EU News
Monthly Journal

**Number 30,
March 2006**

Page 3 | Directive on Services adopted in the 1st reading of the Parliament

Page 4 | The Commission supports the free movement of workers

Page 7 | The Government adopted the new National Development Plan

Page 11 | Outer view: Euro yes, but when? (Tomáš Prouza, MoF)

Page 13 | Topic of the Month: Process of tax integration and harmonization in the EU

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,

After some time, there were certain events related to the European integration in February not directly or implicitly linked to the budget negotiation, optimisation of individual Member States positions when using the “European funds” or meditations on what sources should be used for funding of European projects.

A revived discussion on the liberalization of services was a leading topic among economic issues in February. The decision of the European Parliament will presumably be a big disappointment for the supporters of the option to immediately provide any services among the Member States without any additional obstacles; reasonably speaking, a requirement entirely justifiable since it reflects one of the very basic principles on which the European Communities were founded. There is no need, however, to be disappointed, thanks to the belief that the decision represents only a small section of the path that should be followed in the near future and that should bring the desired objective – i.e. to enable every specific provider of services to pursue activities in the country of origin as well as in the territory of the whole EU without unnecessary barriers. Without opening this space we may in general doubt the meaning of introduction of the Single European Currency, which was framed as an addition to the actually free single internal market, because its considerable part is still subject to economically unjustifiable national restrictions.

Another significant economic event affects our country as a new Member State and its impact is rather more straightforward than the one described above. It is also related to the gradual opening of the single internal market – the labour market this time – the mobility of which is subject to transitional restrictions detrimental to the new Member States. Finland, Portugal, Spain and maybe even some other countries may join the existing trio (UK, Ireland, Sweden) from May this year and treat workers from new Member States as their own citizens in their labour markets. No work permits will be required and workers will gain ground in the local markets solely on the basis of their potential.

Political issues were not omitted in February either – the media paid attention for instance to issues related to the EU attitude towards the impact that the publishing of certain cartoons had, resulting in physical attacks against seats of representatives of certain EU States, predominantly in Arabic countries.

For more information visit the current issue of the EU News Monthly Journal with two new subjects of coverage. In our new section a respected personality expresses his/her opinion on some of the hot European topics – Mr Tomáš Prouza, the Deputy Minister of Finance, provided his Euro-contemplation for the opening section in this issue. Another new feature is the regular monitoring of currently open public consultations on proposed or revised EU legislation accessible to all and any interested entities.

On behalf of Česká spořitelna EU Office, Yours sincerely,

Petr Zahradník

After a long time we could hear something other than mourning in relation to the European Constitution, since Belgium, as the 14th EU country, ratified the controversial document. The future of the contract is however considerably unclear; things could become more unambiguous after the EU Summit in June. The widely discussed Directive on services that should open the sector to competition from abroad within the EU was approved in the first reading in the European Parliament.

POLITICS

Belgium ratified the European Constitution

The Treaty establishing a Constitution for Europe has not become a completely defunct document yet. **Belgium**, the fourteenth EU Member State to ratify the Constitution, proved that the Treaty might survive. In Belgium, ratifications of international treaties such as the European Constitution are subject to approval of the federal Parliament and Assemblies of Regions and Communities.

Ratification of the Constitution by yet another Member State is **rather symbolical**. The ratification process suffered seriously in May and June last year when the citizens of France and the Netherlands voted against the Constitution in their respective referendums. Since then, Luxembourg has been the only country to have a referendum on the Constitution, in July 2005. Other Member States, in which the citizens were supposed to ratify the Treaty in referendums, postponed the originally fixed terms until the distant future, or indefinitely. The European Council officially acknowledged this decision in June, postponing the deadline for the European Constitution ratification process from the originally stipulated November 2006 **to a non-specified date**. The whole issue has been put on ice for a period of one year during which the Member States should arrange for self-reflection and discussions with citizens regarding the future of the EU. Following this period – in June – the Member States' leaders are to decide on how to proceed.

We are not terribly optimistic about the future of the European Constitution in its existing form. Fourteen countries have approved it; two countries have voted against it. The Constitution will however become effective only if **ratified by all 25 Member States**, with no exceptions. In theory, the voting in France or in the Netherlands may take place once more, as it happened in Ireland (regarding the ratification of the Nice Treaty) and Denmark (regarding the ratification of the Maastricht Treaty) in the hope of citizens voting in favour the second time round. However, this may hardly be expected since those countries that voted against the Constitution voted by a clear majority and in its complexity – not only due to certain controversial passages. It is possible that the Constitution could be ratified in an abridged form focused primarily on modernization of the decision-making mechanisms.

http://europa.eu.int/constitution/ratification_en.htm

Ratification of the European Constitution

Member State	Procedure	Date scheduled
Austria	Parliamentary	Approved: 25.5.2005
Belgium	Parliamentary	Approved: 8.2.2006
Cyprus	Parliamentary	Approved: 30.6.2005
CR	Referendum	probably the end of 2006-beginning of 2007
Denmark	Referendum	Postponed
Estonia	Parliamentary	first half of 2006
Finland	Parliamentary	probably 2006
France	Referendum	Rejected: 29.5.2005
Germany	Parliamentary	Approved: 27.5.2005
Greece	Parliamentary	Approved: 19.4.2005
Hungary	Parliamentary	Approved: 20.12.2004
Ireland	Parliamentary + Referendum	Postponed
Italy	Parliamentary	Approved: 6.4.2005
Latvia	Parliamentary	Approved: 2.6.2005
Lithuania	Parliamentary	Approved: 11.11.2004
Luxembourg	Parliamentary + referendum	Approved: 10.7.2005
Malta	Parliamentary	Approved: 6.7.2005
Netherlands	Parliamentary + referendum	Rejected: 1.6.2005
Poland	Referendum	Postponed
Portugal	Referendum	Postponed
Slovakia	Parliamentary	Approved: 11.5.2005
Slovenia	Parliamentary	Approved: 1.2. 2005
Spain	Parliamentary + referendum	Approved: 18.5.2005
Sweden	Parliamentary	Postponed
UK	Parliamentary + referendum	Suspended

Source: European Commission

BUDGET

New EU budget possibly in April

Commission President José Manuel Barroso presented the schedule and priorities of a **new Inter-Institutional Agreement concerning the EU financial perspectives for 2007-2013** in early February. The IIA anticipates a comprehensive review of the EU budget-making process in 2008 and 2009.

The need for a new agreement between the Commission, the Council and the Parliament arose in mid January, when the **MEPs** radically exercised their powers and **swept away an agreement** reached with difficulties by the Member States in the European Council in December 2005. The

MEPs in particular disliked the "low" volume of the seven-year budget, since the originally proposed budget (of EUR 975 billion) was EUR 113 billion higher than the amount of EUR 862 billion approved by the Member States.

The new agreement presented by the European Commission includes the controversial idea of the **Globalisation Adjustment Fund** with a budget of EUR 3.5 billion, and it reserves the amount of EUR 5 billion for unexpected events such as natural disasters etc. In this way it accommodates the European Parliament request to make the budget more flexible.

EU Commissioner for Budget Dalia Grybauskaite expects the new IIA on the 2007 – 2013 financial perspectives **to be executed by the end of April.**

It is crucial to finally approve the new financial framework as soon as possible, since **individual European programmes and policies may only be approved** when the overall financial package is known. Delayed approval of the budget will result in delayed approval of individual thematic programmes for several years and as a result the authorized entities will not manage to draw the funds as early as from January 1, 2007. In the Czech Republic this applies mostly to donations from structural funds, where it may already be expected that **due to the delay** the first invitations to submit projects will not be published earlier than by March/April 2007.

http://europa.eu.int/rapid/pressReleasesAction.do?reference=IP/06/105

SINGLE INTERNAL MARKET

Directive on Services adopted in the first reading of the Parliament

Liberalization of the market of services in the EU will apparently not be as thorough as required to achieve the objectives of the Lisbon Agenda. According to the EC establishing treaties, the single internal market of services is functional; the reality, however, is different. A number of the Member States put protective obstacles in place towards service providers from abroad, mainly of an administrative nature (e.g. duty to establish a registered seat in the other country, to apply for special registration, a residence permit etc.), which **prevents utilization of the full potential of the single internal market**. Eliminating such obstacles and enabling efficient free movement of services and freedom of establishment was the main intent of the directive prepared by the ex-Commissioner Frits Bolkestein's team two years ago.

The Directive on services was adopted in the first reading in the European Parliament by a clear majority (394 votes in favour, 215 votes against and 33 abstentions); **compared to its original version, however, there are significant changes**.

