of the approval process for constructions);
- To ensure the less costly construction of transport infrastructure, namely through more transparent public procurement procedures, revised rules and thorough checks of the construction process; and
- To develop activities that will lead to better road safety, improve the information available to those who use the roads and increase the quality of the infrastructure that is developed.

STATE FUND FOR TRANSPORT INFRASTRUCTURE

The State Fund for Transport Infrastructure (SFTI) is the primary source of financing for the implementation of transport infrastructure projects. The volume of resources that will be available according to the approved budget for 2011 as well as on the basis of the perspective for 2012 and 2013 is greatly reduced as compared to 2010. In addition to the reduction in costs, the SFTI has been requested to verify the budgets for individual projects and to incorporate the updated value of the total costs for each project as well as the timeframe for completion. If, over the course of 2011, the SFTI obtains resources outside of the framework of the approved budget, these resources will be used in a priority manner to increase the amounts available for the preparation of constructions. The schedule for the construction of transport infrastructure dated 16 September 2009 should present the aforementioned priority for the motorways and high-speed roads specified in it.

The SFTI budget and its medium-term perspective respect the anticipated financial framework for 2011 and propose the financial frameworks for 2012 and 2013. The budget also includes a response to the state’s obligations, which ensue from the programme currently underway for the construction of transport infrastructure and which are based on the originally planned budgeting. Due to the cost reductions made during the last period as compared to the original values (a reduction of CZK 3.1 billion for 2011) and the decreased SFTI budget resulting from reduced EU resources, there will be a sizable drop in the plans for constructing the transport infrastructure.

The main supporting material used for preparing the State Fund for Transport Infrastructure (SFTI) budget and medium-term perspective consists of the strategic aims of the Ministry of Transport with regard to the investments to be made in transport infrastructure from the period of 2011 to 2014+. The Ministry has re-evaluated the original plans for the construction of transport infrastructure and has reached the following conclusions:

- Preference will be given to speeding up the construction of roads that reroute traffic from densely populated areas, in particular to by-pass roads;
- Projects that increase the capacity of existing roads and improve the safety of the current network will be prioritised over investments that have high financial demands;
- The implementation of several important rail constructions (the Brno 4th rail transit corridor) has been postponed and several planned projects have been dropped completely; and
- Priority will be given to PPP projects for the reconstruction of import sections of the D1 motorway and the construction of key segments along the D3 motorway, the R35 high-speed road and the Prague Ring Road (R1).

In accordance with this strategy, resources will be shifted within the Operational Programme Transport from the priority axis aimed at the development of the rail network to the axis aimed at the construction of the trans-European road network under the condition that this reallocation is confirmed by the European Commission.

The most important parameter for the development of the SFTI financial base is to reduce its budget by approximately CZK 35 billion in 2011 and to increase it only slightly on an annual basis in the coming years. It is specifically this particular parameter that is the key input for the text that follows. In addition, it is in conflict with the relevant provisions of the Government's Programme Declaration. Firstly, attention should be drawn to the consequences this reduction might have with regard to the real economy, employment and public finances at both the national as well as the regional levels. Another important parameter for the strategy in place for the development of transport infrastructure is to finally launch and develop the practice of using PPP projects in the Czech Republic after many years of the idea being bandied about.

ANTICIPATED DEVELOPMENT IN CONSTRUCTION, IN PARTICULAR THE CONSTRUCTION OF TRANSPORT INFRASTRUCTURE, OVER THE SHORT- AND LONG-TERM TIMEFRAMES

For construction companies 2010 marked the first crisis year in which their performance decreased quite significantly. Taking into account the strong dependence that the construction industry has on public contracts and considering the adoption of restrictive fiscal measures specifically in the area of public procurement and, in particular, in relation to the construction of transport infrastructure, it is not likely that 2011 will see an increase in construction activities.

