



EU News Monthly Journal

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Dear readers,

This August was, perhaps, a month that was somewhat atypical for institutions focusing on European integration. It might sound like an old story, but we should say that the colorful, and occasionally tense, events of this past spring have had a substantial impact on the otherwise mellow month of August. Notwithstanding, reflections on the idea of European integration continued more or less visibly and intensely throughout the summer.

Britain is trying hard to use its presidency as an opportunity to get the new budget framework approved in a relatively short time and to make its approval the result of a change in the course of the priorities for European integration. In this attempt, the British often meet with resistance from the traditional followers of the current practices; however, a slight shift in the direction of the British proposal may be viewed as positive progress.

The month of August also witnessed the rather exceptionally heady involvement of EU leaders in foreign political affairs (especially for this time of the year) – the circumstances have led to progress and developments in relationships with Iraq, Israel and the Middle East in general, Kosovo and even Latin America.

The outlook for our agricultural markets through the year 2012 can be seen as both interesting and encouraging – especially for farmers and food producers. This outlook should be viewed as running in direct parallel with the reform of the priorities financed from the EU common budget; especially with a broader time horizon, these reforms can be expected to cause additional, visible cuts in agricultural support payments, which should reflect the economic position of this sector in a more realistic fashion.

The European Commission has also responded to the developments in energy prices and has come up with a projection for its future course of action, as well as several strategic thoughts related to its potential to continue increasing.

Without a doubt, starting in September, the number of issues that will be part of the current European agenda will increase even further and these issues will continue to be dominated by the effort to reach an agreement on the budget framework in a structure that would benefit the future development of the EU. This fall will also become a crucial time for all of the member countries and their regions, while shaping their own growth and development priorities. For the regions in the new member countries, this will be a debut in which they will stand at the starting line along with their partners and their competitors from the EU-15 countries. Partial observations from several Czech regions suggest that at the finish line, our regions will not be among the losers.

I hope you enjoy the endless ruminations on European integration when you read our monthly EU Newsletter and when visiting our website, www.csas.cz/eu.

Petr Zahradník



The British presidency is considering the replacement of the traditional autumn EU summit with an informal debate on the future of the European social model. The European Commission is threatening to file a complaint with the European Court against 16 of the member countries due to their failure to implement the regulations covering the financial markets as part of their national legislation. The retail car market is starting to see a decrease in the differences between the prices across the unified internal market.

POLITICS

October EU Summit as an Informal Debate?

According to information in the European press, the British presidency of the EU has decided to cancel the traditional official meeting of the heads of the member states at the European Council that was to be held in October and to replace it with an informal gathering. According to the website ihned.cz, the subject of the meeting should be the **future of the European social model**. The informal character of the meeting would mean that the twenty-five EU members would not have to be represented by their heads of state.

Originally, the theme for the October summit was to have been the financial outlook for 2007-2013. It is, therefore, reasonable to assume that the approval of the final **compromise version of the European budget will be postponed** and will most likely, not take place until sometime during the Austrian presidency at the beginning of the new year. Notwithstanding, reaching an agreement during the British presidency was not expected anyway.

The discussion on the inability to sustain the current form of the European social model grew tense last year after the double rejection of the new European Constitution in both France and the Netherlands. Yet another straw was the failure of the Czech leaders at the June summit in Brussels, where they were unable to reach an agreement on the new EU budget framework. The reform of the social model is tied to the future budget, since Great Britain would like to allocate **more resources to education and research** while cutting agricultural subsidies.

It is mostly likely that only one formal European Council meeting will be held in the second half of this year. It has been scheduled to take place December 15 – 16 in Brussels. According to the basic EU treaties, the European Council is required to meet at least once every six months; however, the tradition has been to hold two summits – one informal and one formal.

ECONOMY AND EURO

The Czechs are to Adopt the Euro in 2010

By 2010, all of last year's new EU members will start to use the euro as their currency. The last countries to join the Eurozone will be Poland, Hungary and the Czech Republic according to a poll in which 35 analysts, specializing in these markets, were questioned by Reuters.

The first countries to adopt the euro will be Lithuania, Estonia and Slovenia – who will do so in 2007. A year later, the euro will replace the national currencies in Cyprus, Malta

and Latvia. All of these smaller countries have already joined the ERM-2 currency mechanism.

The larger “newcomers” have a lot of work ahead of them – they must implement the necessary structural reforms and meet the Maastricht criteria, especially those that relate to public finances.

Slovakia is expected to join the Eurozone in 2009, a year ahead of Poland, Hungary and the Czech Republic.

The expectations of the analysts correspond to the recent statements from the Ministry of Finance, according to which the Czechs should replace the crown with the euro in 2010. In our opinion, even this deadline seems too optimistic and we see the year 2011 as being more realistic.

Expected adoption of the Euro

2007	Estonia	Lithuania	Slovenia
2008	Cyprus	Latvia	Malta
2009	Slovakia		
2010	CR	Hungary	Poland

Source: Reuters Poll from August 11, 2005

SINGLE INTERNAL MARKET

European Commission Threatens some Member Countries Due to Their Failure to Transfer Financial Directives

The European Commission has initiated the second stage of proceedings against 16 EU members, including the Czech Republic, for violation of the law after they failed to meet the October 12, 2004 deadline to convert their directives on financial market abuse. The Commission has issued a “legitimate standpoint” for the 16 violating countries. If the member country at fault fails to provide a satisfactory response within the given deadline (usually two months), the entire matter may be submitted to the European Court.

Ten of these violating countries – again including the Czech Republic – are also facing problems due to their failure to convert other internal market directives. In the case of the Czech Republic, these include directive on the additional monitoring of credit institutions, insurance providers and investment companies in financial conglomerates, directive on the reorganization and liquidation of credit institutions and directive on the reorganization and liquidation of insurance providers.

As spokesperson for Czech permanent representation at the EU, Jan Vytopil told the ČTK press agency that the adaptation of the directives on insurance providers and financial conglomerates should be addressed by new laws



and that the drafts of such laws have been passed by the Chamber of Deputies, are now waiting to be reviewed by the Senate and will come into effect immediately after their publication. The directive on credit institutions is included in the new bankruptcy law that is yet to be reviewed by the members of Parliament.

