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Dear readers,

the proverb saying "all's well that ends well" seems to be fitting for the evaluation of the European integration development in December. This period was dominated by the Brussels summit of the European Council. With a great degree of certainty, we can say that the summit was successful on multiple levels.

The summit particularly contributed to the calming of passions and troubled waters not only among individual EU member states but also among their key institutions, lasting for most of 2005. We can say that reaching a consensus concerning the New Financial Perspective 2007 – 2013 is the first visible outcome of this period of reflection, arising from the previous failure to gain approval as well as the unsuccessful ratification of the Constitution for Europe. The aim of the reflection was to present a clear answer to what the EU has achieved and what way it intends to proceed in the future. The agreement over the budget is a good starting point for ensuring that this route is neither blind nor rough. It would probably be an illusion to think that during the six-month period of reflection, it would be possible to entirely and completely redirect the EU vessel and take a course which will help ideally tackle the hazards of the global ocean.

The second argument as to why the summit can be seen as a success is purely pragmatic; no organization can survive without a budget other than on a temporary basis. This would be a threat if a budget was not approved on time, which would certainly be an unfortunate situation during the "reflection hangover" period.

The third argument is true for new member states which joined the EU in 2004 and practically applies to each of the new members, although with a different intensity. All of these countries have found themselves in a better situation as compared with the financial framework of 2000 - 2006, some of them rather significantly (e.g. the Czech Republic). The main motivation of the new member states during the summit was to ensure that the budget framework is approved because it had been very likely since the beginning that they would be better off. Delays and postponing the approval therefore posed a threat for them but in the end their fears were allayed.

On the other hand, it would just not be right to claim that the approval of the New Financial Perspective 2007 – 2013 solved all the tasks that the EU is now facing; this is obviously far from true. However, the approval meant a significant step towards renewing the confidence in the EU and outlined the beginning of a solution of other pending tasks.

We should hope that the development of the EU in 2006 continues according to the trends of the end of last year; the EU Office of Česká spořitelna will keep a close watch on the development and will inform you about its outcome in our EU News Monthly Journal and on: www.csas.cz/eu.

Petr Zahradník

During the first six months of the new year, the European Union will be presided over by Austria. One of the main priorities of the team around Chancellor Wolfgang Schüssel is to complete the approval of the Financial Perspective 2007 - 2013 (which is still to be confirmed by the European Parliament) and to approve the implementing documents of the main European policies during the new programme period.

POLITICS

Priorities of the Austrian Presidency

During the first six months of 2006, the **EU bodies will be presided over by Austria** (last holding presidency in 1998). It took over the symbolic sceptre from the UK and will be substituted in the second half of 2006 by Finland. It is with Finland that Austria plans to intensively cooperate, which is also evident from the 2006 common working programme of the Council defining key priorities of the Austrian presidency.

The presidency of EU bodies is an important function as it includes:

- **Organization and presidency** of the European Council, EU Council and preparatory committees and working parties,
- **Representing the EU Council** in negotiations with other European institutions, particularly the European Commission and the European Parliament,
- **Representing the EU** in negotiations with international organizations and non EU member states.

Priorities of the Austrian Presidency in detail:

Financial Perspective 2007-13 – after the approval of the Financial Perspective by the European Council, Austria will try to obtain an approval from the European Parliament as soon as possible, which is necessary in order for the future seven-year EU budget to come into effect. After the Financial Perspective reaches its final form, it will be necessary to complete proposals for various implementing documents for individual European policies.

Economic growth and jobs – Austria wants to tackle the challenges of globalization and ageing of the population in most EU countries and will therefore focus on the implementation of the Lisbon Strategy, particularly as regards structural/microeconomic policy and employment policy. During the first half of this year, the Broad Economic Policy Guidelines may be amended – if necessary – to reflect the approved National Reform Action Programmes.

Increasing competitiveness – during the period of its presidency, Austria will take action towards better regulations, streamlining and reduction of administration, support for innovation (Competitiveness and Innovation Framework Programme), entrepreneurship, research (approval of the 7th Framework Programme), education (Integrated Action Programme in Lifelong Learning), and the protection of industrial property rights (Community Patent). During its presidency, Austria would also like to complete the REACH chemical legislation or energy efficiency directive.

Development of the Single Market – the team of Chancellor Wolfgang Schüssel would like to complete the directive on services, which should on one hand allay the concerns of some member states while its original range should not be too narrowed. Within the sector of financial services, emphasis must be placed on the application of the Financial Services Action Plan, the issues of money laundering or a single payment system. Tax issues should include the streamlining and modernization of VAT; Austria also plans to reach further progress in the harmonization of the corporate tax base.

Justice and internal affairs – the key priority will be in the medium-term revision of The Hague Programme, laying down general priorities and political goals in internal security of the EU until 2009. The plan also includes the establishment of a common asylum procedure and a unified immigrant status in the EU; work will continue on the Schengen Information System II which will enable new member states to enter the Schengen area without inner boundaries.

External relations – in the area of foreign policy, Austria will focus on the region of the Western Balkans, towards reaching stability in the region and cooperation with The Hague Court of Justice. As regards the US, Austria aims at consistent, active and distinctive alliance. Austria plans to support the accession of the Ukraine to the World Trade Organization (WTO). In the sphere of global trade, Austria will force the EU into successful conclusion of the Qatar round of WTO negotiations, focusing on the improvement of the access of goods and services on the market, fighting poverty via having developed countries involved in international trade and on the support for sustainable development worldwide. Another priority is the fight against terrorism.

http://www.eu2006.at

TAXATION AND CUSTOMS UNION

Proposal of a Modern Customs Code

The European Commission accepted the challenges of globalization and submitted two **proposals for the modernization of the European Customs Code**. The objective of the first proposal is to **simplify and accelerate** the processes and procedures associated with the customs system. The proposal includes the unification of terminology, implementation of a system for easy monitoring of goods movement, rationalization of the system of customs guarantees and the validity of permission granted by one member state in other member states.

The second proposal should enable individual member states to introduce **electronic customs systems compatible** with the systems in other EU countries, introduce an analysis of risks for the whole Union and improve the exchange of information among the border protecting bodies (customs authorities and police, border control, veterinary control and hygiene control). The central clearing system should include not only customs payments but also all payments associated with the collection of VAT and excise duties. In this context, a **customs declaration will be accepted only in an electronic form** by 2012. The new system will enable companies to pay customs in their home states irrespective of which borders the goods actually may travel across. "This will enable companies submit their documentation at any time, independently of the opening hours of customs authorities," says commissioner Kovács.

The overall objective is to **increase the competitiveness of companies** conducting business in Europe by **reducing their expenses**, and to **enhance security** in the EU. The European commissioner László Kovács estimates that thanks to the new system companies will be able to save approximately 2.5 billion euro from 2010 onward. Thanks to the easier cross-border movement of goods, the Single Market will extend by 50 billion euro. The implementation of the system will require additional expenses estimated at 80-100 million euro per year. This expenditure should be covered by the EU and its member states.

http://www.europa.eu.int/rapid/pressReleasesAction.do?reference=IP/05/1501

Decision of Court of Justice may Decrease Tax Collection by Billions

Companies in EU member states will be able to **claim back billions in taxes due to loss incurred by their subsidiaries pursuing business in other member states**, according to a resolution of the European Court of Justice.

This resolution was delivered in the case of the **UK-based retail chain Marks & Spencer**, which suffered loss in its subsidiaries in Belgium, Germany and France. The UK laws enable companies/residents of a group to settle their profits and loss between each other; however, not if loss is posted by subsidiaries having their seats and pursuing business outside the UK. The tax authority in the UK therefore refused to accept the depreciation of such foreign loss with respect to its domestic tax liability and Marks & Spencer referred to the Court claiming that the UK tax laws were allegedly **in conflict with the European freedom of establishment**.

The European Court of Justice decided that in this case the EC right was not breached; however, it appended an important postscript: **if loss suffered by a subsidiary in another EU member state cannot be settled in this state during future taxable periods** (e.g. in the event of ceasing of business or transfer to another entity), **the parent company may claim tax depreciations in its home member state**, i.e. where it has its registered office.

This postscript may clear the way for requirements concerning tax depreciations of billions of euros from companies in similar situations. In a number of EU member states, the tax legislation is in a similar position to that in the UK. The overall amount is estimated at up to 30 billion euro.

