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Page 3 The Commission Fights Imports Of Chinese Textile

Page 3 New Round Of Regulation Of Financial Services Not Expected

Page 5 The European Parliament Votes Against Working Hours Opt-out

Page 8 Analysis: Constitution Rejected By The French And The Dutch

Page 10 Topic of the Month: European Challenges For National Strategy I

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Dear readers,

If we look back at the almost two years we have been preparing EU News Monthly Journal for you, we won't probably find another month as prolific in terms of important events as May 2005.

It is perhaps compelling, although not surprising, that the French referendum on ratification of the European Constitution Treaty is the single most significant event of the said period. And it is probably even more compelling that the French public, rather than saying no to the Constitution itself, actually used this opportunity to express its distaste for the current state of French political affairs and also its attitude towards the Union's new members and the threat they allegedly represent, having been unable to do so directly last year when the Union was enlarged. The referendum's official subject was hidden somewhere deep beneath a thick layer of other emotions, with only few actually voicing their opinion of the Constitution itself. The negative opinion of the Dutch can be interpreted in a similar way.

As the opinion of the French and Dutch population marking the results had been known for quite a long time, nobody was very much surprised by the various catastrophic scenarios predicting anything from deep political crisis or total loss of further integration invention and stimuli to complete dissolution of the European Union and the Eurozone that appeared just before the referendum itself.

The much-publicised process of ratification (by the way, the fact that at the same time, the Constitution was ratified by Germany, Austria or Slovakia remained almost unnoticed) somehow overshadowed other important events deserving attention. The European Commission, for instance, tried to create barriers against massive Chinese imports of textile goods that would not be regarded as a declaration of trade war. This approach was quite radically criticised by former European Commissioner for Economic Competition Mario Monti who claimed that the Union had been given enough time to get prepared for this situation.

The relatively promising progress concerning the Union's budget for the period 2007 - 2013 may be reversed in the weeks to come as a result of the French and Dutch population saying no to the Constitution. The latest budget-related discussions clearly showed the attitude of the large to the small as well as the relations between the rich and the poor. It is obvious that any compromise concerning budgetary expenditures (specified as a proportion in the Union's GDP) and the maximum amounts that can be drawn by individual member states will be subject to hard bargaining.

In the course of May, three new EU members, Latvia, Cyprus and Malta, took another step towards their accession to the Eurozone, although a rather formal one, when they joined the ERM II mechanism, and two prospective EU members, Bulgaria and Romania, had their accession agreements ratified by national parliaments.

As you can see, this May was really prolific in terms of interesting and important events. Hoping that you will have a nice time reading the latest issue of EU News Monthly Journal, yours

Petr Zahradník

Luxembourg and the European Parliament's special committee presented their respective financial proposals for the period 2007 – 2013. However, at this moment, no final decision on this issue seems to be imminent. The Commissioner for Trade Peter Mandelson asked for formal negotiations with China to be initiated. This could lead to the introduction of temporary import quotas on selected segments of Chinese textile. The Commissioner for Internal Market Charlie McCreevy published his Green Book of Financial Services.

ECONOMY AND EURO

Cyprus, Latvia and Malta Joined ERM II

Since 2 May, Cyprus, Latvia and Malta have been official members of the European Exchange Rate Mechanism (ERM II), taking an important step towards their adoption of the Euro in 2007.

Their national currencies will have to remain within the ERM II system for at least two years, with their agreed exchange rate to EUR deviating by no more than 15% either way. Apart from the said criterion of exchange rate stability, they will also have to meet selected fiscal criteria (public debt not exceeding 60% of GDP and annual public budget deficit not exceeding 3% of GDP) and keep the inflation (or long-term interest rates) sufficiently low before being able to replace their national currencies with the Euro.

The only other new EU members to join the ERM II were Slovenia, Estonia and Latvia in June 2004, with Central Europe being so far rather behind in this respect. None of the countries of this region is expected to join the ERM II any time soon. Considering the attitude of the newly appointed members of the Banking Committee of the Czech National Bank, the Czech Republic will be probably the last new EU member state to adopt the Euro. It is not expected to replace our national currency before 2010.

Central rate in ERM II

Cyprus pound:	0,585274 CYP/EUR
Latvian lats:	0,702804 LVL/EUR
Maltese lira:	0,429300 MTL/EUR

http://www.ecb.int/press/pr/date/2005/html/pr050502.en.html

BUDGET

The Financial Perspective for 2007 - 2013 as Proposed by the Parliament and Luxembourg

In May, two interesting proposals were presented as a part of the discussions concerning the Union's financial perspective for the period 2007 – 2013. However, none of them is likely to be adopted due to the uncompromising positions of some EU member states.

The European Parliament's Special Temporary Committee headed by Reimer Böge concentrates on savings in the chapter of common agricultural policy and administrative expenditures, promoting budgetary increase in the fields of research, justice, security and foreign affairs. It proposes that the maximum amount of budgetary expenditures be reduced to 1.07% of the Union's GDP (the Commission suggests 1.14% of GDP and the six largest contributors favours just 1% of GDP). European MPs also propose that the Union's budget framework be prepared for five instead of seven years (i.e. for the period 2007 - 2011) as the shorter period corresponds better with the mandate of both the European Commission and the European Parliament. According to the proposal, all new members would receive no more than 4% of the Union's GDP for cohesion purposes, whilst the current opportunity of former poor regions to apply for financial assistance from structural funds would remain unchanged. The proposal is scheduled to be voted on at the European Parliament's plenary meeting at the beginning of June.

The second proposal concerning the Union's financial framework for the period 2007 - 2013 comes from Luxembourg (currently presiding over the Union's bodies) and essentially represents another revision of the first "negotiation package" introduced in April. In comparison with the original proposal, the financial position of the Czech Republic is slightly better, thanks to the suggested increase of the maximum amount to be allocated to cohesion policy to 3.6% of the Union's GDP (3.5% in April). In its own proposal, the European Union wants the maximum amount to total 4%. Another important new aspect is the structural change in revenues concerning the Union's budget. It is proposed that Britain's budgetary concession be reduced. In 2007, it should not exceed the amount granted to Britain before the Union's expansion, i.e. before 2004, and should gradually decrease in the future. The proposal does not specify the overall amount of expenditures and revenues. According to the EU Council's experts, who have already produced basic calculations, however, they might amount to approx. 1.07% of the Union's GDP.

Most issues concerning the Union's budget will be probably cleared to some extent at the meeting of the European Council scheduled for 16 – 17 June. However, considering the irreconcilable statements of all main EU representatives, it is very likely that no final proposal will be agreed upon. In July, the presidency will be taken over by Britain and because of its highly controversial "concession", one can hardly expect that it will be prepared to come to any acceptable compromise. The next country to preside over the Union's bodies is Austria (in the first half of 2006). However, if individual implementation regulations and documents to all EU policies are to be prepared and authorised on time, the financial perspective should be approved soon.

http://www2.europarl.eu.int/omk/sipade2?PUBREF=-//EP//TEXT+PRESS+NR-20050511-1+0+DOC+XML+V0//EN&LEVEL=4&NAV=S#SECTION1

http://www.eu2005.lu/en/actualites/documents_travail/2005/05/19negbox/19negbox.pdf

The 2004 Budget Showed Surplus of € 2.74bn

Last year, only € 1.19 billion (1%) of the Union's budget remained unused. This amount represents an all-time minimum as in the past, it used to be much higher. Thanks to higher than expected revenues from own resources and contributions from non-member states for their participation in the EU's programmes, last year's overall surplus totalled € 2.74bn, the highest sum since 1997. As the Union's budget must be always balanced, the aforementioned surplus will be distributed among individual member states and deducted from their contributions for the year 2005. The largest contributors will naturally save the most (e.g. Germany stands to pay € 576 million less as a result).

