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Dear readers,

The current layout of our EU Office could be described with a saying of well known folk wisdom, which says that with every end there is a new beginning. By the end of August, we bid farewell to Petr Zahradník, who answered a new challenge in his work career. Petr was the founder of the Office for the EU, our boss for many years and mainly a never-ending source of inspiration and wisdom, not only in relation to the topic of European integration. We would like to thank Petr for working for us for more than 9 years, and we wish him much success in the next phases of his life.

And what new is starting? We are beginning with some personnel changes. Our team has been strengthened as of September with the addition of Tomáš Kozelský. Tomáš previously worked in the Labor and Social Affairs Research Institute and even taught here during his doctorate studies at the Economic University. He helped develop our skills in statistics and economics with an emphasis on the labor market and human resources in general. From his previous career positions, he is very familiar with the functioning of the European Union and its institutions.

Besides personnel changes, the start of the school year is also being accompanied with the introduction of new sections in our Monthly. We got rid of the Calendar section, which summarized less important events from the past month. It has been replaced by three new sections.

Each month, the "Guide to Doing Business" section, which because of its main guarantor Iva Dlouhá we refer to familiarly as "Doing Business with Iva", will present an analysis of the main conditions for doing business in a particular country. Due to the ending summer vacation season, we are beginning with Croatia.

Helena Kerclová has assumed responsibility for the new section "Journey into History". For our first journey, Helena will take you back in time to the very beginning of the European integration process, to the 1950s and to the time of the Schuman Declaration and the creation of the European Coal and Steel Community.

The third innovation is a comments section, which so far has been missing from the Monthly. Its name "Under the Microscope" indicates that the contents of the EU Monthly will vary, but the requirements for maximum objectivity, accuracy and interesting topics will continue to be fulfilled. Please write to us and tell us how we're doing! Dear readers, we wish you a pleasant return from your summer holidays and enjoyable reading of the EU Monthly, whether under traditional incandescent light bulbs, energy saving light bulbs or LED diodes.

Jan Jedlička

France and Germany have agreed on creating a common working group for the fight against the debt crisis in the Eurozone. The pact on budget responsibility is not in conflict with the French Constitution. According to the new Euro barometer survey, 84% of Czechs believe the Czech economy is in a very bad situation, and 100% of Greeks think so about their economy. More money is flowing to the Czech Republic from the EU budget than is being transferred to it from the Czech Republic.

ECONOMY AND EURO

France and Germany want to fight against the crisis together

Germany and France have decided to strengthen their bilateral cooperation in the fight against the crisis in the Eurozone. Their finance ministers Wolfgang Schäuble and Pierre Moscovici announced in Berlin that they would **create a work group**, which would be assigned the task of creating a joint position before the EU's important negotiations are held.

It is also expected to **work on implementation of the measures** on which the Eurozone countries agreed with indebted Greece. It will also work closely with Spain, which is to receive up to 100 billion euros from the Eurozone for recapitalization of its banks.

We can regard the results of the meeting as a **sign of improvement of both countries' bilateral relations**. French President Hollande's opinions regarding how to resolve the current crisis differs in many respects from those of conservative German Chancellor Angela Merkel. While Germany is placing emphasis mainly on fiscal discipline in European countries, France supports new investments, which are supposed to boost economic growth. Hollande therefore at the June EU summit pushed through the adoption of a growth pact. Merkel does not agree with Hollande on, for example, the issue of euro bonds.

Already before his election, Hollande criticized former French president Nicolas Sarkozy for working too closely with the German chancellor and allowing her to "dictate" policy for him. Therefore, since taking office he has focused mainly on relations with Italian Prime Minister Mario Monti and his Spanish colleague Marian Rajoy.

However, as French officials have stated, cooperation between Berlin and Paris remains the "**life-saving core" of the Eurozone.**

The Paris-Berlin (Bonn) axis has always been the main engine of European integration. Now there is a danger that Paris will become the capital of the southern indebted section of the Eurozone, and Berlin will become the voice of northern more competitive countries in the monetary union, which could even lead to splintering of the European Union. A consensus between these two key powers is a **key condition for the future of the EU and the Eurozone.**

http://www.bundesfinanzministerium.de/Content/DE/Standardartikel/Themen/Europa/Deutsch_Franz_Zusammenarbeit/2012-08-27-moscovici.html

Germany's position

The German weekly *Der Spiegel* reports that German Chancellor Angela Merkel is asking that a European convention be called in order to work out a new European agreement for deeper EU integration. *Der Spiegel* says Merkel hopes that European leaders will agree on a schedule for holding the convention already at their December summit. At it, a new road map for deeper integration in several areas is expected to be announced, including creation of a banking union. The plan is currently being worked on by the chairpersons of the European Council, the European Commission, the European Central Bank and the Euro group.

Germany envisions the transfer of several national powers to EU institutions. Germany would also like, for example, for the EU Court Tribunal to gain greater authority over the budgets of member states and impose decisions on states that fail to comply with EU fiscal rules.

http://www.spiegel.de/politik/deutschland/kanzlerin-merkel-fordert-neuen-eu-vertrag-a-852054.html

France does not have to change its constitution over fiscal pact

The French Constitutional Committee, which is the French version of a constitutional court, has decided that the pact regarding EU budget responsibility does not conflict with the French Constitution. Therefore, nothing stands in the way any longer that would prevent France's Socialist president **Francois Hollande** from ratifying the agreement. He will only need a direct parliamentary majority. The vote is expected to take place by the end of September.

The fiscal pact is expected to become valid in January 2013 if it is ratified by at least twelve of the seventeen Eurozone members. However, without its approval from large EU states, it would lose much of its credibility. The so-called Fiscal Compact has already been approved by countries such as Italy and Germany. Berlin nonetheless is impatiently awaiting the Constitutional Court's verdict regarding whether the agreement is in accordance with basic German law. That decision is expected on September 12.

http://www.conseil-constitutionnel.fr/conseil-constitutionnel/francais/les-decisions/acces-par-date/decisions-depuis-1959/2012/2012-653-dc/decision-n-2012-653-dc-du-09-aout-2012.115444.html

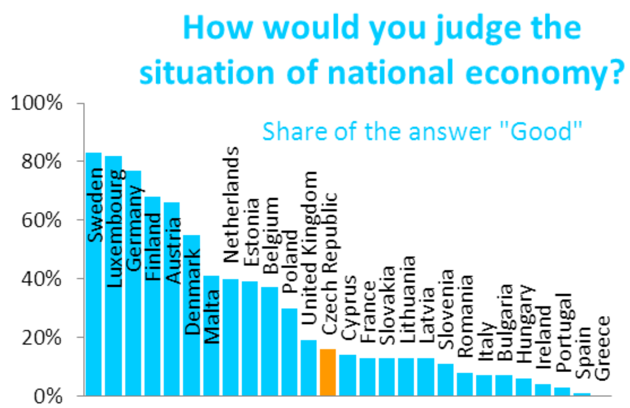
Euro barometer: Czechs lack confidence in their own economy

According to the most recent Euro barometer, a public opinion survey conducted by the European Commission, only **16% of Czechs are convinced that their national economy is in good condition**. A total of 84% of Czechs believe that the Czech economy is in a very bad situation. Czechs therefore have ended up below the EU average, which is 27%, **at 13th place.**

According to the mentioned survey, citizens' opinions regarding this issue vary greatly. While over 80% of the inhabitants of states **such as Sweden and Luxembourg** have confidence in their national economies, only 1% of Spain's inhabitants are confident, and in **Greece** not even one respondent said he/she had confidence in the economy.

According to former Spanish minister of foreign affairs Ana Palacio **the lack of confidence in the economy** is one of the **key problems preventing Europe from overcoming the current crisis.**

Besides fears regarding economic development**, Czechs are most concerned about rising prices and inflation.** A reason for this may be rises in prices of products following the introduction of higher VAT at the beginning of this year.



Source: European Commission

In general Europeans are **mostly concerned about unemployment**, which at a time when the number of people without work continues to rise and according to the latest data has already reached 25 million is not a big surprise.

