EU NEWS MONTHLY JOURNAL

EU Office / Knowledge Centre | September 2016 | 156

Investment plan for Europe – a successful first year

Ageing population vs. effectiveness of pension systems

Alternatives to Great Britain's membership in the EU

ERSTE Corporate Banking

ČESKÁ SPOŘITELNA

Contents

Česká spořitelna, a.s.
Budějovická 1518/13b
140 00 Praha 4
EU_office@csas.cz
http://www.csas.cz/eu

EU OFFICE / KNOWLEDGE CENTRE
Tomáš Kozelský
Head of EU Office / Knowledge Centre
+420 956 718 013, tkozelsky@csas.cz
Jan Jedlička
+420 956 718 014, jjedlicka@csas.cz
Tereza Hrtúsová
+420 956 718 012, thrtusova@csas.cz
Radek Novák
+420 956 718 015, radeknovak@csas.cz
Max Wandler
+420 956 714 291, mwandler@csas.cz

Dear readers,

August is associated with the period of holidays, vacations and leisure activities. Even so the list and content of the news (coming not only from the European institutions) is very interesting and also concerns the Czech Republic.

The European Commission has in fact approved two Czech programmes related to the promotion of energy from renewable sources: one for electricity production from hydropower, for which the state will allocate 218 million crowns for small hydroelectric installations, and another for heat production from biogas in small biogas plants (522 million crowns). By 2020 RES (renewable energy sources) should contribute 20% of final energy consumption in the European Union. In the case of the Czech Republic, the threshold is set at 13% and according to the National Action Plan of the Ministry of Industry and Trade an even higher proportion in an amount exceeding the 15% threshold is calculated.

Also thanks to the n+2 rule, due to which funds from the previous 2007-2013 programming period could still be paid in the past year, the Czech Republic was able to use and „not lose“ much European money. And certainly there is nothing to complain about because the Czech Republic as a net recipient of EU subsidies had the 3rd highest possibility of drawing funds per capita and with almost 2.5 thousand euros per capita ranks high above the EU average. Page 5 brings you more data on the utilisation of funds.

We have already addressed the topic of the Brexit several times in the pages of our monthly, most recently from the perspective of the functioning of the European institutions after the departure of Britain from the EU. This time we present possible alternatives on what form relations between the United Kingdom and the EU could have after Britain leaves. Mgr. Monika Brusenbauch Meislová, Ph.D., who works at the Department of Political Science and European Studies of the Faculty of Arts at Palacký University provided us this article.

The content of the Industry 4.0 concept will certainly move not only industry and also thinking about how to readjust production, but also the business model (about which we wrote for instance in Monthly no.145 under the title „The digital revolution is a challenge for European Industry“). At the end of August the Czech government approved the Industry 4.0 initiative, which has the long-term goal to maintain and enhance the competitiveness of the Czech Republic. The advent of the so-called fourth industrial revolution in the world will undoubtedly pose one of the biggest changes in recent years. The first of these factories „of the future“ have already been introduced in Austria and Germany and further details on their operation can be read on page 4.

In the regular Microscope section Martina Šimková, who works at the University of Economics and the Czech Statistical Office, considers the effectiveness of the pension system and the issue of an ageing population. Population ageing is a frequently discussed topic in the EU and the correct setting of pension systems will be necessary to mitigate the impact of this phenomenon in developed countries in terms of both demographics and economics. More on this topic as well as a comparison of the Czech Republic with selected European Union countries can be found on page 8.

The European Commission’s Column post presents the achievements of the Investment Plan, which has completed its first year of operation. Not only does page 6 provide information on the achievements of the plan but also on how the Czech Republic is doing in using the instruments of the Investment Plan.

Dear readers, I wish you a relaxing return to the rhythm of everyday life from holidays and time off.

Tomáš Kozelský

EU Events

Great Britain will be represented in the Commission by former diplomat Sir Julian King, who will be in charge of the creation of the Security Union. – Steelmakers expect stronger defense against Chinese dumping in autumn. – Continuing decline in gas prices. - Programmes to support small hydropower plants and biogas stations have received approval from the Commission.

POLITICS

The new British commissioner will be responsible for security and the fight against terrorism

Britain will be represented in the Commission by former diplomat **Sir Julian King**, who will be in charge of the creation of the Security Union. His task will thus be to strengthen the fight against terrorism, organized crime and cybercrime.

For this purpose in the spring the European Commission presented the European Agenda on Security for the 2015-2020 period, which will promote cooperation between member states in addressing security threats. King will be responsible for its implementation.

The European Commission said that the portfolio was given to Sir Julian King **based on the results of an interview**, which it led together with Juncker, and is meant to reflect not only the priorities of the post-Brexit Commission but also the practical experience of the Briton. He previously worked for the British Foreign and Commonwealth Office and served for instance as ambassador in France and Ireland.

Former Prime Minister David Cameron chose Julian King as the next British commissioner. According to the Brussels website Politico, Cameron had hoped that his candidate would get the environmental agenda. This proved to be impossible to achieve politically. **The office of new British Prime Minister Theresa May officially welcomed the decision**. Commission President Juncker also consulted with European Parliament President Martin Schulz on the choice of portfolio.

Julian King's predecessor in the post of British commissioner was Jonathan Hill, who was responsible in the Commission for financial stability, services and the Capital Markets Union. He resigned after the results of the referendum on the withdrawal of Great Britain from the EU were announced.

http://europa.eu/rapid/press-release_IP-16-2707_en.htm

FOREIGN TRADE

Steelmakers expect stronger defense against Chinese dumping in autumn

Imports of Chinese steel to the EU have not been falling despite Beijing's promises to reduce overproduction. This is despite the fact that during 2015 the European Commission imposed anti-dumping duties on certain steel products from China, ranging from 18.4 to 25.9%. The United States has imposed a duty of 450% on a portion of Chinese steel.

At present, **the EC applies a total of 37 anti-dumping measures and measures aimed against subsidized steel products**. Fifteen of them concern China. Nevertheless by May this year imports of carbon steel from China had grown by 21%. In the case of stainless steel, this figure was 17%.

European steelmakers monitor developments in trade relations with China with great concern due to the aforementioned Chinese surpluses (reaching about 300 million tons), which firms from the East can export at dumped prices. Beijing denies that it would do something like this. Global overproduction of steel, according to them was caused by a collapse in demand after the financial crisis of 2008. China generates half the world's steel production (1.6 billion tons).

At the end of 2016, a temporary exemption in the Accession Protocol of Asian countries to the World Trade Organization (WTO) is already due to expire. On the basis of this, **China should be considered a market economy in the future** and the imposition of tariffs on Chinese imports should be governed by a different methodology than before.

After the summer break the Commission should propose ways how the EU can maintain a sufficiently high level of protection against cheap Chinese imports. The steel industry maintains that it does not want to go the way of American protectionism. The EU's willingness to defend domestic producers is perceived positively however. The Commission has so far refused to comment on future measures to protect trade.

The decisive moment might come in October, when the **EU could reduce the time required for the imposition of duties from nine to seven months** and abolish the so-called lesser duty rule, which currently limits the amount of the protective measures. The lesser duty rule is dealt with in an earlier Commission proposal, which has long been discussed by member states, although they have not yet come to agreement on the issue of trade protection. Steelmakers promise a change in the position of the member states from the decision on the Brexit. Indeed the UK has long been among the countries that have opposed a noticeable increase in trade protection.

http://ec.europa.eu/trade/policy/countries-and-regions/countries/china/

EU Events

ENERGY AND TRANSPORT

Continuing decline in gas prices

The prices of September contracts for gas supplies in the Netherlands and Britain are moving near six-year lows and analysts from reputable institutions predict further reductions.

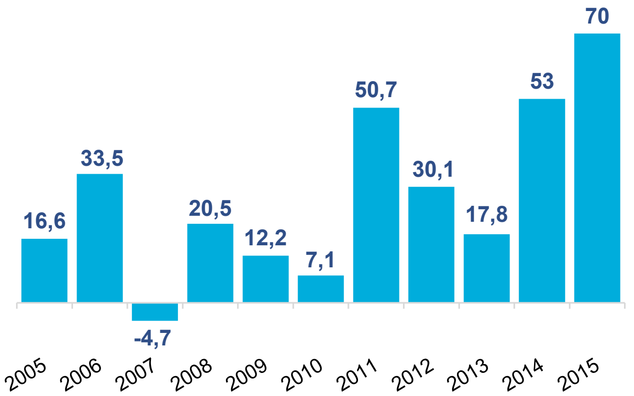
Since 2013, gas has not been reacting to political news or natural phenomena that under normal circumstances push up prices . Currently, the market is affected mainly by excess supplies of the commodity. Gas prices have almost not moved, even when Ukraine as the main transit country for transportation of raw materials from Russia to the EU warned against a possible outbreak of another gas war with its eastern neighbor.

