# EU News
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Dear readers,

The euro area and its debt crisis have rightly drawn the attention of the recent meeting of the International Monetary Fund (IMF). Quite rightly indeed – never in the post-war history of this institution has Europe been such an easy target and prey for non-European, mostly Asian competitors. The meeting brought four key messages towards Europe.

The first message: When talking about the current financial crisis as a global one, it is mainly "thanks to" the EU. Indicators of the US fiscal discipline were still relatively exemplary five years ago and the fall into the depths of despair from the perspective of sustainability of public finances was induced by an unprecedented financial crisis with the collapse of hundreds of financial institutions and with the support of the most prominent of them from public sources. In addition, the possibilities of budgetary adjustments for the United States could be found more easily as compared with Europe. Had the United States reduced to half its gigantic defence budget (which – relative to GDP – would even then be twice the average of the European defence budget) and, at the same time, increased by about 10 percentage points its compound tax quota (which would even then be about 10 percentage points below the European quota), then in terms of restoring the public finances discipline, its worries would be over.

The second message: Not even the IMF platform sanctified the so much discussed radical solution in relation to Greece consisting in a write-off of a very substantial package of Greek liabilities. By contrast, in response to this procedure, the Greek finance minister swore that his country would do everything necessary to avoid insolvency and remain part of the eurozone.

The third message: The radical solution consisting in the write-off of up to 50% of the Greek debt obligations would mean an unprecedented pressure on the financial systems of the major creditor countries. Radicalism would either lead to an enormous need to increase capital of creditor banks, or to about the same need for their rehabilitation by the public sector, which, in effect, would have the same or a comparable impact on the real economy as that observed in Greece, Ireland and other problem countries.

The fourth message: “Soft lending” is thus perceived as the only feasible solution that would not shake the EU economic system so “thoroughly”. Its key condition, i.e. restructuring the existing bonds in exchange for new ones with longer maturity and lower interest rate, seems to be heading for a positive resolution. If the existing investors decided to “sacrifice” their existing investments and have nothing in common with Greece in the future, we would probably not be able to avoid a hard landing.

And there is a threat that, after the completion of the hard landing, much of what now forms the content of the economic integration of Europe would be lost. At least, it appears that in the current investment mood, further development of new debts is consigned to history. Even the less painful settling of the past ones will give many countries a hard time for much of this decade.

Petr Zahradník


Germany approved the increase of the budget and the extension of the powers of the European Financial Stability Fund (EFSF), which was agreed at the extraordinary EU summit in July. The reform of the Stability and Growth Pact has successfully passed the European Parliament. The system of imposing sanctions for violation of budgetary discipline by member states should start working.

## POLITICS

### The Czech Republic has two Secretaries of State for EU Affairs

In the Czech Republic, there **will be two State Secretaries in charge** of the matters associated with the European Union. The first one, appointed by Petr Nečas last week, is the previous Director General of the Section for European Affairs of the Office of the Government Vojtěch Belling, and the second one, appointed by Foreign Minister Karel Schwarzenberg, will head the same agenda at the Czernin Palace. According to the head of the Czech diplomacy, it will be his present first Deputy Jiří Schneider.

According to Schwarzenberg, the main difference between the two positions is that while the Secretary of State operating in the Government Office will focus on the coordination of European policy at the domestic level, **his Deputy and Secretary of State will represent him in Brussels** or elsewhere abroad.

Prime Minister Nečas has said that he sees no problem in the establishment of the post of a Secretary, who would be available to the Foreign Minister, but he may not represent Schwarzenberg in meetings, **which fall within the competence of the Prime Minister or the Office of the Government**. The coalition agreement stipulates that the coordinator of European policy is the Prime Minister with his own apparatus.

According to the newly established Secretary of State Jiří Schneider, such concurrence cannot occur because both posts have already existed and their holders have been working together for about a year.

**The controversy over the management of European affairs** between the Prime Minister and the Foreign Minister has been going on since the establishment of the coalition cabinet last summer, when Prime Minister Nečas abolished the post of the EU Minister (held by Štefan Füle and later by Juraj Chmiel) and subsequently announced his intention to establish a new post of a secretary, who would help him with the European policy.

The Prime Minister holds the opinion in the long run that European affairs **do not represent an exclusively foreign policy agenda**. Minister Schwarzenberg maintains the contrary.

The possible double-track approach of the Czech policy towards the European Union could pose a potential problem. The future will show how the non-standard model of two State Secretaries for the EU will work in practice.

http://www.vlada.cz/cz/evropske-zalezitosti/aktualne/jmenovani-statniho-tajemnika-pro-evropske-zalezitosti-87185/

http://www.mzv.cz/jnp/cz/o_ministerstvu/archivy/z_medii/namestkem_ministra_zahranici_se_od_1.html

### Merkel calls for Lisbon Treaty change after positive court ruling

German Chancellor Angela Merkel said the constitutional court's ruling reinforced her government's policies and paved the way for **further reforms to help the EU manage the debt crisis**.

Merkel faces growing dissent in her national parliament, the Bundestag, as her government **is blamed for rubber-stamping bailouts** without seeking parliamentarians' approval and for increasing taxpayers' financial liability in tackling the debt crisis.

In her speech about the euro's future Merkel took a stab at her erstwhile socialist opponents, who are blamed for killing the credibility of the EU's Stability and Growth Pact (an agreement between members of the eurozone on the coordination of their budgetary policies) **by sidelining calls from the European Commission** to bring down the German public budget deficit.

Parallel to these talks, the German Chancellor has been **forging plans** with French President Nicolas Sarkozy **for a fiscal union**. Such a union would entail strengthening the powers of Brussels in the budgetary field, requiring most probably a change to the EU's Lisbon Treaty.

But before the Chancellor can make any more bold moves she will first have to deal with criticism at home. In addition, the court's decision may have made matters worse for the Chancellor as each bailout will first require **the approval of the Bundestag's budget committee** before it can be agreed at EU level.

According to the court ruling, members of parliament must be given the opportunity to review the rescue plan and **even stop it if needed**.

The reopening of the basic EU treaties after their last amendment through the Lisbon Treaty is a lengthy process that nobody is eager to undergo. There are still fresh memories of the more than **two-year rigmarole**.

We do not believe too much in the establishment of a European Finance Ministry. The future seeds of a common fiscal policy will more likely **lie in the permanent European Stabilisation Mechanism** (ESM), which should


replace the current European Financial Stability Fund (EFSF) from the year 2013.

http://www.bundeskanzlerin.de/Content/EN/Artikel/__2011/09/2011-09-26-kanzlerin-bei-jauch__en.html

## ECONOMY AND EURO

### Germany sanctified strengthening the EFSF rescue fund

The German parliament **approved the increase and extension of the powers** of the European Financial Stability Fund (EFSF), approved in the summer by the special Brussels summit, which should provide loans to countries that find themselves in economic trouble. Germany has joined the ten countries of the euro area, where the vote on strengthening the rescue scheme took place.

However, the government coalition was not unanimous. Several members of the Christian Democratic Union (CDU), its Bavarian branch CSU and the Free Party (FDP) indicated that they would not support **the Cabinet leader Merkel in the crucial voting.**

At last, 523 deputies were for the extension of the Fund, 85 deputies were against and 4 legislators abstained. That was a load off the Chancellor's mind, because **315 deputies raised arm within the ruling coalition**, which was exactly four more than needed.

And what exactly was the German Parliament voting on? As already mentioned, the July extraordinary summit of eurozone leaders agreed that the overall financial guarantees of the euro rescue fund should **be increased to EUR 780 billion** and, at the same time, the powers of the fund should be strengthened. The EFSF would be newly able to intervene on the new bond market and participate in the recapitalisation of banks. It could also provide a preventive credit line to countries in which there is a risk that they might get to a similar economic situation as Greece, for instance.

To make it possible for the proposed changes to come into force, they must be **commented on by the national parliaments of the member countries of the euro area**. At the end of September, the remaining countries to approve the strengthening of the fund were Estonia, Malta, the Netherlands, Cyprus, Portugal and Slovakia.

We believe that the increase in the volume and the extension of the powers of the fund will be successfully ratified by all member countries – including Slovakia – by the end of October. Yet even this **step will not be the ultimate salvation**, but it will open the door for a controlled bankruptcy of Greece, which will minimise the negative impacts on the European economy.

http://www.bundestag.de/dokumente/textarchiv/2011/35830868_kw39_angenommen_abgelehnt/index.html

**Country contributions to the EFSF**

| Country | Mil. EUR | Country | Mil. EUR |
|---|---|---|---|
| Germany | 211 046 | Finland | 13 974 |
| France | 158 488 | Ireland | 12 378 |
| Italy | 139 268 | Slovenia | 7 728 |
| Spain | 92 544 | Slovakia | 3 664 |
| Netherlands | 44 446 | Estonia | 1 995 |
| Belgium | 27 032 | Luxembourg | 1 947 |
| Greece | 21 898 | Cyprus | 1 526 |
| Austria | 21 639 | Malta | 704 |
| Portugal | 19 507 | **Total** | **779 783** |

*Source: EFSF, after strengthening 07/2011*

## BUDGET

### EU ratifies crisis makeover to Stability and Growth Pact

The European Parliament passed a series of six budget laws **adjusting and tightening the rules for respecting budgetary discipline** in the eurozone countries.