Another concern, which was most often mentioned by Germans, for example, **is rising state debt**. Europeans are also worried about high taxes, guarantees of medical care and social services and the issue of immigration.

The ongoing crisis is also having an impact on **citizens' trust in EU institutions.** While in the autumn of 2009, 48% of respondents had a positive opinion regarding the EU, this has fallen to 31%.

Given the ongoing situation in the Eurozone, it may be a surprise that **support for the common currency is not experiencing such a sharp decline**. At the beginning of 2006, 59% of respondents supported the common currency, compared to "only" 7% fewer now.

http://ec.europa.eu/public_opinion/archives/eb/eb77/eb77_first_en.pdf

FINANCE

Czech Republic's net position towards the EU budget in first half of 2012

During the first half of 2012, the **Czech Republic received a total of CZK 30 billion from the EU budget** and **transferred to it CZK 24.1 billion**. Therefore, **the Czech Republic's net position** for the first half of 2012 **is positive**. A total of CZK **6.86 billion** more flowed to the Czech Republic than the country paid into the EU budget.

The Czech Republic's positive balance mostly resulted from **revenue from the Joint Agricultural Policy**, which comprised the largest portion of direct payments (the 1st pillar), which amounted to CZK 18.8 billion. The Czech Republic also received resources for rural development (the 2nd pillar) in the amount of CZK 7.7 billion (304 million euros). In total during the first half of this year the Czech Republic received from the Joint Agricultural Policy CZK 26.5 billion (1.1 billion euros).

Revenues from structural funds were influenced by the halting of payments from most operational programs. Revenues from structural funds therefore for the first half of the year reached CZK 4.5 billion (177.1 million euros).

In total from the Czech Republic's accession to the EU in May 2004 until 30 June 2012, the Czech Republic paid into the EU budget CZK 285.37 billion and received CZK 468.38 billion from it. According to the Czech Finance Ministry, the positive balance of the Czech Republic's net position from EU accession until the middle of this year amounts to CZK 183 billion.

When publishing such reports, we always clarify that the net flow of money from the EU cannot be taken as a primary (or even as a secondary or tertiary) criterion for evaluation of our EU membership. From an economic point of view, benefits in the form of access to a market

Hungary became the first country to receive permission for construction of Nabucco gas line. Czech President Václav Klaus has vetoed a bill on energy efficiency, which would have implemented the EU directive and introduced energy demand certificates for buildings. As of 1 September, traditional 40W light bulbs stopped being supplied to the market.

without barriers with half a billion consumers with above-average wealth are much more important, and on the side of costs, the bureaucracy connected with the implementation of certain EU standards also needs to be taken into consideration.

http://www.mfcr.cz/cps/rde/xchg/mfcr/xsl/eu_cista_pozice_cr_72124.html

Net position of CR to EU for 1H/2012

Revenues from EU budget	**mil. CZK**
Structural Action	4 457,04
Structural funds	*4 235,99*
Cohesion fund	*203,05*
Agriculture	26 461,65
*1st Pillar**	*18 786,94*
*2nd pillar***	*7 674,51*
Pre-accesion assistance	0
Total revenues from EU budget	30 918,69
Total payments to EU budget	24 055,25
Net position to EU budget	6 863,44

*Source: Ministry of Finance of CR; * 1st Pillar includes resources for direct payments, market measures and veterinary measures; ** 2nd pillar includes resources for countryside development*

ENERGY AND TRANSPORT

EU and Australia to create world's largest carbon emissions trading market

Australian Minister for Climate Change and Energy Efficiency Greg Combet has announced that as of 2018 Australia **will directly connect the European Emissions Trading System (EU ETS)**. Due to its population size, the country is one of the largest producers of greenhouse gases, particularly because it generates a substantial amount of its electricity from coal.

"The joining of the Australian and European system confirms that **carbon markets are the first line in the fight against climate change and the most effective way to reduce the amount of emissions**," Combet said in a joint declaration issued together with European Climate Commissioner Connie Hedegaard. She emphasized that for the first time an actual international combination of carbon trading markets would take place.

Based on this decision, **Australian businesses will be able to use European emissions trading permits starting in July 2015**. With their help they will be able to cover up to 50% of their obligations within the Australian system. The Australian side has also pledged to reduce the use of CER Kyoto credits. Australian businesses will be able to use Kyoto permits in a maximum volume of 12.5% to cover annual emissions.

European companies probably will not gain access to Australian permits until **June 2018**. At that time, the complete combination of both markets is expected to occur. Europe expects as a result the creation of a strong international emissions trading market and more opportunities for its companies.

Emissions of greenhouse gases into the atmosphere and global climate change are not limited to the EU's borders, while increased costs for companies involved in the European emissions trading system are. Therefore, it is good both for the global environment and for competitiveness of European businesses **if as many countries in the world as possible get involved in systems for reducing greenhouse gas emissions**.

http://www.climatechange.gov.au/minister/greg-combet/2012/media-releases/August/JMR-20120828.aspx

http://europa.eu/rapid/pressReleasesAction.do?reference=IP/12/916

Hungary receives permission for construction of Nabucco gas line

Hungary has completed the approval procedure for a section of the Nabucco natural gas pipeline that will transit its territory. This makes it the first among the participating countries. It also means the beginning of the advanced phase of development of Nabucco West, announced Reihnard Mitschek, Executive Director of the Nabucco Consortium.

Hungary is the first among the countries participating in the project to obtain the necessary permits and complete its approval procedure for the 384 km section of the gas pipeline that will transit its territory. Now according to Gabor Bercsi, Executive Director of the Nabucco project in Hungary, the country **is attempting to obtain a permit for its own construction.**

The EU expects the Nabucco pipeline to result in **greater diversification of natural gas supplies** and reduce dependence on supplies from Russia.

Negotiations regarding the construction of the pipeline, which as **of 2017 is expected to transport natural gas to Europe from the Caspian region**, began already in 2002. The decision regarding whether the pipeline will be completed is expected this year or at the beginning of next year.

Several **major European companies** have gotten involved in the preparations for the project - ÖMV from Austria, MOL from Hungary, RWE from Germany, Bulgargaz from Bulgaria, Transgaz from Romania and Botas from Turkey.

Nabucco West represents a **modified version of the project**. This May the original project was abandoned by the British firm BP, and now it is being decided what path the gas will take when it is transported to Europe from Azerbaijan.

The Nabucco gas pipeline project has been **accompanied by a number of problems since it began**, including problems related to financing, uncertain deliveries of natural gas and strong competition mainly from Russian projects.

Critics particularly cite high construction costs and problems with competition. **The Nabucco project is expected to cost up to 12 billion euros** (approximately CZK 243 billion).

http://www.kormany.hu/en/news/nabucco-pipeline-plan-takesstep-forward-in-hungary

Dispute over energy certificates continues

Czech President Václav Klaus has sent back to the lower house of the Czech Parliament a draft amendment to the energy act, which is intended to introduce new rules and definitions related to energy savings in buildings.

The main points of the bill include new regulations for **obtaining energy demand certificates for buildings.**

President Klaus has described the bill as **one of the "worst ever bills and one of the most harmful to free enterprise"** that he has ever been asked to sign as president.

He also describes as problematic the very reworked European Energy Performance of Buildings Directive (EPBD II) on which the draft amendment is based **and which is supposed to be enshrined into Czech law**.

The Czech president believes that a change to the directive would force EU member states not only to heat public buildings in connection with their planned reconstruction, but would also force their reconstruction to be carried out even if it would not be necessary at all under normal circumstances.

Energy demand certificates for buildings

So far **the energy demand certificates** have been required only for new construction, but under the proposed legislation they would be required as of the beginning of next year for the sale or leasing of any entire building. As of the end of 2015, this obligation would also apply for the sale of individual residential units and offices, and **as of 2016 for new leasing** of residential units.

According to the coordinator of the Chance for Buildings initiative Petr Holub, the costs for a certificate with 10-year validity for a regular family house with construction documentation **would range below CZK 5,000**. If construction documentation is missing, basic measurement of the demands of the real estate would have to be carried out, which would increase the costs for the certificate.