After the decision of the Netherlands to restrict exploitation of Europe's largest deposits because of the earthquake traders simply shrugged their shoulders. Even the British decision to leave the EU and growing public opposition to fracked gas from unconventional shale deposits have not met with a reaction. **In the Netherlands the prices of contracts for gas supplies for the coming month decreased by more than 4% and in the UK by 5%**.

This is partly caused by the continuing two-year decline in oil prices. For about half the gas contracts in Europe the price is in fact derived precisely from the price of „black gold".

Major producers from countries outside the EU are meanwhile fighting for a share of the European market by increasing their exports. Supplies of Russian gas to the EU in the first half of the year increased by 14% and deliveries of Norwegian gas to Britain rose by 21%. Increased exports thus help neutralize the impact of declining production in the EU itself, which is currently the lowest since 1971. Gas traders and operators of pipelines are convinced that the growing supply of liquefied natural gas (LNG) to the EU will also help meet gas consumption needs.

Production and consumption balance of gas in the world (bn m^3)



Source: BP

According to data from the company BP, last year businesses around the world produced 3.5 trillion cubic meters of gas, thus about **70 billion more than consumption**.

Given concerns about climate change producers hope that demand for gas will increase because this commodity replaces coal which pollutes the air more.

BP states that gas consumption in the EU decreased by 19% in the ten years ending in December 2015 and demand for coal fell by 17%. In the case of both commodities consumption will supposedly decrease in 2016 as well. Also excess supply in the market will continue to hinder the growth of prices.

http://www.bp.com/content/dam/bp/pdf/energy-economics/statistical-review-2016/bp-statistical-review-of-world-energy-2016-full-report.pdf

Programmes to support small hydropower plants and biogas stations have received approval from the Commission

The European Commission has approved two Czech programmes for state support of energy from renewable sources (RES), which had previously lacked so-called notification to the Commission.

It confirmed that, in accordance with European rules a programme of support for the production of electricity from hydropower has been set up, under which the state wants to earmark **218 million crowns for small hydropower installations** (HPP) with output of up to 10 megawatts.

HPPs with a capacity of over 0.5 MW will receive support during their lifetime in the form of a market premium paid on top of the market price ; for smaller installations a feed-in tariff is payable. **The support applies to HPPs in operation from 1 January 2016 and installations reconstructed between 2013 and 2015**.

The Commission also approved **support for the production of heat from biogas in small biogas installations** with an output to 0.5 MW, for which the Czech state wants to direct **522 million crowns**.

The support will be valid for the lifetime of the plants in the form of a fixed premium for the heat produced and covers installations put into operation from 1 January 2016.

Biogas installations must produce heat from biogas that is at least 70% derived from animal by-products, barnyard manure or biodegradable waste. Thanks to the connection with agricultural and food production this should therefore contribute to regional development.

European rules allow member states to favor the production of energy from renewable sources if this does not distort economic competition.

EU Events

Factories of the future are already in operation in Austria and Germany. - What is the relationship of young Europeans to the Internet? - According to the results of the comparison the most widely utilized area is social networks with which 84% of the young have experience. – The Czech Republic had the third highest possibility to draw EU funds per capita in CEE.

Both programmes minimize such risk according to Brussels. The Commission notes that the schemes ensure that the payments do not exceed the minimum level necessary to achieve the programme objectives. **Support for renewable energy sources will help the Czech Republic and other EU countries increase the share of renewable energy in the energy mix**. By 2020 RES should make up 20% of final energy consumption in the EU as a whole. In the Czech Republic according to the Renewable Energy Directive this figure should be 13%. The National Action Plan from the workshop of the Ministry of Industry and Trade (MIT) even counts on 15.3%.

In total in the case of the Czech Republic the Commission has assessed six schemes to support renewable energy sources. A great deal of attention is devoted to supporting the renewable energy installations put into operation between 2006 and 2012, which constitute the majority of the supported sources.

There is in fact a risk of repeating the situation from 2015, when the Chairwoman of the Energy Regulatory Office Alena Vitásková refused to issue pricing decisions for the promotion of RES in 2016 – the reason being precisely the lack of notification to the European Commission. She has stated however, that this year she wants her office to issue pricing decisions by the end of September. Support for sources for which notification has not been completed will apparently not be listed.

http://www.mpo.cz/dokument179633.html

INFORMATION SOCIETY

Factories of the future are already in place in Austria and Germany. They show the face of Industry 4.0

The advent of Industry 4.0 has to be the biggest change in the economy in recent years. Factories based on robotics and products connected to the Internet of things will fundamentally change the role of humans in the production process. At the same time, the first factories show that this is not only an illusion of a distant future but that similar operations can already function now.

One of these factories was built by the company Siemens in Amberg, Bavaria. Products there communicate on their own with production machines, all processes are controlled and optimized by IT systems in order to ensure time efficiency, the possibility of flexible modification of tailored products and minimization of the defect rate.

The goal is to use advanced information and communication technologies to create higher added value. The Industry 4.0 initiative was created precisely in Germany, where not only the government supports it but also universities and industrial associations. Within this overarching framework, it wants to bring together various innovative activities for further development of industrial production. Industry 4.0 is used to produce products that can be precisely adapted to customers' needs, as part of an integrated, flexible and dynamically organized production process.

An example of such a digital factory is currently operating in Amberg. The management of this manufacturing plant is today already using procedures in a number of industrial applications which will become standard in several years. Thanks to two-way communication the products themselves control their own assembly, when their specific requirements are transmitted directly to the production machinery. The Amberg factory has made a significant step towards the future, because in the context of industrial production the real and virtual worlds will increasingly overlap more closely. Industrial production in the relatively near future, will thus be much more flexible and more efficient at the same time - that is quicker, cheaper and simultaneously of higher quality.

The Siemens Amberg plant, established in 1989, manufactures Simatic programmable logic controls. They are used to automate machines and equipment in order to save time and money and simultaneously increase product quality . Their uses are varied – from controlling ski lifts and onboard systems of cruise ships to managing production processes in various industrial sectors, from the automotive industry to pharmaceuticals.

In Amberg production quality of 99.99885 percent is achieved, and thanks to a whole series of test stations the few defective pieces are smoothly and effectively detected. In total the factory manufactures 12 million Simatic products annually. At 230 working days per year, this means that the plant produces one control unit every second.

A similar manufacturing environment could become the norm in a few years. Thanks to the identification system Simatic Ident , products can control their own manufacturing processes. Optical codes (QR codes) which are attached to each semi-finished product, in themselves contain information about the product and about the necessary steps which the product must pass through in order to become a finished product. Using these codes, the product communicates directly with the production machines. This system is the first step towards digitization of production and therefore to Industry 4.0.

Thanks to the interconnectedness of Czech and German industry the Czech Republic could benefit from the experience of Germany by transferring experience from its neighbor.

Despite the high digitization and robotics even the Amberg factory could not completely bypass human beings. People still have an irreplaceable role in development, product design and production planning as well as handling unexpected incidents.

http://www.mpo.cz/dokument176055.html

What is the relationship of young Europeans to the Internet?

International Youth Day falls on 12 August each year and on this occasion **the European Statistical Office (Eurostat) has published information on how young people in Europe use the Internet**. The data relate to persons aged 16-29 years and is focused on 13 different areas ranging from online educational materials to creation of websites and blogs.

According to the results of the comparison **the most widely utilized area is social networks with which 84% of young Europeans have experience**. Conversely professional networks such as LinkedIn or Xing, enjoy considerably less popularity and are used by only 13% of people.

Part of the statistics is also a comparison of men and women and in most areas investigated only slight differences exist between the sexes. One of the exceptions is searching for information related to health, where women are considerably more active (56% versus 43%). In contrast, young men are more likely to play online with other people, concretely 40% of men and 19% women are devoted to this hobby.