The agreement was hampered by disputes between governments and the European Parliament about who will have more influence on the application of the sanction mechanisms if any of the eurozone countries would be run with an excessive deficit and would not respect the recommendation to remedy the situation. In terms of time, the whole six-pack covers two phases:

- **preventive**, which would include also the issuing of a last warning,
- **corrective**, which includes the imposition of financial sanctions and their conversion into the form of interest-bearing deposits.

The new rules will mean the **tightening of the Stability and Growth Pact**, under which the eurozone member countries' budget deficits and debt rates may not exceed 3% and 60% of GDP, respectively.

The negotiators of the member states and the European Parliament have found a compromise on the final form of the six legislative measures already in mid-September. The


The European Commission proposed a tax on financial transactions that would be paid by banks on each implemented mutual financial transaction. The European Commission published a document, which calls for the creation of a genuine common EU energy policy and warns against individual suppliers of energy raw materials at the expense of the other member states.

agreement was successfully concluded after France ceased to protest against the measure, according to which the warning from the European Commission could be reversed only in the event that the given country gains support from the majority of the eurozone states.

Ignoring any warning from the European Commission would now not be as easy as before. It could be blocked only during the first ten days of its release and the given state will have **to get support from a majority of the governments of the eurozone countries**.

We still believe that for the effective functioning of the single currency zone – the eurozone – it is not necessary to harmonise the fiscal policies of its members, but **simply to coordinate it and prevent excessive deficits**. From this perspective, the approved revision of the Pact in the direction of a more rigorous enforcement of its rules and more automated imposing of sanctions is the right step.

http://ec.europa.eu/economy_finance/articles/eu_economic_situation/2010-09-eu_economic_governance_proposals_en.htm

## TAXATION AND CUSTOMS UNION

### European Commission's proposal on taxing financial transactions

The European Commission published a proposal for a financial transaction tax that would be imposed on all transactions in financial instruments between financial institutions, where at least one of them is established in the EU. The financial transaction tax aims at **taxing 85% of financial transactions.**

The Commission has decided to propose this tax for two reasons:

1) to ensure that the financial sector makes a **fair contribution to the consolidation of public finances** in the member states,

2) a coordinated framework at EU level would **help to strengthen the EU single market**.

Transfers of shares and bonds would be taxed at a rate of 0.1% and derivative contracts **at a rate of 0.01%.** These rates could raise approximately EUR 57 billion every year. The Commission has proposed that the tax should come into effect from 1st January 2014.

The revenues of the tax would be **shared between the EU and the member states**. Part of the tax would be used as an EU own resource which would partly reduce national contributions. Member states might decide to increase the part of the revenues by taxing financial transactions at a higher rate.

The proposal will be discussed by all member states in the EU's Council of Ministers and the Commission will present it to the G20 Summit in November. So far, however, it is only a proposal from the Commission. To come into force, it would have to be approved by the European Parliament and, subsequently, by all member states, **each of which has the right of veto**.

It is also for this reason that we believe **the proposal would not enter into force** eventually. The UK and the Czech Republic declared promptly against introducing the transaction tax.

At the present time of globalisation and almost instantaneous decanting of capital from one end of the world to the other, the introduction of this tax would only affect European banks, when some of them – particularly the French and German ones – will need due to the impending "denouement of the debt crisis" **more support from public sources**, rather than contributions to them through additional taxes.

http://europa.eu/rapid/pressReleasesAction.do?reference=IP/11/1085

## ENERGY AND TRANSPORT

### All cars in the EU should have the eCall system since 2015

In the event of a serious automobile accident in which there are injured people, every minute could be of life-saving importance. It sometimes happens, however, that the injured are not immediately physically or mentally able to call for help. The European Commission therefore hopes that it could persuade member states to ensure that by 2015, all the passenger cars and light commercial vehicles, which will be available on the EU market, **will be provided with the eCall rescue system.**

In the case of a serious road accident, the system **immediately dials the European emergency number 112**, alarms the emergency services and sends details on the position of the crashed vehicle and the direction of travel, even if its driver or passenger is unconscious or unable to summon help by him- or herself. There are also push buttons mounted in the car to be triggered manually, for example by a witness to the accident.

Brussels presupposes that, when the eCall system is implemented and fully functional, the emergency teams will


arrive on the scene of the accident much earlier – **by 40% in urban areas** and 50% in rural areas.

The European Commission therefore urges member states to ensure that mobile phone operators treat calls from eCall devices like other 112 calls – in other words, **give them priority and not to charge them.**

The eCall system is **estimated by the Commission to cost less than EUR 100 per new car to install**. Currently, only 0.7% of all passenger vehicles in the EU are equipped with automatic emergency call systems.

http://europa.eu/rapid/pressReleasesAction.do?reference=IP/11/1010&format=HTML

## Commission: The German nuclear ban raises need for EU power grid

The document calling on the EU member states to strengthen electricity interconnections is the latest call from the European Commission to urge the member nations to **put EU's collective energy needs above domestic interests**.

It is the Commission's response to the announcement by Germany, which has unilaterally decided to phase out all its atomic plants by 2022. Germany, however, is not the only state that rejects nuclear power. Italy voted to ban nuclear energy already in 1987 and again rejected any resumption of the power source in a referendum this year. The case of Germany "has highlighted that in an interconnected energy system and in the internal market all member states are affected by such decisions taken at national level and therefore have legitimate interests in **ensuring they are effectively coordinated**," reads the document, issued by the Commission.

The Commission paper said less nuclear power reinforced the need for **an EU-wide power grid**, which the European Commission aims to **achieve by 2014**. The Commission's ambitions to increase its oversight over energy issues have rankled some member countries and the private sector.

The document is another material whose aim is to build a unified energy market in the EU. This should **prevent the creation of cosy bilateral ties** between big gas consumers, such as Germany and Italy, and their major supplier Russia. A typical example is the newly built Nord Stream pipeline to ship Russian gas to Germany along the seabed, bypassing Poland as a traditional transit country.

http://europa.eu/rapid/pressReleasesAction.do?reference=IP/11/1005

## Parliament calls for greater EU clout over raw materials

The European Parliament adopted a non-binding resolution on the EU's raw materials strategy, presented by the European Commission earlier in February. The report, drafted by Green German MEP Reinhard Bütikofer, **calls for greater EU coordination on raw materials policy**, particularly with regard to third countries.

The MEPs propose creation of a special EU high-level interdepartmental raw materials task force bringing together the relevant Commission departments, the Joint Research Centre (JRC), the European Environment Agency and the European External Action Service (EEAS) **to draw up, monitor and review policies**, including partnership agreements, to ensure strategic coherence and consistent approach to the EU raw materials policy. The task force should also promote the establishment of an early-warning system – a "risk-radar" – for market distortion and impending resource-fuelled conflicts.

The MEPs also called for the development of **an ambitious EU policy on recycling of critical raw materials**. The Parliament particularly stressed the importance of recycling rare earths (the elements that are used in virtually all modern technologies, from mobile phones to military equipment), something that the Commission did not suggest in its original proposal.

The report also urges the establishment of a **European Innovation Partnership** (EIP) on raw materials (the European innovative partnerships are part of the Europe 2020 strategy, namely the Innovation Union initiative, and their aim is to concentrate resources at European level in


The United Kingdom and Poland request a significant reform of the Common Agricultural Policy, which would straighten the subsidies between farmers from the old and the new member states and increase funds for rural development. The accession treaty with Croatia has come into being and should be signed in early December. China was again the largest issuer of carbon dioxide last year. As compared to 1990, its emissions per capita increased by 205%!

order to achieve "breakthrough innovations"). The task of the EIP in the field of raw materials is the more cost effective use of raw materials.

Since further delays could be expected in the raw materials innovation partnership negotiations, the European Parliament report calls on the Commission "to make full use of the existing rare earth elements competency within the EU". Bütikofer suggested establishing an "EU rare earth competency network," which could later be merged into the innovation partnership once it has been established.

http://www.europarl.europa.eu/oeil/file.jsp?id=5903572

## AGRICULTURE AND FISHERY

### Britain and Poland join calls for a "radical" CAP reform

In October, the European Commission should come up with its **proposal to reform the Common Agricultural Policy**. The need for the reform came to the fore especially after the EU's enlargement by ten new member states.

The Common Agricultural Policy (CAP), which currently absorbs about 40% of the EU's annual budget (EUR 130 billion), should be radically overhauled **to focus on competitiveness and protecting the environment**, the UK and Poland said in their statement. Their joint calls run directly in opposition to France, which is the biggest supporter of the current policy settings.

Poland and the UK propose placing greater emphasis in the next budget period, which starts in 2014, **on the so-called Pillar 2 of the CAP**, which is rural development policy, rather than Pillar 1 represented by direct payments to farmers, which prevents a more competitive farming industry. Rather than direct income support, farmers need incentives to modernise and receive rewards for being good environment shepherds, the two ministers write.

Both countries also want **more equitable subsidies for farmers from new and old member countries**. This was presented also by the European Commission in its latest CAP reform proposal. Depending on which country the farmer comes, payments between old and new member states currently vary from over EUR 500 per hectare in Greece to less than EUR 100 in Latvia.