The decrease in the number of contracts for transport infrastructure (to a point where there are practically no new projects started and only the existing ones are being completed, even with regard to the length of the preparatory phases prior to the start of construction) will be reflected in the development of this segment of the construction industry over the coming years under otherwise the same conditions. 2012 and 2013 will see stagnation in the already greatly reduced volume of activities. According to the circumstances that have just been evaluated, it will be possible to speak of recovery in the transport infrastructure sector together with the recovery of the economy, the consolidation of public finances and the legislative preparations, which will make it possible to use alternative private sources of financing.

The potential in the field of civil engineering over the medium-term perspective therefore consists to a significant degree of the implementation of water management constructions that receive strong support from the EU funds, which must be used up fully over the course of the current programming period by either 2013 or 2015.

Without regard to the existing destructive consequences of the economic crisis and the fiscal consolidation for construction outputs, over the long-term the construction industry will remain an important sector within the Czech Republic's economy. With the predicted change in the structure of the demand side, the long-term timeframe and perspective should confirm the importance of this sector. It is more than likely that the **energy sector** will be a critical **determining factor** for demand in the form of the completion of constructions associated with new energy sources (e.g. nuclear power plants, local alternative sources, gas reservoirs, and gas pipelines). Likewise, construction activities associated with **climate**

change will play a key role in predetermining the nature of the demand for construction work (e.g. energy-efficient buildings and the protection of natural heritage). The strengthening of the mobility factor will also play a role with regard to demand (not only the completion of the basic road infrastructure in the case of developing countries, but also the construction of high-speed railways primarily in the case of the advanced countries).

The perspective for the construction industry also relies on the options available for using **new progressive materials and building elements,** the use of which is made possible by and conditional on **technological developments**. The necessity for cost savings will become apparent in **the streamlining performed within the construction sector**, in **the concentration and segmentation of activities within the sector**, in the significant use of **information systems,** and in the compliance with the principles of **low-energy construction.**

The new trends mentioned above will also place higher demands for **human resources** both vertically and horizontally through the entire structure of the construction industry. The need for permanent lifelong education will influence the structure taken on by all of the professions involved in construction.

The existing situation, where there is a certain lack of transparency on the market, due to the strong position held by the dominant players who have significant influence even outside the boundaries of the sector on the one hand and as a result of the uncountable number of small and very small companies who make it difficult for customers to navigate through what is offered on the other, will most likely be made more transparent and uncluttered.

In addition, the influence of economic openness and globalisation will become more strongly apparent in what has until now been a fairly closed construction sector in the Czech Republic, where domestic capacity is almost exclusively focused on domestic demand on the one side and, on the other, the demand is also almost exclusively focused on domestic suppliers and satisfied by them. A breakthrough in the current level of openness, or, better said, lack of openness in the construction sector can be expected to follow the sample set by other sectors to an even higher degree.

Short-term perspective

The short-term perspective is especially strongly influenced by the significant decrease in demand on the part of the public sector in 2011. This current period for the construction industry is characterised by the following trends:

- A **significant drop in public contracts** is currently becoming apparent in the construction sector and this downward trend is expected to grow over the course of 2011; the following table illustrates the description of this anticipated development:
- A **reduction in the volume of public contracts** is most visible in the segment concerned with the **preparation of road and motorway construction works** as depicted in the following graph:
- This decrease in intensity was first noted in mid-2009, at which time there was a significant decrease in the number of new contracts for project planning and engineering preparations. In actuality, engineering design companies simply finalise contracts that have been made previously. The volume of costs for the preparation stages for constructions up to 2013 is rapidly reaching negligible values. The anticipated use of the capacity of engineering design companies during 2011 is at a level of approximately 30%.

Delays in the preparatory project phases

A decrease in the intensity of the preparatory phases for the implementation of additional important and required projects for transport infrastructure also presages the degree to which the completion of the constructions will be delayed. This has a negative impact on the development possibilities, particularly in the affected regions. In some cases, the impact can be of national economic significance. In addition, it is becoming apparent that, from the perspective of the overall timeframe, the preparatory phases are the most important and take up 80-85% of the total project length. The following table presents certain selected characteristics:

A delay in the completion of the preparatory activities has far-reaching consequences, with an estimated timeframe that goes to the end of this decade which has just started. In a number of cases, the impact might continue on into the next decade. This approach not only **threatens the implementation of the construction activities intended for the immediate period of 2011 to 2013** (the resulting uncertainty also has an institutional and procedural aspect – there is a danger that the zoning decisions and building permits that have already been issued will expire. There is thus a high level of risk that the entire approval process to obtain them will have to be repeated, which will lead to needless additional costs). Likewise, a broad range of expert opinions and statements and the decisions issued by the competent institutions all have a certain period of validity that might expire. One possible response that would have

highly negative impact on the implementation of projects would be a request for the return of land.

