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Dear readers,

it is just a year since the Czech Republic became a fully paid-up member of the European Union, on the first day of May 2004. Although the pages of our EU Monthly have carried regular information mapping and describing the effects of our membership as they appeared, we felt the occasion demanded a summary. This is one of the contributions to this issue.

Another of them describes in detail an important document which became the subject of a very typical battle at the EU tilt-yard, before it even saw the light of day; if you wish to succeed in such battles, you have to be able to understand the "technology" of the Union. The document is the Services Directive, which should be a key piece of legislation in the innovated Lisbon strategy. This strategy states that free movement of services is quite insufficient in the Union and offers significant potential. Briefly, the directive should really enable services in the EU to be provided across borders, so that service users are much more frequently from countries other than that of the provider, if both of them find this desirable, and this should not be prevented by any evident or hidden regulation. Nevertheless, as soon as this requirement was embodied in the New Lisbon text, at the same Council of Europe summit it ran into opposition, in particular from France, Germany and, for example, Belgium and Cyprus. These countries' representatives and some interest groups evidently believe that such movement of services would be too great a threat to their domestic providers and so for the moment they have put a diplomatic stop to the passing of the directive in its originally proposed form. One of the key contributions to this issue contains an analysis of the Services Directive.

France will be the centre of events in the EU at the end of May, as it will be the site of the most key referendum on the approval of the Constitution for Europe. It will evidently be the most important vote because France is an influential founding father of the integration process and a very populous country whose people are currently sceptical about the draft European constitutional treaty. France could therefore be a model for decisions in the remaining 18 countries, where the ratification process still has to be performed and the situation is similarly "tense". In the event of a French "Non", there are already a range of catastrophe scenarios, whose proponents fantasise about the collapse of the Euro or even the dissolution of the Union itself. The most usual element of catastrophe scenarios is that their blackest versions usually do not come true.

As you can see, the advanced stage of spring is in no way detracting from the interest of integration events in Europe. We wish you a pleasant and beneficial time considering them with the help of the EU Monthly News and www.csas.cz/eu.

Petr Zahradník

The regular half-yearly forecast from the Commission did not give grounds for much optimism. According to it, European economic growth will slow to 2.0% this year, down from 2.4% last year. The new member states expressed their unhappiness with a compromise proposal by the Luxembourg presidency regarding the EU financial perspective for 2007 to 2013. The European Commission does not agree with it either and has presented a more detailed version of its proposal.

ECONOMY AND EURO

Spring Economic Forecast of the Commission

After the slowdown in economic activity in the second half of last year, it is expected that growth in the Eurozone and the EU will again reach its potential in 2005, as domestic demand strengthens. Overall, it is expected that GDP growth will be 1.6% in the Eurozone and **2.0% in the EU** (and 2.1% and 2.3% in 2006).

In the Czech Republic the European Commission report forecasts economic growth of 4% this year and 4.2% in 2006. The country with the highest economic growth in the EU will be Latvia, which will grow by 7.2%, followed by Lithuania at 6.4% and Estonia at 6%.

Employment growth should accelerate in both the Eurozone and the EU, which will lead to a slight fall in the unemployment rate in 2006. It is expected that three million more employment opportunities will be created in 2005–2006, which, however, will only lead to a slight fall in unemployment to 8.7% in 2006.

The **state of public finances** should also remain practically unchanged this year, with a deficit of 2.6% of GDP in the Eurozone and the EU. The average, however, hides large differences between EU member states, of which nine exceeded the reference value of 3% in 2004. Five of them should significantly reduce their deficits this year (i.e. by more than half a percent of GDP).

In its spring forecast the Commission also drew attention to possible future risks, in particular the danger of further increases in oil prices, exchange rate fluctuations and a fall in consumer confidence, which could affect growth in private consumption and investment plans.

Main items of spring economic forecast

n %	EU-25			Czech Republic		
	2004	2005	2006	2004	2005	2006
3DP*	2.4	2.0	2.3	4.0	4.0	4.2
Private consumption*	1.8	1.9	2.0	2.5	3.1	3.6
nvestment*	3.0	3.6	4.1	9.1	7.9	6.9
Unemployment rate	9.0	9.0	8.7	8.3	8.3	8.2
nformation	2.1	1.9	1.7	2.6	1.9	2.6
Public budget**	-2.6	-2.6	-2.5	-3.0	-4.5	-4.0
Public debt**	63.8	64.1	64.2	37.4	36.4	37.0
Current account**	0.2	0.0	0.0	-5.2	-4.7	-4.6

*Note: *) year-on-year growth, **) as % of GDP, the data for 2004-2006 are estimates*

http://europa.eu.int/rapid/pressReleasesAction.do?reference=IP/05/384

BUDGET

Commission Details of Proposal for New Budgetary Framework

At the start of April the European Commission adopted a last package of detailed proposals in connection with its new financial perspective for 2007-2013. The proposals are primarily based on the Union priorities in key areas such as research – strengthening European competitiveness; citizenship, freedom, security and justice, as well as health and consumer protection – making the European Union a safer place to live. The total value is € 93 billion and this is already part of the proposal for the whole future financial perspective and its volume will not change. The package, whose aim is to set priorities resulting from the performance of the Lisbon agenda, will be supplemented by proposals dating from last July and September and will complete the whole proposal for the financial framework for 2007-13.

Main points of the proposals:

- **Seventh framework programme for science and technology** with a budget of € 67.8 billion for the whole period 2007-2013 (increase of 166%).
- **Framework programme for competitiveness and innovation** with a budget of € 3.7 billion, the aim of which is to facilitate access by small and medium-sized enterprises to financial and support services;
- Support **measures for information and communications technology** are part of the two aforementioned programmes and result from the new "European Information Society 2010" strategy, which the Commission will present in May;
- New programmes Customs (for customs duties) and Fiscalis (for taxes) to **improve co-operation in the fight against tax and customs fraud** with a budget of € 522 million;
- Three new programmes for **justice, security and freedom** to increase the security of EU citizens with a total budget of € 8.3 billion;
- New programme Citizens for Europe to **encourage citizens to build Europe** (budget of € 207 million);
- Perfection of the programmes **Health and Consumer Protection** for a better quality of life in the EU with a budget of € 1.8 billion;
- Two new tools for rapid reaction in emergencies (natural disasters, dangers to public health, terrorism): the **Solidarity Fund**, with a budget of € 6.2 billion, and the Rapid Response and Readiness Instrument with a budget of € 138 million;
- The framework **programme for sustainable fishing** with a budget of € 2.6bn, which is part of the fishing support budget.

Financial Framework 2007-2013 proposal
Commitments at 2004prices

Activity	Total in EURbn	Share of total
1A: Competitiveness for growth and employment		
Research	67.8	6.6%
Transport and energy	20.7	2.0%
Education and training	12.0	1.2%
Social policy (Progress)	0.6	0.1%
Competitiveness & Innovation	3.7	0.4%
Customs & FISCALIS	0.5	0.1%
Growth and adjustment Fund	7.0	0.7%
Other (incl. other actions. administration)	20.4	2.0%
Total	132.7	13.1%
1B: Cohesion for growth and employment		
Promoting convergence	264.0	25.8%
Regional competitiveness	57.9	5.7%
Territorial co-operation	14.3	1.4%
Other (incl. administration and margin)	2.5	0.2%
Total	338.7	33.1%
2: Preservation and management of natural resources		
Agriculture (CAP market measures. direct aid)	301.1	29.4%
Rural development	88.8	8.7%
Protection of environment	2.1	0.2%
Fisheries Fund	7.6	0.7%
Other (incl. other actions. administration)	5.1	0.5%
Total	404.7	39.5%
3: Citizenship. Freedom. Security and Justice		
Freedom. Security and Justice	8.3	0.8%
Health and Consumer	1.8	0.2%
Culture. Youth. Media and Citizenship	2.5	0.2%
Civil protection and Rapid Response Instrument	0.1	0.0%
Solidarity Fund	6.2	0.6%
Other (incl. other actions. administration)	5.8	0.6%
Total	24.7	2.4%
4: EU as a global partner		
Pre-accession	12.9	1.3%
Neighbourhood policy	13.1	1.3%
Development Co-operation	39.0	3.8%
Stability	3.9	0.4%
Loan guarantee fund	1.2	0.1%
Other (incl. other actions. administration)	25.3	2.1%
Total	95.4	9.0%
Other (incl. other EU-institutions. pensions. European schools)	28.7	2.8%
TOTAL	**1025.0**	**100.0%**

The European Commission's proposal, which assumes average expenditure by the European budget totalling **1.14% of the European Union's gross national income** (GNI), however, has met with stiff opposition from the six richest countries, who are trying to push spending down to a maximum of 1.0% of GNI. Meanwhile, the debate about the future financial perspective is raging in the European Parliament. The parliamentary rapporteur for financial perspective Reimer Böge is proposing a compromise option with spending of 1.09% GNI. The proposal by MEP Böge includes a change from seven-year planning to a five-year budget, which would be the same as the term of office of the European Parliament and the Commission. A plenary session of the European Parliament will probably examine the proposal in June.

Meanwhile, Luxembourg, which has the EU presidency in this half of the year, has come up with a new proposal.

http://europa.eu.int/rapid/pressReleasesAction.do?reference=IP/05/389

Controversial Luxembourg Proposal Did Not Obtain New Members' Support

A significant contribution to the debate about the future form of the European budget was made by a proposal by Luxembourg, which has the EU presidency in this half of the year. Its main part is a reduction in expenditure in the budgetary **chapter 1b Cohesion for Growth and Employment**. Savings in this chapter, which contains finance for the Structural Funds and the Cohesion Fund, would most affect the new, poorer member countries.

There is a fundamental change altering the ceiling for total contributions earmarked for the cohesion policy in relation to GDP. Until now, this parameter was set at 4.0% of GDP and the new member states, including the Czech Republic, hoped they would get contributions in this amount. Luxembourg is proposing changing the ceiling depending on how rich a country is (based on gross national income per capita at purchasing price parities):

- Member states with a GNI per capita of less than 40% of the EU-25 average => ceiling of 4% GDP;
- Member states with a GNI per capita between 40% and 45% of the EU-25 average => ceiling of 3.9% GDP;
- Member states with a GNI per capita between 45% and 50% of the EU-25 average => ceiling of 3.8% GDP;
- Further, for each five percentage points of GNI per capita in comparison with the EU-25 average, the ceiling for expenditure on the cohesion policy will be reduced by 0.1 percentage point of GDP.