According to the proposal of the European Commission, when determining the amount of the payments, factors such as market power, productivity or climatic conditions should be taken into account. Nevertheless, the differences between the subsidies that farmers receive **should be reduced in the future.**

http://archive.defra.gov.uk/foodfarm/policy/capreform/documents/110128-uk-cap-response.pdf

http://www.minrol.gov.pl/pol/content/download/25575/142844/file/Stanowisko_WPR_2013.pdf

## ENLARGEMENT

### Croatia to sign Accession Treaty in early December

The Accession Treaty or, more precisely, its English version to be concluded by Brussels **with the candidate country Croatia** was agreed by EU countries. This positive message was announced by the Polish EU Presidency in mid-September after a flood of negative news on the developments in the euro area.

The text will now be sent to the European Commission and the Parliament, where a final debate and **a ratification vote will be held on 1 December this year. By the end of October**, when the 300-page text will be translated into the other 22 EU languages, it will be sent to member countries for ratification.

Polish Foreign Minister Radek Sikorski recently told journalists that he would not mind seeing Croatia's treaty dubbed "The Warsaw Treaty" after the name of the Polish capital. So far, however, it is not clear when exactly the festive signing ceremony will take place – it is known only that it should **be in early December**. As a matter of fact, Croatia will hold parliamentary elections on Sunday, 4 December.

There are discussions underway in the Czech Republic about whether the treaty will be voted **together with the**


**opt-out from the EU Charter of Fundamental Rights**, which is part of the Lisbon Treaty negotiated by the Czech President Václav Klaus. According to the latest statement of Foreign Minister Karel Schwarzenberg on this issue, both matters "can be voted on at the same time, but cannot be joined in one vote". The reason for this is supposedly a different type of treaties.

We believe there are no significant obstacles on the way of Croatia into the European Union and **the Balkan country will become the 28th member state from 1 July 2013**.

http://ec.europa.eu/enlargement/press_corner/whatsnew/news/110916_en.htm

## ENVIRONMENT

### Steep increase in global CO2 emissions over the past 20 years

Global CO2 emissions increased by 45% between 1990 and 2010, reaching an all-time high of 33 billion tonnes, according to a new report "**Long-term trend in global CO2 emissions**", prepared by the EU's Joint Research Centre (JRC) and the Netherlands' PBL Environmental Assessment Agency.

The increased use of renewables, nuclear power, and better energy efficiency, **have not kept up with the world's growing demand for power** and transport, which is strongest in developing countries.

Industrialised countries managed to reduce their greenhouse gas emissions over the last two decades, and they are likely to meet the collective Kyoto target of a 5.2 % emissions cut by 2012. This development, however, is mainly due to the collapse of the Soviet Union and **the disappearance of a number of non-organic industrial enterprises.**

These figures might give added urgency to the backstage negotiations taking place to try and find a successor agreement to the Kyoto Protocol at the Climate Change Summit in November and December in Durban, South Africa.

The European Union is one of the few subjects, where no increase in CO2 emissions occurred between 2007 and 2010. While in the pre-crisis year 2007, emissions reached 4.2 billion tonnes, there were 4 billion in 2010. However, most of the world's major polluters have **increased their emissions significantly over the same period**.

At present, the USA emits 16.9 tonnes CO2 per capita per year, **over twice as much as the EU-27** with 8.1 tonnes. By comparison, Chinese per capita CO2 emissions of 6.8 tonnes are still below the EU-27 average, but more, for example, than those of Italy.

http://www.pbl.nl/sites/default/files/cms/publicaties/C02%20Mondiaal_%20webdef_19sept.pdf

**$CO_2$ emissions in 2010**

| | **Total** (million tonnes) | **Per capita emissions;** in tonnes | |
|---|---|---|---|
| | | 2010 | Change in % |
| China | 8 950 | 6,8 | 205% |
| US | 5 250 | 16,9 | -14% |
| EU-27 | 4 050 | 8,1 | -12% |
| India | 1 840 | 1,5 | 100% |
| Russia | 1 750 | 12,2 | -26% |
| Japan | 1 160 | 9,2 | -4% |
| South Korea | 590 | 12,3 | 109% |
| Canada | 540 | 15,8 | -2% |
| Indonesia | 470 | 1,9 | 126% |
| Saudi Arabia | 430 | 15,6 | 52% |
| Iran | 400 | 5,4 | 44% |
| Mexico | 430 | 3,8 | 4% |
| Brazil | 430 | 2,2 | 51% |
| Australia | 400 | 18,0 | 12% |

*Source: European Commission*

## JUSTICE AND HOME AFFAIRS

### Changes in Schengen: Restoration of controls should be approved by the EU

The European Commission presented draft amendments to the Schengen Agreement. If the EU approved the modifications, member states could not restore border controls on their borders **as easily as before**. The Commission's goal is to strengthen the Schengen rules to guarantee EU citizens and third countries' nationals' freedom of movement within the entire border-free area.

Home Affairs Commissioner Cecilia Malmström said that the proposal was the Commission's response to **a recent border row between Italy and France**, in which France had reacted to the influx of refugees from Tunisia during the "Arab spring" by temporary closing the common border with Italy. She said that after the Commission had investigated the case, it found that neither country had breached EU law, but that "in spirit, it was more of a violation".


The Commission presented a proposal to revise the treaties governing the borderless Schengen area. If approved, the restoration of border controls by member states will no longer be so easy. Notwithstanding the possible approval or rejection of this proposal, it is obvious that at the present, the borderless area will not be extended by Romania and Bulgaria. Their entry into the Schengen area has been blocked by the Netherlands and Finland.

Some of Schengen **weaknesses stem from its intergovernmental approach**, which is "inefficient today, with 25 members", the Commissioner said.

According to the proposal of the European Commission, the restoration of border controls would **be decided individually from case to case**. For predictable events, such as football championships, the restoration of country borders would have to be agreed by voting of qualified majority of states. Regarding unforeseen events, member countries could still take unilateral action, but only for a period not exceeding five days, after which the European Union would decide whether or not to grant an extension of measures taken.

This step, however, is regarded by the governments of a number of countries such as France, Germany or the Czech Republic, as **an infringement of national sovereignty**. Germany, for example, is worried most of all by the fact that security issues are the exclusive competence of member states and, therefore, moving it to anyone else is unacceptable.

**Schengen extension opposed by the Netherlands and Finland**

The enlargement of the Schengen area by Bulgaria and Romania is postponed for the time being. Finland and the Netherlands voiced opposition to their accession to the borderless Schengen area at a meeting of EU interior ministers.

These member countries blocked the accession of Romania and Bulgaria into the passport-free zone where there are no border controls. Even though the two Balkan countries meet the technical requirements of the Schengen membership, they are still unsuccessful and are lagging behind in removing corruption and combating organised crime.

Polish Interior Minister Jerzy Miller, who was representing the Presidency and chaired the meeting, did not hide his disappointment when talking about a crisis of confidence among EU member states. The Polish Presidency belongs to the major proponents of the enlargement of the Schengen area by Romania and Bulgaria, and even just before the ministerial meeting tried to save the situation by presenting a compromise proposal.

http://www.consilium.europa.eu/homepage/showfocus.aspx?lang=cs&focusID=77055

http://europa.eu/rapid/pressReleasesAction.do?reference=IP/11/1036

## HEALTH AND CONSUMER PROTECTION

### Court ruling challenges EU laws on GMO co-existence

The EU Court of Justice decided on a case of a German beekeeper who **demanded financial compensation from the Bavarian government for the fact that it had complicated the sale of honey** in which traces of pollen from genetically modified maize were found. His claim was upheld by the Court.

The Court ruling, according to many commentators, **represents an important precedent for the future**, and it can therefore be expected that the beekeeper's request for compensation will not be isolated.

In his defence, the German beekeeper pleaded that the pollen contained in his honey, **was derived from genetically modified maize** MON 810, marketed by the Monsanto biotech company since 1998.

**The pollen got** into the beekeeper's hives **from the state owned land**, where a multi-annual maize research took place. The test field is located some 500 meters from the hives.

In November 2009, the Bavarian Administrative Court forwarded the case to the European Union's Court of Justice. Despite the non-binding character, the judges heard the Advocate-General's February 2011 opinion, which noted that "food containing material from a genetically-modified plant, whether that material is included intentionally or not, must always be regarded as food produced from a GMO". The Advocate General also stated that the unintentional presence of pollen derived from MON 810 maize, even in small amounts, **may not prevent the bee product from being withdrawn from the market.**

Environmental NGOs and the Greens in the European Parliament were pleased by the ruling. They hailed it as a victory for beekeepers, consumers and **the European GM-free agriculture movement**.

Cultivation of genetically modified crops **belongs to controversial topics in Europe**. Cultivation opponents are worried about the impact of these crops on the human organism and the environment. Its proponents, on the contrary, point to the higher yields of GM crops, because they are characterised, for example, by high resistance to pests.

http://curia.europa.eu/jcms/upload/docs/application/pdf/2011-09/cp110079en.pdf

The European Commission published a report on public finances in the euro area, which deals with the recent progress in this area, assesses the sustainability of public debts and describes the legislative changes in the surveillance of the budgets of member countries. DG ECFIN has published a regular economic forecast that the economic growth of the biggest EU economies will be rather reduced this year.

