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Dear readers,

On the threshold of summer we may assume that the key June events as well as the hottest and most important issues of the current stage of the EU development were rather precisely reflected in the European Council summit that took place on June 15 and 16. The summit was indeed a concentrated summary of all substantial particularities in the European development that have, however, been put on the sidelines in many aspects or have not offered an unambiguous solution and result.

What then was in the agenda of the recent European Council summit? Firstly, it attempted to create a feeling that there are certain chances to restore the European Constitution back to life and to find ways to arrange for its acceptance without making it provocative. The so far unsuccessful attempt to approve the European Constitution has involved intensification of the dialogue on the meaning of European integration understandable for the majority of involved European citizens; also this initiative, known as the “reflection”, should continue.

One of the crucial topics in Europe nowadays, noted explicitly within the summit, is the question of an efficient stance against illegal immigration, terrorism, organized crime and human trafficking. This problem has become more pronounced due to the troubled international situation but also in relation to the anticipated extension of the Schengen area (also by the Czech Republic) in 2007. This stance also involves the struggle to create relations of adequate partnership between the EU and countries that are not likely to access the EU – not even in the long run.

In relation to that, the European Council summit noted a difficult and ambitious aim: the endeavour to support the European lifestyle in the global world under the principle of sustainable development. The fundamental scope of the summit agenda also included other topics: response to the climate changes or updated Lisbon agenda and ability to fulfil the tasks stipulated therein. Great attention in the summit was also paid to the urgently needed improvement of the Single Internal Market environment (one point of the agenda is also covered in the topic of this EU News Monthly Journal) and to the current topic of energy policy.

The programme of this year’s June summit was unusually broad (we have not even named all the points of the agenda). On one hand, such a broad agenda means that the European Council, i.e. the high representatives of the Member States, feel responsible for solving the problems of the highest importance (which may be seen as a positive message); on the other hand, this is exactly what the EU lacks in order to be in the shape many expect. All this represents a summary of difficult and demanding tasks and challenges, for the EU as a whole as well as its separate parts, which are to keep the EU institutions busy for many years to come.

I wish you a pleasant summer while contemplating the future of European integration,

Petr Zahradník

Finland will ascend to the imaginary throne in the European Union. The priorities of Finland's Presidency include the preparation for EU enlargement or enhancement of competitiveness. The European Council summit confirmed the fact that the EU leaders are not sure at present how to proceed with the blocked Constitutional Treaty. They only managed to agree on an extended "period of reflection" during which a debate should take place in all Member States on the future of the EU.

POLITICS

Priorities of Finland's EU Presidency

Finland's second EU Presidency since its accession to the EU in 1995 will focus on the **future of the Constitutional Treaty**, on the preparation of future **enlargement of the EU** and enhancement of EU **competitiveness**.

Prime Minister Matti Vanhanen addressed the Finnish Parliament in June on the key points of EU Presidency:

1. The future of the European Union – this priority covers negotiations on the Constitutional Treaty for Europe and further EU enlargement discussions in general. Although the main discussions regarding the Constitutional Treaty should start from January 2007 under Germany's EU Presidency, Finland would like to initiate the preparation for the discussions in the second half of 2006. Within this period, Finland should also join the 15 states that have already ratified the Constitutional Treaty.

The current EU enlargement is a successful project in which both old and new members have gained economically. Finland supports the idea that the Copenhagen criteria remain the same and no more severe new criteria should be set. During its Presidency, Finland intends to focus on negotiations with Turkey and Croatia and to monitor the situation in the Western Balkans.

2. EU competitiveness – the main issues of the Finnish agenda include the enhancement of the EU and Member States' competitiveness in global economic competition. The answer includes innovation, energy issues, productivity, openness of global trade, immigration and a well-functioning social protection system.

3. External relations – Finland believes that the EU's economic strength is closely related to its status in international relations. The Union should be unified in this point, thus strengthening its international status. During Finland's Presidency the expected rapid reaction force will be prepared in order to introduce it in 2007. The EU should also focus on the development of relations with Russia that should not be limited to trade. The Finnish President also mentioned cooperation with Norway and Iceland, transatlantic relations and relations to Asia.

4. Citizens' access to justice and strengthening the international justice system – the European Union should fight effectively against international crime, human trafficking and terrorism. Finland would like to identify ways to put forward the decision-making procedures on police and judicial cooperation. The option of qualified majority voting may be used as enabled in the Nice Treaty.

5. Transparency and better regulation – Finland welcomes the European Council's decision according to which all Council deliberations under the co-decision procedure will be made public. Increased transparency will help to win citizens' confidence. In cooperation with the European Commission, Finland's Presidency will focus on enhancing the quality of European legislation, applying subsidiarity and proportionality principles and considering the need for the standards to be adopted.

Apart from the aforementioned priorities, executive directives and regulations related to the programmes and policies within the **new programming period 2007-2013** will be adopted under Finland's EU Presidency.

http://www.eu2006.fi/

Summit Found No Solution for the Constitutional Treaty Impasse

The heads of the EU Member States agreed at their June summit to **extend the "period of reflection"** during which a broad debate should take place in all countries on the future of the EU. The period commenced officially one year ago following the rejection of the Constitutional Treaty in France and the Netherlands.

According to the Council's findings, the real **discussions on the Constitutional Treaty** or the reform of the EU institutional arrangement will not start earlier than **during Germany's Presidency** (1st half of 2007) and after the elections in France planned for spring 2007. Until then the negotiations should be put in abeyance.

Germany – along with France the traditional driving force behind European integration – should find a way out. It is expected to prepare a **report on the discussions about the Constitutional Treaty** for the following June summit. A final solution should be adopted by the end of 2008, in the 2nd half of which France will hold the presidency.

The heads of the Member States agreed only to postpone the negotiations and their **opinions on how to proceed with the Constitutional Treaty ratification varied**. "The core of the Constitutional Treaty is good and should be preserved; however, there is no consensus," said Austrian Chancellor Wolfgang Schüssel, whose country holds the Presidency in the first half of this year.

Some states agree that the Treaty should be adopted in a wording as close as possible to the original version (Germany and Italy); others agree that a **completely new Treaty should be adopted** focused solely on the EU institutional reform (in particular the United Kingdom, France and the Netherlands). Some are of the opinion that the Union may carry on under the current primary law for some time.

We believe that the decision to extend the period of reflection is the **only possible solution at present**. For the future, however, due to the upcoming enlargement up to 27 Member States, the **key EU institutions need to be modified** (the Commission cannot work efficiently with 27 commissionaires) and the **voting mechanism needs to be adjusted** (the unanimity principle may result in a deadlock). We believe that rather than reviving a nearly defunct document, i.e. the Constitutional Treaty, it is more probable and politically acceptable that a completely new treaty be adopted with a more specific focus and a neutral title.

http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/ec/90111.pdf

EURO AND ECONOMY

Slovenia to Enter the Euro Zone in January

The European Council approved the recommendation of the European Commission and the decision of the Ecofin Council that Slovenia may join the current twelve states of the Euro zone from January 1, 2007. **Slovenia will become the first of the new Member States to adopt the European currency – the Euro**.

The heads of the Member States similarly approved another recommendation of the European executive: **not to admit Lithuania into the Euro zone** due to a minimum excess over the Maastricht inflation criterion. The summit however commended Lithuania for the convergence it has achieved so far. The strict interpretation of the Maastricht criteria (the required value was exceeded by only a tenth of a percent) was contested by Lithuania as well as the Visegrad Four: the Czech Republic, Slovakia, Poland and Hungary. The V4 countries also **questioned the informative value of the contradictory criterion**. The criterion definition is unclear since it uses an ambiguous concept of the best inflation ("the best results in terms of price stability"), not the absolute lowest. Further, it considers the inflation values in all EU25 countries. Therefore, the criterion was lowered due to low inflation in Poland and Sweden but they are not even members of the Euro zone. If the inflation of three Euro zone countries was considered, **Lithuania would have met the criterion**. There is a lesson for the Czech Republic and for the other new Member states: we will be allowed to access the Euro zone only if we **fully comply with all the required criteria**. The rather benevolent assessment used for the original EU Member States will not be applied any more.

http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/ec/90111.pdf

INTERNAL MARKET

Commissioner McCreevy Warned Member States Due to Financial Services

The EU Commissioner Charlie McCreevy warned the Member States that they will face sanctions if they **fail to transpose the European legislation related to financial services into national laws promptly**. It follows from his speech in the EUROFI Conference that took place in June.