The case will now return to the UK where the local Supreme Court will issue its verdict on the basis of this decision. With respect to the fact that the resolution, including the amended postscript of the European Court of Justice, belongs among the **sources of law in the European Communities**, it may be similarly referred to in other member states.

Furthermore, the resolution will **initiate a debate** about the extent to which the European Union may influence legislation in individual member states. Despite the recent initiative by László Kovács concerning the harmonization of tax base rates, the area of direct taxation remains a sovereign domain of national states.

http://curia.eu.int/en/actu/communiques/cp05/aff/cp050107en.pdf

FOREIGN TRADE

EU Opens Markets to 15 Developing Countries

The European Commission granted the **status of preferential trading partners** to another 15 development countries who have fulfilled all the requirements within the initiative entitled General System of Preference plus (GSP +). This means that imports of goods from these countries to the EU Single Market will be subject to **zero or reduced customs and import quotas**.

The Commission has decided to grant GSP+ benefits to eleven countries of Southern and Central America (Bolivia, Columbia, Ecuador, Peru, Venezuela, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama), Moldova, Georgia, Mongolia and Sri Lanka.

In order to benefit from "GSP+", the countries must have:

- **ratified and implemented key international conventions** relating to core political, human and

The European Commission published a draft of a new Directive (so-called New Legal Framework) establishing a Single Payment Area in the EU. A team of CARS 21 experts presented a ten-year roadmap for a competitive EU car sector. The objective is to increase their competitiveness by simplifying regulation, and enhancing safety and environment-related standards.

labour rights and freedoms (including the elimination of discrimination against women, the prohibition of torture, the right to strike, the banning of child labour, and the fight against drug production and trafficking, etc.) and other important conventions, including the Kyoto Protocol and the UN Convention against Corruption.

- **provided comprehensive information concerning ratification** of the international agreements and conventions, and measures to implement the necessary domestic legislation.
- **demonstrated that their economies are dependent** on imports to the EU and vulnerable.

The EU **Generalised System of Preferences** is a system of preferential trading arrangements through which the European Union extends preferential access to its markets to developing countries and economies in transition. It is the most generous of all developed country GSP systems. The volume of imports to the EU under the GSP is greater than the volume of imports under the US, Canadian and Japanese GSP systems combined. In 2004 EU imports under GSP totalled 40 billion euro.

http://www.europa.eu.int/rapid/pressReleasesAction.do?reference=IP/05/1678

INTERNAL MARKET

Single Euro Payment Area will be Established in the EU

The European Commission published a draft directive, also known under the title of a **New legal framework**, to avoid existing legal obstructions and create a **Single Payments Area** in the EU, thanks to which the EU-25 economy may achieve annual savings of 50-100 billion euro.

At present, each member state has its **own rules for payments systems**, and annual costs on payments transferred among these autonomous systems reach 2-3% of GDP. The objective of these proposals is to simplify, reduce the price of and secure cross-border payments with the use of credit and debit cards, wire transfers or direct debits from accounts, so that they do not differ from "national" payments within individual member states. This directive does not apply to cheques and cash payments.

The benefit of the new legal framework will be particularly in:

- **the strengthening of competition** among national payment markets by opening the markets for all potential providers operating under equal conditions. The directive will enable better supervision of money transfers and initiate innovative approaches in the sector concerned;
- **higher transparency of the market** for providers and users, through simpler and fully harmonized rules for the requirements concerning the provision of information to replace individual national legal regulations.

The strengthening of competition and transparency will mean that European citizens will pay less for basic bank services – so far, they have expended an average of 34 to 252 euro per year. At present, there are considerable differences among individual member states as regards rates charged for the same sorts of services: for example, while there are no charges for credit transfers in some countries, you may pay more than ten euro in other countries.

The directive also lays down requirements for the **unification of the rights and duties of payment service providers and users** in the EU, with emphasis on ensuring a higher level of consumer protection. This will include the implementation of a binding one-day period for the execution of payments, the providers' liability for their due execution and guarantees of full and timely completion of payment services.

The directive is addressed to **all member states and all EU currencies**, creating the legal background for the establishment of a Single Euro Payments Area – **SEPA**, as designed by the **European Payments Council** – EPC, a professional association of European banks. The single payment area should be established by 2010. Charlie McCreevy, Commissioner in charge of the Internal Market and Services accepted that further "incentives" may be imposed on the providers of payment systems if the objective seems to be beyond reach.

The establishment of a single payment area is certainly a good idea as it will expand the benefits of the Single Market into the provision of payment system services. The implementation of the necessary European payment schemes **will require considerable investments** and it would be unfair if these are to be settled by payment system providers only. To avoid a situation where the costs are transferred on to consumers, it therefore seems reasonable to apply certain incentives, stimuli or support systems.

http://europa.eu.int/rapid/pressReleasesAction.do?reference=IP/05/1514

EU Financial Markets Not Awaiting Legislation Tornado

In early December, the European Commission published a **White Paper on Financial Services** in the EU, outlining development strategies in this area until 2010. The main

mission is that the legislation tornado similar to that of the Action Plan of Financial Services will not repeat and that emphasis will be placed on the consolidation and correct use of the existing rules.

Charlie McCreevy, Commissioner in charge of the Internal Market and Services, which also includes financial services, appreciated the progress of the past five years, claiming that "the current challenge included the **consolidation of the achieved progress** and common efforts towards the application of **better regulation**".

The White Paper therefore focuses particularly on quality functioning of regulatory and supervisory bodies in individual member states and on their cooperation. Emphasis will be placed on the **streamlining of administration**, including reducing the degree of duplication in reported information which supervisory bodies require from corporations.

Future legislation efforts will aim particularly at the area of **retail banking** where the Single Market has not been fully recognized. New directives or regulations are expected in the area of consumer loans, pensions, bank mergers and acquisitions, financial settlement or payments (see above, "Single Euro Payment Area will be Established in the EU").

http://www.europa.eu.int/rapid/pressReleasesAction.do?reference=IP/05/1529

ENTERPRISE

Ten-Year Roadmap for Competitive EU Car Sector

The CARS 21 working group presented the **10-year roadmap to simplify the legal regulation** for EU car makers, and increase safety and environmental standards.

The CARS 21 group was established by Günter Verheugen, Commissioner responsible for Enterprise and Industry, in January 2005, in order to propose the improvement of the regulatory environment of the car industry and prepare it for the main challenges concerning its competitiveness in the next decade.

Structure of CARS 21:

- Three European Commissioners: responsible for Industry, Transport and the Environment,
- Five members of member state governments: from the UK, France, Germany, Italy and the Czech Republic (now the former Vice Prime Minister Martin Jahn),
- Two members of the European Parliament: representing the Socialists (PES) and Christian and European Democrats (EPP-ED)
- Five general directors of car makers, one general director of a petrochemical company and one general director of a supplier for the automotive industry,
- One representative of the trade union (Metalworkers), one agent of a car racing organization (FIA) and one representative of a think-tank in the area of the environment (IEEP).

Main issues of the plan:

- **Simplification and better regulation** – the existing 38 EU directives dealing with technical standards for brakes or tires will be replaced with standards of the UN Economic Commission for Europe. Car makers will be able to conduct self testing of cars or their components. In accordance with the new approach to "better regulation" principles in the EU, it will be necessary to make out studies focusing on socio-economic impact assessment.
- **Reduction of CO_2 emissions** – the responsibility for CO_2 reductions from the road transport sector cannot rest with the automotive industry alone. The Group therefore endorses an integrated approach to increase the efforts of more industrial sectors (e.g. fuel manufacturers) and reach the EU's target of 120 g/km, without laying down a binding deadline for the achievement of this goal. Within the integrated approach, experts in CARS 21 propose the supporting of the use of biofuels, providing better information for drivers (e.g. concerning the current traffic jams and restrictions, or some principles of economical driving) and expanding the research and development in the area of new energy resources (e.g. hydrogen fuel elements) or harmonizing the taxation of cars and fuels reflecting the levels of CO_2 emissions.
- **Improving road safety** – the European Commission should propose the introduction of new safety features, including electronic stability control, seatbelt reminders, brake assist systems, child seats or daytime running lights. The Group recommends improved cross-border co-operation in pursuing drivers breaking traffic rules in other member states.
- **Better market access in non-EU countries** – the CARS 21 Group expressed serious concerns concerning the access to car markets in developing countries, particularly China. European car makers are concerned about the unequal competition conditions, such as favouritism towards domestic producers, investment restrictions or weak enforcement of intellectual property rights. The Commission will therefore continue its close monitoring of Chinese business and regulatory developments with a view to

The EP and the Council agreed on the Directive on Energy Efficiency, which should impose a duty for member states to prepare national Energy Efficiency Action Plans in order to save 1% of their energy consumption per year. A group of investigative journalists launched a website with detailed information about the end-recipients of EU farm support. The collected data prove the complications of the whole policy, because the greatest recipients are among international corporations and rich individuals.

assessing the possibility of success at a potential WTO dispute settlement panel.

