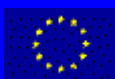


Czech Republic 2000



2000 REGULAR REPORT

FROM THE COMMISSION

ON

THE CZECH REPUBLIC'S

PROGRESS TOWARDS
ACCESSION

8 November 2000

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A. Introduction

a) Preface

In Agenda 2000, the Commission said it would report regularly to the European Council on progress made by each of the candidate countries of Central and Eastern Europe in preparations for membership, and that it would submit its first report at the end of 1998.

The European Council in Luxembourg decided that

“From the end of 1998, the Commission will make regular reports to the Council, together with any necessary recommendations for opening bilateral intergovernmental conferences, reviewing the progress of each Central and Eastern European applicant State towards accession in the light of the Copenhagen criteria, in particular the rate at which it is adopting the Union *acquis*” ... “The Commission’s reports will serve as the basis for taking, in the Council context, the necessary decisions on the conduct of the accession negotiations or their extension to other applicants. In that context, the Commission will continue to follow the method adopted by Agenda 2000 in evaluating applicant States’ ability to meet the economic criteria and fulfil the obligations deriving from accession.”

On this basis, the Commission presented a first series of regular reports in October 1998, with a view to the Vienna European Council; a second series was adopted in October 1999, with a view to the Helsinki European Council. The Helsinki European Council noted that the next regular reports would be presented in good time before the European Council in December 2000.

The structure followed by this regular report on the Czech Republic is largely similar to that of the Commission’s 1997 Opinion and of the subsequent regular reports; however, it differs from that used in previous years on three minor points. Firstly, the part of the present report assessing the Czech Republic’s ability to assume the obligations of membership (*Part B.3.1.*) has been structured to follow the list of twenty-nine negotiating chapters covering the *acquis*. Secondly, this part has been broadened to cover also the Czech Republic’s administrative capacity to apply the *acquis* under each of the negotiating chapters (previously discussed in a separate section of the report). Thirdly, the report includes, for the first time, a section assessing the progress made by the Czech Republic in translating the *acquis* into its official language.

In line with previous regular reports, the present report:

- describes the relations between the Czech Republic and the Union, in particular in the framework of the Association Agreement;
- analyses the situation in respect of the political criteria set by the 1993 Copenhagen European Council (democracy, rule of law, human rights, protection of minorities);

- assesses the Czech Republic's situation and prospects in respect of the economic criteria defined by the Copenhagen European Council (a functioning market economy and the capacity to cope with competitive pressures and market forces within the Union);
- addresses the question of the Czech Republic's capacity to assume the obligations of membership, that is, the *acquis* as expressed in the Treaties, the secondary legislation, and the policies of the Union. This part gives special attention to nuclear safety, as underlined by the Cologne and Helsinki European Councils. It encompasses not only the alignment of legislation, but also the development of the judicial and administrative capacity necessary to implement and enforce the *acquis*, as requested by the Madrid and Feira European Councils in December 1995 and June 2000 respectively. At Madrid, the European Council underlined the necessity for the candidate countries to adjust their administrative structures, so as to create the conditions for the harmonious integration of those States. The Feira European Council in June 2000 emphasised the vital importance of the candidate countries' capacity to effectively implement and enforce the *acquis*, and added that this required important efforts by the candidates in strengthening their administrative and judicial structures. The Feira European Council invited the Commission to report to the Council on its findings on the matter.

This report takes into consideration progress since the 1999 regular report. It covers the period until 30 September 2000. In some particular cases, however, measures taken after that date are mentioned. It looks at whether intended reforms referred to in the 1999 regular report have been carried out, and examines new initiatives. Furthermore, complementing the assessment of new developments since the last regular report, this report provides also an overall assessment of the global situation for each of the aspects under consideration, setting out for each of them the main steps which remain to be taken by the Czech Republic in preparing for accession.

In accordance with this approach, the assessment of progress in meeting the political and *acquis* criteria (including the Czech Republic's administrative capacity to implement the *acquis*) focuses on what has been accomplished since the last regular report, complemented with a view of the global situation for each of the aspects discussed. The economic assessment, for its part, is based on a forward-looking evaluation of the Czech Republic's economic performance.

The report contains also a separate section examining the extent to which the Czech Republic has addressed the short-term Accession Partnership priorities, and has started to address the medium-term priorities set out in this framework.

As has been the case in previous reports, "progress" has been measured on the basis of decisions actually taken, legislation actually adopted, international conventions actually ratified (with due attention being given to implementation), and measures actually implemented. As a matter of principle, legislation or measures which are in various stages of either preparation or Parliamentary approval have not been taken into account. This approach ensures equal treatment for all the candidate countries and permits an objective assessment and comparison between countries in terms of their concrete progress in preparing for accession.

The report draws on numerous sources of information. The candidate countries have been invited to provide information on progress made in preparations for membership since the publication of the last regular report. The National Programmes for the Adoption of the *Acquis* of each of the candidate countries, as well as the information they have provided in the framework of the Association Agreement and in the context of the analytical examination of the *acquis* (screening) and the negotiations, have served as additional sources. Council deliberations and European Parliament reports and resolutions¹ have been taken into account in the preparations. The Commission has also drawn on assessments made by various international organisations, and in particular the contributions of the Council of Europe, the OSCE and the International Financial Institutions, as well as that of non-governmental organisations.

b) Relations between the European Union and the Czech Republic

Recent developments under the Europe Agreement

The Czech Republic has continued to implement the Europe Agreement and contributed to the smooth functioning of the various joint institutions. The fifth Association Council meeting was held in December 1999, and the sixth Association Committee and Association Council meetings were held in June and September 2000 respectively. The Association Committee examined in detail the implementation of the Accession Partnership priorities. The subcommittees continue to function as a forum for technical discussions. The Joint Parliamentary Committee comprising representatives of the Czech and European Parliaments met in November 1999 and in April 2000.

In September 2000, an agreement of principle was reached on the move to the second stage of the transitional period of the Europe Agreement, indicating that the Czech Republic has further aligned its legislation on establishment and movement of capital with Community rules. Procedures for adoption of the relevant Association Council decision are under way.

Trade between the EC and the Czech Republic has continued to increase. According to statistics from the Czech Statistical Office, between 1999 and 1998 EC exports to the Czech Republic increased from CzK 589.9 billion (€ 16.3 billion) to CzK 638.2 billion (€ 17.3 billion) and EC imports from CzK 545.8 billion (€ 15.1 billion) to CzK 642.8 billion (€ 17.4 billion). Therefore, the Czech Republic recorded a trade surplus with the EC after many years of deficit. In the year 1999, the EC accounted for 69.2% of Czech exports, and provided 64.0% of Czech imports. In the first three months of 2000, EC exports increased 29% to reach CzK 184.1 billion (€ 5.17 billion), while EC imports increased 34% to CzK 195.2 billion (€ 5.48 billion). In the first quarter of 2000, the share of the EC in Czech exports increased again to reach 72.6%, while the EC continued to provide 64.0% of Czech imports. Major categories of Community exports in 1999 were machinery and electrical articles, transport equipment, base

¹ For the European Parliament the *rapporteur* is Mr Jürgen Schröder.

metal and chemical products. Major Czech exports were machinery and electrical goods, transport equipment, especially vehicles, base metal and textiles.

In March 1999 the Council mandated the Commission to open negotiations with the associated countries with a view to new reciprocal concessions for agricultural products. The negotiations, which form a part of the overall accession process, have been carried out on a reciprocal basis and with the aim of leading to a fair equilibrium between the interests of the European Community, the EU Member States and those of the Czech Republic. The negotiations have been based on the principle of neutrality with respect to the functioning of the CAP.

The negotiations with the Czech Republic were concluded between negotiators in May 2000. As a consequence of the new agreement, almost half of the bilateral trade of agricultural products will benefit from preferences. The regime entered into force on 1 July 2000 on an autonomous basis, pending the conclusion of an additional protocol to the Europe Agreement.

For processed agricultural goods, negotiations are still ongoing. In July 2000, the Council mandated the Commission to open negotiations with the associated countries with a view to reciprocal concessions in the field of fish and fishery products.

During the past year, the Czech Republic acted in a number of cases to correct decisions which were not in conformity with the Europe Agreement and on which the Czech authorities had not held the necessary prior consultations with the European Community. The Government corrected by Decree No. 212/1999 of 15 September 1999 its previous decision of 12 March 1999, which had introduced preliminary safeguard measures for the import of sugar. Similarly, an amendment to the Labour Code adopted in May 2000 has eliminated the three-year limit on employment in the Czech Republic for EU nationals which was in the Employment Act approved by Parliament in July 1999.

Furthermore, the Government adopted on 29 November 1999 Decree No. 297/1999 Coll. which increased customs duties on imports of road tractors for semi-trailers originating in the EU countries. The Czech authorities justified the measure under Article 29 of the Europe Agreement, given the difficult economic situation of both producers of road tractors for semi-trailers in the Czech Republic. Nevertheless, only one tractor for semi-trailers was produced in the Czech Republic in the first quarter of the year 2000 while production in the first quarter of the year 1999 amounted to 14 units.

In July 2000, the Protocol to the Europe Agreement on European Conformity Assessment (PECA) was initialled. The Protocol will facilitate trade by way of the "pre-extension" of the internal market prior to accession. The required Association Council decision is under preparation."

In September 1999 the country initiated for the second time an anti-dumping investigation against an EC company; this was completed in June 2000. Evidence of injury was found and the Czech authorities decided to impose anti-dumping duties ranging from 9.28% to 15.71% on imports of salt from the EC.

Anti-dumping proceedings have been launched by the EU concerning Czech companies (amongst others) in the polypropylene, seamless tubes and steel ropes sectors.

Accession Partnership/National Programme for the Adoption of the Acquis

A revised Accession Partnership was adopted in December 1999. Its implementation is reviewed in chapter D of this report.

In June 2000, the Czech Republic presented a revised National Programme for the Adoption of the *Acquis* (NPAA), in which it outlines its strategy for accession, including how to achieve the priorities of the Accession partnership (*see chapter D below*).

Community Aid

Since January 2000, there are three **pre-accession instruments** financed by the European Community to assist the applicant countries in central Europe in their pre-accession preparations: the **Phare** programme; **SAPARD**, which provides aid for agricultural and rural development; and **ISPA** which finances infrastructures projects in the fields of environment and transport. These programmes concentrate their support on the Accession Partnership priorities that help the candidate countries to fulfil the criteria for membership.

In the years 2000-2002 total financial assistance to the Czech Republic will amount annually to € 79 million for Phare, € 22.1 million for SAPARD and between € 55 and € 80 million for ISPA.

The Phare programme has been providing support to the countries of Central Europe since 1989, helping them through a period of massive economic restructuring and political change. Its current “pre-accession” focus was put in place in 1997, in response to the Luxembourg European Council’s launching of the enlargement process.

Phare provides the applicant countries of Central Europe with support for institution building, investment to strengthen the regulatory infrastructure needed to ensure compliance with the *acquis* and investment in economic and social cohesion. This support comprises co-financing for technical assistance, “twinning” and accompanying investment support projects, to help them in their efforts to adopt the *acquis* and strengthen or create institutions necessary for implementing and enforcing the *acquis*. This also helps the candidate countries develop the mechanisms and institutions that will be needed to implement Structural Funds after accession and is supported by a limited number of measures (investments or grant schemes) with a regional or thematic focus.

Around 30% of the Phare allocation is used for “institution building” while the remaining 70% is used for financing investments.

During the period 1990-2000 the Phare programme allocated some € 722.5 million² to the Czech Republic. The 2000 Phare Programme for the Czech Republic consists of a national allocation of €59 million, which is concentrated on the following priorities :

- strengthening the democratic system, the rule of law, human rights and the protection of minorities, in particular the Roma (€ 4.50 million)
- improving the legal and regulatory environment for business in the Czech Republic, focused in particular on bankruptcy legislation, credit risk management, enforcement of court decisions and pension reform (€ 5.50 million)
- ensuring the Czech Republic is capable of applying Internal Market rules and regulations, in particular in areas such as data protection, the finance, telecommunications, energy and public procurement (€ 5.60 million)
- preparing the Czech Republic for the implementation of the Common Agricultural Policy, notably in areas such agricultural assets registration, veterinary inspection and the phyto-sanitary sector (€ 6.20 million)
- establishing the institutional arrangements required to implement the environmental *acquis*, in waste management, air quality monitoring and pollution prevention and control (€ 4.30 million)
- addressing important issues in the area of justice and home affairs, including the fight against organised and economic crime, drug abuse, the Schengen Information System and border management, and training of the judiciary at all levels (€ 12.60 million)
- ensuring full compliance with the *acquis* in the area of occupational health and safety (€ 1.30 million)
- strengthening the institutional and administrative capacity to manage the *acquis*, in particular in the area of public administration and statistics (€ 1.5 million)
- developing economic and social cohesion, including SME promotion, employment measures and small-scale infrastructure (€ 17.50 million)
- participation in various Community Programmes (Socrates, Leonardo and Youth) (€ 6.52 million)

An additional € 10 million has been allocated for a cross-border co-operation (CBC) programme with Germany, € 5 million for co-operation with Poland, and € 4 million for co-operation with Austria.

² This grand total does not take account of the benefit the Czech Republic has had to date from particular Phare horizontal programmes such as the Special Assistance Programme, and the STAP and ATA facilities. Similarly, the figure for participation in EC programmes should be revised further to a decision on pre-financing participation in 2001. It does take account, however, of the 2000 Supplementary Investment Facility

The Czech Republic also participates in and benefits from Phare funded multi-country and horizontal programmes such as TAIEX and the Small and Medium-Sized Enterprises Facility. Furthermore, the Czech Republic participates in SMEs, Equal Opportunities, SAVE II, Fiscalis, Leonardo da Vinci, Socrates II, Youth, Combating Cancer, Drug Dependence, Health Promotion and Aids Prevention. The Czech Republic benefits from a Phare contribution towards its participation in these Community programmes. Furthermore, it has requested to participate in the Culture 2000 programme.

Following the opening of negotiations regarding the Czech Republic's participation in the European Environment Agency, an agreement has been reached. Following ratification and entry into force of this agreement, scheduled for early 2001, the Czech Republic will become a member of the Agency.

Overall, the impact of Phare has been positive. Effective transfer of know-how, equipment and financial resources has taken place in a number of important fields such as SME and regional development, employment, trade and investment promotion, the environment and infrastructure. Phare support to SMEs and regional development has succeeded in developing sector strategies and establishing essential institutional and financial mechanisms.

Examples of Phare support in the Czech Republic include:

- With regard to the political criterion, Phare continues to promote the sustainability of civil society organisations in the Czech Republic. More than 350 new projects were financed in 2000, ranging from training for treasurers of charities, support to fundraising activities for handicapped children, finance for Citizen's Advice Bureaux and educational support groups to anti-racism events. A particular new initiative has been to provide more than 60 grants for Roma community projects, including, for example, the provision of advice on citizens' rights in the case of racially motivated attacks, the development of a Roma education programme, and support for Roma information and community centres.
- As to the economic criterion, Phare support in 2000 was given particularly to human resources development, including training for top managers in corporate governance; management training for construction companies and hospitals, and promoting links between cutting edge research in universities and new technology companies. A new Regional Development Fund was launched which lent money to develop 7 industrial parks during 2000, in order to provide attractive, well-serviced sites for new companies to locate. This activity is part of a strategy to promote foreign direct investment, which has been increasingly successful. CzechInvest, the national investment promotion agency, received the prestigious award "European Investment Promotion Agency of the Year" in 2000 at the World Direct Investment Forum. Over the years, CzechInvest has attracted, with Phare support, €3.5 bn into the Czech Republic and helped to create 33,000 jobs.
- In the environment sector, one project focuses on the introduction of Environmental Management and Auditing Systems into Czech companies. If the pilot scheme is successful, it is hoped to persuade more companies to adopt the system, which should ensure that environmental concerns are always at the

forefront in company decision-making. Phare is also helping to improve the environment in a way that is directly visible in the quality of water in Czech rivers, for example 13 Waste Water Treatment Plants were completed with Phare co-financing so far in the year 2000, concentrated particularly in the area of North West Bohemia where industrial pollution has been particularly bad in the past.

- The largest Phare-funded investment project to date in the Czech Republic, and the second largest ever (€34 m), was completed in May 2000: A section of the Pan-European rail corridor no.4, which runs from Berlin to Vienna, was modernised. As a result, track speeds have increased from 120 to 160 km per hour and, together with other investment financed by the Czech budget and the European Investment Bank, the result will be a reduction in journey time from Prague to Vienna of 2 hours.
- The Pro-Active Labour Market Intervention Fund is financed by Phare to help create and protect jobs. One particularly successful PALMIF project has trained 700 unemployed people, of whom 65% set up their own businesses and 30% got jobs within two months of receiving the training.

A reform of the Phare management system took place in 1998 and 1999 to improve the speed, efficiency, effectiveness and transparency of Phare's activities. The recent Phare Review Communication in 2000 continues to refine these basic management structures so as to further bridge towards accession and the structural funds. First, management can be fully decentralised from 2002 if the strict pre-conditions set down in Co-ordination Regulation 1266/99 are met. Second, Phare's programming can be moved onto a multi-annual basis if supporting strategies are in place. Third, the trends introduced in 1997 will continue with an increased role for Delegations, further streamlining procedures and lastly, increasing emphasis of management on raising the impact of Phare's projects in institution building, investment in compliance with the *acquis* and economic and social cohesion.

Implementation of Phare in the Czech Republic continues to be generally satisfactory. While projects are often subject to substantial delays and there is room for improvement in preparation and management, 99% of projects have so far been contracted before the deadlines and implemented to acceptable standards. It should however be noted that implementation in all sectors suffers from insufficient internal communication, both within and between ministries and other organisations. Quality of implementation also tends to depend on particular staff rather than on institutional strength of the ministries. It is clear that substantial and sustained investment in the administrative capacity in all Czech ministries and spending centres at all levels is required, in particular as concerns human resources, if the Czech Republic is to assure a smooth transition from EC pre-accession support to participation in the EC Structural Funds.

With regard to the overall financial management of EC funds by the National Fund, implementation has been poor. The National Fund has been slow in submitting requests for funds and distributing funds received ; applications submitted have been subject to shortcomings that have resulted in some cases in loss of funds. The CFCU should be more active in seeking to improve implementation. Preparation for

Structural Funds by the Ministry for Regional Development is satisfactory, especially with regard to investment projects and establishment of the organisations required by Structural Funds, though with regard to grants and loans improvements are necessary. Communication between the ministry and the regions also should be improved. The implementation of Community Programmes by the relevant ministries is satisfactory.

As regards **SAPARD**, the Czech Rural Development Plan got a favourable opinion in the STAR Committee (EC Management Committee on agricultural structures and rural development) in September 2000 and was approved by the Commission in October 2000. The plan is based on two major priorities: improvement of production and marketing structures in agriculture and food processing (75% of the EC funds) and economic diversification and improvement of rural infrastructure (24% of EC funds). The average annual public expenditure will amount to € 29.8 million during the period 2000-2006, of which € 22.4 million (at 2000 prices) represent the Community contribution. The Agency of the Czech Republic for Agricultural Markets and Rural Development has been established and preparations for its accreditation as the SAPARD Agency are underway. Accreditation has so far not taken place and there have been substantial delays in making the Paying Agency operational.

As concerns the **ISPA** programme, the Commission has informed the Czech Republic that its indicative ISPA allocation would range from 5.5 to 8 % of the ISPA budget per year, in order to encourage the country to propose high quality projects in the areas of transport and environment. The Czech authorities have elaborated sectoral strategy documents for transport and environment. The main priorities included in the Strategy Paper for Transport are road network development, railway infrastructure development, waterway transport development and airport projects. The document was adopted by the ISPA Management Committee (MC) in July 2000. The main priorities included in the Strategy Paper for the Environment are drinking water/waste-water, air quality and climate protection and waste management.

Projects submitted by the Czech authorities for ISPA financing in 2000 are presently under review by the Commission. The Commission has commented on the environment strategy, indicating in particular the need for links to quality standards set by environmental legislation in the sectors of water and air.

For ISPA, the relevant structures and committees have been established, but it has yet to be decided which would be implementing agency for ISPA projects. Overall co-ordination of ISPA is assured by the Ministry for Regional Development, with line ministries responsible for sectoral input. Inter-ministerial co-operation has been good.

Implementation of ISPA will follow the same institutional framework as for the Phare programme, with the National Fund at the Ministry of Finance being in charge of the overall financial management and a number of Implementing Agencies responsible for the technical implementation. For the programming and financial management of SAPARD, a different system will apply which reflects the EAGGF (European Agricultural Guidance and Guarantee Fund) rules and is based on a fully decentralised approach through an accredited paying and implementing agency.

Twinning

One of the main challenges the candidate countries continue to face is the need to strengthen their administrative capacity to implement and enforce the *acquis*. As of 1998, the European Commission proposed to mobilise significant human and financial resources to help them in this respect, through the process of twinning of administrations and agencies. The vast body of Member States' expertise is now being made available to the candidate countries, in particular through the long-term secondment of civil servants and accompanying short-term expert missions. Thanks to the strong support and response from EU Member States 107 twinning partnerships, funded by Phare 98 and involving all candidate countries and almost all Member States are operational. Under Phare 99 a further 99 projects are being implemented and the programming exercise for Phare 2000 includes a further 129 twinning projects. It is estimated that around 250 twinning projects will be operational throughout the candidate countries at any one time.

To start with, twinning focused primarily on the priority sectors of agriculture, environment, public finance, justice and home affairs and preparatory measures for the Structural Funds. It now covers all sectors pursuant to the *acquis*.

For the Czech Republic, 18 projects have so far been twinned under Phare, of which 8 projects are ongoing and 10 are in preparation. Under the 2000 national programme, a further 20 twinning projects are envisaged.

Under the 1998 programme, Germany and France are assisting the restructuring of the Ministry of Agriculture and the Market Intervention Agency, while Germany, Denmark and Sweden are working together with Czech partners to strengthen environmental law enforcement bodies. The state aid system will be developed, and Germany and Greece will strengthen the capacity of the insurance sector and the banking regulatory authority. Preparation for the Structural Funds is being led by the UK, Ireland and France, while three justice and home affairs projects will strengthen border control (Germany, Netherlands), develop law enforcement institutions (Germany, UK), and promote the independence of the judiciary (Netherlands).

The 10 twinning projects under the 1999 programme will help the Czech Republic strengthen its administrative capacity in areas such as participation in the European Structural Fund, control and management of EC financial flows, the fight against economic crime, and preparation for Schengen implementation. The Consensus programme, a horizontal programme to finance twinning projects in the social area in all the candidate countries is being launched. It will finance four projects in the Czech Republic, expected to start by the end of 2000.

The 2000 programme foresees both a continuation and an increase of twinning activity in the Czech Republic. No less than 20 twinning projects are foreseen to help the Czech public administration prepare for implementation of the *acquis* in areas such as telecommunications and energy, air quality monitoring and pollution prevention and control. As a priority sector for PHARE twinning assistance, justice and home affairs will be particularly targeted by the 2000 programme, as will the modernisation of Czech public administration.

Although it is as yet too early to assess the overall impact of twinning in the Czech Republic, the projects currently underway are proceeding satisfactorily after some initial take-off problems. Pre-Accession Advisers and their host organisations alike report satisfaction with the mechanism. There is a growing demand for twinning projects in the Czech Republic and an increasing quality of Member States' proposals for the implementation of such projects.

Negotiations / screening

The analytical examination of the *acquis* (screening) for the Czech Republic started in April 1998 and concluded in May 1999 with the examination of the chapter on financial and budgetary provisions. An update of the screening started at the beginning of 2000.

Since the opening of accession negotiations in March 1998, the Czech Republic has participated in four rounds of Ministerial negotiations. As a result of these negotiations, thirteen chapters of the 29 opened thus far have been provisionally closed (science and research, education and training, small and medium-sized enterprises, statistics, industrial policy, telecommunications, fisheries, consumer protection, free movement of goods, customs union, external relations, common foreign and security policy and EMU) while negotiations continue for the remaining chapters.

B. Criteria for membership

1. Political criteria

Introduction

The political criteria for accession to be met by the candidate countries, as laid down by the Copenhagen European Council in June 1993, stipulate that these countries must have achieved “stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities.”

In its 1999 Regular Report on the Czech Republic’s progress towards accession, the Commission concluded that:

“The Czech Republic fulfils the Copenhagen political criteria. Further efforts should be made to reform the judiciary and improve the situation of the Roma through the implementation of an adequately funded policy and efforts to combat discriminatory attitudes in society. Attention should also be paid to developing an effective policy to combat economic crime and corruption.”

The section below aims to provide an assessment of developments in the Czech Republic since the 1999 Regular Report, as well as of the overall situation in the country, seen from the perspective of the Copenhagen political criteria, including the overall functioning of the country’s executive and its judicial system. Developments in this context are in many ways closely linked to developments in the Czech Republic’s ability to implement the *acquis*, in particular in the domain of Justice and Home Affairs. Specific information on the development of the Czech Republic’s ability to implement the *acquis* in the field of Justice and Home Affairs can be found in the relevant section (*Chapter 24 – Co-operation in the field of justice and home affairs*) of part B.3.1. of this report.

Recent developments

The minority government in place since July 1998 has been functioning normally in both domestic and foreign affairs. Its programme has focused in particular on management of the economy and economic restructuring as well as accelerating preparations for EU membership and consolidating and improving good neighbourly relations.

Relations between the CSSD government and the largest opposition party (ODS) are characterised by the “Agreement on establishing a stable political environment in the Czech Republic signed between the CSSD and the ODS” which was renewed and extended in February 2000 on the basis of reciprocal commitments. Four other opposition parties, which do not participate in this Agreement, have formed a “four party coalition” and participate actively in the democratic process as a principled opposition (KDU-CSL, US, ODA and DEU).

Parliament adopted an amendment to the electoral law in May 2000 which, following the request of the President, is being examined by the Constitutional Court. Elections to the Senate and, for the first time, to the recently created 14 regions, are scheduled for November 2000.

1.1. Democracy and the rule of law

As stated in the previous Regular Reports, the Czech Republic has achieved stability of institutions, guaranteeing democracy and the rule of law. This section focuses on the most recent developments of the past year.

The Parliament

The *functioning* of the Parliament has been significantly improved through a more effective dialogue with the government and the streamlining of its legislative scrutiny procedures. Thus the Chamber of Deputies has amended its rules of procedure to introduce a fast track possibility for, *inter alia*, EC related draft laws. The Chamber of Deputies' Committee for European Integration now holds discussions with Ministers on legislative drafts prior to submission by the Government to the Parliament.

The Senate, in plenary and in its committees, also plays a role in the legislative process. It has streamlined its procedures and a greater number of its proposed amendments are now being adopted by the Chamber.

Since the 1999 Regular Report there has been a significant acceleration in the legislative process, including for EU related laws. Thus, since 1 July 1999, 132 acts were promulgated in the Collection of Laws, an almost fivefold increase on the period covered by the 1999 Regular Report, during which only 27 acts were passed. Out of 192 acts published in the Collection of laws, 79 were identified by the Government when proposed to the Parliament as EU-related (as of 12 October 2000).

The Executive

The *structure* and *functioning* of the government is stable but several important reforms, outlined below, to improve effectiveness have still not been enacted. Within the Cabinet certain procedural changes have been made in response to the need to strengthen the preparation of draft laws and to ensure better policy coordination, including on EU accession preparations.

The 1999 Accession Partnership established as a short term priority the adoption and implementation of the Act on the Civil Service, as well as training of state officials. Although the Accession Partnership priorities on the training of state officials are being partly met through various Government initiatives, the requirement concerning the adoption of the Act on the Civil Service has not yet been fulfilled.

The Government's 1998 Manifesto identified the Act on the Civil Service as one of the most important objectives to be reached by mid-election term (i.e. mid-2000). The draft Act has recently been approved by the Government. However its original

commitment that the Act would enter into force by 1 January 2001 has been deferred to 1 January 2002.

The performance of the state administration remains crucially dependent on the approval and implementation of the Act on Civil Service. This should foster political independence and will reduce the scope for political interventions in the appointment of officials. It should also promote effective management and assist in the creation of a unified system of human resources development. The terms and conditions of officials should also be improved, so helping to attract and retain sufficiently qualified staff.

A number of measures have been taken to prepare for the introduction of the Act, including training for senior officials in EU affairs and languages. Furthermore the Office of the Government has established a small unit charged with examining ways in which the central civil service can be reformed within the current legal and administrative arrangements. This unit will evolve into a central personnel department for the whole civil service. The Ministry of the Interior has established “state civil service reform units” in some Ministries.

In September 2000 the “Lustration Law” that excludes from public service posts (but not from political offices) members of, and persons who cooperated with, the former State Security Service was amended in order to extend its provisions until the new Civil Service Act is approved. It is important that this deadline for phasing out the lustration measures be respected.

In general, the Czech Republic needs to do more to complete the process of administrative reform. Although there are undoubtedly areas in which incremental changes are being made and where some improvements have already been achieved, there is a clear need to improve public administration standards further. The absence of an Act on Civil Service continues to impact negatively on the overall effectiveness of the public administration in a number of ways.

Under the present system there is a lack of legal distinction between political appointees and career officials. There is no legislation to define civil servants in the Czech Republic, nor any official definition of a civil servant. This has a tendency to encourage short-term appointments and to discourage professionalism. Low salaries also make it difficult to attract and retain staff. Establishing a proper legal basis for the civil service should provide a more attractive career package, including security of tenure where appropriate as well as recognisable opportunities for career progression based on merit.

A decision is required on the development of a central system for uniform training of state officials. Furthermore, the effectiveness of performance targets is undermined by the lack of measures to hold staff accountable for policy implementation. The Czech Republic needs to develop clear systematic mechanisms to ensure the implementation of objectives across government.

The Government cited decentralisation of public administration as one of the key priorities in its 1998 Manifesto. The Government’s 1998 legislative programme

included a commitment to prepare the necessary legislation by mid-term in order to convene regional elections in autumn 2000. At the same time, the Government committed itself to passing a number of conceptual documents on regional administration, covering *inter alia* the exercise of powers and regional competencies.

The Czech Republic has taken a number of measures to meet these commitments. In June 1999 the Parliament approved the concept of the overall reform of public administration, the main element of which was decentralisation. Following Government approval in November 1999, a package of decentralisation measures was adopted in June 2000. The package entailed a significant shift of powers and competencies from the centre to the regions, particularly in the areas of education, health care, culture, transport, regional affairs, and agriculture. Elections to the regional assemblies will take place on 12 November 2000. This will put in place a new level of public administration in the Czech Republic.

Despite these steps, important decisions remain to be taken regarding the financing and staffing of the decentralisation process. Furthermore, a number of conceptual documents on specific issues related to decentralisation remain to be adopted. A decision also needs to be taken on the status of public servants working for regional assemblies and for municipal assemblies. Currently such public servants do not come under any uniform structure of human resources management. Consequently conditions of employment and the exercise of duties may differ from region to region. Homogeneous selection criteria for the recruitment and remuneration of regional assembly staff also need to be drafted to ensure selection based on professional considerations.

The judicial system

The 1999 Accession Partnership established as a short term priority the implementation of a programme to reform the judiciary by filling vacancies, simplifying procedures, and stepping up the training of judges in EC law. However, certain key parts of the reform remain to be adopted.

In February 2000, the Czech Government adopted the ambitious and comprehensive reform programme 'Concept of the Reform of the Judiciary', aiming to deal with the administration and structure of courts, the independence of the judiciary and training, as well as complete re-codification of the civil, criminal and commercial codes.

Progress was made in the passing of an amendment to the Civil Procedure Code and the Commercial Code (both coming into force in January 2001) which are intended to simplify and accelerate civil and commercial proceedings as regards interim measures, the taking of evidence, rules governing appeals, enforcement of judgements, and the Commercial Register. Also, the ineffective Regional Commercial Courts will be abolished from January 2001.