Nonetheless, the Commissioner as well as the majority of the conferees admitted certain progress aiming at creation of an actual single market of financial services in the EU. The key points of the discussion were as follows:

SEPA (Single Euro Payments Area)

The SEPA project is implemented by banks themselves through their European Payments Council. It aims to ensure that all cross-border payment transactions in the Euro zone are implemented in the **same way as domestic payments**. The Commission supports the project and proposes a new Directive in order to establish a corresponding legal structure called the New Legal Framework (for more information see the main topic of the June EU News Monthly Journal).

26th Regime

The idea of a "26th regime" was first discussed as a general scheme for provision of financial products in the EU. It would be optional and would work outside existing national regimes in all 25 Member States. At present, it is most talked of in **connection with pensions**, where it would be used mainly by workers who have worked in several Member States throughout their careers.

In this connection, commissioner McCreevy mentioned that the idea of the 26th regime was not put in abeyance; its application, however, requires solving a number of problems such as consumer protection.

Micro credits

Commissioner for the Regions, Danita Hübner outlined the **difficult standing of small and medium enterprises and micro-companies** that, due to high risk, have trouble obtaining loans from mainstream sources. The Commission therefore, together with the European Investment Bank, promotes provision of micro credits through its prepared **JEREMIE** (Joint European Resources for Micro to Medium Enterprises) initiative. Adoption of a special action plan for micro credits may be considered in the future.

http://europa.eu.int/rapid/pressReleasesAction.do?reference=SPEECH/06/355

Commissioner Viviane Reding called for broader liberalisation in telecommunications. The anticipated measures also include a requirement to separate telecom services from the technical infrastructure. And a reform is under preparation regarding support of winegrowers. It aims at reducing the vineyard area in the EU and thus preventing the annual surplus of produced wine. The Member States' Ministers agreed to create the European Fisheries Fund.

Commission Plans More Liberalization in Telecommunications

The Commission launched a public consultation in June on **alterations of the current telecommunication rules** regulating the telecom market in Europe, the "regulatory framework for electronic communications". It includes fixed voice telephony, mobile communications and broadband Internet connection in the EU – a market with a turnover of 270 billion euros in 2005.

The Commission also notes the progress reached since 2002 when **national telecom markets opened up to competition**. Therefore, the Commission proposes to phase out regulation in at least 6 of the 18 telecom market segments, including national and international calls. For those segments where competition is not yet effective, in particular the broadband Internet connection, the Commission wants to propose vigorous measures to remedy the situation. In general, the intent is to **step up competition** throughout the European telecom market and to establish a common market for services using the radio spectrum.

One of the most radical proposals is to **separate telecommunication services from technical infrastructure** in the leading firms to make them available to the competition. **Also a regulator of the telecom market for the whole EU should be established** along with the existing national regulators that should ensure that the European regulatory measures are applied in the same manner.

The proposals have not been finalized yet; they have only been defined in the form of a non-binding plan with all interested parties welcomed to comment within the public consultation. Based on the comments in the consultation, EU Commissioner Viviane Reding responsible for Information Society and Media **would like to present specific legislative proposal by the end of the year**. She believes that the new system could apply by 2010.

http://europa.eu/rapid/pressReleasesAction.do?reference=IP/06/874

TRANSPORT AND ENERGY

Commission Outlined Future Transport Policy

The European Commission approved its medium term review of the 2001 **White Paper on the Transport Policy**. The review included outlines of the future priorities of the European transport policy.

The Commission recognizes that transport and mobility is essential for Europe's prosperity and for free movement of citizens. It is, however, necessary to **reduce the negative impact of mobility** in terms of energy consumption and environmental quality. Apart from measures foreseen in the 2001 White Paper such as boosting rail and maritime connections for long distance freight transport, **additional instruments will be needed** to achieve these objectives. They must be adapted to a new context of an enlarged Europe, rising petrol prices, Kyoto commitments and globalisation. This includes a logistics action plan in freight traffic, an action plan supporting the domestic water transport mode and a discussion on how to alter the mobility of citizens in urban areas. The Commission also intends to **support the railways**, particularly through liberalisation, enhanced efficiency and harmonization of regulations.

An increased emphasis should be put on **intelligent transport systems**. There is no reason why ships, trucks, cars and trains could not have the same sophisticated communication and navigation tools as aircrafts. The Galileo satellite system will play a positive role in this area.

In order to reduce oil dependence and make transport more sustainable, the Commission undertook to present a **strategic technology plan for energy in 2007** and in 2009 a major programme on green-powered vehicles. Nowadays, transport accounts for 30 % of total energy consumption and 71 % of total oil consumption in the EU. Road transport accounts for 60 % of total oil consumption.

Partial national interests will give way to pan-European ones as witnessed in the statement of the Member States' Ministers of Transport who agreed on new regulations enabling **more competition in public personal transport** in cities, on roads and rails, which are often nearly monopolistic at present. The relevant regulation is adopted within the co-decision procedure and awaits voting in the European Parliament. However, the struggle for enhanced competition and a quality public transport service will be tedious since some states still short-sightedly protect their "national interest". Due to concerns regarding the competitiveness of Czech Railways, the Czech Republic representative also opposed the proposal, although the CR generally promotes liberalisation and opening of markets.

http://europa.eu/rapid/pressReleasesAction.do?reference=IP/06/818

AGRICULTURE AND FISHERY

EU Agreed on the Fisheries Fund

The Council of the EU for agriculture and fisheries finally reached an agreement on the support of the European fisheries in 2007-2013. The **European Fisheries Fund** will play a key role **with its budget of 3.85 billion euros** for the

whole period and is to replace the current Financial Instrument for Fisheries Guidance. The fisheries support should compensate for decreasing fish stocks as well as increasing fuel prices.

The Member States' Ministers have already refused a similar agreement several times in a clash between the Mediterranean states that support the establishment of the Fund and the states mainly from the north of Europe that oppose the idea. The compromise was enabled thanks to a **promise to provide assistance in exchange of obsolete engines and to new fishermen** without increasing the overall fisheries capacity of the EU.

The majority of the Union's support is intended for sea fisheries; a **certain part will however be allocated to inland fishermen**. "For us it means 23 billion euros from the EU in seven years' time, another seven million euros will come from co-financing, which adds up to 840 million Czech crowns. This means that 120 million crowns will go to fisheries every year," said the Minister of Agriculture, Jan Mládek, to the ČTK agency.

Contributions from the fund should be used to support a **decrease of excessive fisheries capacities**, investments in modernization and restructuring of the processing industry, removal of mud from ponds, marketing, protection against predators, stocking eels and building bypasses over dams enabling the eels to travel to the Sargasso Sea and back.

http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/agricult/90146.pdf

Commission Proposed Reform of Wine Sector Support

Voluntary grubbing up of vineyards by 400 thousand to an overall 3.4 million hectares and consequent **lower production of wine** will be the basis of profound reform of the wine sector support in the European Union. The final aim is to change the unsustainable situation where there is no market for a large amount of subsidised production that needs to be expensively distilled. "We spend as much as half a billion euros a year on distilling wine surpluses; this is by far the most expensive way of producing spirit; this is a ridiculous way to use taxpayers' money", said Mariann Fischer Boel, Commissioner for Agriculture, according to the ČTK agency.

The motivation for voluntary grubbing up of vineyards and retreat of producers from the market is the **amount of 2.4 billion euros to be paid over five years**. The specific compensation for individual producers was not stated; it is however expected to vary according to regions. The vineyard area in the EU has already been regulated since no new vineyards may be established before 2010. The Commissioner would like to extend the measure to 2013, when it would expire.

The overall subsidies for European winegrowers paid from the Common Agriculture Policy budget reaching 1.2 billion euros a year (average for 2001-2004) **should not be decreased even after the reform**. The funds should, however, be spent in a more efficient manner. The reform will provide for preferring quality wines including abolition of distillation of cheap wine surpluses or a ban on the use of sugar. It also proposes simplifying European labelling so that the system is comprehensible for customers, states the ČTK.

The proposed measure is only a concept so far; the Commission is supposed to **present a specific legislative provision by the end of the year**. Also, the measure is proposed by the European Commission and it is unclear in what form it will be adopted, if any. It is to be adopted in the co-decision procedure when it must be approved by the Member States and the MEPs. It is expected that the representatives of southern states and France – the traditional wine leaders – will in particular not be in favour of the proposed measure. Even if adopted and approved, the **new wine regime in the EU will become applicable in 2008 at the earliest**.

http://europa.eu/rapid/pressReleasesAction.do?reference=IP/06/824

Wine production in the EU

	1000 hl	%		1000 hl	%
France	54682	30.6%	Slovenia	994	0.6%
Italy	50846	28.5%	**CR**	**523**	**0.3%**
Spain	43231	24.2%	Slovakia	438	0.2%
Germany	9470	5.3%	Cyprus	425	0.2%
Portugal	7180	4.0%	Luxemburg	140	0.1%
Hungary	4490	2.5%	Malta	67	0.0%
Greece	3646	2.0%	Other	17	0.0%
Austria	2551	1.4%	**Total EU**	**178700**	**100.0%**

Source: European Commission, average 2000-2004

RESEARCH

Parliament Gives Green Light to the 7th Framework Programme for Research

With a view to complying with the Lisbon Agenda, the EU will **increase the expenses on research and development** in the future.