<http://europa.eu.int/rapid/pressReleasesAction.do?reference=IP/05/1035>

Car Prices within the EU are Converging

A year after their historically greatest differences in May 2004, differences in car prices have once again started to level off. The average difference in car prices across the individual EU member countries decreased from 6.9% in May 2004 to 6.3% a year later.

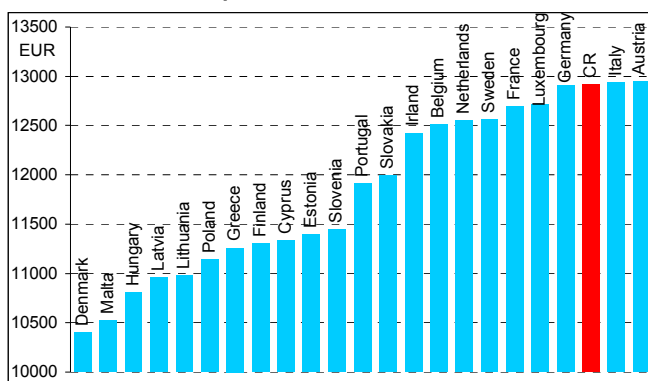
According to a report issued by the European Commission, the cheapest car market among the new EU members is in Estonia (prices compared before tax). In the EU-15, Denmark is a car purchaser's paradise (the cheapest car market in the Eurozone is Finland). Germany, on the other hand, appears to have the most expensive car market in Europe.

In terms of the entire EU-25, car prices increased by an average of 0.4% in the period from May 2004 to May 2005 (unlike in the Czech Republic, where the prices have decreased by 6% on average).

In terms of the best-selling models, the greatest difference in price (before tax) was seen in the Fiat Punto, which was 30% cheaper in Finland than in Germany. In the case of the new Skoda Octavia, the difference between the most expensive (Austria) and the lowest priced (Denmark) was nearly 25%.

<http://europa.eu.int/rapid/pressReleasesAction.do?reference=IP/05/1027>

Recommended retail price of Skoda New Octavia



Prices in May 2005 without taxes, the prices are converted according to the exchange rate as of May 1, 2005, the figures for Spain and the UK are not available, source: European Commission

ENTERPRISE

The Commission Plans a New Strategy for Small and Medium-Sized Businesses

The EU Commissioner for Enterprise and Industry, Günter Verheugen, has announced the introduction of a new pan-European strategy for small and medium-sized businesses. The objective of the new strategy that is to be introduced in the fall of this year will be to strengthen the competitiveness of this important sector.

The strategy is based on the following six priority areas:

- Bureaucracy
- Standardization
- Public Tenders
- Financial Tools
- Entrepreneurial Spirit
- Dialog between the European Institutions and Small and Medium-Sized Businesses

"My goal is to improve the relationship between European politicians and small and medium-sized businesses," Verheugen says.

AGRICULTURE

Czech Farmers Will Receive a 58% Share of Direct Payments Paid within the European Union

Next year, the direct payments made to Czech farmers will equal 58% of those paid to their counterparts in the older countries of the EU, based on a decision of the Czech government that has allocated 1.9 billion crowns for such payments.

According to the accession treaty, the domestic agricultural sector is entitled to receive 30% of the direct payments and the Czech Republic can add to the payments up to 60% from the state budget in the next year. The Czech state budget did not have enough resources to reach the maximum subsidy level. However, the subsidy level still corresponds to the situation in the other new member countries.

According to the President of the Agrarian Chamber, Jan Veleba, farmers should be satisfied with the 58% direct subsidy, even when the maximum allowance has not been reached.

The readers should not forget to read the latest report from the Commission on the outlook for the individual agricultural markets and the income estimates for the 2005 through 2012 period. An interesting contribution to the discussion on a internal financial market across the EU is the study on the costs and benefits of the integration of national mortgage markets in the EU. At the end of the month, the contributions were published as part of the public debate on the "Television without Borders" Directive.

01 AUGUST

Post-Tsunami reconstruction - financing activities in Indonesia:
http://www.europa.eu.int/comm/external_relations/indonesia/news/ip05_1025.htm

Past and future of the EU/Morocco Fisheries Partnership Agreement:
http://www.europa.eu.int/comm/fisheries/news_corner/press/inf05_37_en.htm

02 AUGUST

New Tempus web site:
http://www.europa.eu.int/comm/education/programmes/tempus/index_en.html

Air transport - the single European Sky (final report):
http://www.europa.eu.int/comm/transport/air/single_sky/studies/finalised_en.htm

03 AUGUST

Commission report on new agricultural market and income forecasts:
<http://www.europa.eu.int/comm/agriculture/newsroom/en/215.htm>



Utilisation of budget appropriations in 2004 (Annual accounts):
http://www.europa.eu.int/comm/budget/execution/utlisation/details_en_2004.htm

ECB's Blue Book "Payment and securities settlement systems in the European Union" updated with 2003 figures:
<http://www.ecb.int/press/pr/date/2005/html/pr050802.en.html>

04 AUGUST

Price and cost competitiveness indicators - 2Q/2005
http://www.europa.eu.int/comm/economy_finance/publications/priceandcostcompetitiveness_en.htm

Publications on sustainable energy systems:
http://www.europa.eu.int/comm/research/energy/nn/nn_publication_1078_en.htm

05 AUGUST

Public Consultation – Improving the quality of the European cities:
http://www.europa.eu.int/comm/environment/urban/public_consultation_2005.htm

Responses to the introduction of the Euro (Eurobarometer):
http://www.europa.eu.int/comm/consumers/cons_int/fin_serv/euro/euro01_en.htm

08 AUGUST

Integration of EU mortgage markets - Costs and benefits (studies):
http://www.europa.eu.int/comm/internal_market/finances-retail/home-loans/index_en.htm

RTD Info - special issue on research & international co-operation:
http://www.europa.eu.int/comm/research/rtdinfo/special_inco/index_en.html

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Intelligent Energy Europe programme (EIE):
http://www.europa.eu.int/comm/energy/intelligent/index_en.html

Green paper on financial services policy, 2005-2010 (action plan):
http://www.europa.eu.int/comm/internal_market/finances/actionplan/index_en.htm#actionplan