However, substantial draft amendments to both the Criminal Code and the Criminal Procedure Code, as well as draft constitutional amendments regarding judicial self-administration and the functional structure of the courts, have been rejected by the Parliament as insufficiently prepared. This has led to a revision of the legislative timetable, thus delaying significantly the date for full completion of the reform. It is

crucial, for the effective implementation and enforcement of the EC *acquis*, that the full momentum of judicial reform be maintained.

As confirmed in last year's Regular Report, the speeding up of judicial proceedings, training of judges and prosecutors and adequate administrative support for the courts are still key areas requiring improvement. The performance of the judiciary in the fight against organised and economic crime must also be addressed.

The *length of judicial proceedings* and the backlog of cases remain considerable. The average length of court cases in the Czech Republic has increased since the last Regular Report as far as civil cases in the District Courts (563 days) are concerned. It has decreased slightly for criminal cases in the District Courts (252 days) and civil and criminal cases in the Regional Courts (311 days and 489 days respectively).

The Ministry of Justice's figures show that in the first half of 2000 the total number of court rulings was 33,733 out of which 8,648 were appealed. The corresponding figures for the year 1999 were 62,594 and 14,988. Also, in the first half of 2000 the total number of unresolved cases stood at 381,405 for the District Courts (criminal, civil, family and succession cases and enforcements) and at 175,887 for the Regional Courts (criminal, commercial, insolvency, pension, and administrative cases). In 1999 the Supreme Court decided on 2,874 cases out of 3,002 cases filed, and at the end of 1999 it had a backlog of 2,048 undecided cases. In 1999, 18 disciplinary proceedings were initiated against judges in the case of delays, and 7 have been brought since 2000.

As regards *status and remuneration*, judges are appointed for life by the President of the Republic and are independent, although the Minister of Justice can formally recall them (in practice, this has not happened). Judges' salaries are set by law and are relatively high. State prosecutors are subject to a security vetting procedure, their salaries are on average lower than those of judges and their employment conditions are inferior. These comparatively inferior conditions of work may have a negative impact on their motivation and performance and should be redressed.

The Ministry of Justice determines the number of judges. Six vacant posts for judges were filled in the reference period, bringing the number of *judicial vacancies* to 300 out of a total of 2,801 posts. 370 trainee judges are currently undergoing training, but will not be fully qualified for a further three years. Out of a total of 990 posts for state prosecutors, there are currently 88 vacancies. 100 trainees are being trained under a programme to be completed in three years' time.

The *training* of judges is also the responsibility of the Ministry of Justice and is mainly provided by the Higher Institute of Training for Judges and State Prosecutors. This training is still not systematic, and lacks long term concepts and planning. The courses focus on a key number of areas (human rights, democracy, civil and criminal judicial co-operation) but there is a lack of specialised knowledge of EC law due *inter alia* to the absence of foreign language skills.

Thus, judges and state prosecutors remain insufficiently specialised in EC law. Training in international and EC law is in principle mandatory, and is currently provided through bilateral or multilateral projects, but it has covered so far only

around 4% of Czech judges and 10% of state prosecutors. However, the situation should improve as a result of several Phare initiatives during 1999 and 2000. Besides, judges and state prosecutors also lack sufficient specialisation in the areas of economic crime, corruption and money laundering.

Many courts continue to still suffer from a lack of modern *equipment* and information technology. This situation is now being addressed with Phare support. Judges and prosecutors also continue to lack adequate administrative support staff, which contributes to the length and inefficiency of court proceedings.

Anti-corruption measures

Corruption continues to be a problem, as does economic crime (fraud, money laundering, institutional theft, and the phenomenon of ‘tunnelling’ or asset-stripping). Despite efforts to combat them, implementation in these areas is still far from satisfactory (*see Part B.3.1., Chapter 24 on Cooperation in the field of Justice and Home Affairs*).

Opinion surveys show that one in five Czechs assume that corruption pervades many areas of everyday life. According to public opinion, corruption in the Czech Republic is most widespread in the state administration, followed by the police and intelligence services, healthcare, banking and the political sphere.

The Government announced in 1998 that it would undertake a campaign against corruption and economic crime. This was named the “Clean Hands Campaign” and aimed to “*create an environment acceptable for both foreign and domestic investors and to recover credibility of the state in the eyes of its own citizens*”³

Responsibility was located within the government itself. The Committee for the Protection of the Economic Interest (CPEI), chaired by the Prime Minister, was charged with overall coordination. It included the Deputy Prime Minister for Legislation, Minister of Justice, Minister of the Interior and Minister without Portfolio. The latter also chaired a Coordination and Analytical Group (CAG).

The CAG was mandated to analyse the institutional and legal framework with a view to strengthening the fight against economic crime and corruption but also to present to the CPEI specific cases of alleged crime.

Over the one and a half years of its duration the campaign was able to identify shortcomings in the public administration and it pointed to the need for further action. However, whilst the police registered some progress in some of its anti-corruption activities, the Clean Hands Campaign itself yielded little in terms of actual prosecutions and convictions. Thus, of the 209 reports on specific complaints which

³ Report from the Minister without Portfolio to the Government approved on 15th March 2000 entitled, “Analysis of Activities Conducted by the Committee for the Protection of Czech Republic’s Economic Interests and its Co-ordination and Analytical Group”.

the CPEI submitted to the State Prosecutor, 70 were submitted to the Police for further investigation. In 18 of these cases criminal proceedings have been launched, while only 6 have so far lead to a trial. The prosecution of another 10 cases was postponed.

Figures made available by the Ministry of Justice give an overview of the overall results obtained in this field. As regards corruption (bribery related offences) there were 203 prosecutions and 110 sentences in 1999 and 84 prosecutions and 50 sentences in the first half of 2000. As regards “abuse of the position of public official” there were 253 prosecutions and 85 sentences in 1999 and 141 prosecutions and 47 sentences in the first half of 2000. Concerning money laundering, there were 16 prosecutions and 5 sentences in 1999 and 9 prosecutions and 4 sentences in the first half of 2000.

In Spring 2000, the Government announced that the CPEI and CAG were to be closed down. At the same time, the Ministry of Justice allocated additional funds in order to establish, within the State Prosecutor’s Offices in Prague and Olomouc, specialised units dealing with corruption and economic crime.

At present, the fight against corruption and economic crime suffers from inadequate staff, a lack of specialised training and a lack of effective cooperation among the law enforcement institutions involved. In particular, the duplication of work between the police and investigators, and the insufficient police powers to investigate offences continue to seriously hamper the prosecution of corruption and economic crime.

The rejection by Parliament in May 2000 of an amendment to the Criminal Procedure Code, which intended *inter alia* to modernise the Czech police, as well as the absence of concrete progress in the reform of the Civil Service statute and the low salaries of state employees, continue to bear negatively upon the overall effectiveness of the law enforcement institutions.

The current situation gives cause for concern, not least because of its possible impact on the investment climate. Efforts need to be stepped up to obtain quick and tangible results in the fight against economic crime and corruption. The achievement of such results requires full political commitment and the mobilisation of the necessary material and human resources.

In January 2000, the Czech Republic ratified the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions. On 8 September 2000, it ratified the Council of Europe Criminal Law Convention on Corruption. The Czech Republic has not yet signed the Council of Europe Civil Law Convention on Corruption.

1.2. Human rights and the protection of minorities

As indicated in the previous Regular Reports, the Czech Republic continues to respect fundamental human rights and freedoms.

The Czech Republic further completed its participation in the main international human rights conventions by ratifying, in November 1999, the European Social Charter. However, the revised European Social Charter has not been signed yet.

The Czech Republic has continued to develop its internal institutional framework in the field of human rights. Following the establishment of a Human Rights Commissioner mentioned in the 1998 Regular Report, the Act creating the Public Protector of Rights (Ombudsman) came into force in February 2000. The establishment of the Office of the Ombudsman is intended to reinforce the protection of citizens against unlawful conduct of, and maladministration by public bodies and institutions. The Ombudsman will be responsible for scrutinising ministries, district and financial offices and other state administration bodies whilst investigating whether fundamental rights and freedoms have been violated. He/she will also be empowered to deal with complaints concerning the police, the army, prison services, public health insurance offices and medical facilities. However, the Ombudsman has no power to sanction the authorities, his powers being limited to notifying a superior organ, or the Government, and to making the case public. Whilst several candidates for the post have been proposed to the Chamber of Deputies, in line with the established procedure, agreement has not yet been reached on the appointment.

Civil and political rights

The 1999 Regular Report noted the Parliamentary approval of the Access to Information Act, with the purpose of ensuring citizens' access to non classified information, as well as approval of amendments to the citizenship law which made it easier for former Czechoslovak citizens to obtain Czech citizenship. These pieces of legislation have now entered into force. The Report underlined the problems of prison overcrowding, the conditions of police detention and the persistence of trafficking in women and children.

Since the last Regular Report, the outstanding issue regarding the *citizenship* of those individuals who lost their citizenship in the period between 1948 and 1990, under the Communist regime, was addressed by an amendment to the Act on Citizenship of Some Former Citizens. These individuals may now apply for acquisition of Czech citizenship on the basis of a declaration.

The Minister of Justice has taken steps to improve the *prison system*. The budget for the prison service was increased in 2000 from CzK 4.6 billion to CzK 5 billion, equivalent to a 9% rise. The new Prisons Act, which came into force in January, aims to bring about improvements in the rights and conditions of prisoners and in the relationship between prisoners and prison services. However, certain aspects were contested, in particular the introduction of a financial levy on prisoners. The Custody Law has been amended to improve the conditions of suspects in custody.

Whilst prisons generally meet minimum international standards, the chronic problem of overcrowding remains, with negative consequences for both prisoners and the prison administration. Statistics of the Prisons Services indicate that the average length of pre-trial detention has dropped slightly, from 225 as indicated in the 1999 Report, to between 190-200 days. In May 2000, the number of pre-trial detainees was down to 6,457 and the total prison population fell to 22,953 whilst the total prison capacity increased to 19,918. Thus a slight improvement has been registered since the 1999 Regular Report.

The situation in a considerable number of *police detention* facilities remains unchanged i.e. persons in detention are frequently unable to notify a third person of their situation. In April 2000 the Czech Republic signed the Additional Protocol to the Convention on the Transfer of Sentenced Persons.

Although specific laws prohibit *trafficking in women and children*, and despite the co-operation between the authorities and third countries to enforce them, there is still room for improvement in this area.

The *asylum* law, which entered into force in January 2000, aims to increase the selectivity of criteria for granting asylum, notably by establishing a list of countries deemed to be a “safe country of origin”. Applicants from these countries will be unlikely to receive asylum. The new law also allows the state to finance legal advice for asylum applicants and to support towns with asylum centres. However, the law does not have an independent second instance for rejected asylum applications.

In 1999, 7,219 people requested asylum in the Czech Republic. In the period 1990-99, 1,898 were granted the status of refugee, of which 80 in 1999. The government funds an integration program to assist those granted refugee status to locate housing and receive other social assistance.

In March 2000 the Human Rights Council of the Czech Republic found that the *aliens* law, which entered into force in January, contains a number of discriminatory provisions and, in particular, violates the Convention on Rights of the Child. Subsequently, the government proposed an amendment in August which *inter alia* addresses this finding. The law on the *restitution of property* confiscated during the Holocaust was adopted in the Chamber of Deputies. The law will allow the return of confiscated property to the Federation of Jewish Communities or individual Jewish communities. The Government has set aside CzK 300 million for a fund to compensate owners whose property cannot be returned.

As regards *freedom of expression* and the media, in March the Parliamentary Media Commission dismissed the Television and Radio Council on the legal grounds that Czech TV had failed to fulfil its public service role. The Council was criticised widely during the year for its lack of initiative and ineffective action in addressing an ownership dispute at the country’s largest private television channel.

Economic, social and cultural rights

As regards *equal opportunities*, the Czech Republic signed the optional protocol to the Convention on the Elimination of All Forms of Discrimination against Women (CEDAW) in December 1999. Nonetheless, despite the ban on all forms of discrimination against women, salaries for the same type of work remain approximately 25% lower than those of men according to the 1999 report on human rights of the government Council for Human Rights.

An amendment of the Employment Act which entered into force in October 2000 bans all forms of discrimination and gives the district labour offices the power of sanction (*for details see Chapter 13 – Social Policy and Employment in part B.3.1. of this report*).

In April 2000, the law on the social and legal *protection of children* entered into force.

In 2000 there have been demonstrations prompted by the non-payment of wages by some large firms. This is reported by the government to be affecting 53,000 workers. The Act on the Protection of Employees in case of insolvency, which came into force in May 2000, addresses this issue by making district labour offices responsible for the payment of wages in case of insolvency. In addition, the government launched a loan scheme, which enables district offices to grant loans to people who are not being paid.

Membership in *trade unions* has been steadily declining since 1989 and continued to do so in 1999. While in 1998 26% of the labour force was unionised, by 1999 this had fallen to 23%. The spokesman of the Czech-Moravian Confederation of Trade Unions said that the decrease in membership is mainly due to the industrial restructuring.

Minority rights and the protection of minorities

The 1999 Regular Report concluded that the greater attention paid by the government to the improvement of the condition of the *Roma* needed to be translated into a comprehensive long-term policy to fight discrimination and social exclusion. The 1999 Accession Partnership established as a short term priority the implementation of the Government Resolution of 7 October on Roma including provision for the necessary financial support, measures aimed at fighting discrimination, fostering employment opportunities and increasing access to education.

In June 2000 the Czech government adopted a draft outline for a long-term policy called, "Concept of the Government Policy towards Members of the Roma Community". It envisages a strategic action programme for the period 2001-2020, focusing on the key areas of education, employment, housing and the fight against discrimination. The Inter-Ministerial Roma Commission also submitted a progress report in June 2000 on the fulfilment of the measures of the government's 1997 action plan to improve the situation of the Roma. The report indicates that the vast majority of the measures have been fulfilled.

The action plan has had the most tangible results in the field of education. The 1999 state budget set aside CzK 12.3 million to pay for assistants for Roma children in kindergartens, primary schools and special schools. There are currently 180 assistant teachers in schools helping Roma children.

The Ministry of Education, Youth and Sports has recommended that schools include in their syllabus multicultural education programmes and schools have acted to make information concerning Romany culture more widely available. An amendment to the School Act entered into force in February 2000 which significantly improves access to higher education for the Roma community.

Nonetheless, education levels for Roma children remain low and these still make up some 70 % of children sent to special schools ie schools for children with educational difficulties. Out of the extended network of 114 preparatory schools set up in 1999 to prepare Roma children for mainstream primary schools, 41 have actually been set up

in the special schools. The European Roma Rights Centre (ERRC), an independent body based in Budapest which monitors Roma human rights issues and provides legal defence, has filed a suit against the Ministry of Education and the principals of the special schools, alleging that the high proportion of Roma children in special schools has meant *de facto* segregation. The action was first brought before the Czech Supreme Court but was dismissed in October 1999. The ERRC then took the case to the European Court of Human Rights in April, where the case is still pending.

There have been some positive steps in the field of housing. In particular, in April 2000 the government earmarked CzK 32.5 million for the reconstruction of two buildings, mainly occupied by Roma, in Brno (Moravia). The government will also act as guarantor for a CzK 32.5 million soft loan from the Council of Europe Development Bank to the city of Brno.

In October 1999 the city of Usti nad Labem constructed a wall between a building occupied mostly by Roma citizens and its neighbours across the street. The Chamber of Deputies reacted by condemning the construction of the wall. The government also expressed its opposition, and appointed a deputy Minister for the Interior as its special mediator in discussions between the district authority and the local council. Subsequently, in November the city dismantled the wall. In return it received a state subsidy worth CzK 10 million, of which CzK 3.6 million was used to buy the houses of the citizens who had required the Council to build the wall. In April the Constitutional Court upheld a subsequent complaint by the City Council that the Chamber of Deputies' vote to abrogate the City Council's decision to construct the wall was not in line with the division of competence between Parliament and local government.

As regards the overall situation of the Roma in the Czech Republic, further efforts are needed, in particular to combat anti-Roma prejudice and to strengthen the protection provided by the police and the courts. Estimated Roma unemployment remains very high at 70-90 %. Health and housing conditions are still much worse in the Roma communities than amongst the general population. Attitudes at local level are largely unaltered, as illustrated by some recent district court judgements. The inter-Ministerial Roma Commission still has no budget to implement policies, no executive power and few permanent staff. The long-term strategic action programme essentially comprises a list of tasks for individual ministries, but contains no overall budgetary provisions.

In June the government approved the draft principle of a law on the rights of national minorities.

On the whole the situation as regards *other minorities* in the Czech Republic (comprising particularly Slovaks, Poles, Germans, Hungarians and Ukrainians) remains satisfactory. In March 2000 the Ministry of the Interior banned the National Alliance, an extremist group. Nonetheless, the Ministry of the Interior's 2000 Report on Extremism noted a slight increase in the number of followers of *extremist movements* over the period 1998-1999 (following a doubling of membership over the period 1997-1998).

In 1999 the number of racially motivated or extremist crimes rose to 316 (from 133 in 1998) of which 273 were solved (compared to 100 in 1998). The 2000 Report on Extremism stressed the improved effectiveness of the police and the increase in the number of crimes reported, especially by the Roma. In 1999, there were no fatalities caused by extremist movements although a number of assaults took place.

A number of positive steps have been taken to fight discriminatory attitudes and the spread of racism. In particular, in December the government launched an anti-racism campaign for the first time, allocating CzK 10 million from the state budget.

1.3. General evaluation

The Czech Republic continues to fulfil the Copenhagen political criteria. Recent significant developments include, in particular, a more effective collaboration between the government and Parliament.

There has been progress in setting the legal framework for regional government. However, the reform of the public administration has not advanced significantly and therefore the short term priority of the Accession Partnership in this field has not been met. The reform of the judiciary is equally a short term priority of the Accession Partnership. Whilst progress has been made, it is regrettable that certain key parts of the reform have not yet been adopted. Administrative and judicial reform are both essential for effective enforcement of the *acquis* and improved good governance. Thus efforts must be pursued in these fields, in line with the medium term priorities of the Accession Partnership.

Furthermore, the fight against corruption and economic crime has so far been insufficient. Tangible results in this field will respond to public concern and help ensure a transparent business environment.

The Czech Republic continues to respect human rights and freedoms and has developed its internal institutional framework in this field. Nevertheless, areas of concern remain, in particular overcrowding of the prison system and persistence of trafficking in women and children.

Increased and, in some areas, significant efforts have been made since last year regarding the situation of the Roma community, notably with regard to the education system. However, a lasting improvement in the situation of the Roma requires sustained effort over time. Further progress is needed, as indicated in the medium term priorities of the Accession Partnership.

2. Economic criteria

2.1. Introduction

In its 1997 Opinion on the Czech Republic's application for EU membership, the Commission concluded:

"The Czech Republic can be regarded as a functioning market economy; it should be able to cope with competitive pressure and market forces in the Union in the medium term provided that change at the enterprise level is accelerated."

This finding was confirmed in the 1998 and 1999 regular reports. In its 1999 regular report the Commission found that

"The Czech Republic should be able to cope with competitive pressure and market forces within the Union in the medium term, provided that the government accelerates implementation of legal and structural reforms."

In examining the economic developments in the Czech Republic since the 1997 Opinion, the Commission's approach is guided by the conclusions of the European Council in Copenhagen in June 1993 which stated that membership of the Union requires:

- the existence of a functioning market economy;
- the capacity to cope with competitive pressure and market forces within the Union.

In the analysis below, the Commission has followed the methodology applied in the Opinion, as well as in the previous regular reports.

2.2. Economic developments

The macroeconomic situation in the Czech Republic has improved since the last regular report. Three years of recession came to an end in the second quarter of 1999, when GDP growth resumed. In the first half of 2000, real GDP growth rose by 3.1%. This recovery was driven by external demand, reflecting the revival of economic activity in the EU, and by private consumption. The unemployment rate, which increased during the period of recession and reached 9.4% by the end of 1999, edged down to 9% in August 2000. Foreign direct investments have supported job creation and have helped to offset part of the job losses due to restructuring. The current account deficit narrowed from 2.4% of GDP in 1998 to 2% in 1999. As a result of prudent monetary policy, inflation fell to an average rate of only 2.1% in 1999, but, mainly due to the rise in international commodity prices, the inflation rate has recently been increasing. The general government budget deficit in 2000 will be considerably higher than the 0.6% of GDP recorded in 1999. The monetary and fiscal policy mix has been appropriate.

Czech Republic		1996	1997	1998	1999	2000 latest
Real GDP growth rate	per cent	4.8	-1.0	-2.2	-0.2	3.1 Jan-June
Inflation rate ⁴						
- annual average	per cent	9.1	8.6	10.8	2.0	3.3 ⁵ Sept
- December-on-December	per cent	8.9	10.2	6.8	2.5	4.1 Sept
Unemployment rate, end-year						
- ILO definition	per cent	3.9	4.8	6.5	8.7	8.7 April-June
General government budget balance	per cent of GDP	-1.7	-2.1	-2.4	-0.6	:
Current account balance	per cent of GDP million €	-7.4 -3,381	-6.1 -2,835	-2.4 -1,187	-2.0 -993	-754 E Jan-June
Foreign debt						
- debt export ratio	per cent	45.9	43.1	38.2	37.7 E	:
- gross foreign debt	million €	11,062	11,388	11,492	11,932 E	:
Foreign direct investment in flow						
- balance of payments data	per cent of GDP million €	2.5 1,125	2.5 1,148	4.9 2,416	9.6 4,792	: 2,135 E Jan-June

E = Estimates

The Czech Republic has accelerated structural reforms. Privatisation activities, which were under review in 1999, were re-launched at the beginning of 2000, when the minority government and the largest opposition party agreed to complete the remaining privatisation of large enterprises within the next two years. The Revitalisation Agency has selected nine large companies to be restructured. With a view to the improvement of business practices, the privatisation of banks has been progressing with the sale of Česká Spořitelna (the Czech savings bank) to a foreign bank; Komerční Banka, the largest commercial bank in the Czech Republic and the only one left with a majority state participation is envisaged to be privatised in 2001. The agreement between government and opposition also contains commitments on income tax and pension reform.

⁴ PROXY HICP since 1996 (see methodological notes).

⁵ Moving 12 month average rate of change.

Main indicators of Economic Structure in 1999		
Population (average)	Thousand	10,283
GDP per head ⁶	PPS-€	12,498
	Per cent of EU average	59
Share of agriculture ⁷ in:		
- gross value added	per cent	3.7
- employment	per cent	5.2
Investment-to-GDP ratio ⁸	per cent	26.4
Gross foreign debt/GDP ⁹	per cent	24.0
Exports of goods & services/GDP	per cent	63.6
Stock of foreign direct investment	Million €	16,191
End of 1999 data (Eurostat)	€ per head	1,575

2.3. Assessment in terms of the Copenhagen criteria

The existence of a functioning market economy

As set out in Agenda 2000, the existence of a functioning market economy requires that prices, as well as trade, are liberalised and that an enforceable legal system, including property rights, is in place. Macroeconomic stability and consensus about economic policy enhance the performance of a market economy. A well-developed financial sector and the absence of any significant barriers to market entry and exit improve the efficiency of the economy.

The agreement between the minority government and the largest opposition party has resolved the differences on the implementation of economic policy, and thus reflects greater consensus. Only after reaching this agreement, could the state budget for 2000 be approved by Parliament in March 2000. The Government has committed itself to a

⁶ Figures have been calculated using the population figures from National Accounts, which may differ from those used in demographic statistics.

⁷ Agriculture, hunting, forestry and fishing.

⁸ Data refer to Gross fixed capital formation as % of GDP.

⁹ The 1999 data for foreign debt are estimates.

gradual reduction of budget deficits. However, the agreement also allows the government to create new extra-budgetary funds for housing and transportation. The Government has further agreed not to raise income tax, to submit a proposal for pension reform and to speed up privatisation.

*The medium-term framework for macroeconomic policy in the Czech Republic is provided by the Government's "Economic Strategy of the Accession to the European Union", which was adopted in May 1999. In November 1999 the Czech government and the European Commission services signed a "Joint Assessment of Economic Policy Priorities", which reviews the economic policy options for the medium term. Considering the current favourable macroeconomic developments in the Czech Republic, the government is planning to move medium term economic priorities into the centre of attention, especially in the area of fiscal policy. Policy co-ordination between the Government and the Czech National Bank has improved substantially. The Government has endorsed the CNB's medium-term monetary strategy and the inflation target for 2001. A joint policy has been formulated in order to contain upward pressure on the currency. Special attention needs to be paid to the preservation of the central bank's independence, as required by the EC *acquis*.*

In 1999 real GDP contracted by 0.2%, compared with a negative growth rate of 2.3% in 1998. The recession of the Czech economy bottomed out in the first quarter of 1999, when real GDP was 3.3% lower than in the same period of the previous year. Growth picked up subsequently, although only moderately at first. The recovery was led by external demand and private consumption. Fixed capital formation, which shrank by 5.5% year-on-year, contributed more negatively to economic growth than the year before. In the first half of 2000, however, fixed capital formation increased by 3.8% and overall economic growth was 3.1% compared with the same period of 1999. Strong demand in the EU continued to push up exports, which rose by 22.5% in value year-on-year, whilst imports increased by 19.4%.

Unemployment in the Czech Republic has remained at a rather high level. This goes hand in hand with wide regional disparities. At the end of January 2000, the unemployment rate peaked at 9.8%, after which it came down to 9.0% at the end of August 2000. This decline reflected the economic recovery, the job creation due to foreign investments, helped by active labour market policy. However, as an acceleration of large-scale enterprise restructuring is likely to increase lay-offs, the challenges of reducing structural unemployment and improving the flexibility of the labour market remain.

Inflation came down sharply from an average rate of 10.7% in 1998 to 2.1% in 1999. The inflation target of the Czech National Bank, which had been set at $4.5 \pm 0.5\%$, was undershot considerably, as was the case in 1998. The sharp reduction of inflation was the result of prudent monetary policy and low economic activity in the first three quarters of 1999. Since the end of the year, the resumption of price deregulation, the rise in world energy prices and the recovery of economic activity have induced an acceleration of inflation to 4.1%, at the end of September 2000 year-on-year. Net inflation, excluding administrative price changes, amounted to 3.2%.

Monetary policy has been eased over the last year in an attempt to support the growth prospects of the economy. In the autumn of 1999 the Czech National Bank cut the key

interest rates, but it took some time for these measures to have effect in terms of market rates offered to the public. Commercial banks have remained cautious in the extension of credit to enterprises as they still suffer from weak balance sheets and insufficient management capacity.

Strong foreign capital inflows have continued to put the Czech crown under upward pressure. Though an explicit exchange rate target does not exist for the Czech currency, the central bank has been intervening selectively in the foreign exchange market in order to prevent the Czech crown from undesirable appreciation. Renewed foreign capital inflows are expected for this year. As one element of the "Strategy of Economic Policies in a Period of Higher Capital Inflows", the Government has established a special account to collect privatisation revenues from foreign investors by the Czech National Bank.

The current account deficit has narrowed significantly. In 1999 it fell to 2% of GDP from 2.4% in 1998. The improvement was caused mostly by a decrease in the trade deficit. In 1999 exports grew significantly slower than in 1998, but export growth still outpaced import growth. The deficit was more than fully covered by financial flows, which added to the reserves. This situation continued in the first half of 2000.

In 1999, the general government posted a deficit of 0.6% of GDP, benefiting from a surplus on the budget of local authorities. This result was far better than the expected deficit up to 3.5% of GDP and could only be achieved by deferring the 1998 losses of state-owned Konsolidacni Banka to the 2000 budget. At the beginning of this year, the deficit of the general government budget for 2000 was projected to be about 3.5% of GDP, but the government has recently revised its projection to 5.2% of GDP. It has explained the higher deficit with the need to cover Konsolidacni Banka's losses of 1998 and 1999, which amount to €1.369 billion. However, if privatisation receipts were not counted as revenue, the general government deficit would reach some 7.7% of GDP. Official public debt rose by €1.193 billion in 1999, leading to a total debt stock of €8.051 billion (or 16% of GDP).

Fiscal reform is a political priority. The government has taken steps to enhance fiscal transparency in line with the IMF Code of Good Practices on Fiscal Transparency. A new Law on Budgetary Rules for the State Budget was approved, which requires the government to present an indicative three-year rolling budget simultaneously with the annual draft of the state budget. The law will enter into force on 1 January 2001 but it has already been applied to the draft state budget for 2001. Furthermore, a complete list of outstanding state guarantees will be worked out, including the medium-term projection of the losses of the off-budget institutions.

A strong commitment to fiscal transparency is needed to stop the proliferation of off-budget deficits and contingent liabilities, which could endanger macroeconomic sustainability in the medium term. If the official fiscal deficit of the general government were to be adjusted for the deficits of all off-budget entities, the fiscal deficit would be considerably higher. Moreover, significant contingent liabilities have been accumulated through off-budget funds and the extensive use of state guarantees. These liabilities, if properly accounted, could double the amount of public debt. Most worryingly, this situation continues to deteriorate. New off-budget entities are being

created - the Transportation Fund and the Housing Fund - and the amount of state guarantees is rapidly increasing in connection with bank and enterprise restructuring.

Privatisation of strategic enterprises has been revived. The proportion of private ownership has remained more or less constant since 1996. Three quarters of GDP is produced in the private sector. The state, through the National Property Fund, still retains significant stakes in more than some 350 companies. Apart from the successful sale of the Ceska Sporitelna bank, the state sold its 30% share in Skoda Auto to Volkswagen AG in June 2000. The approval of the new Telecommunications Act in early 2000 has paved the way for privatisation in the telecommunications sector. The sale of the oil refinery Paramo is also expected to take place in 2000. In addition, the large-scale enterprises in the portfolio of the Revitalisation Agency are being prepared for sale. Finally, it is worth noting that the state is actively involved in the restructuring of already privatised enterprises.

Market forces determine the prices of a vast majority of goods. Trade and foreign exchange regimes have been liberalised. Administered prices form 18% of the consumer basket. Price deregulation, which slowed down in 1999, has gained momentum this year. The government has committed itself to pursuing further price alignments aiming to eliminate market distortions. In 2000, prices for public transport, postal services, housing, gas and electricity will be increased. The deregulation of administered prices is foreseen to be completed by the end of this parliamentary term.

Market entry and exit mechanisms have not been functioning sufficiently well. The registration of business activities continues to be a lengthy and uncertain process in the Czech Republic, marred by inequality of treatment. Similarly, the lack of efficient bankruptcy procedures has been a serious drag on economic adjustment in the enterprise sector. In 1999, the number of bankruptcy proposals submitted to courts amounted to about four thousand, but only two thousand bankruptcy judgements were delivered. Obsolete bankruptcy legislation and capacity and qualification problems within the courts have been the main reasons. An amendment to the Bankruptcy Law and a new Law on Public Auctions entered into force in May 2000. The new legislation aims to accelerate bankruptcy proceedings and to balance creditor's and debtor's rights by allowing specialised firms or legal persons to act as trustees in bankruptcy. The Law on Public Auctions further simplifies the procedure of recovery of claims in favour of the creditor through seizure and sale of collateral. As the role of courts remains dominant, the effective implementation of the amended Bankruptcy Law depends very much on improvement of the court system. That the amended Bankruptcy Law is still not satisfactory is illustrated by a new amendment that has recently been submitted to Parliament.