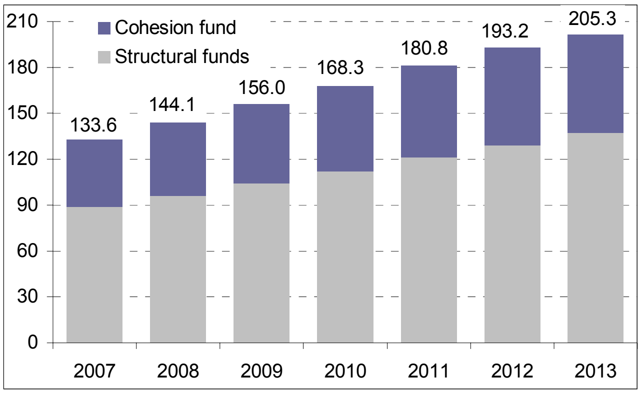
For the Czech Republic, whose GNI is roughly 65% of the European Union average, the ceiling would be **3.5% of GDP**.

Another part of the proposal is an alteration to the **national prosperity coefficient**, which is used to express subsidies to NUTS2 type regions as a part of the key Convergence

According to preliminary data last year, the Czech Republic received € 235 million more from the European budget than it paid in. All the new member countries were net recipients of money from the EU. After being urged by member states, the Commission decided to examine excessive imports of Chinese textile. Their inflow increased at the start of the year after the cancellation of import quotas. The European Payments Council agreed on the introduction of a single payment area in € from 2008.

aim (78.5% of funds from the Cohesion chapter are used for it). Until now it was 5%, but part of the proposal is a reduction for poor countries (with GNI per capita under 82% of the EU-25 average) to between 3.5% and 4.5%. There is therefore a real danger that, in the event the national prosperity coefficient were 3.5%, the Czech Republic would not even need to apply the ceiling, as it would be getting even less than 3.5% of GDP for the cohesion policy.

Estimate of inflow for regional policy to CR in 2007-13
CZK bn, current prices



Source: MF ČR

In the event the coefficient is set at 4.5%, a ceiling of 3.5% of GDP will not have to be applied to the CR. In such an event, we will get **approximately CZK 150 billion less** than we expected in the whole seven-year period. Instead of CZK 1,181 billion, we would get CZK 1,031 billion.

There has been much opposition to the proposal by the affected countries. Some representatives have called it unacceptable and a step backwards. **The European Commission does not agree** to it and President Barroso has said that he insists on his original proposal. The adoption of a compromise solution by June, which both the European Commission and Luxembourg want, now seems less probable.

http://register.consilium.eu.int/pdf/en/05/st08/st08292.en05.pdf

EU Membership Pays Off for New Members

Purely from the financial viewpoint, EU membership **paid off** for all ten new countries last year, indicates a preliminary report by the Commission. Definitive results and estimates for the first half of this year will be available in September.

The ten countries together paid € 3.2bn into the common treasury in Brussels, whereas they received almost € 6bn. Poland had the largest positive balance in absolute terms.

In the eight months of last year the Czech Republic paid € 563 million into the EU budget, whereas it received € 798 million. The difference was **€ 235 million.**

It is a better result than was expected during the pre-accession negotiations at the EU summit in Copenhagen. It was then expected that it would be a "mere" € 196 million. The difference was caused by the fact that the Czech Republic received **more funds for agriculture** (direct payments and rural development).

According to European Commission data, last year the most important items the Czech Republic received were € 90.7 million for agriculture, € 161.6 million for structural fund projects, € 190.9 million for the completion of projects financed by pre-accession funds (Phare, Ispa) and, in particular, € 332.3 million in the form of undesignated budgetary compensation.

Positions of new members to European budget in 2004
in € millions

	Revenues	Expenditures	Net balance
Czech republic	797.9	562.8	+235.0
Estonia	195.2	55.1	+140.1
Cyprus	127.6	94.7	+32.9
Latvia	259.6	67.1	+192.5
Lithuania	478.9	118.7	+360.2
Hungary	694.4	534.4	+160.0
Malta	69.5	32.9	+36.7
Poland	2712.7	1303.8	+1409.0
Slovenia	272.7	169.6	+103.1
Slovakia	378.8	218.9	+159.9
Total EU-10	5987.2	3158.0	+2829.2

http://europa.eu.int/comm/budget/pdf/execution/execution/financialreport04/rap_fin_en.pdf

New Commission's First Budget

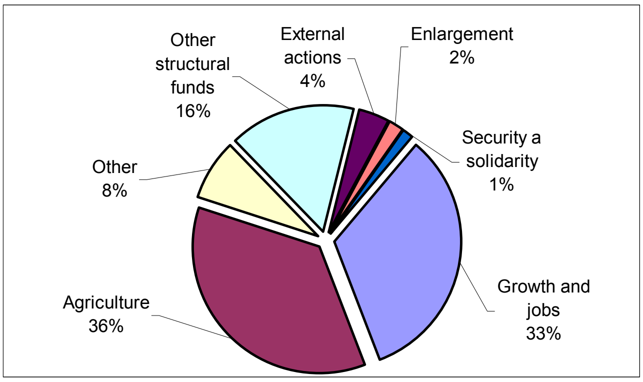
The European Commission has presented a proposal for the first budget in its term of office. The budget for 2006 already reflects the **new priorities** of José Barroso's team: increased funding for European research, solidarity in the enlarged European Union, a safer Europe for its citizens, preparations for future enlargement and strengthening the EU's role globally. The main area of interest, on which one third of all funds will go, is the **stimulation of economic growth** and the creation of more and better job opportunities increasing employment.

To ensure the aforementioned priorities, the Commission is proposing a balanced budget with expenditure of € 112.6 billion, which corresponds to **1.02% of the whole Union's gross national income**. This is an almost six percent increase in comparison with last year. Expenditure on obligations which do not have to be settled in the year in question is € 121.3 billion, or 1.09% of the Union's GNI.

The European Commission's proposal has to be approved by the EU Economics and Finance Council and the European Parliament. Final approval is expected in the autumn.

http://europa.eu.int/rapid/pressReleasesAction.do?reference=IP/05/489

Structure of the European budget for 2006



Source: European Commission

FOREIGN TRADE

Mandelson To Examine Chinese Imports

The European Trade Commissioner Peter Mandelson has heeded calls from a number of member states and decided to start **examining Chinese textile imports** to see whether the imports are damaging European textile plants. If this is proved, protective measures can be introduced within 150 days. The investigation will be based on import statistics and will have nine categories.

The dam broke on Chinese textile imports at the start of January this year, when, subsequent to an agreement concluded at the World Trade Organisation (WTO), WTO member states **cancelled import quotas for textiles and clothing**. The agreement contains provisions inserted by developed countries on the use of extraordinary protective barriers, if excessive imports threaten domestic industry.

In the first three months the volume of imported textiles rose by up to 500% in some categories and the average increase is estimated to be **73%,** which led to a fall in prices and had negative consequences for economic performance and employment in the European textile industry.

Commissioner Mandelson will first try to get a voluntary agreement with China under which the Chinese themselves limit textile exports to the EU. If such negotiations fail, however, **unilateral European import quotas** may be introduced. The USA has already adopted similar measures.

http://europa.eu.int/rapid/pressReleasesAction.do?reference=IP/05/473

SINGLE INTERNAL MARKET

Single Payment System in EMU from 2008

The European Payments Council, representing European banks, has taken a decisive step towards the introduction of a **Single Euro Payment Area**.

Its representatives have agreed to introduce Europe-wide payment schemes for **cross-border financial transfers** and direct collection. **European payment cards** will also be created. More precise rules for the functioning of both schemes and European payment cards will be drafted by the end of 2005 and the new system will come into operation at the start of 2008.

Under the new schemes, a single payment order issued in a client's local bank will be sufficient for a financial transfer to any other bank in the Eurozone. Cross-border direct collection will be introduced in a similar way. Cardholders will be able to use their cards abroad in any ATM or shop, for a reasonable charge, without any differentiation, the same as in their own country.

The single payment system will only include **transactions in €**. Therefore, only Eurozone countries will be able to use it; other EU member states will only be able to use it for € transactions.

The plan developed by the European Payments Council comes only a few weeks after a statement by the Internal Market Commissioner Charlie McCreevy that the banking community has not made sufficient progress on the introduction of a uniform European payment system.

http://www.europeanpaymentscouncil.org/documents/EPC071_Version%200.2_05_Press%20Release%204th%20April05.pdf

ENTERPRISE

New Competitiveness and Innovation Framework Programme

Stimulating the competitiveness of small and medium-sized enterprises, support for and promotion of eco-innovation, energy efficiency, renewable energy sources and accelerating the development of the information society are the key aims of the **Competitiveness and Innovation Framework Programme**. The programme is for the same period as the new financial perspective – i.e. from 2007 until 2013.

The new framework programme merges several current measures to **increase the competitiveness and productivity** of European businesses (in particular SMEs) and also supports environmental innovation and sustainable

The EU Transport Council agreed on a directive on European tolls. Transit countries, including the Czech Republic, think it will restrict and regulate the constantly growing number of lorries. Bulgaria and Romania signed an Accession Treaty with the EU. It assumes they will accede to the Union in January 2008. Similar to the previous wave of enlargement, the agreement contains a number of transition periods. The European Commission approved the Czech allocation plan.

energy. In addition, it introduces quite new tools such as venture capital tools for innovative and high growth companies, as well as the securitization of bank loan portfolios for small and medium-sized enterprises.

