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Page 2 Events: Cyprus has a rescue plan and escapes from bankruptcy

Page 8 Microscope: What EU is/ isn’t responsible for regarding taxes

Page 9 Topic of the Month: Single European Patent

Page 15 Doing Business: Slovakia

Page 17 Journey into History: Enlargement of EU I.

Dear readers,

The main theme of March in Europe was undoubtedly the Cypriot wakeup call. The eruption of the banking crisis in Cyprus and the wild variants of its possible resolution pulled from their lethargy investors as well as politicians and served as a reminder that the European Central Bank cannot solve the debt crisis, but can only provide the amount of time necessary.

What's at stake in Cyprus? The island nation in the Mediterranean has based its economic prosperity on the financial services sector and benevolent regulations, which have attracted capital from all over the world, mainly from Russia. The relatively large Cypriot banking industry invested massively into Greek state bonds, and the writing off of their values also dragged Cypriot banks to June figures. The losses were so deep that they threatened the very existence of the largest banking institutions, and the Cypriot government was not able to rescue the banking industry from its own resources. Therefore, the Eurozone hurried to the rescue, in cooperation with the IMF. However, a condition for the 10 billion euro rescue package is painful restructuring of the largest Cypriot banks, which will basically be paid for by large depositors.

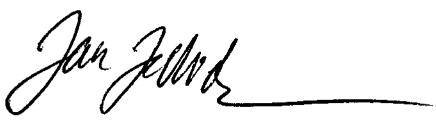
Not surprisingly, the euro reacted to the Cypriot crisis with a decline in value, and debates re-emerged about the sustainability of the Eurozone in its current form. The survival of the single European currency project has received support from Latvia, which has not lost interest in accepting single European monetary policy and the euro. The Latvians' chances will be elaborated on further in the Convergence Report of the European Commission and the ECB, which is expected to come out next month. Latvia would like to adopt the euro as of 1 January 2014.

In the In Focus section of this issue of the Monthly, we will pick up from where we left off in the first two issues of the Monthly this year and will focus on taxation and the role of the EU. This month's contribution is from one of the most qualified people, Professor Jan Široký from VŠB Technical University in Ostrava, who is also the author of the popular publication Taxes in the European Union.

The current main topic of the April issue of the Monthly is the Single European Patent. This agenda is almost a never-ending story of deepening of the internal market in the EU. Can anyone still remember that the completion of the single patent project was also among the items on the agenda of the Czech presidency of the EU in the first half of 2009? The entire patent package was signed this February and approved in the form of strengthened cooperation, in which 25 countries are participating, including the Czech Republic.

Dear Readers, I wish you the soonest possible arrival of spring weather.

Jan Jedlička



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The European Commission has presented a new Convergence and Competitiveness, which should enable closer coordination of economic policies in the Eurozone. At the end of March, an agreement was reached to resolve the banking crisis in Cyprus. The Eurozone together with the IMF will provide the country with a rescue package worth 10 billion euros, and Cyprus will undergo the painful restructuring of its two largest banking institutions. Latvia has presented good news for the Eurozone by announcing that it is interested in adopting the euro as of next year.

POLITICS

Commission: Eurozone states should coordinate economic reforms more

Eurozone member states should do more to coordinate important decisions regarding national economies in the future. This would enable the EU to better make use of the positive results of reforms and prevent the spill-over of negative effects into other member states. Eurozone members should also be more financially motivated to carry out reforms. These are the conclusions related to the proposed **Convergence and Competitiveness Instrument**.

The European Commission has proposed new ways of **better coordinating economic policy in the Eurozone**. Their aim is supposed to be to create an economic union that would complement the single European currency.

"The plans for the most important economic reforms should be evaluated and discussed at the EU level, before a final decision is made at the national level," reads the Commission's statement. It together with the Council of the EU should eventually have the right to propose changes to national plans. "The spill-over of the positive and negative results of reforms in European countries can therefore be taken into consideration already at the beginning of the decision process," the executive body believes.

Financial support mechanisms should eventually also be created, which will support member states in their reforms. This should m**otivate states to prepare reforms more quickly** and enable them to receive financial support for their implementation. The Commission would sign agreements with the governments of individual member states, in which they would commit to implementing certain reforms. Each agreement would also set the date by which the changes should be carried out. Emphasis should also be placed on boosting competitiveness, employment, development of the market with goods and services and tax reforms, according to the Commission.

http://europa.eu/rapid/press-release_IP-13-248_en.htm

ECONOMY AND EURO

Cyprus escapes from bankruptcy, has a new rescue plan

Eurozone finance ministers agreed at the end of March on a new plan to rescue Cyprus. **Only the wealthy owners of accounts in one of the two biggest Cypriot banks will lose a portion of their deposits**. This has adjusted the conditions under which the EU and the IMF will provide the Cypriot government with a loan of 10 billion euros. Cyprus is expected to receive the first part of the loan in early May.

The main objective of the new plan is **radical restructuring of the banking sector in Cyprus**, which is expected to yield 5.8 billion euros. The measures will affect only the two largest banks, the **Bank of Cyprus and Laiki**, due to their dominant position in the country's problematic banking sector. The second largest bank, **Laiki, will be completely shut down**, and insured deposits of up to 100,000 euros will be moved to the Bank of Cyprus, which will be significantly downsized. Deposits above that amount will be frozen until it is determined by how much they will be reduced. **A write-off of up to 80% is being speculated about in relation to Laiki**. In the Bank of Cyprus, depositors will lose **37.5% of their deposits above 100,000 euros**. Instead of that money, they will acquire shares in the bank, which, however, are currently almost worthless. Another 22.5% is blocked and is not earning any interest, and if it becomes apparent that the bank needs to boost its capital, the government will use the money for that purpose, and depositors again will receive shares in exchange for it. The remaining 40% of the funds will earn interest for depositors, but for now they will not be able to withdraw them.

Planned taxation of Cypriot deposits unsettles Eurozone

Eurozone finance ministers (the Eurogroup) presented the original proposal for taxing all deposits (including insured deposits). The Cypriot government was to receive financial aid only if it collected a **one-time tax on bank deposits**. For deposits up to 100,000 euros, this was to amount to 6.75%, and for higher deposits it was to amount to 9.9%.

The proposal angered the Cypriot public, since it would require everyone with savings in banks to pay the tax. The unprecedented proposed measure also prompted concerns in other countries. Therefore, the Cypriot Parliament rejected the proposal.

Laiki therefore should contribute 4.2 to 4.6 billion euros to the rescue plan, and the Bank of Cyprus 1.2 billion. Besides depositors, shareholders and holders of bank bonds will also suffer.

The current plan will only affect wealthy depositors, and depositors up to the insured amount of 100,000 euros will not be affected.

Unlike the original proposal, the Eurogroup's **current agreement is the resulting agreement**. It no longer needs

approval from the Cypriot Parliament, because it does not include any new tax. It involves only restructuring of two banks, for which a legal framework already exists in Cyprus.

The Cypriot banking sector got into problems particularly last week, thanks to **strong exposure to Greek state bonds**. With an agreement regarding their "voluntary write-off" in the amount of up to 70% of their value, Cypriot banks found themselves in existential difficulties. Due to the relative size of the sector within the entire Cypriot economy, the rescue of the banks was beyond the state's abilities. Therefore, already in June 2013, top Cypriot officials asked the European Union to provide a rescue package.

Free movement of capital ceases to function in Cyprus

Due to the need to resolve the banking crisis, banks in Cyprus were closed from 18 to 27 March. However, even since they reopened, the following "temporary" restrictions have applied and will remain in effect indefinitely:

- a maximum cash withdrawal of **300 € per day**

- maximum payments by a Cypriot credit or debit card abroad of **5,000 € per month**

- maximum transfers of cash abroad totalling **1,000 €**

- maximum non-cash transfers abroad by an individual totalling **5,000 € per month**

- maximum non-cash transfers by a company to abroad of **5,000 € daily**; higher transfers must be approved by the central bank

http://www.eurozone.europa.eu/newsroom/news/2013/03/eg-statement-cyprus-25-03-13/

Latvia wants to join the Eurozone

Latvia joined the EU together with the Czech Republic in 2004. Just under a decade later, Latvia could become the **18th member of the Eurozone**, which would bring it in line with another Baltic state, Estonia, which adopted the euro in 2011. The third Baltic state, Lithuania, is considering adopting the euro between 2015 and 2016. Latvian Finance Minister Andris Vilks together with Prime Minister Valdis Dombrovskis and Latvian central bank chairman Ilmars Rimsevič announced Latvia's intention to join the Eurozone to reporters on 4 March, shortly after the Latvian government approved the move.