The main change – due to concerns of mainly left-wing politicians from the EU15 regarding social dumping – means that **the country of origin principle has been dropped**. The reason was to avoid any legal and bureaucratic obstacles in cross-border provision of services in the EU, provided that entrepreneurs' activities in other EU Member States **would be regulated by the legislation of their domestic state** (where they have their registered seat), **not by the legislation of the host country**. The country of origin principle has been dropped from the proposed Directive and instead there is a list of requirements that the States cannot apply to entrepreneurs from abroad. The host states are also prohibited from discriminating, and unequal and unreasonable dealing with service providers from abroad. The host states are however allowed to limit or ban provision of services for reasons of public safety, order or health, or for protection of consumers.

The Directive will cover all services not explicitly excluded from its scope. According to the Parliament, the Directive should also apply to the "**services of general economic interest**" (e.g. supplies of electricity, mail), but **only in terms of freedom of establishment**; **the Directive does not allow for temporary provision** of such services. The definition of such services is to be determined by each Member State.

The Directive **shall not cover services** such as social care services, services to education and culture, employment agencies, security agencies, public healthcare services, gambling and lotteries, general interest services (e.g. education) as defined by the Member States, transport services, electronic communications services and audiovisual services, or financial and banking services of a credit and insurance character (already regulated by special legislation). The same applies to activities pursued by doctors, lawyers and architects.

The proposed directive is to be adopted in **the codecision procedure**, i.e. the Parliament will have to agree with the Council during the approval process. The European Commission will prepare a modified form of the proposed Directive based on the Parliament voting during the first reading that will be presented to the Member States represented in the EU Council. As soon as the Ministers reach an agreement, the text will return to the Parliament for a second reading. Optimistically, the Directive **could be adopted by the end of this year**. The Member States will

The European Commission published a report displacing concerns about uncontrolled flows of workers from the new EU Member States to the more developed Western European countries. However, the report evidenced that the countries not restricting free movement of workers achieved better economic performance than the restricting countries. The EU has adopted a new strategy for biofuels focusing on reducing Europe's dependence on fossil fuel imports and reducing greenhouse gas emissions.

then have two to three years to implement the Directive in their national legislation.

We believe that the adoption of the Directive is an important and necessary step. Although the original version was rather more progressive, even the milder version approved in the first reading by the European Parliament **would bring improvements compared to the present state**. It should however be noted that the approval procedure is far from finished and the final version may still be considerably different.

http://www.europarl.eu.int/news/expert/infopress_page/056-5221-47-2-7-909-20060213IPR05194-16-02-2006-2006--true/default_en.htm

The Commission: there could be a SEPA legislative regulation

The European Commission published a **document related to the Single Euro Payments Area** (**SEPA**) inviting all interested parties to present opinions on the most convenient manner of achieving a SEPA. The document comprises the Commission's vision on how SEPA should operate and a list of questions on those issues for the interested parties.

The European Commission **has been creating supportive conditions for self-regulating activities** in the area of payment systems. The related key standard is the proposed Directive concerning payment services in the internal markets (also known as the **New Legal Framework**) that is to harmonize the up-to-now fragmented and unclear legislation regulating payment services in the EU Member States, thus enabling the single internal market to function in the field of payment services too.

For the creation of a SEPA it is further necessary to integrate the fragmented payment infrastructures and various payment service products, which should be achieved through the self-regulation process in the sector. The **European Payments Council**, comprising representatives of European banks and other providers of payment services, is therefore responsible for the creation of a SEPA.

The European Commission in its consultative paper states "if the payment service providers fail to adopt necessary steps or drags its heels, **the Commission reserves the right to introduce its own legislation**."

The European Payments Council defined its strategy in the **Roadmap to SEPA**, in which it plans to deliver the three Pan-European payment schemes (for credit transfers, direct debits and account-linked cards) by January 2008 and expects their widespread use by 2010.

The European Commission will decide whether to adopt a modified form of SEPA or whether to continue relying on the self-regulation process in the sector **by the end of this year**; the decision-making process will also be based on the conclusions of the consultation opened until March 21.

http://europa.eu.int/comm/internal_market/payments/docs/sepa/sepa-2006_02_13.pdf

EMPLOYMENT AND SOCIAL POLICY

The Commission encourages the removal of obstacles to free movement of workers

The EU Commissioner for Employment, Social Affairs and Equal Opportunities has published the long awaited report showing that **workers' mobility from the EU Member States in Central and Eastern Europe to the EU15 has had mostly positive effects**. The majority of the labour markets in Western Europe are still closed to the eight new Member States from Central and Eastern Europe since the concluded Accession Treaty enabled the introduction of **transitional arrangements** on the free movement of workers for **up to seven years in total**.

The European Commission report however shows that the EU Member States that have not applied restrictions on access to labour markets (the UK, Ireland and Sweden) have experienced high economic growth, a drop in unemployment and a rise in employment. The Commission therefore indirectly encourages the **EU15 to open their labour markets** and abandon their existing permits or quotas.

The statistics included in the report show that **the labour flows from Central and Eastern Europe have been lower** than expected in the majority of countries. There is no evidence of a surge in either the numbers of workers or welfare expenditure following enlargement, compared to the previous two years.

The report clearly showed that the **free movement of workers has not had disruptive effects** on the EU15 labour market. Quite the opposite – individual countries, and Europe as a whole, have benefited from it. That could also be an important argument for the decision-making of the EU15 regarding the extension of the transitional arrangements restricting access to their labour markets, even for the period from May 1, 2006 to April 30, 2009. The Accession Treaty enables the extension of the temporary restriction by a maximum of 2 more years – i.e. by April 30, 2011, provided the labour market in the given State could be seriously damaged or is at least threatened by serious damage.

Based on the public opinion polls we do not expect the opening of labour markets in Western Europe to cause an exodus of workers from the Czech Republic and other Central and Eastern European states. This act would rather be **a nice symbolic gesture proving that we are not second-class European citizens**. It is not fair that the EU fundamental principles – free movement of goods, services, capital and persons – do not apply to all States equally.

The Member States are obliged to notify the Commission of their respective final decisions by the end of April. If they fail to do so, they will automatically be considered as countries abolishing restrictions on the free movement of workers. According to current information, **Portugal, Spain and Finland** will open their labour markets and **Greece** is considering the same. Germany and Austria, on the other hand, have already indicated that they intend to use the maximum seven-year period restricting the free movement of workers.

http://europa.eu.int/rapid/pressReleasesAction.do?reference=IP/06/130

New strict rules for professional drivers

The package of legislation introducing measures that will lead to **all trucks over 3.5 tons and buses being fitted with digital tachographs**, which are rather difficult to falsify, from May 1, 2006, was definitely approved by the positive attitude of the European Parliament in the third reading and by the subsequent consent of the EU Council. The new arrangement will also apply to professional drivers from third countries driving through the territory of the EU Member States.

The compromise version approved by the Parliament and the EU Council aims at decreasing the number of car accidents arising mainly from driver fatigue. Apart from increased checks of the time that professional drivers spend driving, the new legislation stipulates the **minimum length of prescribed rest periods**.

The new rules regulate the working hours as well as breaks and prescribe **compulsory rest periods of twelve hours for drivers**. The rest period may be divided into two parts: one of at least 3 hours and another “uninterrupted period of rest” of at least 9 hours. The drivers may drive one hour more twice a week. They are obliged to have 45 hours of uninterrupted rest every two weeks.

This also incorporates the **introduction of a system of checks**. At least 2 % and 3 % of days worked by drivers will be checked from 2008 and 2010, respectively.

Penalties for failure to comply with the provision have not been harmonized and remain in the competence of each Member State. The Commission only announced that upon the Parliament’s proposals it would publish a detailed list of penalties. Infringements against the regulation will include the following:

• exceeding the maximum daily, six-day or fortnightly driving time limits by at least 20 %

• disregarding the minimum daily or weekly rest period by at least 20 %

• disregarding the minimum break by at least 33 %

• using a tachograph not fitted in accordance with the requirements of the regulation.

http://www.europarl.eu.int/news/expert/infopress_page/062-4910-32-2-5-910-20060131IPR04893-01-02-2006-2006--true/default_en.htm

ENERGY AND TRANSPORT

New strategy for biofuels

The European Commission adopted a new ambitious EU Strategy for Biofuels, which builds on the biomass action plan adopted in December 2005 and should support **production of biofuels such as biodiesel and bioethanol**. In general the strategy focuses on reducing Europe’s dependence on fossil fuel imports, reducing greenhouse gas emissions and providing new outlets for farmers.

The strategy lays out seven key priority axes:

1) **Stimulating demand for biofuels** – a possible revision of the biofuels directive will be published this year. The Member States must be encouraged to favour biofuels and consideration will be given to biofuel obligations.