The framework programme comprises three sub-programmes:

- **The Entrepreneurship and Innovation Programme** (budget of € 2.63 billion) – brings together activities to support business, small and medium-sized enterprises, industrial competitiveness and innovation. The programme will facilitate access to finance and support for investment in innovation activities. It will provide small and medium-sized enterprises with information and advice about opportunities on the internal market and help member states introduce a better regulatory and administrative environment for entrepreneurship and innovation.
- **The Information and Communications Technology** Policy Support Programme (budget € 802 million) – the aim is the rapid spreading of information and communications technology and it comprises current measures such as eTEN (which supports the verification and placement of trans-European services based on ICT), eContent (which supports the development of innovative European digital materials) and Modinis (which provides direct support for activities concerning comparisons with reference indicators, studies, forums, support and increasing awareness about measures which eEurope helps implement);
- **The Intelligent Energy-Europe Programme** (budget of € 780 million) – this includes projects which accelerate the adoption and promotion of energy efficiency and increase investment in renewable sources, such as SAVE (which supports energy efficiency and the rational use of energy, in particular in construction and industry), ALTENER (which supports new and renewal energy sources for the production of electricity and heat and their integration into the local environment and energy systems) and STEER (which looks into energy aspects of transport and fuel diversification).

The Competitiveness and Innovation Framework Programme is a supplement to the Seventh Framework Programme for Research. Members of the European Economic Area (EU-25 + Iceland, Liechtenstein and Norway), candidate countries, countries in the western Balkans and, under certain conditions, also countries involved in the European neighbour policy can participate in it.

http://europa.eu.int/rapid/pressReleasesAction.do?reference=IP/05/391

EU and USA Agree on Accounting Standards

The Internal Market Commissioner Charlie McCreevy has achieved one of his main aims since taking up his position. In the USA he managed to conclude an agreement with the US Securities and Exchanges Commission on a "road map" leading to equality between the currently different European (**IFRS**) and US accounting standards (**US GAAP**).

The agreement will lead to the removal of the need for European companies to keep accounts in accordance with US accounting standards if they want to be traded on US financial markets. Under the agreement, they can keep their accounts **only using IFRS**. This should happen no earlier than 2007 and no later than 2009.

"It's a sign of our common interest in restricting the regulatory burden and costs related to doing business," said Commissioner McCreevy. The transition from IFRS to GAAP is a costly affair for European companies.

http://europa.eu.int/rapid/pressReleasesAction.do?reference=IP/05/469

EMPLOYMENT AND SOCIAL POLICY

More Funds for Restructuring

The Commission has proposed introducing new expenditure for **regions affected by economic restructuring**. In a statement it emphasised three main areas where action can help:

- **Better coordination** of European policies (in particular employment policies, industry and enterprise policies, trade and competition policies);
- **The adoption of a regulatory framework**, including a green paper on the development of employment law in 2006;
- **The development of partnerships** (the creation of a European Restructuring Forum is planned).

In the proposal the Commission focuses on strengthening social dialogue between employers and employees. It also highlights the necessity of an active approach by all social partners to deal with the consequences of restructuring.

The European executive expects that around € 1 billion will be spent each year on supporting areas affected by restructuring from a **new special fund**. In addition, it has proposed that member states create **reserves for unforeseeable restructuring expenditure** in the part of their budgets earmarked for the aims of Convergence (approx. € 2.6 billion) and Competitiveness (approx. € 1.7 billion). The total amount in the next budgetary period of 2007-2013 would be € 11.3 billion.

http://europa.eu.int/rapid/pressReleasesAction.do?reference=IP/05/388

TRANSPORT AND ENERGY

EU Ministers Agree on Motorway Charges

Member states' ministers of transport have agreed on motorway charges on 60,000 kilometres of trans-European motorways and highways, which should **reduce traffic jams** and encourage alternative means of transport.

The draft **directive on European tolls** defines the general framework for levying charges on heavy goods vehicles on European highways. Tolls will not be the same everywhere and countries will be able to decide on what types of roads they will apply. Charges will apply to goods vehicles over 3.5 tonnes. The original proposal only contained charges for heavy goods vehicles over 12 tonnes.

A compromise proposal prepared by the Luxembourg presidency enables member states to apply tolls relatively flexibly:

- Charges can be **doubled or reduced to zero**, for the purpose of encouraging lorries to travel off-peak or rewarding carriers which pollute less;
- An **additional 15% toll** can be imposed to finance alternative transport projects such as railways or internal water transport (the additional charge can be increased by 25% for cross-border projects in mountain passes).

The directive also contains a number of other important rules, which determine the type of infrastructure costs that can be paid using customs duties, special discounts for frequent users of up to 13% and the basic principles for determining toll calculation.

Member states will continue to calculate tolls based on the money they spend on infrastructure and there will not be uniform charges for the whole EU. In addition, contributions from structural and cohesion funds will not be taken into account.

The new directive will enable member states, including the Czech Republic, to increase the price of a one-day motorway stamp for vehicles of 3.5 tonnes from € 8 to € 11.

The proposal will now have its second reading in the EU parliament, which may amend it.

Transit countries such as the Czech Republic think that the new directive will enable them to **effectively regulate the number of lorries** that travel across their territory.

http://www.eu2005.lu/en/actualites/communiques/2005/04/21transport01/index.html

ENLARGEMENT

Bulgaria and Romania Sign Accession Treaty

On 25 April Bulgaria and Romania passed another significant milestone on their journey to the European Union, when their representatives signed the EU Accession Agreement in Luxembourg.

It is expected that the two Balkan countries will expand the current European "twenty-five" on 1 January 2007. By then both countries have to **start the necessary reforms** and fully meet the obligations made during negotiations. The accession agreement contains a clause saying that accession can be **deferred for a year**, if Bulgaria or Romania ease up in their reform efforts. The greatest fears concern the fight against corruption and also judicial reform.

The accession agreement, the same as that in the previous wave of enlargement in May 2004, contains a number of **long-term transition periods**, in particular concerning the free movement of persons and direct agricultural payments.

Bulgaria and Romania started negotiations on acceding to the Union in 2000 and the talks ended last year.

http://www.europa.eu.int/rapid/pressReleasesAction.do?reference=PRES/05/100

ENVIRONMENT

Czech Allocation Plan Approved

The European Commission has adopted the Czech Republic's plan for the allocation of permits for CO2 emissions for Czech trading companies for the trading period in 2005-2007. The approval was helped by a recent change to the plan by Czech authorities, which reduced the volume of permits allocated.

The Czech allocation plan applies to 436 facilities (companies) and all the facilities are suitable for trading. 292.8 million permits for 292.8 million tonnes of CO2 (or **97.6 million tonnes of CO2 a year**) will be issued for the 2005-2007 trading period.

The national allocation plans show how many permits for CO2 emissions member states plan to issue for the 2005-2007 trading period and how many each business will obtain. If they do not use them up, i.e. they pollute less, they can sell unused permits on the EU market. If they exceed a limit, they have to purchase permits from other companies.

The permit trading system, which is part of the introduction of the Kyoto Protocol, has been valid in the EU **from 1 January of this year**. Thanks to emissions reductions in the 1990s due to the restructuring of domestic industry, the Czech Republic meets the Kyoto Protocol limits (reducing emissions of greenhouse gases by 8% compared to the situation in 1990) with quite a lot to spare and domestic companies will not have to make radical cuts.

The approved plan seems to be a **reasonable compromise**, which will in no way significantly affect Czech industry and will also help reduce greenhouse gases.

Annual volume of permits for CO2 emissions:

	million tonnes	tonnes per capita
Belgium	62.9	6.1
Czech republic	97.6	9.5
Denmark	33.5	6.2
Estonia	18.9	13.5
Finland	45.5	8.8
France	123.7	2.1
Ireland	22.3	5.7
Italy	279	4.8
Cyprus	5.7	7.1
Lithuania	12.3	3.5
Latvia	4.6	1.9
Luxembourg	3.4	8.5
Hungary	31.3	3.1
Malta	2.9	7.3
Germany	499	6.1
Netherlands	95.3	6.0
Poland	239.1	6.2
Portugal	38.2	3.7
Austria	32.7	4.0
Greece	71.3	6.7
Slovakia	30.5	5.6
Slovenia	8.8	4.4
Spain	174.6	4.3
Sweden	22.9	2.6
United Kingdom	245.3	4.1

Source: European Commission

JUSTICE AND HOME AFFAIRS

System of Recovering Cross-border Debts in EU Speeding towards Simplification

At a meeting in the middle of April the EU Justice and Home Affairs Council agreed on a compromise solution which would allow the European Union to build an effective **uniform system for recovering cross-border debts**. Its aim is to support faster and more effective recovery of outstanding and as-yet unpaid cross-border receivables, whose legal nature is not disputed by the parties to the obligation relationship.

The system is based on the establishment of a tool applicable in all member states, using which creditors from the EU will be able to recover receivables in any other member state in **new, simplified court proceedings common to all member states**, without having to be subjected to the debtor's national law. All a court in one country has to do is issue a **European payment order** on the creditor's behalf, attach copies of evidence of the receivable and send it to judicial bodies in the other member state, which then implements such order.

If the regulation is approved by the European Parliament, it will apply in all civil and commercial matters, probably from 1 January 2006. It will not apply to tax, customs, bankruptcy and administrative proceedings.

http://www.eu2005.lu/en/actualites/communiques/2005/04/14jai/index.html

In April Eurostat published a report on the European population. As of 1 January 2004 the EU contained 457 million people, but this number should fall by 1.5% by 2050. The projections indicate a fall of 12.9% for the Czech Republic. This is related to a study performed by the DG Ecfin on the reform of the pensions system in our country. The report is aptly entitled “Fast Aging, Slow Reform”. A detailed proposal for the Seventh Framework Programme for Research and Technology should also not escape your attention.

