

# **1999 REGULAR REPORT**

**FROM THE COMMISSION**

**ON**

**CZECH REPUBLIC'S**

**PROGRESS TOWARDS ACCESSION**

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## Table of contents

### A. Introduction

- a) **Preface**
- b) **Relations between the European Union and the Czech Republic**
  - Development under the EU-Czech Republic Europe Agreements (including bilateral trade)
  - Accession Partnership/NPAA
  - Pre-Accession aid : Phare
  - Phare Management system
  - Twinning
  - The negotiations/Screening process

### B. Criteria for membership

#### 1. Political criteria

- Introduction
- Recent developments
- 1.1. **Democracy and the rule of law**
  - The Parliament
  - The Executive
  - The Judiciary
  - Anti-Corruption measures
- 1.2. **Human rights and protection of minorities**
  - Civil and political rights
  - Economic, social and cultural rights
  - Minority rights and the protection of minorities
- 1.3. **General evaluation**

#### 2. Economic criteria

- 2.1. **Introduction**
- 2.2. **Economic developments**
  - Macroeconomic developments
  - Structural reforms
- 2.3. **Assessment in terms of the Copenhagen criteria**
  - The existence of a functioning market economy
  - The capacity to cope with competitive pressure and market forces within Union
- 2.4. **General evaluation**

#### 3. Ability to assume the obligations of membership

- 3.1. **Internal market without frontiers**
  - The four freedoms
  - Competition
- 3.2. **Innovation**
  - Information society
  - Education, training and youth
  - Research and technological development
  - Telecommunications
  - Audiovisual
- 3.3. **Economic and fiscal affairs**
  - Economic and Monetary Union
  - Taxation

- Statistics
  - 3.4. Sectoral policies**
    - Industry
    - Agriculture
    - Fisheries
    - Energy
    - Transport
    - Small and medium sized-enterprises
  - 3.5. Economic and social cohesion**
    - Employment and social affairs
    - Regional policy and cohesion
  - 3.6. Quality of life and environment**
    - Environment
    - Consumer protection
  - 3.7. Justice and home affairs**
  - 3.8. External policies**
    - Trade and international economic relations
    - Development
    - Customs
    - Common foreign and security policy
  - 3.9. Financial questions**
    - Financial control
  - 3.10. General evaluation**
- 
- 4. Administrative capacity to apply the *acquis***
    - 4.1 Administrative structures
    - 4.2 Administrative and judicial capacity : key areas for the implementation of the *acquis*

## **C. Conclusion**

## **D. Accession Partnership and National Programme for the Adoption of the *Acquis*: global assessment of implementation**

1. Accession Partnership : assessment of short and medium-term priorities
2. National Programme for the Adoption of the *Acquis* — *Assessment*

## **Annexes**

Human Rights Conventions ratified by the candidate countries  
Statistical Data

## **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 East European candidate State towards accession in the light of the Copenhagen criteria, in particular the rate at which it is adopting the Union *acquis*.” ..... “In that context, the Commission will continue to follow the method adopted by Agenda 2000 in evaluating candidate States' ability to meet the economic criteria and fulfil the obligations deriving from accession.”

The European Council in Vienna invited the Commission to present its further progress reports with a view to the Helsinki European Council.

This Regular Report on the Czech Republic follows the same structure as the Commission's 1997 Opinion. It

- describes relations between the Czech Republic and the Union, particularly in the framework of the Association Agreement;
- analyses the situation in respect of the political conditions set by the European Council (democracy, rule of law, human rights, protection of minorities)
- assesses the Czech Republic's situation and prospects in respect of the economic conditions mentioned by the European Council (functioning market economy, capacity to cope with competitive pressures and market forces within the Union)
- addresses the question of the Czech Republic's capacity to adopt the obligations of membership, that is, the *acquis* of the Union as expressed in the Treaty, the secondary legislation and the policies of the Union. This part gives special attention to nuclear safety standards as underlined by the Cologne European Council.

It also covers judicial and administrative capacity as requested by the Madrid European Council which underlined the necessity for the candidate countries to adapt their administrative structures so as to guarantee the harmonious implementation of Community policies after membership.

The report takes into consideration progress since the 1998 Regular Report. It looks at whether intended reforms referred to in the 1998 Regular Reports have been carried out and examines new initiatives, including those directly related to addressing Accession Partnership priorities. The report contains a separate section which examines the extent to which the Czech Republic has addressed the short term priorities and started to address the medium term priorities set out in the Accession Partnership.

While the assessment of progress in meeting the political and *acquis* criteria focuses on that which has been accomplished since the last Regular Report, the economic assessment is based on a longer term evaluation of the Czech Republic's economic performance. The assessment of progress made in adopting the *acquis* has been made on the basis of adopted legislation rather than legislation which is in various stages of either preparation or Parliamentary approval. This approach ensures equal treatment for all the candidate countries and permits objective assessment and comparison between countries in terms of concrete progress in preparation for accession.

This report draws on numerous sources of information. The candidate countries were invited to provide information on progress made in preparations for membership since the publication of the last Regular Report. Their presentations at the meetings held under the auspices of the Europe Agreement, their National Programmes for the Adoption of the *Acquis*, the information provided in the context of the analytical examination of the *acquis* and in the negotiations were additional sources of information. Council deliberations and European Parliament reports and resolutions<sup>1</sup> have been taken into account in the preparations. The Commission also drew on assessments made by various international organisations and in particular on contributions from the Council of Europe, the OSCE and the international financial institutions as well as non-governmental organisations.

## **b) Relations between the European Union and the Czech Republic**

### *Developments under the EU-Czech Republic Europe Agreement (including bilateral trade)*

The implementation of the Europe Agreement by the Czech Republic has been uneven although difficulties encountered have been resolved through the functioning of the various joint institutions.

The Association Council met in November 1998 and the Association Committee in May 1999. The Association Committee examined in detail the implementation of the Accession Partnership priorities. The subcommittees continue to function as a forum for technical discussions.

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<sup>1</sup> For the European Parliament the rapporteurs are A. Oostlander and E. Baron Crespo; Co-rapporteurs: M. Aelvoet, J. Donner, O. Von Habsburg, E. Caccavale, F. Kristoffersen, M. Hoff, C. Carnero Gonzales, P. Bernard-Raymond, R. Speciale, J. Wiersma, J.W. Bertens, B. Malone.

The Joint Parliamentary Committee comprising representatives of the Czech and European Parliaments met in November 1998 and in March 1999.

Trade between the EU and the Czech Republic has continued to increase. Between 1998 and 1997 EU exports to the Czech Republic increased from € 15,8 to 17,1 bio. and EU imports from € 11,8 to 14,7 bio. In the first five months of 1999, EU exports remained steady at € 6,8 bio. and EU imports increased 11% to € 6,4 bio. Major categories of Union exports in 1998 were machinery and electrical articles, transport equipment, base metal and articles and chemical products. Major Czech exports were machinery and electrical goods, transport equipment, base metal and articles and textile. Trade with the Union accounts for 60 % of Czech foreign trade.

In March 1999, the Council mandated the Commission to open negotiations with the associated countries in view of new reciprocal concessions in the field of agriculture.

During the past year a number of decisions were taken in the Czech Republic 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 Union. Examples are the decision by the government to introduce preliminary safeguard measures for the import of sugar, with effect from 12 March 1999 and to amend the Employment Act in December 1998, which was approved by Parliament in July 1999. After insistence from the Union these subjects were subsequently dealt with in the bodies of the Europe Agreement. This was also the case with the amendment to the Czech Lottery Law of September 1998, which was briefly mentioned in the previous Regular report. These subjects will be further dealt with in sections below.

In September 1998 the country initiated for the first time an anti-dumping investigation against EU companies (baby food), which was completed in June 1999. Although evidence of injury was found, the authorities decided to terminate the anti-dumping proceedings in August 1999 and not to apply anti-dumping duties. In September 1999 an investigation against EU exporters of salt was initiated.

In the area of industrial standards and conformity assessment, negotiations are continuing on the conclusion of a Protocol on European Conformity Assessment. However, certain products originating in the Community and complying fully with Community standards still have to undergo additional procedures before they are admitted into the Czech market.

The Czech Republic and the Commission services have agreed a Joint Assessment of the country's medium-term economic policy priorities.

#### *Accession Partnership/ NPAA*

An Accession Partnership was adopted in March 1998. Its implementation is reviewed in chapter D of this report.

In June 1999, 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 contained in the Accession Partnerships (see further chapter D).

*Pre-Accession Aid: Phare*

In 1999 Phare was the main instrument providing financial assistance to help the Czech Republic's pre-accession strategy.

The programme is "accession-driven", concentrating support on the Accession Partnership priorities which help the candidate countries to fulfil the Copenhagen criteria. Around 30% of the Phare allocation is used for "institution building" (i.e. helping the countries to improve their capacity to implement the Union *Acquis*; see twinning below) and the remaining 70% is used for financing investments to strengthen the regulatory infrastructure needed to ensure compliance with the *acquis* and to reinforce economic and social cohesion including the effects of restructuring in important sectors of the economy.

The Phare programme allocated €629.1 million to the Czech Republic during the period 1990-1999.

The 1999 Phare Programme for the Czech Republic consists of a national allocation of €21 million, concentrated on the following priorities:

- strengthening the democratic system, the rule of law, human rights and the protection of minorities, in particular the Roma (€0.5 million)
- economic and social cohesion, including SME promotion and employment measures (€5.35)
- strengthening the institutional and administrative capacity to manage the *acquis*, in particular in the area of public finance, phyto-sanitary standards, occupational health and safety and the environment (€5.8 million)
- justice and home affairs, including the fights against organised and economic crime, border management, and strengthening of the judiciary (€4 million)
- participation in various Community Programmes (€4 million) and Tempus (€1 million)
- programme management support (€0.15 million)

An additional €29.4 million have been allocated for a cross-border co-operation (CBC) programme with Germany, €10.6 million for co-operation with Austria, €3 million for co-operation with Poland and €2 million for co-operation with Slovakia.

The Czech Republic also participates in and benefits from Phare funded multi-country and horizontal programmes such as TAIEX, the Small and Medium-sized Enterprises programme and the Large Scale Infrastructure Facility.

Since 1990 Phare has provided support in addressing key economic transformation and structural reform issues. It has been delivered mainly in the form of technical assistance and used primarily in support of private sector and infrastructure development, institution building and policy development. Increasingly Phare resources have also been mobilised in the form

of support for investment priorities identified as essential to the country's preparations for EU membership, such as implementation of and investment in the *acquis*, and social and economic development.

Overall the impact of Phare has been positive. Effective transfer of know-how and scarce equipment and financial resources has taken place in a number of important fields such as SME development, trade and investment promotion, energy, environment, agriculture, etc. Phare support to SME development and regional investment has succeeded in developing sector strategies and initiating essential institutional and financial mechanisms servicing enterprises in these sectors.

Phare played for example a particularly important role in :

- the area of civil society, through its support of the Civil Society Development Foundation. Phare has enabled the development of legislation supporting NGO activity and increased the role of the public in solving a wide range of social and ecological issues.
- the area of regional development, where Phare has been successful in making regional development a policy issue, and assisted the Ministry for Regional Development in developing principles of regional policy compatible with EU practice. It also provides essential assistance to the preparation of the Czech Republic for Structural Funds, and has been instrumental in the establishment of a number of Regional Development Agencies (RDAs). These agencies have become the model for RDAs to be established in regions throughout the country.
- the environment sector, through co-financing a waste water treatment plant and a sewage system in North Bohemia. The project helped the Czech Republic attain the EC water and environmental standards required for accession. The EU contributed funds on both sides of the border by means of the Interreg programme for the German section, and Phare for the Czech part. The sewage system, originating and terminating in the Czech Republic, passes through German territory collecting sewage, which is then treated back in the Czech Republic.
- the SME sector, where the Phare privatisation and restructuring programme provided funds for the establishment and support of the Regional Entrepreneurs Fund, which provides venture capital to stimulate SME development. The Fund's success led to the establishment of a nation-wide venture capital fund supported by, among others, the EBRD.
- the area of employment, Phare labour market reform programmes helped to develop counseling strategies, establish guidance centers and provided a stimulus for the development of a Pro-Active Labour Market Intervention Scheme. An OECD survey carried out in 1998 rated the scheme very positively.

*Phare Management System*



The Phare management system was reformed in 1998 and 1999 to improve the speed, efficiency, effectiveness and transparency of Phare activities. Phare assistance has been implemented on a decentralised basis since it began. The authorities in the partner country have taken responsibility for contracting and payment of the assistance. However the European Community's Financial Regulation requires that the Commission supervise the contracting procedure and endorse any contracts financed from Phare signed by the partner country before they go into effect. The regulation co-ordinating assistance from Phare, SAPARD and ISPA, which was approved in June 1999 will allow the Commission to move to ex post control of contracting where the Financial Control exercised by the partner country is deemed by the Commission to be sufficient. This possibility will be reviewed on a country-by-country, sector-by-sector basis and introduced gradually.

In the meantime, and in order to streamline the implementation of Phare programmes, the Commission has transferred much of the responsibility for the supervision of contracting to its Delegations in the candidate countries.

Phare implementation structures have been rationalised in the Czech Republic to increase transparency and avoid dispersion of funds. This process increases the responsibility of the candidate countries by using, as far as possible, sustainable institutions and implementing agencies which will be responsible for the management and implementation of programmes financed from Community funds after membership.

Since December 1998, a National Fund located within the Czech Ministry of Finance is the central entity through which Phare and other EU funds will be channeled. The National Fund has overall responsibility for financial management of funds and for ensuring that Phare procurement rules, reporting and financial management are respected, and that there is proper project information system. A Central Finance and Contracting Unit has also been established within the Ministry of Finance to increase visibility and transparency in financial administration, accounting and payments. In addition, the Czech Republic started to establish a limited number of Implementing Agencies which will be responsible for the implementation for specific projects.

#### *Pre-Accession Aid 2000*

During the period 2000-2006, pre-accession aid to the candidate countries will be more than doubled. Alongside the Phare programme, it will, as from the year 2000, comprise aid for agricultural and rural development (SAPARD) and a structural instrument (ISPA), which will give priority to measures similar to those of the cohesion fund in environment and transport.

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

#### *Twinning*

One of the important challenges the candidate countries are facing is the need to strengthen their administrative capacity to implement and enforce the *acquis*. 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. The strong support and response from EU Member States has meant that twinning partnerships covering a total of 108 projects involving all candidate countries and almost all Member States are presently being implemented.

Phare funding for twinning has so far focused primarily on the priority sectors of agriculture, environment, public finance, Justice and Home Affairs and preparatory measures for the Structural Funds.

For the Czech Republic, 8 projects have so far been twinned under Phare. 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, with assistance from Ireland and France, while three Justice and Home affairs projects will strengthen border control (Germany, assisted by the Netherlands), develop law enforcement institutions (Germany and the UK), and promote the independence of the judiciary (the Netherlands).

Twinning is foreseen for 10 projects under the 1999 programme and will cover fields including health and safety at work, the fight against economic crime, control and management of EC financial flows, indirect taxation, and preparation for Schengen implementation.

#### *The negotiations/screening process*

The analytical examination of the *acquis* (screening) has been concluded for the Czech Republic except with regard to the agricultural *acquis*, which is foreseen to be held in autumn 1999.

Since the opening of accession negotiations in March 1998, the Czech Republic has participated in two rounds of Ministerial negotiations. As a result of these negotiations eight chapters have been provisionally closed (science and research, education and training, small and medium-sized enterprises, statistics, industrial policy, telecommunications, fisheries and consumer protection) while seven (CFSP, company law, free movement of goods, culture and audio-visual policy, external relations, customs union, competition policy) remain open.

## **B. Criteria for membership**

## 1. Political criteria

### *Introduction*

In the 1998 Regular Report on the Czech Republic's progress towards accession, the Commission concluded that :

“Developments in the Czech Republic confirm the conclusion of the Opinion that the Czech Republic fulfils the Copenhagen political criteria. Nonetheless the Czech Republic needs to devote continuing attention to the reform of the judiciary, to fighting corruption more effectively and to improving the situation of the Roma.”

In the 1998 Accession Partnership for the Czech Republic "Further work on the integration of the Roma; strengthening of laws which guarantee press freedom; further attention to ensuring equal access to public services." is mentioned as a medium-term priority.

### *Recent developments*

No change in Government has taken place over the last year. In July the Minister of Finance was replaced.

In November 1998 by-elections to the Senate and local elections took place.

EU accession remains a priority of the government. The conclusions of the Commission's 1998 Regular Report received much attention in political circles and in the press. The government formally expressed its general agreement with the conclusions and decided to speed up preparations for accession in priority areas such as state aids, border management, reform of the judiciary and industrial restructuring.

Notwithstanding considerable efforts made by the government, progress remained limited in terms of adopted legislation and improvements in administrative structures. The difference between the government's policy intentions and implementation can be explained by: the length of procedures for preparing draft legislation by ministries and of the parliamentary process (three readings which take on average 8-9 months) the minority status of the government (which obliges it to negotiate support from opposition parties), and the fact that certain priority policy areas had not received sufficient attention from previous governments. The length of parliamentary procedures has initiated a debate on how to speed up the adoption of legislation. The government's proposal to amend the constitution to enable it to approve accession related legislation by decree was rejected by Parliament in May.

In May the government approved a report on preparations for membership which confirmed delays, in particular in the preparation of draft legislation. It set new deadlines for a number of tasks where previous deadlines had not been met.

In March, the Czech Republic became a member of the North Atlantic Treaty Organisation (NATO).

## **1.1. Democracy and the Rule of Law**

As mentioned in the last Regular Report, Czech Republic has achieved stability of institutions guaranteeing democracy and the rule of law. This section therefore describes only the most significant developments of the past year.

### *The Parliament*

The decision-making ability of the Chamber of Deputies is affected by the existence of the 'Opposition Agreement' under which the main opposition party is usually opposed to the policies of the government, but refrains from introducing a vote of no-confidence. Also, as mentioned earlier, procedures to adopt legislation are long.

In December 1998 the Senate established a Committee for European Integration as one of the Senate's regular committees.

### *The Executive*

The performance of the state administration remains affected by the absence of a unified system of public administration. The administration continues to suffer from inadequate management, lack of training, low pay and lack of co-ordination between ministries. The legislative and European integration departments in the Ministries continue to lack qualified legal experts.

At the end of 1998 a vice-Minister for public administration reform was appointed in the Ministry of Interior, who now has a staff of 36. However concrete improvements in the functioning of state administration have not been noticeable since the last report, despite the priority which the government attaches to the subject. Unfortunately the civil service law, on which work has been continuing for a number of years, is now scheduled to enter into force only in 2002 following the Government's decision to postpone the date of entry into force by two years.

Some progress has been made concerning the establishment of regional administrations.

There are no plans to extend the validity of the 'lustration law", which excludes members of the former security service and active members of the Communist regime from public service, beyond the year 2000.

In May Parliament ratified the European Charter for Local Self-Government.

### *The Judiciary*

The situation described in last year's report remains basically unchanged. Judges are not sufficiently specialised and also have to perform time consuming administrative tasks. Conditions in the courts are precarious, with a lack of modern equipment and information technology. There are still a large number of vacancies for judges and state attorneys.

This leads to extremely slow judicial procedures, with considerable and frequent backlogs in all sectors. In 1997 the number of unresolved cases at district courts was 230,000, in 1998 240,000 and in the first quarter of 1999 230,000 (criminal, civil, custodial and other cases). In November 1998, the Constitutional Court issued a judgement that the delays in court proceedings violate the Czech Charter of Human rights and Freedom, particularly those sections regarding the right to equal and fair treatment by courts. It held the courts and the State responsible for the damages caused by these delays.

Salaries of judges are relatively high. Outside the judiciary salaries are considerably higher, however, which leads to difficulties in filling existing vacancies. Salaries of prosecutors are generally somewhat lower than those of judges.

Training organised by the Institute for Further Training of Judges is insufficient and does not cover all judges. Training in international or Community law is not provided and is not yet an obligatory part of the training of candidates to be appointed as judges.

Concerning the independence of the judiciary it should be noted that formally judges and prosecutors can be recalled by the Minister of Justice, but that in practice, this has not happened. Opinion polls earlier this year indicate that 65 % of Czech citizens do not trust the courts, mainly because of the slowness of procedures and level of competence.

The performance of the judiciary in the fight against organised crime and economic crime remains weak. This is also the case with the application of bankruptcy legislation.

The Supreme Administrative Court foreseen by the Constitution does not yet exist. The government does not intend to establish it. Instead, it is considering setting up administrative Senates in the regional courts. It will take a final decision in the context of the overall reform of the judiciary.

Positive steps taken in the reference period include the legislation passed in March by the Lower House which enables judges to transfer responsibility for some administrative tasks to judicial officials. This should help to ease the situation in the overloaded courts. In July the government approved the concept for the overall reform of the judiciary and instructed the Minister of Justice to submit the relevant legislation, although new funds have not yet been provided.

### *Anti-Corruption measures*

Corruption is a serious problem and its fight is a priority of the current Government. The government estimates economic crime to have risen by 35 per cent in the first half of 1999, of which most of the cases are related to corruption. An effective policy has not yet been developed, however.