2) **Acquiring environmental benefits** – the Commission will examine how biofuels can best contribute to emission targets; it will work to ensure sustainability of biofuel feedstock cultivation; and it will again review the limits on biofuel content in petrol and diesel.

3) **Developing production and distribution of biofuels** – the Commission will propose a specific group to consider biofuels opportunities in rural development programmes and increase monitoring to ensure that there is no discrimination against biofuels.

4) **Extending supplies of feedstock** – the Commission will allow sugar production for bioethanol to be eligible for CAP support schemes; it will assess possibilities to process cereal intervention stocks; it will finance an information campaign for farmers and forest owners; it will bring forward a forestry action plan; and look into the possibilities of using animal by-products and clean waste.

Debtors will no longer solve their situation by fleeing abroad. The European Council adopted a regulation that will help creditors from another EU Member State. It would be sufficient for a court in the creditor's state to issue a European order for payment procedure upon the presented evidence and the courts in the debtor's state will be obliged to pursue such order without further investigation. The Czech Government approved the 2007-2013 National Development Plan.

5) **Enhancing trade opportunities** – the Commission will assess the possibility of putting forward a proposal for separate customs codes for biofuels; it will pursue a balanced approach in trade talks with ethanol-producing countries, and propose amendments to the "biodiesel standard".

6) **Supporting developing countries** – the Commission will ensure that measures for countries in Africa, the Caribbean and the Pacific adversely affected by the EU sugar reform can be used to support the development of bioethanol production and develop a "biofuels assistance package" for developing countries.

7) **Research and development** – biofuels will have a high priority in the 7th Framework Programme, in particular the "bio-refinery" concept and second generation biofuels. Through research, production costs could be cut considerably beyond 2010. Through its "Intelligent Energy Europe Programme", the Commission will support market introduction and the dissemination of proven technologies.

The adopted strategy does not affect the existing biofuels regulations in the Member States according to which the minimum content of biofuels (and other alternative fuels) in petrol and diesel for traffic purposes should be **2 % and 5.75 % by the end of 2005 and 2010, respectively.** The objective was not reached last year and the prescribed content for 2010 is not guaranteed. The currently **indicative objectives may therefore be changed to compulsory** ones in the future.

http://www.europa.eu.int/rapid/pressReleasesAction.do?reference=IP/06/135

Abuse of dominant position in the EU energy sector

The European Commission **is not satisfied with the liberalization of the EU energy sector**. Former national monopolies have kept their dominant position in the market; competition is rather limited; and consumers cannot benefit from all the advantages related to the opening of the energy market. It is implied by the preliminary report of the European Commission summarizing the key findings of the EU energy sector investigation launched in June last year.

Competition Commissioner Neelie Kroes also announced that **investigations regarding specific companies** that could have abused their dominant position in the European energy market would be initiated in the following weeks and months.

The report identifies five main areas of EU electricity and gas market malfunctioning:

- wholesale markets generally maintain the same high level of concentration as in the pre-liberalization period,
- consumers are denied choice due to the difficulties for new suppliers in entering the market,
- there is no significant cross-border competition,
- lack of transparency prevents new suppliers entering the market from getting the information they need to compete,
- prices are often not determined on the basis of effective competition.

As a specific practice abusing the dominant position, **Commissioner Neelie Kroes** mentioned long-term contracts preventing the competition from or limiting it in entering the market.

http://europa.eu.int/rapid/pressReleasesAction.do?reference=IP/06/174

ENLARGEMENT

Accession negotiations with Croatia and Turkey have started

The accession negotiations with Croatia and Turkey were formally opened on October 3, 2005. Since then the EU experts have analysed the degree of compatibility of legislation in those countries with EU law. **Real negotiations, however, are starting right now**. The European Commission recommended opening negotiations on the first chapters of the 35 chapters in total and awaits only the (unanimous) statement of the Member States. The first up is to be the "**Science and research**" chapter, since it is deemed the least controversial. The accessing states are not obliged to implement any EU Directives to this end in their national legislation. It will be sufficient to implement the 6th Framework Programme for science and research and the Euratom Framework Programme covering activities in the nuclear section. The candidate countries are also expected to reserve adequate budgetary sources for science and research and for the enhancement of research and science capacities. The second should also be a relatively simple portfolio – the "**Education and culture**" chapter.

With respect to further EU enlargement, an interesting opinion of Halldór Ásgrímsson, the Prime Minister of Iceland, was noted in February, according to whom **Iceland could become a full member of the European Union by 2015.** The statement was, however, instantly denied by Geir Harde, the Minister of Foreign Affairs of Iceland, a member of another political party. At present Iceland has access to the EU single internal market since it is a member of the European Economic Area together with Norway and

Liechtenstein. The Icelanders have been refusing to become full EU members in order to avoid the Common Fisheries Policy, and in particular the quantitative fishing quotas.

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

JUSTICE AND HOME AFFAIRS

EU to introduce European order for payment procedure

The EU Justice and Home Affairs Council **approved a regulation creating a European order for payment procedure** to enable the EU to create an efficient single system of enforcing cross-border claims. Its objective is to speed up and make more efficient the enforcement of due and still outstanding cross-border claims in civil and commercial matters uncontested by either of the relevant parties.

Up to now the litigations concerning pecuniary claims have been regulated by the law of individual Member States. Such insecurity and related risk of delayed payments of claims **hinders cross-border business**, particularly in the segment of small and medium-sized businesses.

The new system is based on a **single tool applicable in all Member States**, enabling EU creditors to enforce claims in any other Member State under the new simplified litigation common for all Member States without the need to proceed according to the national law of the debtor's place of residence. It would be sufficient for a court in one country to issue an order for payment procedure on behalf of the creditor, enclose copies evidencing the claim and send it to the courts in the debtor's Member State, which would be obliged to pursue such order **without further investigation**.

The regulation will apply **only to cross-border claims**. Solely domestic claims will remain subject to domestic legislation.

The European order for payment procedure may become a useful tool enabling creditors to simplify, speed up and reduce the costs of their claims.

At their meeting, the Ministers of the Member States also adopted a **directive on the retention of a list of Internet and phone communication**. Its main objective is to harmonize the retention of information regarding Internet and phone communication in terms of investigating serious crimes. Providers of telecommunication services will accordingly be obliged to retain the required information for a period of at least six months and a maximum of two years following the connection date. The regulation does not require that the content of such phone calls or e-mails be retained.

http://ue.eu.int/uedocs/cms_Data/docs/pressdata/en/jha/88467.pdf

REGIONAL POLICY

The Government adopted the 2007 – 2013 National Development Plan

The Government adopted the **National Development Plan** of the Czech Republic for 2007 – 2013 during its meeting in late February.

The National Development Plan (NDP) is a significant document **defining in detail the hierarchy of the Czech Republic development priorities** and specifying the objectives of the economic and social cohesion policy for the given period. It is based on the Economic Growth Strategy of the Czech Republic and the Strategy for Sustainable Development of the Czech Republic. The following priorities of economic and social cohesion are defined in the NDP for the 2007 – 2013 programme period:

- business
- human resources and universities
- innovations and knowledge economy
- accessibility and infrastructure
- solutions of regional disparities,

elaborated already in the proposed individual operational programmes including the proposal on their funding. Unlike the existing 2004 – 2006 NDP, the proposed 2007 – 2013 NDP shall cover all three new targets of the interventions of the European structural and cohesion policy; it will also incorporate activities funded by the Cohesion Fund, and describe the links between the economic and social cohesion policy and the rural development policy.

Based on the NDP, a **National Strategic Reference Framework** (NSRF) is to be made. This key document will link the European priorities (stated in the **Strategic General Guidelines** of the Communities for the Policy of Economic, Social and Regional Cohesion) and the national priorities of the cohesion policy (specified in NDP) and should prove their interrelation. Unlike the NDP, which is to be approved by the relevant Member State government, the NSRF is subject to a negotiation process with the European Commission.

The National Development Plan includes a list of operational programmes. The relevant budget is not included; it will be stated in the NSRF.

Proposed operational programmes:

- OP Business and innovation,
- OP Research, development, innovation,
- OP Human resources development and employment,
- OP Education,
- OP Environment,
- OP Transport,
- Integrated operational programme,
- OP Technical support,
- 7 Regional operational programmes
- 2 OPs for Prague cohesion region,
- 5 OPs Cross-border cooperation,
- 2 OPs International and interregional cooperation.

Compared to the current period, the new design of financial flows from the structural funds and from the Cohesion Fund into the Czech Republic brings certain advantages and drawbacks. A wider number of operational programmes offer the advantage of "**custom made" solutions for local needs**, which is important particularly for regional operational programmes. A drawback of the newly proposed system will be the **increased demands on administration** since each operational programme has a different implementation agency.