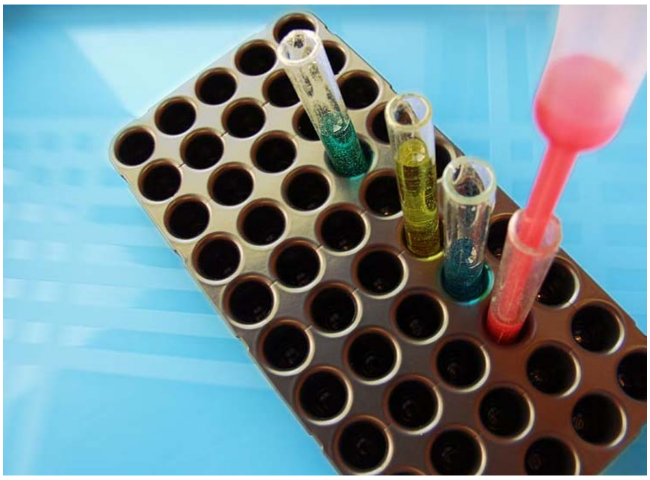
The budget of the 7th Framework Programme for research, technical development and demonstrations will have **50.521 billion euros for 2007-2013**; the 7th Framework Programme

Albania took the first step in its long journey to EU membership since it entered into the Stabilisation and Association Agreement. The Commission proposes to abolish the unanimity requirement in issues of security and justice and to introduce qualified majority voting. The European Court of Justice should be given wider jurisdiction at the same time. The EU Council approved a regulation governing the second generation Schengen Information System.

for research and professional training in nuclear energy will have 2.751 billion euros (only for 2007-2011). Altogether this is **over 53 billion euros** while the present 6th Framework Programme for 2002-2006 had a budget of "only" approx. 16 billion euros.

The new 7th Framework Programme for research consists of four programmes called **Cooperation, Ideas, People and Capacities**.

The European Parliament also stipulated rules for financing research using embryonic stem cells and **refused to support research aimed at human cloning** for reproductive purposes.



At least 15 % of the cooperation programme budget should be **allocated to small and medium-sized firms**; certain funds will be used to encourage young researchers in their scientific careers and to reduce "brain drain".

The Programme should provide funds for the **10 priority areas**:

- Health,
- Food, agriculture and biotechnology,
- Information and communication technologies,
- Nanosciences, nanotechnologies, materials and new production technologies,
- Energy,
- Environment (including climate change),
- Transport (including aeronautics),
- Socio-economic sciences and the humanities,
- Security,
- Space.

The first reading in the European Parliament is to be followed by a discussion of the programmes in the EU Council. Should it be approved, the first invitations to present projects could be **published as soon as by the end of the year**.

http://www.europarl.europa.eu/news/expert/infopress_page/052-8885-166-06-24-909-20060608IPR08813-15-06-2006-2006-true/default_en.htm

ENLARGEMENT

Albania Took First Step towards EU

As the third state of the Western Balkans, **Albania** signed the **Stabilisation and Association Agreement** with the European Union in mid June. The other countries from the region that signed the same agreements were **FYROM-Macedonia** (April 2001) and **Croatia** (October 2001). Negotiations to sign the agreement with newly independent Montenegro as well as Bosnia and Herzegovina and Serbia are currently in progress.

The signature of the agreement is a milestone on Albania's road to the EU; this Balkan country however faces a **challenge of demanding reforms** that are the precondition for its full membership in the EU.

The Stabilisation and Association Agreement governs relations between the EU and Albania and provides for the **improvement of political and economic cooperation**, e.g. the creation of a free-trade area within ten years. Albania should focus on reforms related to the freedom of press and media, establishing institutions and protection of and respect for minorities.

We do not expect Albania to accede to the EU in the next 10-12 years. There are a number of internal problems in the EU which have to be dealt with first. **Further enlargement is not on the agenda**; some of the Member States' leaders using the concept of the "EU's absorption capacity" openly oppose admitting further countries, Bulgaria and Romania excluded; their accession has already been decided (the Accession Agreement stipulates the date 1/1/2007, or one year later at the latest) and we believe that only Croatia has a chance of accession by 2015.

http://www.eu2006.at/en/News/Press_Releases/June/1206PlassnikAlbania.html?null

JUSTICE AND HOME AFFAIRS

EU Requires More Powers regarding Security and Justice

The European Commission intends to **abolish the unanimity requirement regarding measures in the field of security and justice** and to extend the powers of the

Court of Justice regarding immigration and asylum. This issues from the initial political assessment of the progress reached when implementing the so-called "Hague Programme" focusing on strengthening freedom, security and justice in the European Union.

Although 17 % of all legislative proposals of the Commission relate to this area, priority measures are often delayed due to the unanimity requirement in the Council (**each state has a veto right**).

The **Constitutional Treaty was expected to introduce a simplified voting mechanism** as it stipulated a qualified majority requirement for measures related to the asylum policy, immigration and judicial cooperation in criminal cases. The future of the Constitutional Treaty for Europe is however rather unclear; therefore, the Commission struggles to find other ways to proceed with this agenda.

That is also why it published an assessment report in late June evidencing the **progress in the Hague Programme implementation** and proposed ways to strengthen cooperation in the field of justice and home affairs, the current third pillar of the European Union. **Key points of the report are as follows**:

Implementation – the Commission believes that insufficient implementation of the EU Policies by the Member States and transposition of European legislation in national laws is one of the major obstacles to creating an area of freedom, security and justice. The Commission therefore makes a proposal to provide more effective judicial protection with further involvement of the Court of Justice against Member States that fail to implement EU standards in their national laws as applicable for policies within the first pillar of the EU.

Bridging clause – decisions in sensitive areas of police and judicial cooperation, combat against cross-border terrorism and introduction of common asylum regimes are currently adopted unanimously. The existing EU Treaty however enables the transfer of these areas under the first pillar following an approval of all Member States, thus enabling qualified majority voting. An alteration of this regime is another point of the Commission's proposal.

The role of the European Court of Justice – the highest judicial power in the EU – has currently only limited competencies in matters concerning visas, asylums and immigration policy. EU citizens may refer to the Court in those areas only after they exhaust all national remedies in their home country. The Commission is proposing that the Court of Justice be given wider jurisdiction so that national courts may refer to it in relation to decisions on interpretation of the European law governing asylums and immigration policy.

The European Commission proposals should be examined by the **EU Council during its September** meeting on Justice and Home Affairs. The adoption will require unanimity of all Member States.

Apart from the "sectional" measures, the report also outlines areas in which the European Commission intends to **adopt specific legislation proposals** before the expiry of the Hague Programme (2009):

1. Fundamental rights and citizenship
2. Development of a second phase of asylum
3. Migration management
4. Integrated management of external borders and interoperability of information systems
5. Mutual recognition (in civil and criminal matters)
6. Access to information needed to combat terrorism and organised crime.
7. the future of Europol.

http://europa.eu/rapid/pressReleasesAction.do?reference=IP/06/848

Approaching Access to the Schengen Area

Representatives of the EU Member States and Norway, Iceland and Switzerland reached an agreement at the EU Council meeting on Justice and Home Affairs on a draft **regulation on the establishment of the second generation Schengen Information System** – SIS II.

The **regulation will define the conditions and procedures** for the processing of information on third country nationals, the exchange of supplementary information and data for the purpose of refusing entry or a stay in the territory of the Member States. The regulation also lays down provisions on the technical architecture of the SIS II, the responsibilities of the Member States and of the Management Authority and the rights of the persons concerned.

An operational **SIS II is a necessary step in order to enable accession to the Schengen area** without internal border controls to the new Member States and Switzerland. The Schengen countries currently include 13 of the EU15 (excluding the United Kingdom and Ireland) plus Norway and Iceland.

The Schengen area will be extended after the adoption of all executive regulations and launching SIS II, **projected for October next year**.

http://europa.eu/rapid/pressReleasesAction.do?reference=PRES/06/144

In June, the EU Council approved a regulation improving rights of disabled people and people with reduced mobility when travelling by air, which should make it easier for up to 45 million of such people to travel by air. The EU Ministers of Foreign Affairs adopted a statement on Cuba that represents a great success for Czech diplomacy. The final declaration of the EU and USA summit in Vienna included for the first time a note on the USA's asymmetric visa policy towards the new EU Member States.

