EU News
Monthly Journal

Number 33,
June 2006

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Dear readers,

May 2006 was so eventful in terms of the European integration process that if we want to include the most representative ones we have to make a strict and brief selection.

The first of May was rather symbolic since we – and nine other new countries – were reminded of the fact that we have belonged to the European Union as a member with full rights for two years now. The European Commission's analytical study at the same time confirmed that, at least for now, the project has been an absolute success with important potential to include the EU15 in the EU activities even more.

The following events in May were of fully practical impact. We may find inspiration in the process of the Lithuanian and Slovenian struggle to enter the Euro zone. The Convergence Report confirmed that for Slovenia there are no factual obstacles preventing it from becoming the 13th country of the Euro zone in January 2007; Lithuania, on the other hand, due to minimum variation from the inflation objective, was not recommended and its adoption of the euro as its legal tender will be postponed.

The preparation process for further EU enlargement to the south-west developed in many respects in May. The European Commission published relatively favourable pre-accession economic programmes for accepting Bulgaria and Romania but also for the candidates of Croatia and Turkey. The status of conditionally accepting Bulgaria and Romania has not changed as the final decision on their accession to the EU was postponed until autumn and depends on improvements of their justice system and corruption solutions. From the long-term perspective, there is a new aspect of the EU enlargement process – the results of the Montenegro referendum bringing independence to the country will have a direct impact on the EU since the newly independent country is likely to make a rather active effort to enter the EU very soon.

The events in May were also important for us because obstacles preventing the free movement of workers were eliminated in Finland, Spain, Portugal and Greece and they became more benevolent in France, Denmark and the Netherlands; even other countries such as Italy, Belgium and Luxembourg declared their readiness to eliminate the obstacles at least partially.

Key events in May included the final adoption of the New Financial Outlook for 2007-2013, the related Commission proposal for the 2007 budget and an objectively optimistic spring forecast of European executives, expecting moderate acceleration of economic growth and further decrease of unemployment rate in the EU.

We wish you a pleasant beginning of the summer season while reading the key European topics in the EU News Monthly Journal,

Petr Zahradník

The anniversary of the rejection of the European Constitution by France and the Netherlands brings about thoughts on how to proceed in the ratification of the Treaty. Suggestions for stopping the process and initiating negotiations on a new agreement with a less controversial title are prevalent. The regular half-yearly report of the European Commission was rather optimistic. Economic growth in the EU in years to come is projected to increase, the unemployment rate to decrease and inflation to remain stable.

POLITICS

Prague Treaty Instead of EU Constitution?

Nearly one year after the rejection of the Treaty on the Constitution for Europe in the French and Dutch referenda, the European Commission is taking a fresh initiative. Chairman José Manuel Barroso declared that the **circumstances were not suitable for attempting to bring the European Constitution back to life**. The Commission will require instead that each Member State clearly state its intention to seek an agreement on institutional reform in the near future – probably within a year – with key negotiations taking place in 2008.

This date is not accidental. Next year, Europe will celebrate **the 50th anniversary of the Treaty of Rome** establishing the then European Economic Community; it will be a good opportunity to consider the future direction of the EU. Elections in France and the Netherlands will take place the same year and their governments may change. 2008 will be even more important. **France**, the traditional driving force behind European integration, will hold the presidency. A **revision of the EU financing strategy** is planned for the same period, which will surely lead to thoughts over the future of a number of European policies. Modernization of the EU policies and, at the same time its institutional reform seems a logical solution. The new treaty regulating the aforementioned issues is, however not likely to be considered a constitutional treaty.

The five-year mandate of the European Parliament and the European Commission will terminate in June and November 2009 respectively, and José Manuel Barrosso, chairman of the Commission, believes that the new treaty should be adopted by then. In addition, the ministers of foreign affairs of the Member States agreed to this end in their meeting. The Czech Republic will hold the presidency in the first half of 2009; therefore it may happen that the treaty will be called the Treaty of Prague, according to the place where it is signed.

Even though the European Constitution has dim chances of survival, it has not yet become a completely defunct document. **Estonia became the 15th Member State** to approve it in the Parliament in May. **Finland** is expected to act similarly in the beginning of July.

The June summit of the European Council will indicate whether the idea of the European Constitution ratification is to be cancelled and the states are gradually **to adopt a less controversial treaty under a different title**, or whether the ratification process is to continue provided France and the Netherlands take another vote. We believe that the first option is more likely. A third, quite unlikely scenario predicts that no action will be taken and the EU will function subject to the existing primary law that has not been updated since the Nice Treaty.

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

ECONOMY AND EURO

European Commission Recommends only Slovenia to Join the EMU

Slovenia has complied with all the Maastricht convergent criteria and **will adopt the euro from January 2007**. The European Commission and the European Central Bank therefore suggest that Ljubljana be admitted to the Euro zone. Economic and Monetary Affairs Commissioner Joaquín Almunia (and the ECB in its Convergence Report), on the other hand **stopped Lithuania from adopting the euro** as it failed to meet the inflation criterion. Instead of a reference value of 2.6 percent, the average price growth rate in this Baltic state is 2.7 percent. This fact was also supported by an expert prognosis that inflation is to reach 3.5 percent by the end of the year. A final decision is to be adopted by the Ecofin Council in July. It is, however highly probable that it will adhere to the EC and ECB recommendation as in the past.

The measurement performed by the Commission and ECB is **very strict** and their recommendations are in compliance with the law of the European Community. **It has not, however always been this way**. During the accession to the 3rd stage of the Economic and Monetary Union, i.e. the adoption of the euro, both institutions were highly benevolent towards Italy and Belgium; the public debt therein of 118.1 percent clearly exceeded the required value of 60 percent and they were not even approaching the value at a satisfactory pace.

The case of Lithuania shows again the **inconsistency of the Maastricht criteria, particularly with regard to inflation**. The term "best inflation" ("the best results in terms of price stability") is used therein, not the absolutely lowest inflation. It also takes into account the inflation values from all EU25. The numbers were lowered thanks to low inflation in Poland and Sweden but they are not even members of the Euro zone. If the inflation of the three Euro zone countries were considered, Lithuania would have met the criterion. New states accessing a unified monetary area such as the Euro zone will fit in if their economy is as similar to the Euro zone as possible with respect to its performance, cycle and structure. For poor countries this translates to catching up to the EMU average by a higher

GDP growth which – under stable or even fixed exchange rate conditions (as required by the Maastricht exchange rate criterion) – will reflect in higher inflation.

There is a lesson for the Czech Republic and the other new Member states; we will be allowed to access the Euro zone only if we comply fully with all the required criteria. The rather benevolent assessment used for the original EU Member States will no longer be applied.

http://europa.eu.int/rapid/pressReleasesAction.do?reference=IP/06/622

http://europa.eu.int/rapid/pressReleasesAction.do?reference=IP/06/623

Fulfillment of Maastricht criteria

	Reference	Slovenia	Lithuania
Price criterion	2.6 %	2.3 %	2.7 %
Interest criterion	5.9 %	3.8 %	3.7 %
FX criterion	ERM 2 +	o.k.	o.k.
Public budget crit.*	- 3.0 %	-1.9 %	-0.5 %
Public debt criterion*	60.0 %	29.1 %	18.7%

*Source: ECB, *) as of GDP*

Commission Outlook: EU Economics to Grow

According to the Commission's half-yearly forecast, **economic growth is projected to rebound in 2006** to 2.3% in the EU and 2.1% in the Euro zone, up from 1.6% and 1.3%, respectively, in 2005. The main impulses stem from a robust increase in investment, continued strong world growth and an improved outlook in the leading European economy – Germany. Growth is expected to be slightly lower in 2007 at 2.2% in the EU and 1.8% in the Euro zone.

Commission experts are also optimistic with respect to the labour market. Compared to the last two years when the EU created approximately 3 million new jobs in total, it is expected to create 3.6 million new jobs over the period 2006 – 2007. **Unemployment is expected to fall** from around 9% in 2004 to around 8.2% in 2007. Inflation remains remarkably stable at just above 2% despite the increase in oil prices. Although energy prices are rising rapidly, core inflation is declining, indicating that the oil price hike does not have any significant second-round effects. The forecast assumes that these effects will continue to be largely absent and **inflation is projected to remain around two percent**.

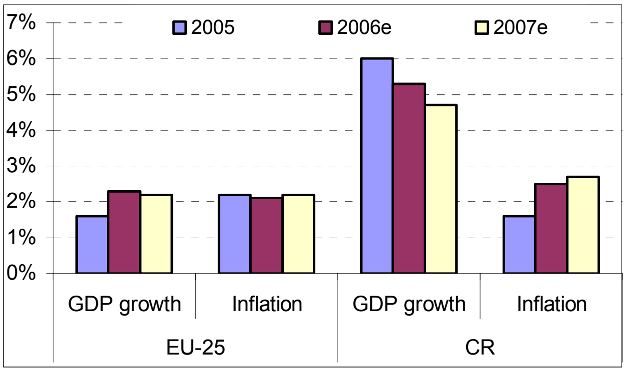
The Commission considers the **oil markets the biggest near-term risk**. The very low spare capacities make markets extremely vulnerable to supply disruptions.

The forecast is also **optimistic for the Czech Republic** even though growth is expected to decrease from 6.0% in 2005 to 5.3% and 4.7% in 2006 and 2007, respectively. Domestic demand should become the economic momentum and substitute export. Export will, however stay at a high level.

Unemployment is projected to decrease slightly from 7.9% in 2005 to 7.6% in 2007. Inflation is expected to grow slightly due to the increase in energy prices. Last year's inflation was 1.6% and the EC expects 2.7% in 2007.

http://europe.eu.int/rapid/pressReleasesAction.do?reference=IP/06/588

Economic outlook for EU-25 and CR



Source: Economic outlook by EC - spring 2006

BUDGET

EU Adopted a Financial Budget for 2007-13

As expected, the European Parliament (EP) respected the compromise agreed between the EP representatives and the Austrian presidency representatives, and **approved the EU's financial perspective for 2007-2013**. The budget for 2007-2013 as approved by the Parliament was signed by the EP and EU presidents and by the European Commissioner for Budget, Dalia Grybauskaité.

Expenses of 864.4 billion euros are expected in the final budget for the coming seven years. The amount proposed by the leaders of EU25 in December was 862.4 billion euros, while Parliament originally required 975 billion last summer.

Parliament adopted the budget in the form of the **Inter-Institutional Agreement on the financial perspective for 2007–2013** by a compelling majority of 418 votes in favour, 187 against and 15 abstentions.

The approval of the financial perspective is **good news for all Member States** and particularly for the new Members. Should the agreement fail and the annual budgetary cycle be put back the expected increase of funds for the structural and cohesion policy would not take place at all.

The Directive on Services passed a crucial milestone in terms of its overall adoption when it was supported by the Council of EU. Now, only the European Parliament is expected to discuss it in a second reading.