The NSRF should be prepared in March. The document as well as the number, intent and budget of operational programmes **must then be approved by the European Commission**. We believe that, ideally, the first invitations to present projects in the 2007 – 2013 programme period could be published in March or April 2007.

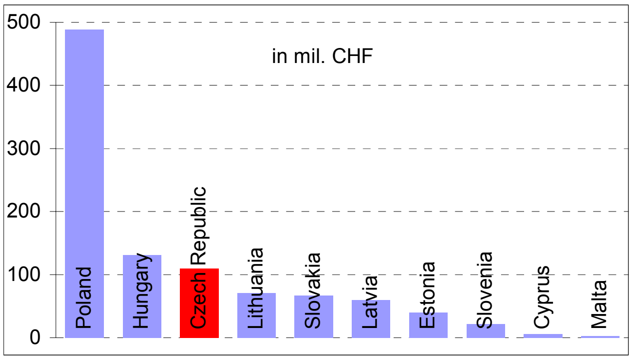
http://wtd.vlada.cz/scripts/detail.php?id=9817

Switzerland to contribute to the Cohesion Fund

Switzerland will contribute a **total amount of one billion Swiss Francs** (about € 645 million) to the new EU Member States over a period of five years commencing in 2007 through the Cohesion Fund. Payments under the Agreement with the European Union as of May 2004 are to be contributed because Switzerland benefits from certain EU policies even though it is not an EU Member, in particular from its **access to the EU single internal market**.

The majority of the Swiss contribution is to be distributed among **Poland, Hungary and the Czech Republic**. The contributions are to be primarily put into social and economic development and environmental projects, traffic infrastructure development and medical or research projects.

Switzerland's payments to new EU member states



Source: European Commission

Contributions will be put into projects and programmes as agreed between Switzerland and the beneficiary Member State. In the Czech Republic this will involve regional development, support of the private sector, and science and research.

http://europa.eu.int/rapid/pressReleasesAction.do?reference=IP/06/234

HEALTH AND CONSUMER PROTECTION

Optical radiation directive approved

The proposed sun radiation directive, which the EU dealt with for 13 years, was finally approved. It has changed considerably during the legislation process; it is therefore unofficially called the optical radiation directive. It covers only **artificial radiation** (lasers, infrared lamps etc.), **not natural radiation sources** such as sunshine (or fire). Those remain regulated by the Member States on an individual basis.

The directive, in full the directive protect workers from optical radiation, has been approved in a third reading by the European Parliament. The directive in its compromised version as approved by the European Parliament and the EU Council was **approved by 570 MEPs out of 635**.

The directive aims to **protect workers from harmful exposure to optical radiation** that could damage skin or eyes. Therefore, the directive requires application of modified work methods, limited exposure periods, use of appropriate protection aids and, if need be, also adequate adjustment of the workplace. The directive also includes provisions on the worker's rights to information, professional training, consultations and health checks.

http://europa.eu.int/prelex/detail_dossier_real.cfm?CL=en&DosId=11341

Hardly any European following the daily press could miss the regrettable response of the Muslim world to the publishing of silly cartoons of Muhammad. Also the EU Council for the exterior has dealt with the situation and expressed regrets regarding the events, clearly supporting the freedom of expression of the European media. The Eurostat statistics showed that the combined tax quota in the Czech Republic is roughly 4 percentage points lower than the EU average.

1 FEBRUARY

New regional measures will strengthen sustainable fishing practices in Mediterranean: http://www.europa.eu.int/comm/fisheries/news_corner/press/inf06_05_en.htm

2 FEBRUARY

Road safety legislation package approved by Parliament: http://www.europarl.eu.int/news/expert/infopress_page/062-4910-32-2-5-910-20060131IPR04893-01-02-2006-2006--true/default_en.htm

Reduced VAT rates: ECOFIN Council political agreement confirmed: http://ue.eu.int/ueDocs/cms_Data/docs/pressData/en/misc/88237.pdf

Stability/convergence programmes of Belgium, Estonia, Latvia, Luxembourg, Austria and Slovenia: http://www.europa.eu.int/comm/economy_finance/about/activities/sgp/year/year20052006_en.htm

3 FEBRUARY

"Towards an energy policy in Europe -Main issues and proposals": http://www.europa.eu.int/comm/dgs/energy_transport/forum/works/opinion_group_en.htm

Most remote regions still lagging behind in telecommunications: http://www.europa.eu.int/comm/regional_policy/themes/rup_en.htm

6 FEBRUARY

Consumers' opinions on services of general interest: http://www.europa.eu.int/comm/consumers/publications.htm

7 FEBRUARY

Release of a draft implementing measures for Markets in Financial Instruments Directive: http://www.europa.eu.int/comm/internal_market/securities/isd/mifid2_en.htm

8 FEBRUARY

Price and cost competitiveness. Report on 4th quarter 2005: http://www.europa.eu.int/comm/economy_finance/publications/priceandcostcompetiteveness_en.htm

Safer Internet Day was celebrated on 7 February: http://www.europa.eu.int/information_society/activities/sip/news_events/events/si_day/index_en.htm

9 FEBRUARY

New Information kit for young teenagers entitled "Price stability: why is it important for you?": http://www.ecb.int/home/html/educational.en.html

10 FEBRUARY

Comparative study on the impact of control measures on the television advertising markets: http://www.europa.eu.int/comm/avpolicy/stat/studi_en.htm#tvpub

In 2004, tax revenue at 40.7% of GDP in the EU25: http://epp.eurostat.cec.eu.int/pls/portal/docs/PAGE/PGP_PRD_CAT_PREREL/PGE_CAT_PREREL_YEAR_2006/PGE_CAT_PREREL_YEAR_2006_MONTH_02/2-10022006-EN-AP.PDF

Total taxes, % of GDP

Lithuania	28.7	Netherlands	38.8
Latvia	29.1	Hungary	39.2
Slovakia	30.6	Slovenia	39.9
Ireland	31.7	Germany	40.0
Estonia	32.7	**EU-25**	**40.7**
Cyprus	33.7	Luxembourg	41.1
Poland	34.3	Italy	42.1
Spain	35.4	Austria	44.3
Portugal	35.6	Finland	44.5
CR	**36.6**	France	45.3
Malta	36.7	Belgium	47.4
Greece	37.7	Denmark	49.9
UK	37.7	Sweden	51.2

Source: Eurostat

13 FEBRUARY

Wind Energy - facts and figures: http://www.europa.eu.int/comm/energy/res/sectors/wind_energy_dissemination_en.htm

14 FEBRUARY

Council extends the validity of reduced VAT rates for labour-intensive services until 2010: http://ue.eu.int/ueDocs/cms_Data/docs/pressData/en/misc/88394.pdf

National reports on implementation of Directive 2003/30/EC on use of biofuels or other renewable fuels for transport: http://www.europa.eu.int/comm/energy/res/legislation/biofuels_members_states_en.htm

Special Report - impact of ageing on public expenditure: pensions, health care, long-term care, education and unemployment transfers (2004-2050): http://www.europa.eu.int/comm/economy_finance/publications/european_economy/2006/eespecialreport0106_en.htm

15 FEBRUARY

2709th Justice and Home Affairs Council meeting: http://ue.eu.int/ueDocs/cms_Data/docs/pressData/en/jha/88407.pdf

2707th Economic and Financial Affairs Council meeting: http://ue.eu.int/ueDocs/cms_Data/docs/pressData/en/ecofin/88403.pdf

16 FEBRUARY

Publication of likely developments for agricultural markets up to 2012: http://www.europa.eu.int/comm/agriculture/publi/caprep/prospects2005b/index_en.htm

17 FEBRUARY

T E N-Energy- I n v e s t - Energy Infrastructure Costs and Investments for the medium and long-term: http://www.europa.eu.int/comm/ten/energy/documentation/index_en.htm

First anniversary of coming into force of the Regulation on air passenger rights: http://www.europa.eu.int/comm/transport/air/rights/info_en.htm

EU25 real agricultural income per worker down by 5.6%: http://epp.eurostat.cec.eu.int/pls/portal/docs/PAGE/PGP_PRD_CAT_PREREL/PGE_CAT_PREREL_YEAR_2006/PGE_CAT_PREREL_YEAR_2006_MONTH_02/5-17022006-EN-BP.PDF

20 FEBRUARY

Erasmus Mundus - Call for proposals relating to the academic year 2007/2008: http://www.europa.eu.int/comm/education/programmes/mundus/call07_en.html

European year of workers' mobility kicks off with one million jobs online: http://www.europa.eu.int/comm/employment_social/emplweb/news/news_en.cfm?id=128