In 1998 550 persons were prosecuted for corruption, of whom 213 were convicted. In 1997 500 were prosecuted and 215 convicted. In 1993 the figures were 272 and 71 respectively.

The government set up an Inter-Ministerial Committee in September 1998 in order to coordinate anti-corruption policy. The Committee is supported by an Analytical Commission, headed by a Minister without Portfolio, which is informed directly by the inspection bodies of the relevant Ministries. During the past year the inspection bodies and the public submitted more than 3000 cases to the Commission. It has filed 209 complaints, most of which are with the State Prosecutor. While 70 of these complaints have been filed with the police, of which 18 have given rise to criminal proceedings, only 6 have gone to trial.

There is disagreement between the Commission and the police as to whether or not many of the cases submitted to it can in fact be prosecuted, while the quality of the dossiers has also been questioned. The Committee's activities are hampered by the fact that it has no staff and that implementation of its recommendations depends on the co-operation of other ministries. In February 1999 the government adopted a programme for the fight against corruption which focuses on corruption in the public sector and gives concrete instructions to various ministries, with deadlines mostly set for the end of 1999 or 2000. In April the Senate passed an amendment to the Penal Code increasing the prison sentence for taking or offering bribes from five to eight years.

Government policy in this area remains seriously handicapped by the lack of personnel, equipment and insufficient co-ordination between the agencies involved and insufficient legislation.

Anti-money-laundering legislation is largely compatible with the acquis and international standards (see further section on free movement of services). However, a number of important legislative gaps remain and enforcement of current legislation needs considerable improvement. Many different government institutions are involved in anti-money laundering efforts, without sufficient leadership or co-ordination. A central role is played by the Financial Analytical Unit (FAU) in the Ministry of Finance. However, the number of cases it has processed and submitted to the police is small and none of them have yet been prosecuted (see also section on Free movement of services).

The Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime entered into force in 1997 in the Czech Republic. The Czech Republic has not yet ratified the 1997 OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions. Neither has it signed the Council of Europe Criminal Law Convention on Corruption of January 1999.

## **1.2. Human rights and the protection of minorities**

As mentioned in the last Regular Report, Czech Republic continues to respect human rights and freedoms. The following section only concentrates on subsequent major developments.

The Czech Republic has acceded to most of the major human rights conventions (see annex).

### *Civil and Political Rights*

Parliament approved the Access to Information Act, which will enter into force on 1 January 2000. It will allow Czech citizens access to information from the state, including information gathered about them, with the exception of information falling under the Classified Information Act.

In July Parliament adopted amendments to the citizenship law, which makes it easier for former Czechoslovak citizens to obtain Czech citizenship. It drops the requirement to present a clean criminal record, which in practise had discriminatory effect, and allows Czech citizens living in Slovakia to have double citizenship.

The average length of pre-trial detention increased from 89 days in 1989 to 225 days in 1998. The number of pre-trial detainees in July 99 was 3,357, nearly 50 percent of the total prison population of 7,184.

Although prisons generally appear to meet minimum international standards, they are largely overcrowded. Total prison capacity is 19 356, whilst the actual prison population reached 23 240 in April 1999. The Government permits visits by human rights monitors.

Conditions in a considerable number of police detention facilities are not acceptable . Persons deprived of their liberty by the police are frequently unable to notify a third person of their situation and can remain in police custody for many hours without being given access to a lawyer.

Although specific laws prohibit trafficking in women and children, and despite the co-operation between the authorities and third countries to enforce them, the Czech Republic is a transit and destination country for traffickers of women.

### *Economic, Social and Cultural Rights*

Although women and men are equal under the law and in principle receive the same pay for the same job, women's wages lag behind those of men by roughly 25 percent, although the gap is narrowing.

Trade union membership continued to decline in 1998.

### *Minority Rights and the Protection of Minorities*

The 1998 Regular Report concluded that despite increased attention from the Government since July 1997, the situation of the 250.000 to 300.000 Roma had not really improved. The 1998 Accession partnership made this issue a medium term priority.

The situation of the Roma has not evolved markedly over the past year. It remains characterised by widespread discrimination, as anti-Roma prejudice remains high and protection from the police and the courts often inadequate, and by social exclusion.

One illustration of discriminatory attitudes comes from the city of Usti nad Labem, where local authorities maintained their decision of last year to build a ceramic fence to separate Roma and non-Roma residents in a street of the city. The Government took a clear position opposing the wall and has, so far, succeeded in suspending its construction. However, in line with the constitutional provisions regarding disagreements between the central government and local authorities, the next decision rests with the Chamber of Deputies, which is scheduled to discuss the issue in October.

It is essential that the decision taken by the Chamber will fully respect the human and civil rights of all parties involved.

According to an official report, the number of followers of extremist movements has doubled between 1997 and 1998 to almost 10,000. 133 crimes motivated by extremism or racism, mostly against Roma, were committed in 1998, 100 of which have been cleared up. As illustrated by recent judgements of district courts, sentences for criminal offences motivated by racism or national intolerance often remain inadequate.

Nevertheless, a number of positive steps were taken following the appointment at the end of 1998 of a Human Rights Commissioner, with responsibilities for the Council for Nationalities, the Inter-Ministerial Roma Commission and the Council for Human Rights.

Thus, the Government action plan of October 1997 detailing measures to improve the situation of the Roma has mostly been fulfilled, with for example many Roma advisors and assistants appointed to Ministries, district authorities and schools. In addition, amendments to the legislation on citizenship adopted in July will allow large numbers of Roma to regain Czech citizenship. Measures to improve employment prospects for the Roma are foreseen in the new National Employment Plan of May as well as in a subsequent package of additional measures adopted in June. An amendment to the Employment Act includes an anti-discrimination provision. The Government also charged the Ministries of Education, Interior and Justice with a number of concrete tasks aimed at eradicating the spread of racism, neo-fascism and extremists movements. Finally, an expert group was set up to draft a detailed long term strategy for the integration of the Roma by the end of 1999. The representation of Roma in the Inter-Ministerial Roma Commission has been increased from 6 to 12.



These steps have not been accompanied, however, by an increase in the very small permanent staff of the inter-Ministerial Roma Commission, which still has no budget to implement policies and no executive power. Education levels remain low and Roma still make up some 70 % of children sent to special schools for the mentally handicapped; out of the 100 preparatory schools set up in 1998 to prepare Roma children for mainstream primary schools, around a third are reported to have actually been set up in the schools for the mentally handicapped. Roma unemployment remains very high at 70-90 %. Health and housing conditions of the Roma communities are still much worse than those of the mainstream population. Changing attitudes at the local level remains a challenge, as illustrated by the case of Usti nad Labem and recent judgements of district courts. Since the beginning of 1999, several hundreds Roma requested asylum in the United Kingdom.

The greater attention paid by the government since September 1998 to the improvement of the condition of the Roma needs to be translated into a comprehensive long-term policy to fight discrimination and social exclusion. This policy must be backed by adequate financial support and focus on implementation at the local level.

The situation as regards minorities other than Roma remained satisfactory.

### **1.3. General evaluation**

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.

## 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 Regular Report.

In examining the economic developments in the Czech Republic since the Opinion, the Commission's approach was 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 and the 1998 Regular Report.

### 2.2 Economic developments

The macroeconomic situation in the Czech Republic has remained difficult over the last year: real GDP has continued to fall; unemployment has risen significantly; and real incomes have contracted. The downturn has proved deeper and lengthier than expected and macroeconomic prospects are only slowly improving. Nevertheless, there have been some positive signals: the country's external position has improved and inflation has reached a level comparable to that in the EU. The current macro-economic problems have highlighted the need to proceed quickly with remaining structural reforms.

#### *Macroeconomic developments*

Overall, real GDP contracted by 2.3% in 1998, compared with revised growth of 0.3% in 1997. The recession progressively deepened throughout 1998 and the first part of 1999, with the economy contracting by 4.1% in the first quarter of 1999 when compared with a year earlier. However, in the second quarter of 1999 a recovery seemed to be emerging, with positive real GDP growth of 0.3% year-on-year. In the first half of 1998, the contraction in GDP was due to sharp falls in both investment and consumption. From the second half of 1998 consumption started to recover as real wages started to grow; real

private consumption recorded positive growth (of 1.2% year-on-year) in the first half of 1999. Investment demand, on the other hand, continues to weaken – fixed investment was down by 7.1% year-on-year in the first half of 1999. After the buoyant export activity of the first half of 1998, real export growth weakened in the second half of 1998 and the first quarter of 1999, but recovered somewhat in the second quarter of 1999. On the output side, almost all sectors have been contracting except the trade sector, financial services and agriculture. In particular, activity in the industrial sector has been weak, following the trend of exports, whilst construction was hit by the sharp cutback in investment in buildings.

The unemployment rate in the Czech Republic has risen steadily as the recession has deepened. At the end of July 1999, the unemployment rate had reached 8.8%, up from the 6.8% recorded in October 1998. Wide regional disparities have also emerged in unemployment levels; the unemployment rates in North Bohemia and North Moravia are now over 15%.

There was a considerable narrowing of the current account deficit in 1998 to 1.9% of GDP from 6.1% in 1997. The turnaround on the current account was due to improvements on the trade balance, mostly due to high merchandise exports at the beginning of 1998. In the first two months of 1999, export performance deteriorated, but improved from March as the effects of the 10% depreciation of the currency (vis-à-vis the euro) at the beginning of 1999 started to show through. In the first half of 1999, both the trade deficit and the current account deficit are down significantly on their 1998 levels.

For the first time in many years, in 1998 and the first half of 1999, the current account deficit has been fully covered by a surplus on the financial account. In particular, foreign direct investment inflows have accelerated; €2 billion in 1998 against €1 billion in 1997, and €1 billion in the first half of 1999.

Inflation has continued to fall sharply; 12-month consumer price inflation was down to 1.4% in August 1999 compared with 8.2% in October 1998, with consumer prices falling in absolute terms in several months. Falling food and oil prices, and a halt to price deregulation have contributed to this trend, but another factor has been the tough anti-inflationary policy of the central bank. In fact, the inflation targets of the central bank were considerably undershot in 1998 – this is also likely to be the case in 1999.

As inflation has fallen sharply, monetary policy has been eased considerably - the key two-week repo rate was down to 6 % at the beginning of September 1999 from 13.5% at the beginning of October 1998. However, these interest rate cuts have not had much stimulatory effect on the economy as the large state-owned banks have been cautious in the extension of credit, due to weak balance sheets. One further development in monetary policy has been a second cut in the required reserve ratio to 5%, and the announcement of a further cut in October 1999 to 2% to bring it in line with EU requirements.

Although there is no longer any explicit exchange rate policy or target, the Czech National Bank aims to limit the volatility of the currency, but has only partly succeeded. In particular the policy of cutting interest rates in many small steps failed to alter market expectations, meaning that the currency has often been stronger than the central bank would have desired.

The currency was relatively strong in the last quarter of 1998, before depreciating by around 10% in January and February 1999. The Czech crown started to strengthen again towards the end of June in the expectation of increased capital flows, after the announcement of the privatisation of one of the large state-held banks, CSOB.

Although the state budget for 1998 had aimed for balance, the final outturn on the budget showed a financial deficit of approximately 1.5% of GDP. The budget for 1999 on the other hand, marks a significant change in fiscal policy, and is the first budget to plan for a deficit in several years – the targeted deficit is some 2.5% of expected GDP. However, the state budget deficit is expected to be larger than originally agreed due to weaker than expected economic activity and higher unemployment – recent forecasts of the Ministry of the Ministry of Finance point to 3.5% of GDP.

Main Economic Trends							
Czech Republic		1995	1996	1997	1998	1999 latest	
Real GDP growth rate	per cent	5.9	3.8	0.3	-2.3	-1.9	Jan-Jun
Inflation rate							
- annual average	per cent	9.1	8.8	8.5	10.7	2.3	Jan-Aug
- December-on-December	per cent	7.9	8.6	10.0	6.8	1.4	Aug
Unemployment rate, end-year							
- ILO definition	per cent	4.0	3.9	4.8	6.5	:	
General government budget balance	per cent of GDP	-1.2	-1.8	-2.1	-2.4	:	
Current account balance	per cent of GDP	-2.6	-7.4	-6.1	-1.9	-0.1	Jan-Jun
	million ECU/€	-1047	-3381	-2835	-941	-14	Jan-Jun
Foreign debt <sup>2</sup>							
- debt export ratio	per cent	57	71	72	72	69	Jun
	per cent	:	:	32	30	:	
- gross foreign debt	billion ECU/€	13.1	16.9	19.6	20.9	21.9	Jun
	billion ECU/€	:	:	9.2	9.8	:	
Foreign direct investment net inflow							
- according to EBRD	per cent of GDP	4.9	2.4	2.4	4.5	:	
- balance of payments data	million ECU/€	1931	1005	1125	2216	1138	Jan-Jun

*Source: National sources, OECD external Debt Statistics, IMF Government Finance Statistics, EBRD.*

<sup>2</sup> The first row is taken from national sources. The data in the second row are the result of cooperation between BIS, IMF, OECD and World Bank. This source should be more reliable in terms of broader coverage, avoidance of double counting, etc., as well as improved timeliness.

### *Structural reforms*

Banking privatisation accelerated in 1999, when on 10 March the government announced a precise and ambitious timetable for the remaining privatisations. This has culminated with agreement on the sale of CSOB to a Belgian bank for over €1 billion at the beginning of June. The financial markets reacted well to the transparent sale of the bank. Although the March timetable has now proved overly ambitious, the sale of Ceska Sporitelna (the Czech savings bank) should be completed by March 2000, and that of Komerčni Banka by mid-2000. The sales of these two banks are likely to be more difficult and yield less value for the state, especially that of Komerčni Banka whose clients include many large troubled Czech enterprises.

Upon entering office, the government halted the privatisation of all non-financial companies. Since May 1999, however, it has been considering privatising certain utilities, and in particular the regional energy distribution companies which are already part privatised. The government does not, however, wish to begin before adequate framework legislation is in place - no final decisions have yet been taken.

From the second half of 1998, the Czech National Bank has been more active in addressing the bad loan problem in the banking sector. In July 1998 loan classification and provisioning rules were tightened, and the Czech National Bank has since been pressing banks to be assertive towards debtors, and to write-off more bad loans. These measures are crucial to improve the transparency and the long-term financial health of the sector, but in the short term they have induced more cautious lending practices on the part of the large state-owned banks, thus worsening access to finance for most Czech enterprises and aggravating the current recession. Gross credits grew by only 3.4% in 1998, due to higher write-offs and valuation changes by mainly Czech owned banks, as well as the low growth in new lending. At the end of 1998 the level of bad loans had grown by only 0.7% in absolute terms compared with end-1997; this is the result of higher write-offs and a transfer of the bad debts of the CS bank out of the banking system in the run-up to its privatisation. However, in the first half of 1999, classified credits grew sharply by 18%, to some extent reflecting the continuing difficulties in the enterprise sector. Net earnings of the banking sector have been hit by loan loss provisioning, and the banking sector registered a loss of €2 billion in 1998. Losses continue to be concentrated in the Czech owned banks.

The operations of the new Securities Commission over the last year (policing of the markets, re-licensing of operators) have improved the general atmosphere in the capital markets considerably. In its first year of operation, the Commission has shown willingness to use its existing enforcement powers.

The main initiative of the Government in the area of structural reform was the adoption in April 1999 of a programme for the revitalisation of industry. The aim of the programme is to provide renewed access to financing for major industrial companies experiencing severe financial difficulties mainly as a result of a lack of effective restructuring since privatisation. The Government has created a Revitalisation Agency that will be in charge of carrying out the programme, although it is not yet fully operational. Several approaches will be used, but

the overall goal will be to provide finance to companies in exchange for management control to restructure and sell them to new investors as soon as possible. The main challenge of the programme will be to only provide assistance to companies with a realistic chance of survival.

The threshold for the package of investment incentives, was lowered in December 1998 from a minimum of €22 million to €9 million. The package includes a five-year direct tax holiday, duty free technology imports, the possibility to create duty free zones, and subsidies for training. The implementation of the package is subject to a case-by-case approval by the Cabinet and the line ministries – several sets of concessions were approved over the Summer of 1999.

Structural reform has been pursued in the Czech Republic with the continued cleaning up of the banking sector, in particular through the preparation of privatisation of the remaining large banks. In addition the government has been seeking to tackle the remaining problems in the enterprise sector through its new Revitalisation plan, and through the extension of its investment incentives package.

<b>Main Indicators of Economic Structure in 1998</b>		
Population (average)	Thousand	10295
GDP per head	PPS-€	12200
	per cent of EU average	61
Share of agriculture <sup>3</sup> in:		
- gross value added	Per cent	4.5
- employment	per cent	5.5
Investment-to-GDP ratio	Per cent	27.5
Gross foreign debt/GDP	Per cent	19.9
Exports of goods & services/GDP	Per cent	60.0
Stock of foreign direct investment, according to EBRD	Billion ECU	8.5
	€/per head	829
<i>Source: National sources, OECD external Debt Statistics, IMF, EBRD.</i>		

## **2.3 Assessment in terms of the Copenhagen criteria**

### *The existence of a functioning market economy*

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<sup>3</sup> Agriculture, hunting, forestry and fishing.

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.

Although the Czech government has taken some important decisions on individual reform measures, it has found it difficult to agree on a coherent overall programme for economic policy. In May 1999 the Government adopted its “Economic Strategy of the Accession to the European Union”. On the basis of this document a Joint Assessment of economic policy priorities has been agreed with the European Commission, which includes both macroeconomic and structural policy measures. In addition, according to a recent study (by the IMF), the Czech Republic has made considerable progress in enhancing transparency practices in several key areas related to economic policy.

Co-ordination between the Government and the central bank has also improved recently. However, there continue to be discussions about the extent of central bank independence. Any reductions of central bank independence would not be in conformity with EU *acquis communautaire* in the area of Economic and Monetary Union, and will be a significant backward step.

The length and depth of the current economic recession has illustrated that structural reforms in the Czech Republic have not been sufficient. Creating the conditions for a sustainable return to growth should be the main priority for the authorities in the coming period. The reductions in inflation and in the current account deficit over the last year are positive developments, although a large current account deficit could re-emerge if serious structural changes do not occur, especially if upward real wage pressures persist. The restructuring of both the expenditure and tax sides of the Czech public budgets poses a considerable challenge. Moreover, significant contingent liabilities for the state budget have been accumulated through off-budget funds and transformation institutions, and through the extensive use of loan guarantees. The Government is now fully aware of the risks associated with these practices, and of the changes that need to be made to budgetary and control procedures to ensure the future sustainability of the public finances.

Market forces freely determine the prices of a vast majority of goods; administered prices form 18% of the consumer price basket. However, price liberalisation in regulated sectors has almost completely stopped under the new government, maintaining the market distortions in energy and housing. Trade and foreign exchange regimes have been liberalised.

While the main institutions of a market economy have been established, the legal framework still needs to be improved. In particular, despite recent amendments, some deficiencies remain in bankruptcy legislation, and in its application. Bankruptcy proceedings remain lengthy; speeding them up will require the strengthening of the creditor committee, the limitation of the role of the court, and the streamlining of procedures. The position of

creditors is very weak, allowing debtors to shelter their assets from the reach of courts. The establishment of out-of-court settlements, proposed recently by the Government, goes some way in addressing the problems with bankruptcy and collateral laws, but is still not sufficient.

Business registration and changes in the legal status of existing enterprises, is currently handled as a court procedure, and can take up to 12 months. More generally, courts are extremely slow. Raising the diligence of the courts, and the predictability of legal proceedings, is essential to providing enterprises with proper legal certainty. Increasing the co-operation between the police, the courts, and institutions such as the Securities Commission, is necessary to fight against economic crime, for example the stripping of assets out of enterprises (“tunnelling”).

Private ownership is the dominant form of ownership, with 75% of GDP produced by the private sector. However, the state, through the National Property Fund, still retains significant stakes in many “strategic” companies – including energy distribution companies, mines, steel-mills and some of the large banks.

The land market has been liberalised, but significant amounts of agricultural land remain in state hands. Plans for the sell-off of the remaining state property are currently under consideration. The expiration in 1999 of the 1992 law on agricultural co-operatives should free up considerably the land market. The operation of the land register also needs to be improved.

A key weakness of the Czech economy remains the financial sector. The banking sector continues to be seriously over-burdened by bad loans, with some banks more badly affected than others; classified credits form around one third of the loan portfolio. The build up of a large number of classified loans in the past was partly due to the passive attitude that state-owned banks adopted towards bad debtors. However, this situation has improved over the past year with stricter bank supervision and the cleaning up of the most affected banks in the run-up to their privatisation. But, classified credits continue to be accumulated due to the poor health of the economy. The privatisation of the remaining state-controlled banks, improvements in bankruptcy legislation, and increased separation between the commercial and investment arms of banks should improve the situation further, whilst also improving the framework for corporate governance.