This delay might result in a significant reduction in employment, not only the direct employment of construction workers, but also those involved in associated planning and expert activities.

Identification of consequences and impact

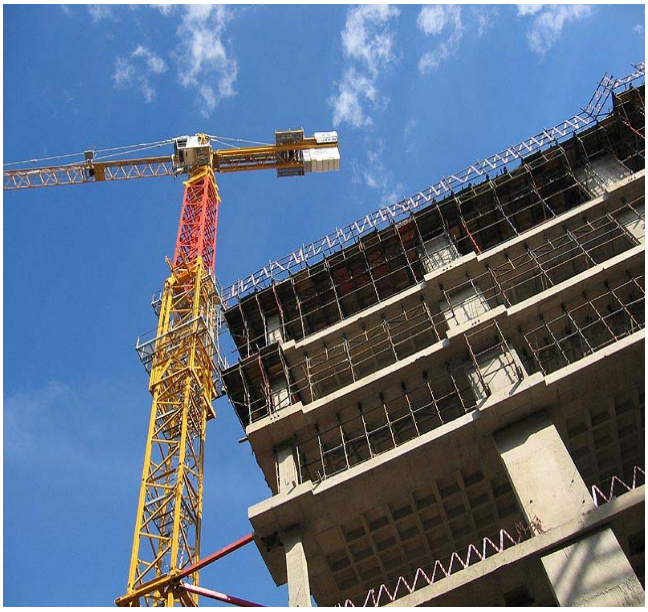
- Currently, the capacity of transport construction companies is filled at a performance volume level of approximately CZK 100 billion for road and motorway constructions, **which corresponds** to the actual needs for increasing and improving the capacity and transport service in the Czech Republic. Performance below this level would mean that **construction capacity is not being fully utilised;**
- **Increased instability** within the environment in which construction companies are active (the lack of a reliable concept makes it impossible to create corporate development strategies);
- **Shutdowns and cutbacks in operations** and production bases;
- **Shutdowns and cutbacks in accompanying specialised operations which are critical for the long-term development of the construction industry;**
- A shift from **contemporary technological procedures to those that are less costly;**
- The **risk of a significant decrease in employment** – in the case of companies specialising in road and motorway construction works, the real risk of reduction in 2011 is somewhere between 25,000 and 40,000 workers; additionally thousands of jobs are threatened in the case of the necessary associated activities. Most likely approximately only one-half of this number could find employment either in different areas of the construction industry or in different sectors;
- A reduction in the performance of construction activities and in employment will be reflected **directly and, over the long-term, indirectly in relation to public finances**;
- **Limiting economic development, particularly at the regional level**: within the construction sector, a significant share of corporate tax income for the state is generated from business activities. On an annual basis, the estimated reduction in corporate income tax would amount to approximately CZK 1.5 billion. In addition, in the case of the construction industry, a number of contractual relationships are established with entrepreneurs (individuals). The estimated volume of personal income tax that would be lost is approximately CZK 400 million annually. The absence of key roads can also severely limit the economic development of entire regions, in particular those where the network of motorways and high-speed roads is less dense (the South Bohemian, Karlovy Vary, Pardubice and Zlín Regions). In these regions, the effect that absence of these roads has on total estimated development during the first period has been estimated to be 0.5 to 1% of GDP growth annually. As the length of time that these types of roads are not available becomes longer, the effect on GDP will be 2-3% by the end of the decade. For the sake of comparison, we can mention the high growth rate in the Moravian-Silesian Region, which is the result of a significant influx of investments, motivated primarily by the decision to strengthen the backbone motorway and high-speed road network in a significant manner (the D47, now the D1 and R48;
- **Limiting the connectivity of the road and motorway network both within the Czech Republic and also in relation to other countries**: within the conditions of the extraordinarily open Czech economy, it makes sense to also address the expected impact that the existence of a corresponding motorway network and high-speed road network will have, both on the decisions of domestic and foreign investors to allocate capital to selected regions as well as on decisions to invest in export-oriented operations. In this case, it would be pure speculation to try and calculate any precise financial impact, economic impact or impact on employment. Over the long-term timeframe however, we can speak of significant macroeconomic data and characteristics;
- **Impact on road safety and the health of the population**;
- **Environmental impact**;
- **In addition, radical cuts in spending that are not founded on the schedule of priorities might result in immediate savings in costs. During the next period however, they could result in high additional expenses**, particularly in relation to preserving construction projects that are already underway, these additional expenses are not at all insignificant and include the costs associated with preserving the constructions (which in the case of an