10 AUGUST

Consumer protection - European consumer centres network (ECC-Net), list of centers (Updated):
http://europa.eu.int/comm/consumers/redress/ecc_network/index_en.htm

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European Forest Fire Information System - EFFIS:
<http://inforest.jrc.it/effis/>

Euro area GDP indicator update:
http://www.europa.eu.int/comm/economy_finance/indicators/euroareagdp_en.htm

Rapid Alert System for Food and Feed:
http://www.europa.eu.int/comm/food/food/rapidalert/index_en.htm

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Study on the cultural economy in Europe (in preparation):
http://www.europa.eu.int/comm/culture/eac/sources_info/studies/studies_en.html

Cultural days of the European Central Bank 2005 - Hungary:
<http://www.ecb.int/press/pr/date/2005/html/pr050811.en.html>



16 AUGUST

Implementation of Council directive on plant protection products (Guidance document):
http://www.europa.eu.int/comm/food/plant/protection/resources/publications_en.htm

Public Health: Influenza fact sheet (Update):
http://www.europa.eu.int/comm/health/ph_threats/com/Influenza/avian_influenza_en.htm

17 AUGUST

Financial services - Safeguarding consumers' interests:
http://www.europa.eu.int/comm/consumers/cons_int/financial/index_en.htm

EU water initiative - Projects and activities (Updated):
http://www.europa.eu.int/comm/research/water-initiative/index_en.html

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Fiscal notifications of acceding and candidate countries, 2005 (overview and assessment):
http://www.europa.eu.int/comm/economy_finance/publications/enlargement_papers/elp25_en.htm

Sixth annual survey on the implementation and enforcement of community environmental law:
<http://www.europa.eu.int/comm/environment/law/as04.htm>

Pre-accession assistance for institution building - Twinning:
<http://www.europa.eu.int/comm/enlargement/pas/twinning/index.htm#mandatedbodies>

New and Renewable Energies - Successful Projects:
http://www.europa.eu.int/comm/energy/res/sectors/polygeneration_dissemination_en.htm

22 AUGUST

Decisions taken by the Council from 29 July to 22 August 2005: http://ue.eu.int/ueDocs/cms_Data/docs/pressData/en/misc/86029.pdf

23 AUGUST

Transnational mobility of apprentices:
<http://www.etf.eu.int/website.nsf?OpenDatabase&Content=http://www.etf.eu.int/website.nsf/Pages/8820465150AFEFDA-C12570650047894C?OpenDocument&LAN=EN>

24 AUGUST

Opinion of the European energy and transport forum:
http://www.europa.eu.int/comm/dgs/energy_transport/forum/works/opinion_group_en.htm

Commission proposes new rules on the health of farmed fish:
http://www.europa.eu.int/comm/fisheries/news_corner/press/inf05_39_en.htm

25 AUGUST

Commission to support human rights and freedom of expression in Belarus:
http://www.europa.eu.int/comm/external_relations/belarus/intro/ip05_1063.htm

Additives and products or substances used in animal feed - opinions of the Scientific Panel [FEEDAP]:
http://www.efsa.eu.int/science/feedap/feedap_opinions/1094_en.html

26 AUGUST

Work programmes for grants 2005, 2004, 2003:
http://www.europa.eu.int/comm/dgs/energy_transport/grants/index_en.htm

29 AUGUST

European Commission welcomes Israeli disengagement from Gaza and prepares further measures to support the peace process:
http://www.europa.eu.int/comm/external_relations/israel/news/ip05_1066.htm

30 AUGUST

Written Contributions to the Public Consultation for the review of the « Television without Frontiers » Directive:
<http://www.europa.eu.int/comm/avpolicy/revision-twvf2005/2005-contribution.htm>

Financial report of the ECSC in liquidation at 31 December 2004: http://www.europa.eu.int/comm/economy_finance/publications/ecsc/ecsc_inliquidation_en.htm

31 AUGUST

Review of European electricity and gas prices, Issue 4 - July 2005: http://www.europa.eu.int/comm/energy/electricity/publications/index_en.htm

'Europe's citizens are innovation-friendly' confirms special Eurobarometer report:
<http://www.europa.eu.int/comm/enterprise/library/enterprise-europe/news-updates/2005/2005-08-29.htm>

Commissioner Mandelson announces measures to unblock Chinese textile products in European harbours:
http://www.europa.eu.int/comm/commission_barroso/mandelson/speeches_articles/temp_icentre.cfm?temp=sppm049_en



Expected events

After the end of August, a month known as the vacation period for the top EU institutions, various formal and informal meetings of the top Union bodies once again started to take place. Special attention should be paid to the informal meeting of the European Economic and Financial Affairs Council (ECOFIN), which could indicate whether or not, and possibly to what extent, the opinion of the individual member countries on the future European budgetary framework for the 2007 through 2013 period will be able to agree.

1.-2.9.2005	Newport, UK	- Informal External Relations and Foreign Affairs Council
5.-8.9.2005	Strasbourg, France	- European Parliament plenary session
8.-9.9.2005	Newcastle, UK	- JHA Informal Council
9.-10.9.2005	Manchester, UK	- ECOFIN Informal Council
12.-13.9.2005	Brussels, Belgium	- European Parliament Committee on Industry, Research and Energy
12.-13.9.2005	Brussels, Belgium	- European Parliament Committee on Agriculture and Rural Development
12.-14.9.2005	Brussels, Belgium	- European Parliament Committee on Transport and Tourism
13.-14.9.2005	Brussels, Belgium	- European Parliament Committee on the Internal Market and Consumer Protection
13.-14.9.2005	Brussels, Belgium	- European Parliament Committee on Civil Liberties, Justice and Home Affairs
13.-14.9.2005	Strasbourg, France	- European Parliament Committee on Economic and Monetary Affairs
14.9.2005	Brussels, Belgium	- European Parliament Committee on Employment and Social Affairs
15.9.2005	Brussels, Belgium	- European Parliament Committee on Legal Affairs
15.9.2005	Brussels, Belgium	- European Parliament Committee on Development
26.-29.9.2005	Strasbourg, France	- European Parliament plenary session

The European Commission is slowly putting together the priorities that should be strictly respected by those projects that will be applying for support from EU funds in the 2007 – 2013 period. The Community Strategic Guidelines in the area of the cohesion policies for the 2007 – 2013 period, announced at the beginning of the summer break, is offering a relatively specific picture in terms of the areas that will be prioritized by the European Commission when allocating funds from the joint EU budget.