01 APRIL

Cross-border mergers - a step towards clear European rules: http://www2.europarl.eu.int/omk/sipade2?PUBREF=-//EP//TEXT+PRESS+NR-20050331-1+0+DOC+XML+V0//EN&L=EN&LEVEL=2&NAV=X&LSTDOC=N#SECTION3

Oil bulletin - Weekly and monthly prices and time series http://www.europa.eu.int/comm/energy/oil/bulletin/2005_en.htm

04 APRIL

Audiovisual Policy: New information's page: http://www.europa.eu.int/comm/avpolicy/regul/contact_comittee.htm

05 APRIL

General government data - Spring update: http://www.europa.eu.int/comm/economy_finance/indicators/general_government_data/government_data_en.htm

Sampling and Testing of Centrally Authorised Products - Annual Report: http://www.emea.eu.int/Inspections/Samptest.html

06 APRIL

Commission Report on own resources in cases of fraud and irregularities: http://www.europa.eu.int/comm/budget/furtherinfo/index_pg2_en.htm#control

Shareholder's rights - Synthesis of the public consultation: http://www.europa.eu.int/comm/internal_market/company/shareholders/index_en.htm

07 APRIL

River transport - keeping river information services flowing: http://www.europa.eu.int/comm/research/headlines/news/article_05_04_06_en.html

08 APRIL

New programme “Citizens of Europe 2007 - 2013”: http://www.europa.eu.int/comm/dgs/education_culture/activecitizenship/new_programme_en.htm

Report on harmonization of primary dealers' activity reports (EU Government Bills and Bonds Markets): http://www.europa.eu.int/comm/economy_finance/efc/efc_reports_en.htm

EU25 population rises until 2025, then falls - population projections 2004-2050: http://epp.eurostat.cec.eu.int/pls/portal/docs/PAGE/PGP_PRD_CAT_PREREL/PGE_CAT_PREREL_YEAR_2005/PGE_CAT_PREREL_YEAR_2005_MONTH_04/3-08042005-EN-AP.PDF

Total population as of 1/1/2004

	1000 inhabitants	change to 2005		1000 inhabitants	change to 2005
Luxembourg	452	42,3%	Bulgaria	7 801	-34,7%
Ireland	4 028	36,0%	Romania	21 711	-21,1%
Cyprus	730	33,5%	Latvia	2 319	-19,2%
Malta	400	27,1%	Estonia	1 351	-16,6%
Sweden	8 976	13,7%	Lithuania	3 446	-16,4%
France	59 901	9,7%	**Czech R.**	10 212	-12,9%
UK	59 652	7,8%	Hungary	10 117	-11,9%
Netherlands	16 258	7,1%	Slovakia	5 380	-11,9%
Belgium	10 396	4,9%	Poland	38 191	-11,8%
Austria	8 114	1,3%	Germany	82 532	-9,6%
Spain	42 345	1,2%	Italy	57 888	-8,9%
Denmark	5 398	0,6%	Slovenia	1 996	-4,8%
Finland	5 220	-0,1%	Portugal	10 475	-4,4%
EU-25	456 815	-1,5%	Greece	11 041	-3,7%

Source: Eurostat

11 APRIL

Innovation - New policy and trends report available: http://www.europa.eu.int/comm/enterprise/library/enterprise-europe/news-updates/2005/2005-04-06.htm

12 APRIL

EU energy and transport in figures: Statistical pocketbook 2004: http://www.europa.eu.int/comm/dgs/energy_transport/publication/statistics_en.htm

User-friendly guide to the new SME definition: http://www.europa.eu.int/comm/enterprise/library/enterprise-europe/news-updates/2005/2005-04-11_b.htm

European Environment Agency - Technology cannot solve all environmental problems: http://org.eea.eu.int/news/Ann1113292390/index_html

13 APRIL

EU-Africa Ministerial meeting, Luxembourg, 11.04.2005: http://ue.eu.int/ueDocs/cms_Data/docs/pressData/en/er/84557.pdf

Commission launches 5-year work programme to reinforce Euro-Mediterranean Partnership: http://www.europa.eu.int/comm/external_relations/euromed/news/ip05_419.htm

14 APRIL

Agriculture in the European Union - Statistical and economic information 2004: http://www.europa.eu.int/comm/agriculture/agrista/2004/table_en/index.htm

Air passenger transport up by 5% in 2003:
http://epp.eurostat.cec.eu.int/pls/portal/docs/PAGE/PGP_PRD_CAT_PREREL/PGE_CAT_PREREL_YEAR_2005/PGE_CAT_PREREL_YEAR_2005_MONTH_04/7-14042005-EN-BP.PDF

15 APRIL

New framework agreement - closer political dialogue between Parliament and Commission:
http://www2.europarl.eu.int/omk/sipade2?PUBREF=-//EP//TEXT+PRESS+NR-20050414-1+0+DOC+XML+V0//EN&LEVEL=2&NAV=S#SECTION1

Public Consultation - The Automotive Regulatory Framework of the Next 10 Years:
http://www.europa.eu.int/comm/enterprise/automotive/pagesbackground/competitiveness/cars21.htm

Future European Union research policy:
http://www.europa.eu.int/comm/research/future/index_en.cfm

18 APRIL

Study on co-regulation measures in the media sector:
http://www.europa.eu.int/comm/avpolicy/stat/studi_en.htm#9

EMU - A historical documentation:
http://www.europa.eu.int/comm/economy_finance/emu_history/index_en.htm

19 APRIL

Defence Procurement - Public consultation Contributions:
http://www.europa.eu.int/comm/internal_market/publicprocurement/dpp_en.htm#consultation

"Researchers in Europe 2005" - new website highlighting growing importance of science and scientists:
http://www.europa.eu.int/comm/research/researchersineurope/index_en.htm

20 APRIL

Rail freight compensation system rejected by Transport Committee:
http://www2.europarl.eu.int/omk/sipade2?SAME_LEVEL=1&LEVEL=4&NAV=X&DETAIL=&PUBREF=-//EP//TEXT+PRESS+NR-20050420-1+0+DOC+XML+V0//EN#SECTION1

Integration and consolidation in EU banking - an unfinished business:
http://www.europa.eu.int/comm/economy_finance/publications/economic_papers/economicpapers226_en.htm

21 APRIL

Seat belts to be compulsory on buses and lorries:
http://www2.europarl.eu.int/omk/sipade2?PUBREF=-//EP//TEXT+PRESS+NR-20050421-1+0+DOC+XML+V0//EN&L=EN&LEVEL=2&NAV=X&LSTDOC=N#SECTION2

Pension reform in the Czech Republic - ageing rapidly, reforming slowly:
http://www.europa.eu.int/comm/economy_finance/publications/country_focus/2005/countryfocus7_en.htm

Continued wage moderation across Europe:
http://www.eurofound.eu.int/newsroom/archive_pressrelease/pressrel_050421_en.htm

22 APRIL

Lamfalussy Review - Summary of responses to the consultation organised by the Commission:
http://www.europa.eu.int/comm/internal_market/securities/lamfalussy/index_en.htm

Results of the Stakeholder Forum on Sustainable Development in the EU:
http://www.ces.eu.int/sustainable_development/index_en.asp

25 APRIL

Council conclusions on European neighbourhood policy - Luxembourg, 25 April 2005:
http://ue.eu.int/ueDocs/cms_Data/docs/pressData/en/gena/84651.pdf

Putting regulation to the competitiveness test:
http://www.europa.eu.int/comm/enterprise/library/enterprise-europe/previews/20050522.htm

26 APRIL

Stability and Growth Pact (SGP) and fiscal surveillance - new proposals:
http://www.europa.eu.int/comm/economy_finance/publications/sgp_en.htm

27 APRIL

New rules for the reinsurance industry:
http://www2.europarl.eu.int/omk/sipade2?PUBREF=-//EP//TEXT+PRESS+NR-20050427-1+0+DOC+XML+V0//EN&L=EN&LEVEL=2&NAV=X&LSTDOC=N#SECTION2

Framework Directive for setting eco-design requirements:
http://www.europa.eu.int/comm/enterprise/eco_design/index.htm

28 APRIL

New financial instruments to support SMEs:
http://www.eif.org/news/News.asp?news=100&cat=-1

29 APRIL

Recognition of qualifications - light at the end of the tunnel:
http://www2.europarl.eu.int/omk/sipade2?PUBREF=-//EP//TEXT+PRESS+NR-20050428-1+0+DOC+XML+V0//EN&L=EN&LEVEL=2&NAV=X&LSTDOC=N#SECTION1

The Czech Republic has been a fully paid-up member of the European Union for more than a year. To mark this anniversary we have prepared a special analysis in the form of an annual report card, although you won't find marks for each subject. We focus on whether the positive and negative expectations from last spring were met. Another section looks to the future. We focus on the greatest challenges faced by the whole European Union and our country at the present time.

CZECH REPUBLIC IN THE EU – ANNUAL REPORT CARD

Negative Expectations and Catastrophe Scenarios Proved False

If we start modestly, we can say that throughout the year **there was no significant negative shock to the economy, which** could be directly or indirectly attributed to accession to the EU. This is relatively good news, in particular in the light of the number of catastrophe scenarios outlined in the period shortly before accession. Before EU accession, critics of entry most frequently used "arguments" showing that prices would rise without corresponding growth in income, external competition would "crush" our weak, inexperienced producers and retailers, etc.

Obviously, nothing like this has happened. Membership has not caused any direct or indirect shocks. **There have been no destructive consequences for price levels,** with the exception of cosmetic price growth caused by the one-off need for tax harmonisation (VAT, excise duties). Tax harmonisation relatively visibly made some services more expensive. Although some providers seem not to have been very opposed to this (telecommunications, information services, legal and advisory services), restaurant owners have still not come to terms with the increase in VAT to 19% and the prospect of a similar step is a nightmare for hotel owners and accommodation providers after 1 January 2006. This led to both an increase in the price of these services and, in particular, a significant reduction in margins, which could ruin restaurant owners.

The situation with customs duties is different. The definitive cancellation of customs duties and barriers to trade inside the EU and the transition to a common customs tariff made a number of commodities cheaper – this is clearly visible in terms of wine and alcoholic drinks, as it is with food of exotic origin. However, the general impact on the price level is negligible here. The third type of consequence is not a product of customs or taxation policy, but of EU regulation of another type – for example production quotas. This concerns, for example, sugar, whose production capacity here is higher than the expected ceiling for the next period. This has contributed to an increase in the price of sugar, which was more than cosmetic. **Alterations to the price level, however, were very slight. After a few months inflation started to fall and the Czech Republic again became a low-inflation economy**.

The only more serious problem is the (increasing) deficit in trade in agricultural commodities and food, in particular with Poland. Obviously, we cannot deal with this by imposing customs and non-customs barriers, only by creating conditions similar to those enjoyed by Polish farmers. Analogically, albeit indirectly, our internal market was affected by the rules of the EU Common Trade Policy on trade with third countries. We are specifically thinking of imports of footwear and textile products from China, against which quantity quotas on imports from China were cancelled on 1 January 2005 for the whole Union. These measures could have a destructive impact on domestic producers.

Positive Expectations Proved True

If we don't want to be satisfied with the above, we should point out that, due to EU accession, **our economy is a relatively very decently growing organism** (in particular in comparison with the whole EU-25 and in particular with the EU-15), as is shown by the very positive medium-term outlook. In comparison with the other new countries, however, the dynamism of Czech growth is not that great, and, in particular in the Baltic States, Slovakia and, recently, Poland, we can find a recipe for above-average growth.