The development of car use and environmental protection is also closely reflected in the European Commission proposal presented in late December, concerning **stricter emission limits for new passenger cars and vans**. The new Euro 5 environmental standards require a reduction in the emissions of solid particles from diesel engines by four fifths (to 5 mg/km) and nitrogen oxide by one fifth (to 200 mg/km) against the existing rules. In vehicles running with petrol engines, the Commission requires the reduction by one quarter of nitrogen oxide (to 75 mg/km) and hydrocarbon (to 60 mg/km). The Euro 5 standard should come into effect in the second half of 2008.

	Diesel engines		Petrol engines	
mg/km	solid particles	NOx	HC	NOx
Euro 3 (2000-2004)	50	500	200	150
Euro 4 (from 2005)	25	250	100	80
Euro 5 proposal	5	200	75	60

http://www.europa.eu.int/rapid/pressReleasesAction.do?reference=IP/05/1564

ENERGY AND TRANSPORT

EU will Save Energies

The European Parliament and EU Council agreed on a **compromised wording of the Energy End-use Efficiency and Energy Services Directive**. Pursuant to the directive, member states will prepare national Energy Efficiency Action Plans in order to **save at least an additional 1% of their end-consumer energy consumption per year** (households and public sector). However, owing to protests from new and poorer member states, whose consumption per capita is lower and is expected to grow in the context of increasing economic activities, the goal is only **indicative, i.e. non-binding**.

The entire process of annual consumption reduction will commence in January 2007 and will last for nine years. **National action plans** of member states will be revised and approved by the European Commission every three years. They should contain better information for consumers concerning energy consumption, tax rules penalizing waste and rewarding savings, more effective allocation of state subsidies towards increasing the energy efficiency or the requirement to set up energy efficiency as an evaluation criterion in public procurement procedures.

The objective of the original proposal submitted by the European Commission as a part of the energy package in December 2003 is to ensure energy savings within the entire distribution chain, until the end-use level. The **directive should cover the retail, production and distribution of electricity and natural gas, as well as main energy services**, including distance heating, fuel oils, agricultural energy products and transportation fuels.

The directive applies particularly to large distributors, operators of distribution systems and energy dealers, while smaller entities **may be excluded** by member states from the directive.

The European Parliament approved the proposal on 13 December. It will come into final effect after the approval by the EU Council, which seems to be a formality regarding the pre-arranged compromise solution.

http://www.europarl.eu.int/news/expert/infopress_page/051-3742-347-12-50-909-20051214IPR03741-13-12-2005-2005--false/default_en.htm

Biomass Support Action Plan Approved

In early December, the European Commission approved the Biomass Action Plan. Its main objective is to **double the use of biomass** (wood, waste material and agricultural products) as an **energy source in the EU in 2010**.

At present, the EU countries cover a mere **4% of their energy demand by biomass**. By doubling their share, the use of fossil fuels should decrease from 80% to 75%, the imports of oil should reduce by 8%, greenhouse gas emissions by 209 million tons CO_2–equivalent per year and provide direct employment for 250 to 300 thousand people, particularly in agriculture and forestry.

The action plan announces more than 20 actions to promote the use of biomass in heating, cooling, electricity generation and in transportation. Main proposals:

- In 2006, new European legislation will be proposed to encourage the use of renewable energy in heating and cooling (including biomass),

- Possible revision of the directive on the support for the use of biofuels (in 2006), laying down national goals for the share of biofuels and requiring fuel suppliers to use biofuels,
- Member states will make out national action plans for the support of biomass,
- Support of research into the second generation of biofuels.

The direct cost on the application of measures in the Biomass Action Plan will require **9 billion euro per year**; which – according to a report from the European Commission – represents an equivalent of the increased prices for a litre of petrol by 1.5 cent and for electricity by 0.1 cent per kWh.

The proposed action plan is the Commission's response to the **unsatisfactory situation in the use of renewable energy sources**, biomass in particular. By 2010, the share of renewables should grow to 12%; while the current rate is approximately half and the prospects for reaching this objective are gloomy. The share of biofuels is currently 0.8% which leaves little chance to achieve the target of 5.75% by 2010. The Commission concludes that more than half of the EU member states are not giving enough support to "green electricity".

http://www.europa.eu.int/rapid/pressReleasesAction.do?reference=IP/05/1546

EU to Create Blacklist of Air Carriers

Ministers of transport from EU member states approved the introduction of an **EU-wide list of air carriers that do not meet common safety requirements**. An approval has also been expressed by the EP and the regulation will come into effect in the near future.

The European Union may now impose a ban on flights to all international air carriers which it considers hazardous and failing to meet European safety standards. The approved regulation includes the introduction of a blacklist of hazardous air carriers subject to a **ban on flying in the entire Union**. The blacklist will be administered and updated by the European Commission, building on information from the European Aviation Safety Agency (EASA) and member states which will communicate to the Commission the identity of the air carriers that are subject to an operating ban in its territory. The blacklist and any modification thereto will be published on the internet and in the Official Journal of the European Union.

In addition, passengers will have the **right to be informed of the identity of the operating air carrier when making a reservation**. If the identity is not known at the time of reservation, the contracting air carrier must inform passengers of the identity of the operating air carrier as soon as such identity is established.

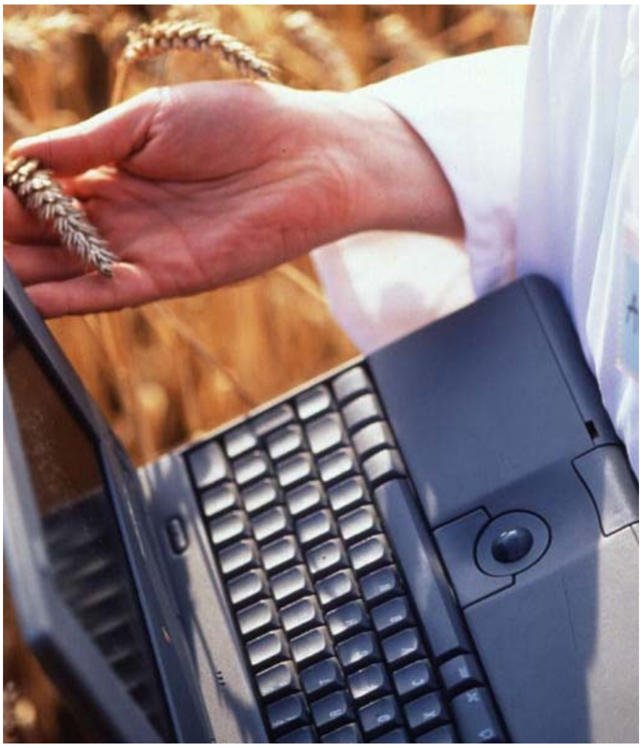
http://ue.eu.int/ueDocs/cms_Data/docs/pressData/en/misc/87373.pdf

AGRICULTURE

Information on Farm Subsidies on the Internet

A group of investigative journalists launched a website at www.farmsubsidy.org, with detailed **information about the end-recipients of EU farm support**. Information is available from Denmark, the Netherlands and Sweden and partly also from the UK, Ireland, Slovenia, Spain, Belgium and Estonia. Other member states, including the Czech Republic, refused to provide detailed information about EU subsidies to farmers, despite being urged by the European Commission.

The Czech State Agricultural Intervention Fund (Státní zemědělský intervenční fond, SZIF) claims that the information on direct payments is available to anyone upon request. However, the number of payments allegedly reaches 20,000 and publishing all data would be very complicated owing to the **extensive administration**, says the Czech News Agency ČTK.



Macedonia has received the official status of an EU candidate country. The European Commission has adopted new guidelines for granting state aid to corporations in regions, in the form of direct investment subsidies and tax reductions for companies. The Czech Republic will be permitted to provide aid to all regions except for Prague.