For administrative or residential buildings, the price of the certificate would reportedly correspond to the size and complexity of the building and could amount to tens of thousands of CZK.

According to an estimate from the Ministry of Industry and Trade, **the costs for an ordinary residential building could range around CZK 20,000**. However, residential building owners could obtain a single certificate for the entire building, which could be used jointly by all owners or members of a cooperative.

The draft amendment has also become **the subject of intense debate in the Senate**. It eventually received support from 29 senators, which was exactly the number needed to pass. Critics of the proposed new **rules mainly cite the administrative burden and costs that it would result in.**

"Some points in the bill actually go beyond the requirements of the directive," said Senate Sub-committee for Energy Chairman Jiří Bis (Czech Social Democratic Party - ČSSD), who supported the draft amendment in the Senate.

He explained that **the Ministry of Industry and Trade** had sufficiently explained that it would amount to a practical measure that would ensure that each residential building would have the required certificate in time for the sale or lease of one of its residential units.

He added that **the implementation of the directive was enforceable by the EU** and that fundamental steps related to savings would eventually affect the Czech

Republic. "The implementation of the directive could be more moderate, but it is also a matter of opinion, **and the European Union in short requires energy savings**," he said.

http://www.hrad.cz/cs/prezident-cr/rozhodnuti-prezidenta/vracene-zakony-parlamentu/19.shtml

Traditional light bulbs to give way as of September to modern efficient light sources

Closely related to the policy of increasing energy efficiency is a decision according to which as of September 1, 2012, traditional light bulbs with output of 40W and less will no longer be supplied to the EU market.

The decision is based on a directive for setting requirements for eco-design of products related to energy consumption and specific accompanying regulations adopted by the European Commission (the Commission's regulation regarding eco-design of light sources for households).

Traditional light bulbs began being gradually withdrawn from the market as of September 2009 based on their output (100 W in 2009, 75 W in 2010, 60 W in 2011, 40 W and less in 2012).

http://ec.europa.eu/ceskarepublika/service/lightbulbs/index_cs.htm

REGIONAL POLICY

Government approves proposal intended to speed up drawing from funds

The Czech government has approved a list of twelve measures intended to **eliminate obstacles that are reducing drawing from EU funds**. "The aim of this activity is to simplify and increase the transparency of the process during realization of structural funds and to adjust the rules in places where full administration is not currently enabled," reads a document, which the Ministry for Regional Development prepared in cooperation with the management of the operational programs and the Ministry of Finance.

While in certain situations adjustment of methods will be sufficient for simplification of the process, in others **amending legislation will be necessary**. For example, legislation regarding budget rules and legislation regarding support for regional development is expected to be amended. The ministries are expected to submit most of their proposals by the end of the year.

For example, **the complicated control system is expected to be simplified.** The document states that the recipient may be checked in connection with the use of EU money by **"at least 8 independent control/audit bodies".** Besides the Ministry of Finance, the checks could be performed by revenue authorities subordinate to the ministry, the management body of the operational program, the Supreme Audit Office, the European Anti-Fraud office, the European Commission and other bodies.

As a result, checks are carried out without coordination, and bodies performing the checks are requiring the same information from recipients that have already been obtained from them by another body.

The document also resolves the situation that prevents greater use of so-called financial engineering instruments. For example, the management of the operational program could decide to transfer part of the resources to a special fund, which would provide loans, guarantees or risk capital to applicants.

http://racek.vlada.cz/usneseni/usneseni_webtest.nsf/3B4918C535CF29D7C1257A6A00233FB8/$FILE/610%20uv120822.0610.pdf

First payments from unblocked operational programs arrive

In August the first payments in the total amount of CZK 9.3 billion arrived in the account of the Czech Ministry of Finance from the European Commission (DG REGIO). The release of the money was enabled by the fulfillment of the action plan, which among other things strengthened the independence of auditors through their transfer from the level of operational programs to directly under the Ministry of Finance.

Additional resources in the amount of approximately CZK 2 billion are expected between the end of August and the beginning of September. Generally during the second half of 2012, applications for payment from the European Commission will be sent continuously in accordance with the plan for certification and proceeding implementation in individual operational programs.

The purpose of the new section "Under the Microscope" is to examine current European political topics in detail with comments. To start with we selected some of the most difficult topics, the resolution of which would deserve a Nobel Prize for Economics. Will the European Central Bank manage to save the euro in its current form without the institution itself suffering a fundamental loss of trust?

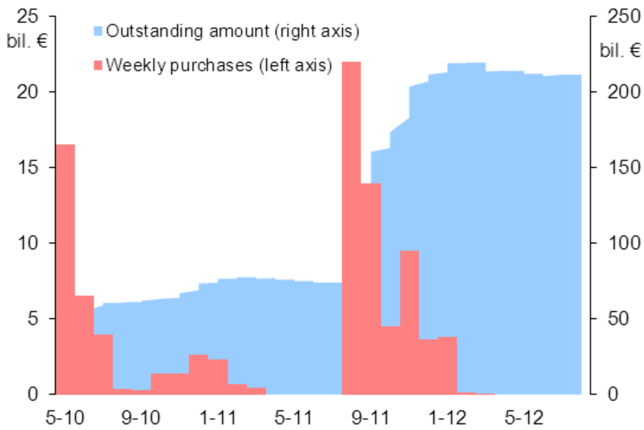
SOPHIE'S CHOICE OF EUROPEAN CENTRAL BANK

The eyes of all participants and observers of financial markets are at the beginning of September turning to European Central Bank in Frankfurt. The ECB is probably the only institution that can make a sharp U-turn in relation to the debt crisis in the Eurozone. The ECB has a de facto never-ending supply of its issued currency at its disposal, cannot go bankrupt and is one of the strongest players on the financial markets. Politicians in the southern section of the Eurozone are therefore putting pressure on it to come up with an innovative plan to buy up the state bonds of problematic states, which are losing confidence from financial investors as well as the ability to finance their needs under long-term sustainable interest terms.

A new program for buying up state bonds?

The European Central Bank already has a similar plan, which is its Securities Markets Program (SMP), which it began in May 2010, but under pressure from strong German resistance it actively stopped using it at the beginning of this year. In all of its accounting books, however, it still holds bonds for more than 200 billion euros. The program has suffered low transparency; neither a structure of purchased bonds nor criteria under which the ECB would be able to choose among Greek, Irish, Portuguese, Spanish, Italian and other bonds has been made public. Moreover, it has not forced states to implement savings and take reform steps, by which it has supported moral hazard.

Bonds bought by ECB under Security Market Programme



Source: ECB, Bloomberg

However, the main criticism of the SMP (or its potential successor) relates to whether or not the ECB even has a mandate to bail out the public budgets of fiscally irresponsible states in the Eurozone. According to the Maastricht Treaty, the primary purpose of the European System of Central Banks (ESCB), which is comprised of the ECB and the central banks of Eurozone states, is to maintain price stability. The Treaty also states that without even affecting the goal of price stability, the ESCB supports general economic policies in the Community with the aim of contributing to achieving the Community's goals. The management of the ECB headed by Mario Draghi, which enjoys support among most EU officials, believes, however, that purchases are part of the mandate to care for preserving price stability. Opposition is coming mainly from the German currency authority. Bundesbank head and member of the management council of the ECB Jens Weidmann has been stating publicly that the policy of buying state bonds amounts to close financing of states simply by printing money.

Bank's reliability the most powerful tool

Pushing through the purchase of state bonds jeopardizes not only achieving a consensus in the top management of the ECB, but also the entire institution's reliability. And that is entirely key for central banks. Reliable central bankers are fully pushing their monetary and political plans only with the strength of their statements and arguments. It is cheaper and faster than using methods such as setting of key interest rates, minimum mandatory reserves and intervention in the financial market. However, if the central bank loses the confidence of market players in its ability and willingness to maintain currency stability and low inflation, this could lead to a price domino effect and weakening of the currency. While the central bank may lose confidence in just a few weeks, it could take years to restore that trust.