It seems that quite a lot of positive expectations have been met. However, we could ask to what extent this relatively good economic growth was influenced by EU accession. Nevertheless, the positive medium-term outlook is another reason for a positive assessment. The impact of accession on this result is clear. Evidently, the greatest positively affected figure is, without a doubt, **foreign trade**. **The reported dynamism in import and export growth is quite enormous and clearly confirms a significant increase in business and commercial transactions involving Czech entities in the enlarged EU.** Even more positive is the fact that exports were even better and, after many years, net exports were a positive contributor to GDP growth. It's clear that purely economic trends affected foreign trade figures,

but EU membership undoubtedly made a significant contribution to the trends described above. Strengthening of foreign trade was accompanied by corresponding growth in international freight and passenger transport. The only negative can be seen in the economic consequences of the transport boom and a worsening of the quality of the transport infrastructure.

The effect of enlargement can also be seen in the **continuing inflow of direct foreign investment,** which has certainly not stopped; in addition to the usual reasons, companies and their production activities have recently been moving from traditional member countries to new member countries, including the Czech Republic, primarily for cost reasons and due to the markedly simpler administrative procedures after 1 May 2004. No change in foreign investors' behaviour or their view of Czech reality is yet clear; this is a factor, which will become evident after some time.

Nevertheless, the fact of our membership represents a sort of improved reference for our territory, an improved argument for our good name. But – as we know – it takes a long time to change behaviour and opinions. Even though Portugal has been a member for almost 20 years and Greece for 24 years, these countries are the "poor relations from the south" in the eyes of the "founding fathers".

The first year of our membership confirmed that **EU funds are no chimera, but reality;** despite the fact that there are a number of complaints about the difficulty of getting them and technical, administrative and strategic shortcomings. Approximately 5,000 project solvers with support from these funds will evidently tell you the opposite. A total of over CZK 30 billion found its addressees, although some Operating Programmes registered far more demand than they could cope with and the potential of others was not fully utilised. From the date of accession to the end of this year the realistic figure is approximately CZK 50 billion. This number may not save the economy as a whole, but it can significantly help those who respect the rules and the briefs for the various projects. In any case, it seems that different EU funds were useful to differing degrees.

On the other hand, it can be said that **Czechs are not taking advantage of and are very badly informed about direct grants and loans** awarded directly by the Commission.

An assessment of drawings on EU funds should certainly not be solely critical. With regard to the fact that we entered the current programming period at the start of the second half and did not have much opportunity to influence it in our favour, it should be pointed out that the volume of funds flowing from EU funds is **much higher** than in the pre-accession period.

Regarding the readiness of Czech operators for the conditions of EU funds, we can say that advance preparation was a rarity. Most Czech operators followed the example of the other countries, which acceded, to the EU (EC) before us. This means that they knew that there were some funds, but they learnt to recognise and use them **as they went along**. In comparison with the other new members, Czech operators in no way stand out, either for good or for bad reasons. Everybody learns when they face a practical challenge. It is the case that being prepared in advance is good, but preliminary, theoretical preparation cannot replace practical experience.

Unfortunately, there are still areas in which projects cannot be submitted. These are projects within the **Human Resources Development Operating Programme,** where some projects focusing on education activities were opened for submissions at the start of this April and some focusing on long-term, lifelong education and professional training are still not open for submissions.

Certain specialised companies audited the performance of services related to EU funds by government bodies and found some serious errors. They **are being rectified slowly;** here it is also the case that people are learning by experience and have to acquire many new skills. Some errors are being rectified; others, for example related to the quality of the assessment and evaluation of successful projects, will evidently take longer to deal with.

Some experience indicates that assessment is not always objective; some assessors either consciously or subconsciously push some projects or are against others, without this being deserved. It is said that some assessors are linked to some advisory companies, which prepare projects for clients. They are also criticised for excessive delays, which block the rapid and flexible approval of projects. It is also the case here that everybody is still learning. And, given the whole picture, I don't think there are a lot of problem cases.

Some Effects Absent Due To Short Time

A year was **too short a period for expectations in the field of structural reforms and a fall in the unemployment rate to be met**. It is probable that new business opportunities will lead to the creation of new job opportunities; a year, however, is too short for this effect to be more visible. At first glance it appears that nothing has happened in these areas. Nevertheless, the demands on the labour market have increased and structural reforms will be made under the pressure of EU policies (New Lisbon, New Financial Framework).

FUTURE CHALLENGES

By coincidence, the first year of our membership of the EU came at a time when the EU itself is dealing with some matters, which are key to its future existence. The Czech Republic has this opportunity to help resolve them, in accordance with its real strength and options. There is reason to believe that the key challenges for the EU's future and present include, in particular, the negotiation of appropriate conditions for the **New Financial Framework 2007 – 2013**. This is nothing other than the negotiation of an appropriate amount of resources for EU funds in the future. Current trends indicate that the Czech Republic will be able to receive approximately four to five times more funding in comparison with the present. The second strategic matter is the implementation of the **New Lisbon Strategy.** Future strategic developments in the EU will be based on a connection between the New Lisbon Strategy and the New Financial Framework and each member state can find some inspiration for the creation of its own national strategy based on common European themes. And the third challenge, which the Czech Republic's attempts to meet are not even slightly convincing, is the process of **ratifying the Constitution for Europe**. The Czech executive has not even adopted an opinion on the ratification process, not to mention the total lack of an information campaign by the government. This is very different to the other member countries, never mind the fact that six countries have already smoothly ratified the Constitution.

We believe that the adoption of a clear opinion and a scenario about how the Constitution will be ratified here, leading to its subsequent ratification, would be very desirable. Although it is not formally an optimum document (unreadable, too long, unattractive) and simplifies the previous supreme legislation, it introduces some things necessary for the functioning of the Union and does not limit the role and position of nation states. **It does not contain any fundamental revolution,** as its critics claim.

The Czech Republic should appreciate that it has an opportunity to say something about matters fundamental to the future of the European continent, that it can learn (little Luxembourg could serve as a permanent positive example of how EU membership can be used to best develop the national economy and society) and that it can pass on its own experience to those who are interested in it. Mixing cultures, comparing experience and looking for the best solution in competition with each other are values, which should be respected. This is another reason we can view the first year in the EU as a **modest positive and with sober hope**.

The fourth key challenge is **choosing a path to the Euro**. The joint plan by the government and central bank, which assumes a target date of 2009-2010, is still valid, but most people now assume the later date is the right one. So the date is being moved, not visibly, but somewhat furtively. The changes on the CNB's banking board could indicate (or perhaps confirm) that our central bank is not bending over backwards to get into the Eurozone as soon as possible. Intuitively, it seems that the last year of this decade is the soonest possible date for our entry to the Eurozone.

Some neighbouring countries are more active in this regard and are attempting to enter the Eurozone earlier. Slovenia, Lithuania and Estonia became **members of ERM II** two months after their accession to the EU. Even the others, which – in our opinion – are less well prepared than the Czech Republic, are at least verbally demonstrating their readiness to enter the Eurozone earlier than us.

We can see this effect more in the perception (external perception) that those in the Eurozone, or those trying to get there as soon as possible, are somehow "better" than those who are not yet there. We believe that it is not that important economically if we are there a year or two earlier or later. **Real convergence** for membership in the Eurozone could only be prevented by a very few things, if at all, assuming we do not enter at an unrealistically strong exchange rate. On the other hand, even outside the Eurozone we can only dream of monetary autonomy. We would be highly likely to copy the Eurozone's monetary parameters. We think that, with regard to inflation and interest rates (the exchange rate differential is currently negative) and exchange rate stability, we should certainly not hesitate to enter the Eurozone. The issue is compliance with the **Convergence Plan** and the ability to reduce the deficit and significantly not accelerate public debt. At the current time compliance with the Convergence Plan looks relatively very satisfactory. And many of us remember how the Maastricht criteria were assessed at the end of the 1990s; it was diplomatic ability rather than statistical arguments that played a key role.

We should also be aware that there is a certain risk factor in the event some nearby countries adopt the Euro significantly earlier than we do. This risk is relatively realistic, although not so much in the case of our closest neighbours, who are most often compared with us. It is evidently greatest in relation to Slovenia, Lithuania and Estonia. On the other hand, it now seems that the Visegrad Four will enter together, or only with very small time differences.

In addition, the risk does not have a fundamental basis, but is only a risk concerning our good name and reputation. If a country is in the Eurozone, it is attractive for investment and business. It would obviously be a problem if everybody were there apart from us; in this case we would quite probably lose out on a number of business opportunities; purely due to ease, transparency and transaction cost savings investors would prefer countries where the Euro was used.

Both for companies and households the advantages of the Euro are the **elimination of transaction costs** (costs related to transferring money; from one currency to another), a common currency environment, greater monetary transparency, **the elimination of exchange rate risks** in the Eurozone, the high probability of permanently low inflation and the fact that, at the current stage of integration, a common currency is a logical supplement to the Single Market (where there are no barriers to trade, capital, and persons, currency differences are not what we need).

It is occasionally claimed that the Euro should not be adopted before we start the necessary **reforms to the pensions system and health care.** Given the distribution of powers in the EU between institutions and nation states, we are of the opinion that they are two parallel matters. A number of countries in the Eurozone still face the challenge of starting to reform health care and pensions. Health care and pensions will long remain autonomous parts of each nation state; EMU, the Euro and the common monetary policy are, however, the sole province of EU institutions. In addition, from the long-term viewpoint, under the Stability and Growth Pact the costs of these reforms will be shifted in time and will not be included in the deficit in the first period, which may facilitate some countries' entry into the Eurozone in the short term.

CONCLUSION

There is reason to believe that **EU accession has certainly helped the Czech Republic.** New business opportunities have opened up, students have gone to study in other countries, EU funds have become a reality. We have become members of a club whose rules will help us, provided we observe them. Membership is also never-ending inspiration to follow successful models (Luxembourg, Ireland, Finland). Some effects will take years or decades to be felt and one year is too short a time for them to be appreciated – we are thinking of changes to the economic structure, increases in wealth, more efficient science and research, new, modern jobs, etc.