Now it is up to the European Commission to examine **whether the country is prepared to adopt the euro**. That examination is expected to happen this spring.

In order for the country to enter the Eurozone, it must fulfil five **Maastricht Convergence Criteria** related to the budget deficit, debt, long-term interest rates, currency stability in relation to the euro and inflation. The Latvian government claims that it satisfies all of these conditions.

Entering the Eurozone in 2014 is a long-term goal of the Latvian government, which despite the debt crisis in certain Eurozone states expects the adoption of the euro to result in **increased investments, lower transaction costs for foreign currency exchanges and alleviation of social tension**. However, Latvia's public is concerned about the plan. Nonetheless, Prime Minister Dombrovskis is convinced that public opinion will eventually change and that the public will support the country's entry into the Eurozone.

http://europa.eu/rapid/press-release_MEMO-13-166_en.htm?locale=en

Differences among regions remain, Prague is among the wealthiest

The wealthiest regions in the EU include several capital cities (measured based on GDP per person), and **Prague has ended up in eighth place.** Other Czech **regions have not even reached the EU average**. The best off region is inner London, while the most behind is the Bulgarian region of Severozapaden. This is according to newly released data from Eurostat.

Although the cohesion policy of the EU seeks to eliminate differences among European regions, the gap between the wealthiest and the poorest segments of the population remains large. **The region of inner London has 328%** of the average GDP per person in the EU, while the Bulgarian region of **Severozapaden has only 26%.** The regions in the states that did not join the EU until 2007 (Bulgaria and Romania) are the most behind the EU average.

The European Parliament has rejected the draft future financial framework for the EU for 2014 to 2020, which had been approved by the European Council in February. MEPs believe that the draft budget includes too much austerity. Brussels has introduced a proposal for new rules for public aid starting after 2013. If the proposal is adopted, the maximum level of public aid for large companies in most Czech regions would reach only 25%. Finance ministers have approved the legislative package CRD IV, which will lead to controversial regulation of bonuses in the banks

The 20 wealthiest regions include mainly **capital cities,** besides London also **Brussels** (223% of the EU average in GDP per person), **Paris** (180%), **Bratislava** (176%) and **Prague** (172%). The Czech capital city is ahead of, for example, Stockholm, Vienna, Copenhagen and Helsinki. However, the rest of the Czech Republic is worse off, and all of the Czech Republic's other seven regions **range from 63-72% of the EU average**. The highest GDP per person is in the South-east section of the country, while the Northwest area is the poorest. Except Prague, all Czech regions are in the category under 75%, to which more than 80% of the EU cohesion policy budget is currently being directed.

The poorest regions are in **Poland, Greece, Romania, Hungary and Bulgaria**. However, two below-average regions can be found even in the UK, which in view of the mentioned advanced position of London is an example of major differences among individual regions within states.

Contrastingly, 41 regions have reached more than 125% of the EU average, meaning approximately every seventh region. Most of these are in Germany, the Netherlands, Austria and Belgium.

Ten most developed regions in EU

	Nuts II region	GDP per capita in PPS
1	Inner London (UK)	328
2	Luxembourg (LU)	266
3	Bruxelles-Cap. / Brussels Hfdst. (BE)	223
4	Hamburg (DE)	203
5	Île de France (FR)	180
6	Groningen (NL)	180
7	Bratislavský kraj (SK)	176
8	Praha (CZ)	172
9	Stockholm (SE)	168
10	Wien (AT)	165

Source: Eurostat; percentage of EU average

http://epp.eurostat.ec.europa.eu/cache/ITY_PUBLIC/1-21032013-AP/EN/1-21032013-AP-EN.PDF

BUDGET

MEPs do not like the agreed draft EU budget for 2014-2020

The negotiations regarding the next multi-year financial framework of the EU are becoming complicated. As a number of observers expected, the European Parliament has **rejected the member states' proposal for a long-term budget.** It received support from only 161 MEPs, while 506 voted against it.

Multiannual Financial Framework proposition

	2014-20	2007-13	Change
Smart and Inclusive Growth	450 763	446 310	1,0%
Competitiveness for Growth and Jobs	*125 614*	*91 495*	*37,3%*
Economic, social and territorial cohesion	*325 149*	*354 815*	*-8,4%*
Sustainable growth: Natural Resources	373 179	420 682	-11,3%
Security and Citizenship	15 686	12 366	26,8%
Global Europe	58 704	56 815	3,3%
Administration	61 629	57 082	8,0%
Compensations	27	-	-
Total commitment appropriations	959 988	994 176	-3,5%
as a percentage of GNI	*1,00%*	*1,12%*	-
Total payment appropriations	908 400	942 778	-3,7%
as a percentage of GNI	*0,95%*	*1,06%*	-

Source: European Council

The member states came up with their compromise proposal following the February summit. According to them, the **amount of the budget should not exceed 960 billion** euros during the next seven-year period. The leaders of several factions in the European Parliament expressed their dissatisfaction with the proposal already shortly after the summit. Although MEPs did not directly cast doubts regarding the budget amounts, they are unhappy that the **financial plan for the next seven years** calls for spending limits. They are convinced that European money should be spent on investments that **support economic growth and employment.**

Through the approved resolution, MEPs approved the negotiating position for discussions with member states. Now they would like to **negotiate regarding the budget with the Irish presidency of the EU**. That presidency will end this June, and by then Ireland would like to have a clear picture of the multi-year financial framework. If the Parliament and the Council do not agree**, then for the upcoming year this year's budget will apply**,

increased by two percent in view of inflation. European Union's lawmakers are demanding, for example, greater flexibility for financial planning. Therefore, it should be possible to shift unused finances among individual budget chapters.

http://www.europarl.europa.eu/news/en/headlines/content/20130313STO06477/

FINANCE

Bonuses in the European banking sector will be regulated

In Brussels on 5 March 2013, finance ministers of EU member states approved a proposal for **regulation of paid bonuses in the banking sector**. The controversial proposal for regulation of bonuses in the private sector was initiated by the European Parliament. The newly planned rules for **limiting bonuses** call for remuneration for remuneration for bankers **not to exceed the amounts of their salaries for next year**. Situations when the **shareholders of the particular company agree on other arrangements** will be an exception. In such case, it will be possible to increase a bonus to a maximum of **double the employee's annual salary**. The regulation, which will affect all banks in the EU, should take effect as of next year.

Great Britain has been the main opponent of setting the limits. The City of London, Europe's financial centre, will be affected the most by the new measures. The British government is mainly worried that **large banks may leave London** and move to other financial areas. However, already during the negotiations regarding the rules, British MEPs attempted to satisfy London's demands. Britain reportedly has been **granted concessions in a number of different areas**, and the proposal is part of a more widespread capital regulatory measure affecting banks, known as CRD IV.

The new rules will not affect most bank personnel, **but only top managers**. The limitations are expected to affect 300-500 bankers in each large bank.

Czech National Bank Vice-Governor Miroslav Singer has also criticised the regulation of bonuses. "Remuneration is primarily a matter for shareholders. The fact that a regulator will have a say in it systematically will result in another conflict of interests with difficult to predict consequences," he says.

http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/ecofin/135829.pdf

ENTERPRISE

New public aid rules could prompt investors to leave Europe

The modernisation of public aid, which for more than a year has been under way under the supervision of the EU, could **negatively affect the attractiveness of Europe for foreign investors**. The European Commission's proposed rules are raising concerns not only among large companies, but in the Czech government as well. However, according to Czech negotiators, it does not seem **that much can be changed at this point.**

If the Regional Aid Guidelines for 2014-2020 take effect, **large companies will not have access to public aid in areas where GDP per person exceeds 75%**. Something else that has raised concerns among Czech negotiators is the proposed reduction of the **intensity of public aid** (the ratio of public aid to eligible project/investment costs). In Czech regions (except Prague) it currently stands at 30% in the South-west region and 40% elsewhere. Under the Commission's proposal, as of 2014 on the entire territory of the Czech Republic except Prague, the Czech Republic should receive r**egional aid in the amount of 25% of the accepted level of public aid**. Tomáš Paták from the Czech Trade Ministry has described such reduction as "too drastic". He is nervous about the fact that under the new arrangement an investor will be able to **launch a project only after the decision** regarding provision of aid is issued, whereas currently an investor is able to launch a project already after the application is submitted.