ECB President Mario Draghi and his colleagues face a Sophie's Choice. Should they save the Eurozone in its current form even for the price of boosting the moral hazard of borrowers and investors and dealing a fatal blow to confidence in the ECB, which in the long-term could result in lower effectiveness of it policies, rising inflation and a collapse of the single currency? Or should they stick with a strict interpretation of their mandate, monitor the development of the consumer price index and the exchange rate of the euro and let richer states headed by Germany resolve other states' budget problems? Write to us and tell us what you think!

Jan Jedlička, EU Office

Our Information Service section outlines upcoming sessions of EU decision-making bodies accompanied by other significant events such as international summits with super powers. Often agendas for negotiations by these important bodies are not ready until a few days before the actual meetings so they can be as up-to-date as possible. Agendas can be found at: http://europa.eu/newsroom/calendar/.

Meeting of the key EU institutions

7 – 8 September 2012	**Pafos, Cyprus**
- Informal Meeting of Foreign Affairs Ministers	
9 – 11 September 2012	**Nicosia, Cyprus**
- Informal Meeting of Agriculture and Fisheries Ministers	
14 – 15 September 2012	**Nicosia, Cyprus**
- Informal Meeting of Economic and Financial Affairs Council (ECOFIN)	
17 September 2012	**Nicosia, Cyprus**
- Informal Meeting of Energy ministers	
19 – 20 September 2012	**Brussels, Belgium**
- Justice and Home Affairs Council	
20 – 21 September 2012	**Nicosia, Cyprus**
- Informal Meeting of Sport Ministers	
24 September 2012	**Brussels, Belgium**
- General Affairs Council	
24 – 25 September 2012	**Brussels, Belgium**
- Agriculture and Fisheries Council	
26 – 27 September 2012	**Nicosia, Cyprus**
- Informal Meeting of Defence Ministers	
4 October 2012	**Luxemburg, Luxembourg**
- Employment, Social Policy, Health and Consumer Affairs Council (EPSCO)	
4 – 5 October 2012	**Nicosia, Cyprus**
- Informal Meeting of Education Ministers	
8 October 2012	**Luxemburg, Luxembourg**
- Eurogroup	
9 October 2012	**Luxemburg, Luxembourg**
- Economic and Financial Affairs Council (ECOFIN)	

Access as of 31 August 2012

The main topic of the current EU monthly is a partial evaluation of the success of the process of applying for, administering and especially drawing from the available resources of EU structural and cohesion funds in the Czech Republic. We examine in detail each of the defined operational programs and analyze the success of their use from several different perspectives. The topic also focuses on a current problem - the interruption of reimbursement of expenditures for several operational programs.

COMPARISON OF CURRENT PROJECT PHASE OF OPERATIONAL PROGRAMS IN CZECH REPUBLIC

INTRODUCTION

There has not been much optimistic news recently regarding drawing of money from EU funds: Suspicion of criminal offenses in relation to ROP Southwest and ROP Northwest, continued suspension of reimbursement of expenditures by Brussels for 8 operational programs and speculation regarding for which operational programs allocated amounts will not be drawn in time and how much money will have to be returned.

The aim of this analysis is to compare in an objective manner the statistics related to drawing of funds from European structural funds through several phases of the project cycle. The period is optimum for it. The entire program period of 2007 to 2013, which thanks to rule N+2 will not end financially until 2015, will soon enter its last third, and government is aware of the reserves in the system of management, administration and drawing of money from EU funds. At its meeting in August, the government adopted 12 measures to eliminate obstacles on drawing from EU funds.

The ambition of this article is not to evaluate the effectiveness of invested money. More time will be needed for that, since certain effects of newly realized projects will not appear until much later.

Project Cycle Phases

The purpose of the project cycle phases is to identify which operational program is suitable for the intended project and how many financial resources are allocated in it. This is shown by the monitored 1st criterion specified below. The first part of the project cycle phase is announcement of a call for submission of aid applications. Announcing the calls is the responsibility of the individual management bodies of each program. Another phase is the submission of grant applications. By the deadline specified in the calls, project implementers submit applications for aid, which must conform with the aims of the particular operational program from which the applicant wants to draw funds. The specific conditions for financial support are more clearly defined in the announced call. We monitor the volume of submitted aid applications in relation to the 2nd criterion.

In each call, the evaluation criterion based on which the implementation agency of each operational program will receive grants for supported projects should be known in advance. In the event of a positive evaluation result within the financial capacity of the call, the project will be approved. A project is considered approved if a legal act regarding provision of a grant is signed by the management body. That act has the form of a decision or contract regarding provisions of the grant. We compare the success of operational programs from the point of view of signed decisions/contracts in relation to the 3rd monitored criterion.

Another evaluation criterion for measuring success of the use of individual operational programs is the volume of funds already disbursed to final recipients/project implementers. The payments are disbursed to recipients based on their sent applications for payment and are usually realized retroactively following realization of the entire project or its individual phases - ex-post payments. Some management bodies of operational programs also enable ex-ante payments, when project implementers receive money from the OP beforehand in the form of advances.

The system of financial flows from the EU budget is based on the principle of pre-financing from the domestic state budget. In order to ask the European Commission for subsequent reimbursement of these expenditures to the account of the Payment and Certification Body (the National Fund of the Ministry of Finance), it must be certified. Certification is understood as confirming the accuracy of the data submitted by management bodies to the payment body. Its result is processing of the payment application submitted to the European Commission together with a certificate signed by an authorized person. Separate certification is carried out for each program, and a comparison of the success of individual OP in the category is the subject of our last fifth evaluation criterion.

If problems are discovered with the administration of the project, the payment of expenditures by the European Commission is halted. Afterwards, Brussels will call on the member state to rectify discovered defects and shortcomings, and payments will remain suspended until those problems are eliminated. Unfortunately, this even affected the Czech Republic to a great extent this spring, as we have written in the second chapter.

EVALUATION OF DRAWING ABILITIES BASED ON VARIOUS CATEGORIES

1. Total allocation

Operational Programme	Total Allocation	
	mil. CZK	% from allocation
OP Transport	172 389	21.9
OP Enviroment	145 960	18.5
OP Enterprises and Innovations	92 589	11.8
OP Research and Development for Innovations	61 511	7.0
OP Human Resources and Employment	54 709	7.8
OP Education for Competitiveness	54 167	6.1
Integrated OP	48 043	6.9
ROP North-West	22 545	0.7
ROP Moravia Silesia	21 710	2.9
ROP South-East	21 434	2.8
ROP Central Moravia	20 043	2.7
ROP North-East	19 970	2.5
ROP South-West	18 862	2.5
ROP Central Bohemia	16 961	2.4
OP Prague - Competitiveness	7 146	2.2
OP Technical Assistance	5 778	0.9
OP Prague - Adaptability	3 208	0.4
European Social Fund	674 919	163.2
European Fund for Regional Development	338 188	129.4
Cohesion Fund	247 762	221.1
NSRF	**787 025**	**100.0**

Source: Monthly Monitoring report; National Bureau for Coordination, numbers valid at 3rd August 2012

The price allocation of European structural funds reflects the division of EU money at the most general level. It involves the collective volume of funds for each individual program that the Czech Republic may have at its disposal between 2007 and 2013. It is also the result of a political decision and depends on national priorities. The most emphasis is placed on transport - the Transport Operational Program received more than CZK 170 billion for distribution, which represents approximately 15% of the Czech Republic's annual budget. Another key priority was environmental cultivation - the Environment OP received nearly 150 billion for improving the environment. Other operational programs follow with a huge margin - the Business and Innovation OP occupied third place with allocation of 90 billion, and the OP for Research and Development of Innovations, intended for support of technology, may involve a grant of 60 billion.

However, Prague received the least, because structural funds are intended for evening out differences between wealthy and poor regions, and Prague is among the ten wealthiest regions in the entire EU. A low amount of funds was also received by the Technical Assistance OP, which is intended for administrative support of all other operational programs.

The money is divided by three mutually independent funds - through the European Social Fund (ESF) development projects related to employment and human resources are supported (such as retraining, social integration, education, etc.). Approximately 14% of all money intended for the European Union’s cohesion policy in the Czech Republic was allocated for these activities.