It is also possible to compare the results of young Europeans with data that relates to the whole population, i.e. all people older than 16 years. The biggest difference between these two groups can be seen in the case of social networks, where in comparison to the overall population (50%), 84% of young people to 29 years of age spend time. Similarly there is a 30% difference in playing or downloading media such as music, movies or games. On the contrary the young generation differs least in use of the Internet for online consultations, voting or signing petitions, where the difference amounts to only one percentage point.

The Czech Republic ranked significantly above the EU average in two investigated areas. The first is reading online news and magazines, for which 82% of young Czechs use the Internet, while in the EU it is only two-thirds. The second is playing and downloading media, where the Czech Republic ranks in fourth place with 83%.

http://ec.europa.eu/eurostat/news/themes-in-the-spotlight/youth-day-2016

KOHESION POLICY

The Czech Republic had the third highest possibility to draw EU funds per capita in the CEE region

While Poland had the highest share of EU funds at its disposal in the years 2007-2015, Estonia, Hungary and the Czech Republic had the biggest opportunity to draw funds per capita.

In the case of the Czech Republic this amount was 2,496 euros, thus greatly exceeding the average of countries in Central and Eastern Europe (CEE) which is 1,848 euros. This emerges from the study „EU Funds in Central and Eastern Europe“ which maps the process of the implementation of EU funds.

The analysis shows that the **rate of utilisation of European funds** in the individual countries of Central and Eastern Europe has fundamentally changed over the years.

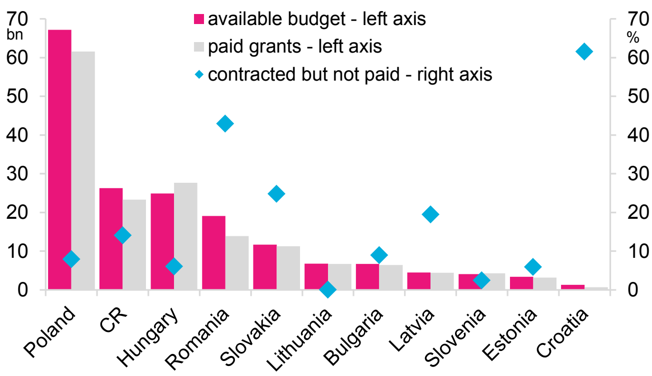
In the years 2007-2015 the eleven countries in the region had access to nearly 176 billion euros within the framework of EU funds, which is equivalent to 14.8% of their aggregate GDP.

As of the end of 2015, 163.66 billion had been paid , i.e 93%. The Czech Republic utilised 15% of the total amount, while in Slovakia the figure was 6.6% and in Poland 38.2%.

For the 2014-2020 period a total of 189.96 billion euros is available within EU funds. The amount of funding allocated for the 2014-2020 period varies significantly in individual countries - the highest share is assigned to Poland (76.87 billion euros) while the Czech Republc has the possibility to draw 21.63 billion euros and Slovakia 13.77 billion.

When this is converted to funds per capita Estonia and Slovakia are the highest.

Available budget 2007-2015 (bn euros)



Source: KPMG

https://home.kpmg.com/cz/cs/home/pro-media/tiskove-zpravy/2016/08/studie-evropske-dotace-srovnani-cr-region.html

EC´s Column

The European Commission Representation in the Czech Republic makes contributions to the EU News Monthly Journal in the „European Commission's Column" section. In the September issue of the monthly this article is dedicated to the successes of the Investment Plan for Europe, which has completed its first year of operation.

INVESTMENT PLAN FOR EUROPE – A SUCCESSFUL FIRST YEAR

In the summer of 2015 approval of the legislation called The Investment Plan for Europe, also known as the „Juncker investment package", received a lot of attention in Brussels. It has the objective of strengthening weak investment activity in Europe, in particular through bank guarantees from the EU budget. A key role in this mechanism is played by the European Investment Bank (EIB), which thanks to the support of the new so-called European Fund for Strategic Investments can also finance projects with higher levels of risk. Thus investments which would normally not occur or would not obtain funding, especially due to potential market failures, can also make use of this opportunity.

What has been achieved after the first year of operation of the Investment Plan?

- The European Fund for Strategic Investments (EFSI) has already supported 78 major projects (under the so-called infrastructure framework) and approved 188 agreements improving financing for SMEs. Of the target amount of 315 billion euros of additional investment for the initial three-year period until 2018, the fund has already succeeded in activating over one third (roughly 107 billion euros as of June 2016). The largest share of funding was directed to research, development and innovation (approximately 27%), to supporting small and medium-sized enterprises (25%), energy projects (22%) and the digital economy (12%). All EU-28 countries except Malta have already made use of the instruments of the EIB with the support of the so-called European Fund for Strategic Investments.
- In June the European Commission launched the so-called European Investment Project Portal (EIPP). The goal of this online platform, bringing together European project developers and investors from the EU and beyond, is to have in one place an overview of prepared projects for financial investors. The EIPP is a good opportunity to raise the visibility of projects across Europe which may lead to a reduction in financing costs, and not only for high-risk investments.
- From September 2015 the so-called European Investment Advisory Hub (EIAH) has also been available, which provides help to investors and financial intermediaries in particular. Requests for technical assistance can be submitted especially in the preparation of investments and their financial structuring, including project preparation for public-private partnerships or possible linkage of grant support from EU funds (whereby advising is free for the public sector).

How is the Czech Republic doing in utilising the Investment Plan instruments?

Access to credit varies depending on the size of the project. For projects with an value of roughly over 25 million euros businesses can apply directly to the European Investment Bank for a loan with the support of the EFSI fund. The Czech Republic so far does not have such a project, although projects from other EU member states can provide good inspiration, e.g. the conversion of former industrial areas in Belgium or a project to develop materials for the manufacture of automotive parts in Spain.

Evropská komise

The EIB supports smaller projects and companies through domestic banks. By contrast this form of support has been very successful in the first year of the plan in the Czech Republic, and should lead to the mobilization of investments worth about 20 billion crowns. As of June 2016 this sum constituted approximately 0.7% of the total investment „impulse" generated by the EFSI within the EU. The EIB guarantee, supported by the European Fund for Strategic Investments, allow banks to offer loans under more lenient conditions of collateral.

Although in the first three months of the functioning of the European Investment Project Portal the European Commission has already posted 103 projects prepared for funding from a number of European Union member states, until now no project from the Czech Republic has figured in the EIPP.

On Wednesday, 5 October 2016 at the International Engineering Fair in Brno a seminar on the Investment Plan for Europe will be held. Participants will be familiarized with the products of the European Investment Bank, which can be used to finance investments in industrial enterprises, and with the issue of combining them with subsidies from the European Investment and Structural Funds.

More information and updates on the Investment Plan for Europe, including a list of supported projects can be found at:

http://ec.europa.eu/priorities/jobs-growth-and-investment/investment-plan_en

http://www.eib.org/efsi/efsi-projects/

Our InfoService section outlines upcoming sessions of EU decision-making bodies accompanied by other significant events. Often agendas for negotiations by these important bodies are not ready until a few days before the actual meetings can be found at: http://europa.eu/newsroom/calendar/; http://www.eu2016.sk/sk/podujatia/

InfoServis

Meeting of the key EU institutions

15 September 2016	**Bratislava, Slovakia**	**3 October 2016**	**Bratislava, Slovakia**
- Informal Budget Committee		**- Informal Meeting of Health Ministers**	
16 September 2016	**Bratislava, Slovakia**	**3 October 2016**	**Strasbourg, France**
- Informal meeting of the 27 heads of state or government		**- EP Plenary Session**	
20 September 2016	**Brussels, Belgium**	**10 October 2016**	**Luxembourg, Luxembourg**
- General Affairs Council		**- Eurogroup**	
23 September 2016	**Bratislava, Slovakia**	**10 - 11 October 2016**	**Luxembourg, Luxembourg**
- Informal Meeting of Trade Ministers		**- Agriculture and Fisheries Council**	
27 September 2016	**Bratislava, Slovakia**	**11 October 2016**	**Luxembourg, Luxembourg**
- Informal Defence Ministers Meeting		**- Economic and Financial Affairs Council**	
29 – 30 September 2016	**Brussels, Belgium**	**13 october 2016**	**Luxembourg, Luxembourg**
- Competitiveness Council		**- Employment, Social Policy, Health and Consumer Affairs Council on social affairs**	