The information about end-recipients of agricultural subsidies reveals the problems of the current Common Agricultural Policy. Instead of profit for small and medium-sized farmers who have failed to succeed in the purely competitive market environment, the **greatest subsidy recipients include large players** like Phillip Morris, Nestlé, Heineken, or the British Royal Family, Prince Albert of Monaco and a number of ministers from member states, says the Czech News Agency ČTK.

Unfortunately, during discussions concerning the future Financial Perspective 2007 – 2013, the presiding UK did not convince the opponents led by France about the need to further revise the expenditure items in the EU budget. Subsidies on the common agricultural policy **remain one of the two most voluminous budget items** until 2013. Hope is provided from the approved addendum according to which the European Commission should prepare in 2008 and 2009 a draft of a dramatic reform of the EU budget, possibly including the British rebate and the common agricultural policy. However, we remain pessimistic in this issue because France, collecting most agricultural subsidies from Brussels, will be able to veto any further changes. It is therefore **unlikely that subsidies to European agriculture will decrease before 2014**.

www.farmsubsidy.org

ENLARGEMENT

Macedonia - EU Candidate Country

The Former Yugoslav Republic of Macedonia made a large step towards its membership in the EU. During their summit in December, leaders of member states approved the Commission's **decision to grant Macedonia the official status of an EU candidate country**.

Macedonia thus continues on its path towards Europe. In March 2001, Macedonia signed the Stabilization and Association Agreement and exactly three years later (on 22 March 2004) it applied for EU membership.

The Council of Europe justified its decision by the pronounced progress achieved by Macedonia in the **fulfilment of the political Copenhagen Criteria** for accession into the EU. However, there are still a number of tasks yet to be fulfilled.

Macedonia definitely does not have "one foot" in the EU, which is also evident from the communication of the Council of Europe, according to which decisions concerning accession must **reflect the actual absorption capacity** of the Union. In our opinion, this is the greatest problem. By entering into accession talks with Turkey, the EU has entered an area which will keep it occupied for several years to come. We therefore should not expect that Macedonia or any other country of the Western Balkans (apart from Croatia) may enter the EU during the following decade. The European Union has still not fully recovered from the accession of 10 poorer counties in May 2004 and the public opinion in most countries is not in favour of further expansion. In addition, there are problems in the Union's institutional non-preparedness, and the primary right anticipates the accession of Romania and Bulgaria. The question of further expansion was to be handled in the **Constitution for Europe**, which is now in a stage of clinical death.

http://europa.eu.int/rapid/pressReleasesAction.do?reference=DOC/05/4

ENVIRONMENT

EU Wants to Promote Clean Vehicles

The European Commission today proposed new legislation aimed at contributing towards the **creation of a market for "clean" vehicles** in order to reduce pollutant emissions in the transport sector. By **requiring public bodies to earmark a quarter of their annual procurement requirements to such vehicles**, the new European rules will make it possible to give manufacturers the assurances they need in order to develop these vehicles for a wider market, thus helping them reduce their production costs or sales prices. Another reason is to increase the energy efficiency in transport.

The Directive provides that public bodies (State, regional or local authorities, bodies governed by public law, public undertakings and operators contracted by public bodies to supply transport services) will be obliged to allocate a minimum quota of 25% of their annual procurement (purchasing or leasing) of heavy-duty vehicles (with a weight greater than 3.5 tonnes) to "clean" vehicles. These include "enhanced environmentally friendly vehicles" according to the definition in the Directive 2005/55/EC on the approximation of the laws of the Member States relating to the measures to be taken against the emission of gaseous and particulate pollutants. Heavy duty vehicles include **buses and most utility vehicles**, such as refuse collection lorries. In the future, the Directive should also cover vehicles with a weight lower than 3.5 tonnes, which will depend on an analysis conducted by the Commission.

For the purchasing of “clean” vehicles, support will be provided from Structural Funds and from EU programmes focusing on research and development.

http://www.europa.eu.int/rapid/pressReleasesAction.do?reference=IP/05/1672

REGIONAL POLICY

Commission Adopts New Regional Aid Guidelines for 2007-2013

The European Commission has adopted new **Regional Aid Guidelines** under the EC Treaty state aid rules for 2007 – 2013. The Guidelines set out the **rules for allowing state aid** which promotes the development of poorer regions, covering aid such as **direct investment grants and tax reductions for companies**. The Guidelines specify rules for the selection of regions which are eligible for regional aid, and define the maximum permitted levels of this aid. On the basis of the new Guidelines, support should focus on the most deprived regions of the enlarged Union, while allowing for the need to improve competitiveness and to provide for a smooth transition.

The Guidelines do not cover assistance offered to specific sectors including agriculture, fishing or coal mining for which specific rules apply.

The Guidelines divide regions into three main categories regarding the volume of potential state aid:

- **Disadvantaged regions** = with less than 75% of the EU-25 average per capita GDP. These regions constitute 27.7% of the EU-25 population. These regions have been divided into three categories, i.e. up to 45%, 60% and 75% of the EU-25 average per capita GDP, in which large companies in these regions may obtain state aid of up to 30%, 40% and 50% of the defined investment costs. These disadvantaged regions include remote regions, too, usually former colonies of European states outside Europe, irrespective of their per capita GDP.
- **Statistical effect regions** = with less than 75% of EU-15 GDP but more than 75% of EU-25 GDP - 3.6% of EU-25 population; these regions qualify for support to large companies of up to 30% of their investment expenses until 31 December 2010. The situation of these regions will be reviewed in 2010, with possible reduction of the aid to 20%.
- **Other regions** = with more than 75% of the EU-25 average per capita GDP – member states will be able to allocate regional aid to large companies at lower rates (between 10% and 15% of the investment expenses) with some minimal conditions to prevent abuse.

The state regional aid given to **medium-sized enterprises may be increased by 10%** above the ceiling for large companies, with an additional 10% available to small companies.

Transitional arrangements are foreseen until 2010 for regions suffering the biggest reductions in aid rates and, until 2008, for regions losing eligibility under the new Guidelines. It is evident from the proposal that **none of the member states will lose more than half of its current eligibility**.

Except for rich Prague, all NUTS 2 regions are considered disadvantaged, i.e. the support to companies will thus apply to regions with 88.6% of the population. In Prague, companies may obtain state aid of up to 10% only during the transitional period ended in 2008. Most regions will be eligible to state aid of 40%, with the exception of the South-West (30%).

In the Czech Republic, the European Commission expects that the 100% covering of the population will decrease by 11.4%; during the first two years, the Czech Republic will obtain additional coverage for 7.7% of the population where aid of up to 10% will be permissible.

Maximum level of state aid for big companies in the regions of the Czech Republic

NUTS 2	% of EU-25 per capita GDP	Aid intensity
Střední Morava	52,03 %	40 %
Severozápad	53,29 %	40 %
Střední Čechy	54,35 %	40 %
Moravskoslezsko	55,29 %	40 %
Severovýchod	55,59 %	40 %
Jihovýchod	58,17 %	40 %
Jihozápad	60,41 %	30 %

Source: European Commission

http://europa.eu.int/rapid/pressReleasesAction.do?reference=IP/05/1653

Of the events which were not included in the commentary, we would like to point out a study, evaluating 200 projects financed from the Cohesion Fund in 1993 - 2002. Eurostat's statistics have proved that as regards the expenditure on research and development, the Czech Republic is among average countries. Council of the EU decided to further strengthen transparency of the decision-making process, opening their previously non-public negotiations to the public.