Although private ownership is dominant in the economy as a whole and the land market has been liberalised, a large share of agricultural land is still in state hands. Currently, the State Land Fund is supervising about 900,000 hectares of agricultural land; plans of selling off some 500,000 hectares have been discussed for a long time. An amendment to the law on the sale of state land, which entered into force in June 1999, has created the legal basis for privatising state property in the coming years. However, the amendment to the Transformation Law of 1992, settling ownership

relations in agricultural co-operatives, was abrogated by the Constitutional Court at the end of last year.

Banking privatisation has speeded up during the last two years, leaving only Komerční Banka majority state-owned. The banking sector currently comprises 42 commercial banks, with about two thirds of the assets representing foreign capital. The sale in March 2000 of Česká Spořitelna to a foreign bank for € 515 million was conducted in a transparent manner. Privatisation of the largest commercial bank, Komerční Banka, was hampered by the discovery of irregularities and fraud. In February 2000, the government agreed to a massive bailout of Komerční Banka, and transferred bad assets worth €1.626 billion to a new subsidiary that was sold to Konsolidacní Banka. Despite these delays the privatisation of Komerční Banka is expected to be completed at the beginning of 2001.

Investiční a postovní banka (IPB) – the third largest bank in the Czech Republic and privatised in 1998 – experienced severe problems in maintaining the legal capital adequacy ratio due to the high level of classified loans in its portfolio. This led in turn to growing concern on the part of depositors, who withdrew considerable amounts of money from the bank, provoking a liquidity crisis. The Czech National Bank and the Government acted in concert to calm the fears of depositors and find an adequate solution to the problems of IPB. Forced administration was imposed on 16 June 2000, and on 19 June, the bank was sold to Československá Obchodní Banka (CSOB), which had itself been successfully privatised in 1999. Although intervention by the authorities might have been the only available option under the circumstances, it should have been possible to avoid such actions by strong, independent, supervision of the banking sector.

Despite sharp falls in nominal interest rates, the supply of bank credit to the private sector has in fact declined, as banks have become more cautious in extending new credit. The domestic credit to GDP ratio was 65% in 1999. The large amount of bad loans represents a serious burden for the Czech banking sector. In 1999, bad loans, excluding Konsolidacní Banka, amounted to €7.89 billion, or 32% of all loans; around 40% of the bad loans were labelled as losses. Konsolidacní banka's total assets, which consist of the bad loans of the rest of the banking sector, increased by almost 39% in 1999 to €5.31 billion. Thus, overall, bad loans in the Czech financial system have reached €13.2 billion, or 26.5% of GDP, which is a serious matter of concern.

Since its establishment, the work of the Securities Commission has met with only partial success. The situation on the Czech capital markets is still characterised by significant lack of transparency and by price manipulation. Although the regulatory framework has been strengthened and the Securities Commission has enforced it with determination, the capital market remains largely illiquid and a negligible source of finance for commercial and industrial enterprises. This does not encourage strong corporate governance. The continued presence of divergent prices for the same stock due to the fragmented organisation of the securities market remains an important problem. The new law on securities, now under discussion, should be an opportunity for increasing the regulatory and enforcement powers of the Securities Commission.

The failures of the financial sector, combined with deficiencies in the enterprise sector and weaknesses of the legal system, have allowed the development of some

inappropriate business practices. This has manifested itself in the stripping of assets from enterprises by managers, known in the Czech Republic as “tunnelling”, which has affected many of the industrial companies privatised through the coupon privatisation scheme of the mid-1990s, in addition to investment funds, and agricultural co-operatives. The recent collapse of most credit unions, in which 70% of the deposits are unaccounted for, and the irregularities and fraud uncovered in several banks, are the results of those business practices. Better co-operation between the police, the courts, the Securities Commission and other supervisory institutions is needed to fight these irregularities effectively.

The Czech Republic can be regarded as a functioning market economy. In the past year, macroeconomic stability has increased. Growth has resumed, while the favourable performance on inflation and the external balance has been maintained. Efforts are being made to increase the transparency of the public accounts. However, measures need to be taken in order to ensure fiscal sustainability in the medium term. Progress has been made on further restructuring and privatisation of banks. The strengthening of proper supervision in the financial sector is crucial in order to reinforce macro-economic policies and to foster economic activity. The prudential regulations should be implemented without further delay. Moreover, every effort should be made to maintain the momentum in the process of restructuring and privatisation of state-owned enterprises and to effectively implement the recent amendment to the bankruptcy laws. Effective action must be taken to strengthen corporate governance and the enforcement of laws.

The capacity to cope with competitive pressure and market forces within the Union

As set out in Agenda 2000, the Czech Republic's ability to fulfil this criterion depends on the existence of a market economy and a stable macroeconomic framework, allowing economic agents to make decisions in a climate of predictability. It also requires a sufficient amount of human and physical capital, including infrastructure. State enterprises need to be restructured and all enterprises need to invest to improve their efficiency. Furthermore, the more access enterprises have to outside finance and the more successful they are at restructuring and innovating, the greater will be their capacity to adapt. Overall, an economy will be better able to take on the obligations of membership the higher the degree of economic integration it achieves with the Union prior to accession. Both the volume and the range of products traded with EU Member States provide evidence of this.

Macroeconomic policy has been conducted with a sufficient degree of predictability to allow proper decision making by economic agents. Co-ordination of economic policies and regained macroeconomic stability have improved the general environment for economic activity.

The Czech Republic has enjoyed high overall levels of investment over the years. Fixed investment, as a share of GDP, has been around 30%. Infrastructure is comparatively well-developed. However, the additions to the capital stock have not led to rapid and sustained output growth, mainly due to former inconsistencies in economic policies. Past investment in both the private and public sector are starting to

bear fruit in a more appropriate economic environment. In this respect, it is worth noting that productivity growth has recently outstripped the growth in real wages.

The country has a skilled and educated workforce, as illustrated by the short qualification periods reported by foreign investors. Considering ongoing industry restructuring and adjustments in the agricultural sector, adequate qualification and training measures are gaining importance in order to develop new or extend existing skills. The government is aware of this challenge and has adopted a "National Employment Plan" in May 1999, and has signed a "Joint Assessment of Employment Priorities" with the European Commission services in May 2000. Both strategies aim to increase the flexibility of the labour markets and to improve the skills of the unemployed to better respond to growth opportunities.

Foreign direct investment has been very strong in 1999, reaching an inflow of €4.79 billion (more than double the level of 1998) or about 9.2% of GDP. This result was strongly affected by the sale of CSOB to a foreign bank. Strong foreign direct investment should continue in 2000, as the first quarter already showed inflows close to €1 billion and significant privatisation projects are scheduled for the remainder of the year. Greenfield investments are becoming more important. Attractive investment packages have supported this development up to now. However, beyond the beneficial impact on employment, productivity, exports, and growth, the extent of these incentives should be considered carefully in terms of their fiscal cost and the impact on distorting initial investment incentives.

Overall, enterprise restructuring has gained momentum, but continued political support is needed as the process involves sizeable lay-offs. The programme for the revitalisation of industry approved by the Government in April 1999 is on track. The Revitalisation Agency, a 100% subsidiary of Konsolidacni Banka, started to operate in November 1999. Its portfolio includes nine major industrial companies, and it provides financing for companies with realistic medium-term perspectives. However, it is not clear how these companies have been selected (see also Chapter 15 – Industrial policy). The Agency follows a tailored approach for each firm and, in spite of the high social cost of restructuring in some cases, the Government has so far refrained from interfering in the operations.

The overall business climate in the Czech Republic has improved in the past year. A new Act on Investment Incentives entered into force in May 2000. The new Act maintains the minimum level of investment of \$10 million as a general threshold, but this can be reduced to \$5 million in areas with high unemployment. Another change with respect to the previous arrangements is that the new Act has introduced tax incentives to already existing companies which plan expansion. The package of investment incentives contains the possibility of direct tax holidays of up to 10 years, duty free technology imports, job creation and training grants, and subsidies for building up infrastructure.

The Czech Republic has already achieved a high degree of trade integration with the EC. It continues to increase, with the EC accounting for 69% of total Czech exports and 64% of imports in 1999. The main traded goods, both on the export and the import side, are manufactured products and machinery and transport equipment. These

higher value-added categories have also continuously increased in importance as a share of total exports to the EC.

Small and medium-sized enterprises (SMEs) comprise 56% of the labour force and produce 53% of GDP. SMEs in the Czech Republic still have limited access to outside finance and to business advisory services. The SME development strategy adopted by the government in June 1999 is aimed at tackling these problems whilst improving the business environment, enhancing access to training and encouraging the internationalisation of SME business activities. In addition, the SME fund has been doubled. The Government should now ensure the full and transparent implementation of this strategy, including a better co-ordination between the many agencies that are active in this field (see also Chapter 16 – Small and medium-sized enterprises).

The Czech Republic should be able to cope with competitive pressure and market forces within the Union in the near term, provided that it keeps up and completes the implementation of structural reforms. The authorities need to concentrate on developing a transparent and predictable environment supportive of business activity - especially in the area of small and medium-sized enterprises - and on other measures conducive to sustaining economic growth. In this respect, the further improvement of the legal framework, the strengthening of corporate governance, the acceleration of enterprise restructuring, and the continued development of the financial sector are essential. These measures would result in more efficient enterprise and banking sectors, and help to sustain increases in productivity and competitiveness.

2.4. General Evaluation

The Czech Republic can be regarded as a functioning market economy and should be able to cope with competitive pressure and market forces within the Union in the near term, provided that it keeps up and completes the implementation of structural reforms.

Macroeconomic stability has increased. Growth has resumed, while the favourable performance on inflation and the external balance has been maintained. Efforts are being made to increase the transparency of the public accounts. Progress has been made on further restructuring and privatisation of banks.

However, the strengthening of competition and of supervision in the financial sector is crucial in order to reinforce macro-economic policies and to foster economic activity. The sustainability of public finances in the medium-term is not yet assured. The efforts to privatise and restructure the state owned enterprises must continue and corporate governance must improve.

The authorities need to concentrate on developing an environment supportive of business activity – especially in the area of small and medium-sized enterprises. Further improvement of the legal framework, the implementation of the prudential regulations for the financial sector and the continued development of this sector are essential. The restructuring and privatisation of state-owned enterprises and the

restructuring of other enterprises must go hand in hand with the strengthening of corporate governance.

3. Ability to assume the obligations of membership

Introduction

This section aims to update the Commission's 1999 regular report on Czech Republic's ability to assume the obligations of membership - that is, the legal and institutional framework, known as the *acquis*¹⁰, by means of which the Union implements its objectives. Alongside an evaluation of relevant developments since the 1999 regular report, this section seeks to provide an overall assessment of Czech Republic's ability to assume the obligations of membership, and of what remains to be done. This section has been structured to follow the list of twenty-nine negotiating chapters, and incorporates also an assessment of Czech Republic's administrative capacity to implement the *acquis* in its various aspects (in previous regular reports this had been covered in a separate section). Furthermore, for the first time, a separate section has been included assessing progress made by Czech Republic in translating the *acquis* into its official language.

The European Council in Madrid in December 1995 referred to the need to create the conditions for the gradual, harmonious integration of the candidates, particularly through the adjustment of their administrative structures. Taking up this theme, in Agenda 2000 the Commission underlined the importance of incorporating Community legislation into national legislation effectively, and the even greater importance of implementing it properly in the field, via the appropriate administrative and judicial structures. This is an essential pre-condition for creating the mutual trust indispensable for future membership, which has become a central issue in the negotiation process.

The European Council in Feira in June 2000 recalled the link between progress in the negotiations and the candidate countries' capacity to effectively implement and enforce the *acquis*, and added that this called for important efforts by the candidate countries in strengthening their administrative and judicial structures. The Feira European Council invited the Commission to report to the Council on its findings on the matter. Building on the assessment of Czech Republic's administrative capacity provided in the 1999 regular report, the present report seeks to add further depth and detail, focusing on the main administrative structures which are required for implementing the *acquis* in its various aspects.

In the 1999 regular report, the Commission concluded that :

"The pace of legislative alignment in the Czech Republic has not picked up significantly and progress is uneven across sectors. Alignment and effective application of the laws are well advanced in the area of standards and certification although there is a need to complete the legislative framework through adoption of amendments to the existing framework legislation, sector legislation and product liability legislation. Further progress has been made in liberalisation of capital

¹⁰ A description of the *acquis* for each chapter can be found in the Commission's 1997 Opinion on Czech Republic's application for EU membership.

markets with an amendment to the Foreign Exchange Act and in the banking and insurance sectors. A high level of alignment has been reached in the customs area and legislation adopted on border enforcement (counterfeit and pirated goods) combined with a continuing focus on modernisation of information systems indicated that necessary attention is being paid to the effective enforcement of the laws. Continued efforts are being made to put the necessary structures into place for regional and structural policy. It is important that the legal framework be completed and administrative capacities reinforced so as to sustain momentum in this field.

In other key internal market areas such as intellectual property, public procurement, data protection, insurance, anti-trust, state aids and VAT/excise, legislation is already partially aligned, but there has been little or no movement towards completing alignment. Although preparatory work has been done, the legal framework for state aids is incomplete and the resources committed to the area are insufficient to ensure an effective system of state aid monitoring. No effort has been made to align audio-visual legislation. In environment, a general policy was adopted, some conventions ratified and a limited number of laws passed. However important framework legislation has not been adopted and an implementation plan with investment planning has not been worked out. Until a more coherent approach is adopted, there is a risk of a piecemeal approach to the alignment process. Other than air transport, alignment in the transport sector has not moved ahead. The pace of alignment in agriculture, veterinary and plant health is slow. No progress was made in the areas of labour legislation and health and safety at work. Apart from adopting laws on drugs, efforts in the area of justice and home affairs have stalled. The pace of alignment needs to pick up substantially across the board.

The Czech Republic has taken limited steps toward general public administration reform. The Government has recently approved a programme for overall reform of the judiciary which addresses current problems such as vacancies, a lack of specialisation of the judges, lack of equipment and inadequate training. Capacities in certain areas of the internal market *acquis* are well developed and progress has been made in strengthening banking and financial services supervision capacities. State aid monitoring capacities need to be strengthened and independent authorities for data protection and telecommunications still need to be set up. While the veterinary and phytosanitary administrations are being reinforced to meet EC requirements, little progress has been made in setting up the structures necessary for the implementation of the Common Agricultural Policy. Efforts need to be stepped up in general public administration reform and continued attention needs to be paid to border management, enforcement of environment legislation and improving internal financial control capabilities. Initiatives in the fight against organised crime and corruption should also be reinforced.

The Czech Republic's record in terms of meeting the short term Accession Partnership priorities is not satisfactory, despite efforts by the government to prepare and put forward legislation. The difference between the government's policy intentions and implementation can be explained by the length of parliamentary procedures, the minority status of the government and the fact that certain priority policy areas did not receive sufficient attention from previous government. While the Czech Republic met short term Accession Partnership priorities in areas such as

economic reform, standards and certification, regional development and veterinary, priorities in the areas of industrial restructuring, administrative capacity (strengthening environment and agricultural institutions), the internal market (alignment of intellectual property and state aid legislation), justice and home affairs (border enforcement) and environment have not been adequately dealt with.”

3.1. The chapters of the *acquis*

As indicated, the review of the Czech Republic’s ability to assume the obligations of membership that is provided below has been structured in accordance with the list of twenty-nine negotiating chapters. Accordingly, this section opens with an assessment of progress related to the so-called “four freedoms”, the cornerstones of the internal market, and continues with a systematic review of progress on each of the chapters, to cover the *acquis* in all its various aspects: sectoral policies, economic and fiscal affairs, economic and social cohesion, innovation, quality of life and environment, justice and home affairs, external policies, and financial questions.

Chapter 1: Free movement of goods

The 1999 Regular Report stated that continued progress could be noted in this area. This positive assessment can be repeated this year.

In the area of **horizontal and procedural measures**, one of the short-term priorities of the 1999 Accession Partnership was to modify horizontal legislation on technical requirements for products, conformity assessment and public health protection. The process of alignment has been progressing well and is generally well advanced. In April 2000 an Amendment to the Act on Technical requirements for products of 1997 came into force, concerning essential requirements and conformity assessment procedures. This will permit the full implementation of the principles of the New Approach through a number of new Government Orders adopted in July. It will also facilitate implementation of the Protocol to the Europe Agreement on conformity assessment and acceptance of products (PECA) initialled in July 2000. The areas covered by the annexes to the PECA are machinery, lifts, personal protective equipment, electrical safety, electromagnetic compatibility, equipment and protective systems intended for use in potentially explosive atmospheres, hot water boilers, gas appliances, pressure equipment and good manufacturing practice for medicinal products: inspection and batch certification. The level of the transposition of technical standards amounts to around 90 % of the total of European technical standards, demonstrating good progress.

Concerning administrative capacity, progress has been made in meeting the Accession Partnership short-term priority to improve market surveillance and conformity assessment structures as regards equipment and training of staff. A network of conformity assessment bodies has been enlarged. The authorised bodies are expected to act as notified bodies in the sectors covered by the PECA with mandates lasting only two more years, while new unlimited authorisations were granted to bodies operating in the areas of lifts, medical devices and pressure equipment. Further improvement in technical equipment for authorised bodies and metrological laboratories has been supported.

In the fields of **sector specific legislation**, further progress has been achieved in overall alignment of legislation, in line with the short-term priorities of the Accession Partnership. The EC Directive on Safety of Toys is now transposed since July 2000 but technical standards must be further aligned. In the area of legal metrology and pre-packaging the amendment to the Act on Metrology came into force in July 2000 followed by three implementing Decrees in August 2000. The institutional responsibility lies with the Czech Metrological Institute. The personnel are constantly trained and the effectiveness of the institution is at a very good level.

With regard to medical devices, further progress was made following the adoption of both the Act on Medical Devices, which came into force in July 2000, and the Government order laying down technical requirements for active implantable medical devices which came into force six months earlier. The veterinary medical legislation is in line with the *acquis* following the approval of the Act on Veterinary Care and of the subsequent secondary legislation in 1999. The legislation in the area of simple pressure vessels and pressure vessels is in line with the *acquis* following the entry into force of the Government regulation in January 2000. In the area of construction products a Government Order on technical requirements came into force in October 1999.

The area of chemicals is in line with the *acquis* following the entry into force of the Act on Chemical Substances and Preparations in January 2000. The registration authority for chemical substances placed on the Czech market works well. The Designated National Authority managing the import and export of selected dangerous substances works satisfactorily. An amendment to the Act on Dependency Producing Substances entered into force in July 2000, accompanied by specific secondary legislation on export authorisations, record-keeping and documentation.

The amendment to the Act on Fertilisers was also adopted and will enter into force in January 2001. The area of pharmaceuticals is in line following the entry into force in August 2000 of the Act on Pharmaceuticals. In the areas of crystal glass and footwear, the entry into force in June 2000 of the Amendment to the Act on Consumer Protection provides for the transposition of the *acquis* by decrees.

Progress has been achieved in the area of food legislation. The Act on Foodstuff and Tobacco was adopted and will enter into force in January 2001. Developments also took place as regards maximum levels for pesticide residues in foodstuffs. As regards consumer protection, the State Veterinary Administration is the main supervising body for foodstuffs of animal origin. Its structures for control and inspection are well established and generally function well, both in the country and at the border. The Czech Agricultural and Food Inspection supervises the safety and quality of food. It has seven regional offices. The testing laboratories of regional offices are accredited in accordance with European Standards. All local branches are connected through a common network. In order to enforce all the food legislation, the appropriate administrative structures need to be strengthened.

In the area of cosmetics, the adoption of the Act on Public Health Protection in July 2000 will allow alignment with the *acquis*. The institutional responsibility was shifted in July 2000 from the Czech Trade Inspectorate to the Hygiene Service.

In the fields of **non-harmonised areas**, initial progress has been made in the area of the application of Articles 28 - 30 of the EC Treaty. The Czech Republic has screened the necessary legislation and analysed the discrepancies. The rules concerning control of products from third countries are being implemented. With regard to cultural goods, alignment with the *acquis* has progressed but implementing legislation has yet to be examined for its substance. As regards cultural goods unlawfully removed from the territory of a Member State, the General Directorate of Customs and the Police are responsible bodies. Although the institutions claim their close contacts, there is no evidence that a network system among the customs, police, Ministry of Culture, and courts operates.

As regards safety checks on products at external borders, the Czech Republic still needs to establish appropriate customs and market surveillance infrastructures as well as effective administrative co-operation between competent authorities.

Finally, as regards **public procurement**, the new law amending the Act of 1994 by introducing the utilities sector (water, energy, transport and telecom) came into force on 1 June 2000.

Overall assessment

The Czech Republic has made significant progress, building on a solid basis that was already acknowledged in last year's report and which permitted further harmonisation in the field of the New and Global Approach. The adoption of the amendment to the Act on Technical Requirements for Products has created the conditions for further alignment of Czech legislation in this field. The finalisation of the talks on the PECA agreement represents a recognition of the progress made by the Czech Republic. However, further progress is still needed, particularly in the areas of medical devices, motor vehicles and cosmetics.

The administrative bodies need to be strengthened in the areas of cosmetics and pharmaceuticals. Otherwise, the level of administrative capacity is good. The necessary separation between legislative regulatory, conformity assessment, standardisation and market surveillance functions has been achieved. Standardisation and certification bodies are generally functioning well, both in terms of personnel and technical equipment.

The Czech Standards Institute, is a member of CEN, Cenelec and the European Telecommunications Standards Institute (ETSI). The Institute, which is independent, prepares, adopts and issues standards, and co-operates with international non-governmental organisations and agencies for technical standardisation. The institute works on the basis of the principles of transparency and independence.

The Czech Accreditation Institute (ČIA) is a full member of the European Cooperation for Accreditation (EA) and the international accreditation organisations ILAC and IAF. The ČIA became a signatory to MLA IAF (for the accreditation of certification bodies certifying Quality Systems) in September 1999. The Institute has the status of an independent company, although the Ministry of Industry and Trade

(MIT) appoints the chairman. Its main tasks are to ensure the accreditation of testing laboratories, calibration laboratories and certification bodies.

Market surveillance of industrial products, with the exception of some specific sectors (foodstuffs, medicinal products, cosmetics), is performed by the Czech Trade Inspectorate (CTI) which is also the main supervising body for the protection of consumer economic interests. Its performance should be strengthened in terms of the control of the market and with the respect of combating dual pricing where the CTI's activity has not been fully satisfactory.

The Czech Office for Standards, Metrology and Testing, which is the central state administration responsible for legislation in the field of industrial goods, performs its duties independently of the MIT, to which it is formally subordinated. The competence of the staff and the level of equipment is generally good. It has established the Centre for Translation of EC Technical Regulations with the task of inter-ministerial co-ordination and control of the elaboration of official translations.

In the area of metrology, the Czech Republic has signed the Agreement on Mutual Recognition of National Measurement Standards and the Czech Metrology Institute continues to increase its equipment and improve its personnel.

Further efforts are still necessary in the area of public procurement.

Chapter 2: Free movement of persons

In the area of **mutual recognition of professional qualifications**, the legal framework of mutual recognition of both diplomas and professional qualifications still does not match with EC requirements, as stated already in the previous Regular Report. However, the establishment of an inter-Ministerial working group for mutual recognition at the Ministry of Education should facilitate the alignment of the Czech system with the *acquis*. Some progress has also been made through the entry into force of the Act on Veterinary Care in September 1999.

As regards the regulation of sectoral professions, and despite several draft laws adopted recently by the Government in March 2000, the legislation still needs to be adopted for medical professions.

As regards **citizens' rights** an amendment was adopted to the Act on the Elections into Municipality Representative Bodies which includes the right of EU citizens to take part in the elections after the Czech Republic enters the European Union.

In the field of **free movement of workers**, since the previous Regular Report, some progress in alignment with the *acquis* has been achieved. The Act on Employment has been amended abolishing the rule that foreigners can only work in the Czech Republic for three years, at which point they had to stop working for 12 months.

With a view to the future **co-ordination of social security systems**, in May 2000 the Government decided to work on institutional, technical, and personnel preparation for the co-ordination of social security systems.

Overall assessment

Some limited preparatory work has been undertaken in this area and further serious efforts are required to ensure that there are no provisions in Czech legislation which contradict Community rules. Overall, the preparation for the application of the *acquis* must be accelerated especially in the area of mutual recognition of professional qualification and of the free movement of workers, in the areas of public health insurance and social security of migrant workers.

In the area of mutual recognition, the main concern is the introduction of language requirements as a condition for professional recognition in recent legislation, without respect for the principles of non-discrimination and proportionality. The tendency to apply academic recognition procedures to the case of professional recognition is still a concern, in particular in the case of the sectoral Directives that foresee automatic recognition. As regards the regulation of sectoral professions, while some draft legislation has been prepared, legislation remains to be adopted on medical professions.

The necessary structures for mutual recognition are generally in place. The Ministry of Education, Youth and Sport co-ordinates the process of alignment of the Czech legislation. However, a general system of mutual recognition of qualifications has not yet been set up and the appointment of a national co-ordinator (through the creation of a Centre for recognition of professional qualifications) is not due to be set up before June 2001. The Ministry of Labour and Social Welfare is responsible for the free movement of persons.

In the field of the free movement of workers, progress has been made in transposing the *acquis* but it is necessary to ensure that all the necessary legislation and structures are put into place. An inter-connected system including the Ministry of Labour and Social Affairs, the Labour Offices and the EURES system is not yet established, although the current system is compatible with EURES. With regard to future participation in EURES, training efforts should be continued, especially with regard to language training.

With a view to the future co-ordination of social security systems, further work to develop the necessary administrative structures, including training of staff, is needed.

Chapter 3: Free movement of services

Further progress has been achieved in the alignment of the areas identified in the previous Regular Report as requiring further efforts.

In the area of **freedom of establishment and freedom to provide services**, some progress was achieved principally in the area of business undertakings, self-employment and provision of services with the approval of an amendment to the Act on Trade Licensing (in March 2000).

Further liberalisation in the tourist sphere has been achieved through the Act on Conditions of Enterprising in the Tourist Industry which entered into force in March 2000.

In the field of **financial services**, and as regards the *banking* sector, the transposition process continues to be satisfactory, even though this process is not yet completed.

A new amendment to the Bankruptcy Act has been introduced (in May 2000), but its positive effect on the credit business remains questionable, because the procedures to seize collateral still remain very complex. The amendment makes only existing loans subject to foreclosure and is not retroactive, thus leaving a heavy burden from the past unresolved.

An amendment was adopted in October to strengthen the position of Czech Credit Unions which provide financial services only on a self-help basis. Under the Act on Credit Unions, the Office of Supervision of Credit Unions can impose remedial measures or apply restrictions.

The Banking Supervision Department of the Czech National Bank has presently 89 staff. Each of the five supervision divisions has an inspection team. The CNB's staff has continued to be very stable with a low turnover and thus has preserved its institutional knowledge. However, given the ongoing difficulties of the banking sector, the CNB faces a great challenge in its supervisory role.

In the *insurance sector*, Czech legislation has progressed further towards EC requirements, mainly as regards the status of the former State monopoly and as regards motor insurance. A new Insurance Act in line with the *acquis* entered into force in April 2000, setting the framework for an overall restructuring of the sector and improvement of supervision. The question of distortion of competition because of the conditions for the licensing of new companies has been a subject of concern. The level of coverage has increased since the adoption of the new Motor Third-Party Liability Insurance Act and is considered to be in line with the *acquis*.

The new Insurance Act strengthens the Insurance Supervision Department at the Ministry of Finance and gives it considerable powers and new resources, including a significant increase in staff. In 1999 only 3 inspections were carried out (and only when there was reason to suspect something). On the other hand, insurance companies submitted regular reports. As regards motor vehicle insurance, an insurance bureau has been set up with a guarantee fund to cover non-insured vehicles and non-identified drivers.

In the area of *investment services and securities' markets*, the 1999 Accession Partnership also considered as a short-term priority the reinforcement of the Securities Commission (SC) and of its field of operation. As regards the legal framework, the Act on the Stock Exchange was adopted recently. The Ministry of Finance is responsible for drafting legislation and the SC for the correct functioning of the market. Co-operation between the Ministry and the SC should be effectively strengthened.

Furthermore, in September 2000 the amendment to the Commercial codes, the Securities Act and Bonds Act were adopted.

The Securities Commission has a staff of 60 persons, which will be increased to 95 in the course of 2000. The SC makes active use of all the powers invested in it by the act,

which has substantially improved the standard of supervision of entities on the capital market. The SC has launched the daily monitoring of non-standard securities transactions, assesses cases of trades and transactions made on the public markets, where prices deviate from the defined price band, uncovers violations of due expert care by securities traders, price manipulation, misuse of information (insider trading) and other areas.

In the fields of **protection of personal data and free movement of such data**, a new Act on Personal Data Protection entered into force in June 2000 and is intended to be well in line with the *acquis*. The Act covers the protection of personal data processed by public and regional authorities as well as individuals and businesses. It foresees the independence of the Office for Personal Data Protection.

In the field of the **information society**, an amendment to the Act on Technical Requirements for Products has entered into force. It harmonises definitions related to technical standards and technical regulations of the Information Society Directives.

Overall assessment

The overall situation is satisfactory as the Czech Republic has adopted a large part of the *acquis* in most of the sub-sectors, or has set a clear harmonisation timetable. In spite of the progress achieved, a lot remains to be done in the capital markets and in the insurance sectors, but the recognition of these weaknesses has been a positive step forward. No particular problems can be foreseen in the field of information society.

In the field of freedom of establishment and freedom to provide services (craftsmen, traders, and farmers), a second amendment to the Act on Trade Licensing must be prepared to complete the current legislative framework. There is still however a concern as regards the lack of a clear distinction between establishment and provision of services, the latter requiring a more flexible and quick procedure, whereas the tendency is to apply establishment procedures.

As regards the banking sector, the Czech Republic needs to adopt the new Act on Banks, the amendment to the Act on the CNB, both of which are currently before Parliament, and the Payments System Act for both banks and non-banking institutions. The level of non-performing loans remains very high and strengthened monitoring by the regulatory authorities should be ensured.

In the insurance sector, significant progress has been achieved with the adoption of new Acts, and the strengthening of Insurance Supervision. However, these efforts must be pursued to create a fully functioning, open and effective insurance sector that gives equal opportunities to all the market participants. The new Insurance Act strengthens the Insurance Supervision Department at the Ministry of Finance and gives considerable powers and new resources to it (staff is expected to rise from 17 last year to 40 by the end of 2000).

The overall restructuring of the insurance industry will have to be achieved through another amendment to the new Insurance Act, which will cover all three generations of non-life insurance and life assurance directives. A new Act on Insurance Contracts,

on Insurance Intermediaries, Insurance Advisers and Independent Loss-Adjusters has to be prepared.

In the area of investment Services and securities' markets, market surveillance must be further strengthened with a stronger Securities Commission remaining fully independent from the Ministry of Finance. New Acts on the Stock Exchange and on the Securities Commission have to be prepared, as well as a new Act on Collective Investment. As regards the Czech market, the structural problem of the two prices system for the same security is however still not sufficiently well addressed.

As regards protection of personal data, the timing in the establishment of this new Authority, its degree of independence, its real means (financial and human resources) and the transmission of tasks from the OSIS to the ISA will need to be closely monitored.

Finally, as concerns information society the transposition has been achieved with the approval of the Act on Technical Requirements for Products. Progress has not yet been made on alignment with the *acquis* in the fields of electronic signatures, conditional access and electronic commerce.

Chapter 4: Free movement of capital

Significant progress has been achieved in this field.

In the area of **capital movements**, the liberalisation process continued with the adoption of two new acts: the Act on Insurance, effective since April 2000, which liberalises the conclusion of insurance contracts with foreign insurance companies and the Act on Telecommunications which abolishes restrictions on direct investments into local telephone networks as from the end of 2000. Additionally, the Act on Bonds was adopted in September 2000 and removes the need for a prior authorisation for issuing debt securities to the foreign capital market.

