

Notes to CR's and SR's entry into the EU

(with regard to impact on Austrian
entrepreneurial environment)

Jan Jedlička

EU Office of Česká spořitelna

&

Andrea Borčinová

EU Office of Slovenská sporiteľňa

EU OFFICE

Česká spořitelna, a.s.

Olbrachtova 1929/62

140 00 Praha 4

tel.: +420 261 073 019

fax: +420 261 073 004

EU_office@csas.cz

<http://www.csas.cz/eu>

Petr Zahradník

+420 261 073 019

Jan Jedlička

+420 261 073 484

Andrea Kadlečková

+420 261 074 491

Notes to Czech Republic's entry into the European Union

One of the cornerstones of the European Community is the single market, and the ensuing freedom of the movement of persons, services, goods and capital.

As of the day of the Czech Republic's entry into the European Union, our country will become a part of a broad and border-free economic area. Theoretically, employees could work in any EU member state, businesses could sell their goods and offer their services anywhere in the Union without any limitation, there would be no obstacles to capital flowing from one country or one investment instrument to another.

But the fear of the different structure of the labour market, as well as the service and capital markets of the newly acceding (and usually poorer) countries and the current member states (usually richer) lead to the introduction of national protective rules. Those were agreed in the form of interim measures which prevent the free movement of persons, services, goods and capital, and constitute a part of the Czech EU Accession Agreement.

Labour Market

The current EU member states may, for two years after the Czech Republic's accession (and of other acceding countries), apply measures which prevent Czech citizens from working on their labour markets without a permit. Before the expiration of two years from accession, the Council will review, based on a Commission report, those measures. Upon the completion of that review, current member states will inform the Commission about whether they will continue to apply those measures. A member state which at the end of a five-year period retains those measures may, in the case of serious disruptions to the labour market or the threat of such disruptions, inform the Commission accordingly and continue to apply those measures until seven years from the date of accession. A longer interim period is not allowed.

At this point, most current EU member states are afraid – in our opinion without grounds – of a massive influx of Czech employees on their labour market, and have decided to make use of the two-year protective period. Thus far, the only exceptions are Ireland and, in part, Great Britain. Our neighbour states – Austria and Germany, announced long ago that they are planning to use the maximum seven-year period.

Recently, certain acceding states (Hungary and Poland) have been considering reciprocal measures – i.e., also preventing the access of employees from the current member states to their labour markets. We have not noted any similar discussion in the Czech Republic, and we do not think that the introduction of any similar retaliatory measures would be a benefit for the Czech economy.

Service Market

The fears of disruptions to the labour market in Austria and Germany also lead to the introduction of the possibility to prohibit Czech businesses from freely offering services in „sensitive areas“ in those countries. The period of application is the same as in the case of the free movement of persons – i.e., seven years.

The sensitive service areas include:

Austria:

- activities in plant-growing; landscaping of gardens parks, orchards and other green areas,
- cutting, shaping, and final finishing of natural stone used for decorative and construction purposes,
- manufacture of metal constructions and their parts,
- construction, including related areas,
- investigation and security services,
- cleaning of buildings, equipment, and transportation vehicles,
- other activities related to healthcare,
- social care without accommodation.

Germany:

- construction, including related areas,
- cleaning of buildings, equipment, and transportation vehicles,
- activities in the sphere of interior decoration.

Similar to the sphere of the free movement of persons, the Czech Republic may, upon giving notice to the Commission, adopt equal reciprocal measures. According to the most recent information, no such thing is being prepared by ČR.

The free movement of other services, including various legal, auditing and consulting services, will not be subject to any limitations. In spite of that, we do not think that there would be a massive influx of those services into Austria, the main reason being insufficient demand. We do not believe that Austrian companies will start hiring auditors from the Czech Republic or Hungary on mass. And it would not be easy for Czech consultants to learn all of Austrian legislation.

Goods Market

No provisions have been agreed in the sphere of the market of goods, which would limit the access of goods from the Czech Republic to the EU markets. All customs and tariff limitations have been abolished in the European Community (with the exception of agriculture). The Czech Republic undertakes to apply, together with other member states, a uniform trade policy to third countries.