In the past the light regulatory framework and the wide variety of trading channels and practices led to frequent non-transparent deals and price manipulation in the Czech capital market. The regulatory framework has been strengthened through the establishment of a Securities Commission. However, the capital market is still largely illiquid, does not encourage strong corporate governance, and is a negligible source of finance for commercial and industrial enterprises. The continued presence of divergent prices for the same stock due to the fragmented organisation of the securities market remains an important problem.

The Czech Republic can be considered to be a functioning market economy. However, there are still some structural problems, related to remaining shortcomings in the legal framework and problems of enforcement. Priorities for reform should include the completion of the bank privatisation process; a cleaning up of banks’ portfolios; and further



measures to improve corporate governance. There should be increased transparency in the public accounts to prevent a further accumulation of liabilities by public institutions. It is also important that the authorities adopt policies to restore economic growth and ensure sustainability of the external accounts over the medium-term.

*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 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, although the co-ordination of economic policies could be improved. Nevertheless, the current downturn highlights the fact that to date, enterprise restructuring has not been sufficient to maintain macroeconomic stability and growth.

The Czech Republic has enjoyed high overall levels of investment and fixed investment as a share of GDP has been around 30%. The country also has a skilled and educated workforce and relatively well-developed infrastructure. However, capital-output ratios in the Czech Republic have been consistently high, raising questions about the suitability of investments undertaken by both private and public sector managers. Moreover, in recent years productivity growth has often been outstripped by the growth in real wages.

A package of investment incentives is in place, with concessions granted to several enterprises in 1999. The threshold for the minimum financial investment covered by this package was recently lowered. Any further extension of these incentives should be considered carefully in terms of its fiscal costs and the impact on distorting the incentives to invest. Transparency in the case-by-case approval of these concessions should also be ensured.

Foreign direct investment inflows have been relatively strong, and have returned to previously high levels in 1998 and the first half of 1999. The changes to legislation in the financial sector had an important role to play in improving investor confidence and attracting foreign direct investment over the last year. To encourage further investors to bring capital and expertise to the country, the authorities should now concentrate on improving the general business environment. For example, improvement of the legal framework, streamlining of bureaucracy, and the continued implementation of structural reforms in a context of macroeconomic stability, are important factors for developing investor

confidence. Planned amendments to the law on Commercial Licenses requiring the payment of a substantial deposit by foreign companies in exchange for a business license, and planned changes to the Employment Act restricting employment of foreigners to certain conditions, are backwards steps in this respect.

An important obstacle to a more rapid increase in the competitiveness of the enterprise sector has been the traditionally close relationship between the financial sector and the enterprise sector that has not fostered financial discipline. Changes to legislation in recent years, is leading to a gradual improvement in this area, but the financial sector itself, especially the banking sector, is still in need of further restructuring. Privatisation of the remaining large banks should continue to be a high priority for the government.

The acceleration of enterprise restructuring will be necessary in the coming years, both for the restoration of strong economic growth and for the creation of a dynamic and competitive export sector. The recent adoption of the Programme for the Revitalisation of Industry could be a step in the right direction but it needs to be a one-off measure to prepare enterprises for market forces, before reducing state influence in the enterprise sector once and for all. Every effort should be made to use this programme to restructure potentially profitable companies (or parts of companies) with genuine cashflow problems, and not to put more state money into non-viable enterprises. The fiscal costs associated with the programme could be considerable. In some cases, in order to ease liquidity constraints, the debt of an enterprise may be converted into equity, which in turn would be transferred to the direct control of the state. This could lead to prolonged periods of renationalisation.

The small and medium-sized enterprise (SME) sector contributes 56% of the labour force and contributes a third of GDP. Nevertheless, SMEs in the Czech Republic still have limited access to financing 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 implementation of this strategy.

One important indicator of the competitiveness of the Czech economy is the degree of trade integration already achieved with the EU. This is high and continues to increase, with the EU already accounting for around 64% of exports and 63% of imports in 1998. The main exports and imports are manufactured goods and machinery and transport equipment. These higher value-added categories have increased in importance as a share of total exports to the EU. Nevertheless, much can still be done to improve the quality and competitiveness of exports.

The Czech Republic should be able to cope with competitive pressures and market forces within the Union in the medium term, provided that it implements the remaining necessary structural reforms swiftly. The authorities need to concentrate on developing an environment supportive of business activity, and thus conducive to economic growth. In this respect, the improvement of the legal framework, the strengthening of corporate governance, the acceleration of enterprise restructuring, and the continued reform of the financial markets,

are essential. This will result in more efficient enterprise and banking sectors and lead to sustained increases in productivity and competitiveness.

## **2.4 General evaluation**

The Czech Republic can be regarded as a functioning market economy. It 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.

Despite the deepening of the economic recession, some positive macroeconomic developments have been recorded, including the narrowing of the external imbalance, and the reduction in inflation. Some progress can be noted also in bank privatisation and in measures to address the bad loan problem.

Priority should be given to accelerating the restructuring and privatisation process, continuing price liberalisation and improving the legal framework for enterprise activity. Special attention will need to be paid to law enforcement and improving corporate governance. Urgent action should be taken to restructure and increase transparency of public finance in order to ensure its sustainability.

### 3. Ability to assume the obligations of Membership

This section aims to update the Commission's Regular Report of 1998 as concerns the Czech Republic's ability to assume the obligations of membership - that is, the legal and institutional framework, known as the *acquis*, by means of which the Union puts into effect its objectives.

In the 1998 Regular Report on Czech Republic's progress towards accession, the Commission concluded that :

“The Czech Republic has made only little progress in the overall approximation process since the Opinion. In regard to the internal market, good progress was made in the area of standards and certification and to a lesser extent in banking and capital market supervision. Although the Czech Republic started from a solid base, no progress has been made in other key internal market areas such as intellectual property, public procurement, data protection, audio-visual, insurance and state aid control. The slow down in the approximation and institution building process has been equally felt in the JHA field.

While the Czech Republic has addressed short-term Accession Partnership priorities in the macroeconomic area, banking and financial sector, standards and certification, regional development and veterinary areas, it has not satisfactorily addressed priorities in the areas of industrial restructuring, administrative capacity, the internal market (alignment of intellectual property, anti-trust and state aid legislation) and JHA (border enforcement, judiciary).”

The presentation which follows uses the same structure as the 1998 Regular Report. The report focuses on the progress made since October 1998. Under each heading legislative decisions and the progress in implementing and enforcing the legislation are reported.

#### 3.1. Internal Market without frontiers

The Union's internal market is defined in Article 14 of the Treaty as an area without internal frontiers in which the free movement of goods, persons, services and capital is ensured. This internal market, central to the integration process, is based on an open-market economy in which competition and economic and social cohesion must play a full part.

Effective implementation and enforcement of these four freedoms requires not only compliance with such important principles as, for example, non-discrimination or mutual recognition of national legislation but also the effective application of common rules, such as those designed for safety, environmental or consumer protection, and effective means of redress. The same principles apply to certain common rules, for example in the areas of public procurement, intellectual property and data protection, which are important in shaping the general framework within which the economies operate.

The Law on *public procurement* is largely in line with the *acquis*. The procurement market is largely open to European companies. However, the Czech Republic still operates a national preference clause which limits access to non-Czech companies, and the utilities

sector is still not covered by the law. The Office for the Protection of Economic Competition, which is also responsible for the application of public procurement legislation, took 235 decisions on public procurement complaints in 1998; the courts dealt with 4 of these cases.

Legislation on the protection of *intellectual property rights* is partially aligned. No legislative progress can be reported on the remaining gaps, which regard computer programmes, rental and distribution rights and the duration of protection of copyrights.

Some progress has been made in the enforcement of intellectual property rights legislation. In April the government adopted a resolution to step up the fight against crime in intellectual property, allocating tasks to various ministries with most deadlines set at the end of 1999. In September Parliament adopted legislation on border enforcement in the area of counterfeited and pirated goods, which is largely in line with the *acquis*. However, long delays still exist at all stages of the enforcement process (investigation, prosecution, court hearings). The capacity of the police and prosecutors, in particular to investigate *prima facie* cases, is weak as is the co-operation between police and prosecutors.

Legislation on the protection of *industrial property rights* is largely in line with the *acquis*. No additional progress has been made since July 1997 on the few remaining gaps. In January 1999 the European Patent Organisation invited the Czech Republic to become a member of the European Patent Convention from 1 July 2002.

In the field of *company law*, which is partially in line with the *acquis*, the situation has not evolved as compared to 1998. Some differences with the *acquis* persist notably on publicity requirements.

Legislation in the field of *accounting* is already largely in line with the *acquis*. No further progress can be reported.

Czech legislation on *data protection* is partially in line with the *acquis*. No progress has been made in this field. Provisions remaining to be transposed concern the transfer of personal data to third countries, the registration of operators handling personal data and the absence of sanctions for unauthorised data processors. Neither has any progress been made to establish an independent monitoring authority.

### *The four freedoms*

In its Opinion, the Commission indicated that the Czech Republic had already taken on the most important directives regarding the free movement of goods and that the degree of capital movement liberalisation achieved was substantial. Further progress was needed in the fields of banking and insurance supervision, and of the free movement of persons.

In the 1998 Regular Report, the Commission concluded that while progress had been made in the fields of standardisation and certification, securities and, to a lesser extent, in the

banking sector, no further alignment could be recorded in the insurance sector and the free movement of persons.

### **Free movement of goods**

The alignment of legislation is generally well advanced. Progress has been made in aligning New Approach directives concerning machinery, simple pressure vessels, pressure equipment, construction products, medical devices and lifts. In the sectors covered by product-specific legislation, progress has been made concerning foodstuffs, pharmaceuticals, chemicals and textiles. No progress has been achieved in these sectors as regards EC directives on legal metrology, pre-packaging, gas cylinders, cosmetic products, arms control and motor vehicles. Full transposition of all New Approach directives depends on the entry into force of the amended Framework Act and, in some cases, on the adoption of the new Act on Public Health Protection. The planned amendment to the 1997 Framework Act on technical requirements for products and conformity assessment has still to be adopted by Parliament. Progress is also lacking in the areas of product liability and safety (for more information, see the section on consumer protection).

As of January 1999, 7700 European standards had been adopted as Czech standards, which represent 90% of the total.

Specifically, in the field of medical devices, progress was made with the adoption of government orders laying down technical requirements for medical devices and active implantable medical devices. In the field of foodstuffs, a new decree transposing EC directives on processing aids and additives has been adopted. New implementing legislation has also been adopted in the field of food control. Implementing legislation concerning the registration of medicinal products was adopted at the end of 1998. In the field of chemicals, considerable progress has been achieved with the new framework act on chemical substances and chemical preparations, supplemented by the adoption of thirteen implementing decrees, intended to cover a significant part of Community legislation in this area. Concerning textiles, three new decrees implementing the 1992 Act on Consumer Protection were adopted. These decrees fully implement EC directives in the field.

Some strengthening of administrative capacity has taken place. In January, the Czech Office for Standards, Metrology and Testing set up a center for the translation of EC regulations. A registration center for chemical substances placed on the Czech market has been operational at the Ministry of Health since June 1999. A national authority for monitoring compliance with the Good Laboratory Practice in the sector of chemical substances has been operational since January.

### **Free movement of capital**

A substantial degree of capital liberalisation has already been achieved.

In addition, an amendment to the Foreign Exchange Act entered into force in January 1999. It liberalised the areas of financial credits and other financial lending by residents in favour of

non-residents; securities, guarantees, and financial back-up facilities extended by residents in favour of non-residents; operations in foreign securities; operations in financial derivatives; other foreign investments of residents than foreign direct investments; purchase and sale of foreign currency and gold by residents.

A number of restrictions remain without a clear schedule or commitment for liberalisation, notably the purchase of real estate by non-residents and participation in betting games abroad.

In April 1999, Parliament approved an amendment to the Act on Lotteries and Similar Games of Chance which abolished the legal discrimination between Czech companies with Czech capital and Czech companies with foreign capital in obtaining licenses to operate lotteries and consumer contests. However, the new amendment establishes relatively low price ceilings for consumer contests, which in practice constrains some marketing activities by EU companies in the Czech Republic.

### **Free movement of services**

Czech banking legislation already transposes a significant part of the *acquis*. Some progress has been achieved in further alignment.

The National Bank has completed the transposition of the Large Exposures Directive, improved others (the post-BCCI, Capital Adequacy and Consolidated Supervision) and fine-tuned the application requirements for *banking* licenses. A Decree of February 1999 requires notification of the acquisition or selling of banking shares with voting rights as provided for by the second Banking Directive. An amendment to the Bankruptcy Act was adopted in December 1998 which is an improvement as far as the credit business of banks is concerned.

Following the major amendment of the Banking Law of September 1998, further effort will be needed to transpose the remaining requirements of the Directives on the Consolidated Supervision, post BCCI and Capital Adequacy.

The privatisation of the remaining three large banks with state participation is progressing well. In June 1999, the sale of the state's 66 % stake in CeskoSlovensko Obchodni Banka (CSOB) was completed via an open and transparent tender. In March 1999, the government approved the procedures for the sale of the state share in Komerčni Banka (KB, 48.7%) and Ceska Sportelna (CS, 45%). The aim is for the sale of Ceska Sportelna to be completed by the end of 1999 and Komerčni Banka by the beginning of 2000.

The bad debt overhang remains a serious problem. The Czech National Bank has begun to address the issue by more stringent loan classification, provisioning rules, by pressing banks to be more assertive towards debtors and to write off more bad loans. This policy has not yet resulted in a significant reduction of bad loans.

Legislation on *money laundering* is largely compatible with the *acquis*. Important differences remaining with the money-laundering directive concern the existence of bearers passbooks, identification of third persons acting on behalf of the client and reporting of unusual transactions below the thresholds. At present there are 9 million anonymous savings accounts. A number of government institutions are involved in anti-money laundering efforts, without clear leadership or co-ordination. The Financial Analytical Unit (FAU) in the Ministry of Finance plays a central role. The number of cases it has processed and submitted to the police is small, however, and none of them has been prosecuted. Staff at the FAU has increased from 16 last year to 28, but better training and equipment are required. Co-operation with other authorities such as the police and tax and customs offices is insufficient.

The *Insurance Act* of 1991, last amended in 1995, is partially in line with the *acquis*. Some further progress in transposing the *acquis* has been made. Full harmonisation has been achieved in the field of motor insurance. The new Act on Third Party Liability Insurance for Vehicles adopted in July will enter into force in two steps, partly in July 1999 and fully in January 2000. However, many discrepancies remain as regards the provisions of the Second and Third Directives, and those of the Directive on Intermediaries.

Supervision of insurance companies and of pension funds is carried out by the Insurance Department in the Ministry of Finance. No improvements have been made since last year. The department staff still numbers seventeen, which is insufficient. The Supervision is performed on the basis of reports relating to the financial soundness of insurance companies and rarely through on-site inspections, because of staff shortages.

Legislation on *securities* and capital markets is partially in line with the *acquis*. No new major legislation has been adopted. Gaps remain with some provisions of the Directives on UCITS, on prospectuses, listing requirements and major shareholdings, on the information to be published, on insider trading, on investment services and on the post BCCI Directive. There is no legislation on Investor compensation scheme.

In June 1999, the Securities Commission concluded the process of re-licensing brokers, dealers and investment fund managers. By April, some 50% of operators had lost their license, with the final percentage expected to be higher. In addition, the examination of compliance of issuers with disclosure requirements, begun in November 1998, was completed in May 1999. In its first year of operation, the Securities Commission imposed fines worth €23.5 million. The Securities Commission has also made considerable progress with the opening up of all closed investment funds and unit trusts (of which 50 % have been opened). The 1998 Act on Investment Companies and Investment Funds required that this be completed by 2002.

In June 1999 the Prague Stock Exchange adopted stricter listing requirements for companies.

Despite these improvements, further alignment is necessary to allow capital market to perform satisfactorily.



In the field of *payment* systems, work in setting up a new information system for the Clearing and Settlement Center was completed at the end of 1998. This further improvement, which adds to the Real Time Gross Settlement system already in place since 1997, will facilitate the integration of the Czech payment system into those of the Member States of the European Union.

### **Free movement of persons**

Overall, legislation in this field is partially aligned with the *acquis*. As regards work permits, unemployment benefits and family reunification, legislation remains unaligned with the *acquis*.

Concerning mutual recognition of professional qualifications, legislation is partially in line with the *acquis*. Further progress was achieved with the entry into force of a new Act on Higher Education and an amendment to the Decree on the recognition of certificates awarded by foreign schools which came into force in January 1999. However, gaps remain concerning the distinction between academic and professional recognition. Further progress is also needed to bring Czech legislation fully into line with Directives on lawyers, architects, health care professionals, doctors and dentists, pharmacists, nurses and mid-wives, and veterinary surgeons. Most administrative structures are in place. A Task Force to coordinate the full implementation of the *acquis*, chaired by the Ministry of Education and involving all relevant ministries, was set up in 1999.

### *Competition*

*Anti-trust* legislation is largely in line with the *acquis*. It is regrettable that Parliament has not yet adopted the amendments to legislation removing the remaining gaps (restrictive agreements, definition and notification of mergers and market dominance), which had been approved by the government in April.

Insufficient legislative progress has been made in establishing a legal framework for *state aid* control. In December 1998, the government adopted a resolution stipulating that all state aids must be notified to the Monitoring Authority. This notification system will only become mandatory, however, when the draft State Aid Act approved by the government in September enters into force. The State Aid Monitoring Authority in the Ministry of Finance now has a staff of four, one more than last year. It therefore still needs considerable strengthening.

Some steps have been taken to increase transparency by compiling parts of the inventory on existing aids.

An Annual Report on State Aids granted in 1997 was submitted to the Commission in 1998. It is an improvement compared with the previous report. Although it broadly follows the methodology of the Commission surveys, it only provides for a basic level of

comparability between aid provided in the Czech Republic and in the European Union. Further improvements are therefore necessary.

## **Conclusion**

In general, alignment of Czech legislation is well advanced. However, progress in meeting the short-term priorities of the Accession Partnership has been limited.

Continued progress can be noted in the free movement of goods. In addition, some legislation has been aligned in the fields of free movement of capital, banking, insurance, border enforcement of intellectual property rights, and mutual recognition of diplomas. Progress has also been noted concerning securities.

There has been no other progress, however, regarding the legislation on the protection of intellectual property rights. Insufficient progress has also been achieved as regards anti-trust and state aid control. All these areas are short-term priorities identified in the 1998 Accession Partnership. Other sectors where no progress was made are public procurement and company law.

Considerable efforts are therefore necessary in these areas .

## **3.2. Innovation**

### *Information society*

In May 1999, the Government approved a policy document aimed at building a highly-developed information society, including the right of direct access to information. It identifies priority areas and sets specific tasks to be achieved for each of these areas. There are no specific budgetary provisions.

In February 1999, the Government appointed a National Co-ordinator for the Year 2000 computer problem and in April adopted a national programme with a budgetary allocation of €68,000, adding to a previous allocation of €2 million.

The staffing of the State Information System Office, secretariat to the Government Council for State Information Policy, which is also responsible for the Year 2000 problem, was increased by 5 to reach a total of 15.

### *Education, training and youth*

A new law on Higher Education in force since January 1999 addresses problems highlighted in the Opinion and enables the establishment of private higher education facilities and creates conditions for the non-university tertiary sector. It also deals with the quality of university management.

In January 1999, the Government agreed on a Youth Policy until the year 2002. It provides an overall framework for youth policy, incorporating the goals and principles of the Convention of the Rights of the Child and addresses the question of Roma children. However, the document is vague as regards responsibilities and timetable and mentions no specific funding.

The Czech Republic has been successfully participating for the second year in the Community's Socrates, Youth for Europe and Leonardo programmes.

In 1998-99, 2,252 students have benefited from Erasmus mobility grants to study in EU countries and 5,468 young Czechs have taken part in the Youth for Europe programme. In 1998, 444 Czechs participated in exchanges within the framework of the Leonardo programme (vocational training).

### *Research and technological development*

The present Community *acquis* does not require transposition into the national legal order.

In March the Government decided to increase state support for research to 0.6 % of GDP in 2000, 0.65 % in 2001 and 0.7 % in 2002.

In August 1999, the Czech Republic became fully associated with both the 5<sup>th</sup> Framework Programme (1999-2002) and the Euratom Framework Programme. In preparation for this, a number of implementing structures have recently been established. The Czech Republic has also decided to open its corresponding research activities to enterprises, researchers and universities from the Member States.

### *Telecommunications*

Despite a generally weaker performance of the economy, the telecommunications sector continues to prove very active. Investment and productivity has grown quickly both in the privatised SPT and in the two mobile operators. The number of fixed telephone lines increased to 40 and mobiles to 10 per 100 inhabitants by the end of 1998. The issuing of licenses to new local operators has, however, largely proved a failure. Price re-balancing has progressed well although more remains to be done in advance of full liberalisation on 1st January 2001. It is important that affordability will be secured by targeting consumer support where needed.

At present, the Ministry of Transport and Communications shares regulatory functions with the Ministry of Finance, but also exercises the state's controlling property rights in all four of the national operating companies. This is incompatible with the *acquis* and seems to be making it difficult for the government to administer this increasingly competitive sector. The

adoption of the new telecommunications law and relevant implementing regulations should therefore be achieved as soon as possible.