In the field of **payment systems** the Act on securities' settlement transactions has been amended and the real time gross settlement (RTGS) system has been modernised by the Czech National Bank (CNB).

As regards the prevention of the use of the financial system for the purpose of **money laundering**, the amendment to the Money Laundering Act of 1996 entered into force on 1 August 2000, widening the duties of financial institutions (see also chapter on justice and home affairs). The amendment foresees the cancelling of new anonymous accounts (bearers passbooks) and the suppression of anonymous treatment before their cancellation, the identification of third persons acting on behalf of a client, the identification of unusual transactions, the record keeping of transfers for 10 years and the creation of a new control system.

The Financial Analytical Unit (FAU), created in January 1997 within the Ministry of Finance (28 staff), has the responsibility to monitor and identify money laundering activities, but has no power to indict or to impose sanctions. Its role is to analyse and present strong cases to other bodies having the capacity to penalise illegal transactions. The FAU plays therefore a key role but must permanently liaise with the

CNB, the Ministry of the Interior, the Ministry of Justice and the Securities Commission among others. Its performance and know-how has improved significantly in the last three years. However, in three years of existence, there has not been any indictment.

Overall assessment

In the field of capital movements liberalisation is almost completed. The main remaining restriction concerns acquisition of real estate by non-residents.

As regards administrative capacity, the Ministry of Finance and the CNB ensure supervision of foreign exchange and are also responsible for collecting statistical data. The inter-bank payment system and Cross-border payments are managed by the CNB in its clearing centre, in line with the current Act on Banks.

In the field of payments the further improvement to the RTGS system already in operation and the preparatory activities to implement the EC *acquis* confirm the good overall progress of the Czech Republic in this area.

Significant progress has been achieved with the passage of money laundering legislation but questions and concerns remain as regards the effective closing of existing anonymous accounts. This requires an amendment to the Accounting Act, regulating reporting for derivatives, including all monetary and financial institutions in the monetary statistics and an increase in foreign reporting.

The prevention of the use of the financial system for the purpose of money laundering requires effective and well functioning co-operation between the different institutions involved. On the other hand, it is necessary and urgent to reinforce their legal powers in order to obtain more concrete results (indictments). The lack of an appropriate legal basis for empowering enforcement bodies, together with the unclear time table for the cancelling of existing anonymous bank accounts, do not facilitate either the prevention nor the sanction of this kind of criminal activities. These two aspects must be tackled urgently by the Government in the context of the reform of the judiciary and the announced revision of the code on criminal proceedings.

Chapter 5 : Company law

Since the 1999 Regular Report a wide range of measures has been taken.

As regards **company law**, amendments to the Acts on Bankruptcy and Settlement have been adopted to shorten the legal procedures and to the Bankruptcy Law to give creditors more guarantees. Also, in September 2000 a major revision of the Commercial Code was adopted which brings legislation more fully in line with the *acquis* in such areas as minority shareholders' rights, publicity of the Commercial Register requirements, mergers and buybacks.

Implementation has been partially enhanced by various measures, e.g. the Commercial Register being accessible on the Internet. Further effort, however, will be needed to improve the efficiency of court proceedings and enforcement.

In the area of **audit**, the Act on Auditors was adopted in July 2000 and will enter into force from 1 January 2001.

Progress has been made in the field of **protection of intellectual property rights**. The new Copyright Act has been adopted in line with the *acquis*. Also the protection of the rights of performing artists, producers of phonograms and broadcasters have been strengthened. The rights of the audio-visual producers will be newly protected.

A further step towards alignment with the *acquis* in the field of **industrial property rights** was taken with the adoption of the new Act on industrial property in December 1999. The Patent Law and several other laws on Trademarks, Utility Models and Topographies of Semiconductor Products were amended, taking over provisions of the European Patent Convention and the TRIPS provisions concerning compulsory licenses, enforcement of rights and enhanced protection of wines and spirits. The Czech Republic also introduced legislation on Supplementary Protection Certificates. The new provisions dealing with relations between the EC and national patent systems will enter into force on 1 July 2002 and enable a smooth accession to the European Patent Convention. Finally, the Czech Republic has aligned its legislation in the areas of the protection of both Designs and Biotechnological Inventions with the adoption of two Acts which will enter into force on 1 October 2000.

A special Inter-ministerial Commission was set up in February 2000 at the Ministry of Industry and Trade to co-ordinate the fight against copyright violation. This follows a co-operation agreement among the Czech Trade Inspection, Police, Ministry of Finance (Customs and Industrial Property Office) and Ministry of Culture in the activities against the infringement of regulations on unfair competition, trademarks, appellation of origin of goods, utility models, industrial designs, inventions and copyrights. According to this agreement the Industrial Property Office (IPO) provides information on the legal status of the products of industrial property, which are within its competence, to the partners. The IPO also provides information from the Madrid Express database, which also includes the trademark applications according to the agreement concerning the International Registration of Marks. The staff of the IPO amounts to 266. The capacity of the Office seems adequate and it works satisfactorily.

As regards bad faith trademark registrations, the Patent Office confirmed that about half of the applications were rejected or proceedings stopped. The Office reported that it processes nearly 10 000 trademark applications per year, which is about 10 times more than before 1990. As the new Act will increase the responsibilities of the Ministry of Culture, an extension of the Copyright Section of the Ministry is vital. Currently, all its tasks are managed by only 3 expert staff members, which is completely inadequate, and was already noted in the last Regular Report.

Overall assessment

The legislation in the area is largely in line with the *acquis*.

Legislation in the field of accountancy is already largely in line with the *acquis*, although new legislation (expected for the end of 2000) is still necessary to fill in the remaining gaps.

In 1999 the Czech Republic was invited to join the European Patent Organisation as of 1 July 2002. There should be more emphasis put on the enforcement process, where long delays still persist at all stages. The implementation and monitoring capacity of the relevant authorities in the fields of intellectual and industrial rights should be increased and their mutual co-operation should be improved.

Chapter 6 : Competition policy

The 1999 Regular Report noted that alignment of Czech legislation in general was well advanced and since then some further progress has been made.

In the field of **anti-trust**, one of the short-term priorities of the Accession Partnership was further alignment of anti-trust legislation but only limited progress has been achieved.

An amendment to the Act on Economic Competition, which entered into force in September 2000, introduced more precise terms and conditions and performance requirements for the Chairman of the Office for the Protection of Economic Competition.

The Act on the Protection of Competition contains the main principles of Community anti-trust rules as regards restrictive agreements, abuse of dominant position and merger control. A block exemption on franchise agreements entered into force in March 2000.

On **state aids**, significant progress has been made in aligning state aids legislation and completing the state aid inventory, a short-term priority of the Accession Partnership. The Czech Republic made significant progress in this area through the adoption of the Act on State (Public) Aid. This Act entered into force on 1 May 2000. The Act provides for the transfer of the state aid monitoring role from the Ministry of Finance to the Office for the Protection of Economic Competition. The Office will have the powers to assess all state aid and to recover all illegal state aid. The Office has published guidance notes, setting out the criteria applicable for state aid notifications in certain areas.

As far as the regional aid map is concerned, the Czech Republic has created an inter-ministerial commission to consider this issue.

Preparations for a State aid inventory have been carried out. Completing the inventory should be tackled as a priority.

One of the short-term priorities of the 1999 Accession Partnership was to reinforce the state aid monitoring authority with sufficient qualified staff. The Office recruited 13 new employees in January 2000 to deal with its new tasks as the state aid monitoring authority. The Office has also co-operated closely with the Ministry of Finance to share expertise in advance of the transfer of responsibilities. A State aid manual and other guidance material has been prepared and circulated to key officials.

Overall assessment

The Czech Republic's achievements in the area of anti-trust are generally satisfactory, and legislation is largely in line with the *acquis*. However the failure of the amendment to the Act on the Protection of Economic Competition represents a delay in the overall process of alignment. Gaps remain in a number of areas relating to restrictive agreements, market dominance and the definition and notification of mergers. Further alignment will still be necessary, especially in view of developments in the *acquis* on vertical restraints.

As regards administrative capacity, the Office for the Protection of Economic Competition has around 120 employees and has examined a large number of cases on anti-trust matters. The staff's knowledge of the *acquis* in this field is also good. The main challenge now is to ensure that there is effective application and enforcement of anti-trust rules. Priority should be given to cases which raise the most serious concerns in terms of distorting competition. Staff should also receive adequate training on developments in EC competition law and practice.

In general, alignment of Czech legislation on state aid is now well advanced. Good progress has been made in meeting the short-term priorities of the Accession Partnership. The establishment of an independent system for monitoring state aid issues is to be welcomed. One major shortcoming of the current state aid regime is that there is currently no comprehensive notification system in operation. A system whereby all public aid providers inform the Office of aid projects in advance is necessary to ensure effective control and monitoring of state aid. Furthermore the Office should complete the State aid inventory and also ensure that it is kept up to date. Annual reports on state aid should follow the methodology and presentation of the EC's survey.

On state aid, the main challenge is again to ensure the effective application and enforcement of state aid rules. In view of the greater efforts required, further resources may be needed. State aid expertise should be strengthened further, not least in view of the transfer of responsibilities from the Ministry of Finance to the Office.

Chapter 7: Agriculture

Agriculture in the Czech Republic accounted for 3.7% of gross value added in 1999, as compared to 4.6% in 1998¹¹. Employment in agriculture has declined over the past years, accounting for 5.3% of total employment¹². During the same period, the gross

¹¹ The source for all agricultural statistics is EUROSTAT unless otherwise specified.

¹² In order to improve consistency and comparability, the employment figures presented are now defined according to Labour Force Survey definitions (LFS). Agricultural employment is defined in LFS terms as economically active persons who gain a significant part of their income from agriculture. The agricultural census, which was previously a source of employment data in many countries, takes into account all persons nominally active on a farm. There are therefore some significant differences between previous and new figures. Fuller information can be found in the Eurostat publication "Central European Countries' Employment and Labour Market Review" available free of charge through the Eurostat Data Shops.

agricultural output increased by 9.1%, with a 10.6% increase in crop production and a 5.6% increase in livestock production¹³.

In 1999, EC imports of agricultural products originating in the Czech Republic increased to € 379 million, compared with € 299 million in 1998. In the same period, EC exports to the Czech Republic were stable at € 954 million. The trade balance in favour of the EC amounted to € 575 million in 1999, compared to € 655 million in 1998¹⁴. As a consequence of the new reciprocal concessions on agricultural products negotiated under the Europe Agreement, approximately half of EC imports and one third of EC exports of agricultural products will be exempted from duties (*see section A.b – Relations between the European Union and the Czech Republic*).

In January 2000, the government approved an Implementation Strategy for the Area of Agriculture, laying down a schedule of pre-accession activities.

Legislation adopted in January 2000 modifies the law on restitution of agricultural property, to allow for restitution of agricultural land confiscated during World War II. Originally, restitution legislation only provided for the return of agricultural property confiscated after 1948.

Horizontal Issues

Some limited progress has been made in these areas over the past year. The short-term priorities of the 1999 Accession Partnership include the preparation of measures required to implement the Common Agricultural Policy. The Czech Republic has made some progress over the past year as regards measures related to the *European Agricultural Guidance and Guarantee Fund (EAGGF)*. The Act on the State Agriculture Intervention Fund, establishing the basis for a new system of market regulation for agricultural and food products originating in the Czech Republic, entered into force in August 2000. The new Act is partly in line with current Community regulations. It contains basic provisions of the EC common market organisations, the Integrated Administrative and Control System (IACS) and other functions of the intervention agencies.

The SAPARD Rural Development Plan, which describes the main lines of the Czech Republic's rural development policy and the main objectives to be attained by SAPARD assistance, was approved by the Commission in October 2000. The accreditation of the SAPARD Agency is currently ongoing. (*See Section A.b – Relations between the European Union and the Czech Republic*).

As to preparations to establish the *Integrated Administration and control System (IACS)* in the Czech Republic, progress has been made as regards the registration of animals. A system for cattle identification and registration was introduced in July 1999. Based on the new Veterinary Act and the new Act on Livestock Improvement,

¹³ Source: FAO

¹⁴ Source: Uruguay Round Agreement definition of agricultural products, figures taken from EUROSTAT COMEXT (see Agriculture in the European Union – statistical and economic information 1999 p. 36 for definition of the products).

Breeding and Registration, the system will be obligatory for cattle by January 2001 and will be extended to cover sheep, goats and pigs by April 2002. The new Act establishing the State Intervention Fund contains basic provisions on the IACS. The harmonisation of animal identification systems is a short-term priority in the 1999 Accession Partnership.

An Act on Ecological Agriculture was adopted in 2000, setting rules for ecological agriculture and labelling of bio-foodstuffs, import requirements on bio-foodstuffs and bio-products from other countries. It will enable access to ecologically oriented EC structural programmes and is in line with Community rules concerning organic farming.

An amendment to the Act on Foodstuffs and Tobacco was adopted in August 2000. It aligns legislation with Community requirements as regards foodstuff labelling, the regime for manufacture, import and marketing of novel foodstuffs, in particular foodstuffs produced from genetically modified organisms. A number of Decrees have also been approved in this field (*see Chapter 1 - Free movement of goods*). The Czech legislation is partly in line with the Community *acquis*, but the control system needs to be established.

Common Market Organisations

In this field, the Czech Republic has made some important progress over the past year as regards the introduction of an administrative structure, notably with the adoption of the Act on the State Agricultural Intervention Fund, which contains basic provisions on the establishment of Common Market Organisations. This can be the basis for a number of agricultural regulations, such as the introduction of quota policies in the milk, sugar and potato starch markets.

As regards the adoption of specific regulations organising the different markets covered by the *acquis*, some progress has been made. Concerning *arable crops*, a Decree was adopted in February 2000 laying down the measures and state intervention in creating the conditions to secure and maintain sugar beet and sugar production, and to stabilise the market in sugar. The decree lays down temporary measures for one year and is a step towards alignment with the *acquis*. A new department for the sugar sector was established in the Ministry of Agriculture in April 2000.

In the field of *specialised crops*, an amendment of the Act on Viticulture entered into force in August 2000, partly aligning legislation with Community requirements concerning *wine* and acting as a precursor to a new viticulture law. This concerns oenological practices, requirements on imported wine, vineyard register, the conditions for the production of quality wines and the labelling of individual types of wine. An Amendment to the Act on Protection of Hops entered into force in May 2000. The amendment aims to ensure the same standard of qualitative control of hops and hop products for domestic producers and importers, and is partly in line with the *acquis*. In March 2000, a new department for permanent plantations was established at the Central Institute for Supervision and Testing in Agriculture. Its task will be to prepare the introduction of the system of contract registration in the hops sector in accordance with Community regulations.

In relation to *animal products*, the government has decided to introduce milk quotas as of April 2001, based on the new Act on the State Agriculture Intervention Fund. A department for the classification of slaughter animals was established at the Research Institute for Livestock Productions to carry out the activities of the future Classification Agency. The introduction of the common classification of carcasses (SEUROP) is foreseen by the amendments to the Act on Foodstuffs adopted in August 2000.

Veterinary and Phytosanitary Legislation

The short-term priorities of the 1999 Accession Partnership include legislative alignment and upgrading of inspection arrangements in the veterinary and phytosanitary sector and the elaboration of a plan to modernise meat and dairy plants to meet EC hygiene and public health standards.

In the **veterinary** field, the new Veterinary Act entered into force in 1999. It covers conditions for veterinary care, identification and registration of animals, animal welfare and conditions for animal trade. Several implementing Decrees have been issued. The new Veterinary Act does not ensure full transposition of all Community Directives in this field. An Act on Livestock Improvement, Breeding and Registration (Breeding Act) was adopted in May 2000. It changes the structure and organisation of the livestock improvement and breeding process and is a step towards alignment with EC legislation.

The HACCP (Hazard Analysis at Critical Control Points) system, which involves measures to identify and control hazards related to food processing and the monitoring of safety requirements became obligatory for all food producers in January 2000.

As regards administrative capacity, an *animal welfare* department was established within the State Veterinary Administration in January 2000.

In the **phytosanitary** field, an amendment to the Act on fodder was adopted in 2000, bringing legislation on animal nutrition further in line with the *acquis*, although some gaps still remain in the area of inspection. The new amendment stipulates rules for the production, use and circulation of fodder and additives, including supervision and sanctions.

Overall assessment

Overall, progress has been made with regard to legislative alignment and the setting up of implementing structures for the CAP. However, efforts need to be stepped up, particularly in terms of introducing market organisation regulations in specific sectors and the strengthening of administrative structures to effectively implement the veterinary and phytosanitary *acquis*.

In order to prepare for the future management of the Common Agricultural Policy, the Ministry of Agriculture still needs to carry out the restructuring of its organisation and to accelerate its decision-making procedures.

In the field of **horizontal issues**, further progress in the alignment of legislation as regards *trade mechanisms* is needed. In the field of *quality policy*, supervision mechanisms in line with Community requirements need to be put in place.

Further measures should be taken to ensure a fully functioning and accredited SAPARD Agency. Efforts are needed with regard to payment procedures, accounting procedures as well as a fully functioning internal audit, which is a key requirement for the accreditation of the SAPARD Agency. The organisational restructuring of the Ministry of Agriculture, in view of the future management of the CAP, needs to be completed.

In the preparations for implementation of the IACS (Community Integrated Administration and Control System), good progress has been made with the system of animal identification and registration. In order to provide an efficient animal disease prevention system, it needs to be centralised and connected to the Czech epidemiological surveillance network. Preparations for the establishment of the land parcel identification system have begun, but the system is not yet completed.

As regards the Farm Accountancy Data Network (FADN) the existing surveys are only partly in line with the *acquis*. The collection of data and administrative capacity still needs to be fully established in conformity with Community requirements and co-operation on the exchange of data must be ensured.

As regards the implementation of **Common Market Organisations**, an effective network with a reliable market monitoring system, capable of collecting price data in real time at all points in the chain is missing. Legislation establishing quality and marketing standards for *arable crops* and *animal products* needs to be completed. The Czech Republic also needs to complete market regulation for *specialised crops*. The marketing standards for fruit and vegetables are currently aligned to Community requirements. However, the quality control system in the area of fruit and vegetables needs reorganisation. The existing legal framework for producer organisations is not in line with Community requirements. However, the government has been supporting the establishment of producer marketing organisations since January 1999.

In the area of **rural development and forestry**, the horizontal legislation is largely in place, but the administrative structures for implementation need to be completed.

Concerning the **veterinary** field, progress has been made in the alignment of legislation, and the horizontal legislation is largely in place. However, further progress is needed in the transposition of veterinary legislation, e.g. in the fields of *animal welfare*, *food safety control* and *rules concerning imports from third countries*. The Veterinary Administration as well as the Food Inspection generally function well, but need to be strengthened in terms of adequately trained staff and equipment.

In the field of *veterinary control in the internal market*, the process of introducing both the internal computerised system linking veterinary authorities inside the country and an external movement control system (ANIMO) needs to be completed. Progress has been made as regards the system of identification and registration of cattle, but should also be extended to other species according to decisions taken. Border

inspection posts and import checks need to be reinforced and aligned with Community requirements.

Little progress has been made over the past year in upgrading the two *border posts* at Ruzyně airport and Decin airport. The infrastructure needs to be completed and adequately equipped, and the staff should be trained with regard to border inspection procedures.

In the field of *control of animal diseases and animal health*, preparations to participate in the animal notification system (ADNS) need to be completed. The Chief Veterinary Officer needs to be empowered to take the necessary safeguard measures in case of an emergency.

A substantial part of the plants processing products of animal origin do not yet meet Community hygiene and public health requirements. They need to be modernised and up-graded in terms of construction, equipment, water quality, cleaning systems and training of staff. As regards *animal waste treatment*, most of the rendering plants for high-risk waste are operating according to Community requirements.

The Agriculture and Food Inspection authority is working relatively well, but needs further strengthening in terms of specialised equipment and expert staff.

In the **phytosanitary** field, most legislation is in line with the *acquis*, but efforts are needed to complete legislative alignment. On the enforcement side, the phytosanitary control must be upgraded to be in full compliance with Community requirements, including border control procedures, sampling methods for plants and plant products, surveys, monitoring and registrations systems. The State Phytosanitary Administration is preparing its linkage to the EUROPHYT information system in the field of plant health and harmful organisms. The State Phytosanitary Administration generally functions well, but needs to be strengthened in terms of sufficient number of adequately trained staff and equipment. The situation with regard to specialised equipment has improved but will require further investment.

Chapter 8 : Fisheries

Fisheries activities in the Czech Republic are limited to aquaculture, mainly carp.

Since the last regular report, little progress has taken place as regards the management of resources and control, international fisheries agreements, common market organisations or state aids and structural actions.

Overall assessment

Further progress is needed as regards the legislative transposition and administrative capacity necessary to implement the Common Fisheries Policy. Legislative transposition is needed in the fields of public and animal health. Legislation regarding the control on imported fish needs to be adopted. In the field of fishery products and live fish for direct consumption, conditions of production and export to the EC are adequate. Export health certification and public health aspects are being observed.

However, a public health certificate should also be issued for live fish to be exported to the EC. Monitoring plans should be drawn for e.g. environmental contaminants. A system of control of sources and species of fish needs to be set up.

A specialised unit was established in the Ministry of Agriculture in 1999 to improve administration of the tasks associated with the accession to the EU in the area of fish and fisheries. The unit operates satisfactorily, but needs further strengthening in terms of expertise and technical equipment in view of the expected increase in workload.

To improve the processing and marketing of fishery products in line with EC practices, the establishment of producer organisations should be encouraged. Institutions also need to be set up in order to implement the *acquis* as regards controlling the implementation of common market standards, collecting and transmitting data concerning the price reference regime, and applying the recognition conditions for producer organisations. They should also implement the *acquis* concerning the management of Community structural actions in fisheries. In order to establish a well-functioning monitoring system regarding the control of fish resources and imports, co-operation between relevant authorities should be improved.

Chapter 9: Transport policy

Since the previous regular report, the Czech Republic has made progress in several areas of the transport *acquis*. The Medium Term Strategy for the Transport, Telecommunications and Postal Sector was approved by the Government in February 2000. This strategy reflects the medium and short term Accession Partnership requirements.

As regards **horizontal issues**, the government approved by a resolution the “Proposal for the Development of Transport Networks in the Czech Republic until 2010”.

In July 2000 the State Transport Infrastructure Fund was established on the basis of an Act approved by Parliament. The Fund forms the basis for participation in EC structural aid and will improve transport infrastructure financing through limiting the previous fluctuations due to the annual changes in the relevant State budget lines.

As regards transport infrastructure, the state budget for 2000 set aside the same percentage of GDP, 1.36%, as in 1999 for the modernisation of the stretches of the Pan-European Transport Network in Czech territory, but at the cost of higher credit and delays in the timing of construction. In road transport infrastructure, some progress has been made in linking the Czech Republic to the trans-European Network by speeding up construction of the D5 motorway (from Prague to Nuremberg), around Plzen and by building the D8 motorway (connecting Prague to Dresden and Berlin), both part of Pan-European Transport Corridor IV. The upgrading of national road Corridors I and II is ongoing, as is the case with the railway Corridors. The Czech Republic has approved the final report on Transport Infrastructure Needs Assessment (TINA) of October 1999 that should form the basis for extending the trans-European networks to the Czech Republic.

As regards the interoperability of high speed trains, the relevant EC Directive will be complied with through the amendment to the Act on Tracks, which entered into force

in April 2000, as well as a forthcoming implementing decree. However, whilst the Government does not intend to implement the *acquis* in this area pending decisions to construct high-speed railway infrastructure, there is a legal obligation to do so, in particular since the *acquis* also provides for an internal market for the construction of high speed train equipment.

In so far as **road transport** is concerned, further amendments to the Act on Road Transport entered into force in January and in July 2000, with the aim of adapting the Czech provisions on access to the profession to those of the *acquis*, namely with regard to the financial standing criterion. Furthermore, the Act on the Professional Competence for Driving Motor Vehicles, which approximates to the *acquis* on driving licenses, was adopted in June 2000. As regards road fiscality, a new system of road user charges, providing for annual, monthly and 10-day vignettes, entered into force in January 2000.

In April 2000, the multilateral INTERBUS agreement on occasional bus services was initialled by the Czech Republic. Its implementation will result in partial alignment with road passenger transport *acquis*.

Regarding **railway transport** the amendment to the Act on Tracks sets out the legal framework for a new system for the financing of railway infrastructure and public passenger railway, as well as conditions for market access. However, these provisions can only be implemented once the forthcoming Act on the Transformation of Czech Railways has entered into force. As in previous years, there has been no progress in the legislative procedures due to a lack of political consensus.

Concerning inland waterways an amendment to the Act on Inland Waterways was adopted in January 2000 which aims at transposing the EC *acquis* on access to the occupation of carrier of goods by inland waterways.

In April 2000, the government approved a Programme of support to combined transport, which aims at fostering this type of services, based upon railway transport and at approximating the relevant *acquis*.

On **air transport**, an amendment to the Civil Aviation Act entered into force in June 2000 which is expected to implement both the Joint Aviation Requirements (JARs) and the Eurocontrol standards. Following the approval of an analysis on administrative resources by the government in April 2000, restructuring of the Civil Aviation Authority and Air Traffic Control was started. This is aimed at a progressive increase of civil aviation personnel and at the establishment of independent bodies for the investigation of air accidents and the allocation of slots. Negotiations between the EC and the Czech Republic on the multilateral Agreement to establish a European Common Aviation Area (ECAA), which will result in significant progressive alignment with the *acquis* prior to accession, were concluded at the end of 1999 and a bilateral protocol has been signed.

As regards **maritime transport**, a new Act on Maritime Navigation entered into force this year in July 2000. The Act provides for further harmonisation with the *acquis* in areas such as cabotage, the investigation of maritime accidents and the professional competence of the crews of sea-going ships.

Overall assessment

Further progress has been made in several areas of transport, although certain key steps regarding legislation and administrative structures remain to be taken. On horizontal issues, although investments into the modernisation of transport infrastructure do show positive results, they could be further strengthened, particularly as regards the framework partnerships between the public and private sector.

Regarding land transport, the harmonisation of road transport has advanced considerably but has not yet been concluded on a number of issues. Thus the Act on Road Transport should be adapted in particular concerning fiscal and social rules and safety requirements. Administrative structures to bolster the enforcement capabilities in land transport are still to be implemented.

The significant lack of progress, in both legal and institutional terms, regarding the restructuring of the Czech railways remains a major obstacle. As a consequence, harmonisation with the developing railway *acquis* will continued to be hampered as will the strengthening of administrative structures and improvements in competitiveness. It is recommended that the Czech Republic intensify its efforts to achieve compliance with the railway *acquis* ahead of accession.

In the field of air transport, independent bodies for the investigation of air accidents and for slot allocation remain to be established. The Czech Republic expects to become a full member of the Joint Aviation Authority (JAA) by the end of 2000. As regards maritime transport, whilst the Czech Republic is a landlocked country, the adoption of the Maritime Act constituted an important step in the approximation to the *acquis*, which needs to be followed by the issuing of secondary legislation.

Chapter 10 : Taxation

The 1999 Regular Report found that the Czech Republic had established solid VAT legislation compared to the *acquis*. This was also the case generally for excise duty, although to a lesser extent. Since then certain additional measures have been taken.

As regards **indirect taxation**, an amendment to the Act on VAT entered into force on 1 April 2000. This included refund schemes for tourists, for armed forces of NATO Member States and for foreign taxable persons not established within the Czech Republic (for the latter only in respect of certain selected goods). In addition, the transfer of land became a taxable transaction exempt from tax.

In July 1999 the Czech Republic changed the measure unit quantity for duty purposes from the net mass in tons to the volume-measuring unit of hectolitres for fuel products. Also the duty rates for cigarettes and other tobacco products and fuel were increased. As of April 2000 the definition of mineral oils subject to excise duty has been based upon the Nomenclature Code and heavy fuel oil has been included in the taxable scope. Furthermore, the duty exemption for non-denatured alcohol for the production of cosmetics and soap has been repealed and fortified wine mixed with ethanol has become taxable at the duty rate applicable for spirit. Spirit with actual alcohol strength by volume exceeding 1.2-% volume has become taxable and so have

products containing spirits and spirit products (chilled wine and fruit bowls, spirit in chocolate, etc.). Moreover, losses due to "force majeure" have been exempted from the duty for spirits and the possibility of official impairment of spirit and spirit products has been introduced.

The legislation (VAT and excise duties) for the permanent closure of duty-free shops at land-borders by 31 December 2001 has been adopted.

No particular developments are to be reported with regard to **administrative co-operation and mutual assistance**.

Concerning **direct taxation** the tax rates for corporate and personal incomes were decreased to 31% and 32% (for highest income range) respectively by 1 January 2000. In addition the legislation concerning the withholding tax rate of 15% from dividends and interests has been aligned in that the withheld tax remains a credit to total tax liability in entrepreneurial subjects.

Preparations for a merger of the Customs Directorate and the District Financial Authorities have continued with a view to creating an independent authority responsible for the customs and excise administration. An amendment to the Act on District Financial Authorities, which entered into force on 1 January 2000, introduced the legal base for the improvement of inspections aimed at combating certain areas of tax evasion. A new software application called "VAT Tax Return Credibility" was distributed to the local financial authorities in 1999. The software assists in identifying the so-called high risk VAT Tax Returns and taxpayers that have submitted incorrect tax returns. The software also helps to limit unauthorised deduction of VAT and the refund of excess VAT.

Overall assessment

While significant progress has already been achieved in the alignment of the tax system, a number of issues remain to be tackled.

Some efforts have been carried out in the tax area since the previous Regular Report. However, the more sensitive areas such as the application of rates in the field of both VAT and excise duties and VAT exemptions remain to be solved. Taking into account that alignment in this field is likely to have a significant impact on consumer prices, it is important that the Czech Republic address these issues in a more structured and coherent way. Further efforts are also required as regards the VAT treatment of public authorities, the inclusion of subsidies directly linked to the price in the VAT taxable amount, a complete refund VAT scheme for foreign taxable persons not established within the Czech Republic and the application of the right of deduction of input VAT.

On excise duties attention should also be addressed to in particular the introduction of a single combined (specific/ad valorem) duty structure for cigarettes.

As regards the complete closure of duty-free shops at land borders by 31 December 2001, this issue requires close monitoring as the date for the closure of such shops has been postponed several times in the past.

The preparations for restructuring the Czech tax administration so as to become more efficient is seen as a positive step, although the full impact remains to be seen. However, the Czech Republic's tax administration needs further strengthening in order to ensure that the *acquis* is implemented, controlled and enforced in an effective manner. Problems persist in retention of officials. It is also important that the Czech Republic pays attention to issues such as administrative co-operation and mutual assistance, including recovery of tax claims.

Chapter 11: Economic and monetary union

A detailed assessment of the Czech Republic's economic policy in its various aspects has been given above, in the chapter discussing the economic criteria (B-2). Therefore, the present section is limited to a discussion of those aspects of the Economic and Monetary Union *acquis*, as defined by title VII of the EC treaty and the other relevant texts, which candidate countries should implement by accession at the latest, i.e. the prohibition of direct public sector financing by the central bank, the prohibition of privileged access of the public sector to financial institutions, and independence of the national central bank. As to the process of liberalisation of capital movements, upon the completion of which compliance with the EMU *acquis* is conditional, this aspect has been covered above, in the section on *Chapter 4 – Free movement of capital*.

Since the previous Regular Report, little further progress has been achieved in the adoption of the EMU *acquis*.

Little progress has been made as regards the **prohibition of direct public sector financing by the central bank**. This is addressed in an amendment to the Act on the Czech National Bank (CNB) recently adopted by the Parliament and sent to the President for signature. A new Act on Budgetary Rules for the State Budget was approved which contains the provision that the government is committed to present an indicative three-year rolling budget simultaneously with the annual draft on the state budget. The new Act increases fiscal transparency in view of granting and evaluating state guarantees and it standardises the rules for the state budget and the state extra-budgetary funds. The new Act does not apply to the general government budget as a whole.