COHESION POLICY IN SUPPORT OF GROWTH AND JOBS: COMMUNITY STRATEGIC GUIDELINES, 2007-2013

1. THE OUTLOOK FOR THE SUBSEQUENT PERIOD

After the 2007 – 2013 period, the European Commission plans to **give preference to the following areas** when allocating financial resources of the EU Structural and Cohesion Policies. This means that each applicant for these funds will have a greater chance and opportunity to obtain these resources if the project falls under these preferred areas. These preferred areas, or their parts, therefore represent the **key terms** that are recommended to be respected and adhered to in order to increase the absorption capability of EU fund utilization.

The priority areas are:

1. **Improve the attractiveness** of the member states, **regions and cities** by improving their **accessibility**, ensuring an **adequate quality and level of services and protecting their environmental potential**.
2. Support **innovations and the business environment and economic growth based on the knowledge of research and innovation capacities**, including **new information and communication technologies**.
3. Create **more and better employment opportunities** by **attracting a greater number of people through employment or business activities, by improving the adaptability of workers and businesses and by increasing investment into human capital**.

1. Turn EU and its Regions into Locations that are More Attractive for Investors and Workers

1.1. Expand and Improve the Transportation Infrastructure

An **effective, flexible and safe transportation infrastructure** is the basic prerequisite for **meeting future expectations within the subject regions** with the objective of **making the mobility of people and goods easier** and more convenient.

Transportation infrastructure supports business opportunities and increases the productivity of businesses. The European Commission is monitoring the developments in the **Trans-European transportation infrastructure**, while focusing on **cross-border projects** – an important

part of the attempt to **enhance the integration of the individual national markets** (especially in the context of the newly **expanded EU**).

In the case of project financing using Structural Funds, it is important to focus on the development of the infrastructure while focusing on measures monitoring economic growth (growth in tourism, improvements of the attractiveness of industrial zones and locations).

In the case of project financing using the Cohesion Fund, the key role is seen in the support of the Trans-European Transport Networks (TENs).

Financing using the Structural Funds and the Cohesion Fund should then be as complementary as possible within the given region (and effectively, across the entire EU).

1.2. Improve the Synergy between Growth and Environmental Protection

Investing in the environment can be economically worthwhile and advantageous for at least three different reasons:

- these investments can result in the long-term sustainability of economic growth,
- investing in the environment reduces secondary environmental costs (medical costs, costs for environmental cleanup and environmental restoration costs),
- these investments stimulate innovation and create new job opportunities.

Future cohesion programs should try to promote the improvement of the potential **synergies between growth and environmental protection**. Environmental services such as the improvement of the infrastructure related to waste management, sewage, the management of natural resources, the preparation of decontaminated soil for new economic activities and protection against foreseeable environmental risks should have priority in this context.

In this regard, projects financed using the Cohesion Fund should be focused primarily on investing into an infrastructure dealing with such issues as water pollution, air pollution and waste management. The Structural Funds, on the other hand, should focus (in this area) on the support of environmental management systems, the propagation of clean technologies at small and medium-sized businesses



Main topic

and the reactivation of contaminated settlements and locations.

1.3. Focus on the Traditional Use of Energy Sources

A related priority is the necessity to reduce traditional energy dependence by improving energy efficiency and introducing renewable sources of energy. Investing into these areas contributes to the safety of the energy supply for long-term growth while acting as a source of innovation and import opportunities.

Furthermore, it is necessary to invest into traditional sources of energy – especially in order to secure the supply of energy. The European funds should focus primarily on the completion of the integration process (wherever there is evidence of market failure and wherever this strategy doesn't clash with market liberalization), while focusing on pan-European networks, the improvement of the electrical power grid and improvements of the gas distribution networks.

In terms of the above objectives, we are speaking of projects supporting the improvement of energy efficiency and the propagation of development models that are based on low energy intensities. Another issue is the development of renewable and alternative sources of energy (wind, solar, biomass) that might place the EU in a leading position and thus strengthen its competitiveness. These investments also contribute to meeting the EU Lisbon Strategy to generate 21% of all electrical power from renewable sources by 2010.

2. Improve Knowledge and Innovations for Growth

2.1. Increase and Improve Investments into Research and Technological Development

The competitiveness of European businesses strictly depends on their ability to **bring new knowledge to the market as expediently as possible**. This ability is enhanced by public support for research and technical development, including the support of companies where this is justified by their economic and market conditions.

When **implementing regional policies**, one must consider **the specific character of the research and technological development**. Research and technological development specifically requires close integration among the players supporting the formation of the “poles of excellence” (locations where research projects are to be “created”) that are required in order to achieve a specific limit (critical) mass. The geographic proximity and ties through the existence of **clusters** of small and medium-sized businesses and innovation centers surrounding

public research institutions must play a key role. As a result, the research and technological development activities are concentrated into a specific geographic area, while covering the absorption capacity of areas that are less active in terms of research and technological development.



Research and technological development in less advanced countries and regions should be intensified through the existing “poles of excellence”, while trying to avoid the excessive geographical scattering of resources. Investments should also go hand in hand with the **European priorities** defined in the **7th Framework Science and Research Program** and support the objectives delineated in the updated version of the **Lisbon Agenda**.

Examples of such support include the following:

- Intensify cooperation between different businesses and cooperation between **businesses** and **public research institutions** and **institutions providing higher education** by supporting the creation of **regional and cross-regional clusters**.
- Support research and technological development activities in **small and medium-sized businesses**, which will provide them with **access to research and technological development services** alongside publicly financed research institutions and make it easier for them to access such services.
- Support **regional cross-border and international initiatives** focusing on **the enhancement of collaborative research** and the creation of capacities in the EU research policy priority areas.
- Intensify the **creation of research and development capacities**, including the **information and communication technologies (ICT)**, **research infrastructure** and **human capital in areas with a strong potential for growth**.

2.2 Open the Door to Innovation and Support Business

Innovation is the result of a complex and interactive process that includes the ability of businesses to combine the knowledge bases of other players on the market, organizations and institutions and to take advantage of this combination.