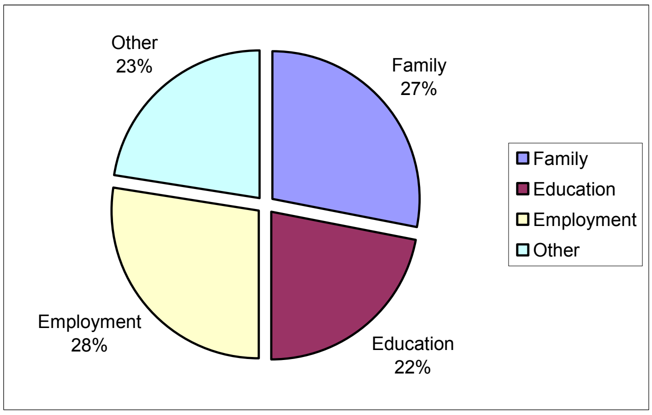

**1 SEPTEMBER**

More trade between EU and the Palestinian Authority: http://www.europarl.europa.eu/en/pressroom/content/20110829IPR25430/html/More-trade-between-EU-and-the-Palestinian-Authority

**2 SEPTEMBER**

Eurostat: Residence permits issued to non-EU citizens in 2009 for family reunification, employment and education: http://epp.eurostat.ec.europa.eu/cache/ITY_OFFPUB/KS-SF-11-043/EN/KS-SF-11-043-EN.PDF

**New residence permits issued in the EU-27 by reasons**




*Source: Eurostat, in 2009*

Mortgage credits: consumer protection, market stability and respect for diversity: http://www.europarl.europa.eu/cs/pressroom/content/20110829IPR25428/html/Mortgage-credits-consumer-protection-market-stability-respect-for-diversity

**5 SEPTEMBER**

September: the cultural heritage month: http://ec.europa.eu/culture/news/september-cultural-heritage-month_en.htm

**6 SEPTEMBER**

Youth volunteers in EP 7-11 September: http://www.europarl.europa.eu/en/headlines/content/20110902STO25896/html/Youth-volunteers-in-EP-7-11-September

**7 SEPTEMBER**

Publication: Better standards to enhance European competitiveness: http://ec.europa.eu/enterprise/newsroom/cf/itemlongdetail.cfm?item_id=5377&lang=en

Eco-innovation for a Sustainable Future: http://ec.europa.eu/environment/etap/index_en.htm

Competitive Position of the European Chemical Industry, Facts and Figures: http://ec.europa.eu/enterprise/newsroom/cf/itemlongdetail.cfm?displayType=news&tpa_id=0&item_id=5375

**8 SEPTEMBER**

European Union and United States agree to strengthen cooperation to combat illegal fishing: http://europa.eu/rapid/pressReleasesAction.do?reference=IP/11/1007

**9 SEPTEMBER**

White Paper on Transport - MEPs set realistic targets for 2020: http://www.europarl.europa.eu/en/pressroom/content/20110905IPR25928/html/White-Paper-on-Transport-MEPs-set-realistic-targets-for-2020

**12 SEPTEMBER**

Institute for security Studies: Ten years after: the War on Terror was not inevitable: http://www.iss.europa.eu/publications/detail/article/ten-years-after-the-war-on-terror-was-not-inevitable/

Results of the third Review Mission show Ireland well on track: http://europa.eu/rapid/pressReleasesAction.do?reference=MEMO/11/588

Polish call for cooperation within in the EU as regards GMOs: http://pl2011.eu/en/content/polish-call-cooperation-within-eu-regards-gmos

**13 SEPTEMBER**

Commission publishes 2011 Public Finances Report: http://ec.europa.eu/economy_finance/articles/eu_economic_situation/2011-09-pfr-2011_en.htm

**14 SEPTEMBER**

FRONTEX: new human rights watchdog, new powers: http://www.europarl.europa.eu/en/pressroom/content/20110913IPR26455/html/FRONTEX-new-human-rights-watchdog-new-powers

Call for better support for female entrepreneurs and over-50s returning to work: http://www.europarl.europa.eu/en/pressroom/content/20110913IPR26446/html/Call-for-better-support-for-female-entrepreneurs-and-over-50s-returning-to-work

Education trends report highlights need for effective funding for schools and universities: http://europa.eu/rapid/pressReleasesAction.do?reference=IP/11/1027


European Commission sets goal of training 700,000 legal professionals in EU law by 2020: http://europa.eu/rapid/pressReleasesAction.do?reference=IP/11/1021

## 15 SEPTEMBER

Energy market: wholesale traders will be obliged to disclose deals: http://www.europarl.europa.eu/en/pressroom/content/20110914IPR26634/html/Energy-market-wholesale-traders-will-be-obliged-to-disclose-deals

Commission proposes better financial terms for EU loans to Ireland and Portugal: http://europa.eu/rapid/pressReleasesAction.do?reference=MEMO/11/602

## 16 SEPTEMBER

Computer modelling shows release of carbon into atmosphere: http://ec.europa.eu/research/headlines/news/article_11_09_15_en.html

EU interim forecast: recovery stalls amid financial market crisis: http://ec.europa.eu/economy_finance/articles/eu_economic_situation/2011-09-interim_forecast_en.htm

**GDP growth forecast 2011**

| in % | 2010 | 2011 |
|---|---|---|
| Germany | 3,7 | 2,9 |
| Spain | -0,1 | 0,8 |
| France | 1,5 | 1,6 |
| Italy | 1,3 | 0,7 |
| Netherland | 1,8 | 1,7 |
| Poland | 3,8 | 4,0 |
| UK | 1,4 | 1,1 |

*Source: European Commission*

Parliament pushes for EU-wide sanctions against corruption: http://www.europarl.europa.eu/en/pressroom/content/20110915IPR26706/html/Parliament-pushes-for-EU-wide-sanctions-against-corruption

## 19 SEPTEMBER

Investing into security research for the benefits of european citizens: http://ec.europa.eu/enterprise/newsroom/cf/itemlongdetail.cfm?item_id=5405&lang=en&tpa_id=168&displayType=library

## 20 SEPTEMBER

Criminal law to ensure better respect for EU rules: http://ec.europa.eu/justice/newsroom/news/20110920_en.htm

## 22 SEPTEMBER

Possible change in funding for food aid: http://www.consilium.europa.eu/homepage/showfocus.aspx?lang=en&focusID=76969

## 23 SEPTEMBER

The right approach to training can help companies get the best out of an ageing workforce: http://www.cedefop.europa.eu/EN/news/18761.aspx

## 26 SEPTEMBER

EESC – 25% emission reduction needed by 2020: http://www.eesc.europa.eu/?i=portal.en.press-releases.19893

'We're creating a simple EU patent system,' says Deputy Economy Minister Korolec: http://pl2011.eu/en/content/were-creating-simple-eu-patent-system-says-deputy-economy-minister-korolec

## 27 SEPTEMBER

Aiming for a greener European Parliament: http://www.europarl.europa.eu/news/public/story_page/064-57416-187-07-28-911-20090624STO57415-2009-06-07-2009/default_en.htm

The Single Market through the eyes of the people: a snapshot of citizens' and businesses' views and concerns: http://europa.eu/rapid/pressReleasesAction.do?reference=IP/11/1074

Antitrust: Commission opens investigation in *e*-payment market: http://europa.eu/rapid/pressReleasesAction.do?reference=IP/11/1076

## 28 SEPTEMBER

Nearly one out of four holiday trips was made abroad in 2010: http://ec.europa.eu/enterprise/newsroom/cf/itemlongdetail.cfm?item_id=5436&lang=en&tpa_id=0&displayType=news

## 29 SEPTEMBER

State of the Union: Barroso warns of dangers of fragmented Europe: http://www.europarl.europa.eu/en/pressroom/content/20110923IPR27378/html/State-of-the-Union-Barroso-warns-of-dangers-of-fragmented-Europe

## 30 SEPTEMBER

Parliament supports Palestine's "legitimate" bid for statehood: http://www.europarl.europa.eu/en/pressroom/content/20110929IPR27854/html/Parliament-supports-Palestine's-legitimate-bid-for-statehood


In October, a series of meetings of the top decision-making bodies of the EU are held. These will be dominated by the regular autumn summit of the European Council. Its agenda will include three key areas: economic policy, the promotion of the interests of the EU at the G20, and climate change. However, due to the increasing tensions in financial markets, it is likely that the settlement of the debt crisis in the EMU will prevail.