The Czech Republic is already largely in line with the *acquis* on the **prohibition of privileged access of the public sector to financial institutions**. No new legislative developments have taken place in this regard.

Concerning the **alignment of national central bank status with the Treaty**, the amendment to the Act on the CNB modifies the primary objective of the CNB, formalising the shift from currency stability to price stability. As regards the independence of the CNB, the amendments to the Act are incompatible with the Treaty. There are two areas of incompatibility: the provision for the approval by Parliament of a separate operating and investment budget, and the obligation to consult and to agree with the government in setting the inflation target.

Overall assessment

The Czech Republic will participate in EMU upon accession with the status of a country with a derogation as per article 122 of the EC treaty. It will need to implement the necessary changes to its institutional and legal framework by the date of accession.

Overall, substantial parts of the EMU *acquis* have been adopted.

As far as the prohibition of direct public sector financing by the central bank is concerned, the CNB continues to be able to grant short-term credit to the Government through the purchasing of state treasury bills which mature within three months of their purchase. This is not in line with the *acquis*. In addition, the Ministry of Finance should improve notifications of public debt and public deficit in order to create the conditions necessary to meet the Maastricht Criteria. An Act on Budgetary Rules needs to be approved. This will introduce the obligation to compile a medium-term budget outlook and set rules for monitoring and evaluating state guarantees as a significant fiscal risk, with a view to creating a more stable medium-term fiscal outlook.

On the prohibition of privileged access of the public sector to financial institutions, the position is satisfactory. However further monitoring is needed, in particular on the acquisition of state bonds by the savings and credit unions.

As regards the alignment of national central bank statutes with the Treaty, the CNB has pursued its policy of alignment with the ECB. The CNB has already adjusted its set of monetary instruments to the ECB framework, with the exception of the minimum reserve requirements. The current practice of inflation targeting provides a medium-term framework to monetary policy. The Commission attaches particular importance to safeguarding the independence of the Czech National Bank, in line with the EMU *acquis*. In the light of the recent adoption of the amendment to the Act on the CNB, significant efforts are needed to align Czech legislation in this regard.

As regards administrative capacity, the CNB already functions effectively. The level of professionalism and competence amongst its staff is generally high. Turnover of staff is low, due at least in part to higher salaries compared to other parts of the Czech administration. However some improvements in administrative capacity will have to be made, particularly as far as the Ministry of Finance is concerned. The Ministry needs in particular to strengthen its financial policy department and ensure a better statistical follow-up.

Chapter 12: Statistics

The Czech Republic has made considerable progress in the field of statistics.

As regards **statistical infrastructure**, legislation is substantially aligned with the *acquis*. In April 2000 Parliament approved the first reading of the amendment to the State Statistical Service Act which will allow the Czech Statistical Office (CSO) access to the Ministry of Finance's tax registers.

Last year's Regular report concluded that the **administrative structures** for implementing and enforcing the *acquis* were largely in place but that the co-ordinating role of the statistical office needed strengthening with particular regard to access to other administrative sources. During 1999 Eurostat conducted an overall assessment of the Czech Statistical Office (CSO) and concluded that regarding institution building and building of administration, the Czech Republic met the EC requirements.

Concerning **demographic and social statistics**, progress has been made although full compliance with the *acquis* will be possible only after the population census in 2001 is conducted. Demographic statistics are largely in alignment with EC standards.

In the field of **regional statistics**, the Czech government has upgraded its system of regional classification to bring it into line with the EC system of regional classification (NUTS). A new law on the Establishment of Higher Self-Administering Units will increase the number of regions from 8 to 14 at the NUTS 3 level. The Act is expected to come into force in January 2001 following the first regional elections in November 2000. This will mean that the NUTS 2 level will have to be redefined accordingly. Regional classification requires further improvement regarding the data for NUTS 2 or 3 levels. The NUTS classifications should also be used for forest and water statistics.

In the area of **macroeconomic statistics**, the CSO has made a great deal of progress in developing a system of national accounts in line with ESA95. However, reliability of data in this area will also depend on the improvement of the quality of the Business Register. Co-operation between the CSO, the Ministry of Finance and the Czech National Bank has improved. In 1999 the Ministry of Finance set up a Unit on Government Financial Statistics ensuring that this data is processed according to the IMF methodology.

In the field of **business statistics**, the main EC requirements have been met. Fuel and energy nomenclature has been produced. Also the legal basis of the business register has been changed to encompass local units and 'kind of activity units'. The regulation on structural business statistics had been implemented in surveys.

As far as statistics regarding **external trade** are concerned, the external trade statistics conform to international guidelines and the methodology used conforms to that used by the EC.

For **agricultural statistics**, the methodology is largely in line with EC requirements, further improvement is needed covering individual commodities and the regionalisation of data needs to be taken into account. The preparation of Agrocensus 2000 has been completed and the census was launched in September 2000.

Overall Assessment

Overall the Czech Republic has made considerable progress in the field of statistics. The Czech Statistical Office functions well and is preparing for accession to the EU. Still outstanding is the issue of personal data protection which is not yet resolved as

measures resulting from the Amendment on Data Protection to the State Statistical Service Act remain to be implemented.

There is also a need to ensure that the various registers being compiled (particularly the business register and the business profiling exercise) are harmonised. Compliance for business surveys is envisaged for 2002 but a review will evaluate whether this is feasible.

The administrative structures to implement and enforce the *acquis* are largely in place. The Czech Statistical Office has improved its co-ordinating role particularly in respect to accessing the data of other authorities. However, human and financial resources of the CSO are not yet sufficient to meet the increased need for structured data in line with the *acquis*. Linked to this, the establishing of an efficient field network is necessary.

The basic infrastructure in the area of statistics is in place and operates on the principles and standards practised in the EC. The EC methodology is also being implemented and know-how of EC statistical requirements is being transferred in collaboration with EUROSTAT. Progress has been made but improvements need to be made in the methodology of production, collection and dissemination of statistics to make the gathering and use of statistical data fully consistent with EC methods in key areas.

Legislation is substantially aligned with the *acquis*. However some inconsistencies remain in methodology and quality and timeliness of data provision. Further improvements are required in regional and agricultural statistics, the business register, short term statistics and in the quality of government finance statistics.

Chapter 13: Social policy and employment

The 1999 Regular Report concluded that legislative alignment had been limited and administrative capacity should be strengthened. Since then considerable progress has been achieved in both areas.

Concerning **Labour law**, the amendment to the Labour Code, which will enter into force on 1 January 2001, intends to transpose the *acquis* in a number of areas: those on collective redundancies; transfers of undertakings; written statement; posting of workers in the framework of provision of services; working time; and safety and health at work of workers with a fixed-duration employment relationship. The amendments also go a long way towards transposition of the European Works Council directives. The directive on young people has been partially transposed. The Act on the Protection of Employees in the case of insolvency, which entered into force on 1 July 2000, aligns legislation with the *acquis* regarding insolvency. The responsibility for decisions concerning the timing and the amount of the payments to employees in the case of insolvency is transferred from bankruptcy administrators to District Labour Offices.

As regards **social protection**, important achievements have been obtained. The amended Act on Supplementary Pension Insurance strengthening the surveillance

powers of the Ministry of Finance and imposing stricter requirements on pension fund management entered into force in 1999. In April 2000, new legislation to improve the social and legal protection of children, including the surveillance of social care came into force. On the basis of this act, an independent Office for the International Legal Protection of Children was established in June 2000 in the city of Brno. The role and importance of non-governmental actors, in social service delivery and more generally in the social sector, is gradually gaining fuller acceptance and support.

Regarding **equality of treatment**, in October 1999, the amendment to the Employment Act entered into force, incorporating the requirements of the directive on equal opportunities for men and women in their access to employment into the Czech legal order. The amendment includes an explicit prohibition of any discrimination in access to employment, among others because of gender, and it explicitly forbids publishing discriminating advertisements. The requirements of the directive on parental leave were incorporated into the aforementioned amended Labour Code. The amendment to the Act on the Civil Procedure was adopted and will take effect on 1 January 2001. It aligns legislation with requirements of the *acquis* on the burden of proof in gender discrimination litigation cases. The amendments to the Wages Act and to the Salary and Bonus Act were adopted by Parliament in June 2000 and will enter into force in January 2001, aligning legislation with the requirements of the *acquis* as regards equal pay. The co-ordination on equal opportunities and equal treatment for men and women is a competence of the Ministry of Labour and Social Affairs.

As regards **employment**, progress has been made in developing the national strategy, building on the Joint Employment Review, in line with the short term Accession Partnership priority. Czech employment policy is formulated on the basis of the National Employment Plan (NEP) of May 1999. The Joint Assessment of Employment Policy Priorities was signed in May 2000. The NEP is currently being updated in light of changes to the EC Employment Policy Guidelines for 1999/2000, and will take account of the conclusions of the Joint Assessment Paper. In April, the Government increased the levels of staff at the Labour Ministry and those at its Labour Offices. Retraining efforts by the Czech Labour Offices increased in 1999, as did the number of vacancies filled (10 200 compared to 5 200 in 1998). The Government has also increased its budget to implement its active employment policy, and approved measures to increase the employment of school graduates. Relevant public expenditure increased between 1998 and 1999, from 0.28 to 0.42% of GDP. This includes unemployment benefits and active measures for disadvantaged youth and the disabled, and subsidised employment for direct job creation through public works and labour market training. The employment rate stood at 65.9% in 1999, compared to 69.2% in 1994.

The support of social partners' capacity-building efforts to develop and implement the *acquis* in terms of the **social dialogue**, notably at the bipartite level, is a short-term 1999 Accession Partnership priority. In order to promote the social dialogue at enterprise level the Government adopted amendments to the Act on Employment and to the Labour Code. Increased protection of employees' representatives against discrimination when taken on in a new job and then during employment because of his or her trade-union membership or activity, or because of his or her being an employees' representative, has been incorporated into both acts. The amended Labour

Code also covers the issue of employees' larger involvement in decision-making through regular information of employees and consulting matters with them at the enterprise level. In 1999, the Government continued its dialogue with its social partners within the framework of the Economic and Social Agreement Council. The Council discussed a number of strategic socio-economic issues such as industrial restructuring, the lifting of state control of rentals and energy prices or pension reform. The social partners also took part in the preparation of strategic documents within the framework of the Czech Republic's preparation for accession, such as the National Development Plan.

In the field of **public health**, the Act on the Protection of Public Health was adopted in July 2000. The act and the implementing regulations ensure compliance with a substantial part of the relevant *acquis*. It contains the codification of rights and obligations of institutions in the protection of the population's health and the powers and authority of state healthcare supervisory bodies. The transposition of directives on tobacco products has shown no noticeable progress.

As regards **health and safety at work**, the adoption of the amendment to the Labour Code is aimed at aligning legislation with the requirements of the Framework Directive. The decrees of the Czech Mining Office transposing the requirements of the *acquis* on health and safety of workers in drilling industries were published in 1999. In 1999, the Ministry of Labour and Social Affairs took the first steps to create a co-ordinated system of occupational health and safety inspection. This system is intended to enable effective enforcement of the *acquis* in the field of labour law and occupational health and safety. The Act on Competencies of Central Bodies of State Administration transfers the responsibility for occupational health from the Ministry of Health to the Ministry of Labour and Social Affairs, with the aim of improving co-ordination in the area of occupational health and safety.

Overall assessment

Despite a slowdown in 1998 and 1999, the Czech Republic has now made progress in the transposition of EC legislation and has effectively overtaken its own legislative timetable in some areas, notably as concerns labour law and equal opportunities. However, enforcement of legislation in areas such as occupational health and safety and public health is weak.

As regards labour law, the Directive on Young People is only partially transposed. The requirements for regulating work of children below the age of fifteen needs to be incorporated in Czech law and applied.

Notwithstanding achievements in developing social protection in recent years, there is a pressing need for further reforms. The state social insurance scheme faces an increasing deficit and the social assistance scheme and safety net benefits need attention to improve both the organisation and delivery of benefits and work incentives, and to control fraud and abuse. The need for reform is recognised by the Czech Republic which has a number of proposals in hand. It will be important to track the development of these reforms, and others such as the strengthening of health care financing.

As regards equal treatment for men and women, only two directives, on equal treatment in social security and equal treatment in occupational social security, still need to be transposed. The administrative capacity needed to ensure that the directives on equal opportunities for men and women are duly enforced, needs to be strengthened.

The Czech Republic has moved in the right direction in transforming the labour market and adapting its employment system so as to be able to implement the European Employment Strategy. The Joint Assessment of Employment Policy Priorities has identified key challenges where progress would still be needed. The process of restructuring has caused a substantial rise in the unemployment rate, which is particularly acute in certain regions. This makes the implementation of further reforms of tax, benefit and social assistance systems particularly important, in addition to the implementation of new active employment policies already introduced and planned, in particular in the context of the National Employment Plan. In order to assure smooth implementation of future ESF programmes, it is important that a precursor of an ESF management office is created and appropriate administrative structures need to be strengthened.

As regards social dialogue, autonomous social dialogue needs to be strengthened especially at sectoral level. The Czech Republic should continue to promote forms of dialogue and workers' participation at enterprise level, especially with regards to the implementation of the relevant *acquis*.

The legislative process of harmonisation with the *acquis* in the area of public health should be continued; new acts on public health insurance and protection against damage should be adopted, and the act on public health protection should be implemented together with the adoption of the relevant accompanying legislation. The institutional basis of public health protection should be created, resulting in restructuring of public health protection bodies with increased ability to implement the state administration tasks and to enforce legislation. Enforcement of legislation concerning tobacco control should be improved.

As regards health and safety at work, harmonisation with the *acquis* in the field of health and safety at work will only be achieved once implementing regulations are issued and put into practice. As concerns the administrative capacity to implement the *acquis*, continued efforts are needed to strengthen enforcement bodies, notably the national labour inspectorate.

The Ministry of Labour and Social Affairs (MoLSA) is a central institution of state administration responsible for the issues addressed under this chapter. It has a staff of some 563 people. It is competent and well-informed on EU related issues, and harmonisation efforts are well advanced. The bulk of remaining work consists in the implementation and enforcement of new legislation, and the testing of newly created structures. Supervision of occupational health and safety and working conditions is the responsibility of the Czech Occupational Safety Office (COSO), which reports to MoLSA. Activities of COSO are to undergo changes further to recent legislative developments, which aim to ensure alignment with EC standards and policies in labour inspection. As for health related issues, the Ministry of Health (MoH) is responsible for health care, public health and related activities. It has a staff of some

279 people. The ministry suffered from instability in terms of political leadership and staff over the last decade, which adversely affected all its departments. Under the current minister, a systematic approach to the harmonisation with EC standards and policies has been started.

Legislation transposing the EC Directive based on Art. 13 of the Treaty relative to **discrimination** on the grounds of race or ethnic origin will have to be introduced and implemented.

Chapter 14: Energy

Compared to last year's Regular Report which concluded that legislation remained insufficiently aligned to the *acquis* in several important areas, some progress has been made so far.

In January 2000, the Government approved the Czech Energy Policy as a document for long-term sectoral strategy (an outlook for the next 15 – 20 years) related to the Economic Strategy of entry to the EU. The policy places emphasis on: the objectives of environmental protection and respect for principles of sustainable development, the safety of the energy supply and support for the competitiveness of the economy.

In January 2000, the Czech Republic became a full member of the International Energy Agency.

As regards **security of supply** progress has been made since the previous Regular Report. The Act on Emergency Oil Stocks came into force in November 1999 thus further aligning with the EC *acquis*. It requires oil stocks to be increased by 5 days per year until they reach the required 90 days level. The aim is to reach the *acquis* level (90 days) in 2005.

On the basis of this law, the Administration of State Material Reserves (AMSR), responsible for the management of emergency oil stocks, has established an Emergency Management Centre. The AMSR has since the end of 1999 been submitting information on the amounts of emergency stocks to the European Commission on a monthly basis.

As regards the issues of **competitiveness and the internal energy market**, the Energy Management Act has recently been adopted. This Act creates a basis for improving energy efficiency in line with *acquis*. No other developments can be reported in legislative terms pending the adoption of the Energy Act currently before Parliament.

Concerning the liberalisation of the energy market, the Ministry of Industry and Trade identified 2005 as a realistic date to reach the EU level regarding the opening of the power market and 2008 for the gas market. The rules for market opening and the pace of the process are dependent on the proposed Energy Act.

In April 2000, the Ministries of Finance and Trade submitted their energy privatisation plan. Privatisation is planned for a number of companies between 2001 and 2002. The procedure for the privatisation of the state-owned energy companies

and the gas and electricity distribution companies remains to be finalised. The decision to privatise these companies is seen as a political one that has been much debated and delayed over the years. However, further progress was made on privatisation of the electricity market with the partial privatisation of two regional energy distributors in South Bohemia. The National Property Fund maintains a 48% share.

In so far as deregulation in the electricity and gas sectors is concerned, a gradual process of price liberalisation is underway; this process aims at eliminating cross-subsidies by 2002. In December 1999, tariffs were revised. The Ministry of Finance issued a decree that came into effect at the beginning of 2000, which increased the maximum prices for gas and power for households.

The restructuring and privatisation process in the coal and ore mining sector is ongoing. The rules for state intervention in the phasing-out of mining operations have been adopted. This intervention mainly regards social obligations resulting from restructuring and the technical liquidation of mines and repairing of damage caused by past mining activities. A time-scale for phasing-out mining operations has been adopted. At the end of 1999, one of the largest Czech coal companies (Mostecká Uhelna) was fully privatised.

A major development in the solid fuel sector was the merger of two coal companies into one holding company as part of a gradual privatisation process. With some state financial participation, these companies are carrying on with the discontinuation of activities in inefficient mines.

As regards **nuclear energy**, the 1999 Regular Report recalled in particular that the Temelin NPP is a VVER 1000 type design, which is considered to be upgradeable to international safety standards, and called for a modernisation programme to be implemented. The Temelin NPP is subject to a wide scale upgrading programme which addresses, *inter alia*, the instrumentation and control system as well as nuclear fuel management.

In February 2000 a reduced scope review of the Czech State Office for Nuclear Safety (SUJB) was conducted by the International Regulatory Review Team as delegated by the International Atomic Energy Agency (IAEA). The Review Team made some recommendations for improvement to further strengthen the Czech regulatory body. Many of the recommendations were concerned with long-term development of the organisation, building on current practices.

Further steps have been taken towards completion of the NPP at Temelin. Hot testing for unit 1 was completed in April 2000 under the regulatory authority of the SUJB, which delivered a license for fuel loading of Unit-1 in July 2000. The activation of the first block took place in October 2000. The modernisation of the Dukovany nuclear power plant is ongoing. The Czech authorities continue to provide regular information to the Commission regarding nuclear safety.

During the past year there has been public concern in certain parts of the EU concerning the activation of the Temelin NPP and current Czech environmental impact legislation.

Overall Assessment

Significant further efforts are needed for alignment with the *acquis*, but the recently adopted Energy Policy creates a basis for further preparation.

The Energy Act, which should provide the legislative structures for a liberalised internal market, is currently before Parliament. It is important that this Act allow progress to be made on the delayed process of liberalisation in the field of energy as well as the establishment of a fully independent regulatory authority. The present regulatory body is part of the Ministry of Trade and Industry whilst the Czech Energy Agency (CEA) needs additional financial and human resources.

Energy efficiency still needs further improvement in order to meet EC standards. Low efficiency in production and conservation of energy coupled with lack of public awareness regarding energy saving means that energy consumption continues to be high. Thus the consumption of primary energy resources per unit of GDP (energy intensity) is on average twice as high in the Czech Republic as in EU Member States.

As regards the issue of nuclear energy, the EU has repeatedly emphasised, most lately at the European Council in Helsinki, the importance of a high level of nuclear safety in candidate countries in the context of the Union's enlargement. As in all candidate countries, the final responsibility for nuclear safety lies with the operator of the Temelin and Dukovany nuclear power plants, under the authority of the SUJB that has to provide or recall the necessary licenses as the competent nuclear safety regulator of the Czech Republic. The Commission notes that the Atomic Act of January 1997 provides the legal basis for the SUJB's authority and compares well with respective modern legislation in the EU. The Czech Republic needs to ensure that the SUJB's capacity and competence to supervise the operations of the Dukovany NPP and the completion of the Temelin NPP remain strong and that the SUJB enjoys the necessary institutional independence to exercise its responsibilities. The Czech Republic is encouraged to ensure that both the operator and the regulator pay their utmost attention to reaching and maintaining the high level of nuclear safety demanded by the European Council. The Czech Republic is further expected to continue to provide the Union with regular information on the situation at the Temelin and Dukovany NPPs. The Commission will also continue to follow closely the question of the availability of storage capacity for spent fuel from the Czech nuclear power plants and the process of selection of a final repository for radioactive waste and spent fuel. Due attention should be given to preparing the implementation of Euratom safeguards.

Chapter 15 : Industrial policy¹⁵

The 1999 Regular Report highlighted in particular the need to overcome the cycle of dependency between state-owned banks, bank-owned funds and only nominally privatised companies. Since then, progress has been made in this area.

¹⁵ Developments in industrial policy should be seen in relation to developments in the context of SME policy (see Chapter 16 – Small and medium sized enterprises).

In terms of **industrial strategy**, the Czech Government approved the 'Industrial Policy Concept of the Czech Republic' and a related action programme in January 2000. These documents reflect the requirements of the 1996 Community Action Plan for strengthening industrial competitiveness. The Industrial Policy Concept sets out short, medium and long-term objectives as well as the steps required to reach these goals.

The action programme mentioned above provides the institutional and financial framework for the implementation of individual initiatives within the industrial policy. The main priority is to set up a support system to boost the competitiveness and performance of Czech industry. This seeks to apply standard tools of industrial policy, as used in Member States. In addition, a pilot Sectoral Operation Programme has been developed for the industrial sector, to increase experience in industry in preparation for making use of EC Structural Funds and the Cohesion Fund.

As regards administrative capacity few developments have taken place although the number of staff of the Department of Industrial Policy in the Ministry of Trade and Industry was slightly increased.

As regards the **privatisation and restructuring process**, a Government regulation in October 1999 modified the eligibility criteria under the Government Revitalisation Plan for Industry to bring them closer in line with the *acquis*. In May 1999, the Revitalisation Agency was established as a joint-stock company to manage the process of revitalising large industrial companies and it began implementing the Plan in November. So far nine companies have been identified as eligible under the Plan.

Out of the total 1721 undertakings which have been identified for privatisation, 1279 were completely privatised by March 2000. State shares in a number of strategic companies (such as Mostecká uhelná společnost, a.s. and Chemické závody Sokolov, a.s.) were sold off in July 1999. The privatisation of the PARAMO Pardubice a.s. was also launched in January 2000. Furthermore, the remaining 30% of Skoda Auto was sold to Volkswagen in spring 2000.

Responsibility for the monitoring of state aid has been transferred from the Ministry of Finance to the Office for the Protection of Economic Competition, following the adoption of the State Aid Act.

Moderate progress has occurred in the **restructuring of the steel industry** which is a short term priority of the Accession Partnership. In October 1999 the Government decided to formulate its Programme of Restructuring of the Czech Steel Industry on the basis of the outcome of a Phare Study.

As far as **investment promotion** is concerned, the Act on Investment Incentives entered into force in May 2000. This sets out the legal framework for investment incentives and is aimed at attracting FDI participation in privatisation and restructuring.

Overall assessment

Overall Czech progress in the field of industrial policy has been positive. The Czech Republic is making efforts to align its industrial strategy with the concepts and principles of EC industrial policy, based on a system of open and competitive markets. This is underlined by the adoption of the Industrial Policy Concept and related action plan.

As far as privatisation and the restructuring process is concerned, most of the privatisations within the competence of the Ministry of Trade and Industry have been completed. State interests in around 40 strategic companies remain to be sold off, most of which are in the energy distribution sector (this is covered further in chapter 14 on energy). The work of the Revitalisation Agency has started. It is critically important that strategic investors for the revitalised companies are found. Also, it is not completely clear on what basis the companies on the list for revitalisation have been selected. The future viability of enterprises is now a compulsory criterion which the Revitalisation Agency must apply when assessing the final list of participants in the revitalisation programme but the agency should provide detailed information on the calculations that have been carried out.

A crucial task for the Government is to overcome the cycle of dependency among state-owned banks, bank-owned funds and only nominally-privatised companies owing large sums to the banking sector. From this point of view, the progress in this sector noted above is a promising indication of the Government's effort to complete the restructuring process. A more speedy privatisation and de-monopolisation of the telecoms and energy sectors would significantly improve the business environment for Czech companies.

On investment promotion, the system of investment incentives set up in 1998-99 to improve the competitiveness of Czech industry has been underpinned by the legal framework set out in the Act on Investment Incentives. The Government has already approved more than 20 investment projects.

An important dimension of industrial policy is the control of state aids (*see also Chapter 6 – Competition*).

The institutional structures operating in the area of industrial policy work well. In October 1998, a Department of Industrial Policy was established within the Ministry of Trade and Industry. In terms of conceptual work, the Ministry of Trade and Industry worked effectively in drawing up the necessary concepts for Czech Republic's industrial policy.

Furthermore, the Ministry of Trade and Industry has successfully harnessed the Government agencies engaged in promoting commercial activities (ie Development Enterprise Agency, CzechTrade and CzechInvest) to the overall effort to attract FDI and to speed up restructuring. The Ministry also co-operates with the Czech Chamber of Commerce at national and local level as well as with various business associations. Their performance is positive and contributes to attracting investment in the Czech Republic and to the promotion of Czech business abroad.

However, the success of the restructuring process in the Czech Republic is also dependent on effective implementation of the law and on the overall performance of the courts in handling commercial cases.

Overall the Ministry of Trade and Industry operates in a professional manner and manages its portfolio relatively well. There have been no major political, structural or expert staff changes since mid 1998, which has contributed to its stability. Expertise in EU affairs is generally high.

Chapter 16 : Small and medium-enterprises¹⁶

Since the last Regular Report, further progress has been made in the Czech Republic's policy towards SMEs, including on policy implementation.

On **SME policy**, in line with the 1999 Accession Partnership, 17 SME support programmes for 2000 were approved by the Government in December 1999. The programmes enable SMEs to receive state support for projects relating to industrial manufacturing, construction, services, trading, or regional passenger transport. The subsidies are in the form of credit guarantees, guarantees extended to the investors of development capital, credit at reduced interest rates, subsidies for repayment of interest, and general subsidies. The funding available for SME support in 2000 is EUR 65.8 million, one third higher than in 1999.

The action plan for strengthening the competitiveness of Czech industry approved in January 2000 includes many stimuli applicable to SMEs.

A National Discussion Group was created in October 1999 to advise the Government on SME services. It seeks to involve businesses more actively in helping to create favourable conditions for SME growth.

As regards **SME definition**, the Czech Republic has further progressed in aligning with the *acquis* by adopting the criterion which sets up economic limits of supported SMEs.

Overall assessment

On SME policy, the Czech Republic is already aligned with Community measures to a considerable degree. SMEs play a very important role in the economy, producing approximately 53% of the Czech Republic's GDP.

Czech SME instruments and support systems should be further brought in line with the rules applied in EU countries. Law enforcement by the judiciary and the state should be improved, in particular as regards the position of creditors. Furthermore,

¹⁶ Developments in policy towards small and medium sized enterprises should be seen in relation to developments in the context of industrial policy (*see Chapter 15 – Industrial policy*).

the **overall business environment** needs to be improved. Access to capital should be improved through increasing the scope of programme support, including ensuring the provision of the necessary finances. The Czech Republic should also make preparations for supporting SMEs as regards research and development in the framework of EC structural funds. The support programmes for SME industrial research and development should continue. Support should also be expanded to cover technology transfer. In this context it should be noted that there is a network of 7 Euro-Info Centres which is able to provide Czech entrepreneurs with useful information about the EC internal market, access to finance and links to EC initiatives.

The implementation of SME policy is monitored by the Ministry of Trade and Industry and by the Ministry of Regional Development for tourism. There is sufficient administrative capacity for this purpose although the 17 SME support programmes need to be assessed and reviewed on a regular basis. Participation in the Multiannual Programme for SMEs is serving to further strengthen this capacity, in addition to helping prepare enterprises themselves for accession. Collaboration with the Ministry for Regional Development is necessary to ensure effective regional approaches in implementing SME legislation. It is also important to co-ordinate activities with other regional institutions focusing on enterprise development. The supply and accessibility of information and advice services must be improved, *inter alia* as regards the EU, including the relevant infrastructure, by increasing funds towards making these services cheaper. The administrative capacity of the Enterprise Development Agency should be also strengthened.

Chapter 17: Science and research

Compared to the situation in 1999, the Czech Republic has taken steps to ensure implementation of the *acquis* and to build up appropriate capacities in the field of research and development.

In January 2000, the Government approved the National Science & Technology and Research & Development Policy, which is in line with the existing Community legislation. The policy document contains a proposal regarding the establishment of national programmes, especially in the field of oriented research.

Since the Czech Republic became fully associated with the Fifth Framework programme as well as the Euratom Framework Programme in 1999, the necessary administrative structures as well as the National Contact Point (NCP) system have been created and are fully operational. The responsible authority is the Department of International Co-operation in Research and Development in the Ministry of Education, Youth and Sport. The approved state budget for the year 2000 fully covers the Czech contribution to the programme.

Overall assessment

The Czech Republic should have little difficulty in taking over the *acquis* in this area. Measures have been taken to gradually increase the financial support for science and development, which is currently relatively low. For the further development of the

sector it is essential to have an increase in the gross domestic expenditure in research and development as percentage of GDP which is relatively low (budget for 2000: 0.6% of GDP).

Legislation on Research and Development should be adopted to harmonise the conditions for state support of research and technological development with those of the EU. Legislation on Public Research Institutions should specify the legal status of these institutions and regulate their creation and liquidation. This legislation should also address the issue of organisations partly or fully funded by the state budget.

Support for the transfer of technologies should be strengthened, particularly towards small and medium-sized enterprises (SMEs).

Chapter 18: Education and training

Little progress has been achieved in legislative alignment while there has been some progress on implementation.

In the past year, the Czech Republic has continued to participate in a number of **Community programmes** (see bilateral part A). Adequate management structures for the implementation of these programmes have been set up. The responsibility for the implementation of the programmes rests with the Co-ordination Committee for EC Educational Programmes and further by the management committees of the individual programmes and working groups or commissions for sub-programmes. Czech universities participate in the Jean Monnet project, enabling new activities and research in areas related to European integration and representing “European” subjects in their curricula.

No new developments can be reported concerning legislative alignment in the field of **education of children of migrant workers**.

As regards the national system of education and training, the Government approved the state information policy in education in April 2000, which is in line with the approved State Information Policy and the Lisbon agreement. In the field of vocational education and training, no changes in legislation of financing occurred over the past year.

In January 2000, the Government approved the state programme for the development of sport for all. The programme aims to change the social and economic conditions to support a life-long active approach to efficient, safe and environmentally friendly forms of sport, on the basis of the recommendations of the Council of Europe.

Overall assessment

On the whole, the Czech Republic has achieved good progress in the field of education and training, but further legislative alignment is needed.

There are no discriminatory provisions against EU citizens in the field of education. The Higher Education Act is in line with the Council Recommendation on European

co-operation in quality assurance in higher education. The Act strengthened the internal democracy at universities and enabled diversification of higher education establishments. The Act also deals with the quality of university management.

It is necessary for the Czech Republic to specify conditions for recognising the qualification of foreign workers in education and to harmonise mutual recognition of professional qualifications for exercising a regulated profession. Also, the full transposition and implementation of the *acquis* on the education of children of migrant workers should be ensured.