21 FEBRUARY

2708th Agricultural and Fisheries Council meeting: http://ue.eu.int/ueDocs/cms_Data/docs/pressData/en/agricult/88457.pdf

Agricultural trade statistic - 1st semester 2005: http://www.europa.eu.int/comm/agriculture/agrista/tradestats/index_sem.htm

22 FEBRUARY

European Commission regrets Norwegian decision to take EU to WTO over anti-dumping measures on Salmon: http://www.europa.eu.int/comm/trade/issues/respectrules/anti_dumping/pr210206_en.htm

Justice and Home Affairs Council meeting: http://ue.eu.int/ueDocs/cms_Data/docs/pressData/en/jha/88467.pdf

23 FEBRUARY

Improving transparency of the EU institutions: http://www.europarl.eu.int/news/expert/infopress_page/019-5504-53-2-8-902-20060220IPR05472-22-02-2006-2006--false/default_en.htm

European Road Safety Action Programme: Mid-term review: http://www.europa.eu.int/comm/transport/road/roadsafety/rsap_midterm/index_en.htm

Record number of partners sign up for 2006 OPEN DAYS European Week of Regions and Cities: http://www.cor.eu.int/en/press/press_06_02018.html

24 FEBRUARY

Education, Youth and Culture Council meeting: http://ue.eu.int/ueDocs/cms_Data/docs/pressData/en/educ/88498.pdf

Mandelson proposes progressive duty following finding of dumping of Chinese and Vietnamese leather shoes: http://www.europa.eu.int/comm/trade/issues/respectrules/anti_dumping/pr230206_en.htm

27 FEBRUARY

Questions and Answers on EU action on avian influenza and flu pandemic preparedness: http://europa.eu.int/comm/food/animal/diseases/controlmeasures/avian/qa1_influenza_en.htm

Commission Report on gender equality find Women earn 15% less than men in the EU: http://www.europa.eu.int/comm/employment_social/emplweb/news/news_en.cfm?id=129

28 FEBRUARY

Council conclusions on reactions in the Muslim world to publications in European media - 2712nd External Relations Council meeting: http://ue.eu.int/ueDocs/cms_Data/docs/pressData/en/gena/88536.pdf

2712nd External Relations Council meeting: http://ue.eu.int/ueDocs/cms_Data/docs/pressData/en/gena/88541.pdf

EU-Switzerland: a memorandum is signed on a Swiss financial contribution; the EU approves four bilateral agreements: http://ue.eu.int/ueDocs/cms_Data/docs/pressData/en/misc/88538.pdf

Short overview of the EU Budget for 2006 (pdf. in all 20 languages): http://www.europa.eu.int/comm/budget/publications/budget_in_fig_en.htm

In our newly opened section "Outer View" we will present interesting opinions of respected personalities outside of the Česká spořitelna financial group, on topical issues related to the European integration process. The opening contribution regarding convenient timing of the Czech Republic's acceptance of the Euro was written by Mr Tomáš Prouza, the Deputy Minister of Finance, who is also the Chairman of the National Coordination Group for the Introduction of the Euro - a Czech "Mr Euro".

EURO: YES, BUT WHEN?

At last, there has been a new conversation underway regarding our acceptance of the Euro in the Czech Republic recently. It seems however that the question is whether or not to accept Euro. It should therefore be noted that we undertook to accept the Euro already in the EU Accession Treaties; therefore it is improbable that we can keep avoiding it for good. The real concern is when we will be able to accept the Euro – and when we will want to do it.

When considering the deadline, there are two significant aspects: when we will want to accept the Euro and what it will bring. The first aspect is important particularly for the Czech Government since the will to access the Euro zone means, among other things, complying with the Maastricht criteria. This is not, by far, the only thing that has to be done; we cannot however avoid the duty to comply with the Maastricht criteria. Nowadays, the Czech Republic is in a very convenient position – if the Czech Republic's accession to the Euro zone was to be decided now, we would not have a problem complying with any of the five criteria. Will this, however, still apply in 2008 or 2009?

The overall public debt is stagnating and it even slightly decreased last year; inflation and interest rates should also pass the Maastricht test unchallenged. And if the central parity of the rate when accessing the ERM II is set out well, we should manage to keep the volatility of the Crown within the given limits. There is a question mark hanging over the deficit of public budgets that may not exceed 3 % of GDP. So far we have managed to decrease the public finance deficits considerably faster than expected in the Convergent Programme and as soon as last year we got below the well-known 3 % of GDP. The European Commission and the European Central Bank do not monitor whether the candidate intending to access the Euro zone meets the criteria in a certain situation; they need the candidate to guarantee credibly that the criteria will be met on a long-term basis.

The new Government will therefore face a question in the autumn: will we make use of the prosperous conditions of the Czech economy; will we carry on stabilizing the public finances and give priority to prompt accession to the Euro zone? Or will we make use of the prosperous conditions of the Czech economy, accelerate some reforms, accept a deficit of public finances increased by the reforms and postpone our accession to the Euro zone? The very timing of individual changes and setting of priorities will be the most difficult decision the new Government has to make.

So should the Euro be our priority? If the Government aims to support the Czech economy, then yes. We are a very open economy; our success is based on foreign investments and foreign trade. The exchange rate risk is considerable for a growing number of companies and the exchange rate volatility does not provide a sufficient guarantee for planning. It is not difficult to provide against the exchange rate risk; it however brings supplemental costs either increasing prices (making Czech goods less competitive) or reducing margins (and reducing the already small margins is dangerous especially for smaller contractors at the beginning of the production chain). Even making invoices directly in Euros among Czech companies is not a solution, even though many enterprises have already been doing so. Part of the exchange rate risk may be eliminated in such way; until they reimburse their employees in Crowns instead in Euros, the risk however remains considerably high.

It is therefore important for entrepreneurs to consider what the Euro will bring for them. And if they realize that accession to the Euro will be a welcome change for them, they should make it very obvious. In countries that have adopted the Euro already the process is predominantly supported by entrepreneurs and enterprises who understand how accession to the Euro zone makes their life easier. Our enterprises do not comment on it much. It is a shame if those who could benefit most from the Euro keep silent.

Tomáš Prouza,

Deputy Minister of Finance of the Czech Republic and

Chairman of the National Coordination Group for the Introduction of the Euro in the Czech Republic

Information service

The section on this page has been changed and extended by the announced public consultations on the proposed or revised EU legislation. As for March events, we would like to bring to your attention the European Council meeting in which the leaders of the Member States should negotiate, among other things, the controversial Directive on services and the EU common energy policy. Out of the newly opened public consultations the one focused on the creation of the Single Euro Payment Area (SEPA).

Meeting of the key EU institutions

2.-4.3.2006	**Bregenz, Austria**	Transport Ministers (informal) Meeting
9.3.2006	**Brussels, Belgium**	Environment Council
10.3.2006	**Brussels, Belgium**	Employment, Social Policy, Health and Consumers Council
13.-16.3.2006	**Strasbourg, France**	EP Plenary Session
14.3.2006	**Brussels, Belgium**	Transport, Telecommunications and Energy Council
14.3.2006	**Brussels, Belgium**	ECOFIN Council
20.-21.3.2006	**Brussels, Belgium**	Agriculture and Fisheries Council
20.-21.3.2006	**Brussels, Belgium**	General Affairs and External Relations Council
22.-23.3.2006	**Brussels, Belgium**	EP Plenary Session
23.-24.3.2006	**Brussels, Belgium**	European Council
27.-28.3.2006	**Brussels, Belgium**	Transport, Telecommunications and Energy Council

Public consultation on EU legislation

Topic of the consultation	Organiser	Deadline
SEPA Incentives	DG MARKT	21.3.2006
Presentation on Financial Collateral Arrangements (2002/47/EC)	DG MARKT	31.3.2006
Future patent policy in Europe	DG MARKT	31.3.2006
Coal Industry - the application of Council Regulation 1407/2002	DG TREN	15.4.2006
Facilitating damages claims for breaches of EU competition law	DG COMP	21.4.2006
Review of Community Excise Legislation	DG TAXUD	30.4.2006
Preliminary Report of European Commission - competition in the energy sector	DG COMP	1.5.2006

The Member States keep their exclusive responsibility for direct taxes within the EU. The EU tax policy is instead focused on indirect tax rates – VAT and consumption taxes that may have a direct impact on the single internal market. It also ensures that the tax rules are not used as additional protection of capital during its free movement across the EU and also that the free movement of capital is not abused for tax avoidance purposes.