Source: www.europa.eu, www.eu2016.sk/sk/podujatia, access as of 31 August 2016

Overview of selected calls

For regular information on grant opportunities visit **GRANT klub - www.edotace.cz/grant-klub**

Call	Number	Receipt of applications	
		From	To
Integrated Regional Operational Programme			
Revitalization of selected monuments II	54.	10/16	03/17
Operational Programme Enterprise and Innovation for Competitiveness			
ICT and shared services	II.	10/16	01/17
Training centres	II.	10/16	01/17
Marketing	II.	10/16	01/17
Rural Development Programme			
Investment in agricultural enterprises (4.1.1)	-	11/10/2016	31/10/2016
Forestry infrastructure (4.3.2)	-	11/10/2016	31/10/2016
Support for the development of new products, processes and technologies for processing of agricultural products and their placement on the market (16.2.2)	-	11/10/2016	31/10/2016
Techniques and technology for forestry (8.6.1)	-	11/10/2016	31/10/2016
Processing of agricultural products and placement on the market (4.2.1)	-	11/10/2016	31/10/2016

Source: www.edotace.cz/kalendar

Microscope

The ageing population in the European Union is a hotly debated topic and the right settings for the pension system will be necessary for mitigating the impact of this phenomenon on developed countries both demographically and economically. An estimate of pension liabilities and a comparison of them with the type of pension system indicate substantial differences between individual states.

AGEING POPULATION VS. EFFECTIVENESS OF PENSION SYSTEMS

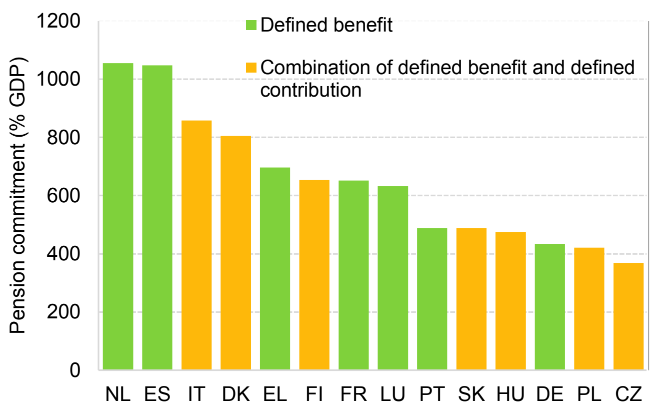
Contemporary topics favoured by the media include the ongoing demographic changes in the Czech and European population and a discussion of whether there will be sufficient funds in the future to pay for old-age pensions. The reason is the increasing number of people of retirement age, represented by recipients of old age pensions, and at the same time the narrowing size of the economically active population, represented by pension insurance payers. It is a general problem, given that public financing in many European countries is the most important source of financing long-term care services.

The issue of an ageing population is often presented within the context of the need to change the pension system because of concerns about its sustainability. The basic economic fundamentals of pension reform, however, often recede into the background in discussions. Not too much attention is paid to the economic aspects, which consist in the total liabilities to current and future pensioners. These liabilities are funds that will in future be paid to people in retirement. The amount of total liabilities is determined by the number of beneficiaries and the amount of the pension paid out, and not the pension insurance system. One can therefore say that from a macroeconomic point of view the choice of pension system is not the most important issue, but consists primarily in the relationship between the economically active and inactive population.

Modern economic and statistical methods allow us to express the „debt“ a society has toward retirees through quantifying pension liabilities. This hypothetical expression of liabilities in the form of a burden on Gross Domestic Product (at current prices) does not depend on the type of pension system, so we can compare the liabilities of countries that have established a funded system and the countries that have a continuous system. In the funded pension system, the pension fund debt may be explicitly quantified in terms of clients, whereas in a continuous system there is seemingly no debt because old-age pensions are paid out on an ongoing basis. The total liabilities of a society for the payment of old-age pensions can be estimated via a statistical model based on the current demographic situation and on assumptions about future economic developments

Countries are trying to reform their pension systems because of demographic and economic development. Reforms often take the form of parametric changes, e.g. a change to the retirement age, the method of calculation or the indexation of pensions. The present retirement age in most European countries is around 65 years. Many countries are also considering raising the retirement age beyond the current „normal“ limit of 65 years. Some countries are also moving from a benefit-defined system to a contribution-defined system. However, it is important to stress that not all reforms lead to a change in pension liabilities. Modern statistics allow household pension entitlements (and the pension liabilities of pension schemes) to be recorded in the national accounts. In the near future the issue of aging populations will be described economically in official macroeconomic statistics. The publication of official data is now being prepared and is scheduled for the end of 2017. An estimate of pension liabilities is therefore based on research by a team of workers from the University of Economics, of which I was a member. The estimate of these liabilities for persons over twenty years in 2014 in the Czech Republic is around 200-400% of GDP (CZK 8-18 billion), depending on various optimistic assumptions about future economic developments. A simplified calculation methodology allows a comparison of pension liabilities in European countries. The graph shows the proportion of pension liabilities to GDP assuming a 3% discount rate, a 2% increase in wages and an „average“ retirement age of 65 years. In a comparison of the amount of pension liabilities with the type of pension system one can see that there are significant differences between pension liabilities in countries that are based purely on a contributory system, a benefit system or a combination thereof. The amount of the pension liabilities corresponds to a certain extent to the age structure of individual European countries.

Pension commitment acc to type of pension system (2014)



Source: ECB, OECD, own estimate; selected member states

Pension liabilities are, of course, „only“ a statistical estimate, but they nevertheless provide key economic information on how large a society‘s liabilities are. People in retirement consume real goods and services. They have the right to satisfy all their needs and it’s not so important whether society will meet these needs through public or private funds, or if the pension system is based on contributions and on benefits.

Martina Šimková, University of Economics, Czech Statistics Office

The theme of September's Monthly EU News is alternative scenarios in the form of relationships that the UK could establish with the EU after its withdrawal, which its citizens decided on in a referendum on 23 June 2016. There are currently several alternatives in play. You can read below what the differences between them are, what they would bring to UK and which one would be „the most painful" for it.

Main Topic

ALTERNATIVES TO GREAT BRITAIN'S MEMBERSHIP IN THE EU

INTRODUCTION

The future of the UK outside the structures of the European Union is in the meantime a great unknown. What is almost for sure is perhaps the fact that even after the "independence" of the island kingdom it will not be able to afford to ignore the largest single market in the world with nearly half a billion potential customers. This was indeed documented with the words of former British Prime Minister, David Cameron, in 2013: „If we leave the EU, we cannot of course leave Europe. That has for many years remained our largest market, and has forever been our geographical neighbour. We are bound together in a complex web of legal obligations." Great Britain, after Germany and France, is the EU's third largest economy and one of the most open economies in the world in general, and it is heavily economically dependent on the EU internal market. In view of the volume of British trade with the EU, access to it is mortally important. For example, 45% of British exports in 2014 went to the EU, while the EU accounts for 53% of British imports. After withdrawing from the EU, the country will have to rebuild a whole range of commercial and institutional relations with the remaining EU members in which many different scenarios are possible. The following sections discuss the three most probable alternatives to EU membership, which are based on analyses from the British government, think tanks, academic articles and statistical data. They are: 1) membership in the European Economic Area (i.e. the Norwegian model), 2) a bilateral agreement with the EU (which includes three other sub-models: the Swiss model, the Turkish model and the Canadian model), and 3) membership in the World Trade Organization.

Each of these model situations is examined with regard in particular to the extent of access to the key EU economic policy, i.e. the single internal market and related rights and obligations. The various alternatives are also ranked according to the degree of economic integration between the UK and the EU in descending order from the highest level of integration to the weakest connection.

MEMBERSHIP OF THE EEA (I.E. THE NORWEGIAN MODEL)

The first alternative is a relationship based on Great Britain's membership of the European Economic Area (EEA), which was established in 1994 under an agreement between the European Free Trade Association (EFTA) and the EU, and which extends the provisions of the European Union relating to the internal market to the three EFTA countries (Norway, Iceland and Liechtenstein). The agreement includes the four freedoms of the single market and related policies, such as competition, transport, energy, and economic and monetary cooperation, but also some horizontal policies, such as social policy (including occupational safety and health), consumer protection policy and environmental protection. In discussions about the organisation of relations between the UK and the EU after Brexit, Norway is most often used as a typical example - not only is it the largest EFTA country, it also has the closest relationship of all with the EU among all non-EU countries.