Maximum public support intensity proposal

Developement of region in relation to Ø EU *)	Maximum intensity of public aid
Lower than 45 %	50 %
45 – 60 %	35 %
Higher than 60 %	25 %

*Source: European Commission, Public support for large entreprises; for medium entreprises it can be enlarged by 10 percentage points; *) expressed as GDP p. c. in PPS*

According to large enterprises and ministry officials, the proposed measures will negatively affect the competitiveness of the Czech Republic, where 92% of recipients of investment incentives are companies with more than 250 employees.

http://ec.europa.eu/competition/consultations/2013_regional_aid_guidelines/index_en.html

New public aid rules could prompt investors to leave Europe. Commission wants to ease life for small and medium-sized enterprises, simplify legislation. New personal data protection regulation. Will infrastructure fund Connecting Europe Facility (CEF) for the Czech Republic in programming period 2014 – 2020 be obstacle or opportunity?

Commission wants to ease life for small and medium-sized enterprises, simplify legislation

The European Commission would like for small and medium-sized enterprises, which create 85% of the jobs in Europe, to fare better. Therefore, it asked them to identify ten European regulations that most complicate their business activities and which therefore should be simplified.

European SMEs' **largest problems and costs are caused by legislation regarding chemicals, value added tax (VAT), product safety, recognition of professional qualifications, personal data protection, waste, the labour market, recording equipment in road transport, assignment of public contracts** and, last, but not least, **modernisation of customs rules** under single customs union.

However, small and medium-sized enterprises, of which there are 20.8 million in Europe, have said they most appreciate the **shortening of periods allowed for invoice payments**, which was implemented by a directive regarding delayed payments and took effect as of 16 March this year. Addressed business operators also praised the **simplified accounting and audit rules.**

The list of regulations that cause the most administrative burden will be presented to officials from member states at the European Council's summit this spring. The Commission would like to solve the problems pointed out by business operators through the new **Regulatory Fitness Initiative (REFIT)**, which was launched last December. The initiative examines European legislation and seeks to identify burdening and ineffective regulations and shortcomings. If such regulations are discovered, they will be reworked.

http://ec.europa.eu/enterprise/policies/sme/files/top10report-final_en.pdf

New personal data protection regulation

For example, a new **regulation regarding personal data protection is already being prepared** by European Union.

It was mentioned at the conference in Brussels by the Commissioner for Justice, Fundamental Rights and Citizenship, Viviane Reding. Its aim is reportedly to **ease administrative burden to a great extent**. Moreover, the standard is expected to be identical for the entire European Union.

COHESION POLICY

Will CEF for CR infrastructure fund be obstacle or opportunity?

The new Connecting Europe Facility (CEF) is part of the package for development of European infrastructure, which defines policies in three key areas. A total of **23.1 billion** euros is expected to be invested into **transport networks**, **5.1 billion** will go to support **energy networks**, and the remaining **1 billion** is intended for development of **data networks and electronic infrastructure**. This facility is not part of European funds and does not function based on the principle of co-financing or grants, but as a **summary of investment aid, for ensuring risky assets and for increasing the rating for project bonds.**

According to the Commission, a **portion of the money** intended for transport is to be transferred to the **CEF from the Cohesion Fund**. That portion specifically will amount to 10 billion euros, which the newer member states, including the Czech Republic, are not very happy about.

One of the reasons for the expressed concerns is that in the CEF resources will be used at the expense of currently existing "national packages" intended for specific states, which register "certain" allocation of resources for individual countries, which themselves are responsible for determining their further use.

According to Marek Pastucha, Director of the Department of EU Funds at the Czech Transport Ministry, another problem is that the ministry has not received more detailed information from the European Commission regarding the rules for combining both tools (the CEF and the successor of today's OPD, editor's note).

https://ec.europa.eu/digital-agenda/en/connecting-europe-facility

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/eucalendar/.

Meeting of the key EU institutions

12 – 13 April 2013	**Dublin, Ireland**	- Eurogroup
12 – 13 April 2013	**Dublin, Ireland**	- Informal Meeting of Ministers of Finance
15 – 18 April 2013	**Strasbourg, France**	- European Parliament Plenary Session
17 – 18 April 2013	**Dublin, Ireland**	-.Informal meeting of EU Trade Ministers
22 April 2013	**Brussels, Belgium**	-.General affairs Council
22 – 23 April 2013	**Brussels, Belgium**	- Agriculture and Fisheries Council
22 - 23 April 2013	**Dublin, Ireland**	- Informal Meeting of Ministers for Environment
22 – 23 April 2013	**Brussels, Belgium**	- Foreign Affairs Council
23 - 24 April 2013	**Dublin, Ireland**	- Informal Meeting of Ministers for Energy
1 - 3 May 2013	**Dublin, Ireland**	- Informal Meeting of the Competitiveness Council
8 – 9 May 2013	**Brussels, Belgium**	- European Parliament plenary session
13 May 2013	**Brussels, Belgium**	- Eurogroup
13 – 14 May 2013	**Brussels, Belgium**	- Agriculture and Fisheries Council

Access as of April 2nd 2013

The aim of the In Focus section is to examine in detail and with comments current topics affecting the European political scene. In the April issue, we focus on the topic of taxes, which due to their increase across the EU are attracting attention from consumers as well as economic analysts. What is the EU's role in national states' tax policies? Is Brussels at least indirectly to blame for the unpopular moves related to taxes? You will find the answers to these and similar questions in the current In Focus section.

WHAT EU IS/ISN'T RESPONSIBLE FOR REGARDING TAXES

Taxes have always been a symbol of a particular territory's national sovereignty, but European integration requires close cooperation among member states regarding taxes. The reasons are simple: taxes have an effect on the free movement of goods, persons, services and capital, which are the principles on which the EU was established.

There are currently defined responsibilities in the EU for individual types of taxes:

- personal retirement taxes remain under the authority of national governments,
- indirect taxes that directly affect the functioning of the single market are at the centre of attention and efforts regarding their harmonisation,
- corporate taxes are intended to assist the free movement of capital and are not supposed to cause harmful competition among individual states, and
- social security systems are not supposed to be an obstacle to the right to settle freely in any member state.

Let's examine the individual types of taxes. An increasingly discussed issue in the Czech Republic is the transition from the current flat 15% personal income tax rate back to a system of sliding progressive taxes, which existed in the Czech Republic until the end of 2007. At that time, there were four tax brackets with a maximum rate of 32%, and in 1993 (when the current tax system was implemented) there were even six brackets in the Czech Republic, and the highest rate was 47%!

What does the EU think about it? As we have already stated previously, it basically does not care. No legislative requirement sets the amount of personal taxes, which is a reflection of the wide range of individual tax systems in member states. By the last day of last year, there were states in the EU with a single ("flat") tax rate (besides the Czech Republic, also Bulgaria, Estonia, Lithuania, Latvia, Hungary, Romania and Slovakia) and countries such as Luxembourg, which even had 18 different tax brackets!

And do the tax rates vary greatly? Yes, from 10% in Bulgaria, to more than 50% in Denmark and Holland! However, it necessary to keep in mind that a flat tax rate in fact is also a progressive tax. For example, in the Czech Republic, a taxpayer with yearly gross income of CZK 123,500 does not pay any taxes, due to tax discounts! As evidence of the autonomy of tax policy with regard to taxation of individuals, it is possible to point out the CR's "novice" practice of taxing super gross income, a method that was used in a modified form for two years only by Hungary.

Another area where tax diversity has been maintained is the amount of the tax burden itself. Even the most die-hard backers of tax harmonisation recognise that the tax burden is the result of national traditions, individual states' needs and election results and a result of what citizens want to achieve from public budgets, what they are accustomed to and what they expect from the state. For these reasons, the tax burden traditionally has been the highest in Scandinavian countries and the lowest in Southern Europe.

Another issue is the effort in recent years to shift the tax mix (the ratio of direct and indirect taxes) towards indirect taxes, which on one hand is more effective and simpler, but on the other hand represents somewhat more hidden increasing of the tax burden. This currently involves VAT particularly.

So: What can the EU be blamed for regarding VAT? It can mainly be blamed for the tax itself. Already in 1967, VAT was legally enshrined as the only permitted general consumer tax in the EU.

