EU News
Monthly Journal

**Number 25,
October 2005**

ČESKÁ SPOŘITELNA

EU OFFICE
Česká spořitelna, a.s.
Poláčkova 1976/2
140 00 Praha 4
tel.: +420 261 073 308
fax: +420 261 073 004
EU_office@csas.cz
http://www.csas.cz/eu

Petr Zahradník
Head of EU Office
+420 261 073 019
pzahradnik@csas.cz

Jan Jedlička
+420 261 073 484
jjedlicka@csas.cz

Alena Smolíková
+420 261 073 308
asmolikova@csas.cz

under the auspices of Pavel Kysilka
member of the Board of ČS

Dear readers,

You surely remember the end of spring this year which we have stamped in our monthly as quite exceptional in terms of the latest developments. First, the French and the Dutch said "No" to the draft Constitution for Europe, then the European Council denied or, more precisely, did not agree on the approval of the EU key medium-term budgetary framework for 2007–2013. There were reverberations of the process of approving the European constitutional document again in the first half of July in connection with the Luxembourg referendum in the silence resulting from the taboo about the subject of the Constitution for Europe.

The European policy makers have responded to the developed situation relatively pragmatically and declared a period of reflection intended to assess objectively where, in fact, the EU has happened to come to and, in particular, where it is going or, more precisely, where it should be going. There was no idling in the meantime: there were feverish preparations kept under wraps to ensure the approval of the 2007–2013 budgetary framework at least at the second or third attempt initiated by the current British chairmanship; and a careful and sensitive endeavour to start in early October a bilaterally non-discriminating process of negotiation with Turkey about its full (or some other?) membership. Nevertheless, no authoritative subject has stated any results of the reflection or even uttered the word "Constitution" – everybody was just "reflecting". It was not until the end of September that the head of the EU executive José Barroso made a contribution confirming and documenting full understanding of the word reflection: to make the EU more understandable, useful, pleasant, comprehensible and straightforward for the people who live in it.

This was one of the reasons why he has proposed at the end of the current period of reflection to remove such EU legislation that has no practical meaning, which has been a fabricated product of the European Commission with which the member states have not identified themselves even after several years of its existence or whose subject matter has missed the boat even before it has been passed. Accordingly, the first 68 draft regulations, directives and decisions will disappear from the anticipated acquis map followed in the next months by more than a hundred further documents. This proposal was accompanied by Barrosa's relatively sharp criticism of his own ranks and one can imagine that a number of the protégés of the greenhouse or laboratory called the European Commission have heavily shuddered in fear for their own future.

President Barrosa's undoubtedly brave and necessary step should be followed by further responses of others in the same vein for the benefit of the EU itself. Let this be our wish at the beginning of October 2005 together with rich and varied thoughts about the rich and varied integration developments and events of these days and weeks.

Petr Zahradník

The EU Commissioner Joaquin Almunia has said that the entry into the EMU will be assessed strictly this time. Although we are reluctant to assess the benefit our admission to the EU by a primitive accounting principle, the fact is that in the first year of our membership we "earned" EUR 250 million – this is the amount by which our income from the common EU budget exceeded the expenses.

ECONOMY AND EURO

Entry to Eurozone Only for Prepared States

The European Commission will be **very strict** in the future when **assessing the fulfilment of the criteria** for entry of countries into the Eurozone, said Joaquin Almunia, EU Commissioner for Economic and Monetary Affairs. It will be difficult to fulfil the inflation criterion because the impact of the record-breaking oil prices in the new member countries is higher than in the EU-15.

The Eurozone now consists of twelve member states. From among the "old" EU countries, only the United Kingdom, Denmark and Sweden have preserved their national currency and are not considering entry into the EMU. The remaining ten new EU member countries have been preparing intensively for adoption of the Euro.

The greatest progress in the process of preparation for joining the EMU has been made by **Estonia, Lithuania and Slovenia** whose national currencies have been tied to the ERM2 exchange-rate mechanism since April 2004. The next Convergence Report will be issued by the Commission and the ECB in the spring of 2006 and it should already contain recommendations to the EU Council as to whether the entry of these countries into the Eurozone should be started or not. Until then the EU executive will also analyze the qualitative economic data of the type of labour costs and market mechanism functionality. If everything is all right, the Eurozone should welcome these three novices on **1 January 2007.**

Almunia has stated that the Commission will recommend **dual prices in the national currency and in Euro** for a certain transition period which, however, will not last too long, to get the citizens used to the new currency quickly.

Commissioner Almunia made it clear that **only the prepared countries** will manage to get into the Eurozone and that the Commission will allow no exceptions based on any political pressure. From the long-term point of view, this is good news for the Euro, which should not be weakened by the accession of economically unprepared countries.

This is an obvious change of the assessment approach because when the Eurozone was created early in 1999 countries which **had not fulfilled the Maastricht criteria** were also admitted (refer to the Table). The decision on the first participants was adopted by the EU Council in April 1998 based on the Convergence Report of the European Currency Institute (the predecessor of the ECB) from March 1998.

http://europa.eu.int/rapid/pressReleasesAction.do?reference=SPEECH/05/499

Maastricht convergence criteria in 1st wave of EMU accession in 1999 (excluding the exchange rate criterion)

Member state	Inflation	Long-term interest rate	Public budget	Public debt
Belgium	0.9%	4.8%	-2.1%	122.2%
Finland	1.4%	4.4%	-0.9%	55.8%
France	0.7%	4.6%	-3.0%	58.0%
Ireland	2.2%	5.0%	+1.1%	59.5%
Italy	2.0%	5.1%	-2.7%	121.6%
Luxembourg	1.0%	4.5%	+1.7%	6.7%
Germany	0.6%	4.5%	-2.7%	61.3%
Netherlands	1.8%	4.7%	-1.4%	72.1%
Portugal	2.3%	4.8%	-2.5%	62.0%
Austria	0.8%	4.8%	-2.5%	66.1%
Spain	1.8%	5.0%	-2.6%	68.8%
Reference value	**2.7%**	**7.8%**	**-3.0%**	**60.0%**

BUDGET

Entry into the EU Paid Off Financially

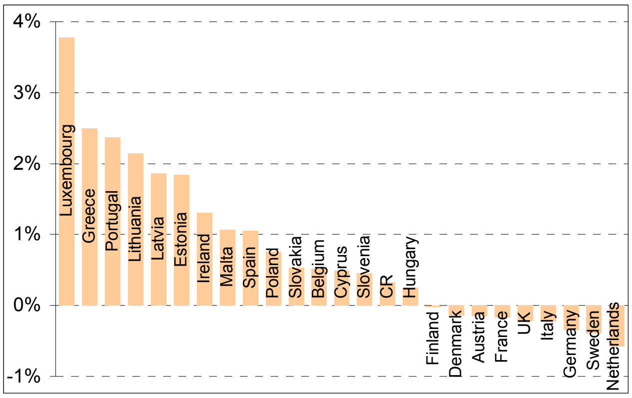
From a narrow-minded point of view, the entry into the EU **has paid off for the Czech Republic** and the other nine new members. Last year, the incomes from the European budget were EUR 2.9 billion higher than the payments of the new states to the common fund. In addition, last year's positive budget position toward the common European budget was stronger than in 2003, when the then still candidate countries were using contributions from the EU pre-accession programmes. This follows from the "Report on the allocation of 2004 EU expenditure by Member State" issued by the European Budget Commissioner Dalia Grybauskaite.