Investment in innovation is a general strategy that is part of the cohesion policies throughout the EU. The **co-financing** of these investments should become the leading priority for the individual regions as part of the **new goal to increase regional competitiveness and employment rates** where it is necessary to concentrate limited financial resources to achieve the tasks that are the true priority.

The key objective should be to support the business climate, which benefits manufacture and the distribution and utilization of new knowledge within the corporate sector. In order to create effective regional systems supporting innovation, the economic, social and political players must be in touch with those who represent technologies and business practices across the world (beyond the framework of local or national levels).

The startup phases of businesses and corporations, especially those involved in research and technological development, must be supported in order to develop partnerships with research institutions based on a longer-term vision and a clearer market orientation.

Public authorities should make sure that research institutions and both the private and public sectors take advantage of the full potential for synergies between them.

It is important to ensure that companies, including small and medium-sized businesses, can use the available results of the research for commercial purposes.

2.3. Support an Information-Based Society

The expansion of information and communication technologies (ICT) throughout the EU and its economy is a key factor in increasing the productivity and competitiveness of the individual regions.

The effective functioning of public services - especially **e-government** and **e-health** – guarantees a strong potential for economic growth and the opportunity for the arrival of new services.

Measures should be applied to stimulate the development of products and services in order to simplify and support private investment into ICT while maintaining competitiveness in this sector.

Political measures should focus on the **improvement of innovation and support services for small and medium-**

sized businesses. The cohesion policies should therefore also be used for the development of the skills that are needed in an economy that is based on knowledge and for the development of the contents of the supplied applications and services (e-government, e-business, e-learning, e-health), which will provide an attractive alternative to other, often more costly, models for the supply of services.

The identification of regional needs should also take into account the existing EU initiatives benefiting the ICT area – specifically, i2010 – the European Information Society for growth and employment.

2.4. Improve Access to Financing

Another key part of support in the area of knowledge and innovation is the improvement of access to financing.

Today, access to financing is often difficult and lack of financing can slow growth and the creation of new job opportunities.

In particular, risk capital markets, associated with innovation activities, need to be developed in relation to a better regulatory environment, which makes it easier to conduct business.

These programs may be created in close collaboration with the European Investment Fund (EIF), in order to develop financial resources in areas where business is being complicated by market failures associated with a high level of risk, which goes along with research and development activities.

One priority should be the creation or expansion of specialized providers of risk capital and bank guarantees covering market failures.

3. More and Better Jobs and Job Opportunities

3.1. Attract More People to the Labor Market and Modernize Systems for Social Protection

In this area, the supporting activities must be based on the prior identification of needs, while using the relevant national and regional unemployment indicators, employment indicators, long-term unemployment data, income levels or the percentage of the population living at risk of falling below the poverty line.

The presence and existence of **effective labor market institutions** (also on the regional level), specifically **employment services** that are able to **respond to the challenges of fast-paced economic and social restructuring** and the aging of the population, are crucial in the support of the supply of services to **individuals seeking employment, the unemployed or otherwise disadvantaged individuals.**



Main topic

These institutions play a key role during the adoption of **active policies on the labor market** and the supply of services on an **individual basis**, while focusing on the support of professional and geographic mobility and while responding to supply and demand in the labor market, including at the local level.

At the same time, these institutions should be able to **foresee the problems and gaps in the labor market** and the **professional and skill-related requirements**.

Another important priority should be to focus on the ability of disadvantaged individuals or individuals facing risk of social exclusion (recent graduates, the long-term unemployed, minorities, handicapped individuals) to become integrated into the labor market.

3.2. Improve the Adaptability of Workers and Businesses and the Flexibility of the Labor Market

In light of the growing globalization of the markets, hidden and unexpected commercial surprises and the continuing introduction of new technologies, Europe must increase its ability to **foresee, mitigate and absorb ongoing economic and social changes**.

In this regard, more attention should be paid to activities supporting investments in human resources by businesses (especially small and medium-sized businesses) and the workforce through **lifelong educational strategies and systems**, providing the workers – especially those with lower levels of qualifications or older people – with the knowledge and skills necessary to adapt to the knowledge-based requirements of the economy and to extend their productive years.

3.3. Increase Investment in Human Capital through Better Education and Building Professional Skills

Europe needs to intensify its investments in human capital. There are too many people who either never enter or can't remain in the labor market due to a lack of professional skills. The need for educational systems, training and qualification building courses is, therefore, on the rise. Investment in human capital during the next program period will be targeted more on the updated version of the Lisbon Targets.

3.4. Administrative Capacity

In the previous program period, EU funds strengthened – using **technical assistance** – the management capacities in the member countries and the capacities of the executive bodies while implementing the directives. This trend will continue in the 2007 – 2013 period.

In addition to the management of the funds themselves, the administrative capacity of public administration and public services is the key prerequisite for growth and the arrival of new job opportunities. The EU funds will, therefore, **increase investment in human capital in the area of administrative and public services at all territorial levels**.

For countries that are part of the Convergence Target, **growing productivity and the quality of work in the public sector** – especially in the **economic, employment, social, educational, healthcare, justice and environmental** areas – is crucial in order to continue and expedite the current reforms. The structural funds might play an important role in the support of the effective creation and implementation of policies in the subject areas – their role concerns public administration and public services at the national, regional and local levels.

3.5. Help to Maintain a Healthy Workforce

In the light of the EU's demographic structure – an aging population and the likelihood of a drop in the workforce – it is important that the EU adopt **steps necessary to increase the number of years that a healthy laborer can remain as productive as possible**. Investments into **medical support and prevention** can secure **active participation** in the society for the greatest possible number of workers.



Also, **significant differences in the health of the population and the approach to healthcare** exist across different European regions. In terms of the EU's cohesion policies, it is, therefore, important to subsidize healthcare providers and thereby increase the number of years that healthy people can actively contribute to the labor force. The tools used by the Union should also help to **reduce the differences in the health of the population** across the EU.

Especially in the regions that are behind in this area, it is important to **support the improvement of facilities providing long-term care and invest in the improvement of the healthcare infrastructure** – especially in those areas where its **absence or low level poses the main obstacle to economic growth**. The member countries should make sure that the **need to increase the efficiency of their healthcare systems** is responded to **by investing in information and communication technologies, knowledge and innovation**.