Following complicated discussions, the model considered the basic VAT model in the EU has two types of tax rates: basic, which must not be less than 15%, and one or two reduced rates, which must not be less than 5%. This principle is legislatively based, but nonetheless (as is already common in the EU with a few permitted exceptions) only a small number of states are currently taking advantage of the opportunity to set the tax rate at the lowest possible level.

This situation exists because while dealing with the consequences of the economic crisis, most states chose to increase VAT as an easy way to increase public budget revenues. This resulted in unforeseen changes in tax rates.

Between 2008 and 2013, a total of 27 changes were made to the standard VAT rate in 17 EU member states. The largest increase in the standard rate was registered in Hungary (by 7%!), followed by Romania and Spain (by 5%!). During that period, a total of 15 changes were also made to the reduced VAT rate in 9 EU member states. The largest increases in the reduced rate were in Latvia and the CR.

The development that we described resulted in an increase in the average reduced VAT rate from 8% to 9.2% and an increase of the average standard rate from 19.5% to 21.2%.

Jan Široký
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On 19 February 2013 at the meeting of the Council on Competitiveness in Brussels, the Czech Republic along with other EU states signed an international treaty on the creation of a single patent court for resolving disputes regarding European patents and European patents with a single effect. It is part of what is known as the patent package. In this month's main topic, you can read about the history of patent protection in Europe, what the patent package is all about and what effects it will have.

SINGLE EUROPEAN PATENT

INTRODUCTION

On 19 February 2013 at the meeting of the Council on Competitiveness in Brussels, the Czech Republic along with other EU states signed an international treaty on the creation of a single patent court for resolving disputes regarding European patents and European patents with a single effect. It is part of what is known as the patent package. This step has helped end a few decades of negotiations regarding creation of harmonised patent protection. The patent package besides the treaty regarding the single patent court also includes two other parts: a European patent with a single effect and regulations regarding examples.

Besides the Czech Republic, the treaty was also signed on 19 February 2013 by 23 other EU states. It was not signed by Poland, Spain or Bulgaria, but Bulgaria did sign a couple of days later. Its delay was due to delays in national procedures. Spain does not agree with the proposed guideline that would require patents and their accompanying documentation to be translated into three languages, English, German and French, but not Spanish. Poland so far has not signed, due to concerns about potential negative effects of patents on its national economy. Croatia is also expected to sign the patent package after it joins the EU this summer.

The treaty will not take effect in the individual member states until it has been ratified in 10 member states, and it must also be ratified by France, Germany and the UK. The first patents with a single effect are expected to be granted already at the beginning of 2014.

However, what preceded this important step, and what is the situation in the Czech Republic with the number of patents with effectiveness on its territory?

HISTORY OF PATENT PROTECTION

As part of patent protection and intellectual property protection, several important documents have been issued and adopted. We will present the most important of them in the following paragraphs. The fact that patents have long played an important role at an international level is evidenced by the Paris Convention for the Protection of Industrial Property signed on 20 March 1883 in Paris, which has been revised several times:

- in Brussels on 14 December 1900,
- in Washington on 2 June 1911,
- in the Hague on 6 November 1925,
- in London on 2 June 1934,
- in Lisbon on 31 October 1958,
- in Stockholm on 14 July 1967, and which was also amended on 2 October 1979.

In that convention, the meaning of intellectual property protection and the rules for industrial property protection were first formulated. The subjects of industrial property protection are patents and inventions, usable samples, industrial samples and models, factory and trademarks, service brands, company names and details regarding provenance of goods and labelling of their origin. Another role of industrial property protection is to suppress unfair competition. The reason for the implementation of these rules was to prevent forgery and unauthorised use of inventions. The countries to which the Paris Convention applies comprise the Union for the Protection of Industrial Property. Its founding was participated in by Belgium, Brazil, France, Italy, the Netherlands, Portugal, Spain and Switzerland. Since then the number of participating countries has grown, and today there are 174 members. Former Czechoslovakia first joined the Convention (revised in Washington in 1911) on 20 June 1919 (with it taking effect on 5 October 1919). The Czech Republic joined the convention as of the date when the Czech Republic became an independent country, 1 January 1993.

In 1967, the World Intellectual Property Organisation (WIPO) was established based on the Convention on the Establishment of the World Intellectual Property Organisation. That organisation is a specialised UN agency. The WIPO administers multilateral international treaties regarding intellectual property. The organisation currently has 185 members.

Other important documents regulating patent protection include the Patent Cooperation Treaty (PCT), adopted in Washington on 19 June 1970 and falling under the WIPO. That treaty was also amended on 28 September 1979, 3 February 1984 and 3 October 2001. States that are members of the Patent Cooperation Treaty comprise a

union for cooperation during submission of registrations for protection of inventions, conducting of research regarding inventions and for providing special technical services. This treaty also enables the filing of a single international registration for a patent specifying which states the applicant wants to register the patent in. So far 146 countries have joined the PCT. The Czech Republic has been bound by this treaty since 1 January 1993.

European Patents

The European Patent Convention (EPC) was adopted in Munich on 5 October 1973 for the purpose of ensuring patent protection in Europe. it became valid on 7 October 1977 and was revised by revising article 63 of the European Patent Office dated 17 December 1991 and a revising act of the European Patent office dated 29 November 2000. This convention established for its signatory countries a joint right to grant patents for inventions and simplified the process of obtaining patent rights by filing a single registration in EPC signatory countries. Patents granted under this convention are referred to as European patents.

A European patent has the same effect in each signatory country for which it was issued and is subject to the same guidelines as a national patent issued in a particular country, unless the convention specifies otherwise. An application for a European patent can be filed for one, several or all signatory countries. A European patent issued by the European Patent Office should therefore have the same effect on a patent owner's application in participating member states. Such patent is referred to as a "European patent with a single effect". The European Patent Convention sets a common period of validity for a European patent of 20 years from the registration filing date.

European Patent Organisation and the European Patent Office

The intergovernmental European Patent Organisation and its administrative body, the European Patent Office (EPO), were created based on the convention. The European Patent Office commenced its activities on 1 July 1978. The European Patent Organisation's role is to issue European Patents. This role is carried out by the European Patent Office under the supervision of its administrative board. In each signatory country, the organisation has the broadest possible legal authority recognised for legal entities under a particular state's national legislation. The organisation is represented by the president of the European Patent Office and has its headquarters Munich. The European Patent Office also has its headquarters in Munich and a branch in the Hague and is overseen by its president, who serves the administrative board.

Contracting states of European Patent Office

Country	since
Belgium, Germany, France, Luxembourg, Netherlands, Switzerland, United Kingdom	7.10.1977
Sweden	1.5.1978
Italy	1.12.1978
Austria	1.5.1979
Lichtenstein	1.4.1980
Greece, Spain	1.10.1986
Denmark	1.1.1990
Monaco	1.12.1991
Portugal	1.1.1992
Ireland	1.8.1992
Finland	1.3.1996
Cyprus	1.4.1998
Turkey	1.11.2000
Bulgaria, Czech republic, Estonia, Slovakia	1.7.2002
Slovenia	1.12.2002
Hungary	1.1.2003
Romania	1.3.2003
Poland	1.3.2004
Iceland	1.11.2004
Lithuania	1.12.2004
Latvia	1.7.2005
Malta	1.3.2007
Croatia, Norway	1.1.2008
Macedonia	1.1.2009
San Marino	1.7.2009
Albania	1.5.2010
Serbia	1.10.2010

Source :European Patent Office

The official languages of the European Patent Office are English, French and German. A European patent registration application may be filed in one of the official languages, or if it is filed in any other language, it must be translated into one of the official languages, in accordance with the implementing regulation. During proceedings before the European Patent Office, this translation can be brought into line with the wording of the registration application as it was filed.

As of 7 October 1977, the European Patent Organisation had 7 members (Belgium, Germany, France, Luxembourg, the Netherlands, the UK and Switzerland). The number of signatory countries has grown over time, and on 1 July 2002 the Czech Republic joined along with Bulgaria, Estonia and Slovakia. Since 1 July 2002, it therefore has been possible to file European patent applications at the Czech Industrial Property Office. Serbia, which joined on 1 October 2010, is the most recent new member. The European Patent Organisation today is comprised of 38 European countries. In relation to the EPC, the London Treaty was signed, which has been ratified by 15 member states. In the London Treaty, signatory states forfeited their entitlement to translations into their own languages, which should reduce the costs for translations of European patents (for example, according to a study by the European Commission from 2000, a patent permitted by the EPO was 5 times more expensive than a patent in the United States and 3 times more expensive than a patent in Japan, and the differences were due to the need for translations into multiple languages).