The Czech Republic **received EUR 815.3 million from the European budget and paid EUR 565.2 million** into it. The net position was EUR 250.1 million (0.33% of GDP), which was EUR 37 million more than in 2003. The largest part of the incomes from the European budget was allotted to budgetary compensations (just above 40%), the unfinished pre-accession programmes consumed 23%, regional policy 20% and agricultural subsidies 11% of all the means. The remaining 5% were designed for internal policies and administrative expenses.

The largest relative net beneficiary from the common Brussels fund is **Luxembourg** with 3.78% of its GDP where, however, a substantial part of the incomes falls on the coverage of administrative costs because Luxembourg is the place of residence of many major European institutions. Other largest net beneficiaries are **Greece** (2.50% of GNI) and **Portugal** (2.37% of GNI).

On the other hand, last year's largest net contributors to the EU budget were the **Netherlands** (-0.58% of GNI), followed by **Sweden** (-0.40% of GNI) and **Germany** (-0.35% of GNI).

Net position to the EU budget in 2004 as % of GNI



Source: European Commission

The new members belong among the poorest in the EU but this fact does not correspond so far with the level of their net positions in relation to the European budget because they joined the EU **in the middle of an already agreed financial framework** (for the period of 2000–2006). The net positions of the new member states will improve substantially with the new financial perspective for 2007–2013. In the draft financial perspective, the European Commission anticipates the Czech Republic's net position of 3.2% of GNI. However, the richer member states, which belong among the largest contributors to the common fund, wish to economise and the compromise solution will be less generous. We estimate therefore that from 2007 **the Czech Republic might receive about 2.5% of GNI** from the European budget more than it will pay into it.

http://europa.eu.int/comm/budget/pdf/agenda2000/alloc_rep_2004_en.pdf

FOREIGN TRADE

Textile War with China Averted

The European Union and China **agreed in early September on the release of the Chinese textile goods** retained in the European ports, putting an end to a dispute which is sometimes referred to as the "bra war", in reference to the imported commodity.

Based on the agreement within the World Trade Organisation, all the import quotas for Chinese textiles have been cancelled since the beginning of this year. However, the volumes of imported goods increased in certain categories so sharply that the future of the textile industries in some European countries was seriously endangered. The European Union used the emergency brake and applied the **safeguard clauses**, which enabled in the case of certain textile commodities the reinstating of import quotas which will restrict the growth of imported Chinese textiles to 8-12.5% a year up to the year 2008.

The problem arose in the summer when **this year's quotas had became exhausted** and up to 80 million sweaters, blouses, T-shirts, bras, trousers and other goods were blocked in the European ports and denied entry to the EU's internal single market. However, some European retailers **had ordered and paid** for the Chinese goods in the period before the reinstatement of the quotas and now they could not get to their goods.

Protectionist states with strong textile industries, such as Spain, Portugal, Italy and France were against the release of the goods. On the other hand, the countries where the textile goods are mostly imported, e.g. the United Kingdom, Germany and the Scandinavian states requested immediate release of the retained goods.

The Commission eventually came to an agreement with China and the outcome of the negotiation was approved by the EU Council. The substance of the agreement is that all the goods will be released at the borders. Half of them, however, will be **set off against China's quotas for next year**. The rest will be released without additional obligations.

Nevertheless, there is another potential trade war on the horizon – now regarding the high levels of **imports of Chinese footwear** to EU countries.

http://europa.eu.int/rapid/pressReleasesAction.do?reference=IP/05/1091

INTERNAL MARKET

Cheaper Cross-border Share Trading Within the EU?

Charlie McCreevy, the EU Commissioner responsible for the Internal Market gave the financial service firms six months (until mid-March 2006) to **reduce the fees for cross-border share trading** within the EU. The reason for this are the persisting remarkable differences in the fees for interstate and cross-border tradings preventing the creation of an effective internal single market for securities in the EU.

At the 14th Annual Europe-USA Investment Funds Forum Commissioner McCreevy stated that "**cross-border trading remains expensive**, sometimes prohibitively so. Cross-border clearing and settlement costs can still be up to 6 times more than those of domestic settlements".

A praiseworthy example not only for the Czech politicians was the decision of the European Commission to simplify and reduce the existing EU legislation. 68 EU directives, regulations or decisions will be withdrawn from the approval procedure in the first step of this ambitious plan. In response to the record-breaking growing prices of oil, Andris Piebalgs, Commissioner in charge of energy, presented a five-point plan aimed at countering the negative effects of the rising oil prices.

The formulation of Commissioner McCreevy is so far the sharpest statement in this area suggesting the possibility of introducing special **legislation harmonising the fees for securities trading** in the EU. A similar regulation has already been implemented in the payment system area.

http://europa.eu.int/rapid/pressReleasesAction.do?reference=SPEECH/05/503

Switzerland to Open Labour Market

The Swiss have **approved in a referendum the extension of the agreement on the free movement of EU workers** concluded in 1999 to include the ten new member states. 56% of voters voted for the extension while 44% were against. The referendum was participated in by slightly more than half of the authorised citizens. The agreement approved in the referendum should come into force from the beginning of 2007 when both the new member states and Switzerland should become members of the Schengen space.

The free movement will be accompanied by **transition periods effective also in the EU** to eliminate fears of uncontrolled influx of cheap labour from the East. In this way, Bern can limit the arrival of foreign workers from the new member countries **until 2011**. In addition, Switzerland can apply the safeguard clause until 2014 in the case of a threat to its own labour market.

Although the Swiss are standing outside the European Union, they have proved that they belong to **the "most European" countries**. It is hard to imagine that a similar agreement would be approved in a referendum by the citizens of some EU member states, in particular those of its "hard core".

http://www.admin.ch/ch/f/pore/va/20050925/det519.html

ENTERPRISE

The Commission To Simplify EU Legislation

One of the parts of the ambitious project to increase European competitiveness and support economic growth is the withdrawal of some of the negotiated legislative proposals and the preparation for a radical simplification of the existing **European legislation** consisting of up to 20 thousand acts.

Upon reviewing 183 draft legal regulations of the EU that had been submitted to the European Parliament and the Council, the Commission decided to **cancel more than one-third (68) of them** and to submit an additional 5 of them for further analysis.

Some of these drafts **do not comply with the objectives of the Lisbon strategy** while others are **obsolete**. The decision is just a part of a much wider initiative of the Commission to eliminate bureaucracy and excessive regulation. Examples of proposed draft legislative acts that have been withdrawn:

- proposal for a regulation to support sale on the internal market,
- proposal for a directive on labelling foods,
- proposal for a directive prohibiting the driving of trucks on weekends,
- package sizes of coffee,
- proposal for a directive on safety requirements for aircraft crews,
- proposal for a directive regarding occupational exposure to optical radiation.