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	51.27	52.41	53.62	54.29	55.37	56.88	58.30	382.14
1a. Competitiveness for growth and employment	8.40	9.10	9.75	10.43	11.30	12.15	12.96	74.10
1b. Cohesion for growth an employment	42.86	43.32	43.86	43.86	44.07	44.72	45.34	308.04
2. Preservation and management of natural resources	54.98	54.32	53.67	53.04	52.40	51.78	51.16	371.34
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	1.20	1.26	1.38	1.50	1.65	1.80	1.99	10.77
4. The EU as a global partner	6.20	6.47	6.74	7.01	7.34	7.68	8.03	49.46
5. Administration	6.63	6.82	6.97	7.11	7.26	7.40	7.61	49.80
Compensations	0.42	0.19	0.19					0.80
Total appropriations for commitments / % GNI	120.70 /1.10	121.47 /1.08	122.56 /1.07	122.95 /1.04	123.01 /1.03	125.53 /1.02	127.09 /1.01	864.32/ 1.048

Source: European Commission

The **budget does not reflect the challenges of the 21st century**; more than two fifths of its expenses go to agriculture; its adoption is, however positive. It is also possible that its structure will be altered in future in favour of investments to science, research, innovations, information society or education. This should be decided in a comprehensive revision of the EU budget projected for 2008 to 2009 according to the EU25 agreement based on the European Commission report.

http://www.europarl.europa.eu/news/expert/infopress_page/034-8483-135-05-20-905-20060524IPR08482-15-05-2006-2006-false/default_en.htm

INTERNAL MARKET

Commission Aims to Improve the Rights of Rejected Bidders to Challenge Decisions

The European Commission has put forward a **proposal to improve the national review procedures** that businesses can use when they consider that a public authority has awarded a contract unfairly. The aim is to make public **tender awards more transparent**.

The European Commission has identified two main reasons for the adoption of new rules:

- **the lack of effective protection against direct awards** of public contracts, i.e. public contracts awarded to a single bidder;
- **the rapid conclusion of a public contract** which deprives businesses of the opportunity to bring remedial actions effectively.

The current remedial actions are often rather expensive and uncertain in some Member States and rejected bidders do not initiate them even when they consider that a public contract has been awarded unfairly.

The European executives aim mainly to introduce a ten-day **standstill period** for which public authorities would be **obliged to suspend the conclusion of a public contract** with the award winner. This will give rejected bidders the opportunity to bring review procedures with the competent bodies. In urgent cases the period can be only seven days. If no entity challenges the results of a public procurement within the stipulated period it will be considered as concluded in accordance with the rules.

According to the Directive the Member States would be obliged to introduce sanctions so that any breach of rules regulating public contracts **would be punishable**.

The Directive will be adopted under the **"co-decision" procedure** in the European Union's Council and the European Parliament.

http://www.europa.eu/rapid/pressReleasesAction.do?reference=IP/06/601

Directive on Services Adopted by the Council

The controversial Directive on Services passed a crucial milestone in terms of its overall adoption when it was **supported by the EU's Council of Ministers**.

It is still **more liberal than the revised proposal** that respected the majority of the MEPs' opinion more than the first version, prepared by ex-Commissioner Bolkenstein. The new Members, including the Czech Republic played an

important role as they ensured that the service markets in certain Western European Member States, this far not easily accessible, be more open.

The Council, for instance approved that the states be **obliged to notify the Commission of their respective domestic rules** applicable to the regulation of the cross-border provision of services. “The governments will have to justify why such regulations exist and notify the Commission, which will analyse them,” said Mr Tlapa, Deputy Minister of Industry and Trade, to the ČTK agency.

In addition, the **services excluded/included in the scope of the Directive are defined more precisely**. It will still apply that if an authority fails to respond to an application for a permit to provide services (included in the Directive) filed by an entity from another Member State, the permit will automatically be considered as granted.

The original version of the Directive on Services from 2004 was optimal for the Czech Republic. The present compromise **does not stipulate the key rule of the country of origin** (service providers adhere to the laws of their domestic country, not the host country) but it is probably the best that can be achieved given the will of certain protective states. It will be interesting to note how the MEPs are to respond in a second reading. The Directive is to be adopted in the co-decision procedure, i.e. the Council will agree with the Parliament. According to preliminary reactions the representatives of leading clubs in the Parliament will approve the agreed version. It may therefore be expected that the Directive will be **adopted this summer**. Then, the Member States will have up to three years to implement it in their respective domestic legislations.

http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/intm/89781.pdf

Expert Group to Consider Switching Bank Accounts

The European Commission announced that an expert group will be created in order to **examine the options of switching bank accounts**. The aim is to enable clients to switch bank accounts easily, to increase competition in the European banking industry and to support the consolidation of the bank services market in the EU. The expert group will be composed of representatives of the banking industry and academics.

According to the European Commission, the main obstacles to switching banks include various fees for closing a bank account and related services as well as administrative and technical barriers that complicate and prolong the implementation of changes. **Better opportunities to switch banks, particularly in the cross-border** environment within the EU, are a preliminary condition for the creation of the Single Euro Payments Area (SEPA).

From the long-term perspective the unification of the bank and payment services market in the EU is obviously beneficial for the overall European economy. **The Commission should, however carefully consider what tools to use** within this commendable project. The expert group – in view of its title – should only consider apolitical expert economic opinions and consider the efficiency of such measures consistently. We believe that under the current conditions the costs of introducing the option to switch bank accounts would be higher than any resulting effects and benefits.

http://europa.eu/rapid/pressReleasesAction.do?reference=IP/06/619

AGRICULTURE AND FISHERIES

The Council Obstructs an Agreement on the Support of Fisheries

The Member States’ Ministers **failed to reach an agreement on the support of European fisheries** facing considerable problems. Environmentalists welcomed the failure as they constantly point out the critically low amount of fish in European seas.

The core of the rejected proposal was the **establishment of the European Fisheries Fund**, which was to have an overall budget of 3.8 billion euros at its disposal in 2007 – 2013. The Mediterranean EU states promoted the Fund in particular since they planned to use it as a relief for the fishing industry, a significant sector in these countries. The fishing industry is under pressure from two points of view today – first the increase in fuel prices, second the decrease of fish stocks. The other side of the barricade was presented by Germany, Great Britain, Belgium and Poland, which finally managed to obstruct the establishment of the Fund.

The voting **results are disappointing for the European Commission**. It expressed an opinion that the proposal presented a reasonable compromise that would support European fishermen and prevent pressure on decreasing fish stocks.

Negotiations on assisting European fish producers will be held on the level of COREPER (Committee of Permanent Representatives) with an **outlook to conclude an agreement** under the Finnish presidency **in the second half of 2006**.

http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/agricult/89691.pdf

The European Commission published regular monitoring reports on the readiness of Bulgaria and Romania to access the EU. Contrary to expectations, it does not recommend whether to allow the accession of both countries to the EU in 2007 or a year later. The recommendation is to be published in the autumn; the decision is, however, up to the Member States.

ENLARGEMENT

Commission to Postpone Recommendation of Romanian and Bulgarian Accession

The European Commission published a monitoring report on Romania and Bulgaria in May. The report, however **does not give a recommendation** whether to allow the accession of both Balkan countries to the EU as of 01/01/2007 or whether to postpone it for a year, as enabled by the concluded accession treaty.

European executives are to **present their opinion in the autumn**. "The Commission will publish a report on the progress of Bulgaria and Romania in solving the remaining issues no later than early October. The Commission will consider whether the accession date of 1 January 2006 can be met", states the document.

But the final decision is to be adopted by the Member States. According to the applicable accession treaty, the decision to postpone the accession of Bulgaria and Romania may only be adopted by the EU Council. The Council's decision must be adopted unanimously for Bulgaria, and by a qualified majority for Romania.

The main findings of the EC's monitoring report:

Bulgaria

Since October 2005 the number of areas raising serious concern in the preparation of Bulgaria for EU accession has decreased from 16 to the 6 following areas:

- setting up a proper integrated administration and control system in agriculture,
- building up rendering collection and treatment facilities to provide food safety,
- specific results in investigating and prosecuting organised crime networks,
- more efficient and systematic implementation of laws for the fight against fraud and corruption,
- intensified enforcement of anti-money laundering provisions,
- strengthened financial control over the resources from the EU structural and cohesion funds.

Romania

Since October 2005 the number of areas which have given rise to serious concern in the preparation of Romania for EU accession has significantly decreased from 14 to 4:

- establishing a fully operational paying agency accredited for handling direct payments to farmers and other entities under the common agricultural policy,
- setting up proper, integrated administration and control systems in agriculture,
- building up rendering collection and treatment facilities to provide food safety,
- providing IT systems in line with the EU systems in terms of taxes to enable the correct collection of VAT.

We believe that the postponed recommendation of the European Commission serves as a **warning to Sofia and Bucharest** not to rest on their laurels but **increase their struggle for reforms** on the eve of their accession. Postponed accession by possibly one year would have a negative impact on public opinion in both countries and provide political support to local euro-sceptics. This is why we believe that the accession of both countries **is more likely already on 01/01/2007**.

http://europa.eu.int/rapid/pressReleasesAction.do?reference=MEMO/06/201

EU to Interrupt Negotiations with Serbia

Serbia failed to arrest Ratko Mladic, a war crimes suspect, and send him to the International Criminal Tribunal in The Hague by the stipulated deadline of 30 April 2006. Serbia therefore **failed to comply with a pre-condition of the EU** for further negotiations on the conclusion of a Stabilisation and Association Agreement commenced in October of last year. The European Commission's decision was announced by Olli Rehn, the Commissioner for Enlargement in early May. According to him, negotiations may be renewed as soon as Serbia provides full cooperation to The Hague Tribunal, i.e. arresting and extraditing Ratko Mladic. Serbian Prime Minister Vojislav Koštunica expressed his disappointment and declared that Serbia is trying its best to arrest Mladic.

Meanwhile, the **citizens of Montenegro decided** by a majority in a referendum that they do not wish to remain as a common state with Serbia. The countries will therefore separate, which will affect negotiations with the EU. Commissioner Rehn commented that the EU is ready to negotiate a Stabilisation and Association Agreement **with each of the countries separately**. Since the condition to extradite Mladic does not apply to Montenegro, Montenegro could carry on with negotiations on an agreement with the EU with the prospect to conclude it as soon as 2006.

The Stabilisation and Association Agreement introduces a new kind of contractual relationship with countries interested in EU accession and is a precondition for any potential further negotiations on EU accession. We believe that before 2015 only Croatia may accede to the EU (except

Bulgaria and Romania). **The European Union is not ready for any additional enlargement at the moment**.

http://ec.europa.eu/comm/enlargement/serbia_montenegro/serbia_montenegro_index.htm

Commission: EU Enlargement is an Economic Success

The European Commission published a study according to which, two years later, the **biggest enlargement ever of the European Union is an economic success**. The 10 new Member States' economies are growing at a rapid pace, enabling them to progressively bridge the gap with their richer neighbours. But the latter also win as the increase of the EU's single market by 75 million to 450 million inhabitants brings a large number of trade and investment opportunities. The enlargement has acted as a **force for modernisation in the EU as a whole** which is important in terms of competition on global markets after the emergence of China and India.

The EU enlargement has brought about a growth of economy. With economic growth on average of 3.75% a year between 1997 and 2005 the 10 new Member States had better results than the old Member States (EU15) (2.5% on average in the same period). Due to swift growth the **economic level in the new States increased** from 44% of the EU GDP average in 1997 to 50% in 2005 on average.

The adoption of the EU body of legislation and rules helped to **reform the previously centrally planned economies**, brought about macroeconomic stability and stable financial markets and provided huge opportunities for business, the report states. The potential was emphasized by the openness of economies in the EU10. Their trade (exports plus imports) represents 93% of their GDP on average compared to an EU15 average of 55%.