PROCESS OF TAX INTEGRATION AND HARMONIZATION IN THE EU

National governments should have sound public finances and be in concord with the EU Economic Policy Key Directions. Provided the relevant requirements there under are complied with, national governments are free to decide on their cost priorities and on the taxes to be used to collect the required funds for their respective budgets. They are also free to set out their tax rates in terms of corporate taxes and individual income taxes, savings and capital yields. In this respect the protection of the Member States' rights is ensured upon a required unanimous approval of the key changes of the EU tax rules. Where common rules are set out (and approved) including rules stipulating the upper and lower limit for the VAT and consumption tax rates, they are intended to make sure that the single internal market operates in a smooth manner in particular for goods, financial services etc. and that each Member State receives a fair and adequate share of its tax income. Since a part of the EU budget is financed from the funds of the generated value added taxes, a common attitude to acquisition of such funds means that the contributions are distributed across the EU States in a fair manner.

Role of indirect taxes

VAT and consumption taxes imposed on oil products, alcohol or cigarettes should be uniform to a certain degree since alterations of such taxes may quickly and considerably be of detriment to competitiveness. The existing consensus, however, allows for space for cultural differences such as a different approach to taxation imposed on beer or wine, and for the fact that some countries may impose lower rates of indirect taxes because their public finances are more sound.

The system may prove to be an additional advantage for customers in terms of cross-border shopping. Consumption taxes in Luxembourg are, for example, famously low and attract drivers and other customers from various parts of Luxembourg's neighbouring countries. The north of France is a "Mecca" for British shoppers taking advantage of low prices, especially of beer, wine and tobacco products. Differences in tax rates imposed on vehicles allow informed customers to save even more than 20 % on the price of a new car.

Minimum rates

The existence of minimum tax rates applying the minimum harmonization principle prevents serious market distortions. Those minimum rates in terms of consumption taxes apply for example to mineral oils, petrol, gas, electricity and coal. Their coherent structure is not crucial only for fair competition: it also represents a tool through which the EU may support power savings and fine fuels based on the reduction of greenhouse gas emissions. There is however flexibility in those tax arrangements taking into account special national situations and circumstances.

The minimum rates still leave space for adjustments according to specific national circumstances. There is a wide space here resulting from the agreement to-date with respect to the VAT rate of 15 % on the majority of goods and services, while exceptions are allowed. A higher, standard rate is enabled within certain limits (at present within the limit from 15 % to 25 %).

It is also possible to apply reduced rates and certain other exceptions for some items. These are in general limited to goods and services that should not directly compete with goods and services provided in another Member State – a typical example is meals in restaurants – or necessary goods of daily consumption including foodstuffs and medicaments (and further areas where a social aspect may be applied, among others).

The European Commission has been trying to limit the scope of exceptions to the maximum extent possible in order to equalize the conditions of the single internal market and fair-play, and it keeps aiming at the maximum possible harmonization of rates. In the meantime (since it would be delusory, or naïve, to believe that full harmonization will be achieved within the next few years) the Commission tries to simplify the VAT rules and sanctioning of frauds occurring rather often in the existing complicated situation. The complicated situation also significantly increases business activity costs (especially if the activity is pursued in several Member States) and represents a real barrier preventing cross-border activities.

A revealing demonstration could be the ECOFIN Council debates in January related to the exceptions in the VAT system for the benefit of individual Member States. What is

the situation? Regardless of the mentioned harmonization efforts, the specific VAT rates differ in each country. The problem is complicated by the fact that the absolute majority of countries applies various exceptions for various periods and purposes. The countries did not show any enthusiasm regarding a proposal to rectify such differences and unify the rules. On the contrary, the countries desired to keep, prolong and extend the applicable advantageous exceptions. This could have worked among six, nine or even twelve countries; since there are 25 EU Member States, we face a situation of non-transparent chaos that is easy to abuse.

What is the solution? Let's start with the most radical, representing perhaps the target vision: to set out a single VAT rate for each EU country that could be determined by the country itself within a given range (e.g. the one currently applicable to the basic rate, i.e. 15 % - 25 %). It is however clear that the target base will be difficult to reach; therefore there is a transitional compromise: defining areas for which exceptions may be claimed that would be applicable for all the Member States and for the same period for each of them. Exceptions like that should not be numerous and countries could have an option to ignore such exception. No country would be entitled to select an exception in a jointly non-specified area if ignoring another exception. Permanent exceptions should be abolished; the effective period should be gradually shortened and following the expiry of each period the fairness of such exception from the social and economic point of view should be re-assessed.

Equal corporate taxation

In the EU there are the two following objectives related to corporate taxation: to introduce prevention of harmful tax competition among the Member States and to support the principle of free capital movement. The Member States have been offering excessive tax incentives in order to encourage investments from abroad, sometimes even to the detriment of other countries where a comparable investment would be economically more appropriate. The Member States are currently bound by the Code of Conduct ensuring that no anti-competition tax obstacles and hindrances are introduced. And they are gradually trying to remove any existing ones.

There are also certain EU rules or codes of conduct aiming at making sure that in all Member States there is a comparable arrangement applicable to cross-border payments of interests, rents, dividends to affiliate and parent companies and cross-border corporate sales and transactions of goods and services (transfer prices). Arrangements for the Member States to apply the same principle to the taxation of groups of firms are under way.

Equal access to savings and pensions

The EU only rarely interferes with individual taxation. Exceptions are introduced to ensure that there is no discrimination against or inadequate benefits for any person working or investing in another Member State.

EU citizens should for instance be entitled to accumulate their rights to a pension if they move from one Member State to another without any additional taxation and they should not pay any higher tax from dividends from investments in other EU countries than that which is payable from domestic investments. The European Commission receives legal acts pointing out that the tax regulations in the Member States make similar distinctions difficult. EU citizens may put their savings anywhere they expect the highest yield. They however remain subject to taxation in their country of residence. EU countries lose their legitimate income if their residents avoid declaring interest incomes from savings kept abroad. Within the framework of solving the problem the EU and a number of European governments have been interchanging information on non-residential savings since July 2005.

Attempted environmental reform

Attempts to apply environmental tax reform form a rather independent direction within the attempts to coordinate the EU tax policy. The tax reform is perceived through the energy policy or the policy related to environment protection.

The problem consists of three factual areas: energy saving, support for renewable energy and cultivation of feedstock usable as a renewable energy source.

The factual priorities are fully compatible with the content of the Lisbon Agenda; therefore it will be possible to finance them from the EU funds and other financial tools as stipulated in the current version of the 2007 – 2013 new financial perspective.

<u>EU energy policy</u>

The EU energy policy is one of the key tools ensuring safety, stability and prosperity in Europe.

For this vision to come true, all States should be included in the process of creating a "collective response" to a whole range of economic, social, environmental and in general strategic issues forming the energy balance.

Some of those issues have already been identified in the EU as well as in individual Member States, and the regulatory framework aiming at their adequate ban has already been considerably developed (in the adopted legislation applicable to gas and energy markets, the environment, energy efficiency and savings, taxation and research).

Some of the anticipated contributions to the European energy policy should definitely bring a real **Pan-European perspective** for those key issues.

Since there has not yet been any legal base for a really comprehensive, compact and independent European energy policy that would be formed by the European Commission, the current EU energy policy should aim at the areas where the Member States reached a wide consensus and high degree of public acceptability.

The current EU situation relevant to the topic of the energy policy and reality could be characterized as follows:

- demand for light, heat, power and energy services has been continually increasing;
- potential for energy savings, energy efficiency and renewable energy has not yet been fully utilized;
- dependency on energies is ever increasing;
- fossil fuel prices are expected to grow and remain high in the long-term perspective;
- power plants, gas and oil containers and refinery capacities will require complex reconstruction and development in the following years;
- infrastructure for distribution of energy and gas is insufficient with respect to the development of the demand;
- energy market is insufficiently integrated and therefore insufficiently competitive;
- climate changes impact becomes more visible from day to day;
- potential for research and development of energy sources is considerable but not fully utilized;
- prices reflecting costs (in the full structure) are not generally applied – occurrence of negative externalities;
- GDP growth is only slowly “deflected” from the energy consumption growth;
- government interventions are still significant in the field of energy;

The energy sector and the EU energy policy consist of the following four key aspects:

- strategic;
- economic;
- social;
- environmental.

Strategic aspect. In the EU there is a need to ensure a safe offer and minimize the risk of supply loss or limitation unless there are sufficient compensatory provisions. This includes support of endogenous energy sources and efficient utilization but also sufficient provisions ensuring a wide range of selection from the offer also including good relations with the EU neighbours (those who produce energy as well as those through whose territories the energy is distributed). The EU should then develop a wide platform for diplomacy in the energy sector.