The Commission plans to present in October a work programme regarding the simplification and updating of the existing EU legislation. It intends to set up a three-year action programme within its framework focused on three priority sectors: the **construction, automotive and waste industries**.

http://europa.eu.int/rapid/pressReleasesAction.do?reference=IP/05/1189

ENERGY AND TRANSPORT

Commission to Speed Up Policies to Reduce Energy Demand

Worried about the negative effects of high energy prices on Europe's economy, Commissioner Piebalgs presented a **five-point action plan to counter rising oil prices**.

Although Western economies are now more resilient to surges in oil prices than during the oil shocks of the 1970s and 1980s, recent oil prices close to 70 dollars per barrel have started to raise **concerns about the impact on economic growth**. The OECD predicts that the eurozone will be more vulnerable to the growing oil prices than the US and Japan.

Commissioner Piebalgs's action plan consists of several actions grouped under five headings:

1. **Reducing Europe's demand for energy:**

- following the publication of the Energy Efficiency Green Paper in June 2005, the Commission wants to present an action plan on energy savings in early 2006;
- the Commission wants to speed up the adoption and implementation of measures, already in the pipeline, such as the Energy Services Directive and the Energy Demand of Buildings Directive;
- the Commission intends to promote more joint international action on energy efficiency.

2. **Switching to alternative energy sources:**

- the Commission will present a Biomass Action Plan before the end of the year and a Communication on bio-fuels in early 2006;
- the Commission will push for an increase of research budgets on renewable energies, carbon sequestration and clean coal technologies;
- financial support for renewables in the member states will be under review.

3. **Increasing transparency and predictability of oil markets:**

- a new Oil and Gas Market Observatory Unit will be created in the EC Directorate-General for Energy and Transport;
- dialogues with OPEC, Russia and Norway will be intensified;
- a "Fossil Fuels Forum" will be set up to improve oil and gas market predictability.

4. **Increasing the supply of oil and gas:**

- the Commission will work with producers and European oil companies to promote a better investment climate.

5. **Better co-ordination of strategic oil reserves:**

- in view of the fact that several EU member states are not members of the International Energy Agency, more coordination is needed.

http://europa.eu.int/rapid/pressReleasesAction.do?reference=IP/05/1101

EMPLOYMENT AND SOCIAL POLICY

European Social Integration Programme

The European Parliament has adopted a new main programme to regulate the **EU activities in the area of social integration** in the period from 2007 to 2013.

The EU activities in this area were divided into five different programmes regarding:

- **employment,**
- **social protection and integration,**
- **working conditions,**
- **non-discrimination,**
- **gender differentiation and equality.**

The key aspects of the progrsamme are known. What remains unknown is the budget, which will depend on the result of the **negotiation on the future financial perspective for the years 2007 to 2013**.

http://europa.eu.int/eur-lex/lex/LexUriServ/site/en/com/2004/com2004_0488en01.pdf

ENVIRONMENT

EU Wants Caps on Air Travel Emissions

CO2 emissions from all international flights will be limited and **open to emissions trading in the EU** under a new European Commission proposal.

The idea of including aviation in the EU emissions trading scheme was first floated in January this year at a specialised seminar in the European Parliament. After a public consultation, the Commission published a study in August, which found that **including airlines in emissions trading was feasible** from an economic point of view.

The move would bring air travel in line with other sectors with an overall aim of meeting the **Kyoto Protocol** (cutting the emissions of greenhouse gases by 8% by 2012 compared to the 1990 levels).

The EU's emissions trading scheme is currently participated in only by **energy-intensive industries**, e.g. cement, iron and steel works, electricity generation plants, etc. According to the overall national allocation plans approved in Brussels, the governments of the member states set the maximum amount of CO2 emissions for each individual plant in the form of allowances that can be traded between them. The plants can sell their surplus allowances. If their actual emissions are higher than the set maximum amount they can **buy the needed additional allowances**. If they have no allowances for their issued emissions they pay a **fine of EUR 40 for every tonne** of CO2.

Air travel's share of overall greenhouse gas emissions is **only 3%** but this share is increasing very dynamically. According to the European Commission, including aviation in the emissions trading scheme is a more effective instrument than introducing special excise tax on air fuel or air ticket charges.

Under the EC plan, a cap on allowed emissions would be set for **all flights departing from the EU**, including

In the effort to reduce the emissions of greenhouse gases, the EU executive proposed to include air travel in the European CO2 emissions trading scheme. The Commission also introduced a competitive proposal to the plan of the EU Justice and Home Affairs Council, aimed at retaining phone, fax, mobile phone and internet data. It differs from the Council's proposal, for instance, by enabling compensation of the costs for the telecommunications companies.

international flights. The measure would thus apply to all airlines **without regard to nationality**.

According to preliminary estimates, the inclusion of air travel in the allowance trading scheme would necessitate an average **increase of the price of a return ticket by 9 euros**.

To adopt the adequate directive it is necessary to solve some uncertainties. It is not clear, for instance, who would be in charge of setting the maximum emission levels on the airlines from the EU non-member countries.

A specific proposal for the directive should be submitted by the European Commission in the first half of next year and in such a case it could come into effect **from 2008 to 2009**.

http://europa.eu.int/rapid/pressReleasesAction.do?reference=IP/05/1192

JUSTICE AND HOME AFFAIRS

Commission Wants to Improve EU's Asylum and Immigration Policy

European Commissioner Franco Frattini proposed **common rules for returning illegal immigrants** from the EU and measures to encourage integration of legal immigrants.

The ambitious legislative package includes the proposal for a directive on common standards for returning and three communications:

- common agenda for integration: framework for integration of citizens of third countries in the EU;
- on regional protection programmes;
- on migration and development.

The directive proposes common rules regarding returning, expulsion, use of coercive measures, preliminary custody and repeated entry. The aim of the proposal is to create a **two-step procedure to terminate unauthorised residence**. The decision on the proposal must be delivered to every illegal immigrant and voluntary return is preferred. The member states will apply the expulsion decision only if the immigrant does not return voluntarily.

The communication regarding the common agenda for integration proposes action at a European and national level and emphasises the importance of further clarification and support of the rights and obligations of new immigrants in our societies.

The communication on migration and development is focused on the **interconnection of migration and development co-operation** in order to mitigate the poverty in third countries and on the prevention of brain drain from the developing countries. The aim of the communication on regional protection programmes is to give assistance in building protection capacities for third countries which are the host countries of large communities of refugees or which are facing a large number of asylum seekers. The first pilot programme should be implemented in Ukraine, Moldova and Belarus.

http://europa.eu.int/rapid/pressReleasesAction.do?reference=IP/05/1079

Commission Wants Phone Data to Be Stored for One Year

The Commission proposed a new plan regarding phone, fax, mobile phone and internet data. Based on the plan, the telecommunications companies would **be obliged to store such data for one year** with a possibility of compensation of the costs of such storage. Retention regards only traffic data of electronic communications and does not include the content of the communication. The data would be available on demand by the police authorities of the member states. The proposal is one of the major measures in the fight against terrorism.

The human rights guardians object that the retention of this information will lead to **excessive intervention in the lives** of innocent people and would not bring the desired effects. The telecom and internet companies are afraid of the increase in the costs of the fulfilment of this obligation, which could lead to bankruptcy of smaller firms.