Assistance from the Cohesion Fund (CF) is intended for direct financing of specific large projects related to the environment, development of transport (trans-European transport networks, support for public transportation) and newly also related to energy efficiency and renewable resources. Approximately a third of the total allocation is available for achieving these goals. Resources from the European Regional Development Fund (ERDF) are intended for tough investment projects (transport, education, social, healthcare infrastructure, machines and equipment, etc.). For the financial period of 2007 to 2013, the ERDF has allocated half of its budget for these priorities.

2. Submitted applications

By the beginning of August 2012, over 80,000 applications had been submitted for all OP functioning in the Czech Republic, which collectively requested more than CZK 1.25 trillion. The greatest competition in submission of applications was registered in relation to the Prague - Adaptability OP, because in Prague very few resources are distributed, which are applied for by many applicants. Therefore, applications for nearly 5 times the total

allocation have already made their way to Prague City Hall.

Operational Programme	Submitted applications	
	mil. CZK	% from allocation
OP Prague - Adaptability	15 280	476.4
ROP South-West	52 094	276.2
OP Education for Competitiveness	135 431	250.0
ROP North-East	41 449	207.6
OP Prague - Competitiveness	14 137	197.8
ROP Central Bohemia	31 514	185.8
OP Human Resources and Employment	97 051	177.4
ROP North-West	39 932	177.1
OP Research and Development for Innovations	101 500	165.0
ROP South-East	35 172	164.1
ROP Central Moravia	32 382	161.6
OP Enterprises and Innovations	147 704	159.5
ROP Moravia Silesia	33 287	153.3
OP Technical Assistance	8 122	140.6
OP Enviroment	199 457	136.7
Integrated OP	60 518	126.0
OP Transport	215 841	125.2
European Social Fund	674 919	163.2
European Fund for Regional Development	338 188	129.4
Cohesion Fund	247 762	221.1
NSRF	**1 260 869**	**160.2**

Source: Monthly Monitoring report; National Bureau for Coordination, numbers valid at 3rd August 2012

A lot of money has also been applied for within the Regional OP Southwest and the Education for Competitiveness OP. However, there has been relatively less interest (and therefore a relatively high chance of a successful application) in the operational programs such as the Transport OP, the Integrated OP and the Environment OP, although even in relation to these the volume of submitted applications has safely exceed the amount of funds available in the operational programs.

The most interest has been expressed in money from the Cohesion Fund, in relation to which demand exceeded supply by more than double. However, the least money was applied for in relation to the European Regional Development Fund due to the total allocation.

3. Projects with an issued decision/contract for provision of grants

Operational Programme	Approved Projects	
	mil. CZK	% from allocation
OP Transport	168 076	97.5
ROP North-East	18 420	92.2
OP Research and Development for Innovations	56 260	91.5
ROP South-East	18 898	88.2
ROP Central Bohemia	14 932	88.0
OP Human Resources and Employment	47 110	86.1
OP Prague - Competitiveness	6 148	86.0
ROP South-West	16 196	85.9
OP Education for Competitiveness	44 553	82.3
OP Prague - Adaptability	2 615	81.5
ROP North-West	18 348	81.4
OP Enterprises and Innovations	74 802	80.8
ROP Moravia Silesia	16 363	75.4
Integrated OP	35 541	74.0
OP Technical Assistance	4 015	69.5
ROP Central Moravia	13 242	66.1
OP Enviroment	85 600*)	58.6
European Social Fund	94 278	84.1
European Fund for Regional Development	339 023	82.0
Cohesion Fund	168 257	64.4
NSRF	**601 558**	**76.4**

*Source: Monthly Monitoring report; National Bureau for Coordination, numbers valid at 3rd August 2012 *) includes those with signed decision or agreement and also projects with published Registration list, but without signed decision or agreement. But in total NSRF there is just value for signed decisions or agreement.*

From all of the applications, more than CZK 600 billion was successfully approved, which is more than three

quarters of the total allocation. This means in other words that nearly a quarter of all of the money intended for the Czech Republic is still awaiting approval. We regard as a criterion for approval the signing of a decision or contract regarding provision of a grant. From the volume of requested money, just under half was approved (48%).

The least resources remain in the Transport OP, where 97.5% of the total allocation has already been distributed. Similarly, in the ROP Northeast and the Research and Development of Innovations OP only approximately 8% of the resources remain to be disbursed.

However, the most room for drawing is within the Environment OP, where approximately two fifths of the resources (CZK 60 billion) are still available.

At the bottom steps of the ladder is the ROP Central Moravia, which has available approximately one third, and on the third step is the Technical Assistance OP, where 30% of the money has yet to be distributed.

The largest chance of obtaining resources is from the Cohesion Fund, in relation to which over 35% of the allocation is still awaiting approval. However, the most money has already been distributed by the European Social Fund, over 84%.

4. Funds disbursed to recipients

The system of disbursement of money from EU funds usually works based on the principle of ex-post payments, when the administrator of the OP issues funds for a project only after the project has been realized. Certain operational programs also enable provision of advance payments before the start of or during the realization of the project (ex-ante payments).

The resources in the following table have already been paid to project implementers in individual operational programs.

The state has disbursed a total of 45% of the total allocation, and the largest volume of resources has been paid by the Transport OP (nearly three quarters), followed by the ROP Northeast, where just under two thirds.

The fewest completed projects are within the Integrated OP, the Technical Assistance OP and the Environment OP, where approximately a quarter of the resources have been paid.

The most projects have been completed within the Cohesion Fund, in relation to which the state has paid over 48% of the total allocation. The differences of course are not at all dramatic. The least has been paid by the European Social Fund (43%).

Operational Programme	Disbursed funds	
	mil.CZK	% from allocation
OP Transport	125 171	72.6
ROP North-East	13 143	65.8
OP Prague - Adaptability	1 981	61.7
OP Prague - Competitiveness	4 385	61.4
ROP South-East	12 800	59.7
ROP Central Moravia	10 724	53.5
ROP North-West	11 719	52.0
ROP Central Bohemia	8 232	48.5
OP Education for Competitiveness	25 067	46.3
ROP South-West	8 679	46.0
ROP Moravia Silesia	9 302	42.8
OP Human Resources and Employment	21 036	38.5
OP Enterprises and Innovations	34 884	37.7
OP Research and Development for Innovations	17 091	27.8
OP Enviroment	38 311	26.2
OP Technical Assistance	1 506	26.1
Integrated OP	11 256	23.4
European Social Fund	48 083	42.9
European Fund for Regional Development	180 922	43.7
Cohesion Fund	126 282	48.3
NSRF	**355 287**	**45.1**

Source: Monthly Monitoring report; National Bureau for Coordination, numbers valid at 3rd August 2012

5. Certified expenditures of the European Commission

There are still relatively few resources that have been finally completed and certified by Brussels, amounting to less than one fifth of the total allocations for all OP. So far the most successful in provision of money including approval from the European Commission is the ROP Southeast, for which 56% of the total allocation has been paid and certified in Brussels. It is followed close behind by the ROP Central Moravia and the ROP Southeast. Trailing at the very bottom is the Research and Development of Innovations OP, for which Brussels has certified a mere 4%, even though contracts have been

entered into for more than 90% of the resources. The Environment OP and the Education for Competitiveness OP have not been doing well either, and Brussels has only given the green light for 8% of resources for them.

The most resources have been certified in relation to the European Regional Development Fund, but the amount still represents less than a quarter of the total allocation. The European Social Fund has already definitively handled 18% of the allocation. Last is the Cohesion Fund, for which Brussels so far has not even certified 9% of the total allocation.