Financing and surplus by Member State in million €

Member State	Total contribution to the 2005 budget	Surplus of the 2004 budget
Belgium	4 034	-76
Czech Republic	932	-21
Denmark	2 130	-52
Germany	22 209	-576
Estonia	101	-2
Greece	1 882	-45
Spain	8 954	-216
France	17 296	-433
Ireland	1 341	-33
Italy	14 354	-359
Cyprus	145	-3
Latvia	115	-3
Lithuania	222	-5
Luxembourg	241	-6
Hungary	1 003	-22
Malta	57	-1
Netherlands	5 551	-122
Austria	2 307	-61
Poland	2 098	-50
Portugal	1 442	-36
Slovenia	300	-7
Slovak Republic	393	-9
Finland	1 544	-40
Sweden	2 832	-74
United Kingdom	13 732	-485
Total	**105 216**	**-2 737**

http://europa.eu.int/rapid/pressReleasesAction.do?reference=IP/05/571

TAXATION AND CUSTOMS UNION

Plane Ticket Tax Proposed by the Ecofin

In order to secure funding of the Union's aid for the developing countries, the Ministers of Finance of individual member states proposed that voluntary tax on all plane tickets issued within EU be introduced. It is to be strictly voluntary, with each member state free to decide whether to join the initiative or not.

By 2015, EU would like to provide economic aid for the developing countries totalling 0.7% of its GDP. The proposal, brought forward by France, will be discussed at the next meeting of the EU Council for Economic and Financial Affairs. It has already been rejected by the International Air Carrier Association (IACA).

http://www.eu2005.lu/en/actualites/communiques/2005/05/14ecofin-jclj/index.html

FOREIGN TRADE

The Commission Fights Chinese Textile

The European Union finally answered the complaints of textile producers from all over the Union and decided to react to the increasing import of Chinese textile resulting from the abolishment of import quotas in January 2005. According to a press release, the Commission's survey initiated at the end of April detected "dramatic decrease of production, profitability and employment within the Union's textile industry".

Therefore the Trade Commissioner Peter Mandelson called for formal discussions with China to be initiated at the next meeting of the WTO. The EU should request above all considerable reduction of T-shirt and flax yarn imports as these have increased by 187% and 56% respectively since the beginning of this year. Should China fail to adopt adequate measures reducing its export within 15 days after the beginning of consultations, the EU will be entitled to introduce temporary quotas in accordance with WTO's regulations, limiting year-on-year increase to 7.5% until the end of 2005.

China does not agree with the Union's measures, arguing that the increase was steep only at the beginning. In addition, at the beginning of last week, Beijing announced that it would increase export duty on 74 textile and clothing items on 1 June. However, after the EU's decision and a similar measure adopted by the US, China reconsidered its policy and decided to abolish export duty on some commodities.

http://europa.eu.int/rapid/pressReleasesAction.do?reference=IP/05/566

INTERNAL MARKET

Another Round of Regulation of Financial Services in EU is not Planned

At the beginning of May, the EU Commissioner for Internal Market Charlie McCreevy introduced his Green Book of

The European Parliament approved the third anti-laundering directive addressing also financing of terrorism. The European Commission opened a new web site designated to provide contacts for small and medium-size companies within the entire Union. European MPs turned down the Commission's proposal on working hours, refusing to allow employees to work for more than 48 hours a week at their own request.

Financial Services. On this occasion, McCreevy said that the Action Plan of Financial Services had been successful and that no new EU legislation addressing financial services was being prepared.

The adopted document has a consultative character and will be open to public assessment until 1 August. It summarises the current progress of the Financial Services Action Plan (FSAP) and specifies individual spheres where further legislative work will be necessary. However, the main attention will be focused on the completion of all FSAP-related measures and their proper functioning.

Main issues addressed by the Green Book of Financial Services:

- Consolidation – implementation, enforcement, assessment and consolidation were the principal terms used by McCreevy during his introduction speech. The Financial Services Action Plan must be practically implemented, regulated and monitored by individual member states. Before and after the adoption of any new legislation it will be necessary to produce studies showing its impact on financial markets.
- Supervision and regulation – strict enforcement of all regulations by competent authorities is necessary. All organisational structures introduced by Lamfalussy's Process (the Committee of European Bank Regulators and the Committee of European Securities Regulators) will be preserved. Their efficiency will be monitored and if necessary, adequate changes proposed.
- What else needs to be done:
    - Capital adequacy directive – introduced by Basel II, currently discussed by the European Parliament, McCreevy claims that it should be approved this autumn at the latest.
    - Clearing and settlement of business transactions – according to various indications new legislation in this area is very likely to be adopted; however, no final decision has been taken as yet.
    - In order to complete the legislative process related to the FSAP, it will be necessary to adopt additional directives concerning business regulations and payment systems.
- New measures:
    - Integration of retail banking – further integration is necessary in order to secure access to bank accounts, saving, insurance and mortgages within the entire EU for all retail clients. In addition, all offered products must be easily comparable. The Union's Green Book of Mortgages is scheduled to be published this summer.
    - Asset management – due to ineffective use of the directive regulating collective investing, there are still considerable obstacles concerning cross-border asset management services and investment funds. A separate Green Book addressing this issue is to be published in July.
- International context - the document places emphasis on further harmonisation of regulations, especially those concerning bookkeeping and corporate reporting, on international level with the United States, Japan and other countries with quickly expanding economy, such as China or India.

http://europa.eu.int/rapid/pressReleasesAction.do?reference=IP/05/527

Further Toughening of Anti-Laundering Measures

The European Parliament approved the third anti-laundering directive consolidating the two previous directives of 1991 and 2001 into one text and introducing several new measures.

The directive addresses above all the obligation to verify the identity of clients and report all transactions that could be related to terrorism. All cash payments exceeding € 15,000 will have to be reported not only by banks, notaries, solicitors and casinos as in the past, but also by insurance and real estate agents, accounting and tax advisors and retailers.

In order to become effective, the new directive must be approved by the EU Committee for Economic and Financial Affairs. The Committee's approval is expected to be granted at its next meeting on 7 June.

According to diplomatic sources, the Czech Republic should have no problems with its implementation because similar regulations already form an integral part of its legislation.

http://europa.eu.int/rapid/pressReleasesAction.do?reference=IP/05/616

ENTERPRISE

New Contact Web Site for Small and Medium-Sized Companies

The European Commission opened a new web site designated to promote contacts among small and medium-sized companies within the entire European Union. This service is being provided in collaboration with the network Euro Info and the European Association of Regional Development Agencies.

The portal's objective is to put together 4,000 small and medium-size companies from twenty different economic sectors within the next two years. In total, 32 meetings scheduled to take place as a part of main international trade fairs and numerous special seminars are being prepared.

The EU has so far provided € 6 million for the project.

http://europa.eu.int/rapid/pressReleasesAction.do?reference=IP/05/547

EMPLOYMENT AND SOCIAL POLICY

European Parliament Against Working Hours Opt-out

European MPs rejected the proposal of the European Commission to preserve an opt-out of the maximum number of working hours per week (48) specified by the relevant directive. It enables employees to work more than 48 hours a week upon their own request. Fearing possible misuse of such "voluntary" requests by employers, the MPs voted against the opt-out.

The Parliament also wants any on-call time to be included in weekly working hours.

While the unions have already professed their satisfaction, industrial associations, especially those from Britain, where the currently valid exemption is widely explored, have flatly rejected the proposal.

It will now be returned to the European Council for Employment and Social Affairs and decided on by qualified majority of its members. The Parliament's proposal is expected to be blocked by the representatives of EU member states. It is very likely that some kind of compromise will be adopted at the end, but probably no earlier than in the first half of 2006.

The proposal in inconsistent with the Lisbon Strategy because it makes the already rigid European labour market even less flexible.

http://www2.europarl.eu.int/omk/sipade2?PUBREF=-//EP//TEXT+PRESS+DN-20050511-1+0+DOC+XML+V0//EN&LEVEL=2&NAV=S#SECTION1

ENLARGEMENT

Accession Agreements Ratified by Bulgaria and Romania

Bulgaria and Romania are another step closer to their membership in the European Union as their respective national parliaments almost unilaterally ratified the relevant accession agreements. Although their population is overwhelmingly in favour of joining the European Union, neither country organised a public referendum on the issue.