Economic aspect. Europe faces increasing demand for energy and energy services (light, heat, power) and consistent increases of fossil fuel prices; the EU should strive to ensure its competitiveness, growth and life standards also by enhancing the efficiency of energy sources utilization and application of new technologies. Utilization of energy is related to **negative externalities**. Externalities of energy **production, distribution and consumption** are related to the health, environment and social aspects. Such expenses (sometimes still hidden) should be **reflected in the energy prices** and should be **internalised in an adequate manner**.

There is still a number of entities in the Czech Republic which do not pay the adequate price, thus deforming the market environment and existing at the expense of others; negative externalities occur for instance among entities polluting the environment.

A community with a natural gas pipeline system could be used as an example if there is a minority of households that strictly insists on using solid fuels, often with a chemical composition completely unacceptable for heating purposes. The same applies to exhaust gas pollution from cars that are not equipped in a sufficiently environmentally friendly way. Such entities that pollute the environment must be subject to efficient and prohibitive tax. Analogically, the same procedure should be applied to the abuse of social system parameters.

In order to suppress negative externalities it is necessary to identify and quantify them. Then the tax parameters respecting environmental priorities may be stipulated. Instead of non-systematic and nonconformist market

support tools (such as fixed redemption prices), such parameters should be stipulated respecting that with regard to increased income from the relevant consumption tax there will be proportionate reduction of direct taxes and additional work costs.

Regarding the rational decision-making of economic entities the most convenient combination of taxation includes the input (such as fossil fuel taxation) as well as output (such as energy consumption taxation). The relative rates should continually reflect the ratio of external costs on energy production from individual source groups. The absolute taxation will converge to the absolute external expenses during the adaptation period. Environmental tax reform with such parameters will contribute to the efficiency of the energy market and support economic growth.

Partial summary:

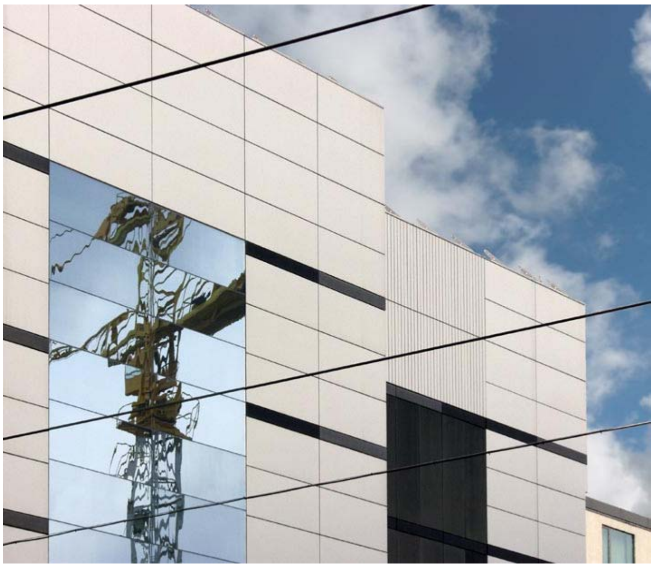
Tax tools (fiscally neutral ones) should respect environmental principles based upon quantification of negative externalities; accordingly, the decrease of direct taxes and additional work costs should be applied. Tax legislation in the energy sector must (should) be harmonized. Any distortions should be eliminated including distortions unfavourable to any environmentally friendly activities.

Various support systems proposed to help new energy sources and efficient energy utilization must be coordinated. They must provide clear and stable market incentives to the providers enabling them to safely accept long-term obligations in accordance with political priorities (such as Article 12 of the 6th EU Directive on VAT enabling the Member States to introduce a reduced rate for natural gas and electric energy supplies provided there is no risk of jeopardizing the competition). Long-term European research should also focus on the development of efficient economic and environmentally friendly energy solutions. FP7 for technological research and development could be used as the crucial tool for setting the priorities, focus on research and support of promising solutions.

The EU therefore requires the following:

- to use the maximum reduction potential of the final energy consumption;
- to extend renewable energy technologies according to their technical and economic feasibility;
- to develop more efficient and nearly zero point emission technologies for fossil fuels.

Nuclear energy will apparently remain the key sector in the European Union also in the future even though the decision-making process will remain in the individual EU member states while respecting the rules related to subsidizing.



Current hit: EU strategy for biofuels

The EU strategy for biofuels is published on the European Commission sites, DG Agriculture; the EU now plays the following game in the sector: there are considerable capacities in agriculture; there is a pressure to decrease the expenses for agricultural support; therefore, the agriculture output orientation should be modified and the capacities used in a different manner. This results in a larger orientation on cultivating feedstock to be used for renewable energy production. A number of countries invest enormous amounts in this area. Possible inspiration source – orientation on intensive cultivation of such feedstock.

The European Union strategy supports biofuels while focusing on reduction of greenhouse gas emissions (CO2 and others), support of de-carbonization (decrease of carbon particles content) of fuels, diversification of fuel sources, provision of new income opportunities in rural areas and development of long-term substitutes for fossil fuels.

In the group of existing EU Member States, Slovakia is a country that is simply thought much of, invokes positive feelings especially outwards and has become a source of inspiration for a number of countries still awaiting radical reforms. The picture of Slovakia within the EU as well as in relation to non-Member States was not always so positive.

SLOVAKIA

Key indicators:

Government type/chief of state	parliamentary democracy / president Ivan Gašparovič
Area (share of EU)	48 845 km2 (1,23 %)
Population (share of EU)	5 384 800 (1.17 %)
Age structure	0-14 years: 17.5%, 15-64 years: 71%, over 65 years: 11.5%
Nationality groups	Slovak 85.8%, Hungarian 9.7%, Roma 1.7%, Czech 0.8%
Total GDP (share of EU)	33.1 mld. EUR (0.32%)
GDP per capita in PPS	51.9% of EU-25 average
GDP - composition by sector	agriculture: 3.9%, industry and constr.: 32.1%, services: 64.0%
Average inflation	7.5%
Average unemployment	16.4%
GDP growth	5.5%
General govern. balance	-3.1% of GDP
General government debt	42.5% of GDP
Number of NUTS2	4 NUTS2, Bratislava: 119.7%, Východné Slovensko: 38.7%
Other information	http://www.government.gov.sk/

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

Commentary:

Slovakia, like the Czech Republic, set out for independence in January 1993. In the beginning it was rather more difficult for Slovakia to make itself visible, since the Czech Republic was widely perceived as the natural successor of former Czechoslovakia. The initial independence period was not great for Slovakia, even from the economic point of view. Moreover, Slovakia did not radiate its unambiguous effort to access the EU during the Mečiar era.

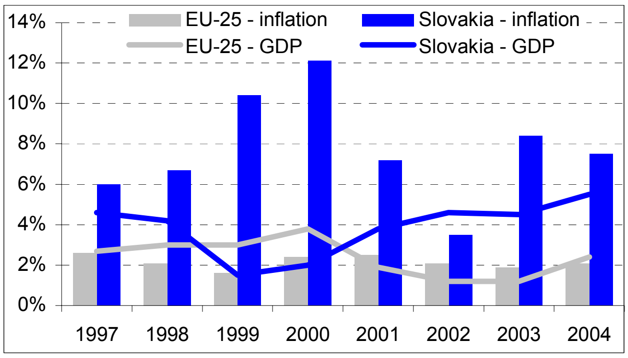
Slovakia was "elbowed aside" within the first accession stage of new Member States from Central and Eastern Europe, which started in the late 90s; Slovakia was put in the second group of candidates and it was expected that its accession to the EU would be considerably later than that of the Czech Republic or Hungary. Later, the rules for accession were changed; all of the candidates became one group and Slovakia became one of its active leaders.

The turn of the millennium thus brought a significant change in favour of the Slovak position in the "queue" for EU membership. And the beginning of this decade brought a turning point in the Slovak economy that became the prototypical economy as for the advanced stage of transformation in post-communist Central Europe. Such a dynamic start resulted from a change in the political climate in Slovakia and a new generation of politicians ready to launch courageous reforms, personified in particular by Mr Dzurinda, the Prime Minister, and Mr Mikloš, the Ministry of Finance, but also by the whole generation of current Slovak politicians.

We may state from the outside that the following key words characterize the Slovak economic reform: courage, responsibility, competence and sound self-confidence. The tax reform has become famous in just over two years; in Europe its courageousness may be compared only with Ireland or Estonia. But this does not apply only to taxes; it also includes reforms of the pension system, public health, social policy and education. Slovak policy-makers have been very successful in marketing the reforms – the world simply knows about them. The most recent visible step – if not a real reform – is the accession of Slovakia to the ERM II exchange-rate mechanism in autumn last year, which represents the pre-accession stage regarding Slovakia's planned transition to the Euro in 2009.