advanced stage of completion could be comparable to the costs required to complete the project), and also the costs associated with shutting down and removing construction site bases, concrete plants and tarmacadam plants, the removal of materials and equipment, ensuring the safety and security of semi-finished constructions, ensuring that they are protected against theft and vandalism, ensuring that they are protected from the elements, the revitalisation of the construction once it is resumed, etc. The additional expenses also include the anticipated increases in prices, in particular for fuel and materials. The costs associated with the engineering design companies and other service providers also have a tendency to increase.

In addition to these impacts of a purely financial nature, it is also appropriate to mention the impacts that are difficult to quantify, such as the effect of the additional costs for the preservation of constructions that are partially completed, the consequences of purchase contracts that expire and require property to be returned, and the necessity to repurchase properties or negotiate the extension of the validity of contracts, where it can also be expected that the owners will have increased demands. The sum total of all these costs can be more "speculatively" estimated to be in the range of a billion crowns each year.

CONCLUSION

- During the current period, the development of construction in the Czech Republic does not fully correspond to the development of the economic cycle. The development of the construction industry is somewhat lagging behind the overall development of the Czech economy.
- The development in 2010 constitutes an important turning point in the development of construction as compared to 2009. Construction companies are losing their supply of work due to the postponement or cancellation of new contracts. Another problem that should be considered is the drop in demand for civil engineering, particularly in relation to the activities for building the transport infrastructure, which are the dominant subject of public contracts.
- The share that construction contributes to the Czech Republic's GDP has been significantly over 10% over the long term (between 1995 and 2009, it fluctuated between 12 and almost 15%). At the start of 2010, this share dropped far below 10%.
- Construction, its development and its support has great impact and is linked with the other components of the domestic economy.
- Another important aspect can be found in the financial rate of return for construction investments. An investment of CZK 100 million contributes more than CZK 55 million to the public budgets.
- The SFTI is the most important source of financing for the implementation of transport infrastructure projects.
- For construction companies, 2010 was essentially the first crisis year, during which the outputs of these companies declined drastically. Taking into account the high level of dependence that construction has on public contracts and the overall poor situation in the sector, it is not likely that the construction industry will see any significant recovery in 2011.
- The consequences of the anticipated and analysed situation are:
  - Construction capacity will not be fully utilised;
  - The instability of the environment will increase;
  - Shutdowns and cutbacks in operations;
  - Shutdowns and cutbacks in accompanying specialised operations that are of key importance for the development of the construction industry; and
- The risk of a significant reduction in employment.



The statistical window in a tabular form shows important macroeconomic indicators from all member states and the EU as a whole. It includes economic performance indicators (per capita GDP as compared to the EU average, GDP growth, unemployment rate), external economic stability indicators (current account to GDP), fiscal stability indicators (public budget to GDP, public debt to GDP), and pricing indicators (annual inflation based on HICP, base price level).