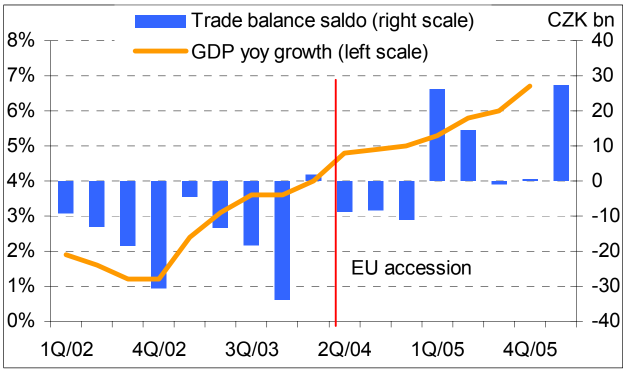
Accession to the single internal market attracted foreign direct investments (FDI). FDI reached an overall stock of 191 billion euros in 2004, i.e. 40% of the EU10 GDP, but nobody could have anticipated anything like this ten years ago. Although the stated amount is impressive for the EU10, it is only 4% of the EU25 overall investment stock in the same year and cannot be associated with major delocalisation.

In the meantime, **none of the pessimistic scenarios has materialised**. Enlargement did not create economic problems, an increase of prices nor did it trigger massive migration flows from the acceding States into the incumbents' markets.

Therefore, we agree with the findings of the report. **Accession to the EU is a real benefit for the Czech Republic** as witnessed in the majority of economic statistics. The most pronounced benefit has been noted in the balance of trade; from constant deficits it turned into increasing surpluses.

http://europa.eu.int/rapid/pressReleasesAction.do?reference=IP/06/557

Key macroeconomic figures in the CR



source: CSO, Eurostat

ENVIRONMENT

EU Action Plan to Halt Biodiversity Loss

The new EU Action Plan outlines the responsibilities of the EU and Member States with the aim to **halt biodiversity loss and extinction** of animals and plants by 2010.

Four action plans were already adopted in 2001 within a broader strategy of biodiversity in the EU approved in 1998, applying to the following areas:

1. protection of natural resources,

2. agriculture,

3. fishing,

4. economic and development of cooperation with states outside the EU.

The Member States agreed to halt biodiversity loss by 2010 and to renew biotopes and national ecosystems at the EU **Gothenburg summit in 2001**. In 2002 the Member States and approximately 130 other countries pledged to significantly reduce the worldwide rate of biodiversity loss, also by 2010.

Nature and biodiversity is one of the four priorities of the **6th Action environmental programme** applicable to the 2002-2012 period. The European Union introduced a new Action Plan for biodiversity, which is the fifth such document since the Gothenburg summit in 2001.

The new Action Plan does not present new, ambitious legislation protecting wild birds and natural biotopes. Rather, it focuses on clarifying the responsibilities related to already

The key documents regulating the European regional policy are being finalized. On the acquis level, five key regulations were approved by the Council and await the opinion of the European Parliament. On the national level, financial allocations to individual operational programmes were stipulated following the adoption of the National Development Plan. The allocations await the approval of the European Commission.

valid legislation. The first task will be an **analysis of the existing policies** that failed to provide the planned outcomes.

The Action Plan identifies four key priority areas:

- **Biodiversity in the EU** – the Member States should pay more attention to the Natura 2000 programme and to the optimised use of available measures within the revised Common Agriculture Policy and Common Fisheries Policy.
- **The EU and global biodiversity** – the objective is to strengthen coherency and synergy between trade and development cooperation, support efficient implementation of the UN Convention on biodiversity and similar treaties, including measures to prevent deforestation.
- **Biodiversity and climate change** – the EU should focus on complying with the Kyoto Protocol on the limitation of greenhouse gas emissions and an agreement on new, ambitious objectives beyond 2012.
- **The knowledge base** – the priority is to strengthen the meaning of the European Research Area, its international dimension, support the infrastructure for research, links between science and politics and improve the comparability of biodiversity data.

As for the funding, the Commission announced that it **plans to use the existing finance programmes** such as rural development, cohesion and structural funds, the European Fisheries Fund, LIFE+ and the 7th Framework Programme on Science and Technologies.

The Commission will **publish the summary reports on the progress** of complying with the Action Plan objectives **annually**.

http://europa.eu/rapid/pressReleasesAction.do?reference=IP/06/667

JUSTICE AND HOME AFFAIRS

Enhancement of Free Movement for EU citizens

The directive on the right of citizens of the Union and their family members to move and reside freely within the territory of the Member States, adopted in 2004 **was brought into force in the EU at the beginning of May**.

According to the Directive, Union citizens **will no longer be obliged to obtain a residency permit in other Member States**; they will only be obliged to register their stay. They will still have to prove that they either perform economic activity as a worker or self-employed person or have sufficient resources so that they do not depend on the social security system in the host state, and that they pay a health insurance in the country of their stay. Citizens will **automatically have the right to permanent residency after five years of residence** in the host Member State. After that period the host State will not be entitled to require that they have sufficient resources.

The Directive also provides a **single legal framework for various groups of citizens** (employees, students, pensioners etc) who used to be subject to special standards. The same rights are to apply to citizens of third countries if married to or in a registered partnership with an EU citizen.

On the occasion of the deadline for implementation in the national legislatives, European Commissioner for Justice Franco Frattini commented that EU25 citizens are also entitled to **take to court the country failing to implement the rules**, says the ČTK agency. More than half of the Member States have not yet made such implementation including the Czech Republic. According to previous decisions of the European Court of Justice the Directive is expected to apply directly, even without implementing a national standard.

http://www.europa.eu.int/rapid/pressReleasesAction.do?reference=IP/06/554

REGIONAL POLICY

Regional Policy 2007-2013 Key Documents Finalized

The European Union, as well as the Member States are **successfully struggling to make up for lost time** in the preparation of key documents for drawing structural and cohesion funds over the period 2007-2013.

On the communitarian level there are **five regulations** in particular defining the rules for using the instruments of the European regional policy:

- General regulation introducing common provisions for three funding sources for structural events in 2007-2013,
- Regulation on the European Regional Development Fund,
- Regulation on the European Social Fund,
- Regulation on the Cohesion Fund,
- Regulation on the European cross border cooperation association.

The European Commission presented the drafts in 2004. During 2005, the legislative process started as various European bodies commented on it (such as the European Parliament committees, Committee of Permanent Representatives COREPER and the EU Council, the Court

of Auditors, Economic and Social Committee, Committee of the Regions). **The final approval by Member State representatives** was given at the EU Economic and Financial Affairs Council (ECOFIN) meeting. Its validity depends on the European Parliament approval, projected for late June or early July. Negotiations may, however become more complicated; contrary to the version approved by the Council some MEPs intend to include the estimated allowance for contingency from funds not used for projects. The funds could then be offered to other countries with a sufficient number of projects instead of returning them to the European budget as unused funds. This would bring benefits to the EU10 as they are more experienced in terms of using the funds than the EU15.

The **National Development Plan**, adopted by the government in February plays the main role for each Member State. The following government meeting in May **divided the financial budgets into separate operational programs**:

Estimated distribution of funds from the SF and CF in the Czech Republic among operational programmes over the period 2007 - 2013 (no domestic co-financing):

1. Objective of Convergence

Operational programme	mil. EUR	%
OP Enterprising and innovations	3 041	11.75
OP R&D for innovations	2 071	8.00
OP HR and employment	2 588	10.00
OP Education for competitiveness	1 812	7.00
OP Environment	5 177	20.00
OP Transportation	5 565	21.50
Integrated operational programme	1 941	7.50
Regional operational programmes	3 429	13.25
OP Technical assistance	259	1.00
Total	**25 882**	**100.00**

2. Objective of Regional competitiveness and employment

Operational programme	mil. EUR	%
OP Prague Adaptability	122	29
OP Prague Competitiveness	298	71
Total	**419**	**100**

3. Objective of European territorial cooperation

Operational programme	mil. EUR	%
OP cross border cooperation	345.6	90
OP multinational cooperation	38.4	10
OP cross regional cooperation	-	-
Total	**384**	**100**

This distribution may not be final; it represents the opinion of the Czech Republic and the basis for negotiations with the European Commission on the National Strategic Reference Framework and the operational programmes, and for completing the final versions of the OPs. **Each OP and its budget must be approved by the European Commission**.

A new programming period, 2007-2013 starts already on 1 January 2007, but requests for users to submit project applications for co-financing will be delayed. **The first are expected in April to May**.

http://ec.europa.eu/comm/regional_policy/funds/2007/index_en.htm

http://www.strukturalni-fondy.cz/regionalni-politika-eu-2007-2013/usneseni-vlady-cr-k-evropskym-zdrojum-v-letech-2007-2013

EU Funds to Pull together with Banks

European Regional Policy Commissioner Danuta Hübner signed an agreement with the heads of four European public financial institutions in late May on three initiatives to deliver more growth and jobs to underdeveloped regions. The aim is to **use the potential of both financial resources** (EU funds + financial institution funds) from the beginning of the new programme period in January 2007 to reach the maximum effect of the projects funded by the EU.

The agreement was in the form of a memorandum of understanding and applies to the following three initiatives:

1. Jaspers – a joint programme of the **Commission**, the **EIB** (European Investment Bank) and the **EBRD** (European Bank for Reconstruction and Development). It aims to improve the preparation of major projects to be co-financed by the Cohesion Fund and the Structural Funds, in particular in the new Member States. It foresees the use, free of charge of the technical and financial expertise of both banks to strengthen the capacity of national and regional authorities in the given countries. In the first year the banks should pay around eight million euros, i.e. mostly the costs of fifty new experts, the registered office in Luxembourg and regional offices, thus far in Warsaw and Bucharest, states the ČTK agency.

2. Jeremie – a joint programme of the **Commission**, the **EIB** and **EIF** (European Investment Fund). The initiative aims to improve access to finance for small and medium-sized enterprises, in particular the supply of micro credits, venture capital or guarantees. The programme will enable small and medium-sized entrepreneurs to benefit from tailored financial products offered by the institutions.

3. Jessica – a joint programme of the **Commission**, **EIB** and the **Council of Europe Development Bank**. The aim is to combine grants under the EU programmes for urban development or renewal, including social housing with loans and expert opinions of the relevant banks. The programme should also be attractive for the Czech Republic as it could enable the development of renovation of panel buildings. Due to limitations in use of the structural funds for housing, the loans of both banks are expected to be rather significant in the initiative.

http://www.europa.eu/rapid/pressReleasesAction.do?reference=IP/06/693

HEALTH AND CONSUMER PROTECTION

New Rules for Nutrition and Health Claims on Foods

The European Parliament approved **tougher rules for foods claiming to provide nutritional and health benefits** that foods are “low energy” or “low fat”, “high fibre” or “reduced cholesterol” as agreed with the EU Council in a compromise.

The **regulation on “nutrition and health claims on foods”** aims to protect consumer health, to prevent false advertising and to provide true information on the foods and their value, and to prevent an excessive burden for the producers.

The regulation should provide clear definitions for nutrition and health claims on foods. In future, a food may be claimed as “low fat” only if it contains less than 3 g of fat per 100 g (solid form) or 1.5 g of fat per 100 ml (liquid). For cheeses, the low fat content limit is to be 15%. Drinks containing more than 1.2% of alcohol may not give as their only health claim the descriptions “reduction of energy content” or “low alcohol levels”. The nutrition claims of “reduced alcohol levels” or “energy content” may be governed temporarily by national regulations.

The **standard does not apply to foods that are sold unpackaged** to the final consumer or that **are packed at the point of sale** (fresh products such as fruit, vegetables or bread). A new duty is introduced to have a certificate for health claims on foods. Since it may take up to year and a half to obtain this certificate, the Parliament proposed an “accelerated procedure” in which the certificate should be granted no later than within 7 months.

With respect to another **regulation on the addition of vitamins, minerals and certain other substances to foods**, Parliament decided that vitamins and minerals may be added to foods only “in a form biologically acceptable to the human body”. Further adopted changes apply in particular to the daily intake recommended by the producers.