1. DECEMBER

Implementation of the Action Plan to Combat Terrorism - Scoreboard, Justice and Home Affairs Council meeting: http://ue.eu.int/ueDocs/cms_Data/docs/pressData/en/jha/87255.pdf

EU-Ukraine Summit - Kiev, 1 December 2005 - Joint Statement: http://ue.eu.int/ueDocs/cms_Data/docs/pressData/en/er/87252.pdf

2. DECEMBER

MEPs push for tough sanctions against racism in football: http://www.europarl.eu.int/news/public/story_page/015-3092-332-11-48-902-20051201STO03091-2005-28-11-2005/default_en.htm

Justice and Home Affairs Council meeting: http://ue.eu.int/ueDocs/cms_Data/docs/pressData/en/jha/87292.pdf

Commission to outline measures to help the 'active inclusion' of people with disabilities in the EU: http://www.europa.eu.int/comm/employment_social/emplweb/news/news_en.cfm?id=96

New on this site: Study on the Cohesion Fund: http://www.europa.eu.int/comm/regional_policy/newsroom/index_en.htm

European Central Bank: Monetary policy decisions: http://www.ecb.int/press/pr/date/2005/html/pr051201.en.html

5. DECEMBER

EU and Norway reach agreement on fishing possibilities for 2006: http://www.europa.eu.int/comm/fisheries/news_corner/press/inf05_77_en.htm

6. DECEMBER

2695th Transport, Telecommunications and Energy Council: http://ue.eu.int/ueDocs/cms_Data/docs/pressData/en/trans/87389.pdf

Single European Sky Mémo - SESAR programme: http://www.europa.eu.int/comm/dgs/energy_transport/publication/memo_en.htm

Commission launches public consultation on urban development and sustainable communities: http://www.europa.eu.int/comm/regional_policy/consultation/urban/index_en.htm

In relation to GDP, EU25 R&D expenditure stable at 1.9% in 2004: http://epp.eurostat.cec.eu.int/pls/portal/docs/PAGE/PGP_PRD_CAT_PREREL/PGE_CAT_PREREL_YEAR_2005/PGE_CAT_PREREL_YEAR_2005_MONTH_12/9-06122005-EN-AP.PDF

R&D expenditure as % of GDP in 2004

Sweden	3,74%	Ireland	1,20%
Finland	3,51%	Italy	1,14%
Denmark	2,63%	Spain	1,05%
Germany	2,49%	Estonia	0,91%
Austria	2,26%	Hungary	0,89%
France	2,16%	Portugal	0,78%
Belgium	1,93%	Lithuania	0,76%
EU25	**1,90%**	Greece	0,58%
UK	1,88%	Poland	0,58%
Luxembourg	1,78%	Slovakia	0,53%
Netherlands	1,77%	Latvia	0,42%
Slovenia	1,61%	Cyprus	0,37%
Czech Republic	**1,28%**	Malta	0,29%

7. DECEMBER

2698th Economic and financial Affairs Council Meeting: http://ue.eu.int/ueDocs/cms_Data/docs/pressData/en/ecofin/87419.pdf

EU welcomes permanent WTO solution on access to generic medicines: http://europa.eu.int/comm/trade/issues/global/medecine/pr061205_en.htm

8. DECEMBER

Employment, Social Policy, Health and Consumer Affairs Council: http://www.europa.eu.int/comm/employment_social/emplweb/news/news_en.cfm?id=98

'TEN-T' - extension of major trans-European transport axes: http://www.europa.eu.int/comm/ten/transport/external_dimension/index_en.htm

The ".eu" top-level domain is successfully launched: http://www.eurid.eu/en/registrant/press/press-info-about-eu-launch-on-7-december

9. DECEMBER

2699th Employment, Social Policy, Health and Consumer Affairs Council meting: http://ue.eu.int/ueDocs/cms_Data/docs/pressData/en/lsa/87464.pdf

Commission continues to simplify measures under Common Fisheries Policy (CFP): http://www.europa.eu.int/comm/fisheries/news_corner/press/inf05_80_en.htm

Committee of the Regions: 2006 OPEN DAYS European Week of Regions and Cities launched at CoR: http://www.cor.eu.int/en/press/press_05_12140.html

12. DECEMBER

2700th Genreal Affairs Council meeting: http://ue.eu.int/ueDocs/cms_Data/docs/pressData/en/gena/87481.pdf

2701st External Relations Council meeting: http://ue.eu.int/ueDocs/cms_Data/docs/pressData/en/gena/87484.pdf

Recommendation on film heritage and the competitiveness of related industrial activities (2005/865/CE): http://www.europa.eu.int/comm/avpolicy/regul/cine1_en.htm

13. DECEMBER

7th Meeting of the Cooperation Council between the EU and the Kyrgyz Republic: http://ue.eu.int/ueDocs/cms_Data/docs/pressData/en/er/87494.pdf

Council extends 15% minimum standard VAT rate until 2010: http://ue.eu.int/ueDocs/cms_Data/docs/pressData/en/misc/87490.pdf

14. DECEMBER

Extraordinary Competitiveness (Internal market, Industry and Research) Council meeting: http://ue.eu.int/ueDocs/cms_Data/docs/pressData/en/intm/87539.pdf

Commission adopts the legislative proposal for the revision of the "Television without Frontiers" Directive: http://www.europa.eu.int/comm/avpolicy/regul/regul_en.htm#4

European Central Bank: "Price stability: why is it important for you?" Information kit now available: http://www.ecb.int/press/pr/date/2005/html/pr051212.en.html

15. DECEMBER

Secretariat General: Bulletin of the European Union: http://www.europa.eu.int/abc/doc/off/bull/en/200509/sommai00.htm

Regional Policy: Structural aid to Bulgaria and Romania in 2004: European Commission report: http://www.europa.eu.int/comm/regional_policy/sources/docoffic/official/repor_en.htm

16. DECEMBER

Parliament eventually adopts EU budget for 2006: http://www.europarl.eu.int/news/expert/infopress_page/034-3543-349-12-50-905-20051207IPR03310-15-12-2005-2005--false/default_en.htm

Report by the Economic Policy Council on the Lisbon national reform programmes 2005: http://www.europa.eu.int/comm/economy_finance/epc/epc_structuralreforms_en.htm

Parliament strengthens rights of air passengers with disabilities: http://www.europarl.eu.int/news/expert/infopress_page/062-3828-349-12-50-910-20051216IPR03827-15-12-2005-2005--false/default_en.htm

19. DECEMBER

Brussels European Council, presidency conclusions: http://ue.eu.int/ueDocs/cms_Data/docs/pressData/en/ec/87642.pdf

E-Commerce Site on Europa totally revised and reorganized: http://www.europa.eu.int/comm/internal_market/e-commerce/index_en.htm

The European Parliament in 2005: what was the biggest event of the year?: http://www.europarl.eu.int/news/public/story_page/008-3776-349-12-50-901-20051215STO03775-2005-15-12-2005/default_en.htm

20. DECEMBER

The EU and Africa: Towards a strategic partnership: http://ue.eu.int/ueDocs/cms_Data/docs/pressData/en/er/87673.pdf

21. DECEMBER

MEPs tell Blair the deal is not yet done: http://www.europarl.eu.int/news/expert/infopress_page/011-3854-354-12-51-902-20051219IPR03853-20-12-2005-2005--false/default_en.htm

Labour Market Reforms Database LABREF - updated: http://www.europa.eu.int/comm/economy_finance/indicators/labref_en.htm

Education: Implementing the 'Education and Training 2010' Work Programme - 2005 National Reports: http://www.europa.eu.int/comm/education/policies/2010/nationalreport_en.html#national

Commission supports new developments in biotechnology: http://www.europa.eu.int/comm/research/press/2005/pr2012en.cfm

22. DECEMBER

Council conclusions on Improving openness and transparency in the Council: http://ue.eu.int/ueDocs/cms_Data/docs/pressData/en/misc/87778.pdf

European Central Bank: Review of the international role of the euro: http://www.ecb.int/press/pr/date/2005/html/pr051221.en.html

In the current analysis of this year's first EU News Monthly Journal, we would like to look back once again at the year 2005. We may say in simple terms that the previous year was full of interesting events in European integration. The events developed like a rollercoaster ride. In the middle of the year, some players thought the situation was tragic and hopeless, while towards the end they gained more optimism.

EVALUATION OF EU ACHIEVEMENTS IN 2005

We would probably agree that 2005 can be characterized by the **failure to ratify the Constitution for Europe**, which included not only a debate concerning the draft constitution but which led to **extensive and very broad discussion** where the participants divided into several parties depending on their view of European integration. For example, it was possible to identify sworn advocates of both the draft text and the current arrangement of the European Union; at the same time, it was possible to identify those who can hardly be deprived of their right to be called advocates of European integration despite expressing a number of critical standpoints regarding the Constitution and the Union status-quo. It was also possible to decipher those for whom the process of European integration has clear limits and contours which do not necessarily correspond with the concept (trade name?) of the European Union. We have also obviously identified nationalists. The process of ratifying the Constitution for Europe was suspended after the "No" votes from France and the Netherlands.