The following are examples of activities that should be considered:

- **Prevention of health risks** through **general informational campaigns** and **the transfer of knowledge and technology** and making sure that **healthcare providers are equipped with the necessary knowledge and skills, products and equipment for the prevention of risks** and the **minimizing of their potential damage and loss**.
- **Fill in the gaps in the healthcare infrastructure** and **support the effective provision of services** in those areas in which the **economic growth in the regions** that are part of the Convergence Target **is being affected by the health of the population**. These actions must be based on a **comprehensive analysis of the optimal level of available services** and **suitable technologies** (telemedicine, potential cost savings associated with the development of e-health services, etc.).

The question that remains is, how do we approach this array of EU priorities? These priorities should certainly be respected and viewed as an important guide and source of information about the ideas that are being considered by the Commission. However, it is also important that, in addition, these priorities continue to be worked on actively (the request of the Commission to respond and come up with suggestions is still open) and, most importantly, interpreted creatively for the specific conditions of the individual states and their regions.

The following description indicates what this implementation of Union priorities might look like in the conditions of the Czech Republic and its regions, while respecting the below-listed key terms.

Key Terms for the Upcoming 2007-2013 Program Period:

- effective, flexible and safe transportation infrastructure;
- synergies between the environment and economic growth – investment in the protection of renewable energy, water resources, air pollution and waste management infrastructures;
- regional and cross-regional clusters – between the business sector and public research and educational institutions;
- availability of research and technological development services to small and medium-sized businesses;
- investment in innovation; information society – e-government, e-health;
- active labor market policies;
- lifelong educational strategies and systems focusing on economic and social changes;
- prevention of potential health risks;
- development of healthcare infrastructure.

CREATION OF A NATIONAL STRATEGY

In the June and July issues of our monthly EU Newsletter, we presented a relatively detailed proposal for a possible design for a national strategy, respecting and responding to the current key documents of the European Commission in this area – i.e. the New Lisbon Strategy and the Strategic Community Framework or, possibly, the previous documents discussing the EU's development priorities for the upcoming 2007 – 2013 program period.

In this regard, the Czech Republic is certainly not starting from scratch in terms of forming its national development strategy. On the contrary, the country is relatively active in this area, compared to the other members of the EU, and ranks among those in the forefront.

The Strategy for Economic Growth – the basic document that will be used as the foundation for the subsequent documents, which will follow up and fill in the details for the basic document – is finished. The updated versions of the National Development Plan for 2007 – 2013 and the National Strategic Reference Framework will be published this year.



Main topic

The Strategic Community Framework should be used for the preparation of a specific format for the Operating Programs and the Unified Program Documents in the individual member countries and should allow them to finance the projects that are in conformity with the EU policies.

CREATION OF A REGIONAL STRATEGY

The regional development strategy is the area that must stand as the most specific in this regard. The purpose of these strategies is to respect the EU and national priorities on the one hand and, on the other hand, to accentuate the specific development needs that are typical and necessary for the subject region.

It is highly likely that no two regional strategies in the Czech Republic will be identical; although many of these strategies will be based on the same or similar priorities, their content and, possibly, level of importance can vary substantially.

Considering the above, the question is how to proceed in creating these regional strategies?

First, we should identify the actual development priorities and figure out to what extent these priorities are complementary to the national and the Union priorities. The results might then be something like this:

1. One of the key priorities is the transportation infrastructure and a focus on its flexibility, efficiency and safety.
2. The second issue is adherence to environmental guidelines, especially in relation to the need to ensure harmony between environmental protection and economic growth; one priority in this area is investment in the protection of water and air resources and technologies for the effective management of waste. Another priority is pressure on saving energy and an increase in the use of renewable sources of energy.
3. The third priority area involves regional and cross-regional clusters benefiting from the synergy between the business sector and the research and educational institutions managed by the regional authorities. Part of this priority is to simplify the pathway for research and development knowledge and new technological processes, from creation to application. With respect to the above, it is especially important to support the availability of research and development services for small and medium-sized businesses, support investments into innovation and to support a wider use

of information-based and communication technologies.

4. The fourth priority is investment in human capital – particularly through training and educational programs and systems, preparing workers for economic and social changes.
5. The fifth priority could be investment in healthcare and healthcare systems. EU policies refer to the targeted prevention of potential health risks, the promulgation of such preventative activities and support for the healthcare infrastructure.

DEFINITION OF REGIONAL NEEDS; REGIONAL WEAKNESSES AND DEVELOPMENT PROSPECTS

We may assume that the existing definitions of regional needs address the issue of conformity to the priorities of the subject country and the priorities of the European Union and that, as such, these needs have a good chance of benefiting from potential financing coming from the EU funds and thus ensuring an effective ability to absorb this support.

At the specific level of regional priorities, the individual objectives that create part of the overall strategy may, for example, be defined in the following form. The common denominator is, on the one hand, the highly specific definition of the individual objectives, and on the other hand, the need to identify the existing weaknesses in the regional development and the potential that is to be associated with the regional development strategy.

Last but not least, it is very important to respect the competencies that might be associated with the implementation of the strategy. Here, we can identify approximately three different competency levels: The first level includes the competencies that are directly in the hands of the regional authorities (all of the priorities which are designed to be implemented – as part of the overall strategy – directly by the regional institutions, whose influence is direct and immediate, should follow up on this type of competency). The second level includes the indirect competencies of the regional authorities (through the regional representatives who are members of the different committees, advisory bodies, etc.; in this case, the regional representatives should be asserting their influence in an indirect fashion. A typical example: Although the freeway infrastructure has a significant impact on the economy of the region, the primary competency is still in the hands of the national government). The third level includes the competencies of

the private and non-profit sectors operating within the region, but completely detached from the regional institutions.

A more detailed specification of the priority areas and their breakdown into objectives may be as follows:

A) Transportation Infrastructure

One example of a task that is within the direct competency of the region is the improvement of 2nd- and 3rd-class roads or the reconstruction of certain specific elements of the transportation infrastructure (e.g. tunnels or bridges).