As regards postal services, the current draft postal law, if adopted, would not be in line with the *acquis*, notably as to the legal definition of reserved areas. An independent regulator has not yet been established.

### *Audiovisual*

Legislation is not compatible with the TV without Frontiers Directive. No legislative progress has been achieved.

In May 1999, the Czech Republic signed the Council of Europe's Convention on Trans-frontier Television as amended by the Protocol of September 1998. It is unlikely to enter into force until 2000.

### **Conclusion**

Policies and programmes have continued to be developed in the fields of information society, education and youth and research and development. Progress has been achieved in the field of research and technological development with the full association to the 5<sup>th</sup> Framework Programme. No legislative progress has been made regarding audio-visual. No progress has been made either in complying with the telecommunication and postal *acquis*, in particular in relation to separating regulatory from operational functions, and more is needed in relation to price re-balancing. A determined effort is needed if the telecommunications sector is to be ready for full liberalisation from January 2001 onwards.

## **3.3. Economic and fiscal affairs**

### *Economic and Monetary Union*

The Czech Republic has indicated that it accepts and will comply fully with the EMU *acquis* as defined by title VII of the EC Treaty and the other relevant texts. It has also stated that the administrative structures to implement and enforce the *acquis* will be in place.

The Czech Republic has made little additional progress in its preparation for participation in Economic and Monetary union. As regards the *acquis* that has to be implemented before accession, the legislation on privileged access of public authorities to financial institutions is in conformity with the *acquis*, as is that on the independence of the Czech National Bank. However, the legislation on the central bank still provides for the possibility to provide short-term credits to the government by purchasing State treasury bills within three months of their purchase.

Compliance with the EMU *acquis* is conditional on completion of the process of liberalisation of capital movements, which is examined in the section on free movement of capital.

### *Taxation*

The Czech Republic has been gradually aligning its VAT and excise legislation. This has resulted in a VAT system similar to that of the Community *acquis*, whereas the excise system has continued to differ in a number of areas. However, since the Commission's Opinion of 1997, little priority has been given to further legislative alignment of either VAT or excise duties. In July, the Excise Duty Act was amended by an increase in the duty rate levels for tobacco products including cigarettes and mineral oils.

No progress has been made on VAT legislative alignment since the 1998 Regular report. However, a special programme for credibility checks of VAT declarations has been established and will enter into force during the third quarter of 1999.

Duty-free shops at the country's land borders with the Union continue to operate. In November 1998, Parliament rejected a government proposal which would have terminated the operating licenses for these shops at the latest by the end of 2001. In September the government adopted a new proposal to close these shops, without, however, specifying a closure date.

Tax administrative structures and control procedures need to be reinforced, despite the adoption of an amendment to the Act on Local Financial Authorities aimed at strengthening controls and the adoption of the programme to check the credibility of VAT declarations.

## **Conclusion**

The Czech Republic has established solid VAT legislation compared to that of the Community and, to a lesser extent, with regard to its excise legislation. However, due to the fact that very little priority has been given to alignment of indirect tax legislation since the Opinion of 1997, it will be necessary to ensure a more structured and targeted pre-accession strategy in this area.

## *Statistics*

Legislation is substantially aligned with the *acquis*. Some progress has been achieved in the reference period.

The Czech government adopted the EU system of regional classification (NUTS). The legal basis of the business register was changed to encompass local units and 'kind-of-activity' units. The Statistical Office has begun work with the Ministry of Finance to compile government finance statistics. The Regulation on structural business statistics has been implemented into surveys. Some adaptations are still required for labour market statistics.

The priority area is the upgrading of regional and agricultural statistics. Both human and financial resources are inadequate to comply with the *acquis*. The coverage of the business register and the quality of government finance statistics and short-term statistics also need upgrading.

The administrative structures to implement and enforce the statistical *acquis* are largely in place. The co-ordinating role of the statistical office needs strengthening, however, especially regarding access to other administrative sources.

### 3.4. Sectoral policies

#### *Industry*

The Czech Government has re-defined its industrial policy since the last Regular Report. A framework document for industrial policy (the Industrial Policy Concept) was submitted to the Commission in April 1999, setting out government plans to improve the business environment and promote industrial revitalisation. Assurances have been given that the Industrial Policy Concept is 'non-interventionist and market-oriented' and that 'it will abide by the provisions of the Europe Agreement and the *acquis*.'

The central element of the Policy Concept is the Revitalisation Plan for Industry. It is designed to improve the competitiveness of enterprises by forcing creditors (in particular the remaining state-owned banks), together with enterprise owners, to establish enterprise restructuring programmes through debt relief, debt restructuring or debt capitalisation, so giving enterprises increased financial 'breathing space'. The programme will be implemented via a Revitalisation Agency. Assurances have been given that the future viability of companies, an agreement among creditors on a restructuring plan will be amongst the obligatory selection criteria used for revitalisation and that the Agency will cease its activities upon accession. Only at the implementation stage will it be possible to say whether it has been successful.

An important dimension of industrial policy is the control of state aids (see the chapter on competition). The difficult financial situation in some parts of industry (particularly the chemicals and engineering sectors) has led the state to intervene and acquire stakes in certain companies before the Revitalisation Plan has come into effect. Sectoral initiatives in the area of steel, textiles, engineering and defence are a further element of proposed intervention. The government has provided assurances that these initiatives will be terminated before accession and that case-by-case assessment will be provided by the State Aid Monitoring Authority in order to ensure compliance with state aid legislation.

Restructuring of the steel industry has virtually come to a halt during the reference period. In particular, with regard to the question of state aids for restructuring purposes, an overall restructuring plan which would include individual business plans, remains overdue.

Privatisation is well advanced, with the share of the private sector in GDP totalling 75%, while FDI has returned to its previously high level (see chapter on economic criteria). However, the National Property Fund continues to control some 50 strategic enterprises, including utilities, and still holds minority stakes in a considerable number of companies. Soon after it took office, the current government decided to halt the privatisation of industrial

companies, preferring first to adopt legislation setting conditions for privatisation in the relevant sectors.

The crucial task for the Czech government has been 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. First steps in this direction have been taken during the last 12 months, but the restructuring of certain industrial sectors needs to be accelerated, including the steel sector, which was a short-term priority of the Accession Partnership. At the same time, it will be important to closely monitor government policy to ensure compliance with EU requirements, particularly in the area of state aids.

## *Agriculture*

### **Agricultural situation**

The share of agriculture in the GDP decline from 3% in 1997 to 2% in 1998. The share of agricultural employment declined from 4.3% to 4.2% . During the same period the gross agricultural output increased due mainly to an increase in crop production.

EU exports of agricultural and food products to the Czech Republic continued to increase in 1998 and reached €55 million . This corresponds to a growth rate of 1.7% compared to 1997 and represents 5.6% of total EU exports to the Czech Republic.

The Czech Republic's agricultural exports, after an increase between 1996 and 1997, decreased in 1998 by 3.5% and fell to €297,5 million , representing 2% of the Czech Republic's total exports to the Community. The Community surplus in agricultural trade with the Czech Republic amounted to €658 million .

In march 1999, the Council mandated the Commission to open negotiations with the associated countries in view of new reciprocal concessions in the field of agriculture which will enhance the progressive and orderly liberalisation of bilateral trade.

### **Agricultural Policy**

*Agricultural support* is provided for the improvement of agricultural production, restructuring and less favoured areas. The current system of export and import licenses differs from the Community one. The market intervention system (buying-in, public storage) is combined with export subsidies. However, both systems are not yet in line with Community arrangements.

As regards the land register, 65% of the land is registered in the cadaster, however, the delimitation between parcels is not accurate. Maps are being updated. Alphanumerical identification of farmers was finished in 1998. Legal disputes over land plots and the establishment of ownership rights are difficulting the privatisation process.



Existing *veterinary and phytosanitary* control mechanisms are not in line with the acquis. Veterinary checks are carried out on livestock in quarantine warehouses. Fees for border controls have been harmonized with the level of fees required by the EU by adopting a new Veterinary Law in July 1999. This Law also includes provisions concerning the protection of animal and public health. The existing system of extraordinary veterinary measures allowing to block imports from specific third countries is not in line with the acquis. The co-financing of expenditure with regard to serious outbreaks and eradication measures differs substantially from Community requirements.

Border inspection posts and import checks do not meet EU requirements. A system for identification and registration of bovines was introduced in 1998. Computerized databases exist only for the identification and registration of some animal species for breeding purposes. The necessary capacity for destruction of animals exist and the treatment process is in compliance with the acquis.

National Reference Laboratories exist for all diseases as well as contingency plans except in the field of aquaculture.

A substantial part of the plants processing products of animal origin do not yet meet EU hygiene and public health requirements. Most of the rendering plants for high-risk waste are operating according to Community requirements.

The residue legislation and monitoring programmes need to be amended in order to ensure full implementation. Zootechnical legislation is not yet in compliance with the acquis. Animal welfare rules are partly in place.

In the phytosanitary field, a number of decrees were adopted harmonizing the requirements on fertilisers, sample and analysis as well as storage and use of fertilisers.

The government adopted in May 1999 the 'Concept of departmental policy in the pre-accession period of the Czech Republic to the European Union' which establishes the guidelines for the pre-accession policy in the area of agriculture and food industry.

The Paying Agency department was established in the Ministry of Agriculture in September 1999 to manage the pre-accession aid (SAPARD). Staff allocation and funding have been decided by the Government.

The agricultural and rural development plan for the 2000-2006 was submitted to the Commission's services in September. Several measures similar to the Community schemes exist (support to farmers in Less Favoured Areas, maintenance of the landscape and agro-environmental measures). Investment support and young farmers schemes are provided in the form of interest subsidies. Support for the marketing and processing of agricultural markets is provided by the general systems of investments. At present, there are no multiannual programmes. The current delimitation of Less Favoured Areas needs to be adjusted to EU criteria.

Forest statistics are elected in line with the *acquis*. However, the forest law needs to be amended to achieve full compliance with EU legislation. There is no support for afforestation and no regime protecting forests from atmospheric pollution. Legislation on forest reproductive material is partially in line with the *acquis*.

The key management mechanisms of the *common market organisations* are not yet in place. There is market information system but the collection and distribution of data needs to be improved. The existing legal framework for producer organizations is not in line with the *acquis*. However, the government is supporting the establishment of producer marketing organisations since January 1999. Support to improve breeding is provided for milk and beef cattle. In the milk sector, export refunds can only be obtained if processors paid to producers the minimum price fixed by the government. No milk quota or intervention systems exist. A premium is paid for dairy cows with high yields. For the pigmeat sector, the support for pig production is directed towards the improvement of genetic resources.

## **Conclusion**

Since progress has been made in the alignment of legislation and the setting up and reinforcement of implementing structures. Efforts need to be stepped up, in particular as regards market organizations and the veterinary and phytosanitary sectors.

## *Fisheries*

Fisheries activities are limited to aquaculture. Annual production is some 20.000 tons.

No progress can be reported over the last year. Legislation needs to be adapted to the *acquis* and the institutions for implementing the common fisheries policy need to be set up.

## *Energy*

### **Energy policy**

Legislation remains insufficiently aligned to the *acquis* in several important areas. The main differences concern the electricity and gas directives, oil supply, crisis management, security stocks, hydrocarbons licensing, rules on transit, transparency, and energy efficiency.

Limited progress has been achieved regarding legislative alignment. In June the government approved an updated energy policy which is in the process of adoption and which should guide the alignment process.

In January 1999 a new dispatching center for electricity was set up as a 100% subsidiary of the national electricity company, separating the production and transmission accounts as required by the electricity directive. However, the dominant producer still holds a monopoly for transmission, transit, import and export of electricity.

Oil stocks have been further increased and reach approximately 60 days of consumption, but still fall short of the EU requirement of 90 days. A law on stocks of crude oil and crude oil emergencies will enter into force in November 1999. It requires oil stocks to be increased by 5 days/year until they reach the 90 days level.

Restructuring of the coal sector is continuing. Government support accounts for 40-50 % of all social, environmental, rehabilitation and liquidation measures implemented in the framework of the restructuring process. In May the government approved the sale of the state stake of the Most Coal Mining Company to a foreign firm. The level of energy efficiency remains low compared to EU standards.

Some progress has been made regarding nuclear safety through the adoption of two decrees on the requirements for nuclear installations, radiation protection and emergency preparedness and on the decommissioning of nuclear installations or workplaces with significant ionizing radiation sources.

### **Nuclear energy**

The Cologne European Council emphasised the importance of high standards of nuclear safety in Central and Eastern Europe and stressed the importance of this issue in the context of the Union's enlargement. It called on the Commission to examine this issue thoroughly in its next regular progress reports on the candidate countries. The present section is a response to this request.

The Czech Republic has four VVER 440/213 reactors in operation at Dukovany NPP and two VVER 1000 reactors under construction at Temelin NPP. Nuclear power currently provides about 20% of the country's electricity production.

All these reactors are of Soviet type designs which are considered to be upgradable to international safety levels.

In Agenda 2000 (July 1997), the Commission called upon the candidate countries operating such reactors to implement modernisation programmes for these reactors over a period of 7-10 years.

In May 1999, the Czech government decided to go on with the completion of the Temelin nuclear power plant, whose construction has suffered long delays and cost over runs. The target dates for fuel loading are 2000 for Unit 1 and the end of 2001 for Unit 2. The Preliminary Safety Analysis Report is being updated and the Final Safety Analysis Report is to be submitted six months prior to fuel loading. The Czech Republic should ensure that the technological and operational safety levels of the Temelin nuclear power plant are aligned with current prevailing practice in the Union before this plant is put into operation. The licensing process should be based on the final design.

Concerning the Dukovany plant, a major upgrading programme has been prepared. It aims at achieving internationally accepted safety levels, to obtain a license for operation until 2025 (which would imply a ten years extension of its operating life) and to improve efficiency. The Czech Republic should ensure that the upgrading programme of the Dukovany plant will proceed independently of any delays and cost overruns at Temelin.

In the legislative area, some progress has been made regarding nuclear safety through the adoption of two decrees on the requirements for nuclear installations, radiation protection and emergency preparedness and on the decommissioning of nuclear installations or workplaces with significant ionizing radiation sources.

The attention of the Czech Republic is drawn to the Council Conclusions of 7 December 1998 on Nuclear Safety in the Context of the Enlargement of the European Union, including the emphasis put by the Council on the need to develop further methods relevant to the realisation of a high level of nuclear safety. In this context, the Czech Republic, its nuclear regulatory authorities and nuclear operators are invited to provide regular information in response to corresponding requests from the Commission.

### **Conclusion**

Further efforts clearly need to be undertaken to achieve more alignment with the *acquis*. Areas requiring particular attention concern: the preparation for the internal energy market (electricity and gas directives), including the adjustment of monopolies; access to networks; eliminating price distortions; the establishment of an appropriate and efficient mechanism for regulation; emergency preparedness including the building up of oil stocks; restructuring programmes and state interventions in the solid fuels sector and improvement of energy efficiency.

No problems are expected with alignment to the Euratom *acquis*; however the Czech Republic should also fully accept the Euratom safeguards *acquis* including the principle that reports are sent directly by the operator to Euratom.

Improvement of nuclear safety should further be addressed, including the strengthening of the safety authority, in order to bring all the nuclear plants to the required safety level. Long term solutions for nuclear waste have also to be found.

The attention of the Czech Republic is drawn to the Council Conclusions of 7 December 1998 on Nuclear Safety in the Context of the Enlargement of the European Union, including the determination of the EU to keep under close review throughout the accession process the issues covered therein. In this context, the Czech Republic, its nuclear regulatory authorities and nuclear operators are invited to provide regular and comprehensive information in response to corresponding requests from the Commission.

### *Transport*

Legislation remains insufficiently aligned in almost all areas of the transport *acquis*, with the exception of air transport. Generally, little progress can be reported.

As regards *road transport*, not much progress can be reported. As a transitional measure, the Government has amended, with effect from 2000, the existing system of road-user charges resulting in annual, monthly and 10-days vignettes. Despite the approval of a road safety programme in October 1999, further alignment is necessary as regards the road-safety *acquis*, including the reinforcement of administrative structures, and the environmental part of the road *acquis*.

There is no progress on *railway* restructuring, which is a crucial area in the Czech transport sector. This prevents liberalisation and improvements in competitiveness. Earlier this year the government submitted legislation to the Lower House, which the latter rejected in July.

On inland *waterways transport* Parliament has not yet adopted the legislation approved by the Government in May on boatmasters qualifications and certificates providing for the compliance with the *acquis*.

No progress can be reported as regards *maritime transport*.

Alignment on *air transport* is well advanced, particularly as regards air safety. The administrative implementing capacity is basically in place. The Czech Republic is negotiating the conclusion of the Agreement on a European Common Aviation Area with the European Union. It is pursuing the harmonisation of technical requirements and administrative procedures of the Joint Aviation Authorities (JAA) with the aim of joining JAA soon.

Substantial financing has been provided to transport infrastructure projects. A section of the D8 motorway became operational in November 1998, and the construction of the D47 motorway was begun in March 1999. In November, the modernization of the rail component of Corridor IV in the section of border Czech Republic-Germany was completed. One third of railway Corridor IV on Czech territory has now been modernized. The Czech Republic continues to participate in the Transport Infrastructure Needs Assessment (TINA) exercise.

## **Conclusion**

Alignment efforts need to be stepped up in almost all areas, particularly as regards road and rail transport, including the restructuring of the Czech railways. Further work is also necessary to improve administrative structures, in particular in the road-safety area. The upgrading of transport infrastructure appears to be advancing well.

### *Small and medium-sized enterprises*

The Czech Republic's policy towards small and medium-sized enterprises (SMEs) is largely in line with that of the EU. Some further progress was made in the past year. In January

1999, the independence criterion of the EU definition of SMEs was incorporated into Czech legislation. The final economic criterion still needs to be adopted. In January 1999, the government adopted legislation simplifying registration procedures and reducing the number of licensing offices for trades people.

The government approved a small and medium-sized enterprises policy in June, setting out the main priorities for the period 1999 – 2002 (reduction of legal and administrative burdens; improved access to capital; export promotion and information and training). The programme has funding of €2.3 million, double that allocated in 1998. This is set to gradually increase by €27.5 million until 2002. Access to finance will be ensured through SME Development Support programmes, such as a guarantee scheme and soft loans.

Implementation structures for SME policy are satisfactory. The Czech Republic has been participating in the Third Multi-Annual Programme for SMEs since December, 1998.

### **3.5. Economic and social cohesion**

#### *Employment and social affairs*

Unemployment has continued to rise and reached 8.2 % at the end of April 1999 (5.4% at the end of May 1998). Stark regional differences persist, with the two most affected districts recording unemployment levels of 16 and 17 %. There are also differences in the national unemployment rates for women (8.8 %) and men (5.1 %). In May the Government adopted a National Employment Plan outlining its employment policy in the pre-accession period and taking into account EU employment guidelines. The monitoring of the implementation of the Plan, which is not accompanied by budgetary provisions, will take place every 6 months. A Joint Employment Review with the Commission started in June 1999.

Also in May, the Government approved its "Medium-Term Economic Strategy of Accession to the European Union". It puts a new emphasis on the principle of solidarity and interdependence of economic and social policies to support competitiveness. In June, the government also approved measures to improve the situation on the labour market and addressed the problem of persons experiencing particular difficulties on the labour market, including the Roma. These measures include an additional allocation of €15 million for active employment policies, an increase in staffing of labour offices (200 extra persons) and the decision to introduce visa requirements for Ukrainian nationals.

Legislation remains insufficiently aligned with the *acquis* in many areas. The only legislation adopted in the reference period is an amendment to the Employment Act, which partially transposes EU provisions on equal access to employment for men and women. More generally, it aims at combating all discrimination in employment relations, including racial discrimination. However, it also toughens the conditions for employment of third country nationals. This may include EU citizens. The European Commission is currently examining whether provisions of the Amendment could infringe the Europe Agreement.

No additional legislation has been adopted to transpose EU provisions in the fields of labour law, the establishment of an independent guarantee fund for employees in the case of employers' insolvency and collective redundancies.

Whilst tri-partite dialogue at national level appears to be functioning satisfactorily, the situation as regards bi-partite social dialogue is unsatisfactory. This should be improved through the reinforcement of bi-partite structures at intermediary and enterprise level. Trade union membership has declined and stands at 30 %. The question of how to introduce workers' representation in enterprises with no trade unions remains very sensitive.

Regarding *equal treatment*, no new legislation has been adopted apart from the above-mentioned amendment to the Act on employment. Legislative action is still needed in the fields of equal pay and burden of proof.

As regards *health and safety* at work, Parliament rejected the draft Law on the Protection of Public Health in June. This could call into question the authorities' timetable for aligning with sixteen Directives in this field by 2000. The only progress made was the adoption by the Czech Mining Office of a notice transposing the drilling industries directives and of amendments to existing notices to transpose the mineral-extracting industries. Earlier this year the Ministry of Labour and Social Affairs established a unit dealing specifically with the issues of health and safety at work and working conditions.

The enforcement of legislation on health and safety at work continues to be hampered by the division of responsibilities between the Ministries of Health and Labour and their respective agencies, which must improve their co-operation.