The accession agreements expect Bulgaria's and Romania's membership to become effective as of 1 January 2007. However, each includes a clause that makes it possible to postpone their accession by one year, should the countries slow down their reforming efforts, especially in the fields of corruption control and judicial reform.

In order to become effective, the accession agreement must be approved by all 25 current EU member states.

http://europa.eu.int/comm/enlargement/bulgaria/index.htm

http://europa.eu.int/comm/enlargement/romania/index.htm

The programme enabling small and medium-size companies to finance projects related to social liability of firms attracted a lot of attention in May. The Commissioner for Regional Policy Danuta Hübner published her third report on progression of economic and social cohesion in the European Union. It states that while the GDP produced by the ten wealthiest European regions amounted to 189% of the average GDP of EU-25, the ten poorest regions managed to produce only 36% of the average GDP of EU-25.

02 MAY

External Relations: 14th EU-Japan Summit - 2 May 2005:
http://ue.eu.int/ueDocs/cms_Data/docs/pressData/en/er/84774.pdf

European Investment Fund: EIF Annual Report 2004 now available online:
http://www.eif.org/publications/publication.asp?publ=44&region=-1&years=-1&categories=-1&country=-1&txtFreeSearch="&page=1

03 MAY

EU's information and communication strategy:
http://www2.europarl.eu.int/omk/sipade2?PUBREF=-//EP//TEXT+PRESS+BR-20050509-S+0+DOC+XML+V0//EN&LEVEL=2&NAV=S#SECTION16

First national reports on the implementation of Directive on the promotion of the use of biofuels:
http://www.europa.eu.int/comm/energy/res/legislation/biofuels_members_states_en.htm

04 MAY

Research: Tracing science from memory:
http://www.europa.eu.int/comm/research/headlines/news/article_05_05_03_en.html

06 MAY

Protocol signed on the participation of new Member States in the EU's co-operation and customs union agreement with San Marino:
http://ue.eu.int/ueDocs/cms_Data/docs/pressData/en/misc/84800.pdf

09 MAY

European Central Bank: Results of the April 2005 bank lending survey for the euro area:
http://www.ecb.int/press/pr/date/2005/html/pr050506.en.html

European Foundation for the Improvement of Living and Working Conditions: Less holidays, longer hours for workers in EU's new Member States:
http://www.eurofound.eu.int/newsroom/archive_pressrelease/pressrel_050505.htm

10 MAY

Johannesburg Renewable Energy Coalition - New website:
http://www.europa.eu.int/comm/environment/jrec/index_en.htm

11 MAY

Council of the EU: 15th EU-RUSSIA SUMMIT:
http://ue.eu.int/ueDocs/cms_Data/docs/pressData/en/er/84811.pdf

Preserving Europe's film heritage:
http://www2.europarl.eu.int/omk/sipade2?PUBREF=-//EP//TEXT+PRESS+DN-20050510-1+0+DOC+XML+V0//EN&L=EN&LEVEL=2&NAV=X&LSTDOC=N#SECTION6

Adoption of Parliament's opinion on Cross-Border Mergers Directive:
http://www.europa.eu.int/comm/internal_market/en/company/company/mergers/mergers_en.htm

European Ombudsman presents 2004 Annual Report:
http://www.euro-ombudsman.eu.int/release/en/2005-05-11.htm

12 MAY

Annual Work Programme for Grants 2005 for Enlargement:
http://www.europa.eu.int/comm/enlargement/work_pgr_2005/index.htm

General report on pre-accession assistance (Phare – Ispa – Sapard 2003):
http://www.europa.eu.int/comm/enlargement/pas/phare/publist.htm#reports

Green Paper on Public Private Partnership:
http://www.europa.eu.int/comm/internal_market/publicprocurement/ppp_en.htm#consultation

13 MAY

"TEN-T" results of public consultation on extension of Trans-European transport axes:
http://www.europa.eu.int/comm/ten/transport/2005_03_31_tent_consultation/index_en.htm

CSR - new funding opportunity for projects on SMEs:
http://www.europa.eu.int/comm/enterprise/library/enterprise-europe/news-updates/2005/2005-05-12_a.htm

Corporate governance - Commission consults on minimum standards that should apply to shareholders' rights:
http://www.europa.eu.int/comm/internal_market/company/shareholders/index_en.htm

Eurostat Press Release: Half of individuals and nine out of ten enterprises used the internet in 2004:
http://epp.eurostat.cec.eu.int/pls/portal/docs/PAGE/PGP_PRD_CAT_PREREL/PGE_CAT_PREREL_YEAR_2005/PGE_CAT_PREREL_YEAR_2005_MONTH_05/4-13052005-EN-AP.PDF

17 MAY

A survey on how Europeans see globalisation:
http://trade-info.cec.eu.int/doclib/html/123146.htm

"State of the regions" report published: http://www.europa.eu.int/comm/regional_policy/sources/docoffic/official/reports/interim3_en.htm

18 MAY

Price and Cost Competitiveness. First quarter 2005: http://www.europa.eu.int/comm/economy_finance/publications/priceandcostcompetiteveness_en.htm

19 MAY

EU-US partnership - Commission proposals to strengthen economic and political relations: http://www.europa.eu.int/comm/external_relations/us/news/ip05_573.htm

First issue of the International Journal of Central Banking: http://www.ecb.int/press/pr/date/2005/html/pr050519.en.html

Memorandum of Understanding on co-operation in Financial Crisis situations between the Banking Supervisors, Central Banks and Finance Ministries of the EU: http://www.ecb.int/press/pr/date/2005/html/pr050518_1.en.html

20 MAY

Research: EU launches "AthenaWeb" – new professional portal for audiovisual scientific information: http://www.europa.eu.int/comm/research/press/2005/pr1905en.cfm

23 MAY

State aid decisions - transportation and coal (Update of the "Decisions list"): http://www.europa.eu.int/comm/dgs/energy_transport/state_aid/decisions/decisions_dg_tren_en.htm

Jordan, Israel and the EU agree enhanced trading links: http://www.europa.eu.int/comm/trade/issues/bilateral/countries/jordan/pr200505_en.htm

24 MAY

Galileo - negotiations with South Korea: http://www.europa.eu.int/comm/dgs/energy_transport/galileo/documents/press_en.htm

Bathing water report - bathing season 2004: http://www.europa.eu.int/water/water-bathing/report.html

25 MAY

Food labelling that tells the truth: http://www2.europarl.eu.int/omk/sipade2?PUBREF=-//EP//TEXT+PRESS+BR-20050525-B+0+DOC+XML+V0//EN&L=EN&LEVEL=2&NAV=X&LSTDOC=N#SECTION1

Final report on distribution and production of TV programmes: http://www.europa.eu.int/comm/avpolicy/stat/studi_en.htm#16

26 MAY

Regional Committee's position on Cohesion Policy 2007-2013: http://www2.europarl.eu.int/omk/sipade2?PUBREF=-//EP//TEXT+PRESS+NR-20050526-1+0+DOC+XML+V0//EN&LEVEL=2&NAV=S#SECTION1

Commission 2005 Report on electricity and gas Directives - invitation for position paper: http://www.europa.eu.int/comm/energy/electricity/report_2005/stakeholders.htm

27 MAY

Draft summary of study on aviation and emissions trading: http://www.europa.eu.int/comm/environment/climat/aviation_en.htm

ECB: Publication of the TARGET Annual Report 2004: http://www.ecb.int/press/pr/date/2005/html/pr050525.en.html