Among the limited regional competencies, we can identify tasks such as the enhancement of transportation serviceability in response to current demands. For this purpose, one might consider the potential offered by rail transportation (targeted transportation routes and serviceability within the agglomeration, regularity and stability of the train schedules). The strengthening of the local cross-border transportation system through the support of the transportation infrastructure has a similar character (maximum strengthening of border crossings and adequate road connections to them; support of transportation serviceability by bus, train and ship) or the support of a local bicycle path system in targeted cooperation with the other regions and possibly, regions in the neighboring EU countries. The strengthening of conceptual, coordination and influential issues, in accordance with the construction of

freeways and expressways, can then be characterized as a task that lies within an indirect competency of the regions.

B) Support Innovation in Business

In terms of support for innovation within the business sector, it is surely within the interest of regional development to ensure a close relationship between the research and innovation centers and the locations designated as “poles of excellence” (centers of excellence) and their application spheres, with the result being the ability to transfer know-how and technology in a more flexible manner. A regional university should become the foundation for a technological and innovation park. Yet another, and undoubtedly positive step, is the creation of clusters of small and medium-sized businesses and innovation centers. The regions should directly and indirectly support regional, cross-border and international cooperation in the form of regional partnerships and the exchange of knowledge and experience and the absorption of inspiration from innovative developments.

The focus on the informational aspect in the area of innovation should also be among the regional objectives; the result might be the existence of a single regional information center where all businesses – especially small and medium-sized – would have access to exclusive, comprehensible and practical information on innovations and their potential (information and communication technologies, research infrastructure, investment in human capital in areas with a significant potential for growth).

C) Human Resources, Healthcare and Social Issues

Preferences in the area of human resources and social and healthcare priorities can vary substantially by region, particularly in terms of the importance of individual, separate goals. These should not leave out such issues as:

Closer ties between schools and educational institutions and between facilities such as observatories, museums, galleries or scientific libraries, which should become part of the teaching process; cross-border exchanges, as part of the educational process, including partnerships with educational institutions located in other partner regions or cities within the EU; designing requalification programs and lifelong professional learning programs; defining clear competencies for special schools and educational facilities; strengthening the role played by health prevention and awareness programs; improvement in the quality of care and healthcare facilities, social care institutions, retirement homes and orphanages – primarily through the modernization and reconstruction of these facilities; the application of measures for the restriction of drug and alcohol abuse and tobacco use; educational systems for



Main topic

employees of healthcare and social facilities, including providing inspiration through foreign experience and the possibility of educational and internship exchanges abroad; the search for synergies in healthcare and social policies among institutions and facilities located within the region and the exchange of positive experiences; etc.

D) Environment

Some of the objectives of the environmental priorities include projects in the areas of waste management, the completion of the installation of natural gas distribution systems, support for renewable sources of energy, awareness and education and an effective system of sanctions.

As noted above, one of the contributions to the more positive outcomes of these strategies, in terms of the adherence to the regional development priorities, will be the detailed analysis of weaknesses and the development potential in the form of a reduced SWOT analysis, containing a clear definition of the above-discussed types of competencies (D – direct competency of the region, I – indirect competency of the region).

A. Weaknesses:

Examples:

- High unemployment rate; high structural unemployment. (I)
- Unused and devastated areas (brownfields); unused residential premises. (D, I)
- Appearance of towns and cities, municipal infrastructure. (I)
- Crime, prostitution, homelessness. (I)
- Poor technical condition of 2nd- and 3rd-class roads and local roads. (D, I)
- Health of the population, quality of healthcare, illness, mortality, preventative programs, condition of facilities and amenities, systematic nature of educational systems within the health sector. (D, I)
- Capacity and quality of social care facilities – seniors, handicapped, youths, social integration of problem groups. (D)
- Education, quality and structure, condition of the facilities and the available amenities, application of modern teaching methods, ties between education and the labor market. (D, I)
- Low utilization of the potential offered by tourism; tourism infrastructure; the utilization of mountain areas;

the quality and attractiveness of cultural, technical and natural landmarks. (D, I)

- An effective and reliable information system. (D, I)
- Motivation to live and work in the region. (I)

B. Potential (expected effect):

Examples:

- Completion of the freeway and expressway construction in the region, improvements in the quality of the 2nd- and 3rd-class roads and highways, utilization of the dense railroad infrastructure, river transport; clear definition of competencies – addressing the priorities as part of the direct regional competencies; the utilization of indirect influence through the different committees, communication with the municipalities, national government and international institutions.
- A high-quality, modern system of social care facilities.
- Improvement in the health of the population and an increase in prevention will lead to lower illness and mortality rates; stabilization of the financial situation of healthcare facilities; modernized and reconstructed facilities.
- An improved educational process leading to a more flexible ability to enter the labor market.
- Reduced unemployment rate and structural unemployment.
- Effective utilization of brownfields for services, the processing industry and leisure.
- The offerings and infrastructure of the tourist industry significantly contributing to the overall economic situation in the region (through both the incoming and domestic travel sectors).

The final phase of the strategy should result in the definition of a development vision, reflecting the expected, feasible state of the regional economy after the completion of the development project – i.e. the projection and the expectation of the situation in the region in 2013 (2015).

In all of the monitored areas, the effects should apply to changes such as the **growth in employment, decrease in unemployment rates, reduction of structural unemployment, restructurization of industry, increase in the position of the service sector and strengthening of the region's economic role and influence on the Czech economy, as well as the comparison of the economic advancement of the region with respect to the entire EU (measured using GDP per capita).**

In our portfolio of individual EU member countries, we have now visited one of last year's newcomers – in our case, Hungary. In terms of its relationship to European integration, Hungary was described as the perfect student as early as the early 1990s (something one could not always claim about the Czech Republic). In terms of the country's economic situation, there are a number of discrepancies. The country's good economic performance has been accompanied by a lack of discipline in the area of public finance.