Regarding the free movement of workers, legislation is partially in line with the *acquis*. However, further alignment will be necessary to enable EU nationals, for example, to work without permits and have access to social and cultural advantages in line with Community legislation.. As regards the co-ordination of social security schemes, further effort is necessary to upgrade and improve structures, procedures and institutions to meet the requirements of the *acquis*.

In the area of health care, the Government approved a Consolidation Plan of the Health Care System in April. This allocates financial resources to indebted hospitals to clear their debts. It decided to suspend the privatisation of 128 health facilities decided by previous governments.

## **Conclusion**

While the Government has taken a number of measures in the field of employment policy, legislative alignment has been limited to two directives (fully) and a further directive only partially. It is regrettable that other alignment proposals have not been adopted by Parliament. Greater effort is necessary to transpose the *acquis*.

### *Regional policy and cohesion*

The Union supports the strengthening of cohesion, mainly through the Structural Funds. The Czech Republic will have to implement these instruments effectively whilst respecting the principles, objectives and procedures which will be in place at the time of its accession.

After having set up many of the necessary institutional structures, the Czech Republic has made some progress in establishing the legislative and budgetary framework needed for future participation in the EU structural policy.

The regional GDP per capita ranged between 49% of the EU average in the region of Central Bohemia and 63% in the region of Southwest Bohemia, excluding the region of Prague with 120% of the EU average (1996 figures). The national GDP per capita accounted for around 65% in 1996.

The general rules for execution of regional policy (“Principles of Regional Policy”) and the institutional framework, adopted in 1998, were followed by a government decree in October 1998 in which regions have been defined in line with EU methodology (NUTS II). However, completion of the legal framework for implementing an independent regional development policy with a Regional Development Act has been delayed. The Czech Republic will be divided into 14 regions (similar to NUTS III level) from year 2000 and 8 regions (similar to NUTS II level). Clarification is needed regarding the division of responsibilities between the political (NUTS II) level and the administrative (NUTS III) level in order to ensure a smooth implementation.

Staff resources at the Ministry for Regional Development remain inadequate and there is no comprehensive internal financial control system. Particular attention needs to be paid to budgetary issues, in particular as regards co-financing including multi-annual commitments and relevant procedures.

The Czech Republic has limited experience in appraisal and evaluation procedures.

### **Conclusion**

Although the Czech Republic has already completed many reforms as well as significantly raised its administrative capacity in this area, its ability to address the budgetary issues related to the structural funds remain questionable. Meeting the challenge of implementing a structural policy for nearly all its territory requires a reinforcement of the human resources and inter-ministerial competencies.

## **3.6. Quality of life and environment**

### *Environment*



Legislation remains insufficiently aligned in many important areas. The Accession Partnership included the following short-term priorities: continued transposition of framework legislation, establishment of detailed approximation programmes and implementation strategies related to individual acts, the planning and commencement of implementation of these programmes and strategies.

No major legislative progress has been made. In April, government approved the new State Environmental Policy. This policy puts a greater emphasis on accession than the 1995 State Environmental Policy and takes into account both the integration of environmental aspects into other policies and implementation of the principle of sustainable development, which are based on the Commission's fifth environmental action programme.

As regards *horizontal* legislation, the Czech Republic signed the Aarhus Convention on public access to environmental information. Work regarding the implementation of the acquis on environmental impact assessment has to be speeded up. This is particularly important as the relevant legal provisions will be applied for all projects financed by the Community.

In the *water* protection area legislation has been adopted which aligns some parameters used to measure water quality and integrates the "polluter pays" principle. However, no progress can be reported on the preparation of the urgently needed framework legislation.

In the *waste* management area some legislation on returnable products and packaging have been adopted, but no progress can be reported on the necessary framework legislation, nor on legislation concerning waste and hazardous waste management, which is urgently needed.

Strong efforts are required from an administrative and investment point of view for the adoption of the acquis on integrated pollution prevention and control.

In the field of *air* quality protection the reduction achieved in emission levels are considerable. Formal compliance with the acquis in this area still requires a great deal of work. Legislation on noise emissions needs still to be transposed and implemented.

In the *chemicals* sector a number of decrees have been adopted to implement an act on chemical substances and chemical preparations.

In the sector of radiation protection, the State Office for Nuclear Safety adopted eleven decrees and the government adopted two decrees implementing the Atomic Act of July 1997.

As regards *nature protection*, the remaining gaps with the Habitats and Birds directive need to be addressed urgently.

In March, the Czech Republic ratified the Joint Convention on the Safety of the Spent Fuel Management and on the Safety of Radioactive Waste Management. Remediation of sites contaminated by uranium mining should be closely monitored.

For an effective implementation of the *acquis* it is essential to have an adequate financing plan. The Czech Republic has not yet finalized such a plan, but the authorities' preliminary estimate for the next five years is €13 million.

The issue of nuclear safety is dealt with in the energy chapter.

## **Conclusion**

Very limited progress has been achieved as regards the transposition of the environmental *acquis*. Efforts need to be stepped up considerably, notably in the water and waste sectors. Particular attention should also be paid to the strengthening of the administrative capacity as well as to the finalisation of a directive-specific financing plan.

### *Consumer protection*

Legislation remains insufficiently aligned in important areas (product safety, product liability, advertising and information, commercial practices, consumer contracts and credit). The only legislation adopted in the past year is the Act on Certain Conditions of Business in the Tourism Area, which together with amendments of the civil code and to the act on small business activities, adopted at the same time, partially aligns the *acquis* on package travel and holiday tours.

In December 1998 the Government adopted a policy document which defines the goals of Government consumer policy and sets out basic consumer rights. It makes the Ministry of Industry and Trade the overall co-ordinator for consumer policy, but the procedures ensuring this role still need to be defined.

Although inspection bodies are in place in all areas, not all of them operate in compliance with EU standards.

General consumer awareness remains low. There are only a small number of independent consumer organisations.

## **3.7 Justice and Home Affairs**

November 1998's Regular Report found that the Czech Republic's alignment process had slowed down appreciably. It highlighted the meagre progress on border controls, which figured among the Accession Partnerships' short-term priorities.

The Regular Report called on the Czech Republic to step up the pace of reforms with a view to adopting new legislation on asylum and immigration, adjusting its visa policy, increasing the efficiency of border controls, stepping up action against drugs, corruption and

organised crime - and in particular money laundering and trafficking in human beings - and boosting resources and training for the judiciary and police forces.

### *Immigration/border control*

The Czech Parliament has still to adopt the draft Aliens Act approved by the government on 28 April.

In August the government adopted a resolution on the country's visa policy, detailing the introduction of visas for nationals of Belarus, Russia, Kazakhstan, Kyrgyzstan, Moldova, Turkmenistan, Ukraine, Cuba as well as visa for diplomats from North Korea and China. The Ministry of Foreign Affairs has been instructed to make the necessary preparations for the introduction of visa by the end of November. It is not clear, however, when the visa will be introduced concretely. The Czech Republic should continue progressive alignment of visa legislation and practice with that of the EU. The procedure for issuing visas is now being modernised: a working party was set up for the purpose in September last year, and a pilot project, considered satisfactory by the Czech authorities, is now being extended to several of the Czech Republic's diplomatic missions.

A new detention centre has been opened for illegal immigrants. However, readmission agreements with France and Slovenia have yet to enter into force. Moreover, most third-country nationals "readmitted" by the Czech Republic at the request of Member States are not deported from Czech territory under escort, but simply ordered to leave the country. As a result most try to re-enter the Union illegally.

In the matter of border controls, the government adopted a resolution in January acknowledging the need to modernise identity checks. This strategy underlines the need to adapt administrative structures, placing a special emphasis on the frontier with Slovakia. Likewise, an inter-ministry working party on Schengen was set up late last year under the guidance of the Interior Ministry to analyse the impact of the Schengen *acquis* and lay the foundations for its adoption and application.

Despite this movement, legislative progress, the reinforcement of administrative capacities and border controls remain inadequate. The border guards are not an independent body (the Police Act that would establish this independence has yet to be adopted) and communicate with national police headquarters through the local and regional police hierarchy. They are understaffed and rather badly equipped. As a result the Czech Republic is a transit country for many illegal immigrants: the numbers arrested by border guards at the Czech frontier rose from 20 480 in 1994 to 26 339 in 1997 and 44 672 in 1998; in January 482 people were arrested on the border with Slovakia, a six fold increase on January 1998.

### *Asylum*

Parliament has still to adopt the draft Asylum Act approved by the government in March. Moreover, this text skirts around such issues as the possibility of granting political asylum or the establishment of an independent appeal body. (The commission of representatives from

the administration and non-governmental organisations which examines asylum appeals met for the first time in April, but its opinion is not binding on the interior ministry and there is therefore no guarantee that the final decision on asylum requests is impartial).

In March the Czech Republic did, however, sign the European Agreement of 20 April 1959 on the abolition of visas for refugees, which allows refugees lawfully resident in another contracting party to enter the Czech Republic without a visa for up to three months. These provisions came into force in April. Moreover, the Czech Republic has agreed to admit 1450 refugees from Kosovo since the start of the year.

The implementation of asylum policy continues to be hampered by shortages of specialised staff, especially lawyers, and equipment. The Czech Republic needs to continue preparing for the future implementation of the Dublin Convention determining the state responsible for examining a request for asylum.

### *Police*

It is unfortunate that the police bill, which the government began preparing last December, is still not ready.

The overall problem with the police remains the same. While the number of officers may appear sufficient, operational capacities are limited by the administrative workload. The police force is also affected by poor working conditions, equipment and accommodation. The fact that there is no civil service act or overall career policy combines with relatively low pay (the average officer earns slightly more than the national average wage) to make it difficult to recruit and retain suitable staff and to develop ethical behaviour (in March the Interior Ministry's inspectors announced that 306 officers had been prosecuted in 1998 - a 25% increase on the year before - most of them for abusing their authority). Conditions of detention at police stations warrant particular attention. There is also a serious lack of cooperation and coordination between police departments in key areas.

Organised crime remains a key issue, which could become a very serious problem in the future. The main areas of activity are trafficking in human beings (prostitution, illegal immigration), drugs, stolen cars and money laundering. White-collar crime remains a major concern, with a relatively low rate of prosecutions and convictions. Corruption is a real problem, including in the public sector at both central and regional levels. A genuine political will is needed to strengthen structures and effectively combat organised and white-collar crime. Staffing, equipment and training are inadequate (e.g. in the unit responsible for cooperation with Interpol), as are the legislative framework, budgets and interdepartmental cooperation. Furthermore, the special units responsible for cooperation with Europol and the Schengen bodies have still not been set up.

### *Drugs*

The Psychotropic Substances Act, which came into force in January, deals in detail with psychotropic substances and chemical precursors, and the import, export and transit thereof.

Amendments to the Criminal Code, which also came into force in January, make it a criminal offence to be in the possession of more than a small amount of drugs for personal use and introduce stiffer penalties. On 3 March the government approved an agreement with Italy on measures to combat customs fraud and drug trafficking.

### *Judicial cooperation*

In the field of civil law, the Czech Republic signed in April the European Convention of 20 May 1980 on recognition and enforcement of decisions concerning custody of children and on restoration of custody of children. It has still to sign the Hague Convention of 25 October 1980 on international access to justice.

In the field of criminal law, the Czech and Italian ministers of justice signed in February a legal cooperation agreement covering justice, judicial institutions and penal establishments. July saw the entry into force of an amendment to the Criminal Code permitting the ratification of the OECD Convention of December 1997 on combating bribery of foreign public officials in international business transactions.

However, judicial cooperation is handicapped by a shortage of human resources and communications problems between administrations, though the number of unfilled judges' posts was down from 360 of 2417 in November last year to 306 at 1 July this year.

In terms of the working of justice, no decisive change has been seen in spite of the government's announcements in April. Thus, the Ministry of Justice's draft strategy of 15 June remains too vague, even if it does contain certain improvements. A serious effort will be needed to clear the backlog of cases in the courts, in particular by improving the recruitment and training of judges. The overall coherence of the judicial system will not be achieved until the slow process of recasting the civil and criminal codes and reforming the judicial system has been completed. A legal aid system should also be set up.

More effective action against crime, and in particular white-collar crime, calls for better training for judges and tighter legislation and procedures (confiscation of the proceeds of crime, a witness-protection programme). Rates of prosecution and conviction for white collar offences remain low.

### **Conclusion**

Though there have been some advances on immigration, the Aliens Act has still to be adopted. In the matter of borders, however, no progress has been made towards improving legislation or administrative structures, although this was a short-term Accession Partnership priority. Words must be followed by deeds, and in particular the provision of the requisite staffing and funding (the authorities reckon that it would cost EUR 68.8 million to bring border controls up to the Union's standards).

On the asylum front, it is essential that the Czech Republic's new act be in force by the deadline of 1 January 2000. This act should make clear the independence of the body handling asylum appeals. A special effort is needed with regard to training and equipment.

There is no sign of any practical steps to improve the working of the police. The setting-up of a commission to protect economic interests in September last year was an important step, though not enough. A stronger political will is needed to combat organised crime effectively. A multidisciplinary approach is needed, encompassing legislation (e.g.; on money laundering), training for specialised services and cooperation between different branches of the administration. Effective action against corruption, including in the public sector, is of paramount importance and calls for political determination at both central and regional levels.

The Czech authorities have made an appreciable effort in the matter of drugs legislation and policy to curb demand.

In the field of justice, two international cooperation instruments have been adopted. However, a considerable amount of legislation remains to be adopted and backed up with the requisite human resources.

Generally speaking, preparations for the adoption of the justice and home affairs *acquis* have speeded up, but this has yet to be reflected in the country's legislation (other than on drugs) or administrative structures. It is therefore crucial that laws being drafted or before Parliament be adopted and implemented without delay and that the requisite human and financial resources be made available.

### **3.8. External policies.**

#### *Trade and international economic relations.*

The Czech Republic's applied tariffs average 6.4% on all products, 14.2% on agricultural products 0.1% on fishery products and 4.7% on industrial products.

As noted in the 1998 Report, the Czech Republic as a WTO Member already implements the Uruguay Round Agreements together with the plurilateral Civil Aircraft Code and Government Procurement Agreement.

It accepts the Community *acquis* in respect of external relations, including the Common Commercial Policy. It is in the process of alignment. In the context of the accession negotiations the Czech Republic has requested the maintenance of its Customs Union with Slovakia. This would inhibit the uniform implementation of the common external tariff, prevent the free movement of goods within the Internal Market, lead to distortions of competition and would disrupt the functioning of the Common Agricultural Policy.

The Czech Republic has expressed its willingness to work closely with the EC in the forthcoming WTO Round, with a view to aligning positions and policies as closely as possible. The country is a signatory to the General Agreements on Trade in Services (GATS). The new round of WTO negotiations will provide an opportunity for the Czech republic to progressively align its level of commitments in this area.

The Czech system for export credits is in line with the OECD Consensus. The country implements sanctions imposed by the UN Security Council. Czech legislation on dual-use goods is in line with the *acquis*.

In December 1998, the CEFTA member countries, including the Czech Republic signed an Additional Protocol on the Pan-European cumulation of origin of goods. It is being applied provisionally since January 1999.

In March 1999, Slovenia's accession agreement to CEFTA entered into force. Since January 1999, Bulgaria's accession agreement to CEFTA has been applied provisionally. In September 1998, the Free Trade Agreement between the Czech Republic and Turkey entered into force.

Consultations have been held with Morocco on the possibility of a Free Trade Agreement. The conclusion of a preferential agreement with Tunisia is under consideration.

In November 1998 the Czech government agreed with the new Slovak government to resume the activities of the bilateral committee to settle the issues outstanding from the dissolution of the Czechoslovak Federation. The aim is to have agreement by the end of 1999.

### *Development*

The Czech Republic's foreign development assistance consisted of humanitarian assistance of €30.000 and foreign development assistance of € million. Bilateral assistance accounts for two third of these amounts and multilateral assistance for one third.

As a member of the OECD since 1995, the Czech Republic is adapting its development practices to the principles laid down by the Development Assistance Committee.

### *Customs*

Legislative alignment in the area of customs is well-advanced. In July 1999, amendments to the two 1998 decrees on duty relief entered into force. In September 1999, Parliament approved legislation on border enforcement in the area of counterfeited and pirated goods, which is largely in line with the *acquis*.

The Czech Republic fully participates in the Pan-European System of Cumulation of Origin which has been applied since January 1999.

The Czech republic is building up its administrative structures and operational capacity. The 4<sup>th</sup> version of the Pre-accession strategy of the Czech Customs Administration of March 1999 identifies the main priorities to be tackled. These include improvements to border crossing infrastructure to ensure the protection of copyrights and industrial property rights and addressing the fight against economic and organised crime. Improvements have been noted in the functioning of the customs administration and efforts have been made to improve the internal administrative co-operation and relations with end-users.

Information systems in the customs administration are being continuously modernized. A communication network for the purpose of the custom information system came into operation in January 1999. The Czech Republic has proved to be technically ready for connection to the New Computerised Transit System by using the Common Communications Network/Common System Interface (CCN/CSI)..

### **Conclusion**

The Czech Republic has reached a high level of compatibility between its customs legislation and the relevant *acquis*. It is important that these efforts are pursued. The Czech Republic is now concentrating its efforts on implementation and on the strengthening of its administrative capacities. Its preparation for connection in the new computerised transit system (NCTS) demonstrates good progress in the field of computerisation of the customs administration.

### *Common foreign and security policy*

The Czech Republic continues to orient its foreign and security policy towards the Union. It participates actively in the multilateral political dialogue within the framework of the Common Foreign and Security Policy (CFSP), including the regular meetings at the level of Political Directors, European Correspondents and Working Groups. It has regularly aligned its positions with those of the Union and, whenever invited, aligned itself with the Union's statements, declarations and *démarches*, including in the context of the UN and OSCE. Thus it joined the Common Position on Kosovo, the ban on Yugoslav flights and the oil embargo on Yugoslavia. Adoption of the necessary legislation by Parliament may take several months, however. The government submitted a new sanctions law to Parliament in June. This would allow it to react more quickly in the future. In March 1999 the Czech Republic became a full member of Nato.

In the Kosovo crisis, the government, after initial hesitations, gave its backing to the Nato actions against Yugoslavia and allowed Nato aircraft to use Czech airspace. President Havel has consistently expressed his full support for the Nato actions.

The Czech Republic participates in the SFOR peacekeeping operations in Bosnia-Herzegovina with 558 troops and in KFOR in Kosovo with 126 troops.



The Czech Republic strives to contribute to regional stability through a policy of good-neighbourly relations and regional cooperation. In November 1998 the Czech government agreed with the new Slovak government to resume the activities of the bilateral commission to settle the issues outstanding from the dissolution of the Czechoslovak Federation. The aim is to have a final agreement by the end of 1999. In May the Czech Republic participated in a summit meeting of the 'Visegrad' four, which agreed to intensify cooperation. It continued its participation in the Central European Initiative, which it chaired in 1999.

### **3.9. Financial questions**

#### *Financial control*

With regard to *external* financial control, the Supreme Audit Office continues, on the whole, to function well. However, it does not yet use internationally recognised auditing standards and attestation and performance audits.

Although initiatives are being taken by the Ministry of Finance, comprehensive *internal* financial control policy has not yet been adopted. The present system continues to be marked by weaknesses. The most important are the lack of “functional independence” of the internal control units in the line ministries and the lack of unified instructions as to the scope and nature of their control functions and of harmonised methodology from the Ministry of Finance. Audit and control standards are not sufficient. Efforts to address these shortcomings are hampered by insufficient legal backing. Czech accounting standards are not fully compatible with generally accepted accounting principles. The institutional capacity to control procurement is still limited.

#### **Conclusion**

Improving internal financial control was a short-term Accession Partnership priority which has not yet been addressed. Significant efforts need to be made for introducing a satisfactory internal control system, through appropriate legislation and institutional strengthening, including staffing and training. In particular, the competencies of the state bodies in the field of public internal financial control must be specified ; procedure for such control and for detecting and uncovering of corruption and frauds should be unified ; the independence of internal controllers within all state bodies should be ensured and the number of internal controllers increased.

External financial control also needs further improvement.

### **3.10. General evaluation**

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 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.

#### 4. Administrative capacity to apply the *acquis*

This chapter updates the information given in the Commission's Regular Report of 1998. 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 Agenda 2000 underlined the importance of incorporating Community legislation into national legislation effectively, and, even more importantly, 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. The administrative capacity has become a central issue in the negotiation process.

For this year's report the Commission continued to work with the candidate countries to identify an illustrative list of enforcement bodies in key areas of the *acquis*. Wherever possible information is provided on the Ministry or organisation which is responsible for a specific part of the *acquis*, its legal powers, staffing levels and budget. As in the Member States each administration has to decide how to allocate scarce human and financial resources, ensuring that it has sufficient capacity to implement the *acquis*. There is no 'ideal' level of staffing and numbers alone are no indication of capacity to implement the *acquis* effectively. However, wherever they are available, staff numbers and changes in staffing levels are provided. It is clear that in areas where there is a heavy control and enforcement burden one or two people are not sufficient and in such cases very low staff levels can indicate a need to give greater priority to administrative capacity.