The *acquis* on the promotion of European pathways in work-linked training, including apprenticeship, should be transposed in a new School Act. The new School Act should also be compatible with the EC general principles for implementing a common vocational training policy.

The system of school-leaving examinations should be reformed, introducing the establishment and regular updating of databases of tests, examination catalogues, tests and test versions for disabled pupils.

Progress has been made as regards improving educational opportunities for children from socially and culturally disadvantaged backgrounds, of which many are Roma children. (See Chapter 1.2. *Human Rights and protection of minorities*).

In the field of education and training, an appropriate institutional framework is in place. It includes the Ministry of Education, Youth and Sports (MoEYS), national institutions providing services related to education directly managed by the MoEYS, local education authorities, district and local authorities, autonomous school councils, the Czech Conference of Rectors and the Council of Higher Education Establishments. The Research Institute of Technical and Vocational Education in Prague, run by the MoEYS, is involved in programmes and projects within the framework of bilateral and multilateral international co-operation.

Chapter 19 : Telecommunications and information technologies

A great deal of progress in transposing the *acquis* has been made since the last report.

Concerning the **liberalisation of the telecommunications market**, a new act on telecommunications came into force in July 2000. This law is intended to be the basis for transposition of the current package of EC telecommunications directives. It re-establishes the Czech Telecommunications Office as a separate legal body with wider powers and greater independence to regulate the sector. It also abolishes, as from 1 January 2001, the exclusive rights presently enjoyed by Český Telecom and it sets up a new regime for authorisation/licensing pursuant to the Licensing Directive and for interconnection pursuant to the Interconnection directive. There are also major changes in the way prices are to be regulated and there are new provisions for securing the availability of universal service in a competitive environment.

There are some concerns as to the degree of alignment of the new law with the *acquis* in view of the degree of separation between regulatory functions with regard to telecommunications and operational functions in respect of the state's shareholdings

in operating companies. The new act assigns to the MTC responsibility for telecommunications policy and for establishing the principles and main regulations for the sector. The government has announced its intention of disposing of the state's remaining shareholdings and, when this happens, the question of separation will be of diminished importance. However, until it happens, the presence of senior officials from the MTC on the supervisory boards of operating companies, appears to prejudice the separation of functions required by the *acquis*.

The second aspect is that the new law does not compel the provision of carrier selection facilities as soon as new entrants will be allowed to enter the market. These facilities, which are required by the *acquis*, are indispensable to achieving the objective of full liberalisation and any delay in providing them would be damaging to the market. The law appears not to prevent the provision of such facilities and measures should now be taken to ensure that they are in fact made available as soon as possible. Thirdly, the new law does not make obligatory the cost-orientation of tariffs for some operators, which is a fundamental feature of current EC provisions.

As regards the **postal services**, The Act on Postal Services entered into force in July 2000 as did the related implementing decrees. The Act and procedural regulations were created on the basis of the *acquis* for postal services. In terms of accessibility and the quality of basic postal services, service is provided on a level comparable to that in EU Member States. However the Act extends the State's monopoly on the delivery of mailings up to 350g until the end of 2003. The Act does not make provisions for the creation of an independent regulator and the licensing process continues to be managed by the Ministry of Transport and Communication. However all state or semi-state monopolies and public undertakings are subject to the legislation on the protection of economic competition. (*See Chapter 6 Competition*)

Overall assessment

From 1994 to the present, Czech telecommunications policy has developed strongly along the lines of EC practice. The date of 1 January 2001 for full liberalisation was fixed in 1994 and, despite some earlier delays in enacting the required new legislation, the government is now on course to achieve this ambition. The government's belief in clear policy measures and in liberalisation has been rewarded by strong private investment in the sector as a whole which has experienced dramatic growth in both size and quality.

Much progress has been made in the telecommunications sector over the last few years. However, the foundations laid by the new telecommunications Act need to be built on to resolve the remaining problems regarding the harmonisation with the *acquis*, particularly regarding cost-orientation. Wherever possible, call-by-call carrier selection needs to be made available by the time the market is opened on 1 January 2001.

Rapid progress is now needed with the remaining pieces of secondary legislation that are needed for the market to be opened.

An independent regulatory body for the Postal services needs to be established, with its legal basis in line with the Postal Directive.

Chapter 20: Culture and audio-visual policy

Compared to the situation in 1999, the Czech Republic has made some limited progress in aligning with the Community **audio-visual** *acquis*, which is a short term priority of the Accession Partnership. This was achieved with the adoption of a new Press Act, which entered into force in March 2000. It lays down the right to reply for both the printed and audio-visual media. The proposal for an Act on the Operation of Radio and Television Broadcasting and Re-broadcasting was withdrawn by the government in September 2000.

In the field of **culture**, a new Act on the Protection of Museums and Similar Collections entered into force in July 2000.

Overall assessment

In recent years the Czech Republic has made some limited progress in aligning with Community requirements in the audio-visual sector, but existing legislation is still not in line with the Television without Frontiers Directive. Major efforts are still needed in order to achieve full alignment with the *acquis*. Thus the short-term priority of the 1999 Accession Partnership for completion of legislative alignment has not been adequately met.

The Czech Republic has signed, but not yet ratified the Council of Europe Convention on Transfrontier Television or its Protocol.

As regards administrative capacity, the current competence and powers of the regulatory authority should be extended and its resources reinforced in view of the full implementation of the Community requirements. The Department of Mass Media in the Ministry of Culture administers broadcasting, film, video and periodical press. The number of permanent staff in the department (10) is adequate for the current workload, but should be increased in order to cover new responsibilities in the audio-visual field. The Czech Council for Radio and Television Broadcasting should be reinforced with both human and technical resources in order to implement legislation currently under preparation. Particular importance should be attached to the establishment and strong supervision of a transparent and predictable regulatory framework in this field.

In April 1999, the Government took note of a new “Concept for Cultural Policy in the Czech Republic – Strategy for More Effective State Support for Culture”, taking into account European principles and aiming at further involvement of the Czech Republic in European culture structures.

Further steps are necessary in the area of import and export of movable cultural heritage (related to the free movement of goods). As regards administrative capacity, the existing network, including museums, galleries and other state administrative

authorities, operating under the Ministry of Culture needs to be expanded on the regional level in connection with the reform of public administration.

Chapter 21: Regional policy and co-ordination of structural instruments

Some progress has been made since the previous Regular Report which concluded that although many reforms had been completed, issues relating to administrative capacity continued to require particular attention.

As regards **territorial organisation**, the Czech Republic has completed the establishment of territorial units in accordance with NUTS classification. There are 14 regions corresponding to NUTS III level (*kraj*), and 8 regions similar to NUTS II. The classification is effective for statistical purposes as from 1 January 2000, and for legislative purposes as from 1 January 2001.

Concerning the **legislative framework**, an act was adopted in June 2000 on support for regional development. The act provides the legal basis for Czech regional development as well as the institutional structure. The act covers the competencies in terms of development support at national, regional and local level, and defines the areas and conditions for the support of regional development, both with and without EC assistance. The act defines 8 NUTS II regions as “cohesion regions”.

The Czech Republic also made progress on other important and related legislation. In addition to the regional development support act, the Act on the Regions (NUTS III) was adopted. The act establishes the legal status, organisational structure and competencies of the 14 *kraj*, and extends delegation of state administration to NUTS III regions. The act on municipalities, which defines their specific competencies, was adopted as was the act on municipal budgetary rules. The latter provides for an overhaul of regional budget management and allows for National Fund financial resources to be used for implementing joint EC and Czech programmes.

Some progress has been made in strengthening the administrative capacity of the Ministry of Regional Development (MRD). Staffing levels have increased and advances have been made in the design of a human resources concept. Co-ordination and co-operation between relevant ministries and levels of administration have improved, in particular as concerns the preparation for Structural Funds implementation. The recent re-organisation at the MRD should build on these improvements.

As regards **planning**, the Government adopted and formally submitted its National Development Plan 2000-2006 (NDP) to the Commission in January 2000. The NDP provides for 6 Sectoral Operational Programmes (SOPs) and 8 Regional Operational Programmes (ROPs) at NUTS II level. The NDP is being examined by the Commission in particular as regards the selection criteria. The Government has also drawn up programming documents for SAPARD (Rural Development Plan) and ISPA (strategy documents for transport and the environment). Details are included in the section on Community assistance.

The **evaluation and monitoring system** procedures are to be tested by means of pilot programmes. A steering committee has been set up by the relevant ministries in order to prepare a unified monitoring system; a test version should be ready by December 2000. The system is to provide financial and technical monitoring of the preparatory, implementation and post-implementation phases of programme life cycles. Management and monitoring functions at NUTS II level are separate, in accordance with Structural Funds rules.

As regards **administrative co-operation, distribution of competencies and the application of the partnership principle**, the Action Regional Development Support confirms that co-ordination in the area of economic and social cohesion is the responsibility of the MRD. However, the Ministry of Finance is responsible for the co-ordination through the National Programming and Monitoring Committee for Economic and Social Cohesion. The National Aid Co-ordinator located within the Ministry of Finance has the final responsibility for the co-ordination, implementation, monitoring and assessment of EC-assistance. The National Fund has the final responsibility for the financial management of all EC assistance. In March 2000, the Government issued guidelines for the management of EC pre-accession assistance, defining the organisational structure for its implementation, including the relationship between the different actors involved.

In terms of **financial management**, the national budget currently only allows for annual commitments. The new act on budgetary rules should harmonise financial control procedures with those of the EC, introduce provisions allowing for multi-annual programming of budgetary expenditure, and the obligation to prepare a medium-term budgetary perspective (see also under chapter 29).

As to regional **statistics**, data for the determination of eligibility are available for Objective 1 and INTERREG criteria.

Overall assessment

Over the last three years the Czech Republic has made significant progress, notably through boosting its administrative capacity and increasing its co-ordination and programming capability, by means of the NDP in particular. The Czech Republic has recently formalised this progress by updating and adopting the relevant legislation, notably the act on regional development support. Any new act on the competencies of ministries should confirm the MRD's key responsibilities for economic and social cohesion. The Czech Republic should ensure that the administrative capacity in the relevant institutions both at central and regional level is strengthened on a sustainable basis, in particular through skills training and increased levels of staff. Particularly important in this respect will be intra-ministerial agreement on the relevant Implementing Agencies, prior to preparations for their accreditation.

The Ministry for Regional Development (MRD) has improved steadily since it was set up in 1996. It has a staff of some 364 people. The Ministry is fully aware of its important role in managing pre-accession assistance and the preparations for the Structural Funds, and has devoted its resources to these issues accordingly. However, the MRD's performance can be negatively affected by the absence of a civil service

law and competitive remuneration, problems that affect other institutions of government as well. A recent change of minister (June 2000), for instance, resulted in subsequent personnel changes at lower levels, which could be interpreted as evidence that political criteria can prevail over questions of policy. MRD should demonstrate its capacity to maintain the high performance level reached up to June 2000. Equally, the MRD's position vis-à-vis other key ministries involved in its area of competence, notably the co-ordination and administration of pre-accession assistance (economic and social cohesion), is under discussion. It remains to be seen what strategy the ministry adopts to solve this issue satisfactorily. Preparation for Structural Funds by the ministry is satisfactory, especially with regard to investment projects and establishment of the organisations required by Structural Funds, though with regard to grants and loans improvements are necessary. Communications between the central and regional levels could be improved.

As regards statistics, the availability of data allowing for the determination of Objective 2 and the URBAN initiative has yet to be confirmed. More importantly, the provision of data necessary to meet the ex-ante evaluation requirements has yet to be assured. For instance, at NUTS 2 level, no data exists concerning social indicators and structural business statistics. Data is available for employment statistics and infrastructure. Investments statistics should be improved.

Overall, full capacity to implement structural policies remains subject to the confirmation of MRD's performance and clarification of the role of the newly elected regional councils, which will start operating from January 2001.

Chapter 22: Environment

Compared to the situation in 1999, some progress has been achieved as regards the transposition of the environmental *acquis*. However, important framework legislation is still under preparation and has yet to be put in place.

As required by the 1999 Accession Partnership as a short-term priority, the Czech Republic has prepared directive-specific implementation plans, which were approved by the government in July 2000.

In the field of **horizontal legislation**, the transposition of the Environmental Impact Assessment Directive, which is a short-term priority in the Accession Partnership, is not yet achieved as it is currently before Parliament.

Even though great efforts have been made in the area of **air quality**, with a substantial reduction of emission levels, the Czech legislation on air pollution is only to a limited extent in line with the *acquis*. In April 2000, secondary legislation related to emission limits and the protection of the ozone layer were adopted. The transposition and enforcement of framework legislation in this field is a short-term priority of the Accession Partnership which still needs to be put in place.

In the area of **waste management**, in November 1999 an amendment to the Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and their Disposal was approved.

On **water quality**, limited progress has been achieved in the transposition and enforcement of framework legislation, which is a short-term priority of the Accession Partnership. Some progress has been achieved with the adoption of the Act on Public Health in July 2000 and the amendment to the Act on Foodstuffs and Tobacco Products in August 2000, which relates to the water quality standards for food production. Also, a Government Order on specification of indicators and values of acceptable degrees of water pollution, which partly transposes Community Directives was adopted. However, important framework legislation still needs to be adopted.

Little progress has been achieved over the past year in the field of **nature protection**. The Act on Nature Protection needs to be amended to be in line with the *acquis*. The transposition and enforcement of framework legislation in this area is a short-term priority of the 1999 Accession Partnership.

As regards **industrial pollution control and risk management**, the Act on Prevention of Major Industrial Accidents as well as secondary legislation entered into force in February 2000 and transposes the Seveso II directive. There is still a need for legislation in the field of industrial pollution prevention and control, which takes account of environmental protection in an integrated way. It is also necessary to set up the administrative structures in this field and decide which institution will be responsible. The transposition and enforcement of framework legislation in this field is a short-term priority of the 1999 Accession Partnership.

Transposition of legislation in the field of **chemicals and genetically modified organisms** is generally well advanced. The Act on Treatment of Genetically Modified Organisms entered into force in July 2000, and transposes the relevant Community legislation.

An advanced level of compliance has also been achieved in the field of **noise**. A governmental order setting up the requirements on Protection of health from Noise Emissions entered into force in June 2000.

In the field of **nuclear safety and radiation protection**, the Acts on Crisis Management and Integrated Rescue System, partly transposes Community legislation. However, full transposition has not been ensured. Three new Decrees from the State Office for Nuclear Safety and a Government Order have been issued in this field (see Chapter 14 – Energy).

In the field of **civil protection**, the Act on Crisis Management and the Act on Integrated Rescue System were adopted in January 2000 and take account of EC provisions in this field.

In May 2000, it has been reconfirmed that the Ministry of Agriculture is the authority responsible for water management including urban wastewater, whereas the Ministry of Environment is the responsible authority for the protection of waters and the Ministry of Health is the responsible authority for drinking water. A new section for water management was established at the Ministry of Agriculture in April 2000. This year approval was given to increase the staff in the Ministry of the Environment and in the Czech Environmental Inspectorate. It is planned to gradually employ an additional number of 36 people within the Ministry and an additional number of 76 people

within the Inspectorate for approximation related issues during the course of the year 2000.

Overall assessment

The Czech Republic has achieved some progress in aligning with the *acquis* and overall it is estimated that a quarter of EC environmental provisions have been transposed into national legislation. However, transposition of important framework legislation, which is a short term priority of the Accession Partnership, remains to be achieved in areas such as air, water and waste, together with nature protection and some industry related legislation. Nonetheless, preparation has started. Furthermore, there are gaps in secondary legislation governing economic instruments, implementation and enforcement. Whilst government policy is based on the principles of the EC's Fifth Environmental Action Programme, efforts need to be stepped up to achieve full compliance with the environmental *acquis* by accession.

In the fields of *horizontal legislation* and legislation relating to *chemicals and genetically modified organisms, nuclear safety, radiation protection, and noise*, it is estimated that around half of Community provisions have been transposed. Around one third of legislation relating to *industrial pollution control and risk management* has been transposed and in the fields of *nature protection* and *waste management* the level of transposition equals around one fifth of Community provisions. In the *air quality* sector, one tenth of the obligations deriving from EC legislation have been transposed. The *water quality* sector has the lowest level of compliance with Community requirements.

The Czech Republic has defined directive-specific implementation plans for alignment with Community requirements, which will be the basis of an environmental investment strategy. Since 1994, the Czech Republic's environmental investment has amounted to some € 1 bn per year, corresponding to 2.4% of GDP. The Czech Republic needs to maintain or increase this high level of investment in order to implement the *acquis* by accession. Particular attention should be given to the establishment of financing strategies for legislation in the water, air and waste sectors, which require major investments. Overall the technical infrastructure for implementing environmental legislation is of a relatively high standard, but needs to be upgraded to ensure full enforcement of the *acquis*.

The Czech Republic has organised its environmental administration with a largely centralised Ministry of Environment. The Ministry has been reinforced within the past years, reaching a total of 397 people; including the regional departments the staff amounts to a total of 545 people.

Institutional arrangements for environmental protection and enforcement have long been in place, especially in areas such as nature protection and water resource management. The system of licensing and permitting facilities that emit pollutants is well defined. A high level of compliance has been achieved for monitoring of air emissions, control of radiation protection resources, nature conservation, in relation to limiting noise. In other areas such as water and waste management further modifications are required, especially in the framework of evolving EC policies. The

labelling and control of chemicals, and the control of genetically modified organisms, also require further efforts to develop the institutional mechanisms. The most significant changes to current Czech practices will be in the implementation of the industry-related directives, in particular the IPPC directive.

Enforcement in the field of environment is to a great extent carried out by the Czech Environmental Inspectorate. It has a national office and nine regional offices. The Inspectorate has been reinforced in recent years, reaching a total of 491 people.

The main concern regarding administrative capacity relates to quality, due to lack of trained staff and adequate financial resources, consistency and clear division of competencies within and between institutions. In addition, uncertainties are linked to the administrative reform, which will have major implications on the environmental sector.

Chapter 23: Consumers and health protection

In comparison with the previous Regular Report, which concluded that legislation remained insufficiently aligned in important areas, progress has been achieved.

As **regards safety related measures**, in May 2000, the amended Act on the Liability for Damage Caused by Defective Products was adopted, ensuring transposition of the relevant part of the *acquis*. The amended Consumer Protection Act was adopted in February 2000 and has entered into force. It is in line with the *acquis* concerning products which, by appearing to be other than what they really are, endanger the health and safety of the consumer.

Concerning non-safety related measures, the Act concerning package travel, package holidays and package tours has been adopted and is in line with the *acquis*. In May 2000 an amendment was introduced to the commercial code introducing comparative advertising on the basis of an expert study. Moreover, certain amendments to the civil code strengthen the position of consumers in line with the *acquis* in respect of contracts negotiated away from business premises, distance contracts and on unfair terms in consumer contracts. Amendments to the Act on Pharmaceuticals aim to solve problems encountered in the implementation of the Act and aim to ensure a higher level of compatibility with the *acquis*.

Concerning the **market surveillance mechanism**, Czech market surveillance services consist of four institutions, which report to three different ministries. The division of responsibilities and co-operation among these inspection institutions was decided in October 1999, when the Government confirmed the central co-ordinating role of the Ministry of Industry and Trade (MIT) in the area of consumer policy. The amended Act on Czech Trade Inspection extending the control rights of inspectors has been adopted. This Act also strengthens food inspection. A consumer advisory committee was set up in April 2000.

Overall assessment

Over the last three years, progress has been made; the concept of consumer legislation has been adopted, the relevant Ministry has been confirmed in its key role, and the rate of transposition of legislation has improved. Important work still needs to be undertaken, however. Legislation on general product safety, misleading advertising, comparative advertising and guarantees, consumer credit, time-share and price indications, should be adopted and made compatible with the *acquis*. Legislation should also be drafted to set up the infrastructure required to identify dangerous products at external borders, and on payments and credits provided across internal borders. Integration into EC structures such as the Consumer Committee should continue as far as possible.

Overall competence in the area of consumer protection is allocated to the MIT by the Competence Act. The ministry has some 500 staff and is relatively stable. The ministry's consumer protection department has been strengthened and funding for independent consumer organisations is expected to be almost doubled in 2000 compared with 1999. Two additional organisations have been created and have seen their membership increase substantially.

The concept of consumer policy should be updated for the period 2001-2005. Administrative structures should be strengthened so as to ensure proper application of the *acquis*, the system of market surveillance should be rationalised, and the role of relevant non-governmental organisations should be boosted.

Chapter 24 - Co-operation in the field of justice and home affairs

Since the 1999 Regular Report, significant progress has been made in the Czech Republic in the fields of data protection, visas and migration. However, little progress can be reported on border controls, police co-operation and the fight against fraud and corruption.

The Personal **Data Protection** Act came into force in June 2000 and an independent supervisory authority, the Office for Personal Data Protection, became operational in September 2000, in line with the short-term priorities of the Accession Partnership. Furthermore, the 1981 Council of Europe Convention on the Protection of Individuals with regard to the Automatic Processing of Personal Data was signed in September 2000.

As far as **visa policy** is concerned, the new Act on the Residence of Aliens entered into force in January 2000. It includes new provisions on the issuing, validity and types of visas, as well as on uniform format. Visas are no longer granted at borders, except in certain specified extraordinary circumstances. Airport transit visas have been required for 11 countries since May 2000. Visa-free agreements with Cuba, Russia, Belarus, Ukraine, Cambodia and North Korea, as well as with China for holders of certain passports, were terminated during 2000. Visa requirements were formally confirmed by the government in respect of Georgia and Tajikistan. In May, the Government also decided to introduce visas for citizens of Kazakhstan, Kyrgyzstan, Moldova and Turkmenistan.

As regards administrative capacity, visa matters are overseen by the newly established Department for Immigration and Border Control in co-operation with the Alien and Border Police. An on-line system for issuing visas is currently operating in the Ministry of Foreign Affairs and in 59 diplomatic missions out of 107. The on-line connection between border crossing points and the central database of visa applicants is being tested.

The strengthening of **border control** is one of the short term priorities of the 1999 Accession Partnership. Little actual progress has been registered in alignment with, and implementation of, the *acquis* in this field. The first step in reforming organisational structures was taken in July 2000, when responsibility for the Border Police was transferred from the District Police to the Regional Police. The Alien Police at the border crossing points and the Border Police at the green border will thus be supervised by the same regional police office, making the organisation of policing more coherent.

As regards administrative capacity, a Department for Immigration and State Border Protection was established in January 2000 within the Ministry of the Interior. The 26-strong Department merged in July 2000 with the Department for Refugees and Integration of Foreigners to become a new Department for Asylum and Migration Policies. In May 2000 the Ministry of the Interior began training 280 staff to be deployed in May 2001 as mobile Police units at the Czech Slovak border. These posts will be filled from other police services and the mobile units, will be under the authority of the District Police. Careful attention should therefore be paid to ensuring that they are used to combat illegal immigration and not for general policing.

The on-line connection between headquarters and the border crossing points is improving. Regarding the preparation for participation in the Schengen Information System, software is being developed and relevant police departments are being equipped with information technology. A document information system has been created, containing data on stolen, misused or lost travel documents, identity cards and firearms licences. This system was introduced in 2000 in all districts and regions. The issuing of machine-readable passports was launched in 2000.

As regards **migration**, the Act on the Residence of Aliens, entered into force in January 2000, bringing Czech policy further into line with the *acquis* and meeting one of the short term priorities of the Accession Partnership. Persons who wish to obtain long terms visas or residence permits must now apply at the relevant embassy abroad and applicants have to obtain working permits in the Czech Republic before asking for a long term visa. However, the implementation of the new Act has been hampered by the lack of preparation of the institutions involved and the time consuming application procedures initially caused some confusion in the business community. The Government is therefore preparing an amendment to this Act. In September 2000 a detention centre for illegal migrants was opened in Postorna.

The new Act on **asylum** entered into force in January 2000, in line with one of the short-term priorities of the 1999 Accession Partnership. The new Act makes significant progress in meeting international norms and European standards. It provides adequate access to refugee status and appeal procedures. A number of welcome additions are being introduced, including the notion of humanitarian asylum and the suspensive

effect of judicial appeal against all negative decisions, including in cases of manifestly unfounded claims. Social assistance for asylum seekers whose application are rejected is also being introduced. However, the new Act lacks an independent second instance for rejected asylum applications.

In the field of **police co-operation and the fight against organised crime**, the need to combat organised crime and economic crime has been widely recognised as a priority in the Czech Republic in the course of the past year. The implementation of policy in these areas is a short-term priority of the 1999 Accession Partnership. The Czech authorities have introduced several modifications in the central administrative structures which aim to improve international police co-operation, the fight against computer crime and cybercrime and the fight against smuggling and trafficking in humans. Specialised units for the fight against economic and financial crime have also been created in the Regional Public Prosecutor's Offices to allow state prosecutors, investigators and detectives to work together on individual cases from the outset. (see *Part 1.1 Democracy and the rule of law*).

As far as the **fight against fraud and corruption** is concerned, the 1997 OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions entered into force in March 2000 and the 1999 Council of Europe Criminal Law Convention on Corruption was ratified in September 2000, thereby fulfilling short-term priorities of the 1999 Accession Partnership. The Council of Europe Civil Law Convention has not been signed yet. A further short-term priority is the implementation of policy on corruption (legislation, implementing structures, sufficient qualified staff, better co-operation between institutions), but little progress can be reported in this area. (see *Part 1.1 Democracy and the rule of law*).

The National Drug Commission has launched a study to monitor the impact of the January 1999 legislative amendments which penalised the possession of **drugs** for personal use. In November 1999 the National Drug Commission set up a Task Force of drug co-ordinators to improve communication between central and local units. The allocation in 2000 to be used for financing drug control projects and policy amounts to € 3.3 million and while this represents a slight decrease from last year (€ 4.2), it is approximately three times more than that allocated in 1998. In 1999, 182 posts were created to implement the anti-drugs policy.

One of the short-term priorities of the 1999 Accession Partnership was to strengthen capacities to deal with **money laundering**. An amendment to the Money Laundering Act entered into force in August 2000 which brings Czech legislation more into line with the *acquis* (see also Chapter 4 - "*Free movement of capital*") The Financial Analytical Unit has been steadily reinforced and is well resourced.

With regard to **customs cooperation**, no new developments can be reported.

On **judicial co-operation**, progress was made as regards the reform of civil and commercial procedure, including the abolition of the three Regional Commercial Courts as part of a move from the present four-tier, to a three-tier judicial system. (see also 1.1)

Overall assessment

With the exception of asylum and alien legislation, insufficient progress has been made in addressing this field, in particular as regards implementation and administrative capacity.

The Personal **Data Protection** Act has made progress in aligning with the *acquis*. However, due to delays in the adoption of the new Police Act, the treatment of personal data by the police is not yet covered. Despite efforts undertaken following accession to NATO, the Czech Republic still has to close gaps related to access and security of personal data from Member States' citizens, especially with a view to alignment with Europol and Schengen *acquis*. As regards customs cooperation, there is also a lack of adequate data protection as required for full participation in the Customs Information System and Naples II.

The Czech Republic has made significant progress in aligning its **visa policy** with the European Union, terminating existing visa-free regimes with a large number of countries, and preparing the imposition of visas with all countries necessary to ensure full alignment before accession. The new Aliens Act sets the basic legal framework to introduce measures aimed against the misuse of visas.

The medium-term priority of the Accession Partnership regarding the alignment of visa policy has therefore been successfully addressed.

In order to improve identity checks and detection of attempts to misuse visas it is still necessary to develop a Schengen-type visa sticker, introduce the electronically-supported system for issuing visas to all its diplomatic missions, and connect the on-line query system at border crossings to a central database of visa applicants. Visa offices throughout the country will also gradually have to be equipped with a similar system.

In the field of **border controls**, delays in the parliamentary approval of certain judicial reform have further postponed the introduction of the new Police Act, which would secure the autonomy of the border guards. They remain understaffed, badly equipped and bound by inefficient communication procedures with national police headquarters.

Officers earn slightly less than the average monthly wage. Further attention needs to be given to training, as not all Border Police guards have passed through the one-year training at the special School for Alien and Border Police. The Border Police does not yet have direct access to the on-line database of suspects at headquarters.

Technical controls at official border crossing points work without major difficulties but controls along the green borders are clearly inadequate to deal with illegal immigration. Some 30 border crossings have equipment for machine readable documents and several border crossings on the Slovak border are linked to the Ministry of the Interior's data network. There has been no progress in separating passenger flows at airports.

The establishment of a comprehensive strategy is still required. Further progress in this direction could be made through the implementation of a "conceptual document" produced by the Ministry of the Interior which aims within 3 years to transform the

Aliens and Border Police into one centrally managed police body competent for the whole territory and with reinforced staff numbers. The adoption of the draft Police Act is also a priority as it would introduce border control rules compatible with the *acquis*. The Czech Republic has still to establish its participation in the False and Authentic Documents (FADO) system and therefore has to ensure the full co-operation of all involved institutions.

There are now readmission agreements with Slovakia, Hungary, Poland, Austria, Germany, Bulgaria, Romania and Canada but agreements with France, Slovenia and Croatia have not entered into force yet. The Czech Republic is currently renegotiating the readmission agreement with Slovakia in order to bring it in line with the *acquis* requirements. It should ratify its outstanding readmission agreements and sign further agreements with Member States, candidate countries and third countries like Belarus, Russia and Ukraine.

As regards implementation, although some progress has been registered (2,985 expulsions in 1999 up from 2,246 in 1998) there is still room for improvement especially in preventing “readmitted” third-country nationals who are ordered to leave Czech territory (but not deported under escort) from again trying to enter the Union illegally.

The new Act on **Asylum** makes progress in meeting international norms and European standards but lacks an independent second instance for rejected asylum applications. Both administrative instances are at present under the discretion of the Ministry of the Interior. The Czech Republic provides good integration opportunities for recognized refugees, including a government-subsidised housing programme.

The Czech Republic should also prepare for application of the Dublin Convention. As far as administrative capacity is concerned, both the number and training of staff should be increased in order to maintain a reasonable average length of procedure.

In 1999, 80 persons were granted refugee status out of 7,219 applicants. In the first half of 2000, 58 persons were granted refugee status out of 2,591 applicants. The main countries of origin are: Afghanistan, India, Sri Lanka and Russia, particularly from Chechnya. The asylum reception centres work under good conditions but their capacity will have to be increased. Practice towards asylum seekers entering the Czech Republic via safe third country remains to be established.

In the field of **police co-operation and the fight against organised crime**, the draft law on the protection of witnesses and other persons in connection with criminal proceedings still has to be adopted, as well as the draft Police Act which aims to achieve alignment with the *acquis*, including the Europol Convention. As regards implementation, police efficiency and relations between the police and the public need to be improved. Police structures are too weak to effectively combat illegal immigration, corruption and organised and economic crime. Training in these areas, as well as general management, is necessary. Although the selection process is quite rigorous (over 40% of the applicants each year fail the tests), the recruitment of qualified staff is hampered by low salaries and poor working conditions.

Almost all police stations have access to the national police databases which will be used for the national Schengen Information System, but there is a lack of modern technical equipment and suitable premises.

Regarding the **fight against fraud and corruption**, some progress on *corruption* issues were achieved through an amendment to the Criminal Code in 1999, however the law is not yet aligned with the *acquis* on criminalisation of corruption in the private sector. Greater efforts are needed to create an efficient implementing capacity to fight corruption, and there is still a lack of qualified staff and inter-institutional co-operation in this area.

As regards *fraud*, the 1995 Convention on the Protection of the European Communities' Financial Interests is not fully covered by Czech law. In 1997 the Czech Republic extended the general provisions against fraud to also cover subsidy fraud. The Czech Republic should prepare for full co-operation with OLAF upon accession.