Since both regulations have already been agreed with the Council, the Council is expected – **probably in the autumn** – to approve them. The regulations will then come into effect within 20 days of their publication in the Official Journal.

http://www.europarl.europa.eu/news/expert/infopress_page/067-8214-136-05-20-911-20060512IPR08047-16-05-2006-2006-true/default_en.htm

Sunscreen Products Labelling System to Improve

The manner in which sunscreen products are currently labelled shows weaknesses that the European Commission intends to address and provide consumers with **better information for decisions on the purchased goods**.

There are two types of UV radiation:

- **UVB radiation** is the cause of sunburn.
- **UVA radiation** causes premature ageing of the skin, interference with the human immune system and is an important contributor to the risk skin cancer.

The **sun protection factor** typically claimed on products only protects against sunburn (UVB radiation).

Against this background the European Commission has launched an initiative to improve the labelling system. The projected main points of the measure under preparation are as follows:

- **UVA radiation protection should be indicated in a uniform manner** based on standardised testing methods to enable consumers to compare products.
- Claims giving the impression of total protection such as “sunblock” **should disappear**.
- Labels should have **clear and understandable warnings** and usage instructions for the consumer on how to use a sunscreen product correctly.

The measure will probably be in the form of a recommendation, i.e. not as a binding legal document. Its wording may be affected by the participants of the opened public consultation.

http://www.europa.eu.int/rapid/pressReleasesAction.do?reference=IP/06/571

May was exceptionally rich in information, as shown in the rather extensive column titled “Events” (as well as the entire issue of the Monthly Journal) and a number of points of interest in the column titled “Anniversaries”. The Green Book on the initiative to increase transparency within the EU, a speech by controversial Bolivian president Evo Morales in the European Parliament and published national reports on greenhouse gas verified emissions and issued emission permits are all worth mentioning.

2 MAY

Consumer protection seen as key for Fair Trade: http://www.europarl.europa.eu/news/public/story_page/028-7742-115-04-17-903-20060502STO07741-2006-25-04-2006/default_en.htm

Results of the public consultation on the "Rights of passengers in international bus and coach transport": http://ec.europa.eu/transport/road/consultations/index_en.htm

3 MAY

Batteries and accumulators: http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/misc/89416.pdf

Green Paper on European Transparency Initiative adopted by the European Commission: http://ec.europa.eu/comm/eti/index_en.htm

4 MAY

Commission adopts Report on the implementation of the first railway package in the Member States: http://ec.europa.eu/transport/rail/overview/infrastructure_implement_en.htm

Commissioner Mandelson sets out EU trade policy goals beyond Doha: http://ec.europa.eu/comm/trade/issues/newround/doha_da/pr040506_en.htm

5 MAY

Council conclusions on cross-border consolidation in the financial sector: http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/ecofin/89441.pdf

Council conclusions on Financial supervision: http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/ecofin/89439.pdf

Council conclusions on Commission white paper, financial services policy 2005-2010: http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/ecofin/89437.pdf

Council approves cohesion policy package for 2007-2013: http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/ecofin/89436.pdf

'Fin-Focus' - new Commission newsletter on EU financial services policies and what they mean for consumers: http://ec.europa.eu/internal_market/finances/news/newsletter_en.htm

8 MAY

2726th Economic and Financial Affairs Council meeting: http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/ecofin/89449.pdf

"eures.europa.eu" – a new web address to fill 1 million job vacancies: http://ec.europa.eu/employment_social/emplweb/news/news_en.cfm?id=156

Commission guidance document on health warnings on tobacco packages: http://ec.europa.eu/comm/health/ph_determinants/life_style/Tobacco/keydo_tobacco_en.htm

9 MAY

German and English scientists will lead a Europe-wide study into the role of genetics and the environment in the development asthma: http://ec.europa.eu/research/infocentre/article_en.cfm?id=/comm/research/headlines/news/article_06_05_08_en.html&item=Health%20%26%20life%20sciences&artid=1753

10 MAY

Pursuing the inter-parliamentary debate on the Future of Europe: http://www.europarl.europa.eu/news/expert/infopress_page/002-7847-129-05-19-901-20060503IPR07846-09-05-2006-2006-false/default_en.htm

11 MAY

International Roaming charges: an obstacle to consumers travelling abroad: http://www.europarl.europa.eu/news/public/story_page/058-8019-124-05-18-909-20060510STO08018-2006-04-05-2006/default_en.htm

Report on utilisation of budget appropriations 2006: http://ec.europa.eu/budget/execution/utilisation_2006_en.htm

12 MAY

EU welcomes repeal of US tax breaks to US exporters: http://ec.europa.eu/comm/trade/issues/respectrules/dispute/pr120506_en.htm

The family in the EU25 seen through figures: 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_05/3-12052006-EN-AP.PDF

European Environment Agency: Tackling climate change delivers better air quality for Europe: http://org.eea.europa.eu/news/Ann1147357656/index_html

15 MAY

National reports on verified emission and surrendered allowances: http://ec.europa.eu/environment/climat/emission/citl_en.htm

16 MAY

Morales discusses nationalization, coca and Cuba with Foreign Affairs Committee: http://www.europarl.europa.eu/news/expert/infopress_page/030-8208-135-05-20-903-20060515IPR08193-15-05-2006-2006-false/default_en.htm

Better regulation, less red tape and a bigger voice for Parliament: http://www.europarl.europa.eu/news/expert/infopress_page/008-8230-136-05-20-901-20060512IPR08065-16-05-2006-2006-false/default_en.htm

MEPs agree new criteria for withdrawing proposals for legislation: http://www.europarl.europa.eu/news/expert/infopress_page/008-8213-135-05-20-901-20060512IPR08046-15-05-2006-2006-false/default_en.htm

2727th General Affairs Council meeting: http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/gena/89617.pdf

2728th External relations Council meeting: http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/gena/89618.pdf

17 MAY

Commission's Preliminary Draft General Budget - Financial Year 2007: http://ec.europa.eu/budget/documents/annual_budgets_reports_accounts_en.htm#budget_2007

Small decline in overall taxation to 39.3% of GDP in 2004: 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_05/2-17052006-EN-BP.PDF

18 MAY

Commission Report to Council and Parliament on promotion of voluntary unpaid blood donations [PDF in 20 languages]: http://ec.europa.eu/comm/health/ph_threats/human_substance/keydo_blood_en.htm

ECB Convergence Report May 2006: http://www.ecb.eu/press/pr/date/2006/html/pr060516.cs.html

19 MAY

2729th Education, Youth and Culture Council meeting: http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/educ/89661.pdf

22 MAY

Wind powered electricity generating capacity increased by over 150% in the EU25 since 2000: 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_05/8-22052006-EN-BP.PDF

23 MAY

The referendum in Montenegro: http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/cfsp/89692.pdf

2730th AGRICULTURE and FISHERIES Council meeting: http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/agricult/89691.pdf

24 MAY

Increasing EU-Russia collaboration in aeronautics research: http://ec.europa.eu/research/aeronautics/info/news/article_4128_en.html

26 MAY

EU helps reform public procurement in the former Yugoslav Republic of Macedonia (FYROM): http://www.ear.europa.eu/publications/main/news-a1a2y3a4.htm

29 MAY

ITER project, fusion as an energy source - agreement reached on world's biggest scientific collaboration of its kind: http://ec.europa.eu/research/press/2006/pr2405-2en.cfm

Biodiversity challenge takes centre stage at Green Week: http://org.eea.europa.eu/news/Ann1148883371/index_html

30 MAY

2731st Competitiveness Council meeting: http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/intm/89781.pdf

2005 Pre-accession economic programmes of acceding and candidate countries: http://ec.europa.eu/economy_finance/publications/enlargement_papers/elp27_en.htm

31 MAY

MEPs analyse Court decision to annul passenger data agreement with USA: http://www.europarl.europa.eu/news/expert/infopress_page/019-8518-152-06-22-902-20060529IPR08507-01-06-2006-2006-false/default_en.htm

June is traditionally rich in various meetings of the EU key institutions. It is a tradition to organize regular European Council meetings, i.e. meetings of the Member States' leaders. Compared to recent meetings the atmosphere is not expected to be overly strained. The key budget puzzle regarding the financial prognosis for 2007-2013 has already been solved. It will be interesting to see whether and how the Member States leaders will agree on the EU Treaty on the Constitution.

Meeting of the key EU institutions

1.-2.6.2006	**Luxembourg, Luxembourg**
- Employment, Social Policy, Health and Consumer Affairs Council	
1.-2.6.2006	**Luxembourg, Luxembourg**
- Justice and Home Affairs Council	
7.6.2006	**Luxembourg, Luxembourg**
- Economic and Financial Affairs Council	
8.-9.6.2006	**Luxembourg, Luxembourg**
- Transport, Telecommunications and Energy Council	
12.-13.6.2006	**Luxembourg, Luxembourg**
- General Affairs and External Relations Council	
13.-14.6.2006	**Strasbourg, France**
- European Parliament Plenary Strasbourg	
15.-16.6.2006	**Brussels, Belgium**
- European Council	
19.-20.6.2006	**Luxembourg, Luxembourg**
- Agriculture and Fisheries Council	
26.-27.06.2006	**Luxembourg, Luxembourg**
- General Affairs and External Relations Council	
26.-27.6.2006	**Luxembourg, Luxembourg**
- Environment Council	
29.6.2006	**Luxembourg, Luxembourg**
- Competitiveness Council	

Public consultation on EU legislation

Topic of the consultation	Organiser	Deadline
Strategy for the trade and economic relations between the EU and China	DG TRADE	16.6.2006
The Intra-Community circulation of defence related products	DG ENTR	30.6.2006
Evaluation of Settlement Finality Directive 98/26/ES	DG MARKT	30.6.2006
FP7 Consultation on Collaborative Working Environments supporting Business and Industry	DG RTD	7.7.2006

In the Czech Republic, discussions have started on replacement of the Czech crown with the common European currency, the euro. One rather overlooked item is an equally revolutionary project – the establishment of the Single Euro Payment Area (SEPA). The project aims to make payment transactions under an equal price and non-price conditions within the entire EU regardless of national borders; therefore the "foreign payment services" category should cease to exist in the EU.

SINGLE PAYMENT AREA IN THE EU

One of the main economic pillars of the EU – **the single internal market** – came into being in 1993 upon The Single European Act. However, in a number of areas it has not been put through; obstacles preventing the **free movement of persons, goods, services or capital** still exist in certain areas. One of these, despite recent progress, is the provision of credit transfers.

Though the general principle of a single internal market applies, **the system of payment differs considerably on the national and European levels**. Payments on national levels are provided quickly, safely and with low expenses whereas the same is not true for payments among individual Member States. This involves, in particular small clients or small or medium-sized businesses who cannot get cross-border payments in the EU under the same terms as national payments. For certain payment instruments there are huge price **differences between the European and the national levels**; some instruments cannot even be applied as a cross-border payment. Moreover, each Member State has its own and often **different legal requirements** imposed on the payment service providers, which prevents new players from other Member States from accessing the market and decreases competition. Differences became more pronounced following the adoption of the single European currency, which in fact enabled the introduction of the single cash payment market. Non-cash payments, the volume of which is considerably more significant, however remain rather fragmented throughout Europe.

Figuratively speaking, payments are the oil that enables the wheels of economy to move smoothly. Without a proper and efficient single market of payments it is impossible to make satisfactory use of all the positive effects of the free movement of goods or services in the EU. The problem is not minor: each EU citizen realizes **138 credit transfers per year** on average. The total number of all payment transactions (cash and non-cash) in the EU is 231 billion per year corresponding to approximately 52 billion euros. Expert studies estimate that the payment system expenses amount up to 2 – 3% of the GDP and a **considerable part thereof is covered by the banks.** The main expenses are related to the cash payment system; the expenses are 0.30 to 0.55 euro per transaction. However, the non-cash payment system expenses amount only to several eurocents. The wider application of credit transfers, particularly in the cross-border payment system would **introduce considerable savings.**

Therefore, it is important to establish a **single payment area in the entire EU**, within which citizens, businesses and other institutions could realize payments in an easy and cheap manner as they do on national level.