1 JUNE

Public hearing on the Audiovisual Media Services Directive: http://www.europarl.europa.eu/comparl/cult/hearings/20060601/default_en.htm

Country Focus - Structural unemployment, a blot on the Finnish success story: http://ec.europa.eu/economy_finance/publications/country_focus/2006/countryfocus5_en.htm

Distribution of responsibilities among the members of the Executive Board of the ECB: http://www.ecb.eu/press/pr/date/2006/html/pr060601.cs.html

2 JUNE

2733rd Employment, Social policy, Health an Consumer Affairs Council: http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/lsa/89830.pdf

6 JUNE

European Environment Agency: Climate change awareness campaign: The Finnish start: http://org.eea.europa.eu/news/Ann1149584239/index_html

7 JUNE

Mandelson begins China visit with call for better protection of intellectual property rights, wider market access for EU companies: http://ec.europa.eu/comm/trade/issues/bilateral/countries/china/pr050606_en.htm

Green Paper on on a Future Maritime Policy for the EU: http://ec.europa.eu/maritimeaffairs/green_paper_en.html

8 JUNE

2734th Economic and Financial Affairs Council meeting: http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/ecofin/89929.pdf

EU and US continue to work jointly on biotechnology research: http://ec.europa.eu/research/press/2006/pr0706-2en.cfm

9 JUNE

What do football and politics have in common?: http://www.europarl.europa.eu/news/public/story_page/041-8839-160-06-23-906-20060609STO08835-2006-09-06-2006/default_cs.htm

2735th Transport, Telecommunications and Energy Council: http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/trans/89954.pdf

The Council adopts rules strengthening the rights of disabled persons and persons with reduced mobility travelling by air: http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/misc/89962.pdf

Council Conclusions on Biomass: http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/trans/89933.pdf

12 JUNE

Report on the Analysis of the Debate of the Green Paper on Energy Efficiency: http://ec.europa.eu/energy/efficiency/index_en.htm

13 JUNE

2737th External Relations Council meeting, Luxembourg: http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/gena/90014.pdf

2736th General Affairs Council meeting, Luxembourg: http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/gena/90013.pdf

Avian Influenza - Chronology of Events and EU action: http://ec.europa.eu/food/animal/diseases/controlmeasures/avian/ai_addmeasures_en.htm#3a

14 JUNE

Council conclusions on Cuba: http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/fr/gena/89998.pdf

Public finances in EMU - 2006: http://ec.europa.eu/economy_finance/publications/european_economy/public_finances2006_en.htm

15 JUNE

Ombudsman urges EU leaders to agree to more transparency in the Council: http://www.ombudsman.europa.eu/release/en/2006-06-13.htm

16 JUNE

An External Policy to serve Europe's Energy interests: http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/CS/reports/90086.pdf

European Union - Russia Energy Dialogue: http://ec.europa.eu/energy/russia/joint_progress/index_en.htm

Evolution of EU Textile Imports from China in 2005 and the first quarter of 2006: http://ec.europa.eu/comm/trade/issues/sectoral/industry/textile/pr150606_en.htm

19 JUNE

Brussels European Council Presidency Conclusions: http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/CS/ec/90115.pdf

Energy and Transport: Grants awarded by the Intelligent Energy Executive Agency in 2005: http://ec.europa.eu/energy/intelligent/whatsnew/index_en.htm

20 JUNE

2739th Agriculture and Fisheries Council meeting: http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/agricult/90146.pdf

EU and US step up joint fight against counterfeiting: http://ec.europa.eu/comm/trade/issues/bilateral/countries/usa/pr200606_en.htm

More than a third of EU25 population have no basic computer skills: http://epp.eurostat.ec.europa.eu/pls/portal/docs/PAGE/PGP_PRD_CAT_PREREL/PGE_CAT_PREREL_YEAR_2006/PGE_CAT_PREREL_YEAR_2006_MONTH_06/4-20062006-EN-AP.PDF

21 JUNE

Turkey warned to admit Cypriot ships and planes: http://www.europarl.europa.eu/news/expert/infopress_page/030-9133-172-06-25-903-20060615IPR09082-21-06-2006-2006-false/default_en.htm

EU Forest Action Plan adopted on 15 June: http://ec.europa.eu/agriculture/fore/action_plan/index_en.htm

Commission recommends abrogation of excessive deficit procedure against Cyprus: http://ec.europa.eu/economy_finance/about/activities/sgp/edp/edpcy_en.htm

Commission updates aviation blacklist: http://ec.europa.eu/transport/air/safety/flywell_en.htm

22 JUNE

EU-US Summit - Vienna, 21 June 2006: http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/er/90176.pdf

Structural funds 2007-13 approved by Regional Development Committee: http://www.europarl.europa.eu/news/expert/infopress_page/059-9136-171-06-25-910-20060615IPR09085-20-06-2006-2006-false/default_en.htm

Technical adjustment of the financial framework for 2007 in line with movements in GNI and prices: http://ec.europa.eu/budget/documents/multiannual_framework_en.htm#new

23 JUNE

Public opinion on the euro in the new Member States: http://ec.europa.eu/economy_finance/publications/euro_related/2006/eurorelated_eurobarometer183_en.htm

26 JUNE

New Bathing Water directive will tighten and simplify health standards: http://www.europarl.europa.eu/news/public/story_page/064-9222-170-06-25-911-20060622STO09221-2006-19-06-2006/default_cs.htm

International Day in Support of Victims of Torture: http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/cfsp/90231.pdf

27 JUNE

Car taxes - pollute less and pay less: http://www.europarl.europa.eu/news/public/story_page/062-9266-172-06-25-910-20060626STO09265-2006-21-06-2006/default_cs.htm

28 JUNE

Parliamentary voting - MEPs have voted more 12,000 times in 33 plenary sessions since July 2004: http://www.europarl.europa.eu/news/public/story_page/009-9320-171-06-25-901-20060628STO09319-2006-20-06-2006/default_en.htm

2740th Environment Council meeting - Luxembourg: http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/envir/90281.pdf

New comprehensive partnership between the EU and Greenland: http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/misc/90269.pdf

29 JUNE

Concentrating Solar Power - main projects supported by eu: http://ec.europa.eu/energy/res/sectors/csp_diss_en.htm

Commission Communication on "Freight Logistics in Europe – key to sustainable mobility": http://ec.europa.eu/transport/logistics/index_en.htm

30 JUNE

Euro Team. A network of speakers on the euro in the 10 new Member States: http://ec.europa.eu/economy_finance/euroteam/euroteam_en.htm

The Commission published the fourth progress report on cohesion in the EU. It implies that the differences in economy between the most prosperous and the least wealthy Member States are getting smaller, though slowly. The report included a table of estimated allocations of funds from the structural and cohesion fund for the Member States in 2007-2013. It implies that Poland is to benefit most in absolute figures; the amount calculated per capita, however, makes the Czech Republic the most successful beneficiary.

4TH PROGRESS REPORT ON COHESION IN THE EU

In mid June, the European Commission published **the fourth progress report on economic and social cohesion in the European Union**. According to the report, economic and social gaps in the EU are becoming narrower, as confirmed by the apparent long term growth of the economy in the least developed Member States. The thirteen cohesion countries (10 new Member States + Spain, Portugal and Greece) reported 3.6 % growth on average compared to the EU average of 2.2 % per year over the period of 1995-2005.

Nonetheless, many things may be improved particularly on a regional level since **10 % of the population** living in the least wealthy regions **accounts for only 1.5 % of total GDP** for the EU. By contrast, 10 % of the population living in the most prosperous regions accounts for nearly one fifth of total GDP.

The report also includes specific examples of differences between accessibility of modern infrastructure:

- in 47 of the total 254 cohesion regions in the EU the expenditure on research and development is below 0.5 % of GDP, which is markedly less than the total value in the EU of 3 %,
- less than 15 % of households have access to broadband Internet in regions where GDP per capita is less than 75 % of the EU average, while in other regions it is around 30 %.

The Least Wealthy and Most Prosperous Regions of the EU-25

The three most prosperous regions where GDP per capita exceeded 200 % of the EU average are **Inner London** in the United Kingdom (278 %), Bruxelles-Capitale in Belgium (238 %) and Luxembourg (234 %), which is the only cohesion region in Luxembourg. Among the 37 regions with GDP per capita exceeding 125 % of the EU average, seven were in Germany, six each in Italy and the United Kingdom, five in the Netherlands, three in Austria, two each in Belgium and Finland and one region each in Spain, France, Ireland, Sweden and the Czech Republic. **Prague** (138 %) is the only region with GDP per capita exceeding 125 % of the EU average from the new Member States. It should be noted, however, that in some regions the excellent figures are influenced by commuter flows that do not reside in the region but participate in the GDP.