On the basis of membership in the EEA, Great Britain should be assured of the free movement of (a majority) of goods, persons, services and capital within the EU internal market, just as if it had remained a member of the EU. The exception would be agricultural products and fisheries.

This option would assure the country almost full access to the EU single market and British exporters to the EU would notice little. The country would retain full competence in areas such as, for example, agriculture, fisheries, regional policy, asylum and foreign and defence policy (but it is also worth noting that Norway has concluded special agreements with the EU in some of these areas).

This high level of participation in the EU internal market, however, would not be free. Norway has committed to implement all legislation related to the EU single market within its own law. As a non-member of the EU, however, it cannot directly help shape the rules, even though it has observer status in relevant EU agencies and committees, and has the right to be heard through consultation in European Commission working groups. Another feature of the free-trade model along the lines of the EEA is the need to adhere to a range of regulations relating to exported goods (against which the UK has long protested). During the movement of goods, the rules of origin, which are administratively more demanding than in the case of EU membership (the regulation relating to one product may number as many as 200 pages) must be respected. Similarly, commitments regarding social security and other elements of social and labour legislation must be implemented; the country would continue to be required to grant EU citizens the right to work and live in the UK.

Like Norway, which makes relatively large contributions to EU cohesion policy and EU initiatives in which it participates, it would also have to contribute financially to the operation of the EU (e.g. according to an analysis by Thompson and Harari, in

2011 the Norwegian contribution to the EU budget was 106 pounds per person, which is only 17% less than the British contribution of 128 pounds per person). The EU, moreover, could apply antidumping measures to limit imports from the UK, as happened for example in 2006, when it imposed an anti-dumping duty of 16% on imports of Norwegian salmon.

A study from the UK Treasury from April 2016 which quantifies the impacts of the various alternatives to EU membership, concluded that in the case of the Norwegian scenario the British economy would be 3.8% worse off after 15 years than if it maintained membership in the EU, wherein this would fall would correspond to a decline in GDP of 1,100 pounds per person.

BILATERAL AGREEMENT WITH THE EU

Another of the potential scenarios for a future arrangement in mutual relations is the conclusion of a bilateral agreement between the UK and the EU. Although the extent of access to EU markets would depend on specific negotiated terms, it is certain that the negotiation of any bilateral agreement between the UK and the EU would be a very complex matter and would likely require not only the unanimous agreement of all 27 remaining EU member states and ratification by national parliaments, but also the European Parliament‘s consent.

Reaching such a wide-ranging agreement with so many negotiating partners who would try to promote their owned vested interests, would be at least very difficult (in regard to the weakened position of Great Britain), as well as lengthy (we should remember in this context that the negotiations over an agreement with Canada, which still hasn’t entered in force, began 7 years ago; the Swiss negotiated their agreements with the EU for more than 20 years). According to projections from the UK Treasury, 15 years after the conclusion of bilateral agreements with the EU, the British economy would perform 6.2% worse than had it stayed in the EU (in increments of 4.6% to 7.8%), which would correspond to a loss of GDP amounting to 1,800 pounds per person.

A bilateral agreement with the EU would be liable to follow one of the following three scenarios: Swiss, Turkish, or Canadian.

Swiss model

Switzerland, which is a member of the EFTA and the Schengen area, but not a member of the EEA, regulates its economic relations with the European Union based on free trade agreements for goods (not services, which from the perspective of the UK, where services account for nearly 80% of the economy, is essential) and many other bilateral conventions which permit it access in certain areas to the single market. Overall, there is a comprehensive set of more than 120 bilateral agreements, which makes this model the most advanced bilateral relationship of all with the EU.

The arrangement gives Switzerland a significant degree of flexibility and freedom when it basically selects only those areas of common interest in which it wants to participate, and itself decides what European legislation it will voluntarily implement. This à la carte approach is, however, rewarded with narrower access to the EU internal market. Switzerland stands completely outside the EU decision-making system and, unlike members of the EEA, it does not have observer status in relevant EU agencies and committees. Like the members of the EEA, Switzerland also contributes to EU cohesion policy and the initiatives in which it participates (in 2011 its contribution to the EU budget was 53 pounds per person, which is 70% less than the UK) and it has concluded an Agreement on the Free Movement of People with the EU (in 2014, however, a change in the constitution was voted for in a referendum which establishes annual quotas for non-Swiss citizens and gives Swiss citizens preference in the labour market, which is in direct conflict with this agreement).

It is also interesting to note in this context that in 2014 negotiations started between the EU and Switzerland on an institutional framework agreement, since management of a large number of separate agreements, among which many conflicts frequently arise and which require frequent updates (unlike the EEA Agreement, bilateral agreements with Switzerland have a static nature), is proving to be more and more complicated.

Turkish model

Under this model, the UK would negotiate participation in a customs union with the EU, as Turkey did in 1995 (the agreement came into force on 1 January 1996), which would lead to the elimination of tariffs and establishment of a common customs tariff against non-member countries. Following Turkey, with which the EU formally launched negotiation talks on membership in 2005, would mean customs restrictions for the island kingdom in many areas and restricted access to a considerable extent to the internal market. The customs union with Turkey relates only to industrial products and processed agricultural products.

UK would have to apply the EU‘s common customs tariff to trade relations with third countries, follow EU provisions on technical barriers to trade and regulated goods, and adopt rules relating to economic competition and state aid. UK would simultaneously by bound by, for example, the common agricultural policy, fisheries policy, and social and labour regulation, and could conclude agreements on services independently of the EU.

It would also not have to contribute to the EU budget (Turkey on the contrary, as a candidate country is a recipient of EU funding).

And it's worth noting here that the customs union with the EU has been a widely discussed topic in recent years in Turkey. The Turkish government considers it unfavourable, has long sought its revision and is currently preparing for its modernization.

Canadian model

This scenario envisages a variant in which the UK would enter into an agreement with the EU on a free trade zone. The FTA is the lowest level of economic integration, and differs from a customs union by simply abolishing customs duties between countries / entities and does not impose the same tariffs on imports of goods from the rest of the world.

The EU has in the past concluded several of these agreements (e.g. with Mexico, Egypt, South Africa and Lebanon), differing from each other in varying degrees of access to the EU internal market. The most comprehensive in this regard is the newly negotiated Comprehensive Economic and Trade Agreement (CETA) between the EU and Canada, which will be used here as an illustrative example and whose many years of negotiations were formally concluded in September 2014 (at present the process is heading towards the ratification stage, which is expected in early 2017).

The negotiated agreement removes the vast majority (about 98%) of reciprocal duties and tariff barriers between the EU and Canada. The tariff elimination regime, however, is not complete - sensitive agricultural products are excluded from it, such as dairy or poultry. In sensitive agricultural sectors access to the market is moreover also restricted by tariff quotas.

Not all tariffs will be eliminated on the date of the agreement's entry into force – e.g. a seven-year transitional period will be applied for the export of cars. Exemptions also apply to access to the services market, particularly in the sensitive areas of public services and technical infrastructure.

If Britain sets out on the same path as Canada, British companies exporting goods to the EU will - given the absence of a customs union - face a significant administrative burden. Despite CETA, a large number of non-tariff barriers to trade have been retained between the UK and Canada.

British exporters would also have to adapt to EU standards and technical requirements for products, while Britain's chance to influence decision-making processes during their creation would be zero. This alternative conversely obviates the necessity to contribute to the EU budget and to participate in common policies.

MEMBERSHIP IN THE WORLD TRADE ORGANISATION

After its withdrawal from the EU, however, UK can also choose a scenario where her relationship with the EU will be based on membership in the World Trade Organization (WTO). Brazil and Russia, for example, trade with the EU on this principle. According to its rules, WTO members must not discriminate between their trading partners. For this purpose the WTO uses the so-called Most Favoured Nation regime - the reciprocal obligation for states to provide equal treatment to similar products originating in the territory of other WTO members.