According to the current opinion of the European Commission, the creation of a single payment market in the EU will be based on two pillars:

- **regulation** – regulative intervention of EU institutions that must provide the necessary legal basis for the process of unification of the payment system in the EU;
- **self-regulation** – self-regulating activities of the payment system providers intended to put through the standardization and integration of national fragmented payment infrastructures and services.

EXISTING LEGISLATION REGULATING PAYMENT SERVICES IN THE EU

The key European bodies took the first steps toward establishing the Single Payment Area in the EU in 1997, when **Directive 97/5/EC** and **Recommendation 97/489/EC** were approved. More considerable progress was not reached until the approval of **Regulation 2560/2001/EC** in 2001.

Directive 97/5/EC on cross-border credit transfers

The directive aims at **introducing the minimum information and quality requirements for a cross-border payment system** so that the funds are transferred among Member States in a timely and reliable manner and with reasonable expenses.

The Directive is a **binding legal instrument** that shall be **implemented in national legislation** in order to become valid. For the Czech Republic, it is the Payment System Act.

<u>Main points of the Directive's arrangement:</u>

- It applies to any cross-border credit transfer **of an amount of less than 50,000 euros** denominated in euros or in other Member State currencies.
- The Directive **defines precise information** which the institutions (i.e. "institution whose business is to receive repayable funds from the public and other comparable securities and to grant credits for their own account") or any natural person or legal entity other than a credit institution which makes cross-border transfers within its operation) must make available to their clients in relation to cross-border credit transfers. **Prior information on cross-border credit transfers** include, for instance the time necessary for the funds to be

credited to the beneficiary, the manner of calculation of any commission charges (fees) or the reference exchange rate used. **Following the credit transfer,** the institution shall provide to the client, for instance a reference enabling identification of the transfer, information on the original amount of the cross-border credit transfer, the amount of all payable charges etc.

- The customer's institution shall execute the payment within the agreed time limit. If the agreed time limit is not complied with or if there is no agreed limit and the funds are not credited to the account of the beneficiary's institution **within five days following the date of acceptance of the order**, the institution shall compensate the customer.
- The customer's institution shall execute the payment within the agreed time limit. If the agreed time limit is not complied with or if there is no agreed limit and the funds are not credited to the account of the beneficiary's institution **on the day following the day upon which the funds were credited** to the account of the beneficiary's bank, the institution shall compensate the customer. If the beneficiary's institution can prove that the delay is attributable to the customer or the beneficiary, no compensation shall be payable.
- If, after a cross-border credit transfer order has been accepted by the customer's institution, **the relevant amount is not credited** to the account of the beneficiary's institution, the customer's institution shall credit the customer with the relevant amount (up to 12,500 euros) plus interests and paid charges.
- Institutions participating in the execution of cross-border transfer orders shall be released from their obligations if they can evidence that the non-performance is attributable to **circumstances beyond their control.**

Recommendation 97/489/EC concerning transactions using electronic payment instruments

The main aim of the Recommendation is to contribute to the development of an information society by promoting **customer confidence in electronic payment instruments.** This includes payment cards (debit and credit) and phone-banking and home-banking applications.

The recommendation **is not a legally binding act**; the European Commission only declares the intended final state. If it is unsatisfactory, an appropriate legally binding act may be adopted in the form of a directive or regulation.

Main points of the Recommendation's arrangement:

- The Recommendation stipulates **minimum information requirements** which should be contained in the conditions applied to transactions made by electronic payment instruments and the minimum obligations and liabilities of the clients and providers of the payment system.
- The minimum information contained in the **conditions governing the issuance and use of an electronic payment instrument** shall include a description of the electronic payment instrument, of the holder's and issuer's mutual obligations and liabilities, the normal period within which the transactions will be made, the types and amount of any charges related to the service etc.
- The holder (client) is obliged to notify the issuer **immediately of the loss or theft** of the electronic instrument and until the time of notification the holder is liable for any loss related thereto, which may not exceed 150 euros. As soon as the holder notifies the issuer – except when he/she has acted fraudulently – he/she is not liable thereafter for any incurred loss.
- The issuer of an electronic payment instrument **notifies the holder only of his/her personal identification number** and keeps, for a sufficient period of time internal records to enable transactions to be traced. The issuer is also liable for the non-execution or defective execution of the holder's transactions or for transactions not authorized by the holder.

Regulation 2560/2001/EC on cross-border payments in euros

The main aim of the Regulation is **to equalize various charges in the payment systems** of internal payments and cross-border payments. Unlike Directive 97/5/EC on cross-border credit transfers, the Regulation applies more generally to all transactions up to 50,000 euros inclusive of payment card transactions.

The Regulation is **a binding legal document and is directly applicable**.

Main points of the Regulation's arrangement:

- **The charges for cross-border payments** in euros within the single EU market must be **the same as charges for payments** in euros **within a Member State.** The Regulation will not apply to cross-border payments made between institutions for their own accounts.
- **With effect as of 1 July 2002,** the Regulation applies to charges for payment card transactions and ATM

withdrawals **up to 12,500 euros**. With effect as of 1 July 2003 the charges applied for national and cross-border credit transfers (in the EU) for normal transfers up too 12,500 euros shall be the same. **With effect as of 1 January 2006,** the limit for payment card payments, ATM withdrawals and normal transfers shall be raised to **50,000 euros at maximum.**

- Clients (customers) will be **informed properly and sufficiently in advance on the charges** of cross-border payments.
- The Regulation stipulates the institutions' duty to inform clients of their **IBAN account number and institution BIC** in account statements (with effect as of 1 July 2003). It stipulates that the client is obliged to state the beneficiary's IBAN and his/her bank's BIC in payment orders. If the client does not notify the bank of the above data, additional charges may be charged to the client.
- The Directive may also apply to payments **in currencies other than the euro** upon the decision of the relevant Member State. So far only Sweden has joined in; therefore it applies **to the Swedish crown.**

Regulation 2560/2001 is further extended by **two conventions of the European Payment Committee** created in order to facilitate the implementation of the Regulation into practice; at the same time they are another step in establishing the Single Euro Payment Area (SEPA). Both conventions became effective on 1 July 2003, and are not obligatory for banks.

1. CredEuro

This convention regulates the standard design of payment services in order to ensure **efficient and cheap processing of retail cross-border payments in euros,** provided the client's and the beneficiary's banks are both located in an EU Member State. The convention provides low costs of processing and a fixed overall period for the transfer from the client to the beneficiary, i.e. three business days following the date when the payment order was accepted by the client's bank. A voluntary convention of the European Payment Council is being prepared for coming years – the **Prieuro**. This should require banks to provide even more demanding services; one of the proposed obligations is to transfer funds on the same date an order is made.

2. ICP (Interbank Convention on Payments)

Payments within this convention **must comply with STP requirements** (straight through processing): the order shall state the beneficiary's IBAN, the beneficiary's bank BIC; the maximum amount is 50,000 euros; the order shall not state any further instructions and shall be regulated by the SHA payment disposition (the client and the beneficiary bear the costs of their respective banks).

5 ICP principles:

1. the client and the beneficiary bear the costs of their respective banks,
2. the amount shall be transferred in full (the banks may not charge any fees),
3. the payment complies with the STP criteria (if not complied with, the beneficiary's bank may charge an additional commission fee for NON-STP processing),
4. rules for refusal/return of transfers,
5. rules for charging any fees (e.g. once a month).

The current legal framework for payment services in the EU has **a number of shortcomings.** The legal acts **overlap,** in some cases even **contradict each other** and in general they are **too complicated**.

Recommendation 97/489/EC is not binding and some Member States have not implemented it fully in their national legislation. Moreover, following the adoption of Regulation 2560/2001/EC, some rules required by the Directive and the Recommendation seem **obsolete; they do not correspond to the present market development**.

Generally, they are insufficient. The regulation of cross-border payments in euros brought the charges for cross-border transactions closer to the equivalent domestic payments, but it **does not imply the establishment of a single payment area.** Clients cannot choose one account and one payment card for the entire European Union. **The standards and business practices vary in each country.** The products, forms and services still vary and are limited mostly by the national borders. Certain payment service instruments such as collections cannot be made internationally at all. This means that the cross-border payments are only 3% of all payment transactions.

NEW LEGAL FRAMEWORK – THE EUROPEAN COMMISSION'S PROPOSAL

As stated above, Regulation 2560/2001/EC in particular has brought certain progress in establishing the **Single Payment Area in the EU**. The adoption of the European currency euro in 1999 (in cash in 2002) and the creation of the pan-European settlement system **TARGET** (Trans-European Automated Real-Time Gross Settlement Express Transfer) by the European Central Bank has also proved to be beneficial.

The progress reached so far **is, however insufficient** since a number of legal and technical barriers still prevent

consumers, businesses and payment service providers to use all the positive effects of the single market of non-cash payments.

The existing legal framework for payment services based on a **combination of various national rules** and **incomplete legislation in Europe** is confusing, it leads to fragmentation of the internal market and prevents any possible volume savings to be realized. This discourages banks and other providers of payment services from creating the required pan-European payment infrastructure. The elimination of technical and legal obstacles should provide efficient payment services, competition among providers under the same conditions, adequate protection of clients, payment safety and a guarantee for the legal security of all participating subjects.

Therefore, the European Commission presented **consultation material to the New Legal Framework (NLF) for payments in the internal market** in 2003. Following an assessment of the consultation process during which all interested parties could comment on the proposals, it presented a specific legislative document in 2005 – a proposal of the **Directive on payment services in the internal market.** This creates the required legal basis for the establishment of the Single Euro Payments Area (SEPA) proposed by the European Payments Council (EPC). An alternate solution consisting of adoption of the NLF in the form of a Regulation with only specifically limited contents was rejected.

The newly proposed Directive on payment services in the internal market presents an overall change of the payment system regulation philosophy in the EU. While the previous legal arrangements applied the rule that what is not forbidden is allowed, the **NLF** applies the opposite principle: **what is not allowed is forbidden**.

Proposal for a Directive on payment services in the internal market

The proposed Directive will provide an **easier and fully harmonized legal framework** since it will supersede Directive 97/5/EC on cross-border credit transfers, Recommendation No. 87/598/EC on European Rules of Conduct for electronic payment, No. 88/590/EC on payment systems and relations between the payment card holders and issuers, and No. 97/789/EC on transactions performed via electronic means of payment, Article 8 of Directive 97/7/EC on consumer protection in respect to distance contracts and Article 8 of Directive 2002/65/EC on the distant marketing of consumer financial services.

The Directive is a **binding legal document** that needs to be implemented in national legislation so that it becomes valid after its approval. The Directive is to be approved in the **co-decision procedure** in which the EU Council and the European Parliament have to agree on it. It is projected for approval **by the end of 2006**.

<u>Main points of the proposed Directive's arrangements as proposed by the European Commission:</u>

1. Subject matter, scope and definitions

- Four categories of institutions entitled to provide payment services are distinguished: (i) credit institutions (banks, savings and credit cooperatives, central banks, post offices), (ii) electronic money institutions, (iii) post office banks, (iv) other natural persons or legal entities who have been granted authorization to provide payment services, so-called payment institutions.
- The Directive applies to payment system services (stipulated in the Annex) where the provider is located in the EU: depositing and withdrawing funds from a bank account, payment orders, collection orders, payment card or other electronic money transactions, transactions of internet banking, home banking or phone banking and others. Transactions consisting solely of a transfer of cash or cheque payments are not regulated in the Directive.
- The Directive applies to payments in all EU currencies and the majority of requirements involves transfers of less than 50,000 euros or its equivalent in another currency.