The second key event of 2005 was the effort to reach a consensus concerning the **New Financial Perspective 2007 – 2013**. The first attempt at reaching an agreement towards the end of the Luxembourg presidency in June was unsuccessful. The discrepancies between the draft presented by the European Commission and the expectations of individual national states represented by the European Council were enormous, with some hierarchies and positions: large countries vs. small ones, the rich vs. poor ones, rich countries in opposition against each other. None of the groups were able to reach a consensus or accept the opinions of their opponents – the first attempt was a failure.

The failure to approve the financial perspective and the freezing of the constitution ratification process thrust the EU into deep recession and hangover, officially identified by the executive as the **period of reflection**. During the period of reflection, it was "forbidden" to use the term Constitution for Europe and all the parties involved were challenged to seek answers to general questions concerning the current stage of the EU. Under this stream of seemingly non-binding debate, the bodies involved entered into hard, thorough and systematic work initiated by the representatives of the UK presidency during the second half of the year. Seldom can a summer season in the EU be as full of action as it was last year. It was the effort of the UK to find a common point, binding glue, centripetal motive, in order to convince the parties to the debate that it was worth continuing in the project entitled the European Union.

Other important events include the successful attempt at making the **Lisbon Strategy** free of ideologies; this effort came to a successful end last spring and the New Lisbon is now an unprejudiced and pragmatic scenario of tasks and a strategic programme of EU economic prosperity in the long run. Moreover, it became a guide for the draft New Financial Perspective submitted by the Commission. However, during the same summit, we saw the suspension of a process directly associated with the application of the Lisbon process – further liberalization of the Single Market in **the tertiary sector**. The proposal of the penetrative Bolkestein Directive faced opposition from the conservative market protectors in this sector and it will probably have to be revised.

By the end of the year the period of reflection came to a relatively **happy ending**. After another unofficial failure in Surrey in late October, the European Council arrived at a common position in December and the New Financial Perspective was approved. We focus on this topic in more detail in this EU News Monthly Journal and so now we can emphasise the rather symbolic effect of this event which should bring more understanding for the solution of other problems which the EU will face in the following years and less egoistic short-term arrogance in favour of individual interest groups.

In 2005, the scenario of key decision-making moments was set by the **scenario of the Luxembourg and UK presidency**. The open, visible and professionally mastered scenario of the Luxembourg presidency unfortunately did not lead to a positive conclusion; by its end, the EU found itself in one of the most severe crises of its history; on the other hand, the less ostensible, more academic but still hard-working course of the UK presidency led to a factual and symbolic positive conclusion by the end of 2005.

Last year, another four EU member states set forth into the Eurozone (Cyprus, Malta, Latvia, followed by Slovakia). The Czech Republic at least initiated a discussion to gradually explain the extent of goals which will have to be fulfilled.

The EU also progressed in the process of further enlargement and strengthening relationships with third countries. The process of enlargement further developed as regards Croatia, Serbia and Montenegro and Macedonia, and conditional membership was declared by the end of the year for Bulgaria and Romania. The strengthening of relationships in 2005 concerns particularly the relationships with China, Russia and the Ukraine (which has now reached the border between potential future candidates and the territories of "special regard").

Expected events

In January 2006 a new series of negotiations, talks and meetings of the EU decision-making institutions began once again. A meeting of the EP will probably be the most interesting event in January because its approval is needed for the New Financial Perspective to come into effect. Despite the traditional expression of controversial opinions, we expect that a majority of EP members will vote for this key budget document.

1.1.-30.6.	**Austrian Presidency of the EU**
10.1.2006	**Brussels, Belgium**
- Agriculture & Fisheries Council	
12.-14.1.2006	**Vienna, Austria**
- Justice and Home Affairs (informal)	
16.-19.1.2006	**Strasbourg, France**
- EP Plenary	
19.-23.1.2006	**Villach, Austria**
- Informal Meeting of Employment and Social Affairs Ministers	
23.-24.1.2006	**Brussels, Belgium**
- EP: Committee Environment, Public Health and Food Safety meeting	
23.-24.1.2006	**Brussels, Belgium**
- Agriculture & Fisheries Council	
23.-25.1.2006	**Brussels, Belgium**
- EP Transport Committee	
24.1.2006	**Brussels, Belgium**
- ECOFIN	
29.1.2006	**Brussels, Belgium**
Trade Ministers (informal)	
30.-31.1.2006	**Brussels, Belgium**
- General Affairs and External Relations Council	

In late 2005, the European Council approved the EU's New Financial Perspective 2007 – 2013. This event can be seen not only as the achievement of a fragile agreement among individual member states concerning the priorities of individual EU policies and their financing during the seven-year period commencing on 1 January 2007, but also as probably the first sign of calming the troubled waters characteristic for the EU during most of 2005.

NEW FINANCIAL PERSPECTIVE 2007 – 2013

ANALYSIS OF THE HEADINGS AND GENESIS OF DRAFT NEW FINANCIAL PERSPECTIVE

The New Financial Perspective 2007 – 2013 represents a **multi-annual financial framework of the European Union**, built on an agreement among key EU institutions – the Council, the Commission and the EP. The Commission makes out a draft financial perspective, the Council **unilaterally** approves the structure of income and expenses in individual headings, representing priority areas of financing from the EU budget, while the EP **principally** gives consent to the adoption of the financial perspective.

The main objective of such financial frameworks, with **continuity dating back to 1988**, is to define priority areas on which policies will focus under direct or intermediated influence of EU institutions, define maximum expenditure ceilings and thus strengthen the financial discipline of EU institutions.

The whole process of the New Financial Perspective 2007 – 2013 is outlined by a communication issued by the European Commission in March 2004, entitled “Building our common future - Policy challenges and budgetary means of the enlarged Union 2007-2013”; subsequently, the European Commission submitted the draft “Financial Perspectives 2007 – 2013” to the EU Council and the European Parliament.

As indicated above, this New Financial Perspective 2007 – 2013 is the fourth comparable EU or EC financial perspective, continually existing since 1988; the first in the series was the first five-year Financial Perspective, Delors I (1988 – 1992), followed by the second seven-year Financial Perspective, Delors II (1993 – 1999). The third financial perspective, which is still effective, is the Agenda 2000 (2000 – 2006), built on a new agreement among EU institutions in May 1999.

Pursuant to a request from the European Council in June 2004, the European Commission issued a draft of material and content priorities entitled the New Financial Perspectives 2007 – 2013, respecting the following three criteria: effectiveness, efficiency and synergy.

The content of these criteria has been further developed in individual headings (see above). In the Commission's proposal for 2007 – 2013, their number has been reduced from eight to five. The text below and the tables attached show that the original draft presented by the European Commission anticipated the expenditure of EUR 1,025 bn.

The Commission also suggests that from 2014 onwards the financial perspective should be established for a period of five years, which would fit in better with the institutional timetable (both the Commission and the Parliament have a five-year term).

As with each financial framework, this framework is also built on **expenditure and income**. In the first reactions after the approval of the New Financial Perspective, **most attention** was given particularly to the **expenditures**; questions were raised and opinions expressed on what priorities would be financed from the EU budget, whether their selection is suitable for the future of the EU; countries tried to grab the maximum possible from the common budget and those that succeeded publicly praised themselves for the achieved results.

Far **less media attention** was given to the **income** into the EU budget; one cannot say that we would tend to forget about those who are the dominant financing countries (moreover: the period of reflection in 2005 was caused by the fact that the rich contributors to the EU budget were no longer willing to give so generously or wanted to have more power to decide about the allocation of their contributions); however, most analyses immediately following the achieved agreement on the New Financial Perspective focused on the expenditure aspects.

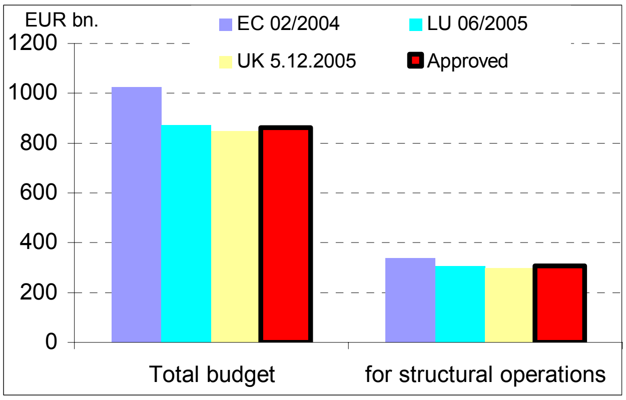
Expenditure in the New Financial Perspective

We will also set off in this direction; however, our objective is to focus on the income aspects as well. It is the ambition of the New Financial Perspective to also address areas that fall within exclusive or shared competences of the EU institutions and areas where we may further expect that the expenditures will be effective and will help solve problems encountered by the EU as a whole, within the relentless global competition. It is definitely true that the agreement among individual EU member states concerning the choice of these areas that are truly important for the EU, or that will ensure long-term economic prosperity, was not absolute. This is why the final structure of the expenditure is a compromise between the conservative concept of EU budget expenditure and the progressive understanding of the role of EU budgets and policies (also reflected in the support for the liberalization of services and the labour market in the entire EU).