That applies to China and other Asian countries. Customs protection against Asian goods is higher in the EU than in the Czech Republic – custom fees which apply to these goods in Austria will be applicable in the Czech Republic as of 1 May. So the “anti-Asian” protection remains unchanged in Austria and increases in the Czech Republic. Nevertheless, Vietnamese traders (with Czech passports) will be theoretically able to operate their markets (under the free offer of services) in Austria. We do not, however, foresee such development. The goods sold in those markets are, in part, smuggled, do not comply with strict EU hygienic norms, or are bootlegged brand-products (false Adidas outfits or Rolex watches, etc.). We think that the responsible Austrian authorities (probably the Commercial Inspection) would be stricter with respect to the potential Vietnamese markets than Czech authorities, and that they would not permit the sale of such goods for those reasons.

Capital Market

Given the fear of the strong buying position of the citizens of the current EU member states, and the ensuing possible inequality on the real estate market, the Czech Republic insisted on having an interim period stipulated in its Accession Agreement which regulates the acquisition of land and real estate by the citizens of other EU member states:

- for five years from accession, the Czech Republic may limit the acquisition of second homes by the nationals of other member states, who do not have permanent residence in the ČR or who are companies established according to the law of another member state which are not resident or do not have a branch or official representation in the Czech Republic.
- for seven years from accession, the Czech Republic may limit the acquisition of agricultural land and forests by the nationals of other member states or by companies established according to the law of another member state which are not resident or registered in the Commercial Registry in the Czech Republic.

Notes to Slovak Republic's entry into the European Union

The Sector of Services and Business

Austria, likewise Germany, has negotiated a transitional period for providing some services by the citizens of the accessing countries; see the following list of services subject to the transitional period.

In Austria

- Services in country horticulture
- Stone treatment
- Manufacture of steel structures
- Civil engineering
- Security services
- Industrial cleaning
- Home nursing services
- Social work

After the accession of Slovakia to the EU a space for lawyers from the EU countries will create in Slovakia.

According to the Accession Treaty, road transport to the territory of other country (so-called cabotage) will be mutually restricted for a transitional period of two years. At the end of the second year after the accession of Slovakia to the EU, the existing and the new member countries will have the possibility to announce extension of this transitional period for two years and, subsequently, for another year if necessary to prevent serious disturbance of their national markets.

Following 1 May, entrepreneurs from Austria and other EU countries will have the possibility to open branches of their firms or establish new firms in the new member countries. However, as follows from the recent research by consultancy firm Proudfoot Consulting, only 22% of Austrian enterprises intend to establish a manufacturing plant in one of the accessing countries, despite the fact that Slovakia has recently tried to attract a large number of investors by an even tax of 19% and well-educated and cheap labour force, as well as improving infrastructure.

Labour Market

Similarly to the Czech Republic, a 2+3+2 model applies in Slovakia, which means that Austria has the possibility to make use of the transitional period for up to 7 years to protect its labour market. Also according to a report of the European Commission, however, no flood of workers from the accessing countries is threatening. The majority of those who intend to search for work in the extended EU are young and educated people who only would help the current member countries to enliven their labour markets. Though some of the accessing countries have already declared their intention to implement reciprocal measures – and the Hungarian government has even approved such procedure – the Slovak representatives do not consider taking such step for the moment.

Food & Agriculture

After accessing the Union, Slovakia will encounter the problem of an insufficient capacity of its slaughterhouses, since many leading meat-processing plants have preferred closing their operations to high investments necessary to meet the high health standards. It is estimated that only one half of the existing food-processing enterprises will conform to the new conditions. This state will result in the need to import butcher's meat intended for further processing and, subsequently, export fresh meat and meat products. This will open a space for Austrian firms doing their business in this industry.

Customs Policy

Similarly to the Czech Republic, Slovakia also will accede to the uniform customs policy of the European Union after 1 May. Customs duties among the member countries will be cancelled and rates towards third countries adjusted. Namely the duties on food products imported from third countries will increase from the existing 5 to more than 28 percent.

Import of many products will be restricted after the accession (such as textile products, shoes, ceramics, or metallurgical products from Ukraine).

Also, it is not our opinion that the Austrian market will be flooded with cheap goods imported from China and Vietnam to Slovakia. It is in the interest of the Slovak Trade Inspection Authority (SOI) to abide by the rules set forth by the European Union. The Slovak Trade Inspection Authority often finds more reasons for which cheap merchandise can be confiscated (trademark imitation, missing treatment symbols, incorrect information on materials,...). In its struggle against illegal import and sale SOI will cooperate with the customs authorities and the police.