Up until now, the telecom and internet companies could store only the data needed for billing purposes – a fraction of what is to be stored upon the approval of the proposal – and only as long as needed for this purpose. This was usually no more than three months.

The plan of the European Commission **anticipates the compensation of the affected sector**. The companies should be compensated for additional costs resulting from the retention obligation.

A similar legislative proposal which is slightly different (e.g. it does not include compensation to the telecommunications companies for data retention, different storage periods) had been submitted by a **group of states** headed by the UK and France but it was withdrawn upon disapproval by the European Parliament and some member states. The present activity was developed by the European Commission and the representatives of the UK have stated that it is a good basis.

The decision on which the proposal will get through to the approval process will be taken at the EU's justice and home affairs ministers meeting in mid-October.

http://europa.eu.int/rapid/pressReleasesAction.do?reference=IP/05/1167

Worth noticing from among the other uncommented September events is the Commission's communication regarding assistance given to airlines taking off from regional airports. The prepared 7th framework programme for science and technological development whose further details have been published is gaining clearer contours. An interesting survey of Eurostat revealed that in the Czech Republic only 29 percent of citizens of the age of 25 to 64 years are educating themselves.

01 SEPTEMBER

Country Focus - Baltic convergence: steep and yet stable?: http://www.europa.eu.int/comm/economy_finance/publications/country_focus/2005/countryfocus15_en.htm

02 SEPTEMBER

Stakeholder consultation - restrictions of use of certain hazardous substances in electrical and electronic equipment: http://www.europa.eu.int/comm/environment/waste/rohs_3_consult.htm

05 SEPTEMBER

Joint Statement of the China-EU Summit: http://ue.eu.int/ueDocs/cms_Data/docs/pressData/en/er/86119.pdf

06 SEPTEMBER

Lifelong learning in Europe in 2003: 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_09/3-06092005-EN-BP.PDF

Participation rate of those aged 25-64 years old in any kind of learning, %

Austria	89	**EU-25**	**42**
Luxembourg	82	Belgium	42
Slovenia	82	Germany	42
Denmark	80	Netherlands	42
Finland	77	Cyprus	38
Sweden	71	UK	38
Slovakia	60	Estonia	31
Malta	53	Poland	30
France	51	**CR**	**29**
Ireland	49	Lithuania	28
Italy	49	Spain	25
Latvia	46	Greece	17
Portugal	44	Hungary	12

Source: Eurostat, figures in 2003

Energy and Transport: 2005 National reports on biofuels or other renewable fuels for transport (Directive 2003/30/EC): http://www.europa.eu.int/comm/energy/res/legislation/biofuels_members_states_en.htm

07 SEPTEMBER

Political Declaration on the India-EU Strategic Partnership: http://ue.eu.int/ueDocs/cms_Data/docs/pressData/en/er/86132.pdf

Commission communication on financing airports and start-up aid to airlines departing from regional airports: http://www.europa.eu.int/comm/dgs/energy_transport/state_aid/transport_en.htm#air

08 SEPTEMBER

Commission launches information campaign in support of MDGs (Millennium Development Goals): http://www.europa.eu.int/comm/development/body/news/news_en.htm#1

Labour Force Survey - 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_09/3-08092005-EN-AP.PDF

09 SEPTEMBER

Info sheets on different aspects of the CAP reform: http://www.europa.eu.int/comm/agriculture/markets/sfp/index_en.htm#capinfosheets

Reform of the sugar market - EESC hearing criticises Commission's proposals: http://www.esc.eu.int/press/cp/docs/2005/cp_eesc_95_2005_en.doc

12 SEPTEMBER

Brand new website for the European Parliament: http://www.europarl.eu.int/news/expert/infopress_page/008-69-255-9-37-901-20050908IPR00068-12-09-2005-2005--false/default_en.htm

Agreement on harmonization of Primary Dealers' activity reports: http://www.europa.eu.int/comm/economy_finance/efc/efc_reports_en.htm

Commission adopts regulation to clear blocked Chinese textile imports: http://trade-info.cec.eu.int/doclib/html/124646.htm

13 SEPTEMBER

Report for Parliament proposes EU-wide blacklist of unsafe airlines: http://www.europarl.eu.int/news/public/story_page/062-266-241-8-35-910-20050912STO00265-2005-29-08-2005/default_en.htm

Commission proposes renewal of current trade preferences for Balkans until 2010: http://www.europa.eu.int/comm/trade/issues/bilateral/regions/balkans/pr120905_en.htm

14 SEPTEMBER

Energy and Transport: Commission launches public consultation on Airport capacity, efficiency and safety in

Diary

Europe: http://www.europa.eu.int/comm/transport/air/safety/consultation_en.htm

Costs and Benefits of Integration of EU Mortgage Markets - study: http://www.europa.eu.int/comm/internal_market/finservices-retail/home-loans/index_en.htm#study

15 SEPTEMBER

Energy and Transport: Call for proposals with a view to obtaining grants in the field of transport: http://www.europa.eu.int/comm/dgs/energy_transport/grants/proposal_en.htm

16 SEPTEMBER

MEPs respond to Commission proposals on immigration policy: http://www.europarl.eu.int/news/expert/infopress_page/018-241-256-9-37-902-20050909IPR00147-13-09-2005-2005--false/default_en.htm

Public consultation to explore the idea of a 'European Institute of Technology': http://www.europa.eu.int/comm/education/eit/index_en.html

Successful trans-national operation against money laundering and drug trafficking: http://www.eurojust.eu.int/press_releases/2005/09-09-2005.htm

19 SEPTEMBER

Market Access policy - Europe needs open markets at home and abroad: http://www.europa.eu.int/comm/trade/issues/sectoral/mk_access/pr190905_en.htm

20 SEPTEMBER

Measures on access to television programmes of visually and hearing-impaired people: http://www.europa.eu.int/comm/avpolicy/regul/contact_committee.htm#4

Euro-Mediterranean Partnership - EUROMED and the MEDIA: http://www.europa.eu.int/comm/external_relations/euromed/media/index.htm

21 SEPTEMBER

Adoption of a directive on cross-border mergers in the European Union, Brussels 20 September 2005: http://ue.eu.int/ueDocs/cms_Data/docs/pressData/en/misc/86281.pdf

Directive on money laundering and terrorist financing: http://ue.eu.int/ueDocs/cms_Data/docs/pressData/en/misc/86283.pdf

22 SEPTEMBER

Commission adopts report on UK's budgetary situation: http://www.europa.eu.int/comm/economy_finance/about/activities/sgp/procedures_en.htm

Instrument for Pre accession Assistance "IPA": http://www.europa.eu.int/comm/enlargement/ipa_en.htm

Directive 2005/36/EC of Parliament and the Council on recognition of professional qualifications: http://www.europa.eu.int/comm/internal_market/qualifications/future_en.htm#20050907

23 SEPTEMBER

Special Reports 3/2004 - Quality and efficiency in education: http://www.europa.eu.int/comm/economy_finance/publications/european_economy/eespecialreport0403_en.htm