## Meeting of the key EU institutions

| | |
|---|---|
| **3 Oct 2011** | **Luxembourg, Luxembourg** |
| - Employment, Social, Health and Consumer Affairs Council | |
| **3 Oct 2011** | **Luxembourg, Luxembourg** |
| - Eurogroup | |
| **4 Oct 2011** | **Luxembourg, Luxembourg** |
| - Economic and Financial Affairs Council (ECOFIN) | |
| **4 Oct 2011** | **Luxembourg, Luxembourg** |
| - EU-Brazil summit | |
| **5 – 7 Oct 2011** | **Krakow, Poland** |
| - Informal Meeting of Ministers of Tourism | |
| **6 – 7 Oct 2011** | **Luxembourg, Luxembourg** |
| - Transport, Telecommunications & Energy Council | |
| **10 Oct 2011** | **Luxembourg, Luxembourg** |
| - Foreign Affairs Council | |
| **10 Oct 2011** | **Luxembourg, Luxembourg** |
| - Environment Council | |
| **11 Oct 2011** | **Luxembourg, Luxembourg** |
| - General Affairs Council | |
| **12 – 13 Oct 2011** | **Brussels, Belgium** |
| - EP Plenary Session | |
| **13 – 14 Oct 2011** | **Krakow, Poland** |
| - Informal Meeting of Sport Ministers | |
| **17 – 18 Oct 2011** | **Brussels, Belgium** |
| - European Council | |
| **20 – 21 Oct 2011** | **Luxembourg, Luxembourg** |
| - Agriculture and Fisheries Council | |
| **20 – 21 Oct 2011** | **Krakow, Poland** |
| - Informal Meeting of Family Affairs and Gender Equality Ministers | |
| **24 – 27 Oct 2011** | **Strasbourg, France** |
| - EP Plenary Session | |
| **27 – 28 Oct 2011** | **Luxembourg, Luxembourg** |
| - Justice and Home Affairs Council | |


The financial and economic crisis that began three years ago and was symbolised by the collapse of the legendary Lehman Brothers appears to be entering its new phase. This phase is characterised by the fact that the states have curbed further increasing of their indebtedness and many of them have adopted relatively radical austerity measures. These measures will have significant impacts on the implementation of various EU policies, including cohesion policy.

# IMPACTS OF THE EUROPEAN ECONOMIC CRISIS ON THE COHESION POLICY

## MACROECONOMIC SITUATION

The financial panic in the autumn of 2008 was accompanied by extraordinary measures of fiscal and monetary policy: reduction of interest rates almost to zero, short-term release of a massive fiscal expansion, and establishment of unprecedented guarantee and recapitalisation schemes for banks and financial institutions.

While this intervention has helped greatly as a tool against the disintegration of the financial system (although in some countries it went through very tough moments and the consequences of the debt crisis are probably still far from being settled), no cash injection was able to help avoid the largest recession in many decades. In 2009, the year-on-year GDP decline was 4.2% in the EU, 2.7% in the US and 6.3% in Japan. Growth has slowed down (albeit still at extremely high values), for example, in China and other emerging – mostly Asian and Latin American – economies.

Thanks to the strong global stimulating measures and the flexibility of emerging economies, growth has resumed already in 2009 and the figures on growth have reliably returned back to black for 2010, (nearly 2% in the EU on average, nearly 3% in the US and nearly 4% in Japan year-on-year). Recently, however, growth began to show clear signs of slowdown in all the mentioned areas. While this year, the EU's economic growth should still reach about 1.7% year-on-year, from the perspective of the development of shorter segments within the year – for example on a quarterly basis – there could be a quarter-to-quarter stagnation or even slight decline at the end of the year.

A significant slowdown can be seen, in parallel, in the US economy. Although it is still rather daring to predict repeated recession or the achievement of a significant slowdown of a permanent nature, the change in the outlook of the European economy (even though it was clear that the splendid results mainly from Germany in 2010 were hardly sustainable and defensible this year) is a disappointment and also a warning and a threat particularly with regard to the current high level of unemployment (more than 22 million unemployed in the European Union).

Why is the growth losing its dynamism? There is certain important historical experience (albeit set in different historical implications), that the recoveries from financial and economic crises tend to be slow and not straightforward – then, from this perspective, we shouldn't be surprised at all.

The commencement of the crisis was associated with a rapid process of creating private debt to finance consumption and real estate investment. In Europe, public debt remained rather stable in relation to GDP, however, at a very high nominal level. In the pre-crisis period with a high tax quota, the properly functioning economies created still enough tax revenues to maintain the level of deficits at an acceptable level, but without the ambition to use this economic development to reduce the high public debt burden, which now constitutes the decisive factor of the just very slowly starting boom, which will probably not achieve by far the levels usual in the pre-crisis period, and regardless of the lasting increase in spending.

The bursting of the financial bubble revealed the instability of the base on which the economic growth was built – a base resting largely on the accumulation of debt. The private sector was forced to gigantic saving in order to be able to cope with its debts and get back to healthy, sustainable levels. This process inevitably deepened the economic downturn on a short-term basis and contributed to a slowdown of the economic recovery.

On the other hand, the fiscal stimulus and in some countries also the support for the banks and the financial sector contributed to the growth of public debt. The result was that the ratio of public debt to GDP increased from less than 60% in 2007 to more than 82% this year (for comparison: it grew from 63% to 102% over the same period in the US).

It is obviously necessary to put a stop to further accumulation of public debt. It was also for this reason that the stimulating measures were designed as short-term and their effect gradually starts to disappear (although in many countries, the rate of decline of their economies would be even more pronounced without applying them).

For Europe, however, the average value of the deficit and the debt is an overall figure and the development trend in recent years is very alarming, but it still does not adequately express the unsustainability of the development of public finances in some countries. Three member states (so far…) – Greece, Ireland and Portugal – are now, in fact, prevented from accessing private debt


instruments markets and have to rely on conditional financial assistance from other member states and the International Monetary Fund (IMF) to refinance their due liabilities and existing deficits (intensified by the inefficiency of their real economies).

In Ireland, this assistance programme has significantly stabilised the situation and the markets responded quite positively to how the programme is being used. Due to the nature of the Irish causes of the debt crisis, there is a real and predictable hope of achieving a sustainable recovery. Also Portugal, where the programme has been implemented only for a few months, shows features of certain progress.

In Greece, however, the situation is most uncertain, intricate and complex. Greece did not fully implement the measures to strengthen public finances and improve the competitiveness of the economy requested by the EU and the IMF as a condition for the financial aid from May 2010 (then as the result of a series of unprepared and unsystematic improvisations). In addition, Greek growth performance brought deep disappointment and the deficit reduction (even though it does take place) is not being performed in such a dynamic form, as previously assumed and set.

It was these facts and their subsequent interpretation that scared the markets and led to immediate speculations about Greece's immediate inability to meet its obligations, or exiting the eurozone (the latter was then accentuated further by the Dutch proposal for dealing with and reviewing the entry and membership conditions for staying in the eurozone, including the introduction of the instrument of conditional and permanent exclusion, which would be included in the eurozone legislative instrumentation). These concerns had logical impact on other potentially endangered states.

Their costs of borrowing funds on the market increased. Given the close link between the quality of the bond portfolio of the problem countries and the health of the banking sector, some banks or, as the case may be, banking systems were also affected.

## ADOPTED MEASURES

Over the past approximately 18 months, an unprecedented number of proposals were adopted at the EU level for overcoming the consequences of the economic and financial crisis, as well as for the creation of systems of a preventive nature, whose application would make the EU economies more resilient to future crises and, at the same time, provide them with a prepared and systemised mechanism developed on a consensual basis in advance. This mechanism could be used to overcome the consequences of the next crisis and it would not be necessary any more to develop it at the time of the strongest crisis manifestations characterised by high level of improvisation and poor coordination.

Already in September 2010, the European Commission adopted a package of legislative measures aimed at strengthening the management of economic policy in the EU and the eurozone. Such a substantial and comprehensive system of measures to strengthen the coordinated and responsible performance of economic policy in the EU has not been known within the integration grouping at least since the adoption of the instruments introduced in connection with the establishment of the Economic and Monetary Union (EMU), i.e. the period of the beginning of and during the 1990s.

Due to the shortcomings, obsolescence and difficulties of the real enforcement of the existing legislation regulating economic and monetary policy in the Union, there is also a need for broader and strengthened surveillance of macroeconomic policies, structural reforms as well as, for example, tax and fiscal policies. In the case of member states that do not comply with the rules, it is effective to introduce new mechanisms of enforcement. The agreed procedure, called the European Semester, should also in reality incorporate all revised and new surveillance procedures into a comprehensive and effective economic policy framework.


The main core of these measures is represented by six legal regulations (referred to as a so called six-pack): four of them relate to matters of fiscal policy, including a major reform of the Stability and Growth Pact, the remaining two are aimed at detecting cases of emerging macroeconomic imbalances in the EU and the eurozone and their effective solution.

Thanks to these changes, the eurozone member states can use, for example, enhanced enforcement mechanisms and limit discretion in the application of sanctions. In other words, the Stability and Growth Pact is now more based on rules and on respecting them, and it can be expected that countries that fail to meet their obligations will be affected by sanctions.

The six legal documents include:

- Regulation amending the legislation underlying the preventive arm of the Stability and Growth Pact (Regulation (EC) No 1466/97): The preventive arm of the Stability and Growth Pact is to ensure that EU member states comply even in economically favourable times with strict and responsible fiscal policies, thus creating the necessary reserve for less favourable periods. In order to prevent the recurrence of the situation of the past, where some member states in a period of favourable economic development were satisfied with the results achieved, the monitoring of public finances is based on a new concept of the creation of a strict fiscal policy, due to which the medium-term objective will be followed. The European Commission may issue a warning in case of significant deviations from the strict fiscal policy in the eurozone member states;
- Regulation amending the legislation underlying the corrective arm of the Stability and Growth Pact (Regulation (EC) No 1467/97): The corrective arm of the Stability and Growth Pact is to avert gross mistakes in budgetary policies;
- Regulation on effective enforcement of budgetary surveillance in the eurozone;
- New directive on the requirements for the budgetary framework of member states;
- New regulation on the prevention and correction of macroeconomic imbalances;
- Regulation on the enforcement measures to remedy excessive macroeconomic imbalances in the eurozone.