If countries thus grant someone special benefits, such as a lower rate of duty for certain products, these benefits (with some exceptions) have to be granted to all other WTO Members. British exports to the EU and WTO member countries would be subject to the MFN regime of the respective countries. A country would in the case of this model be fully absolved of the responsibilities associated with access to the EU single market; it could be quite free to decide its own trade agreements, and it would not have to participate in common policies, nor contribute financially to the running of the EU. But it would also obviously lose any ability to influence decision-making in the EU. Remaining in a trade relationship with the EU only on the basis of WTO membership would bring about a marked increase in tariffs, and export goods to the EU would be significantly more expensive for British businesses than in any of the other options stated here. It is also highly unlikely that UK producers would push for the introduction of customs duties on goods imported from the EU and other countries, which would result in an increase in prices for end consumers. The cited study of the British Treasury estimates that the long-term economic damage suffered under this scenario would be the most sensitive of all the model situations. The British economy would in comparison within remaining in the EU worsen over the next 15 years by about 7.5% and the GDP loss would amount to 2,100 pounds per person.

CONCLUSION

The analysis has shown that all the presented alternatives to Great Britain's membership in the EU entail considerable expense. It will be more difficult and more expensive for the island kingdom to trade with Europe and the rest of the world after withdrawal from the EU (even if we take into account the savings in the form of a lower / zero contribution to the EU budget); and there will probably be a drop in foreign investment. None of the alternatives guarantees the country full and completely barrier-free participation in the EU internal market, and it therefore becomes a less attractive destination for foreign capital inflows. Scenarios operating with a higher level of access to the single market would require UK to implement rules which it could not participate in the co-creation of (in addition, it is almost inevitable that over time these rules would change direction, which would favour the remaining EU members rather than Great Britain). The UK would lose the ability to block proposals, which in its opinion are contrary to British national interests, and conversely it could not continue at the EU level to promote policies which it hitherto supported, e.g. further liberalisation of trade in services. It would thus have be only a passive recipient of EU legislation, which for Britain would be - as a relatively big country accustomed to having an active position in the European Union and European affairs - a considerable challenge. Greater involvement in the EU internal market should also carry with it the need to accept the free movement of people and contribute financially to the EU budget. No country has so far managed to negotiate better terms and from the point of view of the EU it would not be in its interest to allow a more favourable agreement with UK. A position outside the main stream of integration will also restrict British access to broader global markets. After leaving the EU the country will note be able to continue to benefit from the free trade zones which operate between the EU and third countries. However, these zones cannot equal the breadth and depth of the EU internal market, which is among the most developed in the world. Great Britain will have to negotiate a large number of agreements with a great many states (which in itself will constitute a very complex, difficult and protracted process, accompanied by a long period of economic uncertainty), while its bargaining position will be significantly weaker than if it had remained a member of the EU.

In conclusion, it should be stressed once again that there is tremendous uncertainty over the issue of the potential development of relations between the UK and the EU. It is not known what form these relationships will take, on what basis they will stand, how long their (re) building would last and whether the model situation options mentioned here will be transferable at all to Great Britain's conditions. Thus, although extensive discussions are constantly ongoing among experts over the various possible scenarios, everything is still playing out at the level of speculation and hypothesis.

This article was published in the specialist magazine International Policy published by the Institute of Foreign Relations in Prague. The author is Monika Brusenbauch Meislová, Ph.D., who works at the Department of Political Science and European Studies at Palacky University's Philosophy Faculty.

Bibliography

CAMERON, David. EU speech at Bloomberg. 23. 1. 2013.

Confederation of British Industry. Our Global Future (2013 EU report).

DHINGRA, Swati a SAMPSON, Thomas. Life after BREXIT: What are the UK's options outside the European Union? The London School of Economics, Centre for Economic Performance. February 2016.

GILES, Chris. What are the economic consequences of Brexit? The Financial Times, 22. 2. 2016.

HM Government. HM Treasury analysis: the long-term economic impact of EU membership and the alternatives. April 2016.

PIRIS, Jean-Claude. If the UK votes to leave: The seven alternatives to EU membership. Centre for European Reform, February 2016.

THOMPSON, Gavin a HARARI, Daniel. The economic impact of EU membership on the UK. House of Commons Library, 17. 9. 2013.

Models of relationship to the European Union

full | none | partial / voluntary / special arrangement

		Votes on EU law	Access to the Single Market in goods and services: Tariff-free trade	Customs Union and external trade	Level playing field for business	Ever closer union	Justice and Home Affairs	Free movement of people	Shengen border-free area	Contribution to EU financing	Eurozone membership
UK in the EU		full	full	full	full	none	partial	full	none	partial	none
Standard EU member		full	full	full	full	full	full	full	full	full	full
Norway (non-EU EEA)		none	partial	none	partial	none	partial	full	full	partial	none
Bil. Agreements	Switzerland	none	partial	none	partial	none	partial	full	full	partial	none
	Canada	none	partial	none	partial	none	none	none	none	none	none
	Turkey	none	partial	partial	partial	none	none	partial	none	none	none
WTO membership		none	none	none	none	none	none	none	none	none	none

Source: Alternatives to membership: possible models for the United Kingdom outside the European Union

The Doing Business is part of the Foreign Business Guide offered by the Česká spořitelna EU Office. Within the program, we provide our clients from among small and mid-sized enterprises with information about how to expand abroad successfully and what business environment awaits them there. In the September issue, we will focus on the business environment in the Slovakia.

Doing Business

SLOVAKIA

Official name	Slovak Republic
Population	5,426,252
Area	49,035 sq km
Currency	Euro (EUR)
Ethnic groups	Slovak 80.7%; Hungarian 8.5%; Roma 2%

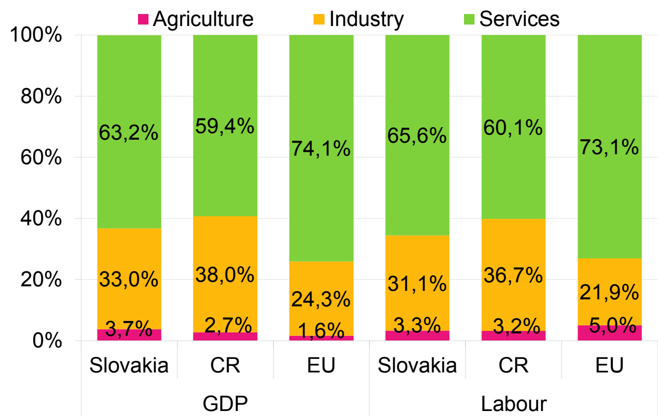
Source: The World Factbook

The Slovak Republic was established after the breakup of Czechoslovakia in 1993. It is a parliamentary republic with a unicameral parliament. The head of state is the president elected directly by the people for five years with a maximum of one re-election - since 2014, it has been Andrej Kiska. The president appoints the government, which is subject to a vote of confidence by parliament. Legislative power is entrusted with the unicameral parliament - the National Council of the Slovak Republic. The National Council consists of 150 members elected for four years under a proportional system. Since March 2016, the government has again been chaired by Robert Fico, SMER-SD.

Structure of economy and foreign trade

A total of 60% of Slovakia's exports and 47% of its imports are comprised of machinery and transport equipment, and in second place at some distance come market products (17% of exports and 15% of imports). Territorially, a total of 23% goes to Germany, 12% to the Czech Republic and 8.3% to Poland. It imports mainly from Germany (17.2%), the Czech Republic (12.2%) and China (9.5%).

Sectors of national economy



Source: Eurostat, data as of 2014

Macroeconomic outlook

The Slovak economy grew in 2015 by 3.6%, driven mainly by domestic demand, while other components of GDP contributed negatively to growth. This year, growth of 3.2% is expected in local GDP influenced by the slower dynamics of domestic demand, while net exports will contribute positively.

In 2017, the main driver should again be domestic demand, although the rate of growth (European Commission estimates 3.3%) compared to this year will not change much.

The public budget deficit in 2015 reached the Maastricht limit of 3%, it's has been decreasing since then and in 2017 it should reach 1.6% of GDP. Public debt between 2016-2017 will fluctuate at around 53% of GDP.

Basic indicators (in %)	2014	2015	2016[e]	2017[e]
GDP Growth	2.5	3.6	3.2	3.3
Unemployment rate	13.2	11.5	10.5	9.5
Inflation	-0.1	-0.3	-0.1	1.5
Current account balance (% GDP)	-2.7	-3.0	-2.4	-1.6
Public debt (% GDP)	53.9	52.9	53.4	52.7

Source: European Commission; [e] - estimate

Labor market

The unemployment rate in our eastern neighbour has long been at relatively high levels. It has been decreasing since 2013, however, and from 13.2% it should fall below the magic 10% mark by 2017.