30 MAY

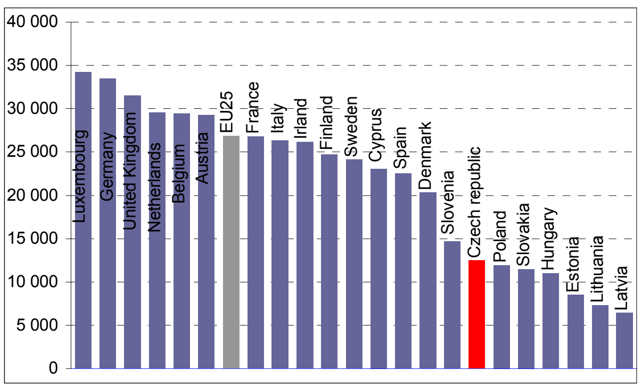
Interim report on 'Co-Regulation Measures in the Media Sector' study: http://www.europa.eu.int/comm/avpolicy/stat/studi_en.htm#17

31 MAY

Council Conclusions on an EU Forest Action Plan - Council meeting Agriculture and Fisheries: http://ue.eu.int/ueDocs/cms_Data/docs/pressData/en/agricult/85001.pdf

Average annual earnings varied significantly across the EU25: http://epp.eurostat.cec.eu.int/pls/portal/docs/PAGE/PGP_PRD_CAT_PREREL/PGE_CAT_PREREL_YEAR_2005/PGE_CAT_PREREL_YEAR_2005_MONTH_05/3-30052005-EN-AP.PDF

Average annual earnings in euro in terms of PPS



Source: Eurostat, data for industry and services in 2002

As our report is called EU News Monthly Journal we cannot omit the rejection of the European Constitution first in France and later on in The Netherlands, undoubtedly the most important event of the month of May (and partially also June). Rather than focusing on the reasons, more or less predicted by opinion polls and, therefore, not regarded as a surprise, we address the most important economic consequences and possible future development scenarios.

THE FRENCH AND THE DUTCH REJECTED THE EUROPEAN CONSTITUTION

Almost 55% of all voters in France and 62% in The Netherlands said no to the Constitution, causing the first more serious complication of the current ratification process.

Even though we can reasonably presume that the vote was to a large extent affected by the discontent of the public with domestic political affairs, we must not underestimate the circumstances under which the French and the Dutch expressed their disapproval with the values the Union is based on. The outcome in France is even more serious because the Treaty was meant to respect to a large extent the attitude of its leadership to European integration.

However, rather than analysing the cause, we shall concentrate on individual consequences and also on possible scenarios. They need to be viewed through the process of ratification planned in the future in other member states whose public is not expected to be overwhelmingly in favour of the Constitution.

Consequences

In our opinion, the result of the plebiscite in France and The Netherlands **will not affect** at all the economic development of the Czech Republic in **short and medium term**, apart from its rather ambiguous impact on the current global strengthening of the dollar and its standard consequences.

Neither will it **significantly affect** the Union's economic situation. However, possible negative consequences in this area would be more serious for our country, if the presented catastrophic scenarios and concepts making our local investment environment quite unpre-dictable and unstable were to come true.

Foreign exchange rates and investment conditions are the only areas that could be more significantly affected in European context by the rejection of the Constitution. However the impact of the said aspects on our economic environment is very likely to be only implicit.

Possible strengthening of the dollar and the resulting weakening of the Union's common currency, together with the current development of investment and business conditions, can be to a certain extent explained by general nervousness. It is very likely that the common currency will weaken even further in the weeks to come. The impact on our currency, however, should be neutral, unless other regional currencies are destabilised. In such a case, the exchange rate CZK/US$ might change considerably. Nevertheless, the said scenario is not expected because the present situation is caused by **psychological factors** (i.e. by **general uncertainty**) rather than by the rejection of the Constitution itself. This might, naturally, change, in the event of a real crisis throwing doubt on the Union's existence as such.

Possible Scenarios

We think that the **European Constitution has its purport**. Although its form is not ideal, its content is advantageous for the current stage of European integration. The rejection of the Constitution in France, The Netherlands and in a longer horizon also in other "more problematic" countries may easily cause the entire project in its existing version to end in a blind alley.

However, this does not mean that if one project, even though such a very important and symbolic one, fails, the entire EU history will end. The past of European integration is full of efforts ending in a dead-end street only to be resurrected years afterwards (the monetary union, Werner's plan, tax harmonisation of the end of 1960s, etc.). The current situation might be interpreted as a signal for the Union to **take some time off**, get used to some principal successes of its recent past (introduction of the Euro, massive expansion, etc.) and realise that not everything can be achieved at once.

The rejection of the European Constitution also means that the **process of further expansion will be** at least temporarily **stopped** (this does not apply to the planned accession of Romania and Bulgaria) and that the Union cannot become a formal partner of global powers. It may lead to fragmentation and even deeper division of the European Union into several groups of countries characterised by different speed and extent of integration. And that would be a **waste of energy**. Too much time and effort has been already invested in the Constitution. Even the Union's future projects are based on the presumption that the Constitution will be adopted. If the Constitution is rejected, all past efforts will be wasted and it will be necessary to invest a lot of energy and time in a new conception, not to mention the fact that certain activities may become paralysed as a result.

The current state of ratification of the European Constitution can be checked here: http://europa.eu.int/constitution/ratification_en.htm

Expected events

The most important event to take place in June is undoubtedly the meeting of the leaders of EU member states in Brussels. The European Council will have to decide whether and how to proceed with the ratification of the European Constitution in the remaining member states. Another important issue to be discussed is the Union's financial framework for the period 2007-2013.

2.-3.6.2005	**Luxembourg, Luxembourg**	- Justice and Home Affairs Council Meeting
6.-9.6.2005	**Strasbourg, France**	- European Parliament plenary session
7.-8.6.2005	**Mondorf, Luxembourg**	- EU Presidency - Informal Meeting of Ministers for Public Administration
7.6.2005	**Luxembourg, Luxembourg**	- ECOFIN Council
15.-16.6.2005	**Brussels, Belgium**	- Parliament - Committee on Industry, Research and Energy (ITRE) meeting
16.-17.6.2005	**Brussels, Belgium**	- EU Presidency - European Council meeting for General Affairs and External Relations
16.-17.6.2005	**Brussels, Belgium**	- EU Presidency - European Council
20.-21.6.2005	**Luxembourg, Luxembourg**	- EU Presidency - Agriculture and Fisheries Council meeting
21.-22.6.2005	**Luxembourg, Luxembourg**	- EU Presidency - Helsinki Group Meeting
24.6.2005	**Luxembourg, Luxembourg**	- EU Presidency - Environment Council

In our previous editions we paid a lot of attention to several key issues, such as the Union's financial framework for the period 2007 - 2013, negotiation position of the Czech Republic, the European Constitution or the new Lisbon Strategy, that are currently on the agenda in Brussels. These issues are not suspended in some kind of vacuum but affect significantly our domestic affairs, including, for instance, our own economic strategy.

EUROPEAN CHALLENGES FOR NATIONAL STRATEGY I

The Union is currently in the middle of heated discussions concerning several key issues of European integration, such as the preparation of its **financial framework for the period 2007 – 2013**, application of the **revised version of the Lisbon Strategy** and ratification of the **European Constitution**. These can be looked at from two different points of view. On one hand, they represent to a large extent a definite criterion of behaviour on which our future assessment will be based. On the other hand, they also represent a certain source of inspiration or invention we should consider when forming our own development and growth strategy.

Review of national strategic issues

The Czech Republic is one of the countries currently preparing their strategic development documents that should both respect and contribute to the paradigm of the new Lisbon process.

So, what is the possible character of our country's national strategy based on the aforementioned key European issues? First of all, it should concentrate on long-term growth priorities. It is beyond any doubt that **sound cash flow** is one of the principal conditions of balanced economic development. Another factor playing an important role in the area of economic wealth is **institutional environment**. It is also impossible to achieve economic development without adequate **infrastructure**. According to our past experience, **education and human resources**, together with **research and development**, create the most stable and prosperous growth environment.

In the following text, we shall focus on the following two aspects that will certainly form a part of the national strategy of economic development of the Czech Republic: effective financial resources and high-quality institutional environment.

