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REGULAR REPORT

ON

THE CZECH REPUBLIC'S

PROGRESS TOWARDS ACCESSION

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A. Introduction

a) Preface

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

The European Council in Luxembourg decided that

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

On this basis, the Commission presented a first series of Regular Reports in October 1998, a second series in October 1999, and a third in November 2000. The Commission has prepared this fourth series of Regular Reports with a view to the Laeken European Council in December 2001.

The structure followed for this Regular Report is the same as that used for the 2000 Regular Report. In line with previous Regular Reports, the present Report:

- describes the relations between the Czech Republic and the Union, in particular in the framework of the Association Agreement;
- analyses the situation in respect of the political criteria set by the 1993 Copenhagen European Council (democracy, rule of law, human rights, protection of minorities);
- assesses the Czech Republic’s situation and prospects in respect of the economic criteria defined by the Copenhagen European Council (a functioning market economy and the capacity to cope with competitive pressures and market forces within the Union);
- addresses the question of the Czech Republic’s capacity to assume the obligations of membership, that is, the *acquis* as expressed in the Treaties, the secondary legislation, and the policies of the Union. This part gives special attention to nuclear safety standards, as underlined by the Cologne and Helsinki European Councils. It encompasses not only the alignment of legislation, but also the development of the judicial and administrative capacity necessary to implement and enforce the *acquis*, as emphasised by the Madrid European Council in December 1995, and confirmed by the Gothenburg European Council in June 2001. At Madrid, the European Council underlined the necessity for the candidate countries to adjust their administrative structures, so as to create the conditions for the harmonious integration of those States. The Gothenburg European Council emphasised the

vital importance of the candidate countries' capacity to effectively implement and enforce the *acquis*, and added that this required important efforts by the candidates in strengthening and reforming their administrative and judicial structures.

This Report takes into consideration progress since the 2000 Regular Report. It covers the period until 30 September 2001. In some particular cases, however, measures taken after that date are mentioned. It looks at whether intended reforms referred to in the 2000 Regular Report have been carried out, and examines new initiatives. In addition, this Report provides also an overall assessment of the global situation for each of the aspects under consideration, setting out for each of them the main steps which remain to be taken by the Czech Republic in preparing for accession.

In accordance with this approach, the assessment of progress in meeting the political and *acquis* criteria (including the Czech Republic's administrative capacity to implement the *acquis*) focuses on what has been accomplished since the last Regular Report, complemented with a view of the global situation for each of the aspects discussed. The economic assessment, for its part, provides, besides an assessment of progress made over the reference period, also a dynamic, forward-looking evaluation of the Czech Republic's economic performance.

The Report contains a separate section examining the extent to which the Czech Republic has addressed the Accession Partnership priorities.

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

The Report draws on numerous sources of information. The candidate countries have been invited to provide information on progress made in preparations for membership since the publication of the last Regular Report. The National Programmes for the Adoption of the *Acquis* of each of the candidate countries, as well as the information they have provided in the framework of the Association Agreement and in the context of the analytical examination of the *acquis* (screening) and the negotiations¹, have served as additional sources. Council deliberations and European Parliament reports and resolutions² have been taken into account in the preparations. The Commission has also drawn on assessments made by various international organisations, and in particular the contributions of the Council of Europe, the OSCE and the International Financial Institutions, as well as that of non-governmental organisations.

¹ As in previous years, the Report does not mention any commitments undertaken or requests made in the context of the accession negotiations.

² For the European Parliament the *rapporteur* is Mr Jürgen Schröder.

b) Relations between the European Union and the Czech Republic

Recent developments under the Association Agreement (including bilateral trade)

The Czech Republic has continued to implement the Europe Agreement and contributed to the smooth functioning of the various joint institutions. The seventh Association Council meeting is scheduled for November 2001, and the seventh Association Committee meeting was held in July 2001. The subcommittees continue to function as a forum for technical discussions, and seven out of eight sub-committees met during the first half of 2001. The Joint Parliamentary Committee comprising representatives of the Czech and European Parliaments met in December 2000 and in May 2001.

In February 2001, the European Union and the Czech Republic moved to the second stage of the transitional period of the Europe Agreement, indicating that the Czech Republic has further liberalised its legislation on establishment and movement of capital.

Trade between the EC and the Czech Republic has continued to increase. Between 1999 and 2000 EC exports to the Czech Republic increased from €18.4 billion to €23.8 billion and EC imports from the Czech Republic increased from €16.8 billion to €21.4 billion. Major categories of Community exports in 2000 were machinery and electrical articles (€8.6 billion), transport equipment (€2.7 billion) and base metals (€2.4 billion). Major Czech exports to the Community were machinery and electrical goods (€6.2 billion), transport equipment (€4.3 billion), base metals (€2.6 billion) and textiles (€1.3 billion).

In July 2001, the Protocol to the Europe Agreement on European Conformity Assessment (PECA) entered into force, facilitating trade by steadily extending recognition in the area of conformity assessment and the acceptance of industrial products.

Regarding agricultural products, a new agreement on reciprocal concessions with the Czech Republic entered into force in July 2000 on an autonomous basis, pending the conclusion of an Additional Protocol to the Europe Agreement. As a consequence of this agreement, approximately 54% of the traditional EC agricultural imports from the Czech Republic is duty-free while 29% of the EC agricultural exports to the Czech Republic is exempted from duties. A second round of bilateral negotiations for trade liberalisation is presently being prepared and would cover more sensitive sectors, in which current trade is low in particular due to a high degree of tariff protection.

Negotiations on agreements on the reciprocal recognition, protection and control of wine names and spirit designations with the Czech Republic are ongoing. When concluded, the agreement will be implemented through a new Additional Protocol to the Europe Agreement.