Expected events

Although we only usually include meetings of the top EU decision-making bodies in this section, we made an exception this time, as we could not ignore the most important “European” event of May, which is the ratification of the Treaty establishing a Constitution for Europe in a referendum in France. France is one of the founding states and main engines of European integration, so the result of the referendum will be important. At the time the *Monthly* went to press, the Constitution’s opponents had a slight advantage.

9.–12.5.2005	**Strasbourg, France**	- European Parliament plenary session
10.5.2005	**Moscow, Russia**	- European Commission & Russian Government - Russia-EU Summit Conference
13.–14.5.2005	**Luxembourg, Luxembourg**	- Informal ECOFIN Meeting
23.–24.5.2005	**Brussels, Belgium**	- General Affairs and External Relations Council
23.–24.5.2005	**Brussels, Belgium**	- Luxembourg Presidency - Education, Youth and Culture Council
24.5.2005	**Brussels, Belgium**	- Parliament - Committee on Industry, Research and Energy (ITRE) meeting
29.5.2005	**France**	- French referendum to EU Constitution
2.–3.6.2005	**Luxembourg, Luxembourg**	- Justice and Home Affairs Council Meeting

Services are the engine of economic growth and account for 70% of GDP and employment in most member states. The fragmentation of the internal market in this area has a negative influence on the whole European economy, in particular the competitiveness of small and medium-sized enterprises, and also restricts consumers' access to a wider range of services at competitive prices. The aim of the forthcoming services directive is to achieve a services market which really works and benefits the economy of the whole Union.

SERVICE MARKET LIBERALISATION IN THE EU

The single internal market of the European Union is one of the basic pillars of its functioning. It was implemented gradually and not even now, almost half a century after the establishment of the European Economic Community (EEC), can we say that it functions 100% efficiently. One of the reasons this claim is made is the still fragmented services market.

At the beginning of the single market there was a **customs union**, which started on 1 July 1969, i.e. precisely half a year before the end of the transitory twelve-year period (from the start of 1958 until the end of 1969). Under it EEC member states got rid of customs duties, subsidies with a similar effect and quantitative restrictions on foreign trade between them; there was also a single customs tariff for goods from third countries. The customs union was not, by any means, the end of integration attempts. There was still the job of getting rid of other barriers to the free exchange of commercial goods (such as special national technical standards) and also expanding the area of free movement to services, persons and capital, which completed the **transition to the single internal market**.

The basic document enabling the establishment of the Community's internal market was the **Single European Act,** which amended the founding treaties. The Single European Act came into effect in 1987 and, under it, the Community's **single internal market came into being in 1993.** The market is defined as an area without internal borders in which the free movement of goods, persons, services and capital is ensured. Free movement of services is dealt with in the Treaty Establishing the European Community in Articles 49 to 55.

Theoretically, therefore, the services market works in the Union and, in addition, some specific services have been the subject of special directives (financial services, electronic communications, transport services). However, as can be seen from opinions of the European Commission (for example, "State of Internal Services Market" in 2002), there are a number of barriers which prevent the efficient operation of the single market in services in the widest spectrum of activities.

These **barriers affect a wide range of services,** such as distribution, recruitment agencies, certification, laboratories, construction, estate agents, crafts, tourism, regulated professions, etc., and this primarily affects small and medium-sized enterprises, which are dominant in services. **Small and medium-sized enterprises** are often deterred from taking advantage of the opportunities offered by the internal market, as they do not have the funds to assess the risks and to protect against legal risks in each country, which is part of cross-border activities, or to deal with administrative complications.

The above barriers to the movement of services between member states come to light primarily in two model situations:

- **A services provider in one member state wants to establish a branch** in another member state – it encounters complicated and difficult systems for licensing, excessive bureaucracy, discriminating requirements for the nationality of managerial employees, checks on financial management, etc.
- **A services provider from one member state wants to provide its services** in another member state (particularly by moving to the other member state on a temporary basis) – it may be under a legal duty to establish itself in the other member state, to obtain licences there, or it may be subject to regulations of this country on conditions for the exercise of the activity in question or disproportionate procedures for the posting of workers, etc.

The basis of the proposed services directive is to **get rid of these barriers** and enable better functioning of the internal services market.

HISTORICAL GENESIS OF THE DRAFT SERVICES DIRECTIVE

The services proposal dates back to **2000**, when, at the spring EU summit in the Portuguese capital, the heads of member states approved the **Lisbon strategy,** which set the aim of making the European Union the most competitive knowledge-based economy by 2010.

Services account for almost **70% of the Union's GDP and employment opportunities** and offer marked potential for growth and job creation. Without effective competition and the real implementation of a single market in this, by far the biggest, sector, the implementation of the Lisbon strategy is an illusion. Therefore in December 2000 the Commission reacted to the challenge of the Lisbon summit by drafting "**An Internal Market Strategy for Services**", which was aimed at making the movement of services between countries in the Union as straightforward as movement within one member state.

In **July 2002** the European Commission, in its report "**The State of the Internal Market for Services**", listed the barriers preventing the creation of a functioning internal services market and came to the conclusion that, "Ten years

after the expected completion of the internal market, there is a large gap between the vision of an integrated EU economy and reality, as perceived by the citizens of Europe and European service providers."

In **November 2002** the Commission's conclusions were seconded by the EU Competitiveness Council, which called on the Commission to draft legislation on the provision of services. In **May 2003** the European Commission issued a statement called "**Internal Market Strategy – Priorities 2003-2006**", in which it undertook to draft a directive on services on the internal EU market.

This was done in **January 2004**, when the draft directive on services was submitted by a former Internal Market Commissioner, the Dutchman **Frits Bolkestein**, after whom the directive is often called.

BASIC OUTLINE OF DRAFT SERVICES DIRECTIVE

As stated above, since at least 2000, key European institutions have been aware that an efficiently functioning internal services market remains in the realm of theory, thanks to a number of legislative and non-legislative barriers. The idea of the proposed services directive is to **create a legal framework which eliminates barriers** to the free establishment of service providers and free movement of services between EU member states, thereby enabling service providers and recipients to take advantage of their basic rights under the founding treaties.

Free Establishment of Providers

This includes cases where a service provider moves his registered office to another member state or establishes a branch or other organisational component there. In all these cases he is fully subject to the regime of the host member state. To limit barriers to the free establishment of service providers, the proposal contains the following items:

- Measures to simplify administration, in particular to establish **single points of contact,** where service providers can take care of all the procedures related to their business, the duty to enable the procedures to be performed electronically;
- Some principles which have to be respected by **authorisation regimes** used for service activities, in particular principles valid for conditions and procedures for granting licences;
- **A ban on some especially restrictive legal requirements,** which may still apply in some member states;
- An obligation to **harmonise some legal requirements adopted in the future** with the conditions laid down by the directive.

Free Movement of Services

Free movement of services includes cases where (i) a provider travels to the member state of the services recipient; (ii) services are provided in the provider's country of origin, to which the services recipient travels; (iii) services are provided in another country, to which the services provider and recipient travel; and (iv) services are provided remotely. The requirement that the provision of services is only temporary, both in terms of the period of time and frequency, is important. Otherwise, this is governed by freedom of establishment. The proposal contains the following points to restrict barriers to free movement of services:

- The application of the **country of origin principle**, according to which service providers are subject to the laws of the country in which they are established, regardless of the country in which they offer their services. Member states may not restrict services provided by a person established in another member state. This principle is supplemented by a number of derogations, which are either generally or temporarily valid or can be applied to specific situations;
- **Consumers' right to take advantage of services** from other member states without this being prevented by restrictive measures introduced by their countries or discriminatory behaviour by state bodies or private entities;
- **Method of providing assistance to clients** taking advantage of a service provided by an enterprise founded in another member state;
- In the event **employees are posted to another country** in connection with the provision of services, it sets out the division of duties between the member state of origin and the member state of destination and the procedures used for supervision.

Other important points of the directive

In particular for the application of the country of origin principle, it is necessary to establish mutual trust between member states, which will be helped by the following points in the application:

- **Harmonisation** of legislation guaranteeing equivalent protection of the general interest in important matters, in particular as far as concerns the duties of service providers to provide information, conclude professional liability insurance, multi-disciplinary activities, dispute resolution and exchange of information about service provider quality;
- **The strengthening of mutual assistance between national bodies** to guarantee efficient supervision of services, based on a precisely defined division of tasks between countries and mandatory co-operation;

- **Measures focused on supporting the quality of services**, such as voluntary certification of activities, quality certificates and co-operation between members of chambers of commerce or trade chambers;
- Support for **codes of behaviour** in certain areas drafted at Community level by the interested parties, including individual business communications performed by regulated professions.

The aim is that the proposal comes into force by 2010 and it is based on a **dynamic approach**. This means that some of the provisions will be implemented gradually and that it contains a duty of further harmonisation in some specific areas (cash transport, games of chance and judicial recovery of debts), as well as guarantees concerning performance and the opportunity to ascertain the need for all new initiatives.

Basis of Dynamic Approach

1 year after passing	Commission proposals for subsequent harmonisation in (a) cash transport, (b) games of chance, (c) judicial recovery of debts.
Final deadline for implementation (2 years after passing)	Removal of prohibited requirements for performance of service. Removal of barriers to free movement of services, with the exception of derogations. Joint assessment of member states.
No later than 31 December 2008	Single points of contact, right to information, use of electronic procedures, report drafted by Commission (if necessary, with proposals for further initiatives).
1 January 2010	End of temporary derogations from country of origin principle for (a) cash transport, (b) judicial recovery of debts.
No specific deadline; as needed	Implementing measures (procedure for discussion in committee): (a) use of electronic means, (b) assistance provided to service recipients, (c) information about service providers and their services, (d) professional liability insurance and guarantees, (e) mutual assistance, (f) joint assessment. Determination of the need for new initiatives as a consequence of: (i) experience with derogations granted based on a specific situation, (ii) missing codes of behaviour. Review of *acquis* on consumer protection and subsequent measures in Commission's Action Plan for contract law.
In accordance with progress of harmonisation at Community level	The application of derogations from the country of origin principle as far as concerns contracts concluded by consumers and derogations granted based on a specific situation is limited to areas which have not been harmonised.

Note: the timetable is based on a draft which assumes it will be passed in 2005, which now seems too optimistic.