The six lowest regions in the ranking of economic advancement **were all in Poland**. Among the 60 regions with GDP per capita below 75 % of the EU average, sixteen were in Poland, seven in the Czech Republic, six in Hungary, five each in Greece and Italy, four each in Germany, France (all overseas departments) and Portugal, three in Slovakia and two regions in Spain, Estonia, Latvia, Lithuania and Malta. The least wealthy Czech region was Moravskoslezsko (53.4%).

Structural and Cohesion Policy in 2007-2013

The structural and cohesion policy plays the main part in **reducing the gaps in prosperity of EU regions** and encouraging their cohesion. The related expenditure counts among the priorities of the common European budget. In the period of 2000-2006, the expenditure was the second highest expense following the Common Agricultural Policy.

For the 2007-2013 programming period the expenditure to intensify economic cohesion of regions and Member States is included in the budget **chapter 1B "Cohesion for growth and employment" with overall allocation of 308.04 billion euros** (in fixed prices of 2004). This is the highest expense in the budget.

Least Wealthy and Most Prosperous Regions of the EU-25 in 2003

	Region NUTS2 (state)	GDP/cap to ø EU		Region NUTS2 (state)	GDP/cap to ø EU
1	Inner London (UK)	278 %	1	Lubelskie (PL)	33 %
2	Bruxelles-Capitale (BE)	238 %	2	Podkarpackie (PL)	33 %
3	Luxembourg (LU)	234 %	3	Podlaskie (PL)	36 %
4	Hamburg (DE)	184 %	4	Świętokrzyskie (PL)	37 %
5	Île de France (FR)	173 %	5	Warmińsko-Mazurskie (PL)	37 %
6	Wien (AT)	171 %	6	Opolskie (PL)	37 %
7	Berkshire, Buckin.& Oxfordshire (UK)	165 %	7	Észak Magyaroszág (HU)	38 %
8	Provincia Autonoma Bolzano (IT)	160 %	8	Východné Slovensko (SK)	39 %
9	Oberbayern (DE)	158 %	9	Eszag-Alföld (HU)	39 %
10	Stockholm (SE)	158 %	10	Dél-Alföld (HU)	40 %

Note.: according to the GDP per capita in terms of PPS as of average EU-25, source: Eurostat

The following **three objectives of the structural and cohesion policy** are defined for 2007-2013:

"Convergence" objective – intended to speed up economic convergence of the least developed regions (GDP per capita less than 75 % of the EU average): to improve conditions for employment growth through investments into material and human resources; for innovations and knowledge based society; for enhancing the ability to adjust to economic and social changes; for protection of the environment or growth of administration efficiency.

"Regional competitiveness and employment" objective – expects compliance with the Lisbon strategy on a regional level and focuses on significant increase of employment in regions with high unemployment rates and a less operational labour market.

"European regional cooperation" objective – inspired by the existing experience with the Interreg Community initiative and focuses on the support of joint programmes in cross-border cooperation, on cooperation in multinational areas and creation of a network for cooperation and exchange of experience within the EU.

In absolute figures, most funds for structural and cohesion policy are allocated to **Poland** (nearly 60 bil. euros) and to poor areas in the south of **Spain** (3.5 bil. euros) and **Italy** (25.5 bil. euros).

Relative figures related to population or nominal GDP are, however, more objective. When calculated per capita, the most successful negotiator is the **Czech Republic**, as it could receive up to 2,319 euros per citizen. The other states with the highest amount per capita are **Estonia** (2,270 euros) and **Hungary** (2,223 euros).

Allocations to structural and cohesion policy may also be compared with the overall performance of the relevant economy (measured against nominal GDP). From this point of view, relatively most funds go to the three Baltic States in the following order: 1 – **Latvia** (32 %), 2 – **Lithuania** (29.6 %) and 3 – **Estonia** (29 %).

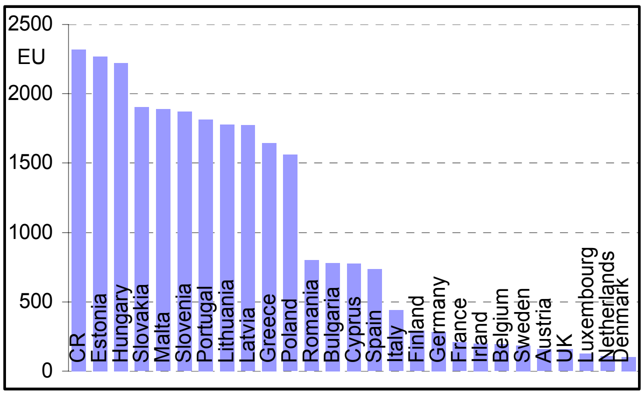
It should, however, be noted that the aforementioned amounts **represent only potentials offered to the given country**. In order to receive them, each country is obliged to fulfil a number of national tasks such as adequate preparation of key programming documents, efficient establishment of administrative management systems for subsidies or support for entities to submit a sufficient number of quality projects.

Cohesion policy 2007-2013: indicative financial allocations (million EUR, 2004 prices)

mil. euro, 2004 prices	**Total**
Belgium	2 019
Czech republic	23 697
Denmark	545
Germany	23 450
Estonia	3 058
Greece	18 217
Spain	31 536
France	12 736
Ireland	815
Italy	25 647
Cyprus	581
Latvia	4 090
Lithuania	6 097
Luxembourg	58
Hungary	22 451
Malta	761
Netherlands	1 696
Austria	1 301
Poland	59 698
Portugal	19 147
Slovenia	3 739
Slovakia	10 264
Finland	1 532
Sweden	1 682
UK	9 468
Bulgaria	6 047
Romania	17 317
not allocated	392
TOTAL	**308 041**

Source: European Commission

Cohesion policy 2007-2013 allocations per capita



Source: European Commission, own calculations

The July issue of our Monthly Journal features an article by Vladimír Špidla, Commissioner for Employment, Social Affairs and Equal Opportunities. Using an example of the socio-economic situation in the Latin American countries, he demonstrates that the maximum pace of economic growth should not be the only social objective. It is important to provide for socially justified allocations of the achieved funds so that no extreme social gap exists in the society.

A LESSON FROM LATIN AMERICA

The European Union has things to offer. And not only to its Member States, as confirmed again at the conference on cooperation between Europe and Latin America in the social sphere that recently took place in Brussels. With the attendance of an impressive number of Ministers of Labour or Social Affairs from countries like Mexico, Caribbean countries and Chile the conference ranks among the largest events of its kind.

It showed clearly that in their mutual relations, the partner states have become interested in something more than just a traditional development aid. They show interest for example in experience in social policy but even more. Social cohesion is undoubtedly one of the hottest topics.

The Latin American countries were split in two directions for many decades. On one hand, there were the pro-American elite groups. On the other hand, there were their opponents dreaming of Cuban socialism. Nowadays they are all united in one aspect: they see the European Union as an alternative to the two concepts.

During the conference, the Brazilian Minister of Social Affairs, Patrus, came to visit me. I am using only his first name for a reason. It should be noted that this is not any sign of intimacy. Patrus is one of the Brazilian politicians who – in the same manner as footballers – use only their first name or even a nickname. Therefore even presidents are addressed as Getúlio, Tancredo or Lula, not Vargas, Neves or da Silva etc.

But back to Patrus: when we compared the development in Europe and in Brazil, he pointed out that his country had reported stunning growth in the economy for several decades – from the 1930s to the 1980s. Many predicted a great future for the country. This came true only partially. I mean – for the Brazilian elite groups…

The dynamics of the enormous economic growth resulted in an extreme widening of social gaps affecting the majority of the population. While a certain part of the society grew incredibly rich, millions of poverty-stricken people remained in the same or an even worse situation. “We have lost the whole 20th century”, said Patrus quite openly. And a similar tendency could certainly be spotted in other Latin American countries as well…

I believe there is certain hidden warning for us. It would be a considerable mistake to sacrifice social cohesion for the sake of GDP growth. Indeed, Europe needs economic growth – but surely it is not worth putting it above the quality of life.