2. Right to provide payment services to the public

- This chapter defines the requirements to be submitted by the payment service providers in order to obtain an authorization, e.g.: type of payment services foreseen, a business plan including a budget, description of administrative and accounting procedures, risk management procedures etc.
- If the application of a payment service provider complies with all the requirements, an authorization will be granted. The authorization will be valid automatically in all Member States with no further procedure (the principle of a single European passport). The EU Member States shall ensure that the authorization is recognized in other Member States.
- Authorization to provide a payment system without application may also be granted to small payment service providers if it is in the public interest e.g. for the implementation of money laundering rules or mechanisms to prevent terrorist financing. Here, Recommendation VI of the international organization against money laundering and terrorist financing, FATF

(Financial Action Task Force) are applied aiming at enabling certain illegal providers to move from the grey economy to the official sector. The single European passport principle does not apply to such providers.

- The Directive requires that the Member States maintain a register of payment institutions, maintain stipulated terms when receiving an application, require that payment institutions keep records of all services and transactions for a reasonable time, but not more than 5 years, etc.

3. Transparency and information requirements

- The Directive regulates individual payment transactions as well as payment system framework contracts. For each category it requires sufficient information to be provided.
- This part of the Directive stipulates the particulars to be included in the communicated terms of the payment system: description of the obligations and liabilities of the payment service provider and the payment service user, specification of the information or identifier that must be provided by the payment service user in order for a transaction to be executed, the execution time for the transaction, the availability of appropriate funds on the user's account, a reference to the point in time of acceptance of a payment order, all charges, an indication of the applicable law and the competent court for the settlement of potential disputes etc. It also stipulates a list of information to be provided to the user and beneficiary following the acceptance of the order or the funds.
- Certain other conditions apply for the payment system framework contracts, e.g.: the technical requirements with respect to the provider's and user's communication, the user's right to initial contracts on the provision of payment transactions, exchange rates and tariffs to be applied to transactions etc. The Directive also stipulates methods for altering or cancelling the payment system framework contract. The simplified mode applies to micro payments not exceeding 50 euros.
- The Directive also stipulates information to be provided to the payee after the acceptance of an order (a reference enabling the identification of each payment or information relating to the payee, the amount of the payment transaction and charges for the transaction or the exchange rate) or to the beneficiary after the acceptance of funds from the payee (a reference enabling the identification of each transaction and beneficiary, the full amount transferred under the order, transaction charges or the exchange rate).

4. Rights and obligations of users and providers

- The Directive stipulates the conditions for the authorization of payment transactions by the payee via a payment verification instrument: the payee must use it in accordance with the instructions and notify the provider immediately of the loss thereof; the provider shall ensure that the security features of the payee are not accessible to any third parties and refrain from sending any unsolicited payment verification instruments etc. The Directive also provides the settlement of disputes on the authorization of any payment transaction made.
- In the event of unauthorized payment the payment service provider is obliged to refund the payee the amount of the unauthorized payment immediately. A certain financial compensation may be agreed. The client will bear the loss up to the amount of 150 euros (which may be reduced by the Member States) from the use of a lost or stolen verification instrument occurring before he/she has fulfilled his/her obligation to notify the provider thereof. This will not apply if he/she has acted fraudulently or with gross negligence. This client protection does not apply to enterprises exceeding the size of a micro enterprise (i.e. more than 10 employees and annual revenue exceeding 2 million of euros or a balance sum exceeding 2 million of euros) since they have sufficient capacity to assess the risk of unauthorized payments.
- The user and the payment service provider may agree on maximum spending ceilings for payment services and the payment service provider may block the payment if there is suspicion of fraudulent use. If the payment order is refused, the reasons for the refusal shall be notified to the user without undue delay and no later than within three days. Internal records on payment services shall be kept for at least one year.
- If the payment transactions are carried out in the currency of a Member State and the payment service providers are located in the EU, the Member State shall require that the transaction fees are charged to the user and the payee (SHA disposition). The payee may vary this requirement by mutual agreement with his/her provider.
- If the payment service providers are located in the EU, the Member State shall require that for transactions initiated by the user (payment order – credit transfer) the funds are credited to the payee's account no later than at the end of the first business day following the acceptance of the order (D+1). Until the end of 2009, the user and the payment service provider may agree on a period of no longer than three days (D+3). This does not apply to

currency conversion or micro payments (up to 50 euros). For payment transactions initiated by the payee (collection order – direct collection) a general period of one day is also stipulated unless the payee and the provider agree otherwise. In the case of deposit of funds to the client's account, the payment services provider shall ensure that the funds are credited no later than the following business day (D+1). The Member State may require an even shorter period than that stipulated in the Directive with respect to domestic payment transactions (applies to fund deposits and transfers).

- The payee's payment service provider shall ensure that the funds accepted from the user are received by the payee immediately after the acceptance and no additional fees shall be charged in relation to their release.

5. Amendment and Payment Committee

- In order to take account of the technological and market developments in payment services and to ensure the uniform application of the Directive in the Member States, the European Commission may amend the list of activities covered by the Directive and adopt certain other provisions. The Commission shall be assisted by the Payments Committee composed of representatives of the Member States.

6. Final provisions

- No later than two years after the application of the Directive to the national legislation of the Member States, the European Commission will prepare a report on the implementation of the Directive.
- The Member States shall allow persons who have commenced the activities before the Directive came into force to continue the activities of payment institutions for 18 months after the date of the Directive's application into national legislation.
- The Member States shall apply the Directive into their national legislations within 12 months after the date of adoption of the Directive.

Current Status of the Directive

The European Commission proposed the Directive in early December of last year. At present it is **discussed at meetings of the Committee of Permanent Representatives of the Member States** (COREPER) and soon it will be discussed in the **relevant committees of the European Parliament**. The initial negotiations, however indicate that the coming approval process will not be easy.

The opening paragraphs are subject to significant dispute. According to the European Commission's proposal backed by the United Kingdom and the Scandinavian countries, **newly established payment institutions** should be subject to lower regulation compared to banks that compete with them in payment services. For example, the rules of capital adequacy or minimum amount of the registered capital should not apply to them. Furthermore, they may also pursue other business activities (e.g. telecommunications services). Austria, as the presiding state (supported by Germany), ECB and the majority of the European Parliament are of the opposite opinion. They require that **natural persons should not be allowed to become payment institutions,** they should be subject to capital adequacy, may not pursue any other activity than payment services and funds from clients would have to be strictly separate from their own funds.

The Directive is also criticized for other problems. Its scope is, in some points focused on payments where **one party is not located in the European Union.** After its application it will be difficult to make e.g. American banks to comply with obligations stipulated in European legislation.

With respect to the stipulated rights and obligations **the Directive is unbalanced,** since it exceedingly emphasizes the protection of clients and **a large part of the obligations is placed on the payment service providers.** This is clear, for example with respect to the limited liability of the electronic payment instrument holder (e.g. payment card) where the holder bears liability only up to the amount of 150 euros before he/she notifies the provider of the loss and the remaining amount is at the liability of the provider. Making the payments prompt as stipulated in standard rule D+1 is certainly a positive step for the future. The question is whether the deadline for the rule is not too murderous.

SINGLE EURO PAYMENT AREA (SEPA)

The second pillar regulating the consolidation of payment system markets in the EU is the initiative of the payment service providers where **the banking industry is crucial**. The payment service providers will have to find **the most efficient pan-European business model** for payment systems or the most convenient method of integrating the fragmented payment infrastructure and various payment service products with the aim to make a profit from potential savings and offer new, technologically developed and efficient payment technology.

Thus far, this opinion is also held by the European Commission. The freedom of the banking industry representatives will, however not be unlimited; the European Commission as well as other key European organizations

(the Council, Parliament, ECB) will for certainly **reserve the right to influence and/or dismiss the rules** proposed by the banks. This has also been confirmed by Charlie McCreevy, the Commissioner responsible for the Internal Market. He presented consultation material on the stimuli for the SEPA establishment in February, in which he stated his vision on how this should work. He warned the banks that if they fail to progress sufficiently in SEPA establishment, the Commission may adopt **its own legislative solution**.

The proposed Directive on payment services in the internal market is a **necessary legal framework for the establishment of the Single Euro Payment Area (SEPA).** The main role, however remains with banks and other payment service providers who, for this purpose established **the European Payments Council** (EPC).

The European Payments Council

The European Payments Council **is the decision-making and coordination body of the European banking industry in relation to payments** with the purpose to create SEPA. The Council was established upon the initiative of the European Association of Cooperative Banks (EACB), the European Savings Banks Group (ESBG), the European Banking Federation (EBF), the Euro Banking Federation (EBA) and 42 European banks in June 2002 in response to the single euro currency and to Regulation 2560/2001/EC on cross-border payments in euros.

The European Payment Council aims at creating system solutions enabling Euro zone citizens and gradually all of "Europe" (perceived by EPC as the EU plus Iceland, Norway, Liechtenstein and Switzerland) to make the essential payment transactions in a single currency **"with one account and one payment card in any country under the same fees and terms as in their home country."** The intention to establish SEPA was specified in the White Book: "Euroland – our single payment area" and in the EPC Charter in 2002 in the following declaration: "We, the European banks and European Credit Sector Associations:

- "Share the common vision that Euroland payments are domestic payments,
- "Join forces to implement this vision for the benefit of European customers, industry and banks and accordingly,
- "Launch our Single Payments Area."

SEPA is an area where citizens, companies and other economic actors are able to make and receive payments in euros within Europe – whether between or within national boundaries – under the same basic conditions, rights and obligations **regardless of their location.** This applies to credit transfers, direct debit and debit card transactions.

While the definition refers to Europe in general, the establishment of **SEPA will be the priority of the Euro zone.** In Europe – except the Euro zone – it will be possible to participate in payment systems in euros and adopt standards and procedures of the Single Euro Payment Area (SEPA), thus contributing to the establishment of a single internal market in payments. This will, however not be obligatory.

Cash – the single European currency, euro – has already become pan-European currency within the Euro zone. In order to achieve SEPA, non-cash transfers such as **credit transfers, direct debit and payment card transactions** also must become pan-European.

The European Commission's attitude should also be mentioned. In its documents, the abbreviation SEPA means the Single **European** Payment Area, which indicates the applicability of SEPA within the EU as a whole, not only in the Euro zone. It would, however, be rather inefficient to include non-euro payments in the pan-European payment schemes and instruments (see below) since the costs would be considerably higher than the benefits, regardless of the fact that 10 out of 13 states of the Euro zone (except the United Kingdom, Denmark and in part, Sweden) anticipate adopting the euro soon.

SEPA Roadmap 2004-2010

Since its establishment the European Payments Council, together with the banking industry has contributed significantly to the creation of SEPA through its adoption of several resolutions and recommendations. During the first nine months of its operation the Council introduced **CredEuro** – the first pan-European automated clearing for cross-border credit transfers up to 12,500 euros required to be credited to the payee's account **within three days** D+3. A new standard, **Prieuro** is under preparation, aimed at making payments within the same time as national payments; by 2007 the transfer should be made within the same day (D+0), and an Inter-bank convention on payments (**ICP**) enabling the crediting of the whole amount to the payee's account (see above). The first Pan-European Automated Clearing House (PE-ACH) started operation in July 2003, i.e. the STP2 system operated by the European Banking Federation.