## HOW CAN THE SET OF ADOPTED MEASURES INFLUENCE THE FUTURE COHESION POLICIES AFTER 2013?

### Analysis of the impact of the macroeconomic situation on the Multiannual Financial Framework (MFF) and future cohesion policy

| **Macroeconomic situation** | **Consequences** | **Manifestations within MFF and future cohesion** |
|---|---|---|
| 1. *Decelerating GDP growth* | Greater demand for additional financial resources; effort to accelerate demand | ▪ efforts of problem countries to obtain resources within the cohesion policy; accompanied concurrently by a stronger position of net contributors to determine the conditions<br>▪ countries that are neither too problematic nor a major net contributor, may find themselves outside the mainstream<br>▪ problem countries will try to convince net contributors that they will adapt to the innovated rules of cohesion policy and will be willing to concentrate thematically, devote resources to support competitiveness, ensure return, respect conditionalities and apply integrated approach |


| | | |
|---|---|---|
| *2. Uneven levels of growth across the EU* | Demand not only in the EU-12, but also in many countries and regions of the EU-15 | ▪ competition will escalate and argumentation based on the need to obtain cohesion funds will extend to much of Europe<br>▪ a need for careful identification and subsequent selection of allies and competitors in the whole EU-27 set (has the July term "new Marshall Plan for Greece" been adequately interpreted?) |
| *3. Pressure on financial markets; growth of interest rates in problem countries* | Higher demand for cohesion money in these countries | ▪ due to the significantly increased costs of borrowing in private markets for problem countries, cohesion money will become attractive even with the setting of the rules of return and increased participation |
| *4. High cyclical and structural unemployment rate* | Strong pressure on the utilisation of cohesion money for measures in the labour market | ▪ not only considerably troubled countries should be dealt with in this context, but also those having significantly lower unemployment rate and, at the same time, many other structural failures in the labour market |
| *5. Declining economic, investor and entrepreneurial sentiment* | Deepening climate of uncertainty | ▪ see above (3) |
| *6. Ongoing process of fiscal consolidation* | In the period of often sharp fiscal consolidation, the cohesion funds will be one of the few types of potential sources of investment and expansion | ▪ see above (1 - 3) |

If the listing of the consequences in the field of macroeconomic developments may seem from the perspective of the Czech Republic not very favourable because we are neither an economically troubled member nor a dominant net contributor, the listing of the adopted measures and their impact on cohesion policy may be for us even encouraging, because if any of the adopted measures are considered as a possible type of general ex-ante conditionalities, these shall not – due to the relatively favourable economic development – be applied as limits or sanctions against the Czech Republic.

## Analysis of the impact of the adopted measures on the Multiannual Financial Framework (MFF) and the future cohesion policy

| **Adopted measures** | **Consequences** | **Manifestations within MFF and future cohesion** |
|---|---|---|
| 1. Package of six legislative measures to strengthen fiscal and macroeconomic discipline and tighten the Stability and Growth Pact rules | Countries that are unable to comply with the newly adopted or innovated rules should be sanctioned under the cohesion policy | ▪ advantage for the Czech Republic, which shows no signs of fatal fiscal and macroeconomic imbalances paralysing the operation of its economy |
| 2. Compliance with Europe 2020 Strategy | Respecting the factors of competitiveness development | |


| | |
|---|---|
| 3. Compliance with the Euro-Plus Pact | Extension of the perception of competitiveness by some important cross-sectoral indicators (unit labour costs, extended perception of long-term fiscal sustainability) |
| 4. Recovery of the financial sector | Important condition for the implementation of cohesion policy, relying on greater emphasis on efficiency and return; a healthy financial sector will be an important partner |
| 5. Coordinated development of fiscal and budgetary outlooks | Increased pressure on the transparency of budgetary processes in different member states |
| 6. Respecting the rules and procedures of the European Semester | Enhanced transparency when applying policies promoting competitiveness in different member states |

## COMMISSIONER JOHANNES HAHN'S OPINION

There is an objective emphasis on the impact of the crisis on the shape of the Multiannual Financial Framework (MFF) and cohesion policy. In this context it is appropriate to identify the links between the macroeconomic impacts (especially the development of GDP in the crisis and post-crisis period, the development of basic indicators of public finance, the development of unemployment in a more detailed structure, the development of competitiveness factors, etc.) and the MFF and cohesion policy, and also the adopted measures:

- Six-Pack of European Economic Governance,
- Euro-Plus Pact,
- Economic strategy under EU 2020,
- Increased funds under the European Financial Stability Fund (EFSF),
- Establishment of the permanent European Stability Mechanism (ESM) from July 2013, etc..

Under these circumstances, the proposal for the financing of the cohesion policy (referring primarily to the amount of money) is considered to be still ambitious.

Satisfaction was expressed with the reform change in the setting of the future cohesion policy towards the Europe 2020 Strategy objectives, thematic concentration of resources on a limited range of priorities, and a stronger emphasis on results and performance.

Commissioner Hahn strongly agrees with the concept of cohesion policy, which is:

- Directed towards all EU regions, but he also defends focus on and priority position towards the poorest regions; it is also desirable to specify the definition of the weight of these focuses in the next phase of the preparation of the next programming period, because in such general terms, this statement might seem to be almost a contradiction in terms;
- This approach was made possible thanks to the replacement of the current architecture with a new concept, defining three categories of regions:
  - less developed regions with GDP per capita of less than 75% of the EU average;
  - transition regions with the value of this indicator of 75%-90% of the EU average; and
  - more developed regions with more than 90% of the EU average;
- Based on the proposals from the European Commission's Directorate General for Regional Policy, more than 80% of the budget will be invested in less developed regions and member states, including transition regions. More than 5 EUR should

be issued in the EU-12 countries for every euro spent in the EU-15 countries, which would represent an increase of more than 30% compared to the current period. This may be illustrated by the efforts of the European Commission so that the proposal for the future period would create a distinct and robust growth in the volume of interventions in the poorest regions of the member states, particularly in the EU-12. At the same time, however, it allows to maintain a critical mass of investment in the more developed regions of the EU.

## Transition regions

The aim of the new system of transition regions is to ensure an equitable, balanced and politically acceptable budget for cohesion policy. It should allow targeted differentiation of EU aid, as regards the level of available funding, the selection of priority areas for investment and the use and application of different rates for co-financing in the use of EU funds. This will enable a smoother support for the process of economic transformation of regions and member states and it will be better adapted to make it possible for the use of the regional policy funds to contribute better to the achievement of the Europe 2020 objectives.

Through the new transition system, the EU will support not only those regions that will be outside the Convergence objective and might have experience with the economic shock caused by a sudden decrease or cessation of European funds, but also those regions whose GDP per capita is already higher than 75% of the EU average, but which still have not yet achieved the state of a fully completed economic transformation. This is particularly important in the current economic context, where many of the transition regions were severely affected by the economic and financial crisis and it is in these regions that the reforms, having extensive and far-reaching implications for the improvement of their competitiveness, are being implemented.

## Urban dimension

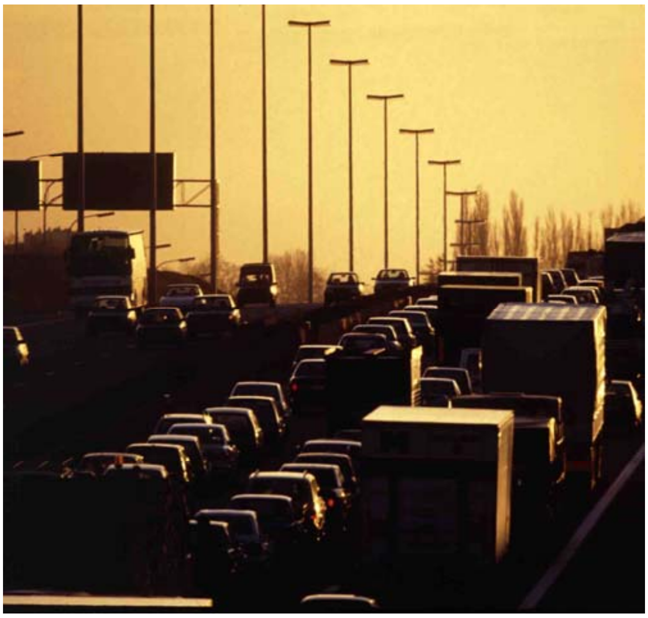
The proposal from the European Commission confirms the key role of sustainable urban development for regional policy. Given the importance of cities to the success of Europe 2020, this should not be seen as a surprise.

Cities are centres of specialisation and innovation. Many of them, however, are struggling with the transition to a knowledge economy. At the same time, cities are often a source of climate change, since largest proportions of population and economic activities are identified at their territories. Therefore, there will be greater attention and need focused towards covering the less energy-intensive modes of transport and improving the energy efficiency of buildings.