And in what respect can the Slovak economy show off, based partially on the reforms carried out in recent years? Very strong economic growth – the strongest in the region; high interest of foreign investors in entering Slovakia; considerable reduction of still rather high unemployment; openness to foreign businesses confirming that Slovak exports are highly competitive and the Slovak market highly competitively demanding. Slovakia particularly increased the exigency parameters and stopped the financial flows that had been provided in favour of certain less productive groups. At least from our point of view Slovakia seems to be on the right track.

Inflation and GDP



Source: Eurostat

Statistical window

The statistical window in a tabular form shows important macroeconomic indicators from all member states and the EU as a whole. It includes economic performance indicators (per capita GDP as compared to the EU average, GDP growth, unemployment rate), external economic stability indicators (current account to GDP), fiscal stability indicators (public budget to GDP, public debt to GDP), and pricing indicators (annual inflation based on HICP, base price level).

Key macroeconomic indicators

	GDP growth y-on-y			Current account to GDP*			Unemployment rate			Inflation y-on-y average		
in %	2003	2004	2005	2003	2004	2005	XI-05	XII-05	I-06	XI-05	XII-05	I-06
Belgium	0.9	2.6	1.4	4.5	3.5	3.0	8.5	8.5	n/a	2,3	2,8	2.8
CR	3.2	4.4	4.8	-6.3	-5.2	-2.9	7.9	7,8	7,8	2,2	1,9	2,4
Denmark	0.6	2.1	2.7	3.3	2.5	2.9	4.5	4,4	n/a	1,8	2,2	2,0
Estonia	6.7	7.8	8.4	-12.0	-12.7	-9.9	6,7	6,5	6,2	4,0	3,6	4,7
Finland	2.4	3.6	1.9	3.8	4.1	2.2	8.3	8,3	8,2	1,0	1,1	n/a
France	0.8	2.3	1.5	0.2	-0.7	-0.8	9.3	9,2	9.2	1,8	1,8	2,3
Ireland	4.4	4.5	4.4	0.0	-0.8	-2.2	4.3	4.3	4.3	2,2	1,9	2,5
Italy	0.3	1.2	0.2	-0.8	-0.4	-1.2	n/a	n/a	n/a	2,4	2,1	2,2
Cyprus	1.9	3.8	3.9	-3.0	-5.7	-5.8	5,0	4,9	5,3	2,0	1,4	2,0
Lithuania	10.5	7.0	7.0	-6.9	-8.0	-74.0	6,8	6,8	6,9	2,9	3,0	3,5
Latvia	7.2	8.3	9.1	-8.2	-12.6	-11.1	8,3	8,1	8,2	7,6	7,1	7,6
Luxembourg	2.9	4.5	4.2	8.2	8.4	5.9	5,5	5,6	5,5	3,6	3,4	4,1
Hungary	2.9	4.2	3.7	-8.7	-8.8	-8.4	7,3	7,3	n/a	3,3	3,3	2,5
Malta	-1.9	0.4	0.8	-5.8	-10.5	-6.7	7,3	7,5	7,8	4,3	3,4	2,4
Germany	-0.2	1.6	0.8	2.1	3.7	3.8	9,3	9,5	9,1	2,2	2,1	2,1
Netherlands	-0.1	1.7	0.5	5.8	6.1	6.0	4,7	4,6	4,6	1,6	2,0	1,8
Poland	3.8	5.3	3.4	-2.2	-4.2	-3.2	17,3	17,2	17,2	1,1	0,8	0,9
Portugal	-1.2	1.2	0.4	-6.1	-7.8	-9.5	8,0	7,8	7,7	2,5	2,5	2,6
Austria	1.4	2.4	1.7	-0.5	0.3	0.8	5,2	5,2	5,2	1,7	1,6	1,5
Greece	4.6	4.7	3.5	-8.5	-8.2	-7.4	n/a	n/a	n/a	3,4	3,5	3,0
Slovakia	4.5	5.5	5.1	-0.5	-3.4	-6.6	16,3	16,1	15,8	3,6	3,9	4,1
Slovenia	2.7	4.2	3.8	-0.3	-2.0	-1.6	6,5	6,4	6,3	2,1	2,4	2,6
Spain	3.0	3.1	3.4	-4.2	-5.9	-7.4	8,6	8,5	8,4	3,4	3,7	4,2
Sweden	1.5	3.6	2.5	5.9	7.8	7.0	n/a	n/a	n/a	1,2	1,3	1,1
UK	2.5	3.2	1.6	-1.5	-2.0	-2.1	5,0	n/a	n/a	2,1	1,9	1,9
EU-25	1.2	2.4	1.5	0.1	0.0	-0.3	8.5	8.5	8.5	2,3	2,1	2,2

	Public budget to GDP*			Public debt to GDP			GDP per capita to Ø EU			Price level to Ø EU		
in %	2003	2004	2005	2003	2004	2005	X-05	XI-05	XII-05	X-05	XI-05	XII-05
Belgium	0.1	0.0	0.0	100.4	96.2	94.9	115.8	116.8	118.3	102.3	104.0	104.2
CR	**-12.5**	**-3.0**	**-3.2**	**36.8**	**36.8**	**36.2**	**67.1**	**68.2**	**70.0**	**54.7**	**55.5**	**55.0**
Denmark	1.2	2.9	3.7	45.0	43.2	36.0	120.6	121.1	121.5	135.6	138.8	137.0
Estonia	2.6	1.7	1.1	6.0	5.5	5.1	46.3	48.7	50.7	107.5	108.7	106.6
Finland	2.5	2.1	1.9	45.2	45.1	42.8	112.9	112.7	114.3	124.4	125.9	122.9
France	-4.1	-3.7	-3.2	63.2	65.1	66.5	113.3	111.6	110.2	106.1	105.8	108.0
Ireland	0.2	1.4	-0.4	31.5	29.8	29.0	131.6	131.4	138.4	122.4	126.6	123.1
Italy	-3.2	-3.2	-4.3	106.8	106.5	108.6	108.2	106.0	104.8	97.9	102.3	102.7
Cyprus	-6.3	-4.1	-2.8	69.8	72.0	70.4	82.8	81.5	81.2	90.9	96.5	93.3
Lithuania	-1.2	-1.4	-2.0	21.4	19.6	20.7	42.1	45.4	47.8	54.6	54.9	54.6
Latvia	-1.2	-0.9	-1.2	14.6	14.7	12.8	38.7	40.6	43.2	57.6	55.4	56.4
Luxembourg	0.2	-1.2	-2.3	6.7	6.6	6.8	211.0	213.0	222.0	102.5	105.3	106.1
Hungary	-6.5	-5.4	-6.1	57.4	57.4	57.2	58.1	59.5	60.9	56.9	59.0	61.9
Malta	-10.4	-5.1	-4.2	72.8	75.9	77.2	72.6	72.3	71.1	73.7	74.4	74.9
Germany	-4.1	-3.7	-3.9	64.8	66.4	68.6	109.9	109.1	108.8	107.5	108.7	106.6
Netherlands	-3.2	-2.1	-1.8	52.6	53.1	54.0	121.1	120.0	119.2	105.3	106.6	105.2
Poland	-4.8	-3.9	-3.6	45.3	43.6	46.3	45.3	45.6	46.7	59.5	53.4	52.4
Portugal	-2.9	-3.0	-6.0	57.7	59.4	65.9	76.1	74.1	72.5	76.2	87.3	85.7
Austria	-1.2	-1.0	-1.9	65.1	64.3	64.3	121.3	120.9	121.1	105.2	105.7	103.6
Greece	-5.7	-6.6	-3.7	108.8	109.3	107.9	77.0	80.5	81.6	82.2	84.5	85.1
Slovakia	-3.8	-3.1	-4.1	43.1	42.5	36.7	51.0	51.9	52.0	44.6	50.5	54.9
Slovenia	-2.7	-2.1	-1.7	29.4	29.8	29.3	74.7	76.2	77.8	75.5	77.9	75.8
Spain	0.0	-0.1	0.2	49.4	46.9	44.2	96.1	98.8	98.1	85.0	86.6	87.4
Sweden	0.2	1.6	1.4	52.0	51.1	50.6	113.9	114.3	115.9	121.1	124.0	121.1
UK	-3.3	-3.2	-3.4	39.7	41.5	43.1	117.4	118.7	118.9	110.7	103.8	105.6
EU-25	**-3.0**	**-2.6**	**-2.7**	**64.0**	**63.4**	**64.1**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

*Source: Eurostat, the figure for 2005 year is from European Commission's Economic forecast autumn 2005, *) net balance, GDP per capita according to PPP*