Covered area

The forthcoming services directive is a framework directive. **It does not attempt to lay down detailed regulations** or harmonise all regulations on services in member countries. This would lead to excessive regulation. Instead, the proposal exclusively deals with matters which are necessary for the problem-free functioning of the internal services market and tries to remove barriers preventing the achievement of a real internal services market, which are often common to a whole number of various activities and have a lot of common characteristics.

The services directive **is based on and supplements the Community's *acquis***. If a type of service is included within the remit of several Community instruments, the directive and the instruments shall apply and the requirements stipulated by one of them will be added to the requirements stipulated by the others.

The directive states that it concerns **services supplied by providers established in an EU member state.** It understands a service to be any economic activity of an economic operator, under Article 50 of the Treaty Establishing the European Community, consisting of **provision in return for a fee.** Under this Article, services are regarded as acts usually provided for a fee, unless they are governed by the provisions on the free movement of goods, capital and persons. The definition, however, does not say that a service has to be paid for by the person for whom the service is performed.

Services are practically regarded as economic activities corresponding to the **case law of the Court of Justice,** which is the current source of European law. Given the above, the proposal governs:

- Services provided to consumers, businesses and both;
- Services provided by an operator which, for this purpose, travelled to the recipient's member state, remotely provided services (i.e. over the internet), services provided in the country of origin, to which the recipient travelled, and services provided in another member state, to which the provider and the recipient travelled (for example the services of tourist guides);
- Paid services or services which are free to the final recipient.

The definition, however, **does not include non-economic general interest activities** or activities performed by the state free of charge as a part of **social, cultural, education and justice** functions, as well as cases where there is no element of payment. The draft regulation also does not affect member states' freedom to define general interest services and the manner in which they should function.

The definition of the term “service” therefore includes a wide range of developing activities, including:

- **Services of a business character,** such as managerial consulting services, certification and testing; management of building operations, including office and security services; advertising and recruitment agency services; and services provided by sales representatives;
- **Services to business and consumers**, such as legal and financial advice, estate agents’ services, construction services, including architects’ services; transport, distribution; organisation of fairs; vehicle rental; travel agents; security services;
- **Services to consumers**, such as tourism services, including tourist guide services; audiovisual services; services for leisure time, sports centres and entertainment parks; health care; services for households, such as care for the elderly.

The directive does **not deal with** some specific services, which are dealt with by special sector initiatives:

- **Financial services –** are already dealt with by the comprehensive policy contained in the Financial Services Action Plan, which is already being implemented to create a real internal services market in finance;
- **Electronic communications services and networks –** this is being dealt with by the directive on the “telecommunications package” adopted in 2002 (approach directive 2002/19/EC, authorisation directive 2002/20/EC, framework directive 2002/21/EC, universal service directive 2002/22/EC and the Directive on Privacy and Electronic Communications 2002/58/EC);
- **Transport services** – are also dealt with by a whole number of European Community instruments. They are defined by Articles 71 and 80(2) of the Treaty Establishing the EC. Nevertheless, the directive applies to transport services which are not regulated by special standards, such as cash transport and transporting human remains.

The directive also **does not apply** to activities which are directly and specifically related to the **exercise of official powers.** The directive does not apply to non-economic general interest services, but some activities may be linked to economic general interest services. The directive reacts to this in the form of **derogations from the country of origin principle** to the extent reasonable, given their form. These derogations primarily apply to postal services, electricity, gas and water distribution services and services related to personal data processing.

Exceptions from the country of origin principle are possible for activities where the difference between internal methods is too great, such as notarial acts, activities related to intellectual property, registration of vehicles rented in another member state, activities in a country prohibited for reasons of government policy, public safety or public health, and services subject to special legislation related to specific properties of the place of service provision due to government policy, public safety or the protection of public health or the environment.

In addition to these general derogations, there are also **individual derogations** from the country of origin principle which a member state can only claim **in exceptional circumstances,** provided other conditions are met, and only if they concern the safety of services, the medical profession or the protection of public policy (in particular the protection of minors).

Relationship to other EU Policies

Service provision in the European Union is affected by other European policies governed by other legislative acts. If services are governed by one or more Community legislative instruments, the services directive and the other instruments shall be used **cumulatively,** which means that the conditions of one instrument apply, in addition to the conditions specified in the other instruments. In cases where there may be problems with harmonisation, the services directive contains derogations or relevant clauses describing the relationship between the directive and other EU legislative instruments. Main overlaps with other EU policies:

Posting employees – the conditions governing employment and work valid in the event employees are posted are set out in Directive 96/71/EC concerning the posting of workers in the framework of the provision of services, which ensures certain legislation of the country to which a worker is posted will apply. To comply with this directive, the services directive contains **a derogation from the country of origin principle** concerning this area. For the purpose of simplifying free movement of services and applying Directive 96/71/EC, the draft explains the division of tasks between the country of origin and the member state to which a worker is posted, as well as the correct supervision procedures. The derogation from the country of origin principle also includes social security, which is dealt with by Regulation 1408/71/EC on social security.

Professional qualification – the forthcoming services directive supplements the draft directive on recognition of professional qualifications, as it deals with matters other than professional qualifications, such as professional liability insurance, business communications and multi-disciplinary activities. The two proposals are compatible and, from the viewpoint of freedom of establishment, their aim is to simplify the establishment of service providers; as far as

concerns free movement of services, they are both based on the country of origin principle.

International trade in services – the draft directive is an instrument governing the internal EU market and only deals with service providers established in a member state. International trade in services deals with international activities, in particular as a part of GATS; the services directive does not affect such activities. The proposal therefore does not deal with external activities; in particular it does not govern:

- Cases of third country operators which want to set up a branch establishment in a member state;
- Cases of third country operators which intend to provide their services in the EU;
- Cases of branches of third country companies in an EU member state which are not companies established in accordance with the legislation of a member state and cannot therefore take advantage of the benefits provided by the directive.

Unfair commercial practices – this area is also covered by the forthcoming directive on unfair commercial practices. Its aim is to regulate commercial practices which damage the economic interests of consumers, such as, for example, misleading or aggressive sales tactics. The forthcoming services directive does not deal with unfair commercial practices at all.

Consumer protection – the services directive does not directly affect any legislation or other Community initiatives on consumer protection. However, it states that, if there is a need in the future for further internal service market harmonisation, the Commission may amend European consumer protection legislation. It partially affects consumer protection by mentioning recipients' right not to be discriminated against when consuming services on nationality grounds. The draft directive therefore states the following:

- **Countries –** may not introduce restrictions against recipients of services provided by operators established in another member state. Neither the member state from which the service provider comes, nor the member state of destination, may apply discriminatory measures against recipients based on nationality or place of residence.
- **Service providers** – their general terms and conditions may not refuse access to their services or make it conditional on the nationality or place of residence of the recipient, or put certain recipients at a disadvantage for such reasons. Exceptions include directly reasonable objective reasons, such as distance or technical aspects of services.

Taxation matters – the directive does not apply to taxation, which has its own legislation. However, in accordance with case law of the Court of Justice, certain tax measures may have a discriminatory effect and prevent an operator from taking advantage of freedom of establishment and free movement of services. This is dealt with in the draft services directive using prohibited requirements in connection with freedom of establishment and the country of origin principle in relation to free movement of persons for taxation measures which are not governed by a Community instrument.

Impacts of Services Directive

An independent study entitled "Economic Assessment of the Barriers to the Internal Market for Services" was drafted by the Danish company Copenhagen Economics in January 2005 and examined the effect of the proposed services directive on the EU economy. The study's main conclusions are as follows:

- **Price falls in all sectors –** stronger competition will lead to a fall in artificially high prices; better use of resources will lead to lower costs of providing services. Both customers and businesses (in particular SME's) will profit from this. For example, in accounting, tax advice, legal and other managerial-advisory services there should be a fall in prices by 7.2%. Thanks to lower prices and higher wages, it is expected that total consumption will grow by 0.6%, i.e. € 37 billion.
- **Economic performance will rise in all sectors –** total output and added value will rise in all sectors, most significantly in services and goods markets. Gross added value in services will rise by 0.8%. The increase in economic activity will lead to the creation of new employment opportunities.
- **Growth in job creation in all member states –** total employment will rise, but productivity increases and the relocation of the labour force will lead to reductions in employment in all sectors. Most employment opportunities will be created where the largest reductions in barriers are made. Net employment in the whole Union will rise by up to 600,000 jobs. Consumers will profit from higher wages (+0.4%), businesses from bigger returns on equity (+1.1%).
- **Intensification of trade in services** – after the barriers are removed, the single internal market will become more integrated. Both cross-border trade in services and establishment in foreign member states will rise. This will lead to a stronger competition. The estimated growth in cross-border trade in the EU in specialised services (legal, accounting, economic and advisory) is 9.4% and the increase in establishment is 2.7% for these types of services. In contrast, in IT services, personnel agencies and estate agents the implementation of the directive will lead to an increase in cross-border trade by 1% and growth in cross-border establishment by 2.5%.

FUTURE OF DRAFT SERVICES DIRECTIVE

The draft Bolkestein directive was approved by the European Commission in **January 2004** and, according to its author, it was to be the greatest push to the single internal market since its inception. Due to the elections to the European Parliament and the start of a new European Commission, the approval process was delayed.

Opposition to the draft, however, was soon seen and came from the richer member states **France, Belgium, Austria, Sweden and later Germany**, which primarily did not like the key country of origin principle. They were supported by **unions and socialist MEPs in the European Parliament.** The reason was that they were worried a massive influx of service providers from the new member states would make domestic companies uncompetitive on price, which would lead to an increase in unemployment in the richer member states. Another reason was fear of **"social dumping"** and a risk to their own social standards, if companies providing services outside their homeland could be governed by the regulations of their home country.

The new European Commission realised the draft was politically impossible and started to discuss "**softening it**". The services directive is to be approved by a qualified majority in the Council using the joint decision-making procedure, where the Council and the European Parliament have to agree on the text of the legislation.

The key battle over the directive's fate was fought at the spring European Union summit in Brussels, where the highest representatives of the member states agreed that the **directive should be redrafted**, so as not to threaten the European social model. The European Commissioner responsible for the internal market Charlie McCreevy then announced that the controversial **country of origin principle would be altered,** so as not to undermine higher wages and social standards in the richer member states. McCreevy also announced that health care will be **completely excluded** from the directive's remit. The Commission will rework the draft after the first reading in the European Parliament. The fact that service liberalisation in the EU has not been completely withdrawn can be regarded as a partial success.