Some could consider the Latin American example too distant. But appearances are deceptive. In reality, the countries are rather close to Europe in cultural as well as political aspects. They became independent two centuries ago, basically at the time of the American and French revolutions. Their consistent history is therefore often more traditional than in Europe. Brazil, Chile and other Latin American countries have existed within fixed borders for rather longer than let’s say Italy or Germany, let alone Ireland, Finland and the Central and Eastern European countries. What’s more, European-type political systems have prevailed in Latin American countries since 1800. Many experienced intervals of authoritarian regimes but even this is not such a difference compared to a number of the EU Member States.

It seems therefore that the differences between Europe and Latin America are based on different political decisions in the 1940s and 1960s. Europe’s current success stems from the battlefields of World War II. The horrors experienced in World War II led to an anxious struggle for consensus. The threat of Soviet communism led to a struggle for the highest possible social sensibility. On the contrary, Latin American countries entered the second half of the 20th century with no war damage. Optimistic as those to whom the future belongs…

Influenced by the defenders of purely market solutions, their governments headed forward on a wave of euphoria in a belief that wealth should not be re-allocated; that sufficient growth will eventually bring prosperity to the poor as well. This idea, however, has not proved true. Which is a lesson we should bear in mind.

Vladimír Špidla, European Commission Member
(Employment, Social Affairs and Equal Opportunities)

While the beginning of July means the beginning of holidays for school kids, the European Union will take its summer leave in August. Therefore, we may expect a number of key EU institutions meetings in July; Finland is to take over the Presidency. The EU Council meeting on economic and financial issues should focus on the details of the financial perspective for 2007-2013. The meeting of the EU Council for competitiveness should on the other hand focus on the support of innovations.

Meeting of the key EU institutions

6.-8.7.2006	**Helsinki, Finland**
- Informal ministerial meeting: Employment, Social Policy and Health	
10.-11.7.2006	**Jyväskylä, Finland**
- Informal ministerial meeting: Competitiveness	
11.7.2006	**Brussels, Belgium**
- Economic and Financial Affairs Council (ECOFIN)	
14.7.2006	**Brussels, Belgium**
- Economic and Financial Affairs Council (ECOFIN)	
15.-16.7.2006	**Turku, Finland**
- Informal ministerial meeting: Environment	
17.-18.7.2006	**Brussels, Belgium**
- General Affairs and External Relations Council	
18.7.2006	**Brussels, Belgium**
- Agriculture and Fisheries Council	
24.7.2006	**Brussels, Belgium**
- Justice and Home Affairs Council	

Public consultation on EU legislation

Topic of the consultation	Organiser	Deadline
Horizontal Legislative Approach to Technical Harmonisation	DG ENTR	26.7.2006
White Paper on a European Communication Policy	DG PRESS	31.7.2006
Community legislation on the Inland transport of dangerous goods	DG TREN	31.7.2006
Review of the Timeshare Directive	DG SANCO	1.8.2006
Regulation 258/97 on novel foods and novel food ingredients	DG SANCO	1.8.2006
Community legislation on the access to the road transport market	DG TREN	9.8.2006
Transparency in bond markets and other non-equity markets	DG MARKT	15.8.2006

Adequate and efficient provision of financial services is deemed one of the main conditions to keep the economy going. Therefore the European Commission places great emphasis on the promotion of internal market principles in the sector. The key initiative in this field in recent years was the Financial Services Action Plan. Not all of its ambitious provisions were however complied with; the integration of the EU financial market still needs support.

FINANCIAL SERVICES ACTION PLAN

Some ten years ago, the EU economic integration process was uncertain due to the early stage of the single European currency, named the euro at that time. The euro has been considered a logical complement of the Single Internal Market project; the project also includes the struggle for the most efficient operation of the financial services sector, for the services to be provided as smoothly as possible in the competitive environment and, if efficient, also in an extended manner as cross-border services, i.e. regardless of borders between individual Member States.

The adjectives describing financial services – smooth, competitive and international within the EU – have been deemed the factors facilitating the functioning of the single European currency and an instrument that assists in using the Euro zone potential.

BACKGROUND AND DESCRIPTION OF THE PROBLEM

Background of the problem

The process aiming at improvement of circumstances for financial service provision is called "The Financial Services Action Plan" and it started in October 1998 under the European Commission document "Financial Services: Building a Framework for Action". The document was presented at the Vienna summit of the European Council in 1998 that called upon the European Commission to draft a programme in the form of a comprehensive integrated document.

The Financial Services Policy Group (FSPG) comprising personal representatives of Ministers of Finance and representatives of the European Central Bank joined the process.

Description of the problem

In 1999, at the May summit of the European Council in Cologne, the European Commission was asked to carry on with the work on the Action Plan within FSPG. The Action Plan to promote **a single market of financial services** is based on the following three strategic objectives:

- establishing a single market of wholesale financial services;
- opening retail markets;
- providing and strengthening rules for prudential supervision over the financial market.

WHOLESALE MARKETS

The single European currency – the euro – is the catalyst for a market-focused modernisation of the EU securities and derivatives markets. Changes in the organisation of financial markets are already visible, in particular in closer relations among individual markets and in consolidation of payment systems and systems for securities transaction settlement. In the field of wholesale markets, the Financial Services Action Plan focuses on the following six priority areas:

- building a common legal framework for integrated securities and derivatives markets; its aim is to create conditions for efficient provision of cross-border investment services. This area required an update of the Investment Services Directive and consideration of the Directive on Insider Dealing and Market Manipulation related to sophisticated investors as well as regular individual investors;
- removing excessive barriers to the increase of capital within the whole of Europe; the Action Plan presumes that national rules hindering the offer of securities in other Member States make such transactions exceedingly expensive and restrain pan-European activities in the field. Therefore, the Action Plan stipulates altering the Directive on reporting requirements and public tender prospects. This priority area also brings intensified cooperation between the European Commission and the Forum of European Securities Commissions (FESCO);
- moving towards a unified form of financial statements for listed companies; in this area there is an urgent need for solutions enabling the companies to use financial statements prepared under a unified set of requirements on financial reporting when increasing their capitals within the EU. The Action Plan sets the International Accounting Standards (IAS) as the most suitable benchmark for a unified criterion for such requirements. Also the international standards for audit would be the minimum required to provide for credibility of published financial statements. Also the changes related for example to amendments to the Fourth and Seventh Directives on corporate law correspond to this requirement.
- building an integrated legal framework for additional pension funds; the development of pension fund schemes requires creation of a strict prudential

framework offering a high protection standard to the participants. This should stimulate creation of new jobs (due to lowered labour expenses) and help to reduce the burden of financing old-age pensions that grows with the gradual demographic changes. An insufficient framework within the EU may also prevent mobility of workers. The European Commission offers the Directive on prudential supervision over the pension funds within this point;

- providing necessary legal safety supporting dealing in cross-border securities; mutual acceptability and enforceability of cross-border collateral is unavoidable for the stability of the EU financial system and for the integrated structure of securities dealing. Legislatively, the objective will be set out in the prepared Directive on cross-border use of collaterals;
- creating a secure and transparent environment for cross-border restructuring; all areas of the European economy, as well as the finance sector, are currently undergoing a radical restructuring process. The implementation of the Directive on the takeover bids and the European corporate status are seen as an instrument protecting minority shareholders and make space for rational organisation of corporate legal

Box: Harmonisation of accounting standards in the EU

In this context, harmonisation means the process of eliminating differences in national manners of accounting transaction processing that may vary from each other. The accounting standards harmonisation is a process of convergence of financial accounting and reporting in the EU.

Within the EU, or the EC, the process started in the late 1970s when the EC Directives on accounting were published. The first was the Directive on the annual accounts of certain types of companies (the Fourth Directive) from 1978 (78/660/EEC). The Seventh Council Directive on consolidated accounts (83/349/EEC) followed in 1983. Another directive worth mentioning is the Directive on the annual accounts and consolidated accounts of banks and other financial institutions from 1986 (86/635/EEC). The first harmonisation stage was completed in 1991 by publishing the Directive on the annual accounts and consolidated accounts of insurance undertakings (91/67/EEC).

The differences among accounting systems however persisted. Therefore, the second stage started, which the European Commission named the “New Accounting Strategy”. It was created in 1995 when the New Accounting Harmonisation Strategy was published. The base of the new accounting strategy is the European Commission’s attachment to accounting harmonisation using the International Accounting Standards (IAS). Large companies have the option to prepare their final accounts primarily on the basis of IAS.

The third stage of accounting harmonisation took place at the turn of the millennium. In June 2000, the European Commission announced another harmonisation strategy titled the EU Financial Reporting Strategy: the Way Forward. It proposes that all listed enterprises prepare consolidated financial statements in accordance with a single set of accounting standards, the IAS, by 2005. There is a crucial change related to this requirement: while the previous strategy enabled or recommended IAS, the present concept makes the application of IAS mandatory.