Many of the enforcement structures covered in this report have only recently been established. They are beginning to take decisions in *acquis*-related areas but it is often too early to assess the quality and compatibility of these decisions with the *acquis* or the information needed is not available. However, in some areas it is possible to provide data to illustrate that the *acquis* is becoming a living and integral part of domestic decision-making. During the coming year the Commission will continue to work with each of the candidate countries to build up a data base on administrative capacity and information on enforcement which will allow the Union to assess operational capacity to implement the *acquis*.

In the 1998 Regular Report, the Commission concluded that :

“The Czech Republic has recognised public administration reform as a priority but has not yet taken the necessary steps to translate that political commitment into concrete actions. Nonetheless since the Opinion, banking and financial services capacities has improved, institutions in the standards and certification area have continued to strengthen and veterinary structures have undergone a period of consolidation. There is an important need for training and career development in the judiciary.”

##### 4.1 Administrative structures

Regarding public administration reform, three new departments were established within the Ministry of Interior in November 1998 (Public Administration Reform, Human Resources and Development in Public Administration and Informatisation of State Administration), comprising a total of 36 officials. These departments have prepared the comprehensive legal framework for territorial reform, which was discussed with Parliament in May 1999 and a concept for training in public administration, approved by Government in June 1999. However insufficient progress has been made on the drafting of the civil service law . The performance of the state administration remained affected by the absence of a unified system of public administration and is hampered by inadequate management, lack of training and low pay.

EU integration policy is coordinated by the Government Committee for European integration. At the level of officials, coordination of European integration affairs is assured by a central co-ordinating unit in the Ministry of Foreign Affairs (whose EU section will be reinforced by 20 officials following a government decision of July) and a European Integration unit in each Ministry. The Deputy Minister for Foreign Affairs is responsible for EU affairs and at the same time chief negotiator. He chairs an Inter-Ministerial Committee on European Integration, which includes officials responsible for European Integration in each Ministry, as well as the 12-member Negotiating Team. The Committee plays a major role in preparing the negotiating strategy and preparing dossiers for future decisions by Ministers. Many of the European Integration units in Ministries, however, are understaffed. There is a great need to improve inter-ministerial coordination in all policy areas, not only to speed up accession preparations, but to make overall government policy more effective.

The Legislative Council, which examines draft legislation before it is submitted to the government in order to assess its compatibility with the *acquis*, has been upgraded, and is now the responsibility of the Deputy Prime Minister. Its procedures have been simplified in order to accelerate the submission of legislation to Parliament.

In addition to the creation of a Committee for European Integration in the Chamber of Deputies in July 1998, the Senate set up a committee for European Integration in December 1998. It has the right to propose to veto legislation sent by the Chamber of Deputies if it considers that an item is incompatible with EC law.

#### **4.2. Administrative and judicial capacity : key areas for the implementation of the *acquis***

**The uniform application of EC law :** The judiciary still faces considerable problems: lack of specialisation of judges, too many administrative tasks, lack of equipment and information technology, lack of training and a considerable number of vacancies (306 out of a total of 2417 posts). 54 vacant posts were filled in the reference period. This leads to very slow procedures, with considerable backlogs in every sector.

The training of judges in Community law is still progressing very slowly. The Concept of the Reform of the Judiciary, which the Government approved in July 1999, foresees examinations in Community law, but the current practice does not require them.

*Further efforts are necessary to improve the functioning and training of the judiciary.*

**Single market :** The Office for the Protection of Economic Competition, which is described in more detail in the section on competition below, is also responsible for *public procurement*. The Office has the power to impose fines. It is staffed with over 90 persons, of whom some 20 work on public procurement. There is a special department for European integration which has a good knowledge of EU matters . In 1998 it took 235 decisions on complaints concerning tenders. The courts dealt with 4 of these cases.

The Ministry of Culture is responsible for *intellectual property legislation*. It has a special copyright department staffed by 5 officials. The Ministry of the Interior, the police and the customs services are responsible for enforcement of legislation. In 1998, the customs reported 45 cases of goods infringing copyrights and trademarks, against 42 in 1997 and 23 in the first semester 1999. Implementation and enforcement of legislation need to be strengthened, notably through increased co-operation between the Ministry of Interior, the police, the customs services and the judiciary. Judges and prosecutors need training and legal procedures need to be shortened.

*In the Ministry of Culture, staffing for intellectual property legislation and financial resources need to be increased. Co-operation and training need to be improved for all services and bodies responsible for enforcement of intellectual property legislation.*

The *Industrial Property Office* is responsible for the granting of patents, registration of trade marks, utility models, industrial designs, appellations of origin, topographies of semiconductor products, storing and dissemination of patent information and drafting of related legislation. It has an International and European Integration Department. In 1998, the Office received 4 387 patents applications, and completed the examination procedure for 3 214 inventions applications, out of which 48 % were granted the patent. 17 183 trademarks applications were filed, 10 353 were registered and 8 976 are still being processed.

*The Industrial Property Office functions satisfactorily. However, border enforcement for both industrial property rights must still be improved.*

The Ministries responsible for *company law* are the Ministries of Justice, Finance, Culture, the Czech National Bank and the Industrial Property Office. The Courts are responsible for the application of company law.

*Accountants* are registered with the Chamber of Auditors. At present the register contains some 1300 natural persons and about 250 legal persons. In the future, all accountants have to be examined by a commission composed of officials from the Ministry of Finance and accountants appointed by the Chamber of Auditors.

There is still no independent body for the supervision of *data protection*, and no steps have been taken to establish one.

*Efforts are needed to conform with the administrative capacity required by the acquis regarding data protection.*

In the area of *free movement of goods*, the Czech Office for Standards, Metrology and Testing (COMST) is the central state administration responsible for legislation in the field of industrial goods. It performs its duties independently of the Ministry of Industry and Trade, to which it is formally subordinated. The Office comprises the International affairs department which includes an EU Section. The staff has been increased to include 3 translators thus reaching a total of 63. A proposal to create a Department of European Integration and hire new staff is still subject to government approval.

*The competence of the Office's staff as well as the level of equipment is generally good. Overall the Office continues to have a good record.*

The Czech Standards Institute is the independent national standardisation body. It has a staff of about 200. Its main tasks are preparing and adopting standards; issuing and distributing them and co-operating with international non-governmental organisations and agencies for technical standardisation.

The Czech *Accreditation* Institute has the status of an independent company, though the chairman is appointed by the Ministry of Industry and Trade. The Institute employs 32 experts and can make 100 accreditations and 250 – 300 surveillances per year. Its main tasks are to ensure the accreditation of testing laboratories, calibration laboratories and certification bodies. This represents an overall capacity of 100 accreditations and 250-300 surveillances per year. In November 1998, the total number of accredited bodies in the Czech Republic was 289 (201 testing laboratories, 47 calibration laboratories, 36 certification bodies, 5 inspection bodies). The Institute is a full member of the European Accreditation Association.

As of November 1998, about half of the testing laboratories had been privatised. The pace of privatisation has slowed. The State keeps several strategic laboratories for security reasons, until a monitoring system for the privatised laboratories becomes fully operational.

There are 33 authorised bodies in the Czech Republic ensuring conformity assessment.

The Czech Metrological Institute is subordinated to the Ministry of Industry and Trade. It has a staff of about 300 and a network of 7 regional workplaces. A permanent system of education and training of metrology personnel is in operation.

*The Czech Republic has achieved the necessary separation between legislative regulatory, conformity assessment, standardisation and market surveillance functions. Its standardisation and certification sector appears generally to be well functioning,*

*both in terms of personnel and technical equipment. This is also demonstrated by the full membership of CEN and CENELEC.*

Inspection bodies are defined by law and fall under the responsibility of various ministries. The Ministry of Industry supervises the Czech Trade Inspection, which performs market surveillance for industrial goods. Other important market surveillance bodies are the Czech Agricultural and Food Inspection, the State Veterinary Administration and the Hygiene Service.

The Czech Trade Inspection (CTI) is the main supervising body for non-food products and for the protection of consumer economic interests. It falls under to the Ministry of Industry and Trade and it consists of a central inspectorate and 14 regional inspectorates and has 513 employees. The CTI determines if products placed on the market comply with the conformity declarations. It also deals with consumers' complaints concerning the quality, unfair sale, and so on of products. Its inspectors have the power to enter shops, warehouses and manufactories, to take samples, to impose penalties and to prohibit the sale of defective goods. CTI can prohibit the sale or order the withdrawal of defective or dangerous products.

The Czech Agricultural and Food Inspection (CAFI), falls under the Ministry of Agriculture and supervises the safety and quality of food. It has a staff of 432 and consists of the head office in Brno and seven regional offices. The testing laboratories of regional offices are accredited in accordance with European Standards, series 45000. CAFI officials consider their Inspection to be well equipped in terms of computer equipment. All local branches are connected through a common network

The State Veterinary Administration (SVA) is a Government agency under the Ministry of Agriculture with responsibility for veterinary care and protection.. In the field of consumer protection, SVA is the main supervising body for foodstuffs of animal origin. Its responsibilities in this field are similar to those of the Czech Agricultural and Food Inspection. It employs 1755 people, including 400 veterinary officers and 600 meat inspectors. Its structures for veterinary control and inspection are well established and generally function well, both in the country and at the border. The SVA operates 19 border inspection posts with veterinary supervision. They carry out the necessary checks according to Czech requirements. Procedures, frequencies and results of veterinary checks at external borders are similar to those applied in EU Member States. The computerised network between the veterinary BIPs and the central veterinary services is well established, but must be completed. Testing and inspection facilities need to be upgraded.

The Hygienic Service (HS) has the responsibility to protect human health and to give approval before placing products on the market in the area of certain foodstuffs, articles of common use and cosmetics. It is entitled to enter shops, warehouses and manufactories, to take samples, to impose penalties, and to prohibit the sale of defective goods. The HS consists of the Chief hygienist in Prague, 8 regional hygienists and 78 district hygienists. The HS can order the destruction of defective products and set extraordinary measures during epidemics.



The Institute for State Control of Veterinary Biologicals and Medicaments falls under the Ministry of Agriculture and the State Veterinary Administration. It has a staff of 93. Its functions include the registration and quality control of veterinary preparations, recording the adverse reactions of medicaments, inspection of GMP in manufacturers of veterinary medicaments and assessing the qualification of applicants for distribution of these products.

*Banking* supervision is the responsibility of the Czech National Bank. The Bank has the ability to fine banks and to withdraw banking licenses. It carries out on-site inspections. The Bank's staff was increased to 99, still less than the planned 106. This can be explained by the decreasing number of banks resulting from increasing consolidation and bankruptcies. The bank has an EU department.

*The Bank generally functions well. Staff is well qualified, with low turnover, in part due to the salaries, which have remained higher than in the Czech administration.*

The *Securities Commission* established in April 1998 is responsible for the supervision of the capital markets. It can impose fines, prevent the trading and movement of securities and freeze financial means. It has 125 employees and is committed to long-term training and the upgrading of the professional qualifications of its staff. Its 1998 budget was €1.8, million and its 1999 budget €2.3 million.

In 1998 the Commission started the re-licensing of all securities dealers, investment companies and funds, market organisers and clearinghouses. This led to a reduction by 50% of licensed companies. Between November 1998 and May 1999 it concluded the review of the compliance by issues with the disclosure requirements. In 833 cases it concluded a break of disclosure duty. In its first year of operation the Commission has issued approximately 955 decisions related to investment companies, investment funds, brokerage firms, traders, insurance, pension funds, insurance companies, public markets and securities registers). It has imposed some 50 remedial measures and 477 fines amounting to €3.5 million. Of this total, 30 decisions on penalties, amounting to €99,000 have so far entered into force. In addition, the Commission imposed 191 remedial measures, in which it ordered issuers to submit the documentation, which they had not provided. The Commission issued 49 legal opinions and submitted 2 draft bills to the public for discussion. Aside from legal opinions, the Commission also issues guidelines and recommendations.

The Securities Commission co-operates regularly with police in investigation of fraudulent activities. It has also signed several co-operative Memoranda of Understanding with foreign partners and domestic entities. Since September 1998 the securities Commission is an ordinary member of IOSCO.

*The overall performance of the securities Commission is good. Staff levels seem adequate.*

The supervisory body for the *insurance* sector is the Insurance and Pension Scheme Department Fund in the Ministry of Finance. Its staff totals 17 people and has not increased

since 1998. Supervision is performed on the basis of reports relating to the financial soundness of insurance companies and, due to staff shortages, rarely through on-site inspections. The Department carried out 8 on site inspections in 1998 and three on-site inspections until mid-February 1999, which have led to the withdrawal of one license.

*The staff of the insurance supervision department is too small and does not allow for each insurance company to be inspected. Therefore supervision remains weak.*

**Competition:** The Office for the Protection of Economic *Competition* investigates all alleged breaches of Czech competition legislation. It is also responsible for public procurement. The office has the power to impose fines. It has a staff of over 90, some 30 of which work on competition. There is a special department for European integration which has a good knowledge of EU matters. A separate department for the detection of cartel agreements was set up in June 1999. Legislation entered into force in September, which reinforced its independence by appointing the President of the office for six years and by clearly defining the reasons for dismissing him. **The number of cases dealt with has developed as follows: 655 in 1995, 527 in 1996, 611 in 1997, and 590 in 1998.** In 1998, the Office undertook 168 investigations. Of these, 88 cases dealt with agreements distorting competition (cartels) while 58 dealt with concentrations. In 1998, the Office dealt with over 400 administrative proceedings and issued 163 first instance decisions (67 concerned cartel agreements, 4 abuse of dominant position, 57 mergers, 35 others). There were 20 appeals and 5 cases were submitted to the Upper Court. The total amount of legally binding fines for 1998 corresponded to 54 500 EUR.

**The staff of the Office is generally well qualified to perform its tasks. However it is worth recalling that that decisions must be taken in an independent and transparent way.**

The *State Aid* Monitoring Authority is a unit in the Ministry of Finance. It has a staff of 4 people (one more than in 1998). The Authority is not able to assess systematically the compatibility with the state aid rules of aid given by various granting authorities.

*Its competence and staff levels need to be reinforced considerably and its operational independence should be ensured. The relevant legislation needs to be adopted urgently.*

**Telecommunications:** The Czech Telecommunication Office (CTO) is the regulatory body and has a staff of 483. Organisationally the Office is an integral part of the Ministry of Transport and Communication and its Director reports directly to the Minister. 216 people work in the central Prague office and the others in the 7 regional branches. The CTO is also responsible for the administration of the frequency spectrum system. It has the power to fine and to withdraw authorisations or licenses.

*No steps have yet been taken to make the Czech Telecommunication Office an independent regulatory body and to ensure effective structural separation from activities associated with ownership or control of commercial operations.*

**Audiovisual services :** The Ministry of Culture includes a mass-media department, which is responsible for legislation in the area of film, video, television, radio and periodical press. It has a staff of 8 persons. It also has responsibilities for the Council for Radio and Television Broadcasting, the Council of the Czech Radio and the Council of the Czech Press Agency.

Central administration in the area of radio and television broadcasting, ensuring broadcasting plurality and supervision of broadcasting regulations, is carried out by the Council for Radio and Television Broadcasting. The Council is independent from both the Government and Parliament and comprises 13 elected members. The Council's activities are carried out by a secretariat, which has 34 permanent staff. Both the Council and its Office are financed from the State budget.

*The qualification and performance of the staff of the Ministry of Culture is generally good. Lack of legislative progress can be explained by reluctance in political circles to adopt the necessary legislation. The Council for Radio and Television Broadcasting should be empowered with proper monitoring and sanctioning powers.*

**Taxation:** The tax administration is part of the Ministry of Finance. It is responsible for tax legislation and tax administration. Staff totals 14,200, divided over the Central and Financial Tax Directorate (180), 8 regional tax directorates and 223 district and local offices. Of the total staff 8,000 are tax administrators. Reform of the tax administration is under way with a view to making it an independent body.

In 1998 219,362 investigations were carried out by the tax authorities resulting in 1233 prosecutions. For 1997 the figure were 212,403 and 1001 respectively.

*While progress has been made as regards the administrative infrastructure, problems persist in the training and retention of officials, in the area of international co-operation as well as efficiency at the various stages of the taxation procedure.*

**Agriculture:** The Ministry of Agriculture has a staff of 932 of which 400 are employed in regional offices. The Ministry has a European integration unit.

The Payment Agency for managing pre-accession funds (SAPARD) was established in September. It has a staff of 160. The Internal Audit department has also been established.

The Support and Guarantee Fund for Farmers and Forestry was established in 1993 by government resolution. It is a joint stock company with the Ministry of Agriculture as the sole shareholder. It has no staff of its own, but is administered by five officials of the Ministry. In 1998 the Fund had a budget of Czk. 3,6 bn. and in 1999 3,3 bn. Conditions for the awarding of grants are set by the Ministry and published in an official bulletin.

The State Fund for Market Regulation provides export subsidies and makes intervention purchases. In 1998 it spent 5 bn. CZK and for 1999 7,5 bn. CZK has been earmarked. It has a staff of 20.

The State *Phytosanitary* Administration has a staff of 494, of which 139 in headquarters. It has 7 regional offices, 72 district offices, 7 district laboratories and 25 border inspection posts.

*The organisation, management and training of the Ministry of Agriculture needs to be improved in order to better prepare Czech agriculture for accession. The establishment of the Payment Agency represents good progress, it now has to prove its competence. The Phytosanitary and Veterinary Administrations as well as the Food Inspection appear to generally function well. Border inspection posts need further reinforcement, however. In addition the equipment of the Phytosanitary Administration must be improved and communication structures between headquarters and district need improvement.*

**Energy:** Responsibility for the energy sector lies with the Energy Section of the Ministry of Industry and Trade. It has a staff of 56. The Section consists of the following five departments: Energy Policy, Gas, Manufacturing and Liquid Fuel, Nuclear Energy, Electric Power and Heat Production and the Mining department. The mining department is in charge of the supervision of the restructuring of the coal mining industry.

The Czech Energy Agency is responsible for the provision of financial aid for energy saving programmes. Its capacity needs to be improved.

*The Czech Republic has to establish an appropriate and efficient mechanism for regulation as required under the gas and electricity directives. In this respect a substantial development of the current Regulatory Administration within the Ministry for Industry and Trade is essential.*

The Nuclear Safety Regulatory Agency (SUJB) is a central agency of the State administration reporting to the Prime Minister. It is funded from the state budget. The SUJB is responsible for regulating nuclear safety, emergency preparedness and planning, transport of radioactive material, import and export of dual purpose equipment and related issues. Some of these duties are carried out in conjunction with other administrative departments, which can complicate policy implementation.

**Transport :** The Ministry of Transport and Communications has a staff of 752 employees, including the Telecommunication Office with 490 people. Within the Ministry of Transport and Telecommunication, road traffic safety is the responsibility of three departments (road transport, transport administration and road communications). Within these departments 7 people are directly involved in road traffic safety related tasks.

Air transport matters are the responsibility of the Civil Aviation Department of the Ministry, the Civil Aviation Authority and the Air Traffic Control. The Civil Aviation department has a

staff of 19, including two officials directly responsible for air traffic safety. It also ensures technical supervision in matters of civil aviation. Within the Civil Aviation Authority, one expert (safety inspector) is involved in air traffic safety matters and four officers are responsible for air traffic control. There are 167 air-traffic controllers

*The overall knowledge of EU transport policy is good, particularly in the legal department. However, effectiveness needs to be improved with regard to road traffic safety and the transport of dangerous goods by road, railway and inland waterways. Aviation Department at the Ministry of Transport, and the Civil Aviation Authority need to be strengthened.*

**Employment and social policy :** The Ministry of Labour and Social Affairs has a total staff of 564 and includes a Department for European Integration and International Relations. A new unit was set up in this department with the task of co-ordinating preparations for participation in the European Social Fund. A Government committee has been set up to co-ordinate and monitor the implementation of the National Employment Plan. A special commission for Roma employment (12 members) was created within the Ministry which is working to create a network of Roma advisers at regional and school level, and provides funding to NGOs in the field. A specialised unit consisting of 3 people was set up in February 1998 to co-ordinate issues relating to equal opportunities between men and women across administration, and work with NGOs in the field. In July, a new department for occupational safety, working conditions and working environment was set up in the Ministry, with the task of preparing new legislation and the system of inspection in the sphere of occupational safety; the unit also has responsibilities for the management of the Czech Occupational Safety Office.

Responsibilities regarding the enforcement of *health and safety* at work provisions is divided between the Czech Occupational Safety Office (COSO) and its 8 Labour Safety Inspectorates, and the hygiene services answering to the Ministry of Health.

COSO is backed by an Institute of Technical Inspection, a Research Institute of Occupational Safety and an Institute of Occupational Safety Education (IOSE). COSO has a staff of 449, of whom are labour inspectors number 268. . About 51 % of inspectors are university (mostly technical) graduates, the rest have secondary education. Staff training is regularly organised by IOSE.

The working methods of the hygiene services of the Ministry of Health are compatible with corresponding EU services. The key difference with EU practice is that the Czech service is involved not only in the inspection but also in health promotion and its inspection activities cover working conditions, food and environment.