PATENT PACKAGE

Last December, following several years of efforts, approval of what is known as the patent package was achieved, both in the Council on Competitiveness and later also in the European Parliament. This patent package should simplify patent protection in the EU as well as make it more transparent and much less expensive. The package is expected to take effect in all EU states except Italy and Spain.

The package itself consists of three parts:

- the directive regarding the single patent,
- the directive regarding translations of patents,
- the agreement on the patent court.

Single patent

The single patent is addressed by European Parliament Regulation No. 1260/2012 of 17 December 2012. This directive implements strengthened cooperation related to the creation of single patent protection permitted by decision 2011/167/EU, which the Council of the EU adopted on 10 March 2011. This decision permits boosted cooperation among Belgium, Bulgaria, the Czech Republic, Denmark, Germany, Estonia, Ireland, Greece, France, Cyprus, Latvia, Lithuania, Luxembourg, Hungary, Malta, the Netherlands, Austria, Poland, Portugal, Romania, Slovenia, Slovakia, Finland, Sweden, the United Kingdom in relation to creation of single patent protection.

Single patent protection will support scientific and technical progress and the functioning of the internal market by ensuring that access to the patent system is simpler, less costly and legally protected. It shall also increase the level of patent protection by making it possible to acquire single patent protection in involved member states and by eliminating costs and bureaucracy for companies in the entire EU. Single patent protection should be available to European patent owners from involved member states and from other states regardless of their citizenship, residence or registered seat.

Single patent protection should be achieved by recognising the single effect for European patents in the phase following the issuance of the patent, based on this directive and in relation to all involved member states. The main advantage of a European patent with a single effect should be its single nature, which is that it provides protection and has the same effect in all involved member states. The European patent with a single effect could be limited, transferred or cancelled or could expire only in relation to all involved member states. It should be possible to provide for a European patent with a single effect a licence in relation to the entire territory of the involved member states and or in relation to part of it.

In order to ensure the single material scope of protection originating from single patent protection, only European patents that were granted for all involved member states with the same set of entitlements should have a single effect. The single effect recognised for a European patent should also have only a complementing character, and in the extent in which a basic European patent has been cancelled or limited, it shall be considered never to have been established. A European patent with a single effect will become effective in involved member states as of the date when the European Patent Office publishes an announcement about the issuance of the particular European patent in the European Patent Bulletin.

Patent translations

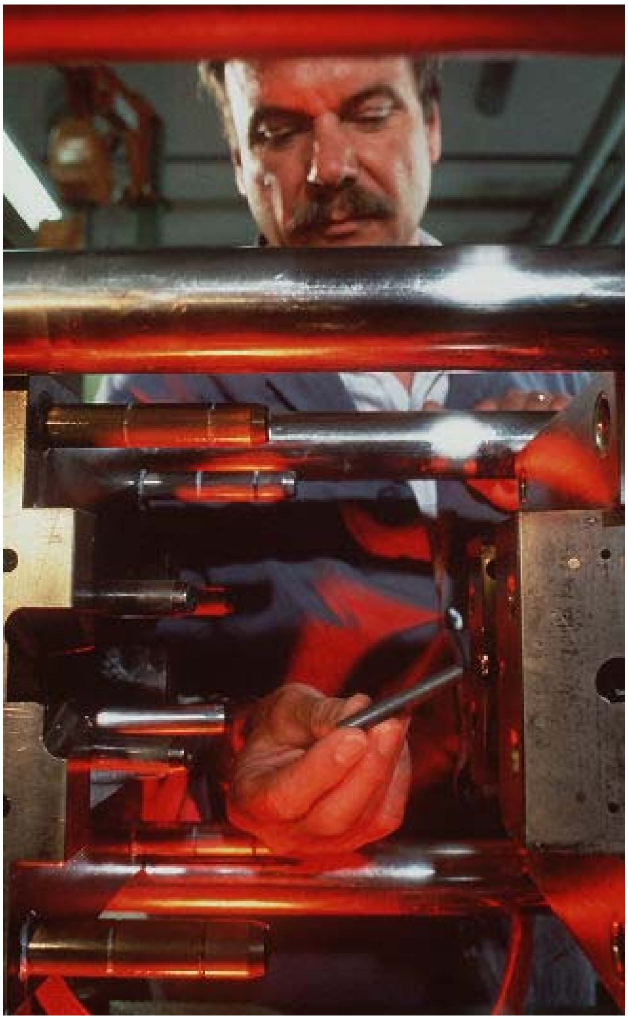
Patent translations are addressed in Council Regulation (EU) No. 1260/2012 of 17 December 2012. In accordance with decision 2011/167/EU, the provisions regarding translations for European patents with a single effect should not be complicated or unreasonably costly. The provisions regarding translations should ensure legal certainty, stimulate innovation and bring benefits particularly to small and medium-sized enterprises. Thanks to these provisions regarding translations, access to a European patent with a single effect and to the patent system as a whole should be simpler, less costly and legally ensured.

In order to facilitate access to European patents with a single effect, registering applicants, particularly small and medium-sized enterprises, should have the option of filing patent applications at the European Patent Office in any official EU language. As an additional measure, certain registering applicants who obtain European patents with a single effect and have filed a European patent application in an official EU language which is not an official language of the European Patent Office and who have their residence or main place of business in an EU member state should be reimbursed for their additional costs for translation from the language of the patent registration to an official language of the European Patent Office beyond the extent already currently applied at the European Patent Office.

The system of these reimbursements should be administered by the European Patent Office in accordance with Article 9 of Regulation (EU) No. 1257/2012. Machine translations are also available, which are developed by the European Patent Office and which are very important tools intended to improve access to patent information and enable the distribution of technical findings.

Patent court

The treaty on a single patent court is the third and last part of the patent package. That treaty was signed on 19 February 2013 by 24 EU states including the Czech Republic.



A couple of days later, Bulgaria also signed it. So far, Poland and Spain have not signed it. The treaty will not take effect in the individual member states until it has been ratified in 10 member states, and it must also be ratified by France, Germany and the United Kingdom. As soon as this treaty takes effect, the signatory countries will comprise a single area from the point of view of patent law. So far, proceedings regarding patent disputes have often had to be discussed by several courts in each country where patent breaches occurred. However, the decisions issued by this new court will be applicable on the entire territory of all signatory countries. The single patent court will enable enforcement of rights at a single court and therefore reduce financial and time demands for resolving patent disputes.

PATENTS AND THE CZECH REPUBLIC

In the Czech Republic, the role of a patent and trademark authority is carried out by the Czech Industrial Property Office (more at http://upv.cz/cs.html), which also collects data regarding protection of industrial rights and ensures patent protection in the Czech Republic. It is presided over by a chairperson appointed by the government.

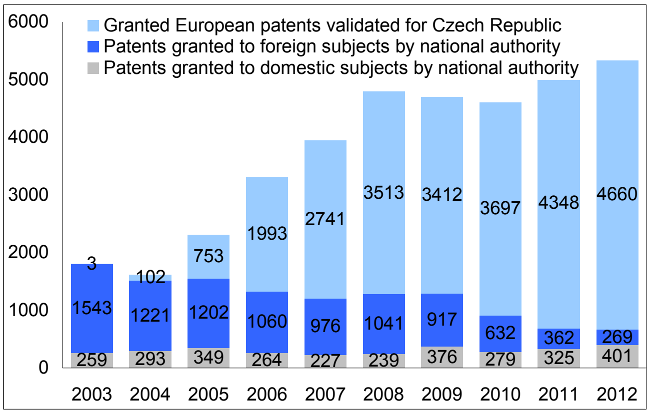
The basic functions of the Industrial Property Office include:

- deciding within administrative proceedings about providing protection for inventions, industrial samples, usable samples, topography of semi-conducting products, trademarks, geographical labels and product origin labelling and maintaining registers of these subjects of industrial rights;
- performing activities pursuant to regulations regarding patent officials;
- obtaining, preparing and providing access to worldwide patent literature;
- ensuring fulfilment of obligations from international treaties related to industrial property to which the Czech Republic is a signatory;
- actively participating in cooperation with other state administrative bodies during enforcement of industrial rights;
- cooperating with international organisations and national authorities in individual countries in the field of industrial property.