This requirement was projected several years later, in 2002, in a vital regulation (Regulation 1606/2002 of the European Parliament on the application of IAS). The Regulation imposed certain duties on companies in relation to IAS. It made it mandatory for all EU listed companies to prepare consolidated financial statements pursuant to IAS from January 1, 2005. It made it mandatory for companies listed out of the EU that prepare financial statements pursuant to other accepted standards (such as US GAAP) to apply IAS from 2007. The Regulation also stipulated that companies with listed debt instruments were obliged to apply IAS from 2007. The Regulation also enabled the Member States to permit or require that the companies not listed in stock-exchanges and companies preparing individual financial statements prepare their final statements pursuant to IAS.

The current process of harmonisation of accounting rules culminated in 2003 when Directive 2003/51/EC was adopted amending all the aforementioned Directives on the annual and consolidated accounts of certain types of companies, banks and other financial institutions and insurance undertakings. Adoption of this Directive solved the main problem, i.e. inconsistency of accounting information in financial statements prepared in accordance with IAS and final statements prepared in accordance with the 4th and 7th Directive. The Directive from 2003 provides for comparability of information. It should be noted that the European Directive applies only to certain types of companies since the Member States are not obliged to apply the Directive to all companies. The consequences of the new Directive providing for comparability of accounting information among companies that apply IAS and companies not applying IAS are rather considerable. First, there is an increased number of accounting units that have to take IAS into consideration. Second, the IAS standards are indirectly projected also in the accounting of units that do not apply IAS directly.

structures within the Single Internal Market. The adoption of the European corporate status also enables the European Commission to proceed with drafts of the Directive on cross-border mergers between public joint stock companies and transfer of registered corporate seats. To prevent measures that could obstruct the restructuring process, the European Commission considers objective and publicly accessible criteria adopted for the authorisation of restructuring measures in the banking industry.

RETAIL MARKETS

Fundamental changes in the EU financial markets are noticed and implemented particularly in wholesale financial services. The retail sector, however, also undergoes a process of significant adjustments. The legal framework currently enables financial institutions to offer their services within the EU, and a protective framework was established against institutional shortcomings and systemic risk. A number of legislative, administrative and civil obstacles prevents the cross-border provision of such services from expanding (such as the single bank account, mortgage). The Action Plan identifies a number of pragmatic steps to overcome such obstacles. The European Commission has identified the following six steps:

- information and transparency; clear and comprehensible information for the consumers (clients) is of key importance if clients invest their savings, partially or wholly, in a country other than their home country. The Action Plan therefore refers to an initiative to improve the provision of information, transparency and security in cross-border provision of retail services; the European Commission initiative in this context is the Directive on distance marketing of financial services, the Recommendation on mortgage information, the Directive on insurance mediation and the Action Plan to prevent fraud and counterfeiting in payment systems;
- redress procedures; effective and efficient dealing with problems, discrepancies, complaints and claims is another condition necessary to increase trust in cross-border activities. The European Commission conducts an activity based on Recommendation 98/257/EC on the principles applicable to the bodies responsible for out-of-court settlement of consumer disputes (from 30/3/1998). In 2001, the European Commission launched the FIN-NET framework in order to facilitate out-of-court settlement of complaints in financial services where the service provider and the consumer each reside in another Member State. All categories of retail financial services (online and offline) prevent any blocking of e-commerce or useful development of cross-border services. The FIN-NET aims at supporting the consumer trust though simple, fast and inexpensive alternatives to traditional judicial procedures.
- The Alternative Dispute Resolution (ADR) is further accelerated thanks to the existence of the single currency and represents a response to the political will of the Member States to realize cross-border trade in the same direct ways and methods as national trade. The duration, complexity and expenditures of cross-border services often discourage customers at present;
- adequate (balanced) adoption of consumer protection rules; the European Commission analyses the national consumer protection rules for a number of financial products and tries to find possible equivalents among obviously similar rules. The activity is in particular focused on outlining the interpretation and translation communication of the concept of “general good” in individual financial sectors, specifically in insurance;

- e-commerce; the overall impact of e-commerce increases the market integration; it may however be expected that certain problems in cross-border sale in the retail financial market could escalate. As a result there is an activity of the European Commission regarding the Directives on e-commerce and distance selling;
- insurance intermediaries; national rules of the Member States include instruments protecting consumers within relations with insurance intermediaries. The rules were however drafted in rather distinct lines, which may prevent the freedom of provision of such services. Therefore, the Action Plan includes an update of the Directive on insurance mediation and increased consumer protection;
- cross-border retail payments; the advantages of the single European currency will not become immediately clear to individual customers in the financial services sector unless certain steps are taken emphasizing such advantages. For instance, credit transfers of relatively low amounts will bear high fees within the Euro zone until more efficient and cheaper cross-border payment systems are put into practice. Also fees for cross-border card payments are often higher than domestic card payments. It is therefore clearly necessary to have an integrated retail payment system providing for secure and competitive cross-border transfers of even rather low amounts. Cooperation in this field involves the European institutions, European System of Central Banks and private sector;

OTHER IMPORTANT ASPECTS

Strengthening prudential regimes

Regulation authorities in the EU need to keep up with new financial risk sources and to adjust their supervisory activities to the development of systemic and institutional risks (e.g. capital adequacy etc.). It is also necessary to allow for the developing market situation (where institutions are organised within the whole of Europe and sometimes even across individual sectors).

In this area, the Action Plan includes the following:

- shifts that should bring the banking and insurance legislation and legislation on securities to the level of the highest standards considering activities of the Basel Committee, FESCO and similar authorities;
- work on prudential supervision over financial conglomerations; financial conglomerations represent entities offering a whole range of financial services in banking, insurance and securities. Such structures, often active on a cross-border basis, developed rapidly; the rules that would register their existence could not develop sufficiently. The traditional approach distinguishing between financial service providers according to their sector gradually ceases to apply;
- initiatives to improve discussions across sectors and cooperation among authorities in questions of common interest include for example the establishment of the Securities Advisory Committee (SAC).

General conditions

The differences among individual Member States' rules on corporate governance may also intensify the legal and administrative barriers preventing efficient operation of the EU financial market. However, the term "corporate governance" itself implies a wide scope of questions split in an unclear manner in the single financial market at present. Any initiative within the EU should therefore start with a comparison of national legislations related to the corporate governance applied in various Member States; as a result, all barriers should be identified that could slow down the single EU financial market development.

Another very important question – and apparently a long-term one – is the possible elimination of tax barriers and distortions. It is clear at present that the tax coordination process in matters related to financial markets will last for some time. Therefore, waiting for the creation of a single financial services market would mean postponing the whole process for a considerable period. Accordingly, the procedure applies to individual partial procedures that are more likely to be politically accepted. This applies for instance to the Directive to ensure minimum effective taxation of income from cross-border savings. Further initiatives are taken also in the field of pension funds and insurance.

White Paper on Financial Services Policy

However, we are in the European Union and it is rather likely that meeting the determined objectives will take more time than expected in the beginning.

Since a considerable part of the Financial Services Action Plan draft should have been implemented already by the end of 2005, which was not the case in many instances, the White Paper on Financial Services Policy was created, focusing on the outlook of the whole process until 2010.

Box: Brief outline of the scenario of the White Paper on Financial Services Policy

1. Better regulation

1.1. Open and transparent consultation

1.2. Regulation impact assessments

1.3. Implementation and enforcement of regulation in each Member State

1.4. Ex-post evaluation of the regulation

1.5. Simplification, codification and clarification of the regulation subject

1.6. Users of financial services: input, education and redress procedures

1.7. Further reinforcing of the interaction with other EU policy areas

2. Ensuring the right EU regulatory and supervisory structures

2.1. Making the Lamfalussy process work

2.2. Supervisory bodies challenges

2.3. Greater clarity in roles and responsibilities of home and host supervisors

2.4. Delegation of tasks and responsibilities between supervisors

2.5. Some practical steps to improve the efficiency of supervision

2.6. Developing a pan-European supervisory "culture"

3. Future legislative activities

3.1. Retail banking (mortgage, consumer loan, draft of Directive on payment services)

3.2 Solvency II project

3.3 Clearing and settlement of trade

3.4 E-money Directive

3.5 Insurance guarantee schemes

CONCLUSION

EMU provided the key impulse for financial integration within the EU. Since the exchange rate risks in cross-border financial activities in most of the EU was eliminated, the euro created a potential for larger and more liquid financial markets and provided effects for the providers and intermediaries of financial services. Financial integration itself is not the objective; it is more an instrument to increase the growth potential of economy in the EU, or the Euro zone, through more efficient allocation of resources, increased investments and higher capital productivity.