Key macroeconomic indicators

	GDP growth y-on-y			Current account to GDP*			Unemployment rate			Inflation y-on-y average		
in %	2007	2008	2009	2007	2008	2009	I-10	II-10	III-10	I-10	II-10	III-10
Belgium	2.9	1.0	-3.1	2.2	-2.9	0.5	8.0	8.1	8.0	0.0	0.3	0.8
Bulgaria	6.2	6.0	-5.0	-26.8	-24.0	-9.4	7.7	8.0	8.1	0.9	1.6	1.8
CR	6.1	2.5	-4.8	-3.2	-0.7	-1.1	7.8	8.0	8.2	0.2	0.5	0.4
Denmark	1.7	-0.9	-4.9	1.5	2.2	4.0	7.1	7.3	n/a	0.9	1.2	1.9
Germany	2.5	1.3	-5.0	7.6	6.7	4.9	7.5	7.5	7.5	0.3	0.8	0.8
Estonia	7.2	-3.6	-14.1	-17.8	-9.4	4.6	15.5	15.5	n/a	-2.1	-1.9	-1.0
Ireland	6.0	-3.0	-7.5	-5.3	-5.2	-2.9	13.0	13.3	13.8	-2.8	-2.6	-2.4
Greece	4.5	2.0	-2.0	-14.4	-14.6	-11.2	n/a	n/a	n/a	2.1	2.6	2.3
Spain	3.6	0.9	-3.6	-10.0	-9.7	-5.4	18.9	18.9	18.8	0.4	0.9	1.1
France	2.3	0.4	-2.2	-1.0	-2.3	-2.2	10.0	10.0	10.1	0.5	1.0	1.2
Italy	1.5	-1.3	-5.0	-2.4	-3.4	-3.2	8.3	8.5	8.6	0.8	1.1	1.3
Cyprus	5.1	3.6	-1.7	-11.7	-17.5	-8.3	6.2	6.1	6.2	1.0	1.6	2.5
Latvia	10.0	-4.6	-18.0	-22.3	-13.0	9.4	22.0	22.6	22.9	-1.4	-1.4	-3.3
Lithuania	9.8	2.8	-15.0	-14.5	-11.9	3.8	n/a	n/a	n/a	1.3	1.2	-0.3
Luxembourg	6.5	0.0	-3.6	9.7	5.3	5.6	5.9	6.0	5.9	1.7	2.5	3.0
Hungary	1.0	0.6	-6.3	-6.6	-7.0	0.2	10.8	10.8	11.1	5.2	5.4	6.2
Malta	3.8	2.1	-1.9	-6.1	-5.6	-3.9	7.0	7.2	7.0	-0.1	-0.4	1.2
Netherlands	3.6	2.0	-4.0	8.7	4.8	5.4	4.0	4.1	4.2	0.7	0.7	0.4
Austria	3.5	2.0	-3.6	3.6	n/a	n/a	5.5	5.4	5.3	0.6	1.1	1.2
Poland	6.8	5.0	1.7	-4.7	-5.1	-1.6	8.7	8.7	8.9	3.8	3.8	3.9
Portugal	1.9	0.0	-2.7	-9.4	-12.0	-10.3	10.3	10.3	10.5	-0.8	-0.1	0.1
Romania	6.3	7.3	-7.1	-13.4	-11.6	-4.5	n/a	n/a	n/a	4.6	4.7	5.2
Slovenia	6.8	3.5	-7.8	-4.8	-6.2	-1.0	6.8	6.8	6.8	1.8	2.1	1.8
Slovakia	10.6	6.2	-4.7	-5.7	-6.6	-3.2	13.5	13.6	13.7	0.0	0.0	-0.2
Finland	4.9	1.2	-7.8	4.3	3.1	1.3	8.8	8.9	9.0	1.3	1.8	1.6
Sweden	2.5	-0.2	-4.9	8.4	9.5	7.3	8.7	9.0	9.1	2.4	2.8	2.7
UK	2.6	0.5	-4.9	-2.7	-1.5	-1.3	7.8	n/a	n/a	1.9	2.9	3.5
EU	2.9	0.8	-4.2	-1.0	-1.9	-1.1	9.4	9.5	9.5	1.0	1.5	1.7