The patent office has several years of tradition in our country. The patent office was founded in Prague pursuant to Act No. 305/1919 dated 27 May 1919, and a patent court was established together with its founding. Proceedings regarding trademarks took place until 1 January 1950 before trade and trade licensing bodies and before the Trade Ministry. The appellate court in the second instance is the Supreme Court. As of 1 April 1952, the Office for Inventions and Improvement Initiatives was established, which was later succeeded by the Office for Inventions and the State Office for Inventions and Normalisation. After several additional phases of development, during the division of the former Czechoslovakia the Czech Industrial Property Office was founded, which has its headquarters in Prague and which:

- decides about providing protection for inventions, industrial samples, usable samples, topography of semi-conducting elements, trademarks and product origin labelling;

Patents granted by national authority and European patents validated in CR



Source: Industrial Property Office CR

- performs activities pursuant to regulations regarding patent officials;
- maintains a central archive of international patent literature.

A patent (as defined according to the Czech Statistical Office) is a public document issued by a relevant patent authority, which provides legal protection for an invention for a period of up to 20 years (if retention fees are paid) for the territory for which the patent was issued (for example, the Czech Industrial Property Office issues patents at a national level that are valid for the Czech Republic). A patent is applied for by filing a patent registration application at a relevant patent authority.

A few trends are apparent from the development of the number of issued patents at a national level and European patents validated in individual years in the Czech Republic. There has not only been a growing number of issued patents, but also a growing number of European patents with validity for the Czech Republic. The first three European patents were validated in 2003, since it has been possible to apply for European patents in the Czech Republic only since 1 July 2002. Since that year, their number has been rising continuously. The only slight decline was in the crisis year of 2009. In 2012, of the total number of 5,330 validated patents, 4,660 were issued by the European Patent Office. Another trend, but this time a declining one, can be observed among patents issued at a national level. Patents issued at a national level are monitored from the point of view of domestic and foreign applicants. In 2003, a total of 1,543 patents were issued to

foreign applicants, but in 2012 only 269 were, due to the option of foreign applicants being able to make use of the protection provided by a European patent.

It is apparent from the Czech Industrial Property Office's 2012 annual report that of the total of 5,330 patents issued in the Czech Republic in 2012, the largest number were issued to applicants from Germany (1,536, which represents approximately a third), followed by the United States (15%), France and Switzerland (each 7%). There were 423 applicants from the Czech Republic in 2012, which represents 8% of all issued and validated patents with effectiveness in the Czech Republic.

If we look at issued patents and validated European patents from the point of view of patent classification, then it is apparent that of the total number of 5,330, the largest percentages were in the fields of "Organic Chemistry" (14%), "Transport and Storage" (just under 11%) and "Medicinal, dental and health products" (9%).

The total number of valid national patents and validated European patents as of 31 December 2012 in the Czech Republic was 28,864, of which 8,608 were national patents and 20,256 were European patents.

Revenues from patent fees are another interesting indicator. These fees include registration fees, fees for applications for conducting of complete research, fees for issuing of patent documentation and fees for maintaining the validity of patents, which comprise the largest portion of revenue from patent fees. Amounts are set for individual years for maintaining the validity of patents. These fees are gradually rising, and in 2012 for Czech patents more than CZK 97 million was collected, and for European patents, just under CZK 49 million was collected.

CONCLUSION

Patent protection has undergone long-term development, and soon it awaits ratification of the Treaty on the Single Patent Court with individual states. The first patents with a single effect are expected to be granted already at the beginning of next year. The new patent will be less expensive and more effective than the current system for protecting individual inventions in all 25 involved member states. This will also increase their competitiveness towards other states. According to the European Commission, the average costs for a patent will reach 36,000 euros, while costs for a unified patent are expected to reach approximately 5,000 euros (for a comparison, in the United States the costs have reached approximately 2,000 euros, and in China around 600 euros). These ongoing changes have therefore taken the right direction and are a contribution to the availability of European patent protection and reduction of administrative and financial demands (not only for small and medium-sized enterprises, for which the current system is too costly).

Patent fees revenues for czech inventions and european patents in CZK (2012)

	Collected for czech patents	**Collected for European patents**
Registration fees	1 038 500	-
Filling by registering party	926 900	-
Filling by originator	111 600	-
request for carrying out a comprehensive survey fee	3 168 500	-
Letters patent release fee	2 253 000	-
Fees for keeping patents valid	97 190 000	48 915 000
1st - 2nd year	352 000	5 000
3rd year	429 500	180 000
4th year	279 000	930 000
5th year	424 000	3 648 000
6th year	581 000	4 526 000
7th year	464 000	5 328 000
8th year	486 000	5 644 000
9th year	505 500	8 688 000
10th year	646 000	11 368 000
11th year	3 433 000	8 598 000
12th year	8 770 000	0
13th year	11 998 000	0
14th year	12 721 000	0
15th year	11 828 000	0
16th year	11 433 000	0
17th year	10 701 000	0
18th year	8 610 000	0
19th year	7 865 000	0
20th year	5 664 000	0
Other fees	2 620 445	11 310 600
Total	**106 270 445**	**60 225 600**

*Source: Annual report 2012, Industrial Property Office of Czech republic; * for 11th and every other patent claim - 500 CZK; ** for 11th and every other party - 100 CZK*

The Guide to Doing Business Section is part of the advisory programme "Foreign Business Guide", which the EU Office has offered since the beginning of this year. Within the program, we provide our clients from among small and medium-sized businesses with information about how to expand abroad successfully and what business environment awaits them there. You can find more information about the programme here: www.csas.cz/eu. In this issue we present Slovakia.

SLOVAKIA

Official name	Slovenská republika (Slovak republic)
Population	5 477 038 (2011)
Area	49 035 km^2
Currency	Euro (EUR)
Ethnic groups	Slovaks 85.5 %; Hungarian 9.7 %

Source: CIA World Factbook

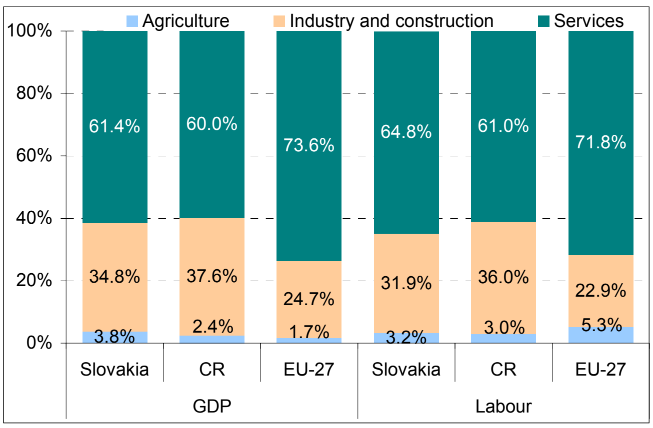
The Slovak Republic was established following the split of Czechoslovakia in 1993 and is a parliamentary republic with a unicameral parliament.

The head of state is the president, who is elected for a 5-year term and can be re-elected a maximum of one time. Since 2004, Ivan Gašparovič has served as Slovakia's president. He was re-elected in 2009. The president appoints the cabinet, which is subject to an expression of confidence from the parliament. Legislative power is placed into the hands of the unicameral parliament, the National Council of the Slovak Republic. The National Council consists of 150 members elected for 4-year terms based on a proportional system.

Structure of economy and foreign trade

Unlike in other European economies, in Slovakia agriculture has a greater share of the economy and is dominated by the cultivation of grains, hops and potatoes and raising of cattle, poultry and pigs. The industrial sector is also important, particularly the country's engineering and automotive industries. Slovakia's chemical and metallurgic industries are also significant for the Slovak economy.

Structure of national economy - Slovakia (CR and EU)



Source: Eurostat, Data for 2010 (GDP) and 2011 (labour)

Slovakia exports mainly machines and electrical equipment, vehicles, metals, chemicals and minerals. Its most important export partner is Germany (with a 21 % share). The territorial structure of imports is similar. Most of the country's imports come from Germany (19.3 %) and the Czech Republic (15.1 %).