Operational Programme	Certified expenditures	
	mil. CZK	% from allocation
ROP South-East	11 969	55.8
ROP Central Moravia	10 051	50.1
ROP North-East	9 397	47.1
OP Prague - Adaptability	1 215	37.9
ROP Central Bohemia	5 515	32.5
ROP South-West	5 933	31.5
ROP Moravia Silesia	6 378	29.4
OP Human Resources and Employment	14 640	26.8
ROP North-West	5 496	24.4
OP Technical Assistance	1 235	21.4
OP Prague - Competitiveness	1 506	21.1
OP Enterprises and Innovations	17 856	19.3
OP Transport	26 843	15.6
Integrated OP	5 403	11.2
OP Education for Competitiveness	4 374	8.1
OP Enviroment	10 869	7.4
OP Research and Development for Innovations	2 462	4.0
European Social Fund	20 229	18.0
European Fund for Regional Development	98 333	23.8
Cohesion Fund	22 580	8.6
NSRF	**141 141**	**17.9**

Source: Monthly Monitoring report; National Bureau for Coordination, numbers valid at 3rd August 2012

SUSPENSION OF OP PAYMENTS

Due to discovered problems in the functioning of Czech management and control systems, in March 2012 the submission of payment applications for EU refunds was suspended for all operational programs co-financed from the European Regional Development Fund (ERDF) and the Cohesion Fund (CF).

The flow of grants to project implementers has not been interrupted. In practice the suspension of submission of payment applications means that financial resources are not being refunded from the EU budget to the account of the Payment and Certification Body at the Czech Ministry of Finance, from which resources are transferred to state budget chapters that have issued resources for pre-financing of funds from the EU budget. Therefore, the management bodies have been paying amounts to recipients from their own resources.

By the end of June 2012, the Czech Republic was supposed to have adopted certain measures. A month later in reaction to the adopted measures, the process of submitting applications for payments from the European Commission was renewed for seven operational programs:

- OP Business and Innovation (with the exception of the Guarantee program)
- OP Research and Development for Innovation
- OP Technical Assistance
- ROP Southwest
- ROP Central Moravia
- ROP Moravia-Silesia
- OP Prague–Competitiveness

For another eight operational programs, payment applications continue not to be sent to the European Commission, and the Commission is not issuing refunds for them:

- OP Transport
- OP Environment
- Integrated OP
- ROP Northwest
- ROP Northeast
- ROP Central Bohemia
- OP Cross-border cooperation Czech Republic-Poland
- OP Education for Competitiveness

The shifting of funds to the accounts of the management bodies of problematic operational programs was even

stopped by the Czech side itself, when in relation to discovered discrepancies in March it halted the process of certification (verification) for ten operational programs. Although some of the problems have been eliminated, by the end of August certification was halted for five programs.

The suspension of certification and of the acceptance of payment applications could already now be having real impacts on the ability to draw from certain operational programs. From the application of the rule N+2/N+3 it is apparent that the volume of certified expenditures and applications for payment sent to the Commission for OP must reach at least 31% of the total allocation for programs by the end of this year.

Non-adherence to this limit and resulting irreversible losses of portions of the allocation is at risk particularly for programs for which certification and/or sending of payment applications to the European Commission has been suspended. OP Environment, OP Education for Competitiveness and Integrated OP.

Overview of the currently suspended certification process based on individual OP from the Payment and Certification Body

OP	Management	OP certification Suspension
ROP Northwest	RD Northwest	25. 3. 2011
OP Education for Competitiveness	Ministry of Education	12. 1. 2012
OP Transport	Ministry of Transport	14. 3. 2012
OP Environment	Ministry of Environment	14. 3. 2012
ROP Central Bohemia	RD Central Bohemia	22. 5. 2012

Source: Payment and Certification Body

CONCLUSION

Based on an examination of the statistics of drawing, the Czech Republic is not doing so badly in its discipline for use of EU resources.

There is a large amount of interest in money from operational programs among project implementers, which greatly exceeds the budget for the programs. We are not doing badly even from the point of view of approved programs. Of the total allocation, 76% of resources for projects which have already received signed decisions or contracts for provision of grants were already approved by the beginning of August.

The indicator is increased by a few percentage points if we also include projects already approved by the management body, but still awaiting issuance of a legal act for provision of grants.

Of the total volume of money from EU funds for the Czech Republic, nearly one half has been paid to final recipients, which in view of the predominance of ex-post payments (payments after realization of the project) is a value that we do not consider critical. Responsible officials could get larger wrinkles on their foreheads as a result of the statistics for certified expenditures sent to the European Commission for reimbursement. These amount to a mere 18% of the total allocation.

The sharp difference between reimbursements for final recipients and certified expenditures can be attributed to the suspension of acceptance of payment applications by the European Commission and/or suspension of certification of expenditures by the Czech Ministry of Finance. This has negatively affected eight operational programs, including the two with the most significant volumes.

The reason is obvious: major shortcomings in the administration and checking of operational programs. The situation is critical for three programs, in relation to which thanks to the rule N+2/N+3 there is a real risk of part of the allocation being withdrawn.

Resources from the European structural funds and the Cohesion Fund characterized by state budget savings probably currently represent the only major source for a potential fiscal impulse, which would give a boost to the teetering economy. It is even more dismal to observe the unsatisfactory development in relation to disbursement of funds from the European Commission, which is still not disbursing funds to eight operational programs.

Realized projects are not directly threatened, but for suspended operational programs they are financed purely from national budget resources, which is further worsening the condition of state coffers. Let's trust that the activity of the Czech government, which has adopted a set of measures to improve the effectiveness of drawing from EU funds (see the article above in the News section) will not come at five minutes to noon and will result as soon as possible in restoration of the flow of financing from the European Commission.

The "Guide to Doing Business" section is a taste of the new advisory program "Guide to Doing Business (not only) in the EU", which the EU Office launched at the beginning of the year. Within the program we advise our clients from among SMEs regarding how to expand their activities abroad successfully and what kind of business environment awaits them in different countries. More information can be found here: www.csas.cz/eu. First, we have focused on Croatia.

CROATIA

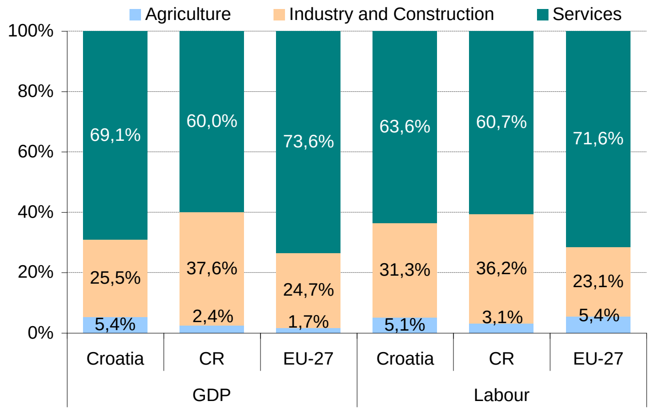
Basic data

Official Name	Republic Croatia (Republic Hrvatska)
Population	4 412 137 (2011)
Area	56 594 km^2
Currency	Kuna (HRK)
Ethnic groups	Croats 89.6 %, Serbs 4.5 %, others 5.9 %

Source: CIA World Factbook

After World War Two, Croatia became part of the Federative People's (later Socialist) Republic of Yugoslavia. In 1991 a referendum was announced in which most of Croatia's population expressed support for independence, which resulted in Croatia declaring its independence. In 2011, Zagreb signed the EU Accession Agreement, and as of July 1, 2013, the country will become the 28th member of the EU.

Sectors of national economy - Croatia



Source: CIA World Factbook, GDP for 2011, Labour for 2008

Executive power is in the hands of the president and the cabinet. The president is directly elected by the populace for a five-year term. Legislative power is assigned to a one-chamber parliament (Sabor), which consists of a minimum of 100 and a maximum of 160 lawmakers elected for four-year terms.

Structure of economy and foreign trade

Unlike the rest of Europe, agriculture makes up a greater share of Croatia's economy. The country mainly produces grain, corn, sugar beets and sunflower seeds. The country's industrial sector includes engineering, chemical and plastics product, electronics and raw iron. Tourism on the coast of the Adriatic plays an important role in the country's service sector.

	2010	2011	2012	2013
GDP Growth (%)	-1.2	0.0	-1.2	0.8
Unemployment rate (%)	11.8	13.1	13.4	12.7
Inflation (%)	1.1	2.2	2.4	2.0
Government deficit (%)	-4.9	-5.0	-5.1	-5.0
Public Debt (%)	41.2	45.7	51.3	57.1

Source: European Commission, 2012 and 2013 are EC estimates

The country's most important export partners include Italy (18.9%), Bosnia-Herzegovina (11.9%) and Germany (10.6%). The country exports transport equipment, machines, textiles, chemicals and food products. Croatia imports goods (especially machines, transport and electrical equipment, chemicals and fuels) mainly from Italy (15.2%), Germany (12.5%) and Russia (9%).