*The knowledge of EU affairs in the Ministry of labour and social affairs is very good. The Ministry and the inspection offices generally function well and its staff is generally well qualified. There is a need, however, to improve training to prepare inspectors to enforce the acquis. The hygiene services of the Ministry of Health are adequately equipped and inspections are satisfactory overall. However, lack of co-*

*operation and co-ordination between the Ministry of Health and the Ministry of Labour and Social Affairs and their respective agencies regarding the enforcement of health and safety at work remains a serious cause of concern*

The State Institute for Drugs Control (SIDC), falling under the Ministry of Health, is a supervising and enforcement agency for human medicinal products, medical devices and similar products. Its legislative status and scope of work is given in the 1997 Act on Pharmaceuticals. It has a staff of 300. SIDC is responsible for registration, licensing and quality control of pharmaceuticals and medical devices, recording of adverse reactions, preparing and changing of standard materials, and GMP supervision of pharmaceutical manufactures, warehouses and chemists. The SIDC can suspend the use or marketing of pharmaceutical products or withdraw them from the market, it can suspend the licenses of manufacturers and wholesalers. It also acts as the drug information centre for the whole country, both for health care professionals and the general public.

**Regional policy and cohesion:** The Ministry of Regional Development was established on 1 November 1996 and is responsible for regional development, development of rural areas, renewal of villages, regional programmes in support of SMEs, housing policy, tourism, urban and spatial planning and building regulations. It employs some 340 people and has a section for European Integration. The ministry's main task is to define and implement regional development policy, and it is responsible for the co-ordination of future implementation of the structural funds and the pre-accession instruments. In co-ordinating the preparation for future implementation of the former, the ministry is assisted by one of the 20 European integration working groups established by the Ministry for Foreign Affairs. Working Committees have also been established for the preparation and implementation of SAPARD and ISPA with the other ministries involved, notably transport, environment, agriculture, labour and social affairs, finance, and trade and industry.

Inter-ministerial co-ordination with regard to regional development policy will be performed by the National Programming and Monitoring Committee for Economic and Social Cohesion, which is chaired by the Minister for Regional Development. The Committee is to co-ordinate the preparation of basic programming documents necessary for the implementation of the EU structural funds. In addition, it will support the preparation and implementation of regional operational programmes and sector based operational programmes. The ministry is responsible for the co-ordination of the preparation of the National Development Plan.

The Centre for Regional Development is the ministry's agency responsible for co-ordinating all regional development activities, including the development of a national network of Regional Development Agencies at regional and local level. The centre is responsible for the implementation of cross-border co-operation programmes and the Euro Info Centre. Regional Development Agencies have been established in Northwest Bohemia, Central Moravia and the region of North Moravia and Silesia, and other Agencies are to be established in each region similar to NUTS 3 level.

*Although the Ministry for Regional Development has demonstrated a capacity to establish administrative procedures and start on planning issues, its experience of budgetary management procedures remains limited. These procedures have still to be streamlined according to EU standards. Reinforcement and training of staff at both central and local level will be necessary if the Czech Republic is to make further progress, especially as regards budgetary issues, notably financial control.*

**Environment:** The Ministry of the Environment has a staff of some 460 people.

Enforcement is carried out by the Czech Environmental Inspection (CEI), a state administrative body. It has a national office and ten regional offices employing in total a staff of 450 people, of which 28 inspectors at headquarters and 252 in the regional offices. Its decisions are binding in the five areas of environmental inspection (Air Protection, Water Protection, Waste Management, Nature Protection and Forest Protection). It has the power to fine. Very often, however, the level of fines is too low to constitute a real deterrent. The CEI does around 12-14.000 inspections, revisions and controls every year. 10.000 legal decisions are taken, not taking into account the area of emission limits. For the latter, the number of decisions taken amount to some 16,000 per year.

The Czech Environmental Fund provides loans for environmental protection projects by local and public authorities and companies. It has a staff of 92.

Enforcement of approved legislation is a real problem, caused by lack of duly trained staff and adequate financial resources. The Czech NPAA estimates that 1,000-1,500 additional qualified staff will be necessary to ensure implementation of the *acquis*.

*Overall the technical infrastructure for implementing environmental legislation, such as data collection and environmental monitoring, is of a relatively high standard, but needs to be upgraded to ensure full enforcement of the *acquis*. The staff of the Ministry and of the state environmental inspection is generally competent. It needs to be increased considerably, however.*

**Consumer protection :** Overall responsibility for consumer affairs lies with the Ministry of Industry and Trade. The Consumer Policy Unit in the department of Domestic Trade and Consumer Policy was set up in August 1998 and continues operating with a very limited staff of 7.

*The staff of the Ministry needs to be reinforced.*

**Justice and Home Affairs :** The Ministry of Justice has been re-organised. It is now composed of five main departments and has a number of independent sections, such as prisons, the institute for criminology and the penal register. The ministry's staff totals 259. The establishment of a Unit responsible for relations with the EU in July 1998 resulted in a better co-operation with the Ministry. Relations between the Ministry and the Union of Judges and the Association of State Prosecutors have improved.

The Ministry of Interior is composed of four main departments and has a number of independent sections such as human resources and training economic control. The Ministry of Interior supervises the Czech Police. The Ministry is composed of 63,555 people including police and non-police staff. Its direct staff amounts to 2,000 people. In December 1998, the Ministry established an Inter-Ministerial Schengen Working Group. *However, there is the lack of financial and human resources to prepare for the acquis in this area.*

Asylum applications are examined by the department for refugees and Integration of Foreigners of the Ministry of Interior. In April 1999 an appeals commission was set up comprising of 14 staff representing the state administration (Ministries of Interior, Foreign Affairs and Justice) and non governmental bodies (representatives of Law faculties, the Czech lawyers' chamber and NGOs involved in human rights protection). The appeals commission issues recommendations to the Ministry of Interior. In 1998, 78 people have been granted refugee status out of 4 086 applicants.

*The establishment of the appeals Commission has improved capacity to handle asylum request. However, there is still no independent course of appeal for rejected asylum applicants. Furthermore implementation of asylum policy remains characterised by a lack of qualified experts, particularly qualified lawyers, and insufficient equipment.*

Border control is the responsibility of the Alien and Border Police which is responsible to the Police headquarters, which are themselves subordinated to the Ministry of Interior. It has a staff of around 6,300 police officers and 220 civil servants. In the past year, about 200 policemen were transferred from the central and regional levels to the Czech-Slovak border. 44,672 illegal migrants were detected at the borders of the Czech Republic in 1998.

At the end of 1998, an Inter-ministerial Schengen Working Group was established chaired by the Ministry of Interior. It consists of 13 working teams with experts from Ministries of Justice, Labour and Social Affairs, Foreign Affairs and the Police services. Its primary task is to analyse the impact of the Schengen *acquis* and to create conditions for adopting and applying the Schengen standards.

*The Alien and Border Police is understaffed. It is not an independent body and its border guards have to report via the ordinary local and regional police headquarters to the Police Presidium in Prague. This leads to serious communication problems. Equipment is insufficient and its technical standards unsatisfactory electronic transmission of data e.g. is well below EU standards*

The *police* forces comprise 60,000 persons, including approximately 45,000 police officers. Staff-skills and the distribution of tasks between police officers and civil employees, should be improved as many tasks, that can easily be done by civil staff, are carried out by executive police officers.



Economic crime and corruption are dealt with by the Unit for Disclosure of corruption and Serious Economic Crime. It has a staff of 185 police officers and 12 civilian staff. Organised crime is dealt with by the Organised Crime Unit. It consists of 386 police officers and 47 civilian employees.

*Co-ordination and co-operation with other law enforcement institutions must be improved in order to combat organised crime and economic crime more effectively (e.g. with State Prosecutors, Ministry of Finance (Financial Analytical Unit), Inter-ministerial Committee for the Protection of the Economic Interest Securities Commission, Secret Services).*

*The total number of police officers is sufficient. The Alien and Border Police is understaffed, however, as are the units dealing with organised and economic crime. General and specialised training, as well as the distribution of tasks between police officers and civilian employees, should be improved. Equipment needs upgrading. Cooperation between services needs to be improved.*

The organisation of the Courts is based on the Czech Constitution and legislation dating from 1991-1997. The Constitution foresees four levels of courts: the Supreme Court and the Supreme Administrative Court, and the high, regional and district courts. There are 75 district courts, 8 regional courts (including the Prague City Court) and 2 High Courts. The Supreme Administrative Court has not been established. The Constitutional Court is not part of the general court system. It decides on the constitutionality of laws and other legal rules and on constitutional complaints of citizens and legal entities regarding actions of public authorities, which break fundamental rights and freedoms provided by the Constitution.

The Ministry of Justice decides on the administrative staff of courts. The costs for the running of courts are covered by the state budget. Judges are appointed for life and are independent. Their salary is set by law. The number of judges is determined by the Ministry of Justice.

Out of a total of 2 417 posts for judges, 2420 are filled, which leaves 306 vacancies. (360 in November 1998). 432 trainee judges are being trained under a programme to be completed in three years. Salaries of judges are relatively high, at CZK 47.000 per month for a district judge. Salaries outside the judiciary are considerably higher, however, which leads to difficulties in filling existing vacancies.

Judges are not sufficiently specialised and also have to perform time consuming administrative tasks. Conditions at the court are precarious, with a lack of modern equipment and information technology. Combined with the number of vacancies this leads to extremely slow judicial procedures, with considerable and frequent backlogs in all sectors.

The number of unresolved cases at district courts was 229,765 in 1997, 239,760 in 1998, and 229,369 in the first quarter of 1999 (criminal, civil, custodial and other cases). The average length of court cases (district and regional courts) rose from 786 days in 1997 to 806 days in 1998.

In 1998, 25 disciplinary proceedings were initiated against judges in cases of delays, while 18 such proceedings initiated by June 1999.

The training of judges is the responsibility of the Ministry of Justice, which operates the Higher Institute of Training for Judges and State Attorneys. In the past, the training of judges was mainly focused on issues of human rights and democracy. Training in EC law is not provided.

The Office of the Supreme State Attorney answering to the Ministry of *Justice*, is the highest level of Supreme Attorney Offices, superior to the High Supreme Attorney Offices, Regional Supreme Attorneys Offices and the District Offices. The Supreme Attorneys Offices represent the State in penal and civil matters, including in court proceedings.

Out of a total of 985 posts of state attorneys, 892 are filled, which leaves 92 vacancies. (119 in 1997). 805 trainee prosecutors are being trained. Salaries are on average somewhat below those of judges..

The Office of the Supreme State Attorney is located in Brno and consists of 25 state attorneys, plus 40 support staff. It is divided into the Secretariat to the Chief State Attorney and 4 departments: penal, revision, civic and international relations. There are no separate departments of attorneys specialising in specific areas, the specialisation of attorneys being only informal. Although it is entitled to issue certain generally binding regulations, it can only give instructions to the next lower level of the State Attorney Office. There is also insufficient flow of information among the offices.

The lowest level is the most vulnerable in terms of local influences. There is a clear need for single and more flexible control mechanism within the service.

At present, attorneys are not able to fully supervise and lead the proceedings, which are dominated by the police.

**Customs:** The customs administration is part of the Ministry of Finance. The Directorate for Customs has a staff of 9,400 and 8 regional directorates, 91 customs offices and 17 inspectorates. The Customs Directorate is divided into 10 departments, including to dealing with computerisation and the fight against fraud. Computerisation continues to progress very well. Staff training has been organised.

The Czech Customs Administration is responsible for customs, customs policies, customs tariffs and customs statistics as well as the administration of exercise taxes and value-added tax on imports and road taxes for foreigners. The administration consists of the General Directorate of Customs within the Ministry of Finance, regional directorates, 91 customs offices (with 133 subsidiary branches) and 17 Inspectorates. Staff totals 9,300 divided between Customs Officers (approximately 7,750) and civil servants. The Customs Directorate itself is divided into 10 departments, including those dealing with computerisation

and the fight against fraud. Computerisation continues to progress well. A comprehensive system of staff training has been put in place with 4 national and 7 regional training centres.

*The Czech customs administration is a well organised administration, which in general performs well. Efforts are necessary to reduce delays in processing commercial traffic at the border. Border enforcement for the protection of industrial and intellectual property rights and the fight against economic crime and organised crime still needs to be reinforced.*

**Financial Control :** *External* financial control: The Constitution of the Czech Republic defines the status of the Supreme Audit Office ( SAO) as an independent body. It stipulates that it shall audit the management of state property and financial resources and that its President and Vice-president are appointed by the President of the Republic on the proposal of the Chamber of Deputies for a term of nine years.

Its functioning is based on similar audit institutions in Europe. It has a staff of around 500 and is funded by the State Budget.

The auditing functions of the SAO do not apply to the Security Information Service (BIS) and the Czech National Bank.

The Jurisdiction of the Office has been extended to include audits of financial management of political parties. Moreover, at the request of the Chamber of Deputies, the government and individual Ministries the Supreme Attorneys Office prepares comments and opinions on proposed legal regulations, especially those concerning the budget, accountancy, statistics, auditing, tax and inspection activities.

*The Office has a well defined organisational structure. Facilities, including the IT systems , are fairly well developed, but further investment is needed. External audit partially meets the requirements of Auditing Standards/EU Guidelines for adequate audit of public funds and expenditure. The SAO could develop in the near future into a fully performing external audit body by giving priority to implementing internationally recognised auditing standards and expanding its scope of audit to include attestation and performance audits. The financial independence of the SAO should be strengthened.*

*Internal* financial control: The Ministry of Finance is responsible for internal controls of the State Budget and for this purpose employs 7 persons. In addition, 12 persons deal with external controls and 40 persons are deployed in the regions.

The Control Department within the Ministry is directly subordinated to the Minister. It covers a broad and unusual range of functions organised in six separate units (the Privatisation Control Unit, the Unit of Methodology and Financial Control Related to EU, the Price Control Unit, the Financial Control Unit, the Internal Control Unit and the Inspection Unit). With regard to the internal and financial control activities, the scope of these is mostly compliance and legality checking, completed sometimes with a follow-up verification of whether remedial actions have been carried out. Audit and control standards, methods and techniques are not sufficient.

In all 14 line ministries control units exist, as well as economic and financial units. Organisational regulations (defined by the responsible minister) describe the mandate/functions of the control, economic and financial units. The control units have some but not all characteristics of internal audit. Their mandate varies and covers a range of activities (including inspection, oversight, supervision, control, verification, complaint reviews, construction permit reviews, ombudsman activities) and is not always of a financial nature. Often control units are not functionally independent, although many of the units are now hierarchically reporting to their Minister directly.

*There is no adequately functioning internal financial control system in the state administration. Legislation, organisational structures and staffing levels are deficient.*

## C. Conclusion

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 Czech Republic can be regarded as a functioning market economy. It 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.

Despite the deepening of the economic recession, some positive macroeconomic developments have been recorded, including the narrowing of the external imbalance, and the reduction in inflation. Some progress can be noted also in bank privatisation and in measures to address the bad loan problem.

Priority should be given to accelerating the restructuring and privatisation process, continuing price liberalisation and improving the legal framework for enterprise activity. Special attention will need to be paid to law enforcement and improving corporate governance. Urgent action should be taken to restructure and increase transparency of public finance in order to ensure its sustainability.

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 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 governments. 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.

## **D. Accession Partnership and National Programme for the Adoption of the *Acquis*: Global Assessment of Implementation.**

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 Opinions,
- the financial means available to help candidate countries implement these priorities,
- the conditions which will apply to this assistance.

Each candidate country was invited to adopt a National Programme for the Adoption of the *Acquis*. This sets out how it would deal with the Accession Partnership, the timetable for implementing its priorities and human and financial resources implications. Both the Accession Partnerships and the National Programme for the Adoption of the *Acquis* will be revised regularly to take account of progress made and to allow for new priorities to be set.

### **1. Accession Partnership: Assessment of short and medium-term priorities.**

#### *Short-term priorities*

The short-term priorities of the Accession Partnership<sup>4</sup> and an assessment of the progress made concerning their fulfilment are indicated below.

- **Economic reform:** *Establishment of medium-term economic policy priorities and joint assessment within the framework of the Europe agreement; implementation of policies to maintain both internal and external balance; improvement of the framework for corporate governance, in particular by accelerating the restructuring of certain industrial sectors such as steel as well as of banks, by implementing the laws regulating the financial sector (banks and investment companies), and by enforcing the supervision by the new Securities and Exchange Commission.*

**Assessment :** The government has adopted its medium-term economic strategy, on the basis of which the Joint Assessment with the Commission services has started. External imbalances and inflation have been reduced. The privatisation of the remaining banks with large state-participation is progressing well, but the share of classified loans is still high. The government has adopted a policy on industrial restructuring, but implementation has not yet begun. It is important to monitor implementation to ensure that EU requirements will be complied with. A restructuring plan for the steel industry has yet to be adopted.

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<sup>4</sup> Council Regulation 622/98, OJ L85 of 20 March 1998

The Securities Commission has made an effective beginning with the enforcing of existing rules. Its financial independence needs to be assured, however, and its regulatory powers strengthened. Therefore, this priority has been met to a large extent.

- **Reinforcement of institutional and administrative capacity:** *Improving capacity in banking supervision securities and insurance sectors, internal financial control, environment, agriculture, reinforcement of phytosanitary and veterinary administrations particularly as regards facilities at external borders, begin to set up structures needed for regional and structural policy.*

**Assessment :** Progress is being made with the setting up of structures needed for regional and structural policy. There is no progress in the reinforcement of administrative structures in the sectors of insurance, environment, agriculture and the phytosanitary and veterinary facilities at external borders. The same applies for the introduction of an adequate internal financial control system in the state administration. Therefore, this priority has not been met.

- **Internal Market:** *Including in the areas of intellectual property rights (legislation and enforcement), and certification and standardisation (further alignment of legislative measures and conclusion of a European Conformity Assessment Agreement), amendment of anti-trust law, further development of the legislative framework for state aid control and increased transparency through submission of additional state aid inventory.*

**Assessment :** Progress has been made in the area of standardisation and certification with the adoption of considerable sectoral legislation. The amendment of the framework act on technical requirements has still not been adopted, however. Negotiations on the Protocol on an European Conformity Assessment continue. Some progress was made concerning the border enforcement of intellectual property rights, but no progress can be recorded regarding anti-trust and state aid legislation. Parts of the inventory on existing state aid have been compiled. Therefore, this priority has been met only very partially.

- **Justice and home Affairs:** *Development of effective border management.*

**Assessment :** No legislative progress can be reported on the development of effective border management. Therefore, this priority has not been met.

- **Environment :** *Continue transposition of framework legislation, establishment of implementation of detailed approximation programmes and implementation strategies related to individual acts. Planning and commencement of implementation of these programmes and strategies.*

**Assessment :** Some progress was made in the alignment of legislation (water protection, waste management and chemical substances). No progress can be reported on the transposition of framework legislation and implementation of approximation programmes



and implementation strategies related to individual acts. Therefore, this priority has only been met partially.

The Czech Republic's record in terms of meeting the short term Accession Partnership priorities is in general not satisfactory. Priorities which were not satisfactorily addressed include important areas such as administrative capacity (strengthening agricultural and environmental institutions), the internal market (alignment of intellectual property and state aids legislation), Justice and Home Affairs (border enforcement), financial control and environment (limited progress in sectoral legislation, no adoption of framework legislation).

In this context it should be noted, however, that the current government has taken substantial initiatives in important policy areas which had received insufficient attention from previous governments. This concerns overall public administration reform, reform of the judiciary, the fight against corruption and economic crime and the improvement of the situation of the Roma.

### *Medium-term priorities*

The Czech Republic has begun to make some progress towards addressing its medium term priorities of the 1998 Accession Partnership. Only medium term priorities that have been met are mentioned below.

- **Political criteria:** *further work on the integration of the Roma. Strengthening of laws which guarantee press freedom. Further attention to ensuring equal access to public services.*

**Assessment :** Concerning the further integration of Roma, the government has paid increased attention to this issue and has continued to develop and monitor policy. Parliament has amended the citizenship law. Parliament has approved legislation allowing citizens access to information from the public administration.

- **Economic policy:** *regular review of the joint assessment of economic policy priorities, within the Europe Agreement framework, focusing on satisfying the Copenhagen criteria for membership of the Union and the acquis in the area of economic and monetary policy (co-ordination of economic policies, submission of convergence programmes, avoidance of excessive deficit ; while the Czech Republic is not expected to adopt the euro immediately upon accession, it is expected to pursue policies which aim to achieve real convergence in accordance with the Union's objectives of economic and social cohesion, and nominal convergence compatible with the ultimate goal of adoption of the euro.*

**Assessment :** The joint assessment with the Commission has started. The government continues to follow policies aiming at convergence.

- **Reinforcement of institutional and administrative capacity:** *continue public administration modernisation policy; improve operation of the judicial system, training for the judiciary in Community law and its application, customs, establishment of independent bodies for supervision of data protection and for consumer protection ; reinforcement of justice and home affairs institutions (ensuring sufficient and properly trained personnel in particular police, border guards, ministries and courts), strengthening of nuclear safety authority, completion of alignment of financial control capacity, reform of customs and tax administrations to ensure readiness to apply the acquis, the reinforcement of food control administration.*

**Assessment :** The government has paid increased attention to public administration reform, but this has not yet resulted in the adoption of legislation. The government has submitted to Parliament a programme of overall judicial reform which addresses the fundamental weaknesses of the judiciary. The functioning of the customs and tax administrations continue to improve.