	Public budget to GDP*			Public debt to GDP			GDP per capita to Ø EU			Price level to Ø EU		
in %	2008	2009	2010	2008	2009	2010	2007	2008	2009	2007	2008	2009
Belgium	-0.3	-1.3	-6.0	84.2	89.6	96.2	116.0	115.0	116.0	108.3	111.1	113.9
Bulgaria	1.1	1.7	-4.7	17.2	13.7	14.7	40.0	44.0	n/a	46.2	50.2	52.7
CR	-0.7	-2.7	-5.8	29.0	30.0	35.3	80.0	81.0	82.0	62.4	72.8	70.6
Denmark	4.8	3.4	-2.7	27.4	34.2	41.4	123.0	123.0	121.0	137.4	141.2	144.6
Germany	0.3	0.1	-3.0	64.9	66.3	73.4	116.0	116.0	116.0	101.9	103.8	106.4
Estonia	2.5	-2.8	-1.7	3.7	4.6	7.2	69.0	68.0	64.0	73.1	78.0	75.1
Ireland	0.0	-7.3	-14.4	25.0	44.3	65.5	147.0	133.0	127.0	124.5	127.6	125.0
Greece	-6.4	-9.4	-15.4	105.0	110.3	126.8	91.0	93.0	93.0	90.7	94.0	97.4
Spain	1.9	-4.2	-11.1	36.1	39.8	53.2	105.0	103.0	103.0	92.8	95.4	97.4
France	-2.7	-3.3	-7.5	63.8	67.5	78.1	108.0	107.0	108.0	108.1	110.8	114.3
Italy	-1.5	-2.7	-5.3	103.6	106.3	116.0	104.0	104.0	104.0	102.9	105.6	106.5
Cyprus	3.4	0.9	-6.0	58.3	48.3	58.0	93.0	97.0	98.0	88.1	90.5	91.2
Latvia	-0.3	-4.2	-10.2	9.0	19.7	36.7	56.0	56.0	52.0	66.6	72.6	74.8
Lithuania	-1.0	-3.3	-9.2	16.9	15.6	29.5	59.0	61.0	55.0	60.0	64.7	67.8
Luxembourg	3.7	3.0	-0.7	6.7	13.6	14.5	275.0	280.0	271.0	115.3	119.1	121.3
Hungary	-5.0	-3.7	-4.4	66.1	72.3	78.4	62.0	64.0	65.0	66.7	68.1	65.5
Malta	-2.3	-4.8	-3.8	61.7	63.1	68.6	77.0	78.0	81.0	75.5	78.8	81.4
Netherlands	0.2	0.6	-5.4	45.3	58.2	60.8	132.0	134.0	131.0	101.9	104.0	108.5
Austria	-0.4	-0.5	-3.5	59.3	62.5	67.5	123.0	124.0	124.0	102.2	105.1	107.9
Poland	-1.9	-3.7	-7.2	45.0	47.1	50.9	54.0	56.0	61.0	62.0	69.1	58.6
Portugal	-2.8	-2.9	-9.3	62.7	65.3	76.1	78.0	78.0	80.0	85.7	87.0	89.3
Romania	-2.6	-5.7	-8.6	12.6	13.4	23.9	42.0	47.0	46.0	63.8	60.9	57.5
Slovenia	0.0	-1.8	-5.8	23.4	22.5	35.4	88.0	91.0	88.0	79.0	82.3	85.5
Slovakia	-1.8	-2.1	-7.9	29.6	27.8	35.4	68.0	72.0	73.0	63.2	70.2	73.7
Finland	5.2	4.2	-2.5	35.2	34.1	43.8	117.0	118.0	113.0	119.9	124.3	126.4
Sweden	3.6	2.2	-0.9	40.0	38.2	41.9	125.0	122.0	118.0	115.7	114.5	107.0
UK	-2.7	-5.0	-11.4	44.5	52.1	68.2	116.0	115.0	112.0	112.6	100.1	92.7
EU	-0.9	-2.3	-6.8	58.8	61.8	74.0	100.0	100.0	100.0	100.0	100.0	100.0

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