Macroeconomic Forecast

The Croatian economy experienced the most difficult period in its modern history. Since 2009 when the country's GDP fell by 6%, the Croatian economy still has not returned to a growth trajectory.

A decline in economic activity (-1.2%) is expected this year as well. The main cause is the debt crisis in the Eurozone, which is resulting in reduced demand for Croatian exports. The decline is also partially the result of weak domestic demand. It is negatively affecting the labor market and increasing household (and business) debt, resulting in a painful process of gradual debt reduction. Another result of the weak economy is a public finance deficit of approximately 5%.

Croatia is not expected to report its first economic growth in five years until 2013! Conditions for this are calming of the turbulence on financial markets, restoration of demand from abroad and a flow of resources from EU member states.

Labour Market

The unemployment level is higher than in the Czech Republic. In 2011 the difference amounted to 7.7% (more than double). Average work productivity is 14% higher in Croatia than in the Czech Republic. The minimum monthly salary in Croatia is the equivalent of 373.40 euros.

With the exception of the tourism industry, labor costs in all major sectors in Croatia are more than a tenth lower than in the Czech Republic.

Basic Indicators of Labour Market		
Unemployment rate (2011)	13.1 %	
Labour productivity to EU average (2010)	77.4 %	
Minimum wage (EUR, 1H/2012)	373.4 EUR	
Ø monthly labour costs, EUR, 2010	Croatia	ČR
Manufacturing	1 131	1 303
Wholesale and retail trade	1 124	1 350
Transport and storage	1 312	1 346
Accomodation and food	1 097	835
Information and communication	2 286	2 616

Source: Eurostat

Labor law basics

Each employment contract must be in written form. It is possible to enter into a contract for an indefinite period or a definite period. A contract for a definite period must not exceed three years. The employment contract may set a maximum probationary period of 6 months.

An employer may end an employment relationship for economic, technological or organizational reasons if the employee becomes unable to continue to perform work or if he/she seriously breaches work discipline. The length of the termination notice period differs depending on the duration of the employment relationship from two weeks if the employee has worked for the employer for less than a year and up to three months if the employee has worked for the employer for more than 20 years.

Commercial law basics

The most common form of a company in Croatia is a limited liability company (d.o.o.), which can be established by one or more persons. The partners are liable for the company's obligations only up to the amount of their unpaid investments.

Form of Company	Minimum Capital
Co-partnership	not specified
Special Limited Partnership	not specified
Limited Liability Company	20 000 HRK
Joint Stock-Company	200 000 HRK

Source: Croatian Chamber of Economy

The minimum required capital is HRK 20,000, which is the equivalent of CZK 70,000. For larger business projects, a joint-stock company (d.d.) is most often founded, and its registered capital must be a minimum of HRK 200,000 (approximately CZK 700,000).

According to a survey from the World Bank, the process of founding an average limited liability company in Croatia is relatively fast (it does not take more than a week), and the total cost is around HRK 6,000 (CZK 20,500).

Main taxes and additional labor costs

The corporate income tax rate is a flat rate of 20%, which is above average in Central and Eastern Europe. A total of 12% is deducted from the tax non-residents' received dividends. Progressive personal income taxes start at the same level. There are three personal income tax brackets, and monthly earnings above HRK 8,000 (CZK 27,000) are taxed at the highest rate, 40%.

Tax/payment	Rate
Corporate Tax	20 %
Dividend tax for non-residents	12 %
Individual Income Tax (progressive)	12/25/40 %
VAT (basic / lower / zero rate)	25/10/0 %
Social insurance – employee	20 %
Social insurance – employer	15,2 %

Source: Croatian Chamber of Economy

Labor costs are also increased by the employer's mandatory contribution to social security and public health insurance, which amounts to 15.2% (20% is deducted from the employee's wages for this purpose). The basic VAT rate is 25%. The reduced rate of 10% applies to accommodation services, daily press, magazines and periodicals. Some types of goods (basic food products, textbooks, medical supplies) are relieved of VAT.

Energy

Ø of wholesale price in 2H/2011	Croatia	ČR
Electric Energy (EUR/kWh)	0,0886	0,1071
Natural Gas (EUR/GJ)	12,01	9,24

Source: Eurostat

Most electricity in Croatia is produced from renewable resources; 62.6% of all electricity in the country is generated from hydroelectric power plants, and one percent is generated from windmills. Nevertheless, electricity prices are lower than in the Czech Republic.

In each issue of the Monthly the History section will focus on the history of the development of the EU. During the first phase we will examine the very beginning of the European integration process. First we will examine the founding agreements, which have fundamentally influenced the development of European economic integration. In this issue we are also focused on what preceded the creation of the first European communities and on the first of them, the European Coal and Steel Community.

ALONG THE JOURNEY OF FOUNDING AGREEMENTS, OR HOW IT ALL BEGAN

After World War Two, countries not limited to European powers had to resolve the issue of what would come next. Concerns about another armed conflict erupting led to the creation of worldwide international organizations (the UN), and there were also attempts at the European level to create a multinational body that would supervise the creation of a unified Europe and development of both economic and political cooperation.

Council of Europe

The Council of Europe was founded in 1949. However, it is not an EU institution. Its founding members were Belgium, Denmark, France, Ireland, Italy, Luxembourg, the Netherlands, Norway, Sweden and Great Britain. In 1950 the European Convention on Human Rights was signed, which recognizes basic human rights and rejects all inhumane punishments.

Schuman Declaration

A major impulse for development of cooperation in Europe was a proposal from French adviser Jean Monnet to create multinational control of heavy industry. This proposal inspired then French minister of foreign affairs Robert Schuman in his declaration The Schuman declaration, which he made public on May 9, 1950. Since then, May 9 has been celebrated as Europe Day. In his declaration, Robert Schuman presented a plan for boosting cooperation in Europe and for creating an international organization that would supervise coal mining and steel production in Europe. Coal and steel were important during the wars and were used in the arms industry. It would mean that no countries could secretly use them to arm themselves, which would ensure peace in Europe. France and Germany were expected to become the main actors.

Paris Agreement - European Coal and Steel Community

Six European states followed up on the Schuman Declaration (Belgium, France, Italy, Luxembourg, Germany and the Netherlands), when on April 18, 1951, they signed the Paris Agreement, which established the European Coal and Steel Community. The Paris Agreement became valid on July 23, 1952 and was entered into for a period of 50 years, meaning until 2002. Therefore, the agreement was not extended in 2002. Its purpose and vision was transferred to subsequent agreements. The purpose of the European Coal and Steel Community was to ensure permanent peace by creating a single market for coal and steel.