Gas - 10th meeting of the Madrid Forum: http://www.europa.eu.int/comm/energy/gas/madrid/10_en.htm

26 SEPTEMBER

Europe celebrates linguistic diversity - European Day of Languages: http://www.europa.eu.int/comm/education/policies/lang/awareness/day05_en.html

27 SEPTEMBER

CARDS Annual Programmes - Albania 2005: http://www.europa.eu.int/comm/enlargement/cards/publications_en.htm#4

28 SEPTEMBER

Future EU research policy - FP7 approval process: http://www.europa.eu.int/comm/research/future/index_en.cfm

Company Law and Corporate Governance - shareholder's rights: http://www.europa.eu.int/comm/internal_market/company/shareholders/index_en.htm

29 SEPTEMBER

The contribution of wage developments to labour market performance: http://www.europa.eu.int/comm/economy_finance/publications/european_economy/2005/eespecialreport0105_en.htm

30 SEPTEMBER

MEPs call on EU to diversify its energy sources and to promote energy conservation and renewable energy: http://www.europarl.eu.int/news/expert/infopress_page/051-671-272-9-39-909-20050921IPR00564-29-09-2005-2005--true/default_en.htm

The thirty-hour marathon of negotiations of the foreign ministers of the EU member states finally bore fruit and turned into the formal start of the accession negotiations with Turkey and, a little surprisingly, also with Croatia. An extended version of this analysis is available on our website www.csas.cz/eu in the Special Analyses section.

EU WILL START ACCESSION TALKS WITH TURKEY AND CROATIA

The decisive moment for the formal start of the accession negotiations was the **concession of Austria** which gave up its requirement that the EU's negotiating stand would mention that the accession negotiations might also result in privileged partnership of Turkey with the EU.

The approved negotiation stand of the EU **differs from the proposal prepared by the Commission only cosmetically**. The EU's negotiation stand was accepted by Turkish Foreign Minister Abdullah Gül.

The negotiation with Turkey should be **the strictest negotiation in the history of EU enlargement**; it will consist of 35 negotiation chapters and the non-conclusion of any one of them may result in suspension of the negotiations. In addition, it is still true that the final decision on the entry must be approved by **all the member states** and by half of the members of the European Parliament. According to general expectations, Turkey should not join the EU before the year.

The start of accession negotiations with **Croatia** was a surprise. Zagreb should have started the negotiation already in March but it was conditioned by its sufficient co-operation with the International Criminal Tribunal for the Former Yugoslavia in The Hague. It was then assessed as insufficient because Zagreb had been unable to find and deliver the war criminal General Ante Gotovina.

The current decision on the start of the accession negotiations has been enabled by the approval of the Hague Tribunal of the fact that Zagreb now **fully works together with the court**. Croatia thus formally started the negotiations at the same time as Turkey.

Croatia is supposed to be better prepared for the entry than Turkey and its accession to the EU is expected in **2009 or 2010**. However, should Zagreb slacken its co-operation with the Hague Tribunal the negotiation could be suspended.

The start of the accession negotiations with Turkey and Croatia is the first big **success of the United Kingdom which** now holds the chair. The Union needed such a success after the unsuccessful referendums on the European Constitution in France.

Fears surrounding the entry of Turkey into the EU are quite understandable. Turkey is **very poor,** producing GDP per capita (according to the Purchasing Power Standards) at the level of 29% of the EU-25 average (Czech Republic 70%, Bulgaria 30% and Romania 32%). Moreover, with its population of almost 71 million, Turkey would become **the second biggest member country** of the EU after Germany which has 82.5 million inhabitants. In addition, Turkey has a clearly different **structure of economy** as compared with the EU average. The share of agriculture in the formation of GDP is 11.5% while it is only 2.1% in the EU-25. There are also fears stemming from the Islamic religion of the vast majority of the population and from the resulting cultural difference.

On the other hand, it is clear already today that the existing major policies of the EU – common agricultural and regional policies – **will have to be substantially changed**, failing which the accession of Turkey to the EU would become financially unfeasible. At the same time, **long transition periods** will be introduced, in particular in the chapter of freedom of movement for persons to prevent impairing the labour markets of the more advanced states of the EU.

The admission of Turkey is anticipated sometime in the period from **2015 to 2020**. The progress of the accession negotiations and the resulting requirements for the adoption of the European standards in the Turkish legislation will **push the country forward** in the economic area, the institutional area (reform of the judicial system, strengthening the civil control of the army) and human rights.

It is most probable that with the approaching entry into the EU, a number of Western companies will shift their production capacities to Turkey, which will **further support a real convergence** with the EU economies. European companies and investors can benefit from the participation in the economic recovery of the country and it is also worth noticing the huge and still not highly penetrated Turkish market.

Also of importance is the **strategic position of Turkey** as a bridge between the Christian and Islamic civilizations that could strengthen the role of the EU in global politics. Successful integration of Turkey into the Western democratic structures could serve as a good example for the citizens of other countries of the Islamic world.

Turkey has made another **important step towards full EU membership** but there is still a long way ahead which might not necessarily end with success. Although it is a highly political question the speed, progression and final result of the negotiation will depend mainly on the willingness and ability of Ankara to adapt to the European legal system.

The richer Croatia has an easier position and could reach full membership within 3-4 years. An obstacle that may arise could be the **insufficient institutional readiness of the EU.** The current primary law of the EU is not ready for further enlargement (except for Bulgaria and Romania).

Expected events

Perhaps the most interesting event of the month of October will be the informal meeting of the heads of the EU member states which will substitute the traditional autumn session of the European Council. The main item on the agenda should be the discussions on the future of the European social model and competitiveness in the light of globalisation, on the place of the European Union in the world and on the security of citizens.

3.10.2005	**Luxembourg, Luxembourg**
- General Affairs Council	
6.10.2005	**Luxembourg, Luxembourg**
- Transport & Energy Council	
11.10.2005	**Luxembourg, Luxembourg**
- Competitiveness Council	
11.10.2005	**Luxembourg, Luxembourg**
- Economic and Financial Affairs Council meeting	
12.-13.10.2005	**Luxembourg, Luxembourg**
- Justice and Home Affairs Council Meeting	
12.10.2005	**Brussels, Belgium**
- European Parliament Plenary Session	
17.10.2005	**Luxembourg, Luxembourg**
- Environment Council	
24.-25.10.2005	**Luxembourg, Luxembourg**
- Agriculture and Fisheries Council	
24.-27.10.2005	**Strasbourg, France**
- European Parliament plenary session	
27.-28.10.2005	**Hampton Court, UK**
- Informal Government Summit	

SMEs in the EU are the backbone of the European economy. Today there are approximately 23 million registered SMEs in the EU representing 99% of all companies in the EU and employing 75 million people. These statistics are quite a weighty reason why the European Commission strives to focus on the needs of SMEs. This reason is even more important when the EU strives to fulfil its key economic challenge – to stimulate economic growth and create new jobs.

TRENDS IN THE DEVELOPMENT OF SUPPORT POLICIES FOR SMALL AND MEDIUM-SIZED ENTERPRISES IN THE EU

An attentive reader of the key documents of the European Commission focused on developmental matters in the last few years could not fail to notice that SMEs have become one of the key words and thus the anticipated vehicles of economic prosperity of the EU.