- **Internal market:** *including alignment of public procurement legislation, accounting legislation, data protection, financial services, indirect taxation, audiovisual, consumer protection, further development of standardisation and conformity assessment bodies and establishment and operation of a market surveillance system, technical legislation and industrial products, strengthening of competition law, promotion of enterprise development, including SME's, alignment with the acquis in the fields of telecoms, consumer protection and the internal energy market.*

**Assessment :** Further progress was achieved in aligning banking legislation, technical legislation on industrial products and SME policy.

- **Justice and Home Affairs:** *Development of effective border management and implementation of migration policy and reforms of asylum procedures as well as the fight against drugs, organised crime (in particular money laundering, drugs and trafficking in human beings) and corruption, more effective operation of the judiciary and law enforcement, and to align visa policy with that of the EU and to complete alignment to international conventions, notably in view of the Schengen acquis.*

**Assessment :** A start has been made with the reform of asylum procedures. The government has been paying increasing attention to the fight against organised crime and corruption, although efforts remain insufficient.

- **Employment and social affairs:** *development of appropriate labour market structures and joint review of employment policies as preparation for participation in EU co-ordination; alignment of labour and occupational health and safety legislation and development of enforcement structures in particular early adoption of the framework directive on health and safety at work;*

*enforcement of equal opportunities between women and men; further development of active, autonomous social dialogue; further development of social protection, undertake steps to bring public health standards into line with EU norms.*

**Assessment :** Preparations for the joint review of employment policies continue satisfactorily. Alignment of legislation on equal opportunities has progressed.

- **Environment:** *the development of monitoring and implementation control structures and capacities, continuous planning of approximation programmes related to individual legal acts. Particular emphasis should be given to air, water and the waste sector. Environmental protection requirements and the need for sustainable development must be integrated into the definition and implementation of national, sectoral policies.*

**Assessment :** Some progress has been achieved in aligning sectoral legislation.

- **Regional policy and cohesion:** *establishment of a legal, administrative and budgetary framework for an integrated regional policy in order to participate in EU structural programmes after membership.*

**Assessment :** Satisfactory progress has been made in the preparation for participation in EU structural policy, although financial, monitoring and control procedures must be improved and preparation of the legislative framework needs to be speeded up.

The country has started addressing a number of medium term priorities. Efforts need to be stepped up considerably, however, in order to achieve a satisfactory rate of progress. This concerns the reinforcement of institutional and administrative capacity (general public administration reform, financial control, reinforcement of JHA institutions), internal market (legislation on state aids, data protection, consumer protection and internal energy market), Justice and Home Affairs (border management, organised crime, corruption, visa policy), agriculture (alignment of legislation, administrative structures), transport, employment and social affairs and environment (legislation, administrative structures).

## **2. National Programme for the Adoption of the Acquis — assessment.**

The Czech government presented the 1999 version of the "Czech National Programme for the Preparation of the Czech Republic for Membership of the European Union" (National Programme for the Adoption of the Acquis, NPAA) on 3 June.

The executive summary of the National Programme presents this document as focusing on the preparation of integration into the internal market and on the approximation in the field of Justice and Home Affairs. The Programme is set out as a flexible, living document which will undergo a regular, and perhaps complete, update within a twelve month period.

The National Programme follows the structure of the Commission's Opinion of July 1997 and Regular Report of November 1998. Therefore chapters referring to the political criterion and the reform of public administration are now included. These were either missing or underdeveloped in the 1998 NPAA. A real effort has been made to include a presentation and assessment of the current situation in each chapter.

Although better structured and more detailed than the 1998 document, the 1999 National Programme is of uneven quality overall. The Programme tends to be comprehensive and consistent as regards legislative planning, but fails to be a comprehensive planning document as regards the preparation of the administrative capacity and financial needs required to implement the *acquis* in the short and medium terms.

Chapters are of uneven length. While for example statistics, energy and environment are around 20 pages each, key sectors for accession like agriculture, financial control and public administration reform are respectively only 8, 2 and 3 pages long.

As in the 1998 National programme, the quality of individual chapters varies. For example, the Roma issue is not treated satisfactorily under the political criteria. Insufficient information is also provided on agriculture and financial control. The chapter on environment is less clear and comprehensive than in 1998. However, some chapters, like those covering the internal market (general framework, free movement of goods, services, capital, persons), employment and social affairs and statistics, are generally of good and sometimes very good quality.

The coverage of the *acquis* is generally good, although few chapters are exhaustive. For most of them some directives or sectors are missing or are insufficiently detailed. For example, the chapter on employment and social policies does not deal satisfactorily with social dialogue and health and safety. All sectors are covered in the chapter on environment, with the exception of climate change. Coverage is partial for chemical substances and genetically modified organisms. Regarding air, the short term priorities are not exhaustive and the medium term ones do not give any indication as to what the new legislation on air protection will cover. The chapters on justice and home affairs under-address the issues of the fight against trafficking in human being and corruption.

Deadlines can be considered as being generally realistic. However, most chapters fail to give a detailed breakdown which goes beyond the split between short and medium term priorities. Medium term priorities remain in most cases rather vague.

With very few exceptions, the National Programme is generally consistent with commitments made in other fora. However, the level of details is often not sufficient to allow for a clear comparison.

While the National programme as a rule does not explicitly refer to the analysis in the Accession Partnership and the Regular Report, most of the short term priorities of the 1998 Accession partnership have been addressed. However, the reinforcement of institutional and administrative capacity which had been identified as a short term priority for a number of

sectors is insufficiently covered for almost all of them (banking supervision, securities and insurance sectors, internal financial control, agriculture, veterinary, environment). The approximation and institution building plans for the enforcement of intellectual property rights and state aid control, singled out as short term priorities in the field of internal market, are not detailed enough. The same is true for the development of an effective border management.

Throughout the National Programme, administrative capacity is generally insufficiently dealt with for all levels (national, regional and local). This is acknowledged by the Czech authorities, who announce in the introduction that precise plans for institutional building measures will be the subject of the next revision of the National Programme.

The financial needs are often not assessed precisely enough and are missing altogether in a number of chapters (minority rights and protection of minorities, economic chapter, free movement of capital, audio-visual, agriculture, financial control). The financial chapter is not prospective enough on the medium term and essentially shows how much will be financed from the 1999 state budget as compared with the indications of the 1999 National programme. While this is a useful information, it would have also been interesting to compare the 1999 budget with the financial needs expressed in the 1998 National Programme. The 2000 National programme might be the first one to perform a resource planning function as the current financial chapter states that "involving the National programme financial chapter directly into State budget preparation should become a standard procedure in the future".

The National Programme can not be considered as a comprehensive co-ordination instrument. Reference to other Commission initiatives such as blue prints and the environmental approximation guide are almost non existent. Frequent references are made to ISPA and SAPARD, which, however, might have been better integrated. As regards environment, the usefulness of the National Programme for co-ordination purposes in respect of implementation of the environmental acquis and the identification of the assistance needs is limited, as a separate approximation strategy is being prepared by the Czech authorities. As to financial needs for the years 2000-2006, they were specified in a separate Government Paper, the approximation strategy of the Ministry of Environment.

Finally, references to regional and local levels are very limited.

**HUMAN RIGHTS CONVENTIONS RATIFIED BY THE CANDIDATE COUNTRIES,  
JUNE 1999**

<i>Adherence to following conventions and protocols</i>	<b>BG</b>	<b>CY</b>	<b>CZ</b>	<b>EE</b>	<b>HU</b>	<b>LV</b>	<b>LIT</b>	<b>MT</b>	<b>PL</b>	<b>RO</b>	<b>SK</b>	<b>SV</b>	<b>T</b>
<b>ECHR</b> (European Charter for 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	X	X	X	X	X	O
Protocol 6 (death penalty)	O	O	X	X	X	X	X	X	O	X	X	X	O
Protocol 7 (ne bis in idem)	O	O	X	X	X	X	X	O	O	X	X	X	O
<b>European Convention for the Prevention of Torture</b>	X	X	X	X	X	X	X	X	X	X	X	X	X
<b>European Social Charter</b>	O	X	O	O	X	O	O	X	X	O	X	O	X
<b>Revised European Social Charter</b>	O	O	O	O	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
<b>Framework Convention for National Minorities</b>	X	X	X	X	X	O	O	X	O	X	X	X	O
<b>ICCPR</b> (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	O	O	O	X	O	O	X	O	X	O	X	O
<b>ICESCR</b> (International Covenant on Economic, Social and Cultural Rights)	X	X	X	X	X	X	X	X	X	X	X	X	O
<b>CAT</b> (Convention against Torture)	X	X	X	X	X	X	X	X	X	X	X	X	X
<b>CERD</b> (Convention on the Elimination of All Forms of Racial Discrimination)	X	X	X	X	X	X	X	X	X	X	X	X	O
<b>CEDAW</b> (Convention on the Elimination of All Forms of Discrimination against Women)	X	X	X	X	X	X	X	X	X	X	X	X	X
<b>CRC</b> (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; LIT = Lithuania; MT = Malta; PL = Poland; RO = Romania; SK = Slovakia; SV = Slovenia; T = Turkey

**Annex**

STATISTICAL DATA



## STATISTICAL DATA

	1994	1995	1996	1997	1998
Basic data	in 1000				
<b>Total population (average)</b>	10336	<b>10331</b>	<b>10315</b>	<b>10304</b>	<b>10295</b>
	In km <sup>2</sup>				
<b>Total area</b>	<b>78 870</b>	<b>78 870</b>	<b>78 870</b>	<b>78 870</b>	<b>78 870</b>
National accounts	in 1000 Mio Czech Koruna				
<b>Gross domestic product at current prices</b>	<b>1182.7</b>	<b>1381.0</b>	<b>1572.3</b>	<b>1680.0</b>	<b>1820.7</b>
	in 1000 Mio EURO				
<b>Gross domestic product at current prices</b>	<b>34.6</b>	<b>39.8</b>	<b>45.6</b>	<b>46.8</b>	<b>50.1</b>
	in EURO				
<b>Gross domestic product per capita at current prices</b>	3400	3900	4400	4500	4900
	% change over the previous year				
<b>Gross domestic product at constant prices (nat. currency)</b>	<b>2.2</b>	<b>5.9</b>	<b>3.8</b>	<b>0.3</b>	<b>-2.3</b>
	in Purchasing Power Standards				
<b>Gross domestic product per capita at current prices</b>	10300	11100	12000	12300	12200
Structure of production	in % of Gross Value Added <sup>5</sup>				
- Agriculture	<b>4.9</b>	<b>4.7</b>	<b>4.7</b>	<b>4.4</b>	<b>4.5</b>
- Industry (excluding construction)	<b>33.9</b>	<b>33.3</b>	<b>32.4</b>	<b>33.7</b>	<b>34.3</b>
- Construction	<b>7.4</b>	<b>8.7</b>	<b>8.4</b>	<b>8.3</b>	<b>7.5</b>
- Services	<b>53.8</b>	<b>53.4</b>	<b>54.5</b>	<b>53.6</b>	<b>53.7</b>
Structure of expenditure	as % of Gross Domestic Product				
- Final consumption expenditure	<b>72.9</b>	<b>70.7</b>	<b>71.4</b>	<b>72.8</b>	<b>71.5</b>
- household and NPISH	<b>51.2</b>	<b>50.8</b>	<b>51.6</b>	<b>53.1</b>	<b>52.2</b>
- general government	<b>21.6</b>	<b>19.9</b>	<b>19.9</b>	<b>19.7</b>	<b>19.3</b>
- Gross fixed capital formation	<b>28.7</b>	<b>32.0</b>	<b>31.8</b>	<b>30.2</b>	<b>27.5</b>
- Stock variation <sup>6</sup>	<b>1.1</b>	<b>2.0</b>	<b>3.1</b>	<b>3.0</b>	<b>2.4</b>
- Exports of goods and services	<b>50.5</b>	<b>53.6</b>	<b>52.9</b>	<b>56.5</b>	<b>60.0</b>
- Imports of goods and services	<b>53.2</b>	<b>58.4</b>	<b>59.3</b>	<b>62.5</b>	<b>61.4</b>
Inflation rate	% change over the previous year				
<b>Consumer price</b>	10.0	9.1	8.8	8.5	10.7
Balance of payments	In Mio EURO				
- Current account balance	-663	-1 047	-3 381	-2 835	-941

<sup>5</sup> Including FISIM.<sup>6</sup> These figures include changes in inventories, acquisitions less disposals of valuables and the statistical discrepancy between the GDP and its expenditure components.

## CZECH REPUBLIC - Regular Report – 13/10/99

- Trade balance	-1 164	-2 813	-4 630	-4 008	-2 269
<i>Exports of goods</i>	13 424	16 415	17 088	20 108	23 412
<i>Imports of goods</i>	14 588	19 228	21 718	24 117	25 680
- Services, net	411	1 409	1 515	1 557	1 593
- Income, net	-17	-81	-569	-699	-627
- Net current transfers	106	438	303	316	362
<i>of which government transfers</i>	0	79	102	46	63

	1994	1995	1996	1997	1998
Public finance	<b>in % of Gross Domestic Product</b>				
<b>General government deficit/surplus</b>	-1.3	-1.2	-1.8	-2.1	:
Financial indicators	<b>in % of Gross Domestic Product</b>				
<b>Gross foreign debt of the whole economy</b>	20.5	25.3	24.9	20.1	19.9
Monetary aggregates	in 1000 Mio EURO				
- M1	11.8	12.3	13.2	11.0	11.1
- M2	24.5	31.1	33.7	30.9	33.8
- Total credit	23.8	26.6	30.1	29.9	31.5
Average short-term interest rates	<b>% per annum</b>				
- Lending rate	10.9	11.3	11.5	12.6	12.0
- Deposit rate	9.4	9.6	9.4	11.1	11.4
EURO exchange rates	<b>(1EURO=..National currency)</b>				
- Average of period	34.15	34.70	34.46	35.93	36.32
- End of period	34.29	34.94	34.25	38.03	35.19
- Effective exchange rate index <sup>7</sup>	1995=100				
	95.8	100.0	102.2	99.5	101.0
Reserve assets	<b>Mio EURO</b>				
-Reserve assets (including gold)	5684	11119	10443	8902	10703
-Reserve assets (excluding gold)	5027	10533	9858	8862	10693
External trade	<b>Mio EURO</b>				
<b>Imports</b>	14650	19316	21828	23956	25709
<b>Exports</b>	13624	16557	17253	20086	23511
<b>Balance</b>	-1026	-2758	-4575	-3870	-2198
Terms of trade	<b>corresponding period of the previous year = 100</b>				
	100.0	101.4	100.9	102.2	:
Imports with EU-15 (EU-12 in 1994)	<b>as % of total</b>				
	45.0	61.1	62.4	61.5	63.3
Exports with EU-15 (EU-12 in 1994)	42.6	60.9	60.9	58.2	64.2
Demography	<b>per 1000 of population</b>				
<b>Natural growth rate</b>	-1.0	-2.1	-2.2	-2.1	-1.8
<b>Net migration rate</b>	1.0	1.0	1.0	1.2	0.9
Infant mortality rate	<b>per 1000 live-births</b>				
	7.9	7.7	6.0	5.9	5.2
Life expectancy : Males	<b>at birth</b>				
Females	69.5	69.7	70.4	70.5	71.1
	76.6	76.6	77.3	77.5	78.1

<sup>7</sup> National source.

## CZECH REPUBLIC - Regular Report – 13/10/99

	1994	1995	1996	1997	1998
Labour market (ILO methodology)	<b>In % of labour force</b>				
<b>Economic activity rate</b>	61.6	61.5	61.2	61.1	61.0
<b>Unemployment rate, total</b>	4.3	4.0	3.9	4.8	6.5
<b>Unemployment rate of persons &lt; 25 years</b>	8.7	7.8	7.2	8.6	12.4
<b>Unemployment rate of persons &gt;= 25 years</b>	3.4	3.3	3.3	4.1	5.3
<b>Average employment by NACE branches (LFS)</b>	<b>in % of total</b>				
- Agriculture and forestry	6.9	6.6	6.2	5.8	5.5
- Industry (excluding construction)	33.4	33.0	32.5	31.7	31.5
- Construction	9.3	9.3	9.5	9.8	9.8
- Services	50.4	51.1	51.8	52.6	53.1
Infrastructure	<b>in Km per 1000 Km2</b>				
<b>Railway network</b>	119	120	120	120	120
	<b>in km</b>				
<b>Length of motorways</b>	392	414	423	485	498
Industry and agriculture	<b>previous year = 100</b>				
<b>Industrial production volume indices</b>	102.1	109.2	102.0	104.5	101.6
<b>Gross agricultural production volume indices</b>	94.0	105.0	98.6	94.9	100.7
Standard of living	<b>per 1000 inhabitants</b>				
<b>Number of cars</b>	287	301	324	344	358
<b>Telephone subscribers</b>	211	237	293	370	456
<b>Number of Internet connections</b>	:	:	:	:	7.9

: not available

## Methodological Notes

### **National account**

Gross domestic product per capita in PPS. Revised data use the PPP figures from the International Comparison Project.

### **Inflation rate**

Consumer price. The EU Member States have designed a new consumer price index in order to meet the obligations in the Treaty of the EU, as a part of the preparations for the common currency. The aim was to produce CPIs comparable between Member States. The main task was to harmonize methodologies and coverage. The result was the Harmonized Index of Consumer Prices (HICP).

A similar exercise has been started with Candidate Countries. 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. However, it will still take some time before genuine HICPs will be available in Candidate Countries, and it must be emphasized that the figures reported in the table are based on national CPIs, which are demonstratively non-comparable.

### **Finance**

#### Sources

Where possible, Eurostat questionnaire on monetary and financial statistics has been used as the source. Candidate Countries are asked to supply regularly an update of tables contained in the questionnaire. The statistics covered include foreign official reserves, monetary aggregates, interest rates, and exchange rates. Failing this, the IMF's 'International Financial Statistics' publication has been used as the source. The European Commission is used as the source for exchange rates against the EURO, where available.

Concerning gross foreign debt, the OECD External Debt Statistics publication has been used as the source for 1994-6. The data for 1997-8 are the result of closer cooperation between BIS/ IMF/ OECD/ World Bank, and published jointly by them. Debt is of the whole economy, and includes both short- and long-term. According to the convention, the stock of outstanding debt is converted from US dollars into EURO at end-year exchange rates, whereas GDP is converted into EURO using annual average exchange rates.

Concerning general government deficit / surplus, Candidate Countries are presently unable to provide reliable data on a national accounts basis. Given the lack of reliable data, an approximation for general government deficit / surplus is derived from the IMF's Government Finance Statistics Yearbook (for an explanation of methodology, see below).

### **Method**

Reserve assets are 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.

General government deficit / surplus is an 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.

Monetary aggregates are end-year stock data. M1 generally means notes and coin in circulation plus bank sight deposits. M2 generally means M1 plus savings deposits plus other short-term claims on banks. Total credit generally means 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. It should be noted that the problem of measuring the circulation of foreign currency in some Candidate Countries may affect the reliability of the data.

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. Where available, the EURO exchange rates are those officially notified.

Effective exchange rate index. Is weighted by major trading partners, with a base year of 1995.

### **External trade**

Imports and exports (current prices). The 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 incurring in course of transport up to the customs frontier charges to the seller. The term CIF means that the purchaser discharges the additional costs. Starting 1996, decisive criterion for inclusion in the export statistics is the release date of the goods into regime of exports. Imports are registered by the day when the goods is released into inland circulation. Value of the external trade is indicated in FOB/FOB prices.

Terms of trade. The 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 EU-15. Data declared by the Czech republic

### **Demography**

Net migration rate. Crude rate of net migration (recalculated by EUROSTAT) for year X, is:  $\text{population (X+1)} - \text{population (X)} - \text{Deaths (X)} + \text{Births (X)}$ . 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). Figures are in this case 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**

At the turn of years 1998 and 1999 in relation to the preparatory work on the time series all data from the start of survey were completed if possible by information from administrative sources (for example soldiers in the military service), transferred to unified methodology valid in 1998, re-calculated to calendar quarter and the years 1993 to 1996 re-weighted to final demography data. For the whole time series algorithm for coding individual indicators has been unified. Presented data are coming out of these figures.

- Labour force: employed in national economy plus unemployed persons (in the sense of 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:

- (i) have no work,
- (ii) are actively seeking a job and,
- (iii) 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 to the unemployed.

Economic activity rate (ILO methodology). Source LFSS: Percentage of the labour force of population at age 15 years or more.

Unemployment rate (ILO methodology) - source LFSS. Percentage of the unemployed labour force.

Average employment by NACE branches - source LFSS. Data refer to employment in civil sector.

## **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 car: 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: **National sources.**

National accounts, inflation rate, balance of payment, public finance, finance (except effective exchange rate index), demography: Eurostat.