The current minimum wage is 405 euros, which is about 40 euros higher than the minimum wage in the Czech Republic (the equivalent of 366 euros).

Average labour costs in the business sector are roughly 7% lower than in the Czech Republic. The lowest labour costs are traditionally in the accommodation, food and hospitality industries.

Basic indicators of labor market		
Unemployment rate (July 2016)	9.7 %	
Labour productivity to EU Ø (2014)	77.3 %	
Minimum monthly wage (2H/2016)	405 EUR	
Ø monthly labour costs (2015)	**Slovakia**	**CR**
Manufacturing	1,446 €	1,528 €
Wholesale and retail trade	1,378 €	1,500 €
Transportation and storage	1,179 €	1,444 €
Acommodation and food service	900 €	955 €
Information and communication	2,763 €	3,017 €

Source: Eurostat

Doing Business

Labor law basics

An employment contract can be concluded for an indefinite and definite period; a second variant, however, is for a maximum period of 2 years and this can be renewed or re-negotiated only twice within these two years. Slovak employees enjoy at least four weeks' statutory holiday.

The probation period is set at a maximum length of 3 months. In the case of management employees, the probationary period may be extended for up to six months. The notice period is a month, but the law specifies exceptions and possibilities to extend the notice period. Working hours in the Slovak Republic are set at 40 hours per week and overtime may be a maximum of 8 hours a week.

Commercial law basics

Frequently used legal forms are a limited liability company and a joint-stock company. The minimum capital for a Slovak ltd is EUR 5,000 (about CZK 136,000), while the maximum number of partners is 50. The minimum contribution of each partner is EUR 750.

A joint stock company has two forms: with a public offering for the subscription of shares and without a public offering. An open joint-stock company doesn't have a limited number of partners. They are obtained by public subscription and, together with the underwriters, they have to put together capital of at least EUR 25,000.

A World Bank survey shows that the process of establishing the average ltd in Slovakia is quite lengthy (it takes over two weeks) and overall costs will climb to about EUR 400 (about CZK 10,000).

Form of Company	Minimum Capital
Limited Liability Company	5,000 EUR
Joint Stock Company	25,000 EUR
European Company (SE)	120,000 EUR

Source: Slovak Business Agency (SBA)

Main taxes and additional labor costs

The rate of corporate tax is set at 22%. Income tax for individuals is set progressively. One must pay 19% from a tax base of less than EUR 35,022, while for higher incomes it is 25%. Only an employer's contribution to social security, which amounts to 35.2%, increases labour costs. In addition, a deduction of 14.4% is made from an employee's gross salary for the same purpose.

Value added tax has two rates. In addition to the standard 20% rate, the Slovak Republic also has a 10% reduced rate (pharmaceutical products, medical supplies and equipment, and books). An exemption from value added tax is enjoyed by social and health care, education and training, culture, sport and some financial services.

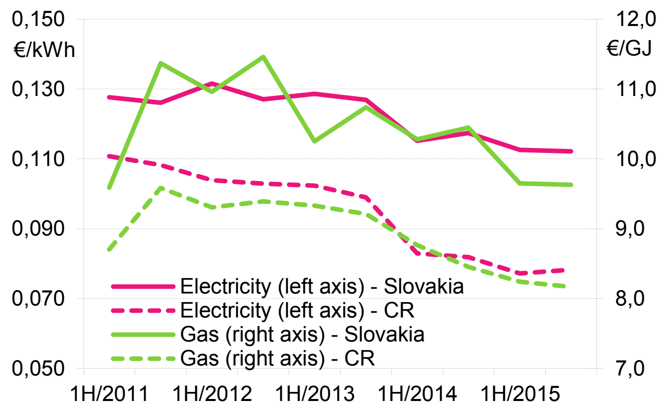
Tax/payment	Rate
Corporate Tax	22%
Individual Income Tax (progressive)	19% / 25%
VAT	20% / 10%
Social insurance (employee)	14.4%
Social insurance (employer)	35.2%

Source: Ministry of Finance

Energy

More than half of electricity generation is produced from nuclear sources. Renewables contribute almost 25% to the overall mix and solid fuels and natural gas make up over 10%. The price of electricity in Slovakia ranges from 11-13 cents per kilowatt hour, and has been slightly decreasing since 2012. The price of gas is much more volatile, but since 2013, despite obvious variations a downward trend can be observed (a decline of 16% over the last four years).

Development of energy prices



Source: Eurostat, tariffs for wholesales excluding VAT

Investment incentives

Slovakia divides its subsidies according to region and in particular according to the rate of unemployment. The maximum amount of public aid (intensity) is therefore divided into four zones according to unemployment. Investors can apply for one of four forms of support: financial subsidies, tax breaks, a contribution to a job or a transfer of state / municipal property to an investor. Slovakia supports projects undertaken in the fields of industry, technology centres, centres of strategic services and tourism. Of the EU funds for the 2014-2020 period, Slovakia has EUR 13.6 billion in nine of its local operational programmes.

Approval of an application for project co-financing from a grant is generally considered by applicants to be a great success. But beware, it's only at that moment that a long journey begins full of obligations, regulations and audits that need to be met and complied with before the grant will ultimately be paid out to a successful applicant and confirmed by subsequent checks!

GRANT MANAGEMENT - APPROVING GRANT APPLICATIONS IS ONLY THE BEGINNING

Rules, rules and more rules…

It's important to remember that even though you don't know the outcome of a project evaluation, you acquire the position of „potential" grant recipient with the actual submission of a grant application. And hence you are subject to the rules and manuals exactly the same as a confirmed grant recipient. Take care to use the correct manuals at any given time. There is also a difference in the situation prior to a contract being signed and after its signing.

Likewise, it's necessary to monitor the development of changes in project administration. It's also true that at the start of implementation before the contract is signed you have to comply with the rules, just as if you had already signed a grant agreement. The concluded grant agreement and its annexes is the key document for each confirmed grant recipient.

Stand firm in your requirements …

We will now continue on the assumption that a proper tender for suppliers has been carried out and supplier contracts correctly executed with them. Remember that during the performance of the contract it's not possible to retreat from your requirements with a supplier that were set out in the tender – this would threaten your grant.

It is of course also necessary to count on aspects that can't be anticipated in advance, such as choosing a reliable supplier, and favourable external factors such as weather and the like. You have to count on these risks when formulating the project timetable and setting deadlines for the implementation of contracts. A tool for minimizing risks is penalty clauses in contracts with suppliers, although it's still true that the basis of a correct tender procedure is elaborately drafted tender documentation.

If a contractor has breached its obligations and should be penalised in accordance with the supply contract, then do so. You thus avoid the suspicion of favouritism over a vendor against other potential bidders in a tender.

No gain without pain…

Prepare therefore for regular communication with suppliers, consultants, the grant provider and auditors, and possibly with other participants entering your project as part of the physical implementation of the project. You must remember your obligations regarding deadlines for reporting, accounting, the obligatory publicity of the EU contribution, the labelling of documentation related to the project, photographs, and property records, etc.

Set your monitoring rules for operations and administration early on and stick to them. Record minutes of meetings and assign tasks to responsible persons. Ensure compliance with deadlines - one omission may prevent the fulfillment of another deadline.

And remember – words come and go and only the written word remains. Insist therefore on the issuance of a concurring opinion in writing and file it carefully! It can be hard to convince auditors you notified a change of providers by phone and this was agreed without any problems ...

In for the long haul…

You can partly celebrate when you have successfully gone through the process of the implementation and administration of the project and have achieved payment of at least part of the allocated subsidy, or ideally the entire allocation. Again, you cannot rest on your laurels, as it's at that moment that the project sustainability period commences. This is a period during which a number of rules are also stipulated for providers whose breach thereof may again lead to the return of the grant. According to the type of project, the rules may relate to new jobs and their creation or retention, to restrictions on the handling of assets acquired via the subsidy, property insurance, and mandatory labelling for EU publicity, but also the monitoring of the results and impacts of the project (e.g. the amount of energy savings, the number of training days a year, the number of innovative products in a development centre, engagement, traffic, etc.). Reporting to grant providers also continues at regular times, and failure to meet monitoring deadlines is subject to sanctions.