The Czech Republic is party to all the international conventions listed under the *acquis* in the field of **drugs**, with the exception of the 1995 Agreement on Illicit Traffic by Sea. In addition, the Czech Republic has a national drug strategy for 1998-2000 covering both drug demand and drug supply reduction. However, drug-related crime remains a significant problem in the Czech Republic: according to a Europol report of August 1999, the Czech Republic continues to be a transit country for heroin, cannabis and increasingly cocaine. The number of drug users has increased consistently over the last five years.

Further efforts are required to improve the collection and availability of information on drug-related issues and to set out a supply reduction strategy with clear priorities and performance indicators. The creation of the National Drug Information Focal Point, in accordance with EMCDDA (European Monitoring Centre for Drugs and Drug Addiction) requirements, should be completed.

As regards **money laundering**, the enforcement of current legislation needs to be improved considerably. Indeed, current control and repression of fiscal fraud, bankruptcy, money laundering, corruption and common economic crimes is largely ineffective.

The Financial Analytical Unit (FAU) in the Ministry of Finance plays a central role. Banks have to report every suspicious operation to the FAU, which in turn co-operates with and provides information to the police. Over the period 1996 to 1999, 97 complaints were filed and 52 were investigated. In 1999, 5 persons were sentenced with money laundering and in the first half of 2000 4 persons were sentenced. This indicates that police and judicial efforts in money laundering cases need to be improved. There are many different government institutions involved in anti-money laundering, and insufficient co-ordination between them.

The Czech Republic is, to a large extent, aligned with the *acquis* in the field of **customs co-operation**, but there are still some matters of concern. No formal, comprehensive programme exists in this field. Corruption is still a problem, and the customs service intends to tackle this through the adoption of a formal code of ethics. Risk analysis is not sufficiently developed. Co-operation between Customs Administration and Alien

and Border Police should be further improved. There is still no common integrated database used by Alien and Border Police and Customs authorities. Customs authorities need further training on combating illegal migration in order to assist the detection work of the Alien and Border Police.

As far as **judicial co-operation** is concerned, the Czech Republic has ratified nearly all international conventions included in the *acquis*. On civil matters, the Convention on International Access to Justice still has to be ratified (signed in April 2000). On *criminal matters*, the Czech Republic has not yet acceded to the European Convention on the International Validity of Criminal Judgements. The definition of a criminal organisation will have to be reviewed in order to comply with the December 1998 EU Joint Action making it a criminal offence to participate in a criminal organisation. New legislation is still awaited as regards protection of witnesses, combating trafficking in human beings and sexual exploitation of children, and criminal liability of legal persons. Improvement is still needed in judicial co-operation. This suffers from insufficient manpower and bureaucratic obstacles.

All the **human rights** legal instrument parts of the Justice and Home Affairs *acquis* have been ratified by the Czech Republic, with the exception of the 1981 Council of Europe Convention on the Protection of Individuals with regard to Automatic Processing of Personal Data.

Chapter 25 : Customs union

Since the previous Regular Report further progress has been made on legislative transposition and a number of initiatives have been taken to strengthen administrative and operational capacity.

No particular developments are to be reported regarding the **EC Customs Code and its implementing provisions**.

As regards alignment with the **customs *acquis* outside the Customs Code**, further progress has been made in completing legislative alignment in the field of counterfeit and pirate goods. The Act on “Measures Pertaining to Import, Export and Reexport of Goods Infringing Upon Some Intellectual Property Rights” has come into force. The implementing decree for this Act, “Setting the Flat Rate Amount for Adopting a Measure by the Customs Office”, came into force at the same time.

Regarding the pan-European system of origin, the Czech Republic has agreed to the amendments to the system which will come into force in January 2001.

Concerning **administrative and operational capacity** to implement the *acquis*, the Czech Republic has taken a number of initiatives. In April 2000 the Agreement in the form of an Exchange of Letters between the European Community and the Czech Republic concerning the extension of the common communication network/common system interface (CCN/CSI) within the framework of the Convention on a common transit procedure entered into force. The Czech Republic is the first candidate country to enter such an agreement with the EC and to participate in the New Computerised Transit System (NCTS). Also, work on the technical and organisational aspects of the

adoption of TARIC and its implementation in the Czech Customs Administration is being carried out.

The computerisation of the customs administration is being developed and an analysis of the interconnectivity requirements is being carried out. A computerised customs declaration processing system, including EDI facilities for electronic customs clearance, and a computerised revenue collection and accounting system are in operation. In June 2000 a computerised system for the administration of quota became operational. A pilot project on the information system for enforcement purposes, which will be able to communicate with the EC systems, is in the phase of development and testing.

A Consultative Committee was established in 1999 as a forum for consultation with exporting and importing companies. Specialised units (“Inspectorates of Customs and Financial Guards”) have been created to enhance the fight against commercial fraud as well as to protect financial *interests* (*this is also referred to in chapter 24 under customs cooperation*).

The Ministry of Finance adopted a decision ordering legislative changes to be made to the organisational and institutional aspects of the administration of excise taxes: the Customs Directorate will be responsible for excise taxes once these changes are made. A twinning project started in the autumn 1999 will deal with this issue.

Overall assessment

A high level of compatibility has been achieved between the customs legislation of the Czech Republic and the Community *acquis*. In order to complete full alignment with EC legislation, a further set of amendments to the Czech Customs Code is required.

As regards administrative and operational capacity to implement the *acquis*, the Czech Republic has made good progress. For the future, it should implement the Action Integrity Plan with a view to reinforcing customs ethics, develop and implement an efficient training system and guarantee a smooth transfer of responsibilities on excise duties to the Customs Administration. Moreover, the Czech Republic should continue to install and implement the relevant customs-related IT applications necessary for smooth implementation of the *acquis*. With respect to border control and enforcement, particular attention should be paid to the implementation of measures to reduce waiting times at the border.

Chapter 26: External relations

Since the previous Regular Report the Czech Republic has continued to align with the *acquis* with regard to the common commercial policy and to coordinate positions and policies within the World Trade Organisation.

As regards the common commercial policy, upon accession the Czech Republic will be required to align its tariffs with those of the EC. The Czech Republic’s applied tariffs currently average 6.4% on all products, 14.0% on agricultural products, 0.1% on fishery products and 4.6% on industrial products. By comparison the EC tariffs

currently stand at 5.3% on all products, 9.4% on agricultural products, 12.4% on fishery products and 4.2% on industrial products. Thus since 1999 there has been some progress in alignment of Czech tariffs with those of the EC.

A step forward was taken in this context when the Czech Parliament adopted the “Act on some measures on export or import of goods and on licensing procedures”. By adopting this Act, which is based on the agreements reached in the Uruguay Round multilateral negotiations, the Czech Republic has indicated that it has fulfilled its WTO commitments.

Likewise, the Parliament adopted the “Act on protection against subsidised imports” which will be applied until the date of the Czech Republic’s accession to the EU. The Act is based on Article VI of the GATT, the agreements reached in the Uruguay Round multilateral negotiations namely the Agreement on Subsidies and Countervailing Measures and the Agreement on Agriculture, the relevant articles of the Europe Agreement and EC legislation.

Concerning bilateral agreements with third countries, the Czech Republic is monitoring the present evolution in the Republic of Croatia with the aim to restart, at the proper occasion, the negotiations on a Free Trade Agreement. The Czech Republic has held consultations with Morocco on the possibility of a Free Trade Agreement. In February 2000 a non-preferential trade agreement entered into force with Ecuador.

Within CEFTA, the member countries, including the Czech Republic, signed the Additional Protocol No. 8 on the updated version of the Pan-European cumulation of origin of goods (*please refer to chapter 25 – Customs Union*).

As regards the fields of development policy and humanitarian aid, cooperation and assistance, the Czech Republic is an active member of the OECD and it is adapting its development practices to the principles laid down by the Development Assistance Committee.

Overall assessment

Where alignment with the Community *acquis* on commercial policy is necessary, good progress has been made, for example covering rules of origin and dual use goods.

Some progress has been made in the field of export credits. The Czech system is in line with the OECD consensus, but where medium and long term export credits are granted, further alignment with the *acquis* is necessary.

The EU and the Czech Republic have established a framework for co-operation regarding WTO issues both at ministerial and at departmental level. The Czech Republic has been supportive of EU policies and positions within the WTO framework. As regards the new round, the Czech Republic concurs with the EU on the need to launch a comprehensive trade round as soon as possible and shares the view that the results of work under the built-in-agenda would be less substantial in its absence.

The Czech Republic has become a party to the Information technology agreement (ITA). The Czech Republic still needs to join the plurilateral Agreement on Trade in Civil Aircraft and the Agreement on Government Procurement (although further alignment with Community legislation is required). Also, further coordination is necessary in order to consolidate the adjustment of the Czech list of commitments in GATS with the EC commitments and MFN exemptions. As regards the WTO Agreement on Trade in Textiles and Clothing, the Czech Republic needs to use the third stage of integration under the ATC to align its integration programmes on those of the EC, while notably avoiding the integration of products not yet integrated by the EC.

In addition to FTAs concluded recently with Slovakia, Estonia, Latvia, Lithuania, Turkey, EFTA (Norway, Switzerland, Lichtenstein) and Israel, the Czech Republic is a member of CEFTA. In this area further progress is necessary in aligning with the EC international trade obligations; the Czech Republic should continue to keep the Union fully informed about existing trade agreements or negotiations aimed at the conclusion of any new trade agreements with a third country.

The Czech Republic's alignment with and future participation in the common commercial policy is administered by the Ministry of Industry and Trade. The administrative infrastructure which needs to be in place as regards customs services is addressed under chapter 25. Development and humanitarian aid are administered by the Ministry of Foreign Affairs. At this stage no specific issues are to be highlighted in terms of administrative capacity in addition to the analysis presented in section 1.1. of this Report.

Chapter 27: Common foreign and security policy

Since the previous Regular Report the Czech Republic has continued to align its foreign policy with that of the European Union and has participated constructively in the framework of the Common Foreign and Security Policy, in particular as regards the Kosovo crisis.

The regular **political dialogue** established by the Association Agreement with the Czech Republic is proceeding smoothly and the Czech Republic continues to orient its foreign and security policy towards the Union. It continues to participate actively in the framework of the Common Foreign and Security Policy (CFSP), including the meetings at the level of Political Directors, European Correspondents and Working Groups.

The Czech Republic has shown a keen interest in the development of European Security and Defence Policy (ESDP) as part of CFSP and has actively participated in the exchanges in this context with the EU, in EU + 15 format (ie non-EU European NATO members and candidates for accession to the EU) and in EU + 6 format (ie non EU European Members of NATO).

As regards alignment with **EU statements and declarations**, the Czech Republic has regularly aligned its positions with those of the Union and when invited to do so has associated itself with the Union's **joint actions and common positions**. During the

course of 1999 the Czech Republic associated itself, together with the other CEECs, with a common action of the EU concerning the contribution of the EU to the fight against accumulation and the destabilising proliferation of lightweight and small calibre firearms. It also associated itself with 11 EU common positions, including 3 on the Federal Republic of Yugoslavia. A rather unique case was the EU statement on UNIDO which the Czech Republic did not support since, unlike the EU, it criticised the work of UNIDO on the basis of experience gained in co-operation with UNIDO.

Since the Regular Report of 1999 progress has been made in adopting the necessary legislative framework for effective participation in the CFSP. A new Act on Joining International Sanctions for maintaining International Peace and Security entered into force in June 2000, thus allowing the Czech Republic to quickly align itself with the Union's decisions on the imposition of international sanctions. This Act introduces a new procedure under which the Czech Government may join sanctions imposed by the Security Council of the United Nations or the Council of the European Union, after discussion by the relevant Chamber of Deputies' committee. The Act also provides for recourses in the event of non-observance of sanctions.

The Czech Republic has improved its co-operation with Slovakia. In May 2000 the Czech government settled with Slovakia the issue of division of former Czechoslovak Federation property (as discussed under section B.1 of this report). The Czech Republic supported actively the continuation of the 'Visegrad' four co-operation in particular by holding the meeting of the 'Visegrad' Prime Ministers in Prague in November 1999.

To further strengthen coherence of Czech foreign policy with the CFSP of the EU, a reorganisation of the structures in the Ministry of Foreign Affairs has been undertaken. Thus the Political Director is now directly responsible to the State Secretary for Foreign Affairs and First deputy Minister. Also, the Department for Political Relations with the European Union within the Ministry of Foreign Affairs is primarily responsible for the Common Foreign and Security Policy issues, and its staff allocation has been increased. Finally, an Associated European correspondent unit has been constituted within this department to ensure communication within the Associated Correspondents' Network system and the participation of the Czech Republic in the EU political dialogue with the candidate countries, in which the Czech Republic took an active part in 1999.

Overall assessment

The overall progress achieved since 1997 in alignment with the *acquis* in the CFSP is fully satisfactory. As the *acquis* in the field of foreign policy and security develops further, so the Czech Republic should maintain the orientation of its foreign policy in line with that of the Union.

The Czech Republic participates actively as an observer in the Western European Union.

Following the Kosovo crisis, the Czech Republic showed active support for and interest in the Stability Pact. It participated in the SFOR peacekeeping operations in Bosnia-Herzegovina with 558 troops and in KFOR in Kosovo with 126 troops.

The Czech Republic's relations with its neighbours have in general improved as the Czech Republic has taken a more proactive role in promoting enhanced bilateral cooperation and regional integration. However, relations with Austria have encountered difficulties concerning, in particular, nuclear safety.

The Czech Republic has adhered to the EU Code of Conduct on Arms Exports, but there is concern that more efforts are necessary to ensure implementation of its criteria.

Concerning the administrative capacity to implement the provisions relating to CFSP, the Czech Republic has a well staffed and functioning Ministry of Foreign Affairs. It has the capacity to effectively participate in the Associated Correspondents' Network both in terms of staffing allocations and in terms of the appropriate information systems.

Chapter 28: Financial control

Some progress has been achieved in this field.

The Accession Partnership includes a short term priority in this regard, notably on legislation and organisational set up.

As regards public internal **financial control**, the Act on Financial Control is currently before Parliament. A new methodological and coordinating unit within the Control Department of the Ministry of Finance was set up in March 2000.

External financial control is the responsibility of the Supreme Audit Office (SAO), a fully independent institution. Strengthening of the financial independence of the SAO should be one of the results of the new Act on Budgetary Rules, which was adopted in June 2000. Although the intention of strengthening the relevant administrative capacity has been highlighted by the Czech authorities, no clear timetable has been put forward as to future activities in this area.

Regarding **control measures relating to Own Resources**, a special unit has been set up within the Ministry of Finance. It is to ensure appropriate management and control of Own Resources, taking into account the control modules developed by Member States in co-ordination with the Commission services within the framework of the Joint Audit Initiative. An amendment to the act on district financial authorities to combat tax evasion entered into force in January 2000. In terms of administrative capacity, VAT controls have been strengthened by the provision of additional purpose-built IT equipment.

No new development can be reported regarding **structural action expenditure**.

As to the **protection of financial interests of the EC**, there is no compatibility with the 'Convention on the Protection of Financial Interests of the European Communities

as yet. The Czech Republic should strengthen its co-operation with the EC bodies competent for the protection of the EC financial interests, in particular with OLAF.

Overall assessment

The Czech Republic has made some progress.

The relevant primary legislation is currently before Parliament and secondary legislation as regards implementation is still required. Significant further efforts are also necessary as regards the strengthening of administrative capacity, notably skills training, sufficient staff and resources, so as to be able to carry out financial control functions according to EC standards at all levels. It is essential that the Czech control authorities start developing financial management and control manuals in all line ministries and other government spending centres at all levels of government, and audit manuals for the internal audit service(s). Completion of systems and procedures for controlling EC funds through the National Fund and for monitoring and verifying the use of EC and state funds through the relevant implementing agencies should be a priority.

As far as external financial control is concerned, the SAO's independence should be improved by specific rules concerning the appointment, remuneration and dismissal of staff. Also, the SAO Strategic Development Plan should be adopted and its timetable should confirm internationally recognised auditing standards.

Chapter 29 : Financial and budgetary provisions

Important steps forward have been taken in this field in terms of legislative alignment whereas progress on implementation and administrative capacity has been more modest.

As regards the **national budget and EC co-financed measures**, as from 2000, the State budget includes a list of expenditure to be incurred in connection with preparations for EU membership. A new Act on Budgetary Rules, adopted in June 2000, will establish the legislative framework for the management of budgetary relations with the EC. It is expected to deliver the modifications necessary for the proper collection and control of own resources and the efficient handling of financial flows to and from the EC budget. As a result of the new Act, budgetary legislation will be in line with EU Member States' standards. The new Act should also ensure a better balance between the Parliament and executive in relation to the budget. A special unit for the overall co-ordination of budgetary relations with the EC has been set up within the Ministry of Finance to ensure co-ordination of budgetary relations with the EC; it employs 5 staff.

As far as the budgetary process in general is concerned, budget preparation methodology and analytical techniques have been improved, notably as regards a new budget expenditure classification methodology and the evaluation of the efficiency and effectiveness of government programmes. These improvements should be made sustainable and developed further.

Concerning **own resources and administrative infrastructure**, in August 2000, the state agricultural intervention fund was adopted, which allows the Government to adopt rules for the collection of agricultural levies.

Within the Ministry of Finance a so-called Own Resources unit has been set up, which has the task of co-ordinating and preparing for and practicing the procedures necessary for the proper calculation of Own Resources. VAT calculations and fine-tuning of the existing institutional framework are part of the unit's responsibilities. The Czech Statistical Office collects data and carries out GNP calculations. A new account system (ESA 95) has been introduced, which includes financial accounts.

Overall assessment

While progress has been made, further efforts are required in this area.

As concerns budgetary issues, the current Treasury system would need to be redesigned and reinforced by means of a system based on a single account. The new budget legislation should be implemented, budget transparency should be assured and the medium-term expenditure framework should be made fully operational. As an immediate priority, the Czech Republic should complete work on the design and implementation of the operating procedures for the National Fund so as to provide a solid basis for the management of EC pre-accession funds.

With regard to the overall financial management of EC pre-accession funds by the National Fund, implementation has been poor. The National Fund has been very slow in submitting requests for funds and distributing received funds; applications submitted have been subject to shortcomings that have resulted in some cases in loss of funds. The central financing and contracting unit should be more active in seeking to improve implementation.

As for administrative capacity, the Ministry of Finance is responsible for the co-ordination of all foreign assistance received by the Czech Republic. Problems that affect the Czech public administration at large are magnified in this institution by both the nature of its activities and their importance. Despite recent improvements within the ministry, notable weaknesses continue to affect important issues such as tax collection, where there is a serious deficit in human resources. An additional difficulty for the ministry is the lack of adequate information and analysis from the line ministries, notably as concerns capital investment programmes.

It is necessary in particular to harmonise the VAT system, and improve national accounts and statistics. As regards accounts and statistics, the new Act on Budgetary Rules will consolidate, supplement and improve existing provisions and practices. However, it is crucial that the Czech Republic strengthens its ability to mobilise the human and administrative resources required to follow the Commission's operations and instructions concerning payments to the EC budget (Own Resources).

3.2. Translation of the *acquis* into the national language

Applicant countries are to translate the various legal texts constituting the *acquis* into their national languages by the time of their accession. The *acquis*, consisting of primary and secondary binding legislation, represents at present a considerable volume of acts, roughly estimated at 60.000-70.000 pages of the Official Journal. To help the candidate countries in this process, assistance is being provided under the Phare programme. With the help of TAIEX, a centralised Translation Co-ordination Unit has been created in each of the ten candidate countries of Central Europe.

The overall responsibility for the translation of the *acquis* lies with the Office of the Government, namely its Department for Compatibility with EC Law (CODEC). Founded in September 1998, a specialised Co-ordination and Revision Centre has been assigned within the CODEC to organise all translation works. In close co-operation with the line-ministries, the Centre revises all translated documents from the legal and linguistic point of view and maintains the central database, accessible to all ministries. The revised translations should meet all criteria to be ready for *authentication* by EC institutions by the time of accession.

As of June 2000, all documents of the primary legislation and about 28,000 pages of the secondary legislation have been translated, of which 10,000 have been fully revised. It is estimated that about 8,000 more pages will have been translated by the end of the year. With the consent of the Office for Official Publications in Luxembourg, approximately 200 of the revised documents have been displayed as working documents on the Internet, thus helping their implementation and general understanding in the public.

To speed up the process of translation and implementation of EC documents, the Czech and Slovak Governments concluded an agreement on co-operation in the field of translations, which includes an interchange of translated EC documents for information.

Further efforts are required in this area.

3.3. General evaluation

Since the previous Regular Report there has been a significant acceleration in the rate of legislative alignment with the EC *acquis* although further efforts are needed in a number of key areas. There has also been some progress in strengthening administrative capacity although the delays in administrative and judicial reform have hampered these efforts.

There has been good progress in legislative alignment in key areas of the *internal market acquis*. Regarding the free movement of goods, legislation has been adopted covering a wide range of sectors from toys to pharmaceuticals. As regards the free movement of capital, the law against money laundering has been strengthened although a clear timetable is needed for the cancelling of existing anonymous bank accounts. In the area of free movement of services, capital market surveillance needs to be further strengthened. In the fields of intellectual property significant progress has

been made in aligning with the *acquis* although the effectiveness of the regulatory bodies needs to be improved. As regards competition law some gaps remain on anti-trust but legislation has been further aligned regarding state aids.

Concerning the field of *innovation*, a great deal of progress in transposing the *acquis* has been made concerning the liberalisation of the telecommunications market through the strengthening of the regulatory body and the abolition of the exclusive rights of the current operator. On audiovisual policy, further efforts are needed for alignment with the *acquis* and it is necessary in particular to strengthen the supervisory authority.

Progress has also been made on sectoral policies. As regards industry, the government has promoted enterprise restructuring and accelerated privatisation, in particular through the work of the Revitalisation Agency, with the exception of the steel sector. For transport, alignment has progressed in all sectors; on high-speed rail systems, road transport, air transport, inland waterways and maritime transport.

In the area of *economic and social cohesion*, good progress has been registered. In the field of social policy and employment, employment strategy is in line with EC principles and policy and social dialogue has been strengthened. On regional policy, territorial organisation is in line with EC classification, a new Act regulates regional development and the institutional framework has been clarified.

In the field of *agriculture*, progress has been made to prepare the measures required to implement the *Common Agricultural Policy*, notably with new legislation on the establishment of the State Agriculture Intervention Fund. In the field of *veterinary and phytosanitary* legislation, progress has been made with alignment.

As regards the *environment*, further efforts are needed to transpose the *acquis* in the areas of air pollution, waste management and water quality and Environmental Impact Assessment. Furthermore, more coherent medium term financing strategies need to be established.

In the field of *Justice and Home Affairs*, the effectiveness of border policing continues to be deficient with co-ordination still needing to be improved between ordinary and border policing, as well as with customs authorities. There has been no substantial progress in the fight against corruption and organised crime.

As regards *administrative capacity*, the bodies responsible for standards and certification of goods generally function well. However, in the field of services, the Securities Commission should be further reinforced. As regards competition, the state aid monitoring authority needs to be reinforced whilst the Office for the Protection of Competition is well established. As regards agriculture, progress has been achieved as regards the introduction of an administrative structure for common market organisations, notably with the adoption of the Act on the State Agricultural Intervention Fund. In regional policy, preparation for the structural funds has been taken forward with the establishment of territorial units in accordance with the *acquis* classification. For the environment, approval has been given to increase the staff in the Ministry of Environment and in the Czech Environmental Inspectorate, although training needs to be improved and financial resources increased. As regards Justice and

Home Affairs, visa matters are now overseen by the newly established Department for Immigration and Border Control and a first step in reforming organisational structures was taken to improve border controls. However, overall, insufficient progress has been made in this area, which suffers from insufficient staff and poor equipment as well as organisational weaknesses.

The majority of the priorities of the *Accession Partnership* have been addressed although the efforts made thus far should be built upon in order to meet more fully the set objectives. Progress has been particularly satisfactory on free movement of goods, employment and social affairs and telecommunications. However in some areas the short-term priorities have not been sufficiently pursued. This is the case as regards Company law with respect to minority shareholders, and in the area of the free movement of services where capital market surveillance has not been adequately strengthened. As regards the audio-visual sector, little alignment has taken place. Progress on the environment and Justice and Home Affairs has been limited.

The Czech Republic has already started to address a number of the medium-term Accession Partnership priorities.

C. Conclusion

The Czech Republic continues to fulfil the Copenhagen political criteria. Recent significant developments include, in particular, a more effective collaboration between the government and Parliament.

There has been progress in setting the legal framework for regional government. However, the reform of the public administration has not advanced significantly and therefore the short term priority of the Accession Partnership in this field has not been met. The reform of the judiciary is equally a short term priority of the Accession Partnership. Whilst progress has been made, it is regrettable that certain key parts of the reform have not yet been adopted. Administrative and judicial reform are both essential for effective enforcement of the *acquis* and improved good governance. Thus efforts must be pursued in these fields, in line with the medium term priorities of the Accession Partnership.

Furthermore, the fight against corruption and economic crime has so far been insufficient. Tangible results in this field will respond to public concern and help ensure a transparent business environment.

The Czech Republic continues to respect human rights and freedoms and has developed its internal institutional framework in this field. Nevertheless, areas of concern remain, in particular overcrowding of the prison system and persistence of trafficking in women and children.

Increased and, in some areas, significant efforts have been made since last year regarding the situation of the Roma community, notably with regard to the education system. However, a lasting improvement in the situation of the Roma requires sustained effort over time. Further progress is needed, as indicated in the medium term priorities of the Accession Partnership.

The Czech Republic can be regarded as a functioning market economy and should be able to cope with competitive pressure and market forces within the Union in the near term, provided that it keeps up and completes the implementation of structural reforms.

Macroeconomic stability has increased. Growth has resumed, while the favourable performance on inflation and the external balance has been maintained. Efforts are being made to increase the transparency of the public accounts. Progress has been made on further restructuring and privatisation of banks.

However, the strengthening of competition and of supervision in the financial sector is crucial in order to reinforce macro-economic policies and to foster economic activity. The sustainability of public finances in the medium-term is not yet assured. The efforts to privatise and restructure the state owned enterprises must continue and corporate governance must improve.

The authorities need to concentrate on developing an environment supportive of business activity – especially in the area of small and medium-sized enterprises.

Further improvement of the legal framework, the implementation of the prudential regulations for the financial sector and the continued development of this sector are essential. The restructuring and privatisation of state-owned enterprises and the restructuring of other enterprises must go hand in hand with the strengthening of corporate governance.

Since the previous Regular Report there has been a significant acceleration in the rate of legislative alignment with the EC *acquis* although further efforts are needed in a number of key areas. There has also been some progress in strengthening administrative capacity although the delays in administrative and judicial reform have hampered these efforts.

There has been good progress in legislative alignment in key areas of the *internal market acquis*. Regarding the free movement of goods, legislation has been adopted covering a wide range of sectors from toys to pharmaceuticals. As regards the free movement of capital, the law against money laundering has been strengthened although a clear timetable is needed for the cancelling of existing anonymous bank accounts. In the area of free movement of services, capital market surveillance needs to be further strengthened. In the fields of intellectual property significant progress has been made in aligning with the *acquis* although the effectiveness of the regulatory bodies needs to be improved. As regards competition law some gaps remain on anti-trust but legislation has been further aligned regarding state aids.

Concerning the field of *innovation*, a great deal of progress in transposing the *acquis* has been made concerning the liberalisation of the telecommunications market through the strengthening of the regulatory body and the abolition of the exclusive rights of the current operator. On audiovisual policy, further efforts are needed for alignment with the *acquis* and it is necessary in particular to strengthen the supervisory authority.

Progress has also been made on sectoral policies. As regards industry, the government has promoted enterprise restructuring and accelerated privatisation, in particular through the work of the Revitalisation Agency, with the exception of the steel sector. For transport, alignment has progressed in all sectors; on high-speed rail systems, road transport, air transport, inland waterways and maritime transport.

In the area of *economic and social cohesion*, good progress has been registered. In the field of social policy and employment, employment strategy is in line with EC principles and policy and social dialogue has been strengthened. On regional policy, territorial organisation is in line with EC classification, a new Act regulates regional development and the institutional framework has been clarified.

In the field of *agriculture*, progress has been made to prepare the measures required to implement the *Common Agricultural Policy*, notably with new legislation on the establishment of the State Agriculture Intervention Fund. In the field of *veterinary and phytosanitary* legislation, progress has been made with alignment.

As regards the *environment*, further efforts are needed to transpose the *acquis* in the areas of air pollution, waste management and water quality and Environmental Impact

Assessment. Furthermore, more coherent medium term financing strategies need to be established.

In the field of *Justice and Home Affairs*, the effectiveness of border policing continues to be deficient with co-ordination still needing to be improved between ordinary and border policing, as well as with customs authorities. There has been no substantial progress in the fight against corruption and organised crime.

As regards *administrative capacity*, the bodies responsible for standards and certification of goods generally function well. However, in the field of services, the Securities Commission should be further reinforced. As regards competition, the state aid monitoring authority needs to be reinforced whilst the Office for the Protection of Competition is well established. As regards agriculture, progress has been achieved as regards the introduction of an administrative structure for common market organisations, notably with the adoption of the Act on the State Agricultural Intervention Fund. In regional policy, preparation for the structural funds has been taken forward with the establishment of territorial units in accordance with the *acquis* classification. For the environment, approval has been given to increase the staff in the Ministry of Environment and in the Czech Environmental Inspectorate, although training needs to be improved and financial resources increased. As regards Justice and Home Affairs, visa matters are now overseen by the newly established Department for Immigration and Border Control and a first step in reforming organisational structures was taken to improve border controls. However, overall, insufficient progress has been made in this area, which suffers from insufficient staff and poor equipment as well as organisational weaknesses.

The majority of the priorities of the *Accession Partnership* have been addressed although the efforts made thus far should be built upon in order to meet more fully the set objectives. Progress has been particularly satisfactory on free movement of goods, employment and social affairs and telecommunications. However in some areas the short-term priorities have not been sufficiently pursued. This is the case as regards Company law with respect to minority shareholders, and in the area of the free movement of services where capital market surveillance has not been adequately strengthened. As regards the audio-visual sector, little alignment has taken place. Progress on the environment and Justice and Home Affairs has been limited.

The Czech Republic has already started to address a number of the medium-term Accession Partnership priorities.

D. Accession Partnership and National Programme for the Adoption of the *Acquis*: Global assessment

The purpose of the Accession Partnership is to set out in a single framework:

- the priority areas for further work identified in the Commission's regular report;
- the financial means available to help candidate countries implement these priorities;
- the conditions which will apply to this assistance.

Each candidate has been invited to adopt a National Programme for the Adoption of the *Acquis*. This sets out how the country in question envisages to deal with the Accession Partnership, the timetable for implementing the Partnership's priorities, and implications in terms of human and financial resources. Both the Accession Partnerships and the National Programmes for the Adoption of the *Acquis* are revised on a regular basis, to take account of progress made, and to allow for new priorities to be set.