The draft services directive went to the **European Parliament** in April. The rapporteur for the directive, the German Social Democrat Evelyn Gebhardt, made significant amendments to the draft. She is proposing replacing the key county of origin principle with the term **mutual recognition** of standards of services provided. Gebhardt regards mutual recognition as more related to further harmonisation. This should mean that **the same standards apply in all countries** in an absolutely free internal market. This principle would also not apply to employment legislation, including remuneration, working conditions, health and safety. The European Commission has repeated several times that employment law is not within the directive's remit, although Gebhardt says this was not clear from the original text and thinks it is necessary to say so clearly. Gebhardt is also proposing that **"public interest services"** remain **outside the directive's remit**; this would apply to health care, education, public service media, cultural services and also games of chance and lotteries.

Deputy Chairman of the European Commission Günter Verheugen came out strongly against a change to the main country of origin principle. The same position was adopted by the European Parliament Committee on Industry, when they discussed the directive. The first reading in the European Parliament will probably be **in September,** after which the Commission will present its own proposals for amendments to the directive to make it politically more acceptable.

The Czech Republic supports the **adoption of the directive,** but has several reservations. "For example we want **taxation, lotteries and games** to be excluded from the directive," said Martin Líčeník of the Czech Ministry for Industry and Trade. Liberalisation should also not concern services performed in the general interest, which, however, should first be defined. According to Líčeník, **social services, education, medical care and transport** should be considered.

It will be interesting to see how the discussion on service liberalisation in the European Union develops. The approval, rejection or excessive softening of the proposed services directive will answer the question of whether member states' leaders mean the Lisbon strategy and attempts to maximise economic growth and employment **seriously**, or whether they will remain mere **political proclamations**.

Information Service

As is now traditional, May and April are packed full of various interesting workshops, conferences, congresses and meetings, and not only on European topics. Those interested in biotechnology, energy and public relations will be satisfied this time, as will professionals in the forestry, wood, paper, cosmetics, perfume and telecommunications industries.

Date	Place	Name and Characteristic
18 May 2005	Utrecht, Netherlands	CzechInvest - Czech Biotech Sector - Opportunities for Cooperation: http://www.czechinvest.com/web/pwci.nsf/evn/C33B05E2EFCA460EC1256FBD0056A9CA?OpenDocument
19.5.2005	Brussels, Belgium	Gallup Europe - Meet the neighbors: Moldova, Georgia and Belarus: http://www.gallup-europe.be/
19.-20.5.2005	Budapest, Hungary	Colipa - General Assembly 2005: http://www.colipa.com/site/index.cfm?SID=15588&OBJ=15811&back=1
19.-20.5.2005	Barcelona, Spain	IPE - Symposium on new developments in paper recycling technology: http://www.ipe.es/upload/Agenda.pdf
19.-20.5.2005	Bergen, Norway	Bologna Process ministerial meeting: http://www.bologna-bergen2005.no/
21.-25.5.2005	Lucerne, Switzerland	Marie Curie Fellowship Association - 'Language and the Future' - Engelberg Forum: 16th Annual Conference: http://www.forum-engelberg.org/
22.-24.5.2005	Prague, Czech republic	Czech Power Company CEZ and FORATOM - “ENERGY FOR LIFE” European Energy Strategy for 21st Century: http://www.foratom.org/Content/Default.asp?PageID=772
23.-24.5.2005	Moscow, Russia	International Road Federation - IRF Geneva/Brussels Spring statutory meeting and seminar on Russian roads: http://www.irfnet.org/cms/pages/en/ViewPage.asp?id=25&mTitre=%20-%20IRF%20events
24.5.2005	Brussels, Belgium	Forum Europe / Konrad Adenauer Stiftung / New Defence Agenda - Reinventing NATO: Does the Alliance reflect the changing nature of transatlantic security?: http://www.forum-europe.com/conferences_ataglance.asp?ConfId=321
26.-27.5.2005	Brussels, Belgium	FESE - 9th European Financial Markets Convention, "Towards True Integration by 2009": http://www.fese.be/efmc/2005/programme.htm
26.-27.5.2005	Maastricht, Netherlands	European Institute of Public Administration (EIPA) - Seminar: Who's Afraid of European Information?: http://www.eipa.nl/default.htm
26.-27.5.2005	London, UK	3. výroční sympózium o genetice Evropské genetické zdravotnické asociace: European Generic medicines Association - 3rd Annual EGA Symposium on “Biogenerics”: http://www.egagenerics.com/ega-events.htm#EGA
29.5.-2.6.2005	Haifa, Israel	International conference on science law ethics: http://www.science-law-ethics.com/
31.5.2005	Brussels, Belgium	AmCham EU - The Impact of Competition Rules on the Cost of Doing Business - Have the Regulators Got The Balance Right?: http://www.amchameu.be/Events/upcomingevents.htm
31.5.2005	Brussels, Belgium	ETNO - The European Telecommunications Network Operators' Association - New Generation Networks: The Next Telecoms Revolution: http://www.forum-europe.com/conferences_ataglance.asp?ConfId=323
1.-3.6.2005	Brusel, Belgie	European Federation of Pharmaceutical Industries and Associations - EFPIA Annual Meetings: http://www.efpia.org/5_conf/default.htm
1.-3.6.2005	Vancouver, Canada	CEPI - Confederation of European Paper Industries - Global Forest & Paper Summit 2005: http://www.cepi.org/content/showevent.asp?level0=551&level1=570&fldrid=1695
5.-9.6.2005	Rome, Italy	UITP - UITP's 56th World Congress: http://www.uitp.com/rome2005/
7.-9.6.2005	Budapest, Hungary	CEN - CEN Annual Meeting: http://www.cenorm.be/cenorm/index.htm
14.-15.6.2005	Brussel, Belgium	ECPA - European Centre for Public Affairs - Inside Brussels II: Public Affairs in the New Europe: http://www.publicaffairs.ac/inindex.php?in=publicprogrammes/IB2/

The most important March event will be the spring European Council in Brussels. The leaders of all member states will try to come to an agreement on a whole range of controversial issues. One of them will be a reform of the fiscal principles specified by the Stability and Development Pact. No less heated will be the discussion concerning the future form of EU financial perspectives for the period 2007 - 2013.

Price development

	m-on-m HICP growth			y-on-y HICP growth			average y-on-y HICP growth in %		
	I-05	II-05	III-05	I-05	II-05	III-05	I-05	II-05	III-05
EU	-0.5	0.3	0.6	2.0	2.1	2.1	2.1	2.2	2.2
EU - minimum	-	-	-	-	-	-	0.7	0.7	0.7
ČR	0.6	0.0	-0.1	1.5	1.4	1.2	2.6	2.5	2.4
Estonia	-0.2	0.6	0.6	4.2	4.6	4.8	3.0	3.7	4.0
Cyprus	-2.3	-0.4	0.9	2.8	2.4	2.4	1.9	2.1	2.3
Lithuania	0.0	0.2	0.6	2.8	3.2	3.3	1.2	1.9	2.2
Latvia	0.7	0.9	0.6	6.7	7.0	6.6	6.2	6.6	6.8
Hungary	0.8	0.6	0.5	3.9	3.4	3.3	6.8	6.2	6.0
Malta	-0.6	0.6	0.5	1.9	2.5	2.6	2.7	2.6	2.7
Poland	0.0	-0.1	0.0	3.8	3.5	3.2	3.6	3.9	4.0
Slovakia	1.7	0.2	-0.1	3.1	2.6	2.3	7.4	6.5	6.0
Slovenia	-0.5	0.7	1.0	2.3	2.8	3.3	3.7	3.4	3.4

Note: HICP means harmonised index of consumer prices, EU – minimum means the average inflation in three EU member states with the lowest inflation. Source: Eurostat

Fiscal development

	Net balance of general government to GDP in %			General government gross debt to GDP in %		
	2002	2003	2004	2002	2003	2004
EU-25	-2.2	-2.8	-2.6	62.7	64.3	63.8
CR	-6.8	-11.7	-3	30.7	38.3	37.4
Estonia	1.4	3.1	1.8	5.3	5.3	4.9
Cyprus	-4.5	-6.3	-4.2	65.2	69.8	71.9
Lithuania	-1.5	-1.9	-2.5	22.4	21.4	19.7
Latvia	-2.7	-1.5	-0.8	14.1	14.4	14.4
Hungary	-8.5	-6.2	-4.5	55.5	56.9	57.6
Malta	-5.9	-10.5	-5.2	62.7	71.8	75
Poland	-3.6	-4.5	-4.8	41.2	45.4	43.6
Slovakia	-5.7	-3.7	-3.3	43.3	42.6	43.6
Slovenia	-2.4	-2	-1.9	29.5	29.4	29.4

Note: according to the ESA 95 methodology. Source: Eurostat

Volatility of FX rates of new EU member states

	Last 24 months			Last 12 months		
	average rate	deviation maximum in %	deviation minimum in %	average rate	deviation maximum in %	deviation minimum in %
Czech koruna	31.68	+8.0	-4.9	31.01	+5.7	-4.7
Estonia kroon	15.65	+0.0	+0.0	15.65	+0.0	+0.0
Cyprus pound	0.583	+1.3	-0.8	0.581	+0.9	-1.0
Lithuanian litas	3.453	+0.0	-0.0	3.453	+0.0	-0.0
Latvian lats	0.663	+6.1	-5.0	0.676	+3.7	-3.2
Hungarian forint	253.1	+4.8	-7.6	247.8	+2.6	-3.4
Maltese lira	0.428	+1.1	-1.4	0.429	+1.2	-1.3
Polish zloty	4.451	+14.8	-9.8	4.297	+10.9	-10.3
Slovakian koruna	40.30	+7.3	-4.9	39.40	+4.9	-2.4
Slovenian tolar	237.7	+2.4	-1.0	239.7	+0.5	-0.1

Note: volatility of foreign exchange rates of new EU member states to euro is expressed in the form of arithmetical average and in the form of maximum and minimum deviation from the average in the reference periods. The reference periods end at 30 April 2005. Source: Eurostat