Macroeconomic outlook

Basic indicators	2011	2012	2013[e]	2014[e]
GDP Growth (%)	3.2	2.0	1.1	2.9
Unemployment rate (%)	13.6	14.0	14.0	13.6
Inflation (%)	4.1	3.7	1.9	2.0
Government deficit (%)	-4.9	-4.8	-3.3	-3.4
Public debt (%)	43.3	52.4	55.1	57.1

Source: European Commission; [e] - estimate

Slovakia has been recovering quickly from the harsh beating it took during the financial crisis. While at the height of the crisis in 2009 its economy fell by nearly 5 %, already in the following year it experienced a sharp upturn in its economy with pace of growth of 4.4 %. However, over time the country's economy is expected to slow down again. In 2012 its GDP grew by 2.1 %.

The previous engine of growth, consumer demand, ran out of steam. The main reason for this can be attributed to high unemployment and the government's fiscal consolidation efforts. The main engine of growth consisted of net exports, which have been benefiting from newly built export oriented production capacities, particularly in the automotive industry. Slovaks are slowly stabilising their public finances. While during the tenure of former prime minister Iveta Radičová, savings were achieved mainly in spending from the budget, the current left-leaning government of Prime Minister Robert Fico, which succeeded Radičová in April 2012, has tended to focus more on increasing revenue.

Labor market

An employment contract can be entered into for an indefinite or a definite period, but the second variant is possible for a maximum of 2 years and can be extended or renegotiated only twice during those 2 years. Slovak employees are entitled by law to a minimum of 4 weeks of vacation.

The probationary period is a maximum of 3 months. In the case of managers, the probationary period can be extended to up to 6 months. The termination notice period is one month, but the law also allows for exceptions and the option of extending the termination period. The work period in Slovakia is set as 40 hours per week, and overtime may amount to a maximum of 8 hours per week.

Basic indicators of labor market		
Unemployment level (2012)	14.0	
Labor productivity (% to Ø EU; 2010)	73.9	
Minimum monthly wage (1H/2013)	337 EUR	
Ø monthly labor cost in sectors (EUR) 2011	**Slovakia**	**CR**
Manufacturing	1 148	1 394
Construction	1 194	1 445
Wholesale and retail trade	1 121	1 449
Real estate activities	1 284	1 617
Accomodation and food services	710	922

Source: Eurostat

Labor law basics

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The probationary period is a maximum of 3 months. In the case of managers, the probationary period can be extended to up to 6 months. The termination notice period is one month, but the law also allows for exceptions and the option of extending the termination period. The work period in Slovakia is set as 40 hours per week, and overtime may amount to a maximum of 8 hours per week.

Commercial law Basics

The most common legal types of business are limited liability companies (spol. s r. o.) and joint-stock companies (a. s.). The minimum capital for a Slovak limited liability company is 5,000 euros (approximately 120,000), and the number of partners is limited to 50. Each partner's minimum investment is 750 euros. Joint-stock companies can have two forms: with a public offering with subscription of shares or without a public offering. An open joint-stock company can have an unlimited number of partners. They are acquired through public subscription, and together with subscribers they must come up with registered capital of at least 25,000 euros.

Form of Company	Minimum Capital
Limited Liability Company	5 000 EUR
Joint Stock-Company	25 000 EUR
European company	120 000 EUR
Co-partnership	30 000 EUR
European Partnership Company	1 250 EUR

According to a survey by the World Bank in the framework of Doing business project, the process of setting up an average limited liability company in Slovakia takes relatively long (more than two weeks), and the total costs for its establishment can amount to around 400 euros (approximately CZK 10,000).

Main taxes and additional labor costs

The corporate income tax rate of 23 % is above average in Central and Eastern Europe. The situation is similar with individual income tax rates, which are progressive. For a tax base of less than 34,402 euros a 19% tax rate applies, and for higher incomes a 25% rate applies.

Labour costs are increased only by the employee's contribution to social security, which amounts to 35.2%. An additional 13.4% is deducted from the employee's gross wages for the same purpose. Value-added tax has two brackets. Besides the standard 20% rate, there is also a reduced rate of 10% (for pharmaceutical products, certain medical supplies and equipment and goods), and certain expenses are relieved of VAT altogether (social aid, healthcare, education and training, culture, sport and certain financial services).

Tax/payment	Rate
Corporate Tax	23 %
Dividend tax for non-residents	0 %
Individual Income Tax (progressive)	19 % / 25 %
VAT (basic / lower / zero rate)	20 % / 10 %
Social insurance – employee	13.4 %
Social insurance – employer	35.2 %

Source: National Agency for Developement of SME

Energy

More than half of the electricity in Slovakia is produced in nuclear power plants. Renewable resources are the second most important source of energy with a 22.7% share.

Energy in Slovakia is more expensive than in the Czech Republic. In the first half of 2012, electricity was sold to large industrial customers for 0.1316 euros per kWh (without VAT), and the prices of natural gas reached 10.96 euros per GJ (without VAT).

Ø of wholesale price in 2H/2011	Slovakia	ČR
Electric Energy (EUR/kWh)	0,1316	0,1039
Natural Gas (EUR/GJ)	10,96	9,31

Source: Eurostat

This June, the European Union and the entire idea of post-war European integration will go through another milestone. The EU will admit its 28th member, which is even a former Yugoslav republic, Croatia. We will focus on this occasion again and recall all of the phases of enlargement, including its causes and circumstances. In the April issue, we will also focus on the first three waves of enlargement.

HISTORY OF EU ENLARGEMENT

The first wave occurred in 1973, when Denmark, Ireland and Great Britain were admitted, which increased the number of members of the European Community from six to nine. This enlargement was also the first and last during the period when representatives in the European Parliament were elected indirectly.

Great Britain originally refused to participate in the European Community as a founding member, but it re-evaluated its foreign policy following the Suez Crisis and decided to join the EC. Of course, Britain's main motivation for entry was not defined by economic reasons, but by diplomatic ones. It was attempting through this step to limit France's position and reduce France's influence. This was one of the reasons why Britain's application for membership was rejected twice, in 1961 and 1967. In both cases, the rejection was initiated by France, which was concerned about losing its influence.

EU enlargement in time

Original members	Belgium, France, Italy, Germany, Netherlands
1973	Denmark, Ireland, United Kingdom
1981	Greece
1986	Portugal, Spain
1995	Finland, Austria, Sweden
2004	Czech republic, Estonia, Cyprus, Lithuania, Latvia, Hungary, Malta, Poland, Slovakia, Slovenia
2007	Bulgaria, Romania
2013	Croatia

Source: European Commission

The other member states agreed with the admission of the island superpower to the EC, and so after French president Charles de Gaulle's departure, the doors were opened for Britain. Representatives of the European Economic Community at the time saw Britain's admission to the club as a potential impulse for the Community's stagnating economy, and therefore the country was admitted after a mere 12 hours of negotiations.

Together with Britain, EC membership was also sought by Denmark, Ireland and Norway, which like Britain were so economically powerful that this seemed like a logical step. However, Norway's voters rejected their country's entry in a referendum, and Norway remains outside of the EU today.

From the very beginning, Great Britain and Denmark had a clear opinion of what the European Community should mean for them. They saw it mainly as a space for realising an economic boom and were strongly against any further enlargement of its powers at the expense of their national sovereignty. And this in particular in combination with the voting in the Community at the time based on the principle of unanimity led to a series of crises within the EEC during the 1970s.

Following the first wave of enlargement in 1973, the number of inhabitants of the Community increased by one third, like the total GDP volume of all the countries. The only negative statistical indicator was the proportion of GDP per capita in the Community, which following the admission of new members fell by 0.91%.

These countries included Greece, which was not allowed to submit an application for membership until after the restoration of democracy following the collapse of the dictatorship in 1974. Greece's admission into the group of elite countries can mostly be attributed to Greek President Konstantinos G. Karamanlis, who during the years of his exile maintained contacts with representatives of the European Parliament and successfully convinced EC officials that it made sense to admit Greece in order to support and stabilise the country's newly born democracy.

From what has been stated above and in view of today's context, it is more than obvious that Greece became a member of the EC based on a "political" decision, because at the time it did not fulfil the economic criteria at all. Greece became a member in 1981.

Following the collapse of the dictatorships in Spain and Portugal, these two countries ended up on the list of countries aspiring for membership. And while the negotiations regarding Spain's admission were lengthy and tedious due to the demanded economic benefits, Portugal's negotiations moved along quickly, although its problem was that its economy lagged behind.