Progress is insufficient; there are differences between domestic and cross-border payment transactions within one country and among domestic payment systems in various countries.

A new impulse to progress with the SEPA establishment was the **SEPA Roadmap 2004-2010,** adopted in December 2004 and updated last year.

Payment service instruments

The Roadmap focuses on establishing the Single Euro Payment Area through the introduction of three key payment schemes for:

a) SEPA **Credit Transfers**,

b) SEPA **Direct Debits**,

c) SEPA **Debit Cards**.

These schemes will create a **set of core payment instruments in SEPA** to be implemented by the banks and provided to their clients. A decision was adopted under which the schemes (frameworks) will be separated from the payment infrastructures. The SEPA payment schemes (frameworks) are defined as **a common set of rules and practices** for the provision and operation of a SEPA payment instrument agreed at an interbank level. The payment schemes will be managed by a non-profit special bank institution that is yet to be established (Scheme Management Entity).

to a) SEPA Credit Transfers

The Credit Transfers will be regulated in the document titled "SEPA Credit Transfer Scheme Rulebook", the first version of which was adopted by the European Payments Council in March 2006 (the final version may vary according to further negotiations). Credit transfers in accordance with the SEPA credit transfers shall comply with the following:

- payments in euros without limitations,
- payments will state the BIC bank code, the IBAN account number and the payee's bank will be accessible within SEPA,
- payments will be made without deductions; the user and the payee will bear the charges of their respective payment service providers/banks,
- minimum requirements on transfers are within three business days of the date of acceptance of the order (D+3); the period of D+1 is anticipated in future (to be in accordance with the NLF); the optional standard Prieuro anticipates the fund credit on the same day (D+0),
- transfers are processed through STP (= automated direct processing)
- additional data of the sender, up to 140 symbols will be sent to the payee complete, without alterations.

to b) SEPA Direct Debits

The Direct Debits will be regulated in the document titled "**SEPA Credit Transfer Scheme Rulebook**", the first version of which was adopted by the European Payments Council in March 2006 (the final version may vary according to further negotiations). Some particulars are similar as for SEPA Credit Transfers (BIC bank code, IBAN account number, STP processing, unlimited payments in euro, unless a limit is decided by the end of this year).

There are, however even more significant disputes as for which model will be adopted as SEPA. The key factor is the mandate = a contract between the payer and the payee for the clearance of liabilities in the form of collections. In the majority of West European countries the contract must be delivered to the payee's bank; the bank keeps a database of such contracts and checks the payee's identification numbers. There is a different system applied in the Czech Republic: the mandate database is managed by the payer's bank and it decides whether to enable collection from the payer's account subject to whether the payee's requirements are in accordance with the data in the database. The form of cross-border SEPA direct debits has not yet been finally decided.

to c) SEPA Debit Cards

The Debit Cards will be regulated in the document titled "**SEPA Card Framework"**, the first version of which was adopted by the European Payments Council in March 2006 (the final version may vary according to further negotiations).

Cards compatible with the SEPA principle should be based on the EMV standard, with chip technology. Though it is more expensive than magnetic strips, it is safer. Users will use SEPA debit cards in every shop and withdraw cash from ATM machines throughout the EMU under the same conditions as in their home countries.

This will apply solely to debit cards. It is not yet planned to include also credit cards, but this may happen in the future.

Generally speaking, the pan-European SEPA card will be issued by EuroCard or Visa associations, which would mean the end of national debit schemes with considerable market shares in some states (this does not apply to the Czech Republic). An alternate and less probable scenario anticipates that various national schemes mutually agree to use the same standards and interconnect so that they become "SEPA compliant".

Payment infrastructure – clearing settlement houses

Logically, completely new pan-European payment instruments will have to be settled by clearing houses able to process them. The houses will have to be able to settle any SEPA credit transfer or SEPA direct debit from any EMU Member State under the same conditions, with no discrimination according to locality. Exclusively national clearing houses will cease to exist or transform according to SEPA principles in pan-European clearing houses (**PE-ACH**).

Each payment service provider in SEPA will, therefore have to be connected to the PE-ACHs either directly or via another provider/bank. Of the current dozens of clearing houses in the EU only few of the PE-ACH type are expected to survive. The first such house is the STEP 2 system operated by the European Banking Federation.

Schedule:

According to the schedule, the EPC plans to effect all three pan-European payment schemes (credit transfers, direct debit, debit cards) **by January 2008** and expects the majority of clients to use them **by 2010.** Generally, there will be two stages of the SEPA introduction.

Stage I as of 01/01/2008 – payment service providers should have the first SEPA compliant instruments ready for clients (such as credit transfers, direct debits, debit cards) to use in the cross-border and national payment transactions. In a two-year transitional period the national payment instruments and clearing systems will coexist with the SEPA instruments and systems, provided an increasing number of clients switch to SEPA. The first initiators of SEPA payments should be public institutions and multinational corporations for whom the benefits should be particularly distinct. Gradually, other clients will join in and SEPA will gradually become important.

Stage II as of 01/01/2010 – SEPA payment instruments settled by PE-ACH will be used by the majority of clients; exclusively national payments will terminate gradually and cease to exist.

SEPA Impact on the Czech Banking Industry

Payment services are expected to undergo **serious changes** in the near future. As a result, cross-border payment transactions (within the EU) will cease to exist and the EU single internal market concept will supersede national markets, also in the payment transactions.

Although pan-European payment service instruments will be implemented first in the Euro zone according to SEPA, the Czech Republic will be approaching the stage of adoption of the euro at the time of their implementation (the official policy of the Government and the Czech National Bank anticipates accession to the Euro zone in 2010). Therefore, it is highly advisable to participate in the SEPA and payment instruments from the very beginning. We are pleased to state that this is already happening. **Czech banks** participate in the activities of bodies and working groups of the EPC through their **representatives.** Karel Vítkovský, the Vice-Manager of the Payment Service Department of Česká sporitelna, is a member of the Cash Working Group.

The SEPA project is a **logical supplement to the Economic and Monetary Union (EMU) and the single internal market**, as the basic economic pillars of the EU. Although we strongly believe that the consolidation of payment services within the EU is generally beneficial in the long-term perspective, an open discussion on the costs of adopting new systems is encouraged. The European Commission estimates the annual "operational" savings from the standardization and consolidation of payment transactions in the EU as a whole to be 50-100 billion euros. No studies exist yet on the single costs of the transfer from national payment systems and instruments to SEPA. It is, however clear that the main part of the costs will be paid by the payment service providers, in particular banks.

The following three types of costs related to the adoption of SEPA in the banking industry may be identified in the manner of simplification:

1. **Investment costs** on the single change of information systems.
2. **Operational costs** for the implementation of new instruments that, due to their pan-European solution may be more expensive than purely national schemes.
3. **Financial losses** – for example, for the decrease of fees for cross-border payment transactions that are higher than domestic.

In addition to costs, banks may **expect benefits**. The single passport principle within the provision of payment services will allow efficient entities to access the as-yet less accessible foreign markets and expand their business. Increased competition will not only result in decreased income; it will also result in pressure to reduce costs. Higher standardization and expansion of markets (instead of 25 national markets there will be one pan-European market) will **allow sharing the costs** of development and acquisition of information systems.

Czech banks are privileged in this respect. The SEPA project corresponds to the euro adoption project. If they enter the Euro zone in 2010 when the new SEPA rules become applicable, the costs of adjustment and acquisition of new information systems or an information campaign for their clients and other similar costs **may be covered at the same time**.

It will be up to each bank to decide how to approach the revolutionary project of SEPA adoption. If the banks remain in the national framework, they cannot expect good results. If they manage to agree on cooperation with cross-border partners or use synergy within a multinational bank group, their **adoption costs may decrease significantly** and they may **profit** from the overall change **in the long-term perspective.**

In the column titled “Practical experiences” we will have a look at the regional level and its experience with the management and administration of projects from structural funds. An inspiring example is the €-NET project realized by the Ústecký Region. It aims at the optimisation and efficiency of procedures for obtaining subsidies from the EU funds, in realization of the ÚR projects and projects of organizations established by the ÚR in the following programme period of 2007-2013.

THE €-NET PROJECT

2006 marks the first plan period in which the Czech Republic could receive funds from the Structural Funds, the EU Cohesion Fund and programmes published in Brussels. The second plan period, of 2007-2013 will provide a far higher volume of finances. Therefore, preparation is necessary on a nationwide level as well as on the level of our region. The €-NET project team focus is to clearly define the region’s course of action for obtaining subsidies that would provide for the regions’ needs, enable transparency and clear assessment of achieved results, and stipulate responsibilities and competences of the Regional Authority personnel and Ústecký Region (ÚR) politicians.

<u>Priorities of the ÚR in financing from subsidies over 2007-13</u>

- Traffic infrastructure
- Support of innovations in enterprise
- Human resource development
- Health and social issues
- Environment

<u>The main tasks of the project relate to the following areas:</u>

- to identify and choose priorities of the region in relation to possible resources, perspective of the subsidy policy, financial allocation volumes and provision of co-financing by region
- communication, external and internal, communication strategies
- process of introducing project management, i.e. regulatory standards, process relations, administration and forms for each project stage, job descriptions, compensation system, system of controlling, reporting.

The creation of the €-NET project was initiated by the European Project Department. From the beginning the project was prepared in accordance with project management principles – leading experts in the field of the EU subsidy policy from the Czech Republic were invited to participate in it. The project team is led by Rudolf Vyčichla and comprises in particular experts from consultancy firms – Petr Zahradník from the Česká spořitelna EU Office, Jan Havránek, Manager of the consultancy firm RAVEN Consulting, and Pavel Štefl of the VIA Praha agency, a public relations expert. Manfred Hellmich, the ÚR Regional Development Agency’s Manager, also participated in the preparation and implementation of the project. The project is under the auspices of ÚR Governor Jiří Šulc and Vice-Governor Petr Fiala.

The project management principle will be implemented as a binding process when applying for subsidies from (among others) EU funds which will put the regional government on a more professional level to create optimal conditions for opportunities and limit existing or future barriers. The main practical benefits of the project include:

- obtaining a comprehensive review of the region’s intentions and organization established by the region, including projects in any stage of implementation and more efficient management thereof,
- significant increase of the efficiency of subsidies as a means of co-financing publicly beneficial projects,
- information on utilization of the capacity of each operational programme, related measures and sub-measures, prevention of risk of non-drawing or overdrawing due to maximum use of the absorption capacity.

The Ústí nad Labem Region is located in the highly competitive surroundings of the neighbouring districts and Saxony regions. It may become significantly more important thanks to external resources, efficient use of public finances, infrastructure construction and modernization, improvement of institutional efficiency, increase of education and mobility, improvement of the environment, cooperation between the public and private sectors and international cooperation.

Monitoring information system of self-government - M.I.S.S.

Implementation of the monitoring information self-government system is one of the crucial parts of the €-NET programme. The main objective is to provide users with identification of the options to use subsidies, to enable easy and fast orientation in the subsidy opportunity system when selecting a suitable subsidy, recommend uses of an interactive offer of qualified information on financing options within the EU and the CR subsidy policy. To provide a controlled process within the implementation of project intents and survey on the financial impact on the regional economy.

The system enables automation of the approval processes of project applications as well as the creation of various sets and reports. Monitoring and assessments may be performed on a daily, weekly, monthly or another basis. Monitoring provides data collection and presents overall information on the approval process. The monitoring outputs in the form of overall reports and information are, in general crucial for the process’ general management within the approval and decision-making stage as well as for the increase of the absorption capacity and its efficient use. The generation of data for the assessment of the investment intents of the region and organizations established by the region also form an essential part of the monitoring.