HUNGARY

Government type/chief of state	parliamentary democracy / The President László Sólyom
Area (share of EU)	93 030 km ² (2.34%)
Population (share of EU)	10 116 700 (2,21 %)
Age structure	0-14 years: 15.9%, 15-64 years: 68.6%, over 65 years: 15.5%
Total GDP (share of EU)	EUR 80.82 bn (0.79 %)
GDP per capita in PPS	60.9 % of EU-25 average
GDP - composition by sector	agriculture: 3.3%, industry and construction: 30.4%, services: 66.3%
Average inflation	6.8%
Average unemployment	5.9%
GDP growth	4.2%
General government balance	-4.5% of GDP
General government debt	57.6% of GDP
Number of NUTS2	7 NUTS2, Közép-Magyarország: 96,0%; Észak-Magyarország: 37,3%

Note: the figures are for 2004, source: EU, CIA

Thanks to the fact that a significant part of the Hungarian communist past was known for its relatively high level of **openness to Western countries**, it was not surprising to see that Hungary naturally became the first candidate country from the former European Communist Bloc to join the EU.

This open approach has manifested itself in the country's political, social and economic spheres. As early as the 1980s, Hungary became the regional **pioneer in joint ventures with Western partners**. During the same period, Hungary successfully started to implement a **two-level banking system**, which allowed a limited amount of competition among service. In the late 1980s, Hungary **reestablished its foreign currency market as well as basic capital market institutions**, including a securities exchange. Around the mid-1990s, Hungary introduced **tax reform**. Hungary was also known for its relative **entrepreneurial freedom** because the majority of its retail and service sector remained in private or co-operative hands throughout most of the communist era. And, Western corporate culture was adopted by a number of Hungarian state enterprises in the 1980s. The purpose of the above summary has been to explain, in part, why Hungarian economic and emotional preparedness for the country's effective position in the opening up of Europe was, in the late 1980s, at a different stage than in the other post-Communist countries.

Hungary was always known for its tendency to lean towards a more **gradual path of implementing economic reforms** and “shock therapy” was something that was definitely not typical in this country.

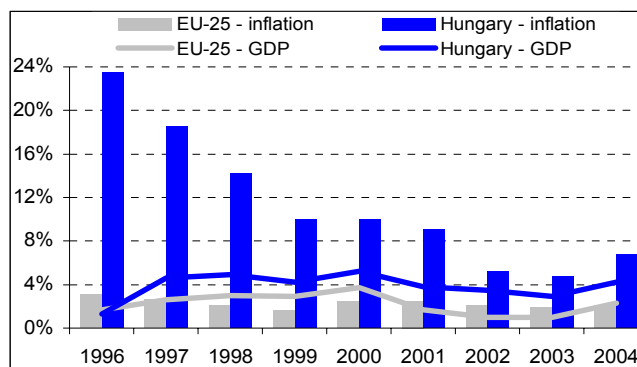


If, for some of the countries, the key criteria of success at the time was, for example, an appreciable reduction in the inflation rate, a stable or strengthening local currency or a healthy state of public finances, the Hungarian priorities were based more on the **cultivation of the business environment** and its institutions, the creation of a positive impression on the outside world and the achievement of a position as an equal partner of the country's comparably situated Western counterparts. And if any of these macroeconomic values stood out as a priority, these would mostly likely be **economic growth and employment**.

Over time, these initial transformation parameters lost their edge and Hungary started to become more of a typical EU country with an increasing number of typical European problems. One thing that was true for most of the transformation period was the fact that **price stability** in Hungary **was never** exemplary, nor was the stability of its currency. A healthy state of the country's **public finances was also not** something that Hungary had.

On the other hand, the Hungarian economy has long been among the **fastest-growing economies** – even in comparison with the rapidly growing countries of Central and Eastern Europe. Furthermore, Hungary is the only country in the region that falls under the Union-wide category of countries that are known for their **low unemployment rate**. However, the Hungarian economic advancement – measured by GDP per capita – ranks **significantly below average** (when compared to the rest of the EU).

Inflation and GDP



Source: Eurostat

The British presidency is considering the replacement of the traditional autumn EU summit with an informal debate on the future of the European social model. The European Commission is threatening to file a complaint with the European Court against 16 of the member countries due to their failure to implement the regulations covering the financial markets as part of their national legislation. The retail car market is starting to see a decrease in the differences between the prices across the unified internal market.

Price development

	m-on-m HICP growth			y-on-y HICP growth			average y-on-y HICP growth in %		
	V-05	VI-05	VII-05	V-05	VI-05	VII-05	V-05	VI-05	VII-05
EU	0.3	0.1	-0.1	2.0	2.0	2.1	2.2	2.2	2.1
EU - minimum	-	-	-	-	-	-	0.8	0.8	0.9
CR	0.1	0.6	0.4	0.9	1.3	1.4	2.2	2.1	1.9
Estonia	0.2	0.7	0.4	2.9	3.2	3.9	4.2	4.1	4.1
Cyprus	0.2	0.2	-1.5	2.0	1.5	1.3	2.6	2.5	2.4
Lithuania	0.2	0.2	-0.2	1.9	2.0	1.9	2.6	2.7	2.7
Latvia	0.8	0.6	0.0	6.5	6.6	6.3	7.0	7.0	7.0
Hungary	0.6	0.3	-0.1	3.5	3.7	3.6	5.3	5.0	4.7
Malta	0.6	0.0	0.1	2.4	2.1	1.7	2.5	2.4	2.3
Poland	0.3	-0.1	-0.1	2.2	1.4	1.5	4.0	3.8	3.5
Slovakia	0.1	0.4	-0.3	2.3	2.5	2.0	5.1	4.6	4.1
Slovenia	0.3	0.1	0.8	2.1	1.7	2.0	3.2	3.0	2.9

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	31.32	+6.8	-6.0	30.44	+3.8	-4.4
Estonia kroon	15.65	+0.0	+0.0	15.65	+0.0	+0.0
Cyprus pound	0.581	+1.4	-1.0	0.578	+0.9	-1.1
Lithuanian litas	3.453	+0.0	-0.0	3.453	+0.0	-0.0
Latvian lats	0.673	+7.6	-3.6	0.689	+5.1	-1.3
Hungarian forint	251.3	+4.0	-8.3	246.7	+2.2	-3.3
Maltese lira	0.429	+1.2	-1.3	0.430	+0.8	-1.0
Polish zloty	4.388	+13.2	-11.1	4.143	+6.9	-6.7
Slovakian koruna	39.78	+5.9	-5.3	38.98	+3.8	-3.2
Slovenian tolar	238.7	+1.6	-0.5	239.7	+0.1	-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 August 2005. Source: Eurostat

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