EFFECTIVE FINANCIAL RESOURCES

In our opinion, it is possible to identify the following priorities in the area of financial resources: **acquisition of sufficient resources from the European Union** and other international financial institutions, **maximisation of foreign investments** in the Czech Republic, including effective finalisation of privatisation of public assets, creation of conditions for efficient **partnership between public and private sectors**, **effective allocation of commercial financial resources** and **cautious utilisation of public funds**.

Priority No. 1 - Acquisition of sufficient resources from the European Union and other international financial institutions

Thanks to our accession to the European Union, we are now able to take full advantage of its regional and structural funds. It is important to make sure that they are allocated to areas warranting the highest possible multiplication effect and that all available resources are fully utilised. Apart from that, we can also rely on various support instruments of international financial institutions (EIB, EIF, IMF, WB, OECD).

<u>Maximisation of financial resources from the Union's funds and their allocation to the most desirable areas</u>

One of the principal instruments of utilisation of regional and cohesion funds is the **Union's financial framework** for the period 2007 – 2013. Its final character determines both the areas to which the Union's funds will be allocated and their overall amount. The Commission proposes that the Union's expenditures in the aforementioned period total 1.14% of its gross domestic product (GDP), i.e. approx. € 143bn a year.

Nevertheless, the said amount represents only one of the proposals to be discussed by the representatives of individual member states. The wealthiest EU members, for instance, want the maximum amount of expenditures to be reduced to 1% of the Union's GDP. It is clear that some kind of compromise will have to be reached in this area.

Thanks to our accession to the EU, we are now able to take full advantage of its regional and cohesion funds. The overall amount the Czech Republic is to receive in the period 2004 – 2006 totals approx. CZK 81 bn in current prices.

The Ministry of Finance expects that the Czech Republic might receive approx. CZK 169 billion (i.e. CZK 125 billion in fixed prices of the year 2004) a year from the Union's regional policy funds in the next programme period (2007 - 2013), i.e. almost **six times more than at present**.

Allocation expectation concerning regional and cohesion policies for the Czech republic

CZK billion	2007	2008	2009	2010	2011	2012	2013
Structural funds	89.0	96.0	104.0	112.2	120.6	128.8	136.9
Cohesion fund	44.5	48.0	52.0	56.1	60.3	64.4	68.4
Total	**133.6**	**144.1**	**156.0**	**168.3**	**180.8**	**193.2**	**205.3**

Source: Ministry of Finance, current prices

Recommendations:

- When taking part in negotiations determining the Union's financial perspective for the period 2007 - 2013, our

negotiators should **support the position of the European Commission**. Should this position prove to be untenable, they should focus on making sure that regional policy funds are not reduced as a result of reduction of the Union's overall budget. The main objective is to obtain funds totalling up to 4% of our national GDP.

- All particular operating programmes and their priorities and measures, including allocation of funds, should **respect individual priority development areas of the Czech Republic**. Apart from horizontal (cross-sectional) operating programmes focusing on further development of regions and towns, it is necessary to promote the operating programmes concentrating on the development areas warranting high multiplication effect, maximum added value, sectors with clear growth perspective and highly competitive sectors. That is why our priorities should include above all human resources, business (especially small and medium-size companies), innovations, informational society and infrastructure (transport and environment).

- Allocation of funds to individual operating programmes, including their priorities and related measures, should be **based on our experience gained during the current programme period**. This applies above all to the most attractive operating programmes and those least popular with the applicants.

<u>Securing of sufficient funds to co-finance projects financed from the Union's resources</u>

No project may be completely funded only from the Union's resources, co-financing from national public budgets is always required. As a result, individual countries have to face various pressures for they are obliged to meet the agreed Convergence Programmes as well as the Maastricht criteria. Considering that the participation of the Czech Republic in all projects funded from structural and cohesion funds must be at least 25% and 15%, respectively, the government will have to find approx. CZK 332 billion in its budget for this purpose over the period 2007 - 2013.

Co-financing from national public funds of the CR

CZK billion	2007	2008	2009	2010	2011	2012	2013
Structural funds	7.9	8.5	9.2	9.9	10.6	11.4	12.1
Cohesion fund	29.7	32.0	34.7	37.4	40.2	42.9	45.6
Total	37.5	40.5	43.8	47.3	50.8	54.3	57.7

Source: Ministry of Finance, current prices

Recommendations:

- Provision of resources for co-financing of individual projects funded from European funds should be an **absolute priority**. Because of high multiplication (with each Czech crown invested from national resources bringing 3 CZK from EU funds) and limited amounts of public finances, European programmes should be given priority over domestic programmes.

- It is also necessary to create conditions for more extensive **participation of private funds** in co-financing (for instance, in the form of various types of partnerships between public and private sectors).

<u>Promotion of Utilisation of Funds from Community Programmes</u>

Czech subjects can also take advantage of other funds than those related to the Union's regional or cohesion policies. The so-called direct community programmes offered by individual departments of the European Commission (usually by their General Directorates) represent a smaller, yet not negligible resource of funds. They are usually focused on development activities in areas where no clear architecture exists on national level, such as education, science, research, business and research capacities, improvement of transport and power infrastructure, culture, informational society, consumer protection, environmental protection, etc.

The biggest disadvantage of centralised programmes is that it is quite difficult to monitor their actual utilisation for the end recipients of funds are often private subjects acquiring them on European level, without being obligated to inform their national authorities.

It is obvious that Czech entrepreneurial subjects will be able to participate in community programmes only if they have adequate information. Some programmes, especially those available even before the accession of the Czech Republic to the European Union, are well known and, therefore, quite widely exploited. On the other hand, there are many programmes about which the relevant ministries (co-ordinators) have only general information. This fact considerably reduces the chances of potential participants.

Recommendations:

- The co-ordinators (ministries) of all direct community programmes should **enhance their communication with the public**. They should be able to provide the latest and most comprehensive information for all subjects interested.

Priority No. 2 – Maximisation of direct investments and effective finalisation of privatisation of public assets

It is possible to say that private resources of strictly domestic origin are still very limited and cannot significantly affect the competitiveness of our economy. That is why direct foreign investments play such a prominent role in all areas increasing economic performance, such as new production activities, know-how and technologies. The

proceeds from privatisation of state-owned enterprises represent another interesting source of financing.

Maintenance of the amount of direct foreign investments

Massive influx of direct foreign investments was the main source of economic growth, new jobs and improvement of trade balance in the past years. Other positive effects include increase of qualification, skills and know-how. In 1990s, the Czech Republic, trying to make its investment environment more attractive, introduced investment incentives. Essentially a specific type of state aid, they can be provided even after our accession to the European Union in the form of income tax breaks for up to 10 years, creation of new jobs, promotion of re-qualification and training courses and preparation of industrial zones.

Recommendations:

- Investment incentives must be modified in accordance with current regional trends. It is difficult to fight the systems of flat tax rates, well bellow the level of Czech tax rates, used by other states of our region. Further **simplification of administrative processes** and reduction of the opportunity to make subjective decisions can help offset some of the disadvantages provided that the principle of free competition is observed.

- The time of massive foreign investments is slowly approaching its end. That is why it is necessary to stimulate **investment from Czech business subjects**, for instance, by reducing the limit of investment incentives to one half of its current amount.

- Reinvestment conditions are the only instrument preventing possible relocation of investments from the Czech Republic to more favourable territories. Although this measure might reduce the overall amount of incoming investments in the short term, it can also help “eliminate” investments with negligible added value taking advantage of favourable conditions.

- CzechInvest should improve its co-ordination of the process of **establishment/reconstruction of industrial zones** with regional authorities, thus ensuring that their parameters correspond with actual requirements of investors and are not left unused.

- In the long term, it is necessary to introduce **effective monitoring** of all expenditures / lost revenues, taking its results into account in the process of allocation of investment incentives.