If you overcome the subsequent tax audit period unscathed, then congratulations, you have finally and definitively become a successful grant recipient! Take lessons from the project for future projects and build on both your successes and failures.

Good luck in your endeavours!

Dita Kabelková, manager of Grant Management department, Erste Grantika Advisory, a.s.

Statistical Window

Europe 2020 selected indicators: Employment; Expenditure on R&D; Greenhouse gas emission (EU target - 80%); Share of renewable energy; People with tertiary education; People at risk of poverty or social exclusion (cumulative difference from 2008, target - at least 20 million fewer). The source of the data is Eurostat. For more information visit goo.gl/dIxFqa

Europe 2020 selected indicators

	Employment (aged 20-64; %)				Expenditure on R&D (% GDP)				Greenhouse gas emission (1990=100)			
	2013	2014	2015	Target	2012	2013	2014	Target	2011	2012	2013	2014
Belgium	67.2	67.3	67.2	73.2	2.36	2.42	2.46	3.00	85.4	82.4	82.6	79.1
Germany	77.3	77.7	78.0	77.0	2.87	2.83	2.84	3.00	75.0	75.5	77.0	73.5
Estonia	73.4	74.4	76.5	76.0	2.16	1.74	1.46	3.00	51.4	48.8	54.3	52.9
Ireland	65.5	67.0	68.8	69.0	1.58	1.58	1.55	2.00	105.3	105.6	105.8	105.7
Greece	52.9	53.3	54.9	70.0	0.69	0.80	0.83	1.21	110.0	106.9	99.9	97.2
Spain	58.6	59.9	62.0	74.0	1.27	1.24	1.20	2.00	128.4	126.6	116.9	117.5
France	69.4	69.4	69.5	75.0	2.23	2.24	2.26	3.00	90.5	90.7	90.3	85.4
Italy	59.7	59.9	60.5	67.0	1.27	1.30	1.29	1.53	95.9	90.9	85.2	81.4
Cyprus	67.2	67.6	68.0	75.0	0.43	0.46	0.47	0.50	157.6	149.0	136.4	143.1
Latvia	69.7	70.7	72.5	73.0	0.66	0.60	0.68	1.50	44.9	44.6	44.3	44.0
Lithuania	69.9	71.8	73.4	72.8	0.90	0.95	1.02	1.90	43.7	43.5	40.7	40.5
Luxembourg	71.1	72.1	70.9	73.0	1.29	1.31	1.24	2.30	100.5	97.3	93.1	90.6
Malta	64.8	66.4	67.8	70.0	0.86	0.85	0.85	2.00	160.4	164.9	148.7	150.9
Netherlands	75.9	75.4	76.4	80.0	1.94	1.96	1.97	2.50	92.9	90.7	90.7	87.3
Austria	74.6	74.2	74.3	77.0	2.89	2.96	2.99	3.76	106.4	102.8	102.9	98.2
Portugal	65.4	67.6	69.1	75.0	1.38	1.33	1.29	2.70	115.3	112.4	109.1	108.8
Slovenia	67.2	67.7	69.1	75.0	2.58	2.60	2.39	3.00	105.5	102.3	98.5	89.2
Slovakia	65.0	65.9	67.7	72.0	0.81	0.83	0.89	1.20	61.3	58.0	57.5	54.5
Finland	73.3	73.1	72.9	78.0	3.42	3.30	3.17	4.00	96.8	88.9	90.2	84.4
Bulgaria	63.5	65.1	67.1	76.0	0.62	0.65	0.80	1.50	62.6	57.8	52.9	55.1
CR	72.5	73.6	74.8	75.0	1.79	1.91	2.00	1.00	69.9	67.9	65.9	63.5
Denmark	75.6	75.9	76.5	80.0	3.03	3.08	3.08	3.00	84.1	77.3	80.0	74.4
Croatia	57.2	59.2	60.5	62.9	0.75	0.81	0.79	1.40	81.3	74.8	72.0	70.4
Hungary	63.0	66.7	68.9	75.0	1.27	1.41	1.38	1.80	68.2	64.1	61.3	61.0
Poland	64.9	66.5	67.8	71.0	0.89	0.87	0.94	1.70	85.5	84.2	83.4	80.7
Romania	64.7	65.7	66.0	70.0	0.48	0.39	0.38	2.00	48.3	47.7	43.7	43.7
Sweden	79.8	80.0	80.5	80.0	3.28	3.30	3.16	4.00	86.4	81.6	79.4	77.4
UK	74.8	76.2	76.9	n/a	1.63	1.69	1.72	n/a	73.3	75.3	73.8	68.5
EU	68.4	69.2	70.1	75.0	2.01	2.03	2.03	3.00	83.0	81.8	80.2	77.1

	Share of renewable energy (%)				Tertiary education (aged 30-34; %)				Poverty (difference from 2008; in th)			
	2012	2013	2014	Target	2013	2014	2015	Target	2011	2012	2013	2014
Belgium	7.2	7.5	8.0	13.0	42.7	43.8	42.7	47.0	77	162	92	146
Germany	12.1	12.4	13.8	18.0	32.9	31.4	32.3	42.0	-271	-435	-133	163
Estonia	25.8	25.6	26.5	25.0	42.5	43.2	45.3	40.0	16	21	22	48
Ireland	7.1	7.7	8.6	16.0	52.6	52.2	52.3	60.0	269	328	309	216
Greece	13.4	15.0	15.3	18.0	34.9	37.2	40.4	32.0	357	749	857	838
Spain	14.3	15.3	16.2	20.0	42.3	42.3	40.9	44.0	1,577	1,841	1,844	2,616
France	13.4	14.0	14.3	23.0	44.0	43.7	45.1	50.0	690	610	94	389
Italy	15.4	16.7	17.1	17.0	22.5	23.9	25.3	26.0	1,776	2,894	2,147	2,064
Cyprus	6.8	8.1	9.0	13.0	47.8	52.5	54.6	46.0	26	53	59	54
Latvia	35.7	37.1	38.7	40.0	40.7	39.9	41.3	34.0	82	-9	-38	-94
Lithuania	21.7	23.0	23.9	23.0	51.3	53.3	57.6	48.7	101	65	7	-106
Luxembourg	3.1	3.6	4.5	11.0	52.5	52.7	52.3	66.0	12	23	24	24
Malta	2.9	3.7	4.7	10.0	26.0	26.5	27.8	33.0	9	14	18	18
Netherlands	4.7	4.8	5.5	14.0	43.2	44.8	46.3	40.0	166	59	216	319
Austria	31.6	32.3	33.1	34.0	27.1	40.0	38.7	38.0	-105	-157	-127	-89
Portugal	25.0	25.7	27.0	31.0	30.0	31.3	31.9	40.0	-157	-90	121	106
Slovenia	20.9	22.5	21.9	25.0	40.1	41.0	43.4	40.0	25	31	49	49
Slovakia	10.4	10.1	11.6	14.0	26.9	26.9	28.4	40.0	1	-2	-41	-151
Finland	34.4	36.7	38.7	38.0	45.1	45.3	45.5	42.0	39	5	-57	16
Bulgaria	16.0	19.0	18.0	16.0	29.4	30.9	32.1	36.0	272	200	72	-512
CR	11.4	12.4	13.4	13.0	26.7	28.2	30.1	32.0	32	14	-58	-35
Denmark	25.6	27.3	29.2	30.0	43.4	44.9	47.6	40.0	152	170	138	120
Croatia	26.8	28.1	27.9	20.0	25.6	32.2	30.9	35.0	63	63	-51	-78
Hungary	9.6	9.5	9.5	14.7	32.3	34.1	34.3	30.3	298	478	594	302
Poland	10.9	11.3	11.4	15.0	40.5	42.1	43.4	45.0	-1,295	-1,364	-1,744	-2,155
Romania	22.8	23.9	24.9	24.0	22.9	25.0	25.6	26.7	-788	-511	-817	-869
Sweden	51.1	52.0	52.6	49.0	48.3	49.9	50.2	45.0	171	152	234	269
UK	4.6	5.6	7.0	15.0	47.4	47.7	47.8	n/a	-26	1,029	1,517	1,119
EU	14.3	15.0	16.0	20.0	37.1	37.9	38.7	40.0	3,568	6,393	5,350	4,787