Petr Fiala, Vice-Governor of the Ústecký Region

Country focus

In the current issue of the Monthly Journal we focus on the North of our border. Poland is a specific country in the EU from several points of view compared to the other new countries as well as to the EU25. Compared to the EU15, it is by far the biggest; its population is higher than the aggregate of the remaining EU15 countries. Its economic characteristics are, however far from the best.

POLAND

Government type/chief of state	republic / president Lech Kaczynski
Area (share of EU)	312 685 km2 (7.86%)
Population (share of EU)	38 173 800 (8.31%)
Age structure	0-14 years: 16.7%, 15-64 years: 70.2%, over 65 years: 13.1%
Total GDP (share of EU)	243.40 EUR bn (2.25%)
GDP per capita in PPS	49.6% of EU-25 average
GDP - composition by sector	agriculture: 4.8%, industry and constr.: 30.7%, services: 64.5%
Average inflation	2.2%
Average unemployment	17.8%
GDP growth	3.2%
General govern. balance	-2.5% of GDP
General government debt	42.5% of GDP
Number of NUTS2	16 NUTS2, Mazowieckie 72.8%, Lubelskie 33.2%

Note: the figures are for 2005, source: EU, CIA

Although Poland is still rather economically dynamic, it is poor even when compared to the new countries; together with Latvia – and not far from the other two Baltic states – even the poorest in the EU. This applies to the country as a whole but also to its individual regions: in the poorest – Lubelskie – the GDP indicator per capita is only 33% of the average economic level in the EU.

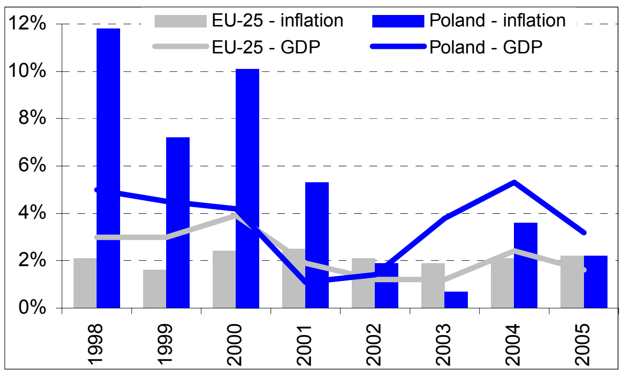
Poverty in Poland is present mainly in the inherited and still unchanged structure of certain sectors created decades ago. The sectors are either of very low performance or even lower work productivity. This applies mainly to the prevailing and fragmented agriculture sector (the nature of which is probably the most different from anything in the remaining EU states). Agriculture constitutes only less than 4% of the Polish GDP and a number of agricultural results count for self-supply and are not intended for the market at all; however, they correspond to nearly 29% of the overall employment rate. This ineffective use of labour is unusual in other EU countries. Poverty in Poland is further generated by considerable extension of the mining industry and heavy industry, which provide employment to a significant number of labourers and are undergoing at least a slow restructuring process. This, however results in extended dismissal of employees and a high rate of unemployment, which is again the highest in the EU, together with the unemployment rate in Slovakia.

On the other hand, the Polish economy was rather dynamic in the '90s as well as in the present decade so far; its economic growth is undoubtedly above average. In the mid-90s, Poland became a regional pathfinder when it pursued goal-directed invitations for reputable foreign investors in the country and for a certain time it was in the top position in the region in this respect. Many firms and companies were established in Poland at that time in a rather progressive sector of services and high-tech. Moreover, if it were not for the obviously overly restructuring approach of the Central Bank's monetary policy, Poland's economic growth would not have been slowed significantly by almost prohibitive interest rates at the turn of the millennium.

At the same time, Poland traditionally plays an important role in diplomacy and foreign policy. Polish officials explicitly support its membership in the EU (as opposed to certain other new countries); on the other hand, they do not hesitate to muscle in with their own interests even beyond the EU borders. The effort of certain Polish negotiators immediately prior to the accession to the EU to adopt the euro in Poland at the time of accession was remarkable. Regardless of the failure to comply with the prescribed criteria, this effort aimed at strengthening national self-confidence and showing an individual opinion just prior to the accession.

Poland – due to its size, geographical position and its growth potential supported by participation of Polish entities in implementation of projects supported by European Funds – is a promising country from a long-term perspective. It is, however likely that despite its dynamic growth it will take Poland several decades to approach the economic characteristics typical at least for the EU average.

Inflation and GDP



Source: Eurostat

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	II-06	III-06	IV-06	II-06	III-06	IV-06
Belgium	0.9	2.6	1.2	4.5	3.5	2.2	8.3	8.3	8.4	2.8	2.2	2.6
CR	**3.2**	**4.7**	**6.0**	**-6.3**	**-6.0**	**-2.3**	**7.8**	**7.7**	**7.5**	**2.4**	**2.4**	**2.3**
Denmark	0.7	1.9	3.1	3.2	2.3	2.9	4.4	4.3	n/a	2.1	1.8	1.8
Estonia	6.7	7.8	9.8	-11.9	-12.7	-10.6	5.6	5.3	5.1	4.5	4.0	4.3
Finland	2.4	3.6	2.1	3.8	4.1	2.4	7.9	7.7	7.5	1.3	1.2	1.5
France	0.8	2.3	1.4	0.2	-0.7	-1.2	9.1	9.0	8.9	2.0	1.7	2.0
Ireland	4.4	4.5	4.7	0.0	-0.8	-1.9	4.3	4.3	4.3	2.7	2.8	2.7
Italy	0.0	1.1	0.0	-0.9	-0.5	-1.1	n/a	n/a	n/a	2.2	2.2	2.3
Cyprus	1.9	3.9	3.8	-0.9	-5.3	-5.7	5.6	5.6	6.3	2.3	2.6	2.5
Lithuania	10.5	7.0	7.5	-6.8	-7.9	-7.0	6.5	6.4	6.0	3.4	3.1	3.4
Latvia	7.2	8.5	9.1	-8.1	-12.9	-12.4	8.0	7.8	7.8	7.0	6.6	6.1
Luxembourg	2.0	4.2	4.2	6.4	10.5	8.4	4.7	4.8	4.8	3.9	3.7	3.5
Hungary	3.4	4.6	4.1	-8.6	-8.4	-7.4	7.6	7.4	7.4	2.3	2.4	2.4
Malta	-2.5	-1.5	2.5	-5.8	-9.6	-12.9	8.1	8.3	8.5	2.3	2.9	3.5
Germany	-0.2	1.6	0.9	2.1	3.7	3.9	8.9	8.7	8.2	2.1	1.9	2.3
Netherlands	-0.1	1.7	1.1	5.9	6.2	7.1	4.1	3.9	3.8	1.4	1.4	1.8
Poland	3.8	5.3	3.2	-2.1	-4.2	-1.5	16.9	16.8	16.5	0.9	0.9	1.2
Portugal	-1.1	1.1	0.3	-6.5	-7.8	-9.5	7.7	7.6	7.6	2.9	3.0	2.9
Austria	1.4	2.4	1.9	1.5	2.7	2.9	5.0	5.0	4.9	1.5	1.3	2.0
Greece	4.8	4.7	3.6	-10.0	-9.5	-9.2	n/a	n/a	n/a	3.1	3.3	3.5
Slovakia	4.5	5.5	6.0	-0.5	-3.4	-8.5	15.3	15.3	15.5	4.3	4.3	4.4
Slovenia	2.7	4.2	3.9	-0.3	-2.0	-1.1	6.6	6.6	7.0	2.3	2.0	2.8
Spain	3.0	3.1	3.4	-4.1	-5.8	-7.4	8.7	8.7	8.3	4.1	3.9	3.9
Sweden	1.7	3.7	2.7	6.6	6.6	5.9	n/a	n/a	n/a	1.1	1.5	1.8
UK	2.5	3.1	1.8	-1.4	-2.0	-2.6	5.1	n/a	n/a	2.0	1.8	2.0
EU-25	**1.2**	**2.4**	**1.6**	**0.1**	**0.0**	**-0.3**	**8.4**	**8.3**	**8.3**	**2.2**	**2.1**	**2.3**

	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	0.1	98.5	94.7	93.3	118.0	118.2	117.3	102.3	104.0	104.2
CR	-6.6	-2.9	-2.6	30.0	30.6	30.5	67.8	70.2	73.1	54.7	55.5	55.0
Denmark	1.0	2.7	4.9	44.4	42.6	35.8	120.9	121.6	123.1	135.6	138.8	137.0
Estonia	2.4	1.5	1.6	6.0	5.4	4.8	48.2	51.2	55.7	107.5	108.7	106.6
Finland	2.5	2.3	2.6	44.3	44.3	41.1	111.1	112.2	112.4	124.4	125.9	122.9
France	-4.2	-3.7	-2.9	62.4	64.4	66.8	111.7	109.6	108.7	106.1	105.8	108.0
Ireland	0.2	1.5	1.0	31.1	29.4	27.6	134.0	136.9	138.2	122.4	126.6	123.1
Italy	-3.4	-3.4	-4.1	104.2	103.8	106.4	107.7	105.6	103.4	97.9	102.3	102.7
Cyprus	-6.3	-4.1	-2.4	69.7	71.7	70.3	79.8	82.7	82.5	90.9	96.5	93.3
Lithuania	-1.2	-1.5	-0.5	21.2	19.5	18.7	45.2	47.8	50.9	54.6	54.9	54.6
Latvia	-1.2	-0.9	0.2	14.4	14.6	11.9	40.8	42.8	46.7	57.6	55.4	56.4
Luxembourg	0.2	-1.1	-1.9	6.3	6.6	6.2	233.6	238.3	242.6	102.5	105.3	106.1
Hungary	-6.4	-5.4	-6.1	56.7	57.1	58.4	59.2	60.1	61.5	56.9	59.0	61.9
Malta	-10.2	-5.1	-3.3	71.3	76.2	74.7	72.6	69.2	69.4	73.7	74.4	74.9
Germany	-4.0	-3.7	-3.3	63.8	65.5	67.7	108.3	108.5	108.0	107.5	108.7	106.6
Netherlands	-3.1	-1.9	-0.3	51.9	52.6	52.9	124.6	124.3	123.5	105.3	106.6	105.2
Poland	-4.7	-3.9	-2.5	43.9	41.9	42.5	46.9	48.8	49.6	59.5	53.4	52.4
Portugal	-2.9	-3.2	-6.0	57.0	58.7	63.9	72.8	72.3	71.0	76.2	87.3	85.7
Austria	-1.5	-1.1	-1.5	64.4	63.6	62.9	120.7	122.5	122.2	105.2	105.7	103.6
Greece	-5.8	-6.9	-4.5	107.8	108.5	107.5	81.0	81.9	83.5	82.2	84.5	85.1
Slovakia	-3.7	-3.0	-2.9	42.7	41.6	34.5	51.9	53.0	55.3	44.6	50.5	54.9
Slovenia	-2.8	-2.3	-1.8	29.1	29.5	29.1	75.9	79.0	80.7	75.5	77.9	75.8
Spain	0.0	-0.1	1.1	48.9	46.4	43.2	97.3	97.5	98.1	85.0	86.6	87.4
Sweden	0.1	1.8	2.9	51.8	50.5	50.3	115.7	117.3	118.2	121.1	124.0	121.1
UK	-3.3	-3.3	-3.6	39.0	40.8	42.8	116.1	116.1	115.8	110.7	103.8	105.6
EU-25	-3.0	-2.6	-2.3	63.1	62.4	63.4	100.0	100.0	100.0	100.0	100.0	100.0

*Source: Eurostat, *) net balance, GDP per capita according to PPP*