The impact of the euro on the EU financial integration should not be separated from other impacts such as globalisation, technology development or regulatory framework reform. On the other hand, there is concrete proof that the adoption of the euro contributed significantly to the integration in the form of rather homogenous markets, consolidation waves among the financial service intermediaries and the markets, and creation of new innovative products and technologies after 1999.

Still, this is not the single financial service market within the EU. The instrument established in order to reach it has been the Financial Services Action Plan, and also the White Paper on Financial Services Policy with an outlook for the near future.

Greece is often compared to the Czech Republic. Both countries are rather small with their economies on a lower level than the EU average. The Greek path through the European integration process, which commenced in 1981, may provide inspiration for us in many respects: as a positive example and the best experience as well as an opportunity to learn a lesson from the mistakes made by Greece, and their prevention.

GREECE

Government type/chief of state	republic / president Konstantinos Stefanopulus
Area (share of EU)	131 940 km2 (3.32%)
Population (share of EU)	11 075 700 (2.41%)
Age structure	0-14 years: 14.5%, 15-64 years: 67.6%, over 65 years: 17.9%
Total GDP (share of EU)	181.10 EUR bn (1.67%)
GDP per capita in PPS	82.2% of EU-25 average
GDP - composition by sector	agriculture: 5.2%, industry and constr.: 20.8%, services: 74.0%
Average inflation	3.5%
Average unemployment	9.9%
GDP growth	3.7%
General govern. balance	-4.5% of GDP
General government debt	107.5% of GDP
Number of NUTS2	13 NUTS2, Sterea Ellada 115.7%, Anatoliki Makedonia 62.4%

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

This year, Greece quietly celebrates the 25th anniversary of its accession to the European Communities. The first lesson for us is the fact that after a quarter of a century Greece is still perceived as a country that joined the integration process relatively recently, in particular by the "Founding Fathers" (regardless of its ancient history with cultural and social life on a high level at the time when Central Europe was still full of impenetrable woods and uncultivated wilderness).

Nonetheless, the far more modern Greek history prior to its accession to the EC in 1981 is also rather colourful and even comparable with communist post-war Central and Eastern Europe with respect to the degree of democracy. In every way, the period is characterized by a number of upheavals and changes.

Immediately after World War II there was an attempted communist insurrection with an effort to establish a communist Government which, however, did not last long (its suppression and subsequent exodus of left-wing Greeks explains why there is an extensive Greek minority in the Czech Republic even nowadays, such as in Krnovsko). Greece then orientated itself solely towards the West European countries as witnessed by its accession to NATO in the early 50s. A rigid military regime in Greece from the mid 60s to mid 70s considerably restricted democratic rights. Only when Greece returned to democracy, could it join the European integration process intensely.

Also the accession of Greece to the EC was seen more politically than economically. Greece did not rank among the leading European countries at that time; the potential of a direct impact of a "wealthier neighbour" did not apply to Greece since there are no EU Member States in its neighbourhood.

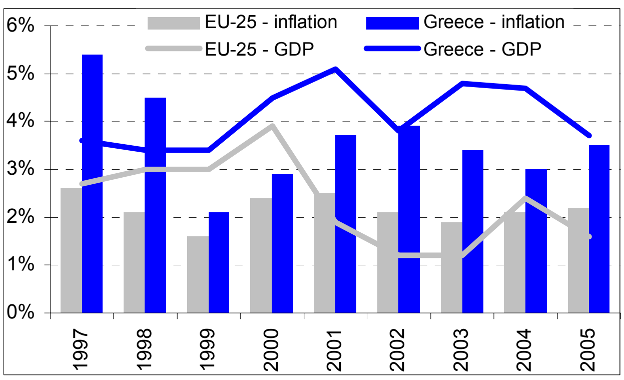
Regardless of this rather complicated recent history the position of Greece has become considerably more hopeful recently. Economically, Greece is far from the most prosperous EU countries (together with Portugal, Greece is by far the poorest country of the EU15; its economy according to GDP per capita is roughly comparable with the Czech economy); Greece is however one of the few EU15 countries that reports relatively strong economic growth.

Greece is very well aware of the meaning of the restructuring process of the economy; it is not surprising that in the recent twenty years the process has focused on a gradual move from traditional agricultural activities (Greece still reports a rather high share of agriculture in GDP compared to the EU average) to services. Services are dominated by the tourist industry where massive private and public funds are invested. The tourist industry together with immense cultural inheritance is rather generously supported by the EU funds as well.

Also the myth related to Greece's ability to use the EU funds has become obsolete; it might have been true several years ago but is not true at present for sure. Greece is now in the top position among countries able to obtain financial funds compared to their GDP and this number exceeds 3 %.

Substantial strengthening of the macroeconomic system came at the turn of the millennium when Greece was intensely getting ready – as the 12th country – to enter the Euro zone, which took place in 2001.

Inflation and GDP



Source: Eurostat

Statistical window

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

Key macroeconomic indicators

	GDP growth y-on-y			Current account to GDP*			Unemployment rate			Inflation y-on-y average		
in %	2003	2004	2005	2003	2004	2005	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	8.4	8.4	2.2	2.6	2.8
CR	**3.2**	**4.7**	**6.0**	**-6.3**	**-6.0**	**-2.3**	**7.7**	**7.5**	**7.4**	**2.4**	**2.3**	**2.8**
Denmark	0.7	1.9	3.1	3.2	2.3	2.9	4.2	4.0	3.9	1.8	1.8	2.1
Estonia	6.7	7.8	9.8	-11.9	-12.7	-10.6	5.3	5.1	4.9	4.0	4.3	4.6
Finland	2.4	3.6	2.1	3.8	4.1	2.4	7.9	7.7	7.6	1.2	1.5	1.7
France	0.8	2.3	1.4	0.2	-0.7	-1.2	9.0	8.9	8.8	1.7	2.0	2.4
Ireland	4.4	4.5	4.7	0.0	-0.8	-1.9	4.3	4.3	4.3	2.8	2.7	3.0
Italy	0.0	1.1	0.0	-0.9	-0.5	-1.1	n/a	n/a	n/a	2.2	2.3	2.3
Cyprus	1.9	3.9	3.8	-0.9	-5.3	-5.7	5.5	n/a	n/a	2.6	2.5	2.5
Lithuania	10.5	7.0	7.5	-6.8	-7.9	-7.0	6.3	5.9	5.6	3.1	3.4	3.6
Latvia	7.2	8.5	9.1	-8.1	-12.9	-12.4	7.8	7.8	7.7	6.6	6.1	7.1
Luxembourg	2.0	4.2	4.2	6.4	10.5	8.4	4.8	4.8	4.7	3.7	3.5	3.6
Hungary	3.4	4.6	4.1	-8.6	-8.4	-7.4	7.4	7.4	7.3	2.4	2.4	2.9
Malta	-2.5	-1.5	2.5	-5.8	-9.6	-12.9	8.3	8.4	8.3	2.9	3.5	3.5
Germany	-0.2	1.6	0.9	2.1	3.7	3.9	8.7	8.2	8.3	1.9	2.3	2.1
Netherlands	-0.1	1.7	1.1	5.9	6.2	7.1	4.1	4.0	3.9	1.4	1.8	1.8
Poland	3.8	5.3	3.2	-2.1	-4.2	-1.5	16.8	16.5	16.4	0.9	1.2	1.5
Portugal	-1.1	1.1	0.3	-6.5	-7.8	-9.5	7.6	7.6	7.5	3.0	2.9	n/a
Austria	1.4	2.4	1.9	1.5	2.7	2.9	5.0	4.9	4.9	1.3	2.1	2.1
Greece	4.8	4.7	3.6	-10.0	-9.5	-9.2	n/a	n/a	n/a	3.3	3.5	3.3
Slovakia	4.5	5.5	6.0	-0.5	-3.4	-8.5	15.3	15.5	15.5	4.3	4.4	4.8
Slovenia	2.7	4.2	3.9	-0.3	-2.0	-1.1	6.4	6.5	6.5	2.0	2.8	3.4
Spain	3.0	3.1	3.4	-4.1	-5.8	-7.4	8.9	8.3	8.3	3.9	3.9	4.1
Sweden	1.7	3.7	2.7	6.6	6.6	5.9	n/a	n/a	n/a	1.5	1.8	1.9
UK	2.5	3.1	1.8	-1.4	-2.0	-2.6	5.2	n/a	n/a	1.8	2.0	2.2
EU-25	**1.2**	**2.4**	**1.6**	**0.1**	**0.0**	**-0.3**	**8.3**	**8.2**	**8.2**	**2.1**	**2.3**	**2.4**

	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*