The New Financial Perspective understands much stronger than the existing one the process of further EU enlargement – it is based on the expectation that the next year Romania and Bulgaria will join the EU and is therefore interlinked with agreements concerning the accession of these two countries to the EU.

The New Financial Perspective divides expenditure into **five basic headings**, reflecting the current medium and long-term priorities of EU policies and the financing. The maximum expenditure ceiling of the Expenditure in the New Financial Perspective is EUR 862.363 bn, i.e. an equivalent of 1.045% of the EU's GDP.

Genesis of new financial perspective 2007-2013



Note: Sum of the whole financial perspective 2007-13 at 2004 prices

The original proposal presented by the European Commission in the spring of 2005 was extremely generous as regards expenses; even though the member states already decided upon the ending of Luxembourg's presidency to reduce it by approximately EUR 150 bn, they failed to reach an agreement concerning its structure. The efforts towards further reduction during the UK presidency did not correspond with consensus among the parties concerned and the last step was towards a slight increase in the overall volume.

The efforts to incorporate progressive aspects into the New Financial Perspective 2007 – 2013 supporting global competitiveness of the EU are evident particularly from the first **sub-heading 1a**. If we compare its volume with the overall volume of the "Sustainable Development" heading, we will come to the conclusion that it will be a complicated and tedious task to break through conservative opinions concerning the EU budget. On the other hand, it is promising to see that this amount is steadily growing in individual years, reaching approximately 50% above the original amount towards the end of the period. Within the scope of this heading, there is potential for the implementation of the new Lisbon goals in areas of research and technological development, building networks to interconnect Europe (transportation, communication, etc.), education and training, support for competitiveness on the increasingly integrated Single Market (particularly as regards services and labour forces),

Structure of New Financial Perspective 2007-2013, Sorted by Years, billions € at 2004 prices

commitment appropriations	2007	2008	2009	2010	2011	2012	2013	2007-2013
1. Sustainable growth	51,09	52,15	53,33	54,00	54,95	56,38	57,84	379,74
1a. Competitiveness for growth and employment	8,25	8,86	9,51	10,20	10,95	11,75	12,60	72,12
1b. Cohesion for growth an employment	42,84	43,29	43,82	43,80	44,00	44,63	45,24	307,62
2. Preservation and management of natural resources	54,97	54,31	53,65	53,02	52,39	51,76	51,15	371,24
of which : Agriculture - Market related expenditure and direct payments	43,12	42,70	42,28	41,86	41,45	41,05	40,65	293,11
3. Citizenship, freedom, security and justice	1,12	1,21	1,31	1,43	1,57	1,72	1,91	10,27
4. The EU as a global partner	6,28	6,55	6,83	7,12	7,42	7,74	8,07	50,01
5. Administration	6,72	6,90	7,05	7,18	7,32	7,45	7,68	50,30
Compensations	0,42	0,19	0,19					
Total appropriations for commitments / % GNI	120,60 /1,10	121,31 /1,08	122,36 /1,06	122,75 /1,04	123,64 /1,03	125,06 /1,02	126,65 /1,00	862,36/ 1,045

Note: 2006 expenditure under the current financial perspective has been broken down according to the proposed new nomenclature for reference and to facilitate comparisons.

and social policy. In this sector, priorities include further development of the Trans-European Transportation Network and support for research projects also outside the area of Structural Funds; a great challenge in this respect is e.g. the 7th Framework Programme for Research and Technological Development and its application in entrepreneurial structures. Further strengthening is expected in the coordination with the products of the European Investment Bank.

Another interesting aspect of the sub-heading 1a. is the explicit incorporation of two expenditure items on the shut-down of nuclear power stations in Slovakia (Jaslovské Bohunice) and Lithuania (Ignalina), at a total amount exceeding EUR 1.2 bn.

Finally, an interesting and probably also controversial outcome is the establishment of the Globalization Adjustment Fund as a certain compensation for EU conservatives for the strengthening of integration on the internal market.

The European Council consented to its establishment for the purposes of additional support for employees who have been made redundant as a part of substantial structural changes caused by the development of global trade and severe global competition; allowances from this fund should be used for assistance to such employees in their retraining efforts and seeking new professional opportunities. The launch of the fund will be subject to strict criteria relating to the extent of the economic "effect" by the impacts of global competition at a local, regional and national scale. The fund is expected to provide up to EUR 500 million a year.

Most finances under the "Sustainable Development" heading will be granted in favour of structural and cohesion policy, i.e. **sub-heading 1b.**; within the New Financial Perspective, we will see a historical **break-through** in 2008 – **the volume of expenditure on structural and cohesion policy will for the first time exceed the expenditure on agriculture** (chapter 2); the differences between the two headings are expected to further increase to the detriment of agriculture.

The operations of structural and cohesion policy will further significantly contribute to the achievement of the meaning of the relevant provisions of the establishment Treaty, focusing on the avoidance of differences between the development of individual member states and their regions.

The recent enlargement of May 2004 and the planned enlargement in the next years caused deepening of the economic and social differences at regional and national levels. The structural and cohesion policy will respect three main objectives defined in the Commission's communication entitled "Community Strategic Guideline" of June 2005: convergence; regional competitiveness and employment; and territorial cooperation.

A total expenditure of 81.7% (EUR 251.33 bn) on structural and cohesion policy will be allocated within the convergence objective; of this, 24.5% (EUR 61.518 bn) is designated for projects financed from the Cohesion Fund and 5.0% (EUR 12.521 bn) for the purposes of member states and regions under the so-called statistical effect (in consequence of the EU enlargement, the prosperity of some member states and regions within the EU-15 increased statistically against the average of the EU-25; without actual improvement, owing to which these states and regions ceased to be eligible for certain forms of support from EU funds; this fact is thus partly compensated.

A total of 15.8% (EUR 48.789 bn) will be used within the objective of regional competitiveness and employment.

The remaining almost 2.5% (EUR 7.5 bn) will be allocated for the support of territorial cooperation.

Definition of Convergence Objective. The newly defined objective is based on the same construction as the existing objective for the support of post-developed regions; it is therefore focused on the acceleration of the convergence process in least developed regions and member states.

Regions which may apply for the financing from structural funds within this goal are regions defined as NUTS II., with GDP per capita in 2000 – 2002 lower than 75% of the EU average.

Member states which may apply for financing from the Cohesion Fund had a gross national income (GNI) per capita in 2001 – 2003 lower than 90% of the EU-25 average.

Definition of the objective of territorial cooperation. A new objective of territorial cooperation is in the strengthening of cross-border co-operation, cooperation among individual countries and regions within the EU and establishment of cooperation networks for the exchange of experience and positive examples. Regions falling under this objective are defined at the level of NUTS III.

Revenues in the New Financial Perspective

The key objective of the income part of the New Financial Perspective is to achieve a very delicate balance, particularly based on further readiness of the rich countries to continue financing the EU budget and acting as net payers. For this reason, it was necessary to define certain ceilings or other adequate measures regarding the

amounts contributed by net payers, i.e. Germany, Austria, the Netherlands, Sweden or the United Kingdom.

CONCLUSION AND SPECIFIC CHALLENGES FOR THE CZECH REPUBLIC

It would probably be an illusion to think that during the several-month period of reflection, the EU budget and its structure may dramatically change, that some of the items which have been financed for many years will now disappear to make space for other items. On the other hand, the discussion revealed potential for further gradual reduction of the importance of items which do not contribute to the EU competitiveness in favour of items which can be expected to offer such contribution. The developments regarding heading 1 show that a healthy direction has been chosen.