An attentive reader also knows very well that there already exists a relatively well-established approach of the EC to SMEs and an extensive range of measures for their support. Nevertheless, the EC now endeavours to tune up these approaches and ensure their closer interconnection with the updated and modified agenda of the Lisbon economic reform.

The EC sees its active role as a catalyst and effective lever in encouraging further active measures carried out by the individual stakeholders. The Commission has no ambitions or aim to enter directly into the relations with individual firms. The reason here is obvious – it would be overloaded by an unmanageable quantity of communications links and the associated paperwork and administration.

On the other hand, the approach of the EC works through information networks and transmission centres and in close co-operation with national authorities. When identifying the support areas that could be useful in terms of the support for SMEs, the Commission must choose an exceptionally selective approach. Great attention is also being devoted to the provision of the management of efficiency of projects implemented through interlinks and intermediaries.

Regardless of whether the implementation policies are carried out directly by the Commission or by means of the support of those working in the respective member states, the basis of all activities is systematic and careful research.

Information regarding the respective challenges that SMEs are facing is collected from the companies as well as by means of specific research actions, e.g. the regular Eurobarometer public opinion surveys. Based on these observations the makers of the EU's economic policy try to develop the most appropriate strategic response to the identified problems and then decide whether their solution is most appropriate at the level of the European or the national authorities or a combination of both.

Here are some examples. A frequently discussed topic for small and medium-sized enterprises in recent months has been the impact of the new EU directive on capital adequacy known as Basel II. The EC directorate general for enterprise and industry responded to the emerged demand

Current monitoring of perception of entrepreneurs within the EU. Who wants to be an entrepreneur in the EU?

- only 45% of entrepreneurial subjects in the EU want to be self-employed (61% in the US);
- 50% of respondents in the EU would prefer being employed (45% in the US)
- these summary data conceal the big differences between the individual member states; the idea of being self-employed and one's own boss it especially attractive in Portugal (62%), Ireland (58%), Estonia and Cyprus (56% each), Italy (55%), Greece and Lithuania (52% each) and Poland (51%); on the other hand, this idea is least attractive for the Finns (only 28%), Czechs and Slovaks (30% each), Slovenians (32%) and the Dutch (33%);
- when asked why they preferred to be employees, almost one third of the EU citizens (30%) mentioned the existence of a regular, constant income as the most important factor considered; job stability was the reason for one quarter of them; the citizens in the new member countries appreciate a regular income and job much more than people in the EU-15. In comparison with the US, none of these characteristics is markedly perceived by the Americans – regular income is appreciated by 16% and stability of employment by 10% of them. The idea of regular income as the opposed to variable cash flows of most of the self-employed is particularly important for the Czechs (67%), Greeks (63%), Slovaks (55%) and Italians (54%). On the other hand, it is a less important factor for the Danes (9%), French (13%) and Swedes (17%);
- the payments for social security represent another important barrier preventing more people from being self-employed. It is a reason for approx. 12% of EU citizens; in terms of geography, it is absolutely the most essential problem for the Czechs (53% of them), followed at a distance by the Latvians (30%), Austrians (29%) and Belgians (25%). On the other hand, this factor is not perceived as a principal barrier in Denmark and Sweden (only 1% of their population in each country feels it as a problem), Ireland and Finland (2%) or Spain and France (4%);
- other reasons for unwillingness to become an entrepreneur cited within the whole EU: unfavourable economic circumstances (21%), lack of time (10%), lack of interest and finances (8% each), lack of skills (6%), lack of an entrepreneurial idea (5%) or administrative barriers (5%).

Source: Eurobarometer

by publishing an implementation brochure for banks and small and medium-sized enterprises and by organising information meetings explaining the expected changes.

It sometimes happens that optimum places for solution are the subjects in the individual member countries. For instance, the insolvency legislation amendment will facilitate for a bankrupted entrepreneur a second chance or elimination of obstacles for transfer of the business and it can be ensured only at a national level. It is of particular importance because the chances of survival for existing entrepreneurial projects that have been taken over are five times higher than for the beginning entrepreneurs.
Under such circumstances the European Commission can finance studies gathering data on the ways in which the respective member states are solving this issue. Good examples are presented in the survey of the best projects – they need not be necessarily applied in every member country but can serve as inspiration that can be gradually integrated in the member countries' own strategies. In this way, the European Commission can launch initiatives in areas that it considers to be strategically important for SMEs but where there is no specific competence of the EU.

One of the areas where the member states can benefit from experience anywhere in the EU is the Charter for Small Enterprises. It is now the fifth year that the Charter has specified 10 areas ranging from education and professional training to cheaper and faster start-up that the governments of the member states have identified as outstanding priorities.

Charter for Small Enterprises: promises turned into real action

- The European Charter for Small Enterprises provides a clear picture of what the member states are doing in a limited number of carefully selected areas that make the entrepreneurial environment more accommodating for small and medium-sized enterprises.
- An interesting example of better legislation and regulation – one of the ten priority areas – is the Belgian practice of assessing any legislation proposals that might have an impact on the administrative barriers of citizens and entrepreneurs on the basis of a test.
- A brief questionnaire is enclosed with any proposal that should be discussed by the government. It enables one to assess the impacts of new legislation and explain the cases of its adoption.
- The analysis quality is systematically monitored by an independent team of officers and the tests will become even more reliable in 2006 with the introduction of the socio-economic assessment and the cost and benefit assessment.

SME: REAL GIANT OF THE EU ECONOMY

93% of all European entrepreneurial subjects have less than 10 employees.

23 million entrepreneurial subjects are registered within the enlarged EU, providing employment for approximately 75 million people.

From the total number of entrepreneurial subjects the above-mentioned 93% are microenterprises (0 to 9 employees), 6% are small enterprises (10 to 49 employees), less than 1% are medium enterprises (50 to 249 employees) and only 0.1% are large companies (250 or more employees).

The definition of small and medium-sized enterprises

category	headcount	turnover	or	balance sheet
medium	< 250	≤ € 50 mil.		≤ € 43 mil.
small	< 50	≤ € 10 mil.		≤ € 10 mil.
micro	< 10	≤ € 2 mil.		≤ € 2 mil.

Source: Commission's Recommendation 2003/361/EC

Within this entrepreneurial structure, two-thirds of employment is created by SMEs and one-third by large companies. Within SMEs, the overall employment is approximately equally shared by microenterprises and small and medium-sized enterprises in the literal sense. Nevertheless, the size distribution of the employment varies again very noticeably among the member countries (in a similar way as the subjectively perceived indictors and characteristics of the entrepreneurial environment). For instance, the share of microenterprises in the overall employment in Italy is 48% and in Greece even 57%. On the other hand, the share of large corporations in the employment of the United Kingdom is 45%.

An average company in the EU – even including the giants of the type of Royal Shell, Siemens, Nokia or PSA Peugeot Citroen – ensures employment for six people; in the case of SMEs the average is four. The average number of employees in microenterprises is two and in large companies it is more than 1,000. Again, there are large differences between the individual member countries. A company employs on average 2 people in Greece and 3 in Italy while 10 in Ireland, Luxembourg and the Netherlands.