Finally, there is a disproportionate share of social problems and poverty in the cities. Unemployment, poverty and destitution are concentrated largely in cities especially in the more advanced member states of the European Union. This is also the reason why the upcoming legislative package will strengthen the urban dimension of regional policy and the adoption of its principle of partnership.

Other important elements of the new design of regional policy after 2013:

- First of all, when looking at the support of the trans-European networks in transport, energy and information and communication technologies, a new facility was proposed to link Europe within the framework of the regional policy chapter. The facility to link Europe will be centrally managed and funded from a special purpose-built budget (proposed EUR 40 billion) where part of the allocation of the cohesion fund (EUR 10 billion) will be attached to the funding of the core transport networks under this facility;



- Secondly, the Union is facing significant and growing challenges in the process of deficit reduction at the level of skills and knowledge, failure to use the possibilities of active employment policy and educational systems, social exclusion and low labour mobility. It was therefore decided to increase the share of the European Social


Fund to represent at least 25% of the cohesion budget. In this context, the minimum shares for the use of the European Social Fund will be set for each region category;

- And finally, to support the transition to resource-efficient economy, it is intended to invest a significant share of EU funds in energy efficiency and renewable energy, particularly in the more developed regions and transition regions.

## WHAT ABOUT THE INTERESTS OF THE CZECH REPUBLIC?

The European Commission's proposal on the future shape of the multi-annual framework forming the EU budget from the end of June this year, may be perceived from the perspective of the Czech Republic's interests as beneficial and rewarding. However, it will require at the same time a greater emphasis on quality, measurability and sustainability of the effects in order that those interests were actually satisfied.

The EU budget is based, on the one hand, on a similar principle as the budgets of national states but, on the other hand, its real content significantly differs from the national budgets, particularly as regards the following aspects:

- In relative terms to the GDP, the EU budget (1% of EU GDP) is significantly smaller than the average compound tax quota of national budgets (on average 42% of GDP of the EU member state); if we add to this the average deficit of around 8% of GDP, the national budgetary expenditures of the EU amount to some 50% of GDP on average, while the EU budget is balanced;
- Its expenditures are focused primarily on entirely different purposes:
  - regional development through structural funds,
  - major pan-European projects promoting competitiveness,
  - agriculture and rural development)

  Than the key chapters of the national budgets:
  - pension and social systems,
  - public health,
  - education,
  - the environment,
  - public infrastructure, etc.;
- The EU budget does not have its own dominant income (the income base is made by three-quarters of the contributions from member states, differentiated by their size and economic maturity – logically, Germany pays most of all by a certain margin) and, unlike the national budgets, it is balanced, so that its weight contributes to the fiscal discipline in the Union.

Even the development of the EU budget in the course of time gives evidence of its transformations, reflecting the changes in the economic and social structure of the EU and its competencies. Not so long ago, the spending on the common agricultural policy constituted more than 60% of the EU budget (mid 1980s); the support for projects directly contributing to the competitiveness of the EU economy was significantly lower, as well as financial allocations to strengthen the Union's role in the world.

The European Commission's proposal seeks to ensure that the structure of the EU budget would better reflect the changing economic and social parameters of Europe and that the EU budget would be able to play a role of an accelerator in meeting some of the global challenges:

- energy,
- information technology,
- the environment,
- research and development,

rather than preserving the existing state of otherwise hardly competitive industries.

We can assume that the position of the European Commission may be mostly suitable for the Czech interests, but they will not gain fulfilment automatically and without effort "out of a clear sky".

Let's try to look at the main points of this proposal, especially those trying to change and innovate the existing principles of the functioning of the EU budget, from the perspective of the interests of the Czech Republic:

### Reduction in the volume of the funds of the EU budget in relative amounts

So far, the EU budget funds were significantly directed to less developed EU countries, including the Czech Republic (the position of net recipient versus net contributor).

Any reduction in the total volume of the EU budget will reduce the position of net recipients. The European Commission's proposal mentions a nominal increase, but also a relative decrease from the current 1.06% to 1.0% of the EU Gross Domestic Product (GDP). This seemingly cosmetic reduction represents a reduction in real value of more than EUR 50 billion for the period of a seven-year framework.

This step may be regarded due to its great weight as surprising and not very advantageous in itself for the Czech


Republic; already at this stage of discussion, this step is criticised from a number of member countries and for a number of reasons (for the United Kingdom, Denmark and Sweden, this reduction is insufficiently cost-saving while for Poland, it is completely exaggerated).

### The volume of resources for cohesion policy (EU funds) should be approximately preserved

The volume of funds for cohesion had become the largest item of the Common European budget already in 2008 and the proposal supposes its preservation and strengthening; this point of the proposal is for a country of our type clearly advantageous; our country contributes to the Union's GDP by less than 2%, and now draws within the cohesion policy almost 8% of all funds; the proposal would make it possible for us to keep this position for the next period.

### The use of the funds for cohesion policy should be subject to substantially stricter rules in terms of efficiency and sustainability

It is clear that generosity in the volume of the funds for cohesion policy will be accompanied by a strong emphasis on efficiency and sustainability.

The space for the use of these funds will be subject to qualitative restrictions (fulfilment of a number of additional conditions – so-called conditionalities, narrowing the range of topics that will be supported, greater use of returnable financial engineering instruments, and, in particular, precise quantification of the impacts resulting from the supported project – the project will not receive support from the European Union if there is no noticeable economic benefit and focus on the prosperity of the locality or region, or if the market environment in the locality is distorted).

These steps will certainly be rather challenging for the project management and the recipient, but they are advantageous mainly due to the fact that they are accentuating higher quality of the supported areas.

### Proposal for new EU funds for infrastructure, energy and information and communication technologies

This part of the proposal is very disadvantageous for us, because it narrows and makes more difficult the possibilities of obtaining these funds in the Czech Republic; it would be far more positive from our perspective, if these funds were used in this country in accordance with the present model of cohesion policy; with the existence of these funds there is real danger that the generous amount of the aid for these areas from the current period will be reduced significantly in real terms.

### Significant weakening of the share of expenditures on agriculture and strengthened equitability in their distribution

It is clear that this measure in the form of an absolute decline in the volume of expenditures on agriculture will become unwelcome for each farmer; the add-on in the form of strengthened equitability should eventually ensure that significant cuts would apply primarily to farmers in large and heavily agriculturally oriented states; but even in comparison with them, this position is relatively advantageous for Czech farmers and definitely for the overall position of the Czech Republic.

### Noticeable increase in the share of expenditure on foreign policy

The advantage of this measure can be noticed in states with strong trade and economic diplomacy and interests in third countries; the Czech Republic does not belong to such states and does not have any convincing strategy of this type; this measure can thus be described as currently not very advantageous for us, but it is certainly inspiring and worth following in the sense that the created space could be used in the future also by Czech entities and their interests.

### Reduction of expenditure on administration

Any reduction in administrative costs and their move to more productive areas can be appreciated from the perspective of any member country.

### Innovations on the revenue side

Tax on financial transactions, special turnover tax, environmental tax; whereas the real reasons for imposing such taxes (at least the tax on financial transactions) in the Czech Republic either do not exist or are not essential, increasing the tax burden in this direction is clearly unacceptable from our point of view.

## Final Conclusion

The proposal of the budget of the European Union has aroused passionate, emotional responses and discussions shortly after the publication. Its final form, which will be known to us approximately in a little more than two years, will reflect the interests of a number of positions of not only the member states but also corporations and other social spheres.

This article was primarily motivated by a distinct identification of how the key points of this proposal are in keeping with the interests of the Czech Republic and it has perhaps suggested that we can agree with most of the measures.