Both countries expanded the then 10-member EC as of the beginning of 1986, and although their inclusion was relatively smooth, it prompted concerns mainly due to their lagging development and growing heterogeneousness in the Community.

In the next issue of the EU Monthly, we will focus on two more waves of enlargement and also remember the admission of the Czech Republic to the EU in 2004.

The statistical window displays the important economic indicators of EU member states. It includes comparable data from the labour market (unemployment levels, average gross wages compared to the EU average, labour productivity compared to the average in the CR) and price characteristics (annual inflation based on the HICP, average interest on mortgages, electricity prices compared to the EU average of 1000-2500 kWh). The sources of the data are Eurostat and the EBC.

Key macroeconomic indicators

	Inflation (YoY)				Unemployment rate				Average wages to Ø EU			
in %	XI-12	XII-12	I-13	II-13	1Q-12	2Q-12	3Q-12	4Q-12	2008	2009	2010	2011
Belgium	2.2	2.1	1.5	1.3	7.1	7.4	7.4	7.4	135.1	138.1	134.3	128.9
Bulgaria	2.7	2.8	2.6	2.2	12.0	12.2	12.3	12.3	11.1	12.7	12.6	13.1
CR	2.8	2.4	1.8	1.8	6.8	6.9	7.0	7.2	36.3	35.9	36.8	35.6
Denmark	2.2	1.9	1.0	1.0	7.5	7.9	7.4	7.4	160.0	166.1	163.5	155.0
Germany	1.9	2.0	1.9	1.8	5.6	5.5	5.4	5.4	137.5	138.5	137.3	132.2
Estonia	3.8	3.6	3.7	4.0	10.7	10.0	10.0	9.8	33.4	32.0	31.0	29.9
Ireland	1.6	1.7	1.5	1.2	15.1	14.8	14.8	14.7	108.1	107.1	104.6	99.0
Greece	0.4	0.3	0.0	0.1	21.9	23.9	25.5	26.4	55.5	62.5	66.2	47.4
Spain	3.0	3.0	2.8	2.9	23.9	24.7	25.5	26.1	77.2	81.4	80.2	76.1
France	1.6	1.5	1.4	1.2	10.0	10.2	10.3	10.4	111.5	115.0	112.8	108.1
Italy	2.6	2.6	2.4	2.0	10.0	10.6	10.7	11.2	89.1	92.4	91.4	87.5
Cyprus	1.4	1.5	2.0	1.8	10.2	11.5	12.5	14.2	n/a	n/a	n/a	n/a
Latvia	1.5	1.6	0.6	0.3	15.4	15.5	14.4	14.4	26.9	27.9	26.6	25.8
Lithuania	2.8	2.9	2.7	2.3	13.6	13.3	13.0	13.2	24.6	23.2	21.9	21.0
Luxembourg	2.7	2.5	2.1	2.4	4.9	5.0	5.0	5.1	156.2	162.3	159.7	150.4
Hungary	5.3	5.1	2.8	2.9	11.1	10.9	10.7	11.0	30.8	29.3	29.5	28.3
Malta	3.6	2.8	2.4	1.8	6.1	6.5	6.7	6.9	55.7	57.7	58.1	59.4
Netherlands	3.2	3.4	3.2	3.2	5.0	5.2	5.3	5.6	143.3	149.6	146.4	138.4
Austria	2.9	2.9	2.8	2.6	4.1	4.3	4.5	n/a	123.7	127.5	124.6	118.4
Poland	2.7	2.2	1.6	1.2	9.9	10.0	10.2	10.4	31.9	27.2	29.3	28.2
Portugal	1.9	2.1	0.4	0.2	14.9	15.6	16.1	17.0	55.4	57.7	56.2	53.0
Romania	4.4	4.6	5.1	4.8	7.3	7.1	7.0	6.7	18.1	16.8	18.0	18.0
Slovenia	2.8	3.1	2.8	2.9	8.2	8.5	9.4	9.9	52.4	54.2	54.8	51.5
Slovakia	3.5	3.4	2.5	2.2	13.6	13.9	14.1	14.4	28.2	30.5	30.2	29.1
Finland	3.2	3.5	2.6	2.5	7.6	7.7	7.8	7.7	124.1	129.5	129.4	125.0
Sweden	0.8	1.0	0.7	0.5	7.8	7.9	8.0	8.1	121.7	114.9	125.0	125.4
UK	2.7	2.7	2.7	n/a	8.2	7.9	7.8	n/a	139.2	126.3	129.4	119.1
EU	2.4	2.3	2.1	2.0	10.2	10.4	10.5	10.7	100.0	100.0	100.0	100.0

	Productivity to Ø CR				Average interest rate on mortgages				Price electricity to Ø EU			
in %	2008	2009	2010	2011	2008	2009	2010	2011	2009	2010	2011	1H-12
Belgium	251.3	264.5	259.3	257.3	n/a	n/a	n/a	n/a	121.0	120.5	121.9	116.9
Bulgaria	30.5	33.0	33.7	36.4	10.9	9.7	8.8	8.5	46.9	45.0	43.4	42.7
CR	100.0	100.0	100.0	100.0	5.8	5.2	4.5	4.1	119.4	118.5	118.7	116.5
Denmark	267.2	277.2	282.8	279.6	4.4	3.7	4.0	3.5	166.5	163.8	167.3	166.2
Germany	202.2	207.1	204.4	202.7	4.3	3.8	4.0	3.4	144.4	145.6	142.9	142.8
Estonia	81.2	80.9	83.0	83.9	4.3	3.9	3.7	3.3	53.5	55.0	52.9	56.3
Ireland	280.5	294.0	281.3	282.4	3.1	3.1	3.5	3.2	127.8	117.8	125.0	123.5
Greece	157.8	168.1	156.6	150.8	4.1	3.8	4.7	4.0	53.9	57.0	56.4	61.9
Spain	173.3	190.8	184.9	184.3	3.4	2.6	3.5	3.6	105.4	111.3	116.1	102.9
France	232.3	246.3	236.7	235.0	5.0	4.3	4.4	4.6	80.1	82.4	81.5	79.7
Italy	207.1	217.2	211.0	207.1	3.8	2.8	3.6	4.4	96.5	88.9	86.6	95.8
Cyprus	142.8	150.6	146.8	146.2	5.9	4.6	5.3	5.6	80.5	105.7	114.6	139.8
Latvia	66.7	66.0	63.5	75.2	22.0	21.3	22.2	22.2	60.1	57.4	61.0	65.7
Lithuania	70.1	66.2	68.2	72.2	9.9	6.0	4.2	3.7	55.2	66.3	65.0	64.8
Luxembourg	573.5	582.9	599.8	604.5	n/a	n/a	n/a	n/a	117.1	105.1	95.5	94.7
Hungary	89.6	85.0	84.8	84.2	14.6	10.5	10.5	12.2	93.4	93.9	87.2	82.4
Malta	122.0	130.7	128.3	125.4	3.8	3.7	3.6	3.6	103.2	109.5	103.0	100.5
Netherlands	227.8	236.1	229.9	226.1	4.9	4.6	4.6	4.4	68.5	52.7	54.9	58.1
Austria	n/a	n/a	n/a	n/a	4.0	3.1	3.4	3.4	119.5	117.4	113.5	111.6
Poland	75.7	68.9	73.8	73.7	8.0	7.1	7.0	8.9	71.8	80.0	78.0	75.6
Portugal	109.0	117.3	115.3	112.6	3.4	3.4	4.8	5.1	100.4	100.3	102.3	112.4
Romania	47.6	43.7	43.5	45.1	12.6	11.7	9.5	7.7	55.8	57.4	56.7	54.4
Slovenia	123.0	127.1	122.6	122.2	4.4	3.5	4.0	3.9	90.8	92.3	86.9	87.8
Slovakia	87.2	93.4	94.4	94.5	6.2	5.6	5.2	5.4	98.3	97.3	97.9	97.8
Finland	239.6	243.8	239.2	242.4	2.6	2.1	2.6	2.3	93.5	93.8	100.5	98.0
Sweden	240.4	230.0	257.8	270.3	2.1	2.4	3.9	3.7	103.1	112.6	116.0	111.2
UK	202.4	191.1	195.6	192.5	n/a	n/a	n/a	n/a	87.7	83.6	83.9	91.6
EU	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	100.0	100.0	100.0	100.0

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