Nevertheless, the majority of new jobs are created in microenterprises. From comparison it follows that in the period of 1988 to 2001, large companies lost a relatively large number of labour but the employment in the SMEs sector increased. During all of this period under consideration, the employment in microenterprises and small enterprises was growing; medium-size enterprises

and large corporations began to grow only in the last four years under consideration. The existing projections indicate that the big giants will be facing further decrease in employment and shift to the SMEs sector in the coming years.

On average, the enterprises in Europe are smaller in comparison with the US. The average firm in the EU – with its 6 people, as already mentioned – is relatively small and as such it is substantially smaller than an average Japanese firm (10 persons) or even US firm (19 people). Accordingly, small and medium-sized enterprises participate in employment with a mere 33% in Japan and 46% in the US. As already mentioned, in the EU it is 66%.

The role of the SMEs in national economies

	Number of companies in 1000	Average number of employees in 1 company	Dominant sector
Austria	270	11	Micro
Belgium	440	7	Micro
Denmark	210	10	SMEs
Finland	220	7	Large
France	2 500	8	Micro
Germany	3 020	10	Large
Greece	770	2	Micro
Ireland	100	10	SMEs
Italy	4 490	4	Micro
Luxembourg	20	9	SMEs
Netherlands	570	12	Large
Portugal	690	5	SMEs
Spain	2 680	6	Micro
Sweden	490	7	Micro
UK	2 230	11	Large
EU-15	**18 700**	**7**	**Micro**

Note: figures in 2003. Dominant sector = the sector which employs most employees. Source: EC – DG Enterprise

We can see substantial differences within the EU again. These differences have mostly a structural, institutional and historical character. In addition, in countries with high GDP per capita – most apparently in Luxembourg or the Netherlands – the average size of firms tends to grow while, on the other hand, the countries with relatively lower GDP per capita from among the EU-15 – Greece, Portugal or Spain – tend to decrease further the size of their firms.

Nevertheless, the differences in the GDP indicators per capita do not explain in full the differences between the EU, Japan and the US. These differences, however, can be better explained by the differences in economic structure – e.g. the presence of a large domestic market in which the social and cultural diversity is much less than in Europe. Moreover, the European markets still appear to be more fragmented than the US and Japanese markets. In Europe there are also more obstacles for mergers and acquisitions when due to their national legislation a number of countries have several different ways of protecting themselves against hostile takeover.

Approximately one half of SMEs in the EU have set ambitious objectives; 29% of them strive for growth, 9% for higher profit, 7% have ambitions to innovate and 7% intend to increase their quality. The remaining entrepreneurs are busy with their effort to survive (20%) or are hoping to consolidate their business activities (21%).

When we look in this connection at the different sizes of firms, it seems that more microenterprises are concerned with their struggle for survival and relatively larger corporations are occupied by concerns relating to the growth strategy concept. Also here there are apparent differences between the countries. In Italy, Greece, Ireland and the United Kingdom, a large proportion of SMEs (34% to 41%) want to grow while, for instance, in Austria, Finland or Germany it is only 15%.

It is perhaps appropriate in this context to focus specific attention on the newly acceded countries including the currently acceding countries – Romania and Bulgaria. These countries are estimated to have approximately 7 million active entrepreneurial subjects giving jobs to almost 30 million people. Just like in the traditional EU-15 countries, the dominating feature in the Central and Eastern European region is microenterprise. The size structure in these countries is slightly more shifted toward small enterprises. In these countries, SMEs participate in total employment to a level of 72% (as compared with the already mentioned EU average of 66%). There is a difference particularly in microenterprises, which in the Central and Eastern European countries create 40% of total employment against the EU average of 34%.

The average entrepreneurial subject in this region is also smaller than the average of the whole EU. However, there are apparent differences also in the new and candidate states group. In the Baltic countries for instance, the average size of SMEs approximates and sometimes even exceeds the EU average while the situation in the southern countries Cyprus and Malta is almost identical with that of Greece or Portugal with a large number of microenterprises of a size far below the average.

The processes connected with the establishment of companies and the chances for their survival after start-up depend largely on the profile of the entrepreneurs. The average age of the new entrepreneurs in the EU is approximately 35 years, which means that the decision on the establishment of their own entrepreneurial activity is often taken several years after receiving adequate education and acquiring or mastering certain specific know-how in the position of an employee and/or a manager. Entrepreneurs in the service sector (in particular, commercial services and high technology) typically have received a higher level of education in comparison with the entrepreneurs in the processing industry. A lower level of education persists in the building industry, transport and in operation of hotels and public catering services. New entrepreneurs generally continue the same activity which they had been engaged in before they set up their own business.

There are measures in place in all the EU member states to stimulate entrepreneurship and an entrepreneurial environment. These measures differ from each other and consist, on the one hand, in the provision of loans and grants and, on the other hand, in the provision of supporting services, such as technical, legal and managerial consultancy, start-up information centres, provision of professional training for potential and new entrepreneurs or market research.

If entirely specific examples are omitted, analysis shows that grants still remain a relevant external source of funding the start-ups of businesses. Supporting services are generally valued for the positive effect on the establishment of a business unit. Nevertheless, the use of these services is, among others, determined by the abilities and skills of the entrepreneur: experience shows that the higher the level of education of the new entrepreneur, the more he/she makes use of the supporting services.

More than 29% of all the people doing business are women. Their firms are active, in particular, in retail and in commercial and personnel services (24% to 29%) while only about one-tenth of businesswomen run transport or communications companies.

There are apparent national differences in this area too. In France, Luxembourg, the Netherlands, Belgium or Finland women own more than a quarter of the SMEs while in Greece, Austria, the United Kingdom or Denmark the number of businesswomen is rather low (14% to 16%).

The relations with banks are very important for small and medium-sized enterprises. Most of the SMEs in the EU (65%) are satisfied with the banking services rendered to them by the banks and SMEs generally do not change their bank very often. On average, only 12% of them have changed their bank in the last three years. The main reason mentioned in connection with a change consisted in more favourable conditions offered by the new bank. The second reason is better services or, more precisely, expectation thereof from the new bank.

In the last three years, a bank loan was granted to 84% of small and medium-sized enterprises who requested one. Almost 40% of SMEs, however, did not need a bank loan in the same period at all. About 12% of SMEs did not get the needed loan. The banks refused to grant loans for the following reasons: the entrepreneur failed to provide sufficient security, this factor affected particularly microenterprises and small enterprises; this reason was relevant for 23% of the rejected firms; a substantial minority (7%) mentioned the second reason: the bank's dissatisfaction with the economic performance of the entrepreneur; another reason (5%) was the bank's dissatisfaction with the information provided.

In this paper we have presented several points of view of the SME sector. Their contribution to the increase in competitiveness and the use of innovative potential are also very important. We presented this view in the previous issue of our monthly when we analysed in more detail the priority areas of the tendencies of the funds in the EU in 2007–2013. The tendency of almost all of them is to ensure that the entrepreneurial environment could deal much more intensively with the fulfilment of the innovative and competitive challenges.