Change of Allocation of Direct Foreign Investments to Individual Sectors

In the past, most direct foreign investments concerned processing industry with low added value. In particular, in the period 1998 - 2004, only 15% (CZK 175 billion) of all direct foreign investments went to sectors with higher added value. This trend, however, is characteristic for all poorer countries after their accession to the European Union, except for Ireland. On the other hand, more than 35% of all incentive projects focused on the production of optical and electrical devices or transport means, i.e. on sectors with higher added value.

Nevertheless, in the long term, all developed countries tend to relocate even their more sophisticated production activities to territories with lower production costs, concentrating mainly on services.

Recommendations:

- The current system of investment incentives **does not offer preferential conditions for investments in selected sectors**. CzechInvest would like to change this situation, identifying new priorities in conventional sectors (electronic industry, precise engineering, vehicle production, chemical industry, production of plastic materials), hi-tech sectors (microelectronics, biotechnology and pharmaceutical industry) and service sector (information and communication technologies, software development, centres of shared services, expert and solution centres, e-commerce and e-business). However, no specific support instruments have been established as yet.

- The connection between investments in research and development and economic strength is obvious. That is why any stimulation in this area should clearly determine priorities and have the form of **tax breaks for investments in research and development**.

- In order to implement the aforementioned measures, it is necessary to have sufficiently qualified **workforce** (at the moment, there is a shortage of qualified personnel above all in technical sectors).

Finalisation of Privatisation of State Corporate Interests

Privatisation of public assets represents one of the last unfinished processes of economic transformation in the Czech Republic. For a long time, the effectiveness of the companies transformed through coupon privatisation had been comparatively low. Nevertheless, thanks to gradual stabilisation of their ownership structure, their effectiveness and performance seem to be finally improving.

The economic results of transparently privatised companies (especially those acquired by foreign investors) are much better, showing high levels of effectiveness and profitability. Their new owners usually not only have sufficient financial resources (mostly in the form of direct foreign investments), but can also offer all necessary know-how, incorporation into international networks, new markets, new corporate culture and corporate governance, etc.

Recommendations:

- It is necessary to finalise the privatisation of the remaining companies in which the state holds interest. This **process** should be as transparent as possible and have the form of public tenders subject to clearly specified, yet not excessively restrictive conditions, whose objective is to achieve the maximum possible selling price.

- It is also necessary to allow **partial privatisation of network companies** of the utility type classified as strategic **through stock exchange**, thus supporting capital markets. Unless resulting in considerable reduction of privatisation proceeds and/or future tax revenues, the same method should be also used to privatise enterprises in which the state holds qualified majority.

Priority No. 3 - Creation of suitable environment for effective PPP

Joint financing of large projects by private and public sectors (partnership between private and public sectors - PPP) is a standard method of provision of public services and realisation of public projects, from railways, schools and hospitals to prisons. PPP not only allows execution of projects that cannot be financed solely from public resources because of their extent, but upon optimally set conditions makes them more effective and cheaper.

<u>Adoption of legislation</u>

The Czech Republic has **no act on public and private partnerships** defining long-term contractual relations between public and private subjects jointly providing selected services for the public. It should also include a specialised act on concession agreements that would make the entire process simpler and eliminate potential risks resulting from possible acceptance of uncontrolled obligations by the public sector. In addition, it is also necessary to amend a whole range of laws affecting the area of PPP but not addressing its principal problems.

<u>Provision of institutional support for PPP projects</u>

If the partnership between public and private sectors is to be effective, it will be necessary to create and maintain an institutional system supporting the position of public sector in the long term. Without institutional support, it will not be possible to eliminate the risks resulting from unprofessional preparation and implementation of PPP projects and to create methodological materials making the process of preparation and realisation of PPP projects easier and enabling the public sector to produce high-quality projects.

Recommendations:

- Creation of **methodology for PPP projects** based on the experience gained in the course of realisation of pilot projects.

<u>Effective regulation of obligations resulting from PPP</u>

PPP projects will considerably affect future liabilities of public budgets. That is why it is necessary to implement effective regulation preventing possible realisation of projects that could negatively affect the fiscal prospects of the Czech Republic.

Recommendations:

- General determination of projects that have to be regulated based on clearly specified criteria.

- Creation of a database of long-term liabilities of public budgets resulting from PPP projects and its inclusion in budgetary documentation.

<u>Selection of suitable PPP projects</u>

Before any PPP project is approved, it is necessary to demonstrate that no better service provision alternative exists. This can be achieved through several methods that are already in use in other EU member states. Among the most popular are preliminary analyses of gains and expenses (suitable for small projects) and the Public Sector Comparator (suitable for larger projects).

Recommendations:

- Creation of clear and transparent methodology comparing PPP-based financing with other forms of financing.

<u>Use of PPP for co-financing purposes</u>

One of the possible advantages of PPP projects is more extensive utilisation of EU funds resulting from increased co-financing of public projects by private subjects. The opportunity to use private resources for co-financing purposes could considerably increase the absorption ability of the Czech Republic.

Recommendations:

- The Czech Republic should be actively **lobbying for simplification of the European Commission's regulations** concerning co-financing of PPP projects.

- It is necessary to prepare and prefer projects allowing utilisation of EU funds. This effort should be reflected by PPP methodology.

Priority No. 4 - Effective allocation of commercial financial resources

In principle, it is necessary to prefer generally effective instruments and measures cultivating competition environment and improving business environment to selective instruments which should be used only if the resulting economic merits are expected to exceed significantly the loss of effectiveness of the country's market environment.

Development support of organised capital markets

The role of public sector in this area concentrates on effective regulation and creation of the necessary infrastructure. One of the most important conditions of further development is effective and transparent legislation. Regulation activities must very closely follow the latest innovations in the financial sector. The law should specify only basic and preferably constant principles, with individual processes and activities addressed by documents of lower legal force which can be more easily amended.

It is also necessary to create a reliable and transparent system that would regulate transactions with securities as well as their registration and would be comparable with international standards. There is a huge potential in the enhancement of tax competitiveness of some types of institutional investors. We need to make sure that they have the same opportunities as their foreign counterparts, if we do not want our citizens to invest their savings abroad. In order to ensure further development of our capital market, we also need to secure a sufficient amount of allocable resources from institutional investors, especially pension funds, whose capacities are expected to grow significantly in the future.

Promotion of private equity and venture capital

In the Czech Republic, this type of financing (accumulation of capital from various investors and subsequent increase of nominal capital of selected companies) represents a dynamic, yet still minor form of funding of entrepreneurial activities warranting high added value or start-up companies (in the period 1995 – 2003, the members of the Czech Venture Capital Association invested more than CZK 20 billion in this way). As far as the investment process itself is concerned, the development of venture capital is closely connected with the overall quality of business environment, especially its competitiveness. Public funds used to support small and medium-size enterprises can also represent an important source of venture capital.

Recommendations:

- Continuous legislative efforts concentrating on higher transparency and the **simplest legal regulation** of capital markets possible.

- Establishment of the **institute of central depository** and implementation of transparent multi-level evidence of securities.

- Significant **reduction of the income tax paid by investment companies** and liberalisation of VAT-deduction conditions related to temporary investment of idle financial assets in securities.

- **Liberalisation of the investment limits** of institutional investors enabling more extensive diversification of risk-profit profiles of individual funds in their regulations.

- Maximum exploitation of domestic organised capital markets in the course of **privatisation of the remaining state interests in companies**.

- Faster **harmonisation of Czech accounting standards** with international standards (IFRS), regulatory strengthening of independence of external auditors and incorporation of corporate governance principles into corporate laws.

- Allocation of some subsidies designated for small and medium-size companies **via private equity and venture capital funds**.

- Enhancement of tax competitiveness of venture capital funds as economic subjects (especially tax consolidation of profits and losses resulting from realisation of individual investments).

Priority No. 5 - Cautious utilisation of public resources

The current state of utilisation of public resources is anything but cautious. The proposed savings have mostly general character. As a result, many expenditures that have their purport and could be justified are eliminated, while many expenditures having no positive effect on public services are approved. It is, therefore, necessary to promote allocation of public funds to particular projects, thoroughly assess the purport of all expenditures and enhance individual approach.