Signed (validity)	Name of the treaty	Purpose/main changes
9 May 1950	**Schuman's declaration**	Draft for cooperation in Europe
18 April 1951 (1952 – 2002)	**Paris Treaty**	establishing of European Coal and Steel Community (ECSC)
25 March 1957 (since 1958)	**Treaties of Rome**	Establishing of European Economic Community (EEC) and European Atomic Energy Community (EURATOM) – extension of cooperation
8 April 1965 (since 1967)	**Merger Treaty**	Treaty established a Single Council and a Single Commission of the European Communities
17 February 1986 (since 1987)	**Single European Act**	Extension of qualified majority voting in Council; creation of the cooperation and assent procedures, giving Parliament more influence
7 February 1992 (since 1993)	**Maastricht Treaty**	Preparation of EMU and a new name has been given to EES: „European Union“
2 October 1997 (since 1999)	**Treaty of Amsterodam**	To reform the EU institutions in preparation for the arrival of future member countries. amendment, renumbering and consolidation of EU and EEC treaties. More transparent decision-making
26 February 2001 (since 2003)	**Treaty of Nice**	Reform of instituions – change of voting systém in Council
13 December 2007 (since 2009)	**Treaty of Lisbon**	EU received law subjectivity and became an international organization

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 %	2009	2010	2011	2009	2010	2011	V-12	VI-12	VII-12	V-12	VI-12	VII-12
Belgium	-2.8	2.3	1.9	-1.6	1.4	-0.8	7,1	7,2	7,2	2,6	2,2	2,0
Bulgaria	-5.5	0.4	1.7	-8.9	-1.0	0.9	12,2	12,3	12,4	1,8	1,6	2,4
CR	-4.7	2.7	1.7	-2.4	-3.9	-2.9	6,7	6,7	6,6	3,5	3,8	3,3
Denmark	-5.8	1.3	1.0	3.3	5.5	6.5	8,0	8,0	7,9	2,1	2,2	2,1
Germany	-5.1	3.7	3.0	5.9	6.1	5.7	5,5	5,5	5,5	2,2	2,0	1,9
Estonia	-14.3	2.3	7.6	3.7	3.6	3.2	10,1	10,1	n/a	4,1	4,4	4,1
Ireland	-7.0	-0.4	0.7	-2.9	0.5	0.1	14,7	14,8	14,9	1,9	1,9	2,0
Greece	-3.3	-3.5	-6.9	-11.1	-10.1	-9.8	23,1	n/a	n/a	0,9	1,0	0,9
Spain	-3.7	-0.1	0.7	-4.8	-4.5	-3.5	24,8	24,9	25,1	1,9	1,8	2,2
France	-2.7	1.5	1.7	-1.5	-1.7	-2.2	10,1	10,2	10,3	2,3	2,3	2,2
Italy	-5.5	1.8	0.4	-2.0	-3.5	-3.2	10,5	10,7	10,7	3,5	3,6	3,6
Cyprus	-1.9	1.1	0.5	-10.7	-9.9	-10.4	10,7	10,6	10,9	3,7	2,9	3,8
Latvia	-17.7	-0.3	5.5	8.6	3.0	-1.2	15,9	15,9	n/a	2,3	2,1	1,9
Lithuania	-14.8	1.4	5.9	4.4	1.5	-1.6	13,3	13,2	13,0	2,6	2,6	2,9
Luxembourg	-5.3	2.7	1.1	6.5	7.7	7.3	5,4	5,4	5,5	2,7	2,6	2,7
Hungary	-6.8	1.3	1.7	-0.2	1.2	1.4	11,0	10,8	n/a	5,4	5,6	5,7
Malta	-2.7	2.3	2.1	-8.3	-6.3	-3.1	6,1	6,3	6,3	3,7	4,4	4,2
Netherlands	-3.5	1.7	1.2	4.1	7.1	9.2	5,1	5,1	5,3	2,5	2,5	2,6
Austria	-3.8	2.3	3.1	2.7	3.0	1.9	4,3	4,5	4,5	2,2	2,2	2,1
Poland	1.6	3.9	4.3	-3.9	-4.6	-4.3	10,0	10,0	10,0	3,6	4,2	4,0
Portugal	-2.9	1.4	-1.6	-10.9	-10.0	-6.4	15,5	15,7	15,7	2,7	2,7	2,8
Romania	-6.6	-1.6	2.5	-4.2	-4.4	-4.4	7,1	7,3	7,0	2,0	2,2	3,1
Slovenia	-8.0	1.4	-0.2	-1.3	-0.8	-1.1	8,2	8,2	8,1	2,4	2,4	2,6
Slovakia	-4.9	4.2	3.3	-2.6	-3.5	0.1	13,7	13,8	14,0	3,4	3,7	3,8
Finland	-8.4	3.7	2.9	1.8	1.4	-0.7	7,6	7,6	7,6	3,1	2,9	3,1
Sweden	-5.0	6.1	3.9	7.0	6.9	7.2	7,8	7,5	7,5	0,9	0,9	0,7
UK	-4.4	2.1	0.7	-1.5	-3.3	-1.9	8,0	n/a	n/a	2,8	2,4	2,6
EU	-4.3	2.0	1.5	-0.8	-0.7	-0.6	10,4	10,4	10,4	2,5	2,5	2,5

	Public budget to GDP*			Public debt to GDP			GDP per capita to Ø EU			Price level to Ø EU		
in %	2009	2010	2011	2009	2010	2011	2009	2010	2011	2009	2010	2011
Belgium	-5.6	-3.8	-3.7	95.8	96.0	98.0	118.0	119.0	118.0	112.3	111.4	111.8
Bulgaria	-4.3	-3.1	-2.1	14.6	16.3	16.3	44.0	44.0	45.0	51.3	50.8	51
CR	-5.8	-4.8	-3.1	34.4	38.1	41.2	82.0	80.0	80.0	73.1	75.2	76.7
Denmark	-2.7	-2.5	-1.8	40.6	42.9	46.5	123.0	127.0	125.0	143.8	142.4	142.2
Germany	-3.2	-4.3	-1.0	74.4	83.0	81.2	116.0	118.0	120.0	106.1	104.3	103.4
Estonia	-2.0	0.2	1.0	7.2	6.7	6.0	64.0	64.0	67.0	76.5	74.8	78.9
Ireland	-14.0	-31.2	-13.1	65.1	92.5	108.2	128.0	127.0	127.0	126.7	119.1	116.7
Greece	-15.6	-10.3	-9.1	129.4	145.0	165.3	94.0	90.0	82.0	95	95.1	95.1
Spain	-11.2	-9.3	-8.5	53.9	61.2	68.5	103.0	100.0	99.0	97.8	97.1	97.4
France	-7.5	-7.1	-5.2	79.2	82.3	85.8	108.0	108.0	107.0	112.4	110.8	110.7
Italy	-5.4	-4.6	-3.9	116.0	118.6	120.1	104.0	100.0	101.0	104.9	103.5	103.1
Cyprus	-6.1	-5.3	-6.3	58.5	61.5	71.6	98.0	95.0	92.0	90.1	89.2	89.4
Latvia	-9.8	-8.2	-3.5	36.7	44.7	42.6	51.0	55.0	58.0	76	72.2	74.1
Lithuania	-9.4	-7.2	-5.5	29.4	38.0	38.5	55.0	57.0	62.0	67.4	65.1	65.6
Luxembourg	-0.8	-0.9	-0.6	14.8	19.1	18.2	266.0	271.0	274.0	120.9	120.5	121.9
Hungary	-4.6	-4.2	4.3	79.8	81.4	80.6	65.0	65.0	66.0	63.4	64.9	64.3
Malta	-3.8	-3.7	-2.7	68.1	69.4	72.0	82.0	82.0	83.0	78.4	78	78
Netherlands	-5.6	-5.1	-4.7	60.8	62.9	65.2	132.0	133.0	131.0	107.8	107.6	108
Austria	-4.1	-4.5	-2.6	69.5	71.9	72.2	125.0	126.0	129.0	108	106.3	106.7
Poland	-7.4	-7.8	-5.1	50.9	54.8	56.3	61.0	63.0	65.0	58.2	61.9	60.1
Portugal	-10.2	-9.8	-4.2	83.1	93.3	107.8	80.0	80.0	77.0	89.2	88.2	87.5
Romania	-9.0	-6.8	-5.2	23.6	30.5	33.3	47.0	47.0	49.0	57.6	58.8	59.8
Slovenia	-6.1	-6.0	-6.4	35.3	38.8	47.6	87.0	85.0	84.0	85.6	84.6	83.5
Slovakia	-8.0	-7.7	-4.8	35.6	41.1	43.3	73.0	73.0	73.0	73.6	71.7	72.4
Finland	-2.5	-2.5	-0.5	43.5	48.4	48.6	115.0	115.0	116.0	124.7	123.5	125.2
Sweden	-0.7	0.3	0.3	42.6	39.4	38.4	120.0	124.0	126.0	108.5	121.6	127.8
UK	-11.5	-10.2	-8.3	69.6	79.6	85.7	111.0	112.0	108.0	96.6	100.3	101.7
EU	-6.9	-6.5	-4.5	74.8	80.0	82.5	100.0	100.0	100.0	100	100	100

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