In the previous presentations of the individual EU countries under the microscope of our monthly we have always presented a country representing a positive story. Now we will continue with this approach and it will be even strengthened because this is perhaps the most successful story that has ever been experienced by any of the current 25 EU countries in the past several decades: The hero of the story is none other than Ireland.

IRELAND

Government type/chief of state	parliamentary democracy / The President Mary McAleese
Area (share of EU)	70 280 km2 (1,77 %)
Population (share of EU)	4 027 700 (0.88 %)
Age structure	0-14 years: 21%, 15-64 years: 67.9%, over 65 years: 11.1%
Total GDP (share of EU)	148.56 mil. EUR (1.45%)
GDP per capita in PPS	140.6% of EU-25 average
GDP - composition by sector	agriculture: 2.7%, industry and construction: 41.2%, services: 56.2%
Average inflation	2.3%
Average unemployment	4.5%
GDP growth	4.5%
General government balance	+1.4% of GDP
General government debt	29.8% of GDP
Number of NUTS2	2 NUTS2, Southern and Eastern: 147.5%, Border, Midlands and Western 91.5%

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

Ireland entered the European Community in the early 1970s in a wretched state indeed. When, more than 30 years ago, Ireland was joining the EC its level of economic development was approximately 10 percent worse than that of the Czech Republic today in relation to the EU-25 average and represented a little more than 60% of the average GDP index per capita. Today Ireland is relatively firmly the second richest EU country (after the clear winner Luxembourg, whose profile we have presented already, followed at a fair distance by Denmark, Austria and the Netherlands) with values of this index oscillating toward 130%. The almost 70 percent filling of the gap of economic development over 25 years is indeed an incredibly successful story worth following, which no other EU country can present.

How did this story start? Probably at the stage when development could not have been worse, it has become the expression and way out of the nation's catharsis. Initially, Ireland noticeably opened its borders – not only within the EC but also in relation to non-European territories, especially the US. In this way, it killed at least two birds with one stone: Firstly, it has become a bridge for a number of entrepreneurs and investors who intended to enter Europe. The original air cargo terminal was ever more growing into a modern industrial zone orientated on the latest state-of-the-art technologies and services and into a harbour for the "big names" in the field of information technologies, software and electronics, particularly of US origin.

Secondly, this openness strengthened Ireland's relation to the tens of millions of compatriots living outside their home for several generations. Many of them considered it important to take part in the recovering prosperity.

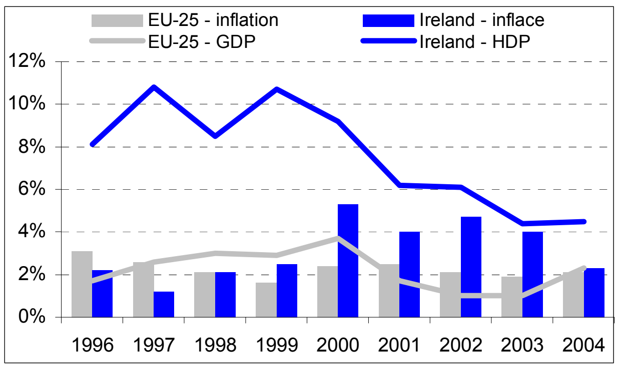
These steps are related to the activities that followed: Ireland was trying to promote very liberal measures that do not burden people who are doing something with unnecessary obstacles; it is thus an obvious pioneer within the EU of the policy of reducing direct tax rates. This raised a wave of interest among investors in advanced industries who were joined in the course of time, for instance, also by the representatives of financial services.

At the same time, Ireland decided to support education, which has become a kind of an official national development priority agreed by the overwhelming majority of the nation and which has become an investment that starts to bear high interest about 15 years later.

We certainly should not forget about the ability of Ireland to optimise its membership in the EU also in its successful drawing from the EU funds. Ireland is the "reason" why the maximum amount of this drawing has been set for the member countries because at the end of the 1990s it was able to get up to 6% of its GDP from the EU funds. It is perhaps interesting that it achieved this change despite a very underdeveloped road traffic infrastructure, which has been changing for the better only recently.

Ireland today is not only a rich country but it is also a country that is continuously fast growing and dynamic, with low unemployment and considerably improved fiscal discipline, having the necessary healthy self-confidence making it possible for this success story to continue.

Inflation and GDP



Source: Eurostat

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 %		
	VI-05	VII-05	VIII-05	VI-05	VII-05	VIII-05	VI-05	VII-05	VIII-05
EU	0.1	-0.1	0.2	2.0	2.1	2.2	2.2	2.1	2.1
EU - minimum	-	-	-	-	-	-	0.8	0.9	0.9
CR	0.6	0.4	0.0	1.3	1.4	1.4	2.1	1.9	1.9
Estonia	0.7	0.4	0.3	3.2	3.9	4.2	4.1	4.1	4.1
Cyprus	0.1	-1.5	0.7	1.5	1.3	1.5	2.5	2.4	2.4
Lithuania	0.2	-0.2	0.1	2	1.9	2.3	2.7	2.7	2.7
Latvia	0.6	0.0	-0.1	6.6	6.3	6.3	7.0	7.0	7.0
Hungary	0.3	-0.1	-0.5	3.7	3.6	3.5	5.0	4.7	4.7
Malta	0.0	0.1	0.3	2.1	1.7	2.5	2.4	2.3	2.3
Poland	-0.1	-0.1	0.1	1.4	1.5	1.8	3.8	3.5	3.5
Slovakia	0.4	-0.3	-0.1	2.5	2.0	2.1	4.6	4.1	4.1
Slovenia	0.1	0.8	-0.5	1.7	2.0	1.8	3.0	2.9	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	-2.3	-3.0	-2.6	61.4	63.0	63.4
CR	-6.8	-12.5	-3.0	29.8	36.8	36.8
Estonia	1.5	2.6	1.7	5.8	6.0	5.5
Cyprus	-4.5	-6.3	-4.1	65.2	69.8	72.0
Lithuania	-1.4	-1.2	-1.4	22.4	21.4	19.6
Latvia	-2.3	-1.2	-0.9	14.2	14.6	14.7
Hungary	-8.5	-6.5	-5.4	55.5	57.4	57.4
Malta	-5.8	-10.4	-5.1	63.2	72.8	75.9
Poland	-3.3	-4.8	-3.9	41.2	45.3	43.6
Slovakia	-7.8	-3.8	-3.1	43.7	43.1	42.5
Slovenia	-2.7	-2.7	-2.1	29.8	29.4	29.8

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	31.18	7.3	-6.4	30.24	4.1	-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	0.675	5.6	-3.2	0.692	4.3	-0.9
Hungarian forint	250.8	3.9	-8.4	246.6	2.1	-3.4
Maltese lira	0.429	1.2	-1.3	0.43	0.5	-1.0
Polish zloty	4.363	12.6	-11.6	4.103	5.9	-6.0
Slovakian koruna	39.64	5.6	-4.6	38.84	3.4	-3.1
Slovenian tolar	238.9	1.4	-0.5	239.6	0.1	-0.2

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 30 September 2005. Source: Eurostat