More particular allocation of public funds

Uneconomical utilisation of public funds not only leads to provision of relatively expensive and poor quality public services, but also negatively affect the confidence of investors in the Czech Republic as well as the medium-term scenario of the country's accession to the Eurozone due to questionable fiscal discipline of the subjects involved.

Poor fiscal discipline is reflected not only by the public deficit exceeding 4% of the country's GDP, but also by the ever increasing public debt slowly but steadily approaching 45% of GDP. Another reason why the country's fiscal policy cannot be really flexible is the fact that more than 80% of its public expenditures are mandatory (i.e. predetermined) and cannot be modified in accordance with current needs.

Recommendations:

- It is necessary to carry out a consistent audit of all expenditures and subsequently reassess and reduce (by approx. 10 - 15%) their **mandatory extent**.

- The resulting non-mandatory expenditures can be used to react to **current economic conditions** (it would be possible to generate budgetary surplus and redeem the country's public debt and also finance various projects resulting from current development priorities).

Radical change of education, healthcare and pension funding

Public healthcare represents an expensive organism characterised by almost complete lack of transparency, huge waste of resources and provision of inadequate services. While the country's education system does not fully explore its potential, especially in relation to above-average students, its pension system is considerably threatened by the expected demographic development. In order to find a suitable solution, it is necessary to further enhance **deregulation, individualisation and responsibility**.

The changes of attitude indicated herein should be at first voluntary, with individual subjects following positive examples. Public healthcare, for instance, should be opened to private health insurance and direct payments for health services provided that there is a sufficient demand on the part of certain segments of the population and adequate legislation. The population, having met its solidarity obligations, would be granted preferential public insurance rates. The system of public health insurance – while respecting the principle of solidarity – would allow clear identification and individualisation of accounts, with contributions to public health insurance not ending in an "anonymous black hole" of individual insurance companies, but representing clearly identifiable assets of the insured that could be used by medical institutions and private practitioners to cover their actual costs.

Analogical procedures can be used in the case of public pension (social security) system. As far as the education system is concerned, it is necessary to create an adequately competitive environment consisting of private schools charging school fees, public schools charging regulated school fees and public schools charging only symbolic or no school fees. This measure must be accompanied by a significant expansion of student loans with public guarantee linked with study results.

Recommendations:

- Liberalisation of selected healthcare segments enabling significant **increase of individual participation of patients**, with emphasis put of high-quality services and access to client database, introduction of voluntary private health insurance and voluntary direct payments and significant improvement of the provided health services.

- **Use of school fees** as an instrument of access to education and its evaluation (with private support instruments forming an integral part of the system).

- Payment of unemployment benefits should be **subject to participation in public works** or **re-qualification** courses.

- Accelerated **creation of multi-pillar pension** (social security) **system** allowing voluntary participation and specifying the limit of statutory obligations.

Closer correlation between public expenditures and revenues

It is not possible and often even necessary to monitor the efficiency of links between budgetary expenditures and revenues in all cases. If we regard taxes as advance payments for public services, however, certain connection and correlation between taxes and expenditures should exist.

The ambition is complete elimination of all public expenditures having no public purpose, fulfilling no public interest or not securing the provision of any public services.

A good example of close connection between expenditures and revenues is the use of traffic-related revenues for further development of transport infrastructure. Similar examples can be found in the fields of environmental protection or social security.

Recommendations:

- Identification of as many areas where it would be possible to implement the aforementioned principles as possible.

- Execution of **detailed audits** comparing individual expenditures with the resulting benefits.

- Proposition of **expenditure cuts with the objective of fulfilling** the Convergence Programme, Maastricht criteria and Pact of Stability and Growth.

We shall concentrate on priorities concerning institutional environment in the next issue of EU News Monthly Journal.

We also established a new irregular section titled "Practical Experiences", in which our colleagues from the Financial Group of ČS will share their experience and practical views concerning above all the preparation of projects and their financing from EU funds. Its very first article, written by Jan Zavřel of Consulting České spořitelny, focuses on the presentation of several proposals whose objective is to improve the process of allocation of subsidies from the Union's structural funds, by making it more transparent.

FINANCING FROM STRUCTURAL FUNDS - WHAT NEXT?

Those able to meet the conditions of strict public tenders have already signed their first agreements on utilisation of subsidies.

Consulting České spořitelny has been participating in this process from the very beginning, both directly and as a member of the Association for Business Advisory Services. We have been given an opportunity to gain very valuable experience during our preparation of individual programmes with CzechInvest, presentation of projects and assessment of their results in collaboration with the Association.

Taking into account our experience, we would like to propose certain measures for the period 2007 - 2013, which, in our opinion, could improve the entire process of allocation of subsidies, by making it more transparent.

First of all, we are convinced that the overall amount of **various measures**, partial measures and logical blocks to which subsidies are to be allocated is too high. There are approx. 70 of them in the five operating programmes. The result is excessive fragmentation of the total sum available and promotion of smaller projects only. In our opinion, it would have been better to provide larger subsidies for a smaller group of highly important projects in individual areas.

For instance, in the period 2004 - 2006, it would have been more effective to fund only the following projects from individual Operating Programmes: improvement of water management infrastructure (Infrastructure), innovative projects (Production and Business), tourist industry projects (SROP), reduction of unemployment and integration of specific groups of population (Human Resources) and development of new environment-friendly technologies in agriculture (Development of Rural Areas and Multifunctional Agriculture). That is why we recommend that a **smaller number of priority measures be specified** in the future.

Logically, it is necessary to focus on projects and not on "applications for subsidies". We assume that it should not take more than one day for the subjects with good projects to complete their applications. In principle, advisors should not be required to help their clients with administration issues but with the preparation and realisation of development projects.

Another aspect considerably reducing administration is **effective governmental co-ordination** of all ministries, especially **unification of documentation** (with specific schedules added to a common platform). We recommend that applications be based on prospectus (with feasibility study added in the case of more extensive projects). If necessary, these basic documents may be supplemented by additional studies (Cost Benefit Analysis, etc.) or other.

It is clear from our experience that **economic aspects represent the weakest point of most applications**. Many projects, for instance, showed no connection between revenue calculations and marketing studies, lacked a detailed review of all relevant expenses and included incorrectly calculated key indicators (NPV, IRR, payback period). That is why we recommend that a **detailed "manual"** based on clearly defined tables be prepared. It is the only way of ensuring that all projects will have standard form and will be comparable.

It is possible to argue that the said aspects are the sole responsibility of individual applicants. However, if we are to achieve the required effects, the content of all projects must be as transparent as possible. Approx. CZK 60 billion from structural funds are to be invested in the development of our economy by 2008. According to my personal estimate the country's GDP should grow by 0.5 - 1% in 2008 thanks to the subsidies from structural funds alone. This calculation is based on the assumption that the amount of CZK 60 billion successfully invested through subsidies from the Union's structural funds should generate approx. CZK 12 billion a year in "profit". This sum represents some 0.6% of the country's current annual GDP of approx. CZK 2,000 billion. In addition, it is also necessary to consider the effects resulting from investments realised through cohesion funds. In 2007 - 2013 the Czech Republic stands to receive much more than in the current period. This amount should be used effectively and in full to increase the dynamics of our economy. The experts from the Financial Group of Česká spořitelna are prepared to share their experience and knowledge in order to ensure successful investment of capital resources from the Union's structural funds.

As we have already mentioned, the activities of advisors should focus above all on the preparation and realisation of development projects. When deciding whether to hire an advisor or not, every applicant must answer the following questions:

- Do I have **sufficient capacities** to prepare my project and all related materials?
- Do I want to use my capacities to study all project source materials and subsidy application conditions? **Will I be able to use this know-how** again in the future or will I have to study all new source materials and conditions all over again?
- Am I able to look at my business project from an **objective point of view** and in a wider context?

In addition, it is necessary to realise that a professional advisor focuses on activities not included in the client's core business, for which the client has no know-how or for which the client does not have own capacities.