From the perspective of the Czech Republic, it is good that the budget was approved during these months. On one hand, it is good to wait until the detailed structure of the budget complies with the needs of the 21st century; however, there was a threat that we may miss the boat during this waiting period. The boat which basically means the first full (and maybe the last) chance to draw the maximum from the EU funds in our favour. And the longer the discussions concerning the eligibility of each budget item continued in 2006, the less time there would be left to fulfil the workload of domestic tasks awaiting us in this context.

This includes particularly the completion of preparations for the **National Development Plan** and the **National Strategic Reference Framework**. Sufficient time is necessary for quality preparation for a new set of **Operating Programmes**. Such programmes will considerably change particularly as they will offer a high degree of autonomy to regions which will thus be able to better pursue their own regional priorities. Moreover, project resolvers should have more transparent and comprehensible **information** concerning financing opportunities from EU sources and the administration procedures should be simpler.

The operating programmes and **challenges** must be announced **without undue delay** and in a timely manner. In addition **public and private sources of co-financing must be flexibly available** because **EU funds can rarely cover the entire project costs**. Only if it is possible to successfully meet these objectives, will the debate concerning the New Financial Perspective 2007 – 2013 in the Czech Republic become meaningful.

Expected net position of the Czech republic in 2007-13

	millions € at 2004 prices	
	Total	***Yearly average***
Agriculture	**6 336.1**	**905.2**
- direct payments (CAP)	3 824.1	546.3
- rural development	2 512.0	358.9
Structural operations	**23 749.1**	**3 392.7**
- structural funds	15 899.4	2 271.3
- cohesion fund	7 849.7	1 121.4
Internal policies	**720.0**	**102.9**
Total income from EU	**30 805.2**	**4 400.7**
Total transfers to EU	**8 339.7**	**1 191.4**
Net position	22 465.6	3 209.4

This country profile will focus on the key host of most EU institutions and a country which is interesting and fascinating in many aspects – Belgium. If we disregard the level of economic development, we will see many parallels with our country. In addition to almost an identical number of inhabitants, Belgium and the Czech Republic are among the most open economies in the EU and worldwide; the economy of both countries is therefore strongly dependant on the prosperity of the whole EU.

BELGIUM

Government type/chief of state	constitution monarchy / King Albert II.
Area (share of EU)	30 528 km2 (0,77 %)
Population (share of EU)	10 445 900 (2.27 %)
Age structure	0-14 years: 17.3%, 15-64 years: 65.6%, over 65 years: 17.1%
Total GDP (share of EU)	288.09 mil. EUR (2.78%)
GDP per capita in PPS	118.9% of EU-25 average
GDP - composition by sector	agriculture: 1.0%, industry and constr.: 24.8%, services: 74.2%
Average inflation	1.9%
Average unemployment	7.9%
GDP growth	2.6%
General govern. balance	0.0% of GDP
General government debt	95.7% of GDP
Number of NUTS2	11 NUTS2, Brussels: 234.5%, Prov. Namur: 82.3%

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

The very circumstances of the country's origin are very interesting; even though there are plenty of historical settlements scattered throughout the territory of today's Belgium with origins dating back many centuries or even millennia, Belgium as a state has existed for less than 200 years. In Bruges or Antwerp, we see the origins of modern finance and banking systems in the context of the entire European continent. However, Belgium was established as late as in 1830 as a pragmatically defensive alliance of two not very homogenous units – the French-speaking Walloon region and the Dutch (or Flemish) speaking Flanders. As a connecting and bonding link between these two regions, there is the originally Flemish and now dominantly French-speaking Brussels. The arrangement of Belgium is probably the most notable factor because a number of other aspects are built on it.

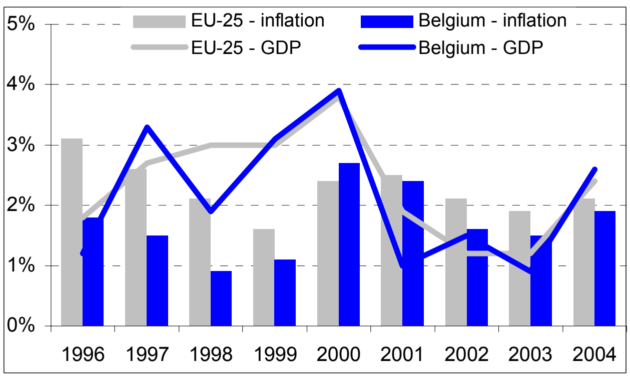
Belgium is strongly specific for its form of cohabitation and seeking for balance between these three units – Belgium is thus a country which has been continuously "disintegrating" but which has survived until the present day. In early 1990, important parallels were defined between the then potential division of Belgium and the then Czechoslovakia. We can now say that even though Czechoslovakia ceased to exist 13 years ago, Belgium has implemented a federative arrangement which appears to be very complicated but which helps keep the country together. Moreover, it is not very common that citizens of one state communicate with each other via a third language – mostly English; this is also a typical sign of Belgium – while the Flemish usually speak French as their second language, the Walloons rarely speak Dutch and therefore English is used for mutual communication.

Together with Italy, Belgium is a country where the economic and political developments run along parallel tracks. Even though the situation has changed over the past few years, the previous period was typical for considerable political instability, frequent fluctuation of politicians and a number of political scandals; despite this the economic development of Belgium has been more than satisfactory. In terms of prosperity, Belgium is not among the absolute top of the EU; however, thanks to its good economic results over a long-term period the country ranks significantly above the average – in a group of very rich countries where it is comfortable to live and work.

On the other hand, the country faces a serious economic problem which will be difficult to tackle in the next few years despite strong efforts, i.e. the extremely high public debt fluctuating at around 100% of Belgium's GDP. It is possible that the high indebtedness is the result of the never ending discussions between the Flemish and Walloon part of the country about who pays more, and the overgrown administration, particularly at the level of individual provinces. Belgium has also seen a rather unsuccessful attempt at establishing national welfare and well-being in the 1970s and 1980s.

On the other hand, the Belgian economy has undergone radical structural changes during the past 15 years. In the Walloon part of the country, we see many examples of practical application of the knowledge economy; the Walloon part has witnessed a strong move from traditional sectors (mining, metallurgy, agriculture) to tertiary sectors (including tourism).

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 %		
	IX-05	X-05	XI-05	IX-05	X-05	XI-05	IX-05	X-05	XI-05
EU	0.4	0.2	-0.2	2.5	2.4	2.2	2.2	2.2	2.2
EU - minimum	-	-	-	-	-	-	1.0	0.9	1.0
CR	-0.1	0.9	-0.4	2.0	2.5	2.2	1.7	1.7	1.6
Estonia	0.9	-0.1	-0.1	4.9	4.5	4.0	4.2	4.3	4.2
Cyprus	1.7	1.1	0.2	2.1	2.2	2.0	2.3	2.3	2.3
Lithuania	0.8	0.6	0.1	2.6	3.0	2.8	2.7	2.7	2.7
Latvia	1.5	0.7	0.3	7.4	7.7	7.5	6.9	6.9	6.9
Hungary	0.2	0.0	0.2	3.6	3.1	3.3	4.2	3.9	3.7
Malta	0.0	0.9	-2.7	2.0	3.0	4.3	2.2	2.2	2.4
Poland	0.3	0.3	-0.2	1.9	1.6	1.1	3.0	2.8	2.5
Slovakia	0.3	1.3	0.0	2.3	3.5	3.6	3.4	3.2	2.9
Slovenia	1.0	0.2	-0.6	3.2	3.2	2.1	2.7	2.7	2.5

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	30.84	+6.9	-7.4	29.78	+3.2	-2.5
Estonia kroon	15.65	+0.0	+0.0	15.65	+0.0	+0.0
Cyprus pound	0.579	+1.1	-1.3	0.577	+0.7	-1.3
Lithuanian litas	3.453	+0.0	-0.0	3.453	+0.0	-0.0
Latvian lats	0.681	+5.2	-2.5	0.696	+0.1	-0.3
Hungarian forint	249.9	+3.4	-7.5	248.1	+2.7	-3.1
Maltese lira	0.429	+1.2	-1.3	0.430	+0.3	-1.0
Polish zloty	4.276	+11.8	-13.3	4.023	+5.2	-5.8
Slovakian koruna	39.31	+4.7	-4.5	38.60	+2.8	-3.2
Slovenian tolar	239.3	+1.0	-0.3	239.6	+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 December 2005. Source: Eurostat