1. Accession Partnership

In the following assessments the main sub-headings are indicated in bold type and further key concepts taken from the Accession Partnership highlighted in italics.¹⁷

Short-term priorities

Political criteria: A number of practical, positive steps have been taken concerning the *Roma*. The Inter-Ministerial Roma Commission has reported that the vast majority of measures in the government's action plan have been fulfilled. However further efforts are needed to combat anti-Roma prejudice and improve employment opportunities. Access to education has been improved through the allocation of significant resources and the adoption of legislative measures. However more needs to be done to overcome segregation. In summary, **this priority has been partially met.**

Economic criteria: Progress has been made on the *restructuring of the banking sector*. Only one bank remains to be privatised, but that process is expected to be completed by early 2001. However, *bad loans* represent 26% of GDP and therefore continue to cause serious concern. The Government has promoted enterprise restructuring and accelerated privatisation, in particular through the work of the Revitalisation Agency. Little progress has been made in the restructuring of the *steel sector* as the strategic sectoral study has yet to commence. The *Bankruptcy Law* has been amended with the aim of accelerating bankruptcy proceedings; however,

¹⁷ For the detailed text of the short and medium term priorities established in the 1999 Accession Partnership please refer to Council Decision 1999/858/EC, OJ L 335, 28/12/1999, pp. 55-60.

implementation remains a challenge for the overstretched court system. In summary, **this priority has been partially met.**

Internal market:

- In the fields of *intellectual and industrial property* the new Act on Copyright and the Act on Industrial Property mark significant progress in aligning with the *acquis*. However, the implementation and monitoring capacity of the relevant authorities should be increased and the co-operation among them should be further improved. **This priority has been partially met.**

- The legislation in the area of *Company law* is largely in line with the *acquis* but the issue of protection of minority shareholders remains to be addressed. **This priority has not been met.**

- As regards *data protection*, the new Act on Personal Data Protection, which covers the protection of personal data processed by public and regional authorities as well as individuals and businesses, is in line with the *acquis*. However, the foreseen supervisory authority is not yet operational. **This priority has been partially met.**

- In the area of the *free movement of goods*, the Czech Republic has made significant progress in alignment with new legislation on toys, metrology, medical devices, chemicals, pharmaceuticals, public procurement and other matters. This has permitted further harmonisation in the field of the New and Global Approach and the finalisation of the talks on the PECA agreement. The overall level of administrative capacity is good in terms of division of responsibilities of the regulatory bodies and available resources although improvements are necessary in the areas of cosmetics and pharmaceuticals. **This priority has been met.**

- Further progress was made in the area of *free movement of capital* towards a higher degree of liberalisation, however the main issue remains the question of the freedom to purchase real estate by non-residents. As regards the question of bearer's passbooks, significant progress has been achieved in preventing the opening of new anonymous accounts. However questions and concerns remain as regards the time table for the actual closing of existing anonymous accounts. **This priority has been partially met.**

- In the area of *free movement of services*, capital market surveillance needs to be further strengthened with a stronger Securities Commission fully independent from the Ministry of Finance. The regulatory framework should be improved as regards securities and bonds, addressing in particular the structural problem of the two prices system. **Limited progress has been achieved in meeting this priority.**

- *Competition:* Anti-trust legislation has yet to be fully aligned as the Act on the Protection of Economic Competition has yet to be amended. Significant progress has been made in aligned state aids legislation. The *state aid* authority has been reinforced with additional staff, although further resources still may be required. A substantial part of the state aid inventory has been completed. **This priority has been partially met.**

• *Telecommunications*: the new Act on Telecommunications legislation is partially in line with the *acquis* as it introduces **an independent regulatory authority and liberalisation of the market**. However the new Act does not facilitate the timely development of market conditions, as regards the dates for the introduction of “call by call carrier selection” and “number portability”. Also, the independence of the regulatory body should be ensured. **This priority has been partially met.**

• *Taxation*: Legislation has been adopted which provides for further alignment of excise duties and VAT. A number of areas have yet to be fully aligned. The closure of duty-free shops at land borders is foreseen for 31 December 2001. The Czech Republic has accepted the Code of Conduct for business taxation. **This priority has been partially met.**

• *Audiovisual policy*: Some limited progress was achieved with the adoption of a new Press Act, which lays down the right to reply, but existing legislation is still not in line with the Television without Frontiers Directive. This priority has been **addressed only to a very limited extent.**

Agriculture: Some progress has been made to prepare the measures required to implement the *Common Agricultural Policy*, notably with new legislation on the establishment of the State Agriculture Intervention Fund. In the field of *veterinary and phytosanitary* legislation, some progress has been made with alignment. However, little progress has been made with upgrading of inspection arrangements. Little progress has been made with modernising *meat and dairy plants*, and the priority of approving a modernisation plan has not been met. Progress has been made with the harmonisation of the *cattle identification system*, but it is not yet completed. A decision has been taken to extend the system to cover other species, but has not yet been implemented. **Therefore, this priority has been only partially met.**

Employment and social affairs: good progress has been made in establishing a *national strategy* as a National Employment Plan is in place which incorporates the employment principles adopted by the European Council. Progress has been satisfactory in *supporting social partners* as legislation was amended so as to improve social dialogue, notably at enterprise level, and the government continued its dialogue within the framework of the Economic and Social Agreement Council. Thus this **priority has been largely met.**

Environment: preparation of *framework legislation* has started in certain areas, such as on water quality, air quality and waste management but important framework legislation remains to be adopted. Also, little progress can be reported on transposition and enforcement of framework legislation. An *environmental investment strategy* has not been developed, although Directive-specific implementation plans have been approved. Finally, the *Environmental Impact Assessment* directive has not been transposed. Therefore, this **priority has been addressed only to a limited extent.**

Justice and Home Affairs: little progress has been made in the *strengthening of border controls* and the border guards remain understaffed, badly equipped and bound by inefficient communication procedures with national police headquarters. The new Act on *Asylum* provides adequate access to refugee status and appeal procedures,

includes the notion of humanitarian asylum and introduces social assistance for rejected applicants. The new Act on the Residence of *Aliens* is also in line with the *acquis*; persons must now apply for long terms visas or residence permits abroad and have to first obtain work permits. However, implementation of this legislation has been problematic thus far. As regards *money laundering*, the amended Money Laundering Act brings Czech legislation more into line with the *acquis*. However, the low levels of prosecutions and convictions indicate that the police and judiciary need to step up efforts and improve coordination. Two years after the launch of the “Clean Hands” campaign the results obtained in the fight against *organised crime, corruption, and economic crime* remain inadequate. Greater enforcement capacity is required and there is still a lack of qualified staff and inter-institutional co-operation in this area. Thus, with the exception of asylum and alien legislation, **insufficient progress has been made in addressing this priority.**

Reinforcement of administrative and judicial capacity:

- A number of steps have been taken to prepare for a *Civil Service Law* but the adoption of the law itself has not been fulfilled and little progress has been made on substantive reform. This should foster political independence and will reduce the scope for political interventions in the appointment of top and middle ranking officials. It should also promote effective management and assist in the creation of a unified system of human resources development. In summary, **limited progress has been achieved in meeting this priority.**
- Some progress has been made in *reform of the judiciary* by simplifying of civil and commercial judicial procedure. However, substantial draft amendments to both the Criminal Code and the Criminal Procedure Code, as well as draft constitutional amendments regarding judicial self-administration and the functional structure of the courts, have not been adopted. A fully effective judiciary is crucial for the implementation and enforcement of the EC *acquis*. In summary, **this priority has been partially met.**
- As regards *financial control*, thus far only alignment of external financial control has been reinforced, by the adoption of the Act on Budgetary Rules. Administrative capacity for public internal financial control continues to be weak, despite some progress. For External financial control internationally recognised auditing standards still need to be put into practice. In summary, this **priority has been partially met.**
- *PHARE, ISPA and SAPARD*: Approval of the SAPARD programme is proceeding well and the Czech Rural Development Plan is in place. However, accreditation of the Paying Agency has yet to take place and insufficient staff have been recruited. A fully operational internal audit is also necessary. Inter-ministerial co-operation, however, has been good. As for ISPA, sectoral strategy documents for transport and the environment have been elaborated and the first projects for ISPA financing have been submitted. Overall co-ordination of ISPA is assured by the Ministry for Regional Development, with line ministries responsible for sectoral input. An ISPA co-ordination committee has been set up but it has yet to be confirmed which will be the implementing agencies. In summary, this **priority has been partially met.**

Medium term priorities

Only those medium-term priorities of the 1999 Accession Partnership in respect of which progress has been achieved are mentioned below.

Political criteria: The Government has adopted a long-term policy towards the *Roma* aimed at strategic action focusing on key areas such as education, employment, housing and the fight against discrimination. Additional financial resources have been allocated, notably in education and housing.

Economic criteria: Good progress has been made in promoting the *competitiveness* of the private sector. In particular a number of measures have been taken relating to *SMEs*. A number of support programmes have been put in place to aid the creation and development of private enterprises, with particular attention to *SMEs*.

Internal market: Further legislative progress has been made as regards *public procurement* with the introduction of the utilities sector but further efforts are still necessary as regards the abolition of the national preference clause. As regards *data protection* a new Act was adopted in line with EC requirements. In the *insurance sector*, significant progress has been achieved with the adoption of new Acts, and the strengthening of Insurance Supervision. However, these efforts must be pursued to ensure equal opportunities for all the market participants.

- *Competition:* Full enforcement of *state aid* rules has been aided by the transfer of this responsibility to the independent Office for the Protection of Economic Competition. State aid legislation is in line with the *acquis*. Staff have received good training on EC competition policy.

- *Taxation:* Preparations for a merger of the Customs Directorate and the District Financial Authorities have continued with a view to creating an independent authority responsible for customs administration and excise.

- *Consumer protection:* In terms of transposition of both safety- and non-safety related measures, progress has been made. In terms of administrative capacity, progress has also been made by adoption of the concept of *consumer legislation*, improving institutional cooperation and adoption of the new Trade Inspection Act.

Agriculture: Some progress has been achieved to set up *CAP mechanism* structures with legislation on the State Agriculture Intervention Fund. Some progress has also been made with completing the system of *animal identification*, and the Hazard Analysis Critical Control Point (HACCP) system has been introduced.

Energy: In the area of *nuclear energy*, a reduced scope review of the State Office for Nuclear Safety identified good practices but also made recommendations to further strengthen the regulatory authority. As regards *Temelin*, the modifications requested by the regulatory authority are being made as part of the ongoing licensing process whilst *Dukovany* continues to be modernised. Progress has been made regarding *oil stock* requirements, a new Act on Emergency Oil Stocks came in to force further aligning legislation with the *acquis*.

Transport: Some progress has been made on alignment of *road transport* legislation as regards the new system of road-user charges via an amendment to the Act on Road Transport. The restructuring of the *Civil Aviation* Authority and Air Traffic Control was started, with a view to establishing independent bodies for investigation of air accidents and the allocation of slots.

Employment and social affairs: good progress has been made as regards transposition of the *acquis* in *social security*, notably as concerns pension insurance and child protection. Progress on *labour law* has been good with the amended Labour Code ensuring further alignment on working time and collective redundancies. Progress on *equal treatment* has also been good, with the adoption of laws on equal opportunities, sexual discrimination, the disabled, parental leave and pay. As concerns *occupational health and safety*, some further progress has been made. As concerns *public health*, progress has been mixed; the act on the protection of public health was adopted, but the transposition of directives on tobacco products has not advanced. As concerns administrative capacity, levels of staff at the Ministry and its labour offices have increased, and first steps have been taken to create a co-ordinated system of state supervision on safety and health protection at work.

Economic and social cohesion: Important progress has been made, both in terms of legislation and administrative capacity. The Czech Republic has passed legislation on support to *regional development*, providing a comprehensive legal basis for regional development. Important additional legislation was adopted as well, notably the act on budgetary rules. The *National Development Plan 2000-2006* (NDP) and the programming documents for SAPARD and ISPA have also been prepared and adopted and evaluation *procedures* are in line with the *acquis*. In terms of administrative capacity, the Ministry for Regional Development (MRD) has seen its staffing levels increase, and inter-ministerial co-ordination and co-operation have improved, in particular as concerns the preparation for *Structural Fund* implementation.

Environment: Some progress has been achieved in strengthening administrative capacity through staff increases at the Ministry of Agriculture and the Czech Environmental Inspectorate.

Justice and Home Affairs: Significant progress has been made in aligning *visa* policy. The new Act on the Residence of Aliens includes new provisions on the issuing, validity and types of visas, as well as on uniform format. Visas are no longer granted at borders, except in certain specified extraordinary circumstances.

2. National Programme for the Adoption of the *Acquis* – assessment

The Czech government presented the 2000 “National Programme of Preparation for Membership of the European Union” (National Programme for the Adoption of the *Acquis*, NPAA) on 21 June.

The executive summary of the National Programme presents the document in the context of the on-going pre-accession strategy and links up with the 1999 National Programme, Accession Partnership and Regular Report. It underlines that the National Programme is a framework document within which it is likely that there may be changes to the timetable for the implementation of certain priorities.

The overall presentation is very good, thus rendering the large amounts of information accessible to the reader. Each chapter has a uniform structure including clear tables which indicate the policy objectives, the instruments, the responsible department and a timeframe. These tables cover legislative as well as non-legislative tasks; the latter relate to implementation activities as well as, to a certain extent, reinforcement of administrative capacity.

The National Programme is quite systematic and precise as regards legislative planning as well as on implementation of non-legislative activities. Increased attention has also been paid to administrative strengthening but nonetheless further efforts are required in this area. Operational planning should be established on the basis of a needs analysis in order to clearly identify the results being sought and the resources required.

As regards financial planning, the Czech Parliament in 2000 debated for the first time the financing priorities of the NPAA within the context of the debate on the state budget. This is a concrete step forward in establishing the National Programme as a resource planning instrument.

Another improvement is the forward looking analysis of financial needs which shows how the activities of the National Programme are to be financed over the three year period 2000-2002. It is very desirable that this basis be used for future financial planning on a rolling basis. Nonetheless, it is unfortunate that a more detailed breakdown is not given of future spending for strengthening administrative capacity, given its crucial role.

The quality of individual chapters varies. For example, on agriculture the objectives are not defined clearly enough nor is there a sense of prioritisation within the very tight timeframe. The environment chapter's discussion of short term and medium term priorities makes only a limited reference to the environmental *acquis* and consistency within the document needs to be improved as regards the numbering of directives and legislative as well as implementation measures. On Consumer and Health Protection the financial needs indicated seem very low. On the other hand, the chapters pertaining to the internal market contain comprehensive information and address the priorities of the Accession Partnership well. The chapter on social policy and employment is also very satisfactory as a whole.

The coverage of the *acquis* is generally good although most chapters have some elements missing. For example, the chapter on competition does not take into account certain gaps existing in anti-trust legislation. On industry, the restructuring of the steel industry, where further efforts are required, is only briefly dealt with. On tax, excise duty on wine is not mentioned although it remains to be aligned.

While the individual chapters of the National Programme do not systematically refer to the Accession Partnership or the Regular Report, on the whole the priorities of the 1999 Accession Partnership have been addressed.

The 2000 NPAA is a serious qualitative improvement compared to the 1999 NPAA which itself was an improvement on the 1998 NPAA. This positive trend should be continued in order to ensure that this instrument may be used to steer the process of preparation for accession. In particular, further efforts are needed as regards the strengthening of administrative capacity, financial estimates and the setting of medium term priorities. Furthermore, the NPAA does not yet sufficiently coordinate the different instruments being used to prepare for membership in the different areas of the *acquis*.

Annexes

***Human Rights Conventions ratified by the Candidate Countries,
September 2000***

<i>Parties to following conventions and protocols</i>	BG	CY	CZ	EE	HU	LV	LT	MT	PL	RO	SK	SV	TK
ECHR (European Convention on Human Rights)	X	X	X	X	X	X	X	X	X	X	X	X	X
Protocol 1 (right of property et al.)	X	X	X	X	X	X	X	X	X	X	X	X	X
Protocol 4 (freedom movement et al.)	O	X	X	X	X	X	X	O	X	X	X	X	O
Protocol 6 (death penalty)	X	X	X	X	X	X	X	X	O	X	X	X	O
Protocol 7 (ne bis in idem)	O	X	X	X	X	X	X	O	O	X	X	X	O
European Convention for the Prevention of Torture	X	X	X	X	X	X	X	X	X	X	X	X	X
European Social Charter	O	X	X	O	X	O	O	X	X	O	X	O	X
Revised European Social Charter	X	X	O	X	O	O	O	O	O	X	O	X	O
Additional Protocol to the ESC (system of collective complaints)	O	X	O	O	O	O	O	O	O	O	O	O	O
Framework Convention for National Minorities	X	X	X	X	X	O	X	X	O	X	X	X	O
ICCPR (International Covenant on Civil and Political Rights)	X	X	X	X	X	X	X	X	X	X	X	X	O
Optional Protocol to the ICCPR (right of individual communication)	X	X	X	X	X	X	X	X	X	X	X	X	O
Second Optional Protocol to ICCPR (abolition death penalty)	X	X	O	O	X	O	O	X	O	X	X	X	O
ICESCR (International Covenant on Economic, Social and Cultural Rights)	X	X	X	X	X	X	X	X	X	X	X	X	O
CAT (Convention against Torture)	X	X	X	X	X	X	X	X	X	X	X	X	X
CERD (Convention on the Elimination of All Forms of Racial Discrimination)	X	X	X	X	X	X	X	X	X	X	X	X	O
CEDAW (Convention on the Elimination of All Forms of Discrimination against Women)	X	X	X	X	X	X	X	X	X	X	X	X	X
CRC (Convention on the Right of the Child)	X	X	X	X	X	X	X	X	X	X	X	X	X

X = Convention ratified

O = Convention NOT ratified

BG = Bulgaria; CY = Cyprus; CZ = Czech Republic; EE = Estonia; HU = Hungary; LV = Latvia; LT = Lithuania; MT = Malta; PL = Poland; RO = Romania; SK = Slovakia; SV = Slovenia; T = Turkey

Statistical data

	1995	1996	1997	1998	1999
Basic data	in 1000				
Population (average)	10.331	10.315	10.304	10.295	10.283
	in km²				
Total area	78.864	78.866	78.866	78.866	78.866

National accounts	in 1000 Mio Czech Koruna				
Gross domestic product at current prices	1.381	1.572	1.669	1.798	1.836
	in 1000 Mio ECU/euro				
Gross domestic product at current prices	39,8	45,6	46,4	49,5	49,8
	in ECU/euro				
Gross domestic product per capita ¹⁸ at current prices	3.900	4.400	4.500	4.800	4.800
	% change over the previous year				
Gross domestic product at constant prices (nat. currency)	5,9	4,8	-1,0	-2,2	-0,2
	in Purchasing Power Standards				
Gross domestic product per capita ¹⁹ at current prices	11.001	12.011	12.342	12.186	12.498
	in % of Gross Value Added²⁰				
Structure of production					
- Agriculture	4,7	4,7	4,7	4,6	3,7
- Industry (excluding construction)	33,3	32,4	34,3	35,3	34,3
- Construction	8,7	8,4	8,6	8,1	7,5
- Services	53,3	54,5	52,4	52,0	54,5
Structure of expenditure	as % of Gross Domestic Product				
- Final consumption expenditure	70,7	71,5	73,2	71,8	73,1
- household and NPISH	50,8	51,6	53,3	52,8	53,4
- general government	19,9	19,9	19,9	19,0	19,7
- Gross fixed capital formation	32,0	31,8	30,8	28,3	26,4
- Stock variation ²¹	2,1	3,1	2,0	1,4	2,1
- Exports of goods and services	53,6	52,9	56,9	60,7	63,6
- Imports of goods and services	58,4	59,3	62,9	62,2	65,2

Inflation rate	% change over the previous year				
Consumer price index ²²	.	9,1	8,6	10,8	2,0

¹⁸ Figures have been calculated using the population figures from National Accounts, which may differ from those used in demographic statistics.

¹⁹ Figures have been calculated using the population figures from National Accounts, which may differ from those used in demographic statistics.

²⁰ Including FISIM.

²¹ These figures include changes in inventories, acquisitions less disposals of valuables and the statistical discrepancy between the GDP and its expenditure components.

²² Changes in Methodology: PROXY HICP since 1996 (see methodological notes).

Balance of payments²³	in Mio ECU/euro				
-Current account	-1.047	-3.381	-2.835	-1.187	-993
-Trade balance	-2.813	-4.630	-4.008	-2.269	-1.933
<i>Exports of goods</i>	16.415	17.088	20.108	23.412	:
<i>Imports of goods</i>	19.228	21.718	24.117	25.680	:
-Net services	1.409	1.515	1.557	1.593	1.154
-Net income	-81	-569	-699	-873	-693
-Net current transfers	438	303	316	362	479
<i>-of which: government transfers</i>	79	102	46	63	:
- FDI (net) inflows	1.960	1.125	1.148	2.416	4.792

Public finance	in % of Gross Domestic Product				
General government deficit/surplus	-1,1	-1,7	-2,1	-2,4	-1,6

Financial indicators	in % of Gross Domestic Product				
Gross foreign debt of the whole economy	24,6	24,2	24,5	23,2	24.0 E
	as % of exports				
Gross foreign debt of the whole economy	45,9	45,9	43,1	38,2	37.7 E
Monetary aggregates ²⁴	in 1000 Mio ECU/euro				
- M1	13,0	13,9	11,7	12,3	13,3
- M2	29,8	32,7	32,0	36,4	38,4
Total credit	27,0	30,5	30,9	31,5	30,3
Average short-term interest rates	% per annum				
- Lending rate	12,8	12,5	13,2	12,8	8,7
- Deposit rate	7,0	6,8	7,7	8,1	4,5
ECU exchange rates	(1 ECU/euro=..Czech Koruna)				
- Average of period	34,70	34,46	35,93	36,32	36,89
- End of period	34,94	34,25	38,03	35,19	36,10
	1995=100				
- Effective exchange rate index	100	102,2	99,2	102,0	106,9
Reserve assets	Mio ECU/euro				
-Reserve assets (including gold)	11.261	10.509	9.176	10.774	12.889
-Reserve assets (excluding gold)	10.533	9.858	8.862	10.693	12.763

²³ 1999 data from National Source.

²⁴ 1999 data refers to November 1999.

External trade	Mio ECU/euro				
Trade balance	-2.759	-4.575	-3.870	-2.175	-1.893
Exports	16.557	17.253	20.086	23.505	25.188
Imports (FOB)	19.316	21.828	23.956	25.679	27.082
	previous year=100				
Terms of trade	101,4	100,9	102,2	109,2	103,6
	as % of total				
Exports with EC-15	60,9	58,2	59,9	64,2	69,2
Imports with EC-15	61,1	62,4	61,5	63,5	64,0

Demography	per 1000 of population				
Natural growth rate	-2,1	-2,2	-2,1	-1,8	-2,0
Net migration rate (including corrections)	1,0	1,0	1,2	0,9	0,9
	per 1000 live-births				
Infant mortality rate	7,7	6,0	5,9	5,2	4,6
Life expectancy :	at birth				
Males:	69,7	70,4	70,5	71,1	71,4
Females:	76,6	77,3	77,5	78,1	78,1

Labour market (ILO methodology)	% of labour force				
Economic activity rate	61,5	61,2	61,1	61,0	61,0
Unemployment rate, total	4,0	3,9	4,8	6,5	8,7
Unemployment rate of persons < 25 years	7,8	7,2	8,6	12,4	17,0
Unemployment rate of persons >= 25 years	3,3	3,3	4,1	5,3	7,2
Average employment by NACE branches	in % of total				
- Agriculture and forestry	6,6	6,1	5,8	5,5	5,2
- Industry (excluding construction)	32,7	32,1	31,4	32,2	30,8
- Construction	9,2	9,4	9,7	9,7	9,3
- Services	51,6	52,3	53,1	53,6	54,6

Infrastructure	in km per 1000 km²				
Railway network	120	120	120	120	120
	km				
Length of motorways	414	423	485	498	498

Industry and agriculture	previous year=100				
Industrial production volume indices	109,2	102,0	104,5	101,6	96,9
Gross agricultural production volume indices	105	98,6	94,9	100,7	100,6

Standard of living	per 1000 inhabitants				
Number of cars	301	324	344	358	360
Telephone subscribers	237	293	370	456	560
Number of Internet connections	:	:	:	7,9	19,4

E= estimates

Methodological Notes

Inflation

Consumer price: as part of the preparations for the common currency the EU Member States have designed a new consumer price index in order to comply with the obligations of the EC Treaty. The aim was to produce CPIs comparable between Member States. The main task was to harmonise methodologies and coverage. The result was the Harmonised Index of Consumer Prices (HICP). A similar exercise has been started with Candidate Countries (CC). In respect to enlargement, it is equally important that their economic performance is assessed on the basis of comparable indices. Some progress has already been made towards adapting the new rules. Since January 1999 CCs report monthly to Eurostat so-called proxy HICPs that are based on national CPIs but adapted to the HICP coverage. The data in the table are these proxy HICPs. Reliable and comparable HICPs are expected to be available in CCs from January 2001 onwards.

Finance

Note on sources:

General government deficit / surplus: Candidate Countries are presently unable to provide reliable data on a national accounts basis. Eurostat is working closely with these countries with the aim of improving these statistics. Given the lack of reliable data, an approximation for general government deficit / surplus is derived from the IMF's Government Finance Statistics Yearbook (see explanation below).

Gross foreign debt: the OECD External Debt Statistics publication has been used as the source. Data for 1999 are estimates.

Foreign official reserves, monetary aggregates, interest rates, and effective exchange rates: where possible, Eurostat's reporting form for Candidate Countries is used for the data on. Failing this, the IMF's 'International Financial Statistics' publication has been used as the source.

Exchange rates against the ECU (euro): European Commission data is used for ECU rates, European Central Bank data for euro rates.

Note on methodology:

General government deficit / surplus: approximation of the national accounts definition, derived from data based on the IMF's GFS (government finance statistics) methodology. The general government deficit / surplus is obtained by adding the consolidated central government deficit / surplus (normally including certain extra-budgetary funds) to the local government deficit / surplus. The total is adjusted for net lending / borrowing for specific policy purposes, which is a financing item in the national accounts. GFS data are on a cash basis.

Gross foreign debt: of the whole economy; includes both short- and long-term debt. According to the convention, the stock of outstanding debt is converted from US dollars into ECU at end-year exchange rates, whereas GDP is converted into ECU using annual average exchange rates. For the ratio of gross foreign debt to exports, the national accounts definition of exports of goods and services is used.

Monetary aggregates: end-year stock data. M1 refers to notes and coins in circulation plus bank sight deposits. M2 refers to M1 plus savings deposits plus other short-term claims on banks. Total credit refers to domestic credit to the government (net of deposits, including non-financial public enterprises), plus the private non-financial sector, plus other non-monetary financial institutions.

Interest rates: annual average rates. Lending rates generally consist of the average rate charged on loans granted by reporting banks. Deposit rates generally refer to average demand and time deposit rates.

Exchange rates: ECU exchange rates are those that were officially notified to the European Commission until 1 January 1999, when the ECU was replaced by the euro. Euro exchange rates are reference rates of the European Central Bank, where available. The effective exchange rate index (nominal) is weighted by major trading partners, and calculated on a base period of 1995 (annual average).

Reserve assets: end-year stock data. They are defined as the sum of central bank holdings of gold, foreign exchange, and other (gross) claims on non-residents. Gold is valued at end-year market price.

External trade

Imports and exports (current prices): recording is based upon the special trade system, according to which, external trade comprises goods crossing the customs border of the country. Trade data excludes direct re-exports, trade in services and trade with customs free zones as well as licences, know-how and patents. Value of external trade turnover includes the market value of the goods and the additional costs (freight, insurance etc.). The term FOB means that all costs incurred in the course of transport up to the customs frontier are charged to the seller. The term CIF means that the purchaser pays the additional costs. The value of exports is given in FOB and imports in CIF.

Starting in 1996, the decisive criterion for inclusion in the export statistics is the release date of the goods into the exports regime. Imports are registered on the day when the goods are released into inland circulation. Value of the external trade is indicated in FOB/FOB prices.

Terms of trade: figures are calculated from the base 1994 = 100 by deflating according to ten SITC groups with current weights of the quarter concerned.

Imports and exports with EC-15: data declared by the Czech Republic.

Demography

Net migration rate: crude rate of net migration (recalculated by EUROSTAT) for year X, is: {population (X+1) - population (X) - Deaths (X) + Births (X)}. This assumes that any change in population not attributable to births and deaths is attributable to migration. This indicator includes therefore also administrative corrections (and projection errors if the total population is based on estimates and the births and deaths on registers). Thus, figures are more consistent. Further, most of the difference between the crude rate of net migration provided by country and the one calculated by Eurostat is caused by an under reporting or delay in reporting of migration.

Labour force

All historical data from the start of the survey 1993 to 1997 were converted to the methodology used since 1998. All data are calculated for calendar quarters.

Economic activity rate (ILO methodology): source: according to Labour Force Survey (LFS). Percentage of the total labour force of population at age 15 years or more.

- Labour force: employed in national economy plus unemployed persons (according to the ILO definitions).

- The employed in national economy: all persons aged 15+, who during the reference period worked at least one hour for wage or salary or other remuneration as employees, entrepreneurs, members of producer's co-operatives or contributing family workers. All members of armed forces (ISCO-88 = 0) are included, women on child-care leave are excluded.

- The employed in civil sector: all persons aged 15+, who during the reference period worked at least one hour for wage or salary or other remuneration as employees, entrepreneurs, members of producer's co-operatives or contributing family workers. All members of armed forces (ISCO-88 = 0) are excluded, women on child-care leave are excluded.

- The unemployed: all persons aged 15+, who concurrently meet all three conditions of the ILO definition for being classified as the unemployed:

have no work,

are actively seeking a job and,

are ready to take up a job within a fortnight.

The only exception are persons who do not seek work, because they have found it already, but their commencement of work is fixed for a later time. These persons are also classified as unemployed.

Unemployment rate (ILO methodology): according to LFS. Percentage of the unemployed labour force.

Average employment by NACE branches: according to LFS. Data refer to employment in national economy.

Infrastructure

Railway network: all railways in a given area. This does not include stretches of road or water even if rolling stock should be conveyed over such routes; e.g. by wagon-carrying trailers or ferries. Lines solely used for tourist purposes during the season are excluded as are railways constructed solely to serve mines; forests or other industrial or agricultural undertakings and which are not open to public traffic. The data considers the construction length of railways.

Length of motorway: road, specially designed and built for motor traffic, which does not serve properties bordering on it, and which:

(a) is provided, except at special points or temporarily, with separate carriageways for the two directions of traffic, separated from each other, either by a dividing strip not intended for traffic, or exceptionally by other means;

(b) does not cross at level with any road, railway or tramway track, or footpath;

(c) is specially sign-posted as a motorway and is reserved for specific categories of road motor vehicles.

Entry and exit lanes of motorways are included irrespectively of the location of the signposts. Urban motorways are also included.

Industry and agriculture

Industrial production volume indices: industrial production covers mining and quarrying, manufacturing and electricity, gas, steam and water supply (according to the NACE Rev.1 Classification Sections C,D,E).

Industrial production index (IPI) is calculated by the method corresponding to the international standards based on the production statistics of selected products („Series-witness,,). It covers 88,6 % of industrial production in the Czech Republic.

Published IPI for the Czech Republic are calculated in weights of 1995 and no adjustments were done as concerns seasonal influences and number of working days.

Total agricultural output volume indices: indices based on evaluation of all individual products of gross agricultural production in constant prices of 1989.

Standard of living

Number of cars: passenger cars: road motor vehicle, other than a motor cycle, intended for the carriage of passengers and designed to seat no more than nine persons (including the driver).

The term "passenger car" therefore covers microcars (need no permit to be driven), taxis and hired passenger cars, provided that they have less than ten seats. This category may also include pick-ups.

Internet connections: the number of Internet clients include the number of users allowed to access Internet both via phone and data concentration and commutation device, leased circuit and local computer network.

The number of servers for acces to the Internet network includes the number of computers connected to the network via permanent circuit or data network, which provide applications to Internet users.

Sources

Total area, effective exchange rate index, infrastructure, industry and agriculture, external trade, labour market, standard of living, demography: National sources.

National accounts, inflation rate, balance of payment, public finance, finance: Eurostat.