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 % | 2008 | 2009 | 2010 | 2007 | 2008 | 2009 | VI-11 | VII-11 | VIII-11 | VI-11 | VII-11 | VIII-11 |
| Belgium | 1.0 | -2.8 | 2.2 | 2.2 | -2.9 | 0.5 | 7.0 | 6.9 | 6.8 | 3.4 | 4.0 | 3.4 |
| Bulgaria | 6.2 | -5.5 | 0.2 | -26.8 | -24.0 | -9.4 | 11.5 | 11.6 | 11.7 | 3.5 | 3.4 | 3.1 |
| CR | 2.5 | -4.1 | 2.3 | -3.2 | -0.7 | -1.1 | 6.8 | 6.8 | 6.7 | 1.9 | 1.9 | 2.1 |
| Denmark | -1.1 | -5.2 | 2.1 | 1.5 | 2.2 | 4.0 | 7.3 | 7.1 | 7.1 | 2.9 | 3.0 | 2.4 |
| Germany | 1.0 | -4.7 | 3.6 | 7.6 | 6.7 | 4.9 | 6.1 | 6.0 | 6.0 | 2.4 | 2.6 | 2.5 |
| Estonia | -5.1 | -13.9 | 3.1 | -17.8 | -9.4 | 4.6 | 12.8 | n/a | n/a | 4.9 | 5.3 | 5.6 |
| Ireland | -3.5 | -7.6 | -1.0 | -5.3 | -5.2 | -2.9 | 14.4 | 14.6 | 14.6 | 1.1 | 1.0 | 1.0 |
| Greece | 1.0 | -2.0 | -4.5 | -14.4 | -14.6 | -11.2 | 16.7 | n/a | n/a | 3.1 | 2.1 | 1.4 |
| Spain | 0.9 | -3.7 | -0.1 | -10.0 | -9.7 | -5.4 | 21.0 | 21.1 | 21.2 | 3.0 | 3.0 | 2.7 |
| France | -0.1 | -2.7 | 1.5 | -1.0 | -2.3 | -2.2 | 9.8 | 9.8 | 9.9 | 2.3 | 2.1 | 2.4 |
| Italy | -1.3 | -5.2 | 1.3 | -2.4 | -3.4 | -3.2 | 8.0 | 8.0 | 7.9 | 3.0 | 2.1 | 2.3 |
| Cyprus | 3.6 | -1.7 | 1.0 | -11.7 | -17.5 | -8.3 | 7.0 | 7.1 | 7.2 | 4.5 | 3.5 | 2.7 |
| Latvia | -4.2 | -18.0 | -0.3 | -22.3 | -13.0 | 9.4 | 16.2 | n/a | n/a | 4.7 | 4.2 | 4.6 |
| Lithuania | 2.9 | -14.7 | 1.3 | -14.5 | -11.9 | 3.8 | 15.6 | n/a | n/a | 4.8 | 4.6 | 4.4 |
| Luxembourg | 1.4 | -3.6 | 3.5 | 9.7 | 5.3 | 5.6 | 4.6 | 4.8 | 4.9 | 3.8 | 3.2 | 3.7 |
| Hungary | 0.8 | -6.7 | 1.2 | -6.6 | -7.0 | 0.2 | 10.9 | 10.6 | 10.3 | 3.5 | 3.1 | 3.5 |
| Malta | 5.3 | -3.4 | 3.7 | -6.1 | -5.6 | -3.9 | 6.7 | 6.6 | 6.5 | 3.1 | 2.2 | 2.3 |
| Netherlands | 1.9 | -3.9 | 1.8 | 8.7 | 4.8 | 5.4 | 4.1 | 4.3 | 4.4 | 2.5 | 2.9 | 2.8 |
| Austria | 2.2 | -3.9 | 2.0 | 3.6 | n/a | n/a | 3.9 | 3.7 | 3.7 | 3.7 | 3.8 | 3.7 |
| Poland | 5.1 | 1.7 | 3.8 | -4.7 | -5.1 | -1.6 | 9.5 | 9.4 | 9.4 | 3.7 | 3.6 | 4.0 |
| Portugal | 0.0 | -2.5 | 1.3 | -9.4 | -12.0 | -10.3 | 12.5 | 12.3 | 12.3 | 3.3 | 3.0 | 2.8 |
| Romania | 7.3 | -7.1 | -1.3 | -13.4 | -11.6 | -4.5 | 7.3 | 7.3 | 7.3 | 8.0 | 4.9 | 4.3 |
| Slovenia | 3.7 | -8.1 | 1.2 | -4.8 | -6.2 | -1.0 | 7.9 | 7.9 | 7.8 | 1.6 | 1.1 | 1.2 |
| Slovakia | 5.8 | -4.8 | 4.0 | -5.7 | -6.6 | -3.2 | 13.3 | 13.3 | 13.4 | 4.1 | 3.8 | 4.1 |
| Finland | 0.9 | -8.2 | 3.1 | 4.3 | 3.1 | 1.3 | 7.8 | 7.8 | 7.8 | 3.4 | 3.7 | 3.5 |
| Sweden | -0.6 | -5.3 | 5.7 | 8.4 | 9.5 | 7.3 | 7.4 | 7.3 | 7.4 | 1.5 | 1.6 | 1.6 |
| UK | -0.1 | -4.9 | 1.3 | -2.7 | -1.5 | -1.3 | 8.0 | n/a | n/a | 4.2 | 4.4 | 4.5 |
| EU | 0.5 | -4.2 | 1.8 | -1.0 | -1.9 | -1.1 | 9.5 | 9.5 | 9.5 | 2.7 | 2.5 | 2.5 |

| | 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 | -1.3 | -5.9 | -4.1 | 89.6 | 96.2 | 96.8 | 116.0 | 115.0 | 116.0 | 108.3 | 111.1 | 113.9 |
| Bulgaria | 1.7 | -4.7 | -3.2 | 13.7 | 14.6 | 16.2 | 40.0 | 44.0 | n/a | 46.2 | 50.2 | 52.7 |
| CR | -2.7 | -5.9 | -4.7 | 30.0 | 35.3 | 38.5 | 80.0 | 81.0 | 82.0 | 62.4 | 72.8 | 70.6 |
| Denmark | 3.2 | -2.7 | -2.7 | 34.5 | 41.8 | 43.6 | 123.0 | 123.0 | 121.0 | 137.4 | 141.2 | 144.6 |
| Germany | 0.1 | -3.0 | -3.3 | 66.3 | 73.5 | 83.2 | 116.0 | 116.0 | 116.0 | 101.9 | 103.8 | 106.4 |
| Estonia | -2.8 | -1.7 | 0.1 | 4.6 | 7.2 | 6.6 | 69.0 | 68.0 | 64.0 | 73.1 | 78.0 | 75.1 |
| Ireland | -7.3 | -14.3 | -32.4 | 44.4 | 65.6 | 96.2 | 147.0 | 133.0 | 127.0 | 124.5 | 127.6 | 125.0 |
| Greece | -9.8 | -15.4 | -10.5 | 110.7 | 127.1 | 142.8 | 91.0 | 93.0 | 93.0 | 90.7 | 94.0 | 97.4 |
| Spain | -4.2 | -11.1 | -9.2 | 39.8 | 53.3 | 60.1 | 105.0 | 103.0 | 103.0 | 92.8 | 95.4 | 97.4 |
| France | -3.3 | -7.5 | -7.0 | 67.7 | 78.3 | 81.7 | 108.0 | 107.0 | 108.0 | 108.1 | 110.8 | 114.3 |
| Italy | -2.7 | -5.4 | -4.6 | 106.3 | 116.1 | 119.0 | 104.0 | 104.0 | 104.0 | 102.9 | 105.6 | 106.5 |
| Cyprus | 0.9 | -6.0 | -5.3 | 48.3 | 58.0 | 60.8 | 93.0 | 97.0 | 98.0 | 88.1 | 90.5 | 91.2 |
| Latvia | -4.2 | -9.7 | -7.7 | 19.7 | 36.7 | 44.7 | 56.0 | 56.0 | 52.0 | 66.6 | 72.6 | 74.8 |
| Lithuania | -3.3 | -9.5 | -7.1 | 15.6 | 29.5 | 38.2 | 59.0 | 61.0 | 55.0 | 60.0 | 64.7 | 67.8 |
| Luxembourg | 3.0 | -0.9 | -1.7 | 13.6 | 14.6 | 18.4 | 275.0 | 280.0 | 271.0 | 115.3 | 119.1 | 121.3 |
| Hungary | -3.7 | -4.5 | -4.2 | 72.3 | 78.4 | 80.1 | 62.0 | 64.0 | 65.0 | 66.7 | 68.1 | 65.5 |
| Malta | -4.5 | -3.7 | -3.6 | 61.5 | 67.6 | 68.0 | 77.0 | 78.0 | 81.0 | 75.5 | 78.8 | 81.4 |
| Netherlands | 0.6 | -5.5 | -5.4 | 58.2 | 60.8 | 62.7 | 132.0 | 134.0 | 131.0 | 101.9 | 104.0 | 108.5 |
| Austria | -0.9 | -4.1 | -4.6 | 63.8 | 69.6 | 72.3 | 123.0 | 124.0 | 124.0 | 102.2 | 105.1 | 107.9 |
| Poland | -3.7 | -7.3 | -7.9 | 47.1 | 50.9 | 55.0 | 54.0 | 56.0 | 61.0 | 62.0 | 69.1 | 58.6 |
| Portugal | -3.5 | -10.1 | -9.1 | 71.6 | 83.0 | 93.0 | 78.0 | 78.0 | 80.0 | 85.7 | 87.0 | 89.3 |
| Romania | -5.7 | -8.5 | -6.4 | 13.4 | 23.6 | 30.8 | 42.0 | 47.0 | 46.0 | 63.8 | 60.9 | 57.5 |
| Slovenia | -1.8 | -6.0 | -5.6 | 21.9 | 35.2 | 38.0 | 88.0 | 91.0 | 88.0 | 79.0 | 82.3 | 85.5 |
| Slovakia | -2.1 | -8.0 | -7.9 | 27.8 | 35.4 | 41.0 | 68.0 | 72.0 | 73.0 | 63.2 | 70.2 | 73.7 |
| Finland | 4.2 | -2.6 | -2.5 | 34.1 | 43.8 | 48.4 | 117.0 | 118.0 | 113.0 | 119.9 | 124.3 | 126.4 |
| Sweden | 2.2 | -0.7 | 0.0 | 38.8 | 42.8 | 39.8 | 125.0 | 122.0 | 118.0 | 115.7 | 114.5 | 107.0 |
| UK | -5.0 | -11.4 | -10.4 | 54.4 | 69.6 | 80.0 | 116.0 | 115.0 | 112.0 | 112.6 | 100.1 | 92.7 |
| EU | -2.4 | -6.8 | -6.4 | 62.3 | 74.4 | 80.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

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