Jan Zavřel, Member of the Board of Consulting ČS

A wide range of seminars, workshops, conferences and symposiums will be available in the second half of June and at the beginning of July for everyone interested in current EU-related issues. The most frequently discussed subjects include sustainable development, international politics or lobbying. Another interesting event is a series of seminars organised by the Academy of European Law and focusing on various legislative issues from economic competition to international tax systems.

Date	Place	Name and Characteristic
14.-15.6.2005	Brussels, Belgium	ECPA - European Centre for Public Affairs - Inside Brussels II: Public Affairs in the New Europe: http://www.publicaffairs.ac/inindex.php?in=publicprogrammes/IB2/
14.-15.6.2005	Brussels, Belgium	Epsilon Events Ltd - 1st Annual Obesity Europe Conference: http://www.epsilonevents.com/Obesityhome.htm
15.6.2005	Brussels, Belgium	GIE -Gas Infrastructure Europe - The Roles of Storage and Storage Guidelines: http://www.gte2.be/
15.6.2005	Cologne, Germany	Transport & Travel Research Ltd - Towards Sustainability II - The PLUME final conference: http://www.lutr.net/events.asp?id_news=56
16.-17.6.2005	Maastricht, The Netherlands	EIPA - European Institute of Public Administration - Understanding Decision-Making in the European Union: Principles, Procedures, Practice: http://www.eipa.nl/activities/05/12200_10Mar/en/invitation.htm
20. -22.6. 2005	Brussels, Belgium	EU Conferences - EU Lobbying Workshop 2005: http://www.euconferences.com/lobbying_feb_05.htm
20. -22.6. 2005	Malta	International Generic Pharmaceutical Alliance - THE 8th ANNUAL IGPA CONFERENCE: http://www.gpaconferences.com/igpa2005.htm
21. 6. 2005	Brussels, Belgium	Konrad Adenauer Stiftung - EU-China: http://www.kas.de/proj/home/events/9/1/year-2005/month-6/veranstaltung_id-15506/index.html
22.-24.2005	Trier, Germany	ERA: Summer Course on EU Constitutional and Institutional Law - Trier, Germany: http://www.era.int/web/en/resources/5_1796_573_file_en.1804.pdf
23.-24.6.2005	Maastricht, The Netherlands	EIPA - European Institute of Public Administration - Summer School in collaboration with Maastricht University: Non-Discrimination on Race, Ethnic Origin, Religion and Belief: http://www.eipa.nl/activities/05/10301_23Jun/en/invitation.thm
27.6.-1.7.2005	Trier, Germany	ERA: Summer Course on EC Competition Law: http://www.era.int/web/en/resources/5_1796_593_file_en.1720.pdf
27.6.-1.7.2005	Trier, Germany	ERA Summer Course: European Private and Labour Law: http://www.era.int/web/en/html/nodes_main/4_2127_474/conferences_0000_Date/5_1796_575.htm
30.6.-1.7.2005	Brussels, Belgium	Centre for European Policy Studies (CEPS) - Implementing the Hague Programme - Operational and Legislative Functions on Justice and Home Affairs: http://www.ceps.be/files/ChallengeConf300605.pdf
2.-12.7.2005	Prague, Czech Republic	EUROPEUM Institute for European Policy - European Summer School 2005 - Europe in Transition: http://www.europeum.org/summer_school_2005/default.asp
4.-8.7.2005	Trier, Germany	ERA: Summer Course: An Introduction to Community Taxation in its International Context - Trier, Germany: http://www.era.int/web/en/resources/5_1796_789_file_en.1762.pdf
11.-15.7.2005	Genova, Italy	OSS 2005 - First International Conference on Open Source Systems: http://oss2005.case.unibz.it/

The statistical window in a tabular form shows the important macroeconomic and financial indicators of the countries which have newly acceded to the European Union, with respect to the criteria defined in the Maastricht Treaty: the month-on-month, year-on-year and average inflation rates, the indicators of the fiscal budget deficit and the state debt, expressed in relation to the GDP, and the volatility of the exchange rates of national currencies to the euro.

Price development

	m-on-m HICP growth			y-on-y HICP growth			average y-on-y HICP growth in %		
	I-05	II-05	III-05	I-05	II-05	III-05	I-05	II-05	III-05
EU	0.3	0.6	0.4	2.1	2.1	2.1	2.2	2.2	2.2
EU - minimum	-	-	-	-	-	-	0.7	0.7	0.8
ČR	0.0	-0.1	0.3	1.4	1.2	1.4	2.5	2.4	2.3
Estonia	0.6	0.6	0.5	4.6	4.8	4.7	3.7	4.0	4.3
Cyprus	-0.4	0.9	1.1	2.4	2.4	2.8	2.1	2.3	2.5
Lithuania	0.2	0.6	0.3	3.2	3.3	3.2	1.9	2.2	2.5
Latvia	0.9	0.6	1.1	7.0	6.6	7.1	6.6	6.8	7.0
Hungary	0.6	0.5	0.7	3.4	3.3	3.8	6.2	6.0	5.7
Malta	0.6	0.5	3.6	2.5	2.6	2.0	2.6	2.7	2.6
Poland	0.0	0.1	0.4	3.7	3.4	3.1	3.9	4.0	4.1
Slovakia	0.2	-0.1	0.2	2.6	2.3	2.5	6.5	6.0	5.6
Slovenia	0.7	1.0	0.1	2.8	3.3	2.7	3.4	3.4	3.4

Note: HICP means harmonised index of consumer prices, EU – minimum means the average inflation in three EU member states with the lowest inflation. Source: Eurostat

Fiscal development

	Net balance of general government to GDP in %			General government gross debt to GDP in %		
	2002	2003	2004	2002	2003	2004
EU-25	-2.2	-2.8	-2.6	62.7	64.3	63.8
CR	-6.8	-11.7	-3.0	30.7	38.3	37.4
Estonia	1.4	3.1	1.8	5.3	5.3	4.9
Cyprus	-4.5	-6.3	-4.2	65.2	69.8	71.9
Lithuania	-1.5	-1.9	-2.5	22.4	21.4	19.7
Latvia	-2.7	-1.5	-0.8	14.1	14.4	14.4
Hungary	-8.5	-6.2	-4.5	55.5	56.9	57.6
Malta	-5.9	-10.5	-5.2	62.7	71.8	75
Poland	-3.6	-4.5	-4.8	41.2	45.4	43.6
Slovakia	-5.7	-3.7	-3.3	43.3	42.6	43.6
Slovenia	-2.4	-2.0	-1.9	29.5	29.4	29.4

Note: according to the ESA 95 methodology. Source: Eurostat

Volatility of FX rates of new EU member states

	Last 24 months			Last 12 months		
	average rate	deviation maximum in %	deviation minimum in %	average rate	deviation maximum in %	deviation minimum in %
Czech koruna	31.56	+7.6	-5.3	30.86	+5.2	-3.4
Estonia kroon	15.65	+0.0	+0.0	15.65	+0.0	+0.0
Cyprus pound	0.583	+1.3	-0.8	0.580	+0.8	-0.8
Lithuanian litas	3.453	+0.0	-0.0	3.453	+0.0	-0.0
Latvian lats	0.667	+6.7	-4.5	0.679	+4.2	-2.7
Hungarian forint	253.2	+4.8	-7.6	247.7	+2.6	-3.0
Maltese lira	0.429	+1.1	-1.4	0.429	+1.3	-1.2
Polish zloty	4.431	+14.3	-10.2	4.252	+9.7	-8.8
Slovakian koruna	40.16	+6.9	-5.2	39.30	+4.7	-2.4
Slovenian tolar	238.1	+2.1	-0.8	239.8	+0.3	-0.1

Note: volatility of foreign exchange rates of new EU member states to euro is expressed in the form of arithmetical average and in the form of maximum and minimum deviation from the average in the reference periods. The reference periods end at 31 May 2005. Source: Eurostat