Negotiations are also ongoing in the field of processed agricultural goods.

As regards negotiations on concessions in the field of fish and fishery products, an agreement with the Czech Republic was reached at technical level in March 2001 and an Association Council decision is under preparation.

The Government is committed to withdrawing in January 2002 the Decree adopted in November 1999, which increased customs duties on imports of road tractors for semi-trailers originating in the EC countries. Therefore, as of January 2002, the Czech Republic will have removed the last import duties on industrial products originating in the EC.

An anti-dumping proceeding was initiated by the EC concerning imports of certain tube and pipe fittings of iron and steel, originating *inter alia* in the Czech Republic in June 2001. Definitive anti-dumping measures were imposed in August 2001 on steel stranded ropes and cables originating in the Czech Republic.

Accession Partnership / National Programme for the Adoption of the Acquis

A revised Accession Partnership was adopted in December 1999 – its implementation is reviewed in part D. This Regular Report is accompanied by a proposal from the Commission to update the Accession Partnership.

In June 2001 the Czech Republic presented a revised National Programme for the Adoption of the Acquis (NPAA), in which it outlines its strategy for accession, including how to achieve the priorities of the Accession Partnership of 1999 (*see part D below*).

Community aid

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

For the years 2000-2002 total financial assistance to the Czech Republic amounts annually to around €79 million from Phare, €22 million from SAPARD, and between €55 and 80 million from ISPA.

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

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

The Phare programme allocated to the Czech Republic commitments of €563 million during the period 1992-1999 and €101.5 million³ in 2000.

The 2001 Phare Programme for the Czech Republic consists of a national allocation of €65.4 million, which is concentrated on the following priorities:

- Strengthening the civil society sector in the Czech Republic (€3 million).
- Applying EC directives in the railway sector (€2 million).
- Ensuring the Czech Republic is capable of applying Internal Market rules and regulations, in particular in areas such as tax and customs administration, oversight of pharmaceutical and medical products, the electricity sector, intellectual property rights, and economic competition (€6.5 million).
- Ensuring that the Czech Republic is capable of implementing the *acquis* in the area of agriculture, including improving veterinary supervision and oversight in the phytosanitary sector, and preparing for the Common Agricultural Policy (€8.28 million).
- Ensuring that the Czech Republic is capable of implementing directives in the area of the environment, with regard to air and water pollution (€5.1 million).
- Addressing important issues in the area of Justice and Home Affairs, including the fight against corruption and economic crime, the fight against violent and organised crime, asylum and migration policies and the improvement of border control and the functioning of the judiciary, the prison service, and the police (€13.25 million).
- Ensuring that the Czech Republic is compliant with the *acquis* in the area of employment and social affairs, including the equal treatment of men and women and social security (€1.75 million).
- Strengthening the administrative capacity to implement the *acquis*, including the preparation of Czech authorities for the independent administration of EC funds, training for the Supreme Audit Office, and the preparation of regional administration for the implementation of the *acquis* (€4.75 million).
- Improving economic and social cohesion, including devising strategies for the development of industrial zones and brownfield sites, finalising the structures necessary for the effective implementation of Structural Funds, and investment in business related infrastructure (€13.55 million).

An additional €19 million was allocated from the Phare 2001 budget to Cross-Border Cooperation (CBC) Programmes with Germany (€10 million), with Poland (€5 million), and with Austria (€4 million).

In 2001, the Czech Republic continued to participate in Phare funded multi-beneficiary programmes, such as TAIEX, the Small and Medium Sized Enterprise Facility, and the Statistics and Business Support Programme.

³ This includes an allocation of €19 million to Cross-Border Co-operation (CBC) Programmes.

Furthermore, the Czech Republic participates in various Community Programmes, namely Socrates, Leonardo, Youth for Europe, FISCALIS, Culture 2000 and SAVE. Following the ratification and entry into force of the agreement, the formal participation of the Czech Republic in the European Environment Agency will start in January 2002. In order to streamline Community legal procedures and thereby facilitate future participation of the Czech Republic in Community programmes, a Decision is in the process of being adopted by the EU-Czech Republic Association Council establishing general principles for such participation.

Overall, the impact of Phare has been positive. Effective transfer of know-how, equipment and financial resources has taken place in a number of important fields. In the Czech Republic, examples of Phare support include:

- With regard to the political criterion, a project on the development of multi-cultural education curricula and curricula which target the needs of Roma students has been undertaken. This project aims to foster appreciation of cultural and ethnic diversity from an early age. Also, provision of advice to the Office of the Government on issues of anti-discrimination, particularly with regard to the adoption of relevant EC legislation and on the establishment of a monitoring body.

- As to the economic criterion, the study of a restructuring strategy for the steel sector with a view to meeting the Europe Agreement requirements in this field has been undertaken. Also, a Supplier Development programme began in June 2001 to help Czech suppliers to understand better the needs of foreign investors, and therefore to become more competitive internationally.

- In the agricultural sector, support has been given to preparations for implementation of the Common Agricultural Policy through the restructuring of the Ministry of Agriculture and the establishment of a Market Intervention Agency. As a result of the project, substantial changes have been made by the Ministry of Agriculture.

- In the field of the environment, support has been provided for the implementation of the EC *acquis* concerning water quality, inter alia, nitrates and drinking water. Also, a major works project (€14 million) was begun in Brno in order to reconstruct the sewage system, while a grant scheme (€2.5 million) to regenerate forests destroyed by acid rain is underway.

- The area of Justice and Home Affairs has benefited from considerable support in the last year. For example, advice and equipment were provided to help the Alien and Border Police with preparations meeting for Schengen requirements. The judicial courts benefited from a large supply of IT equipment with a view to increasing speed and efficiency. Further advice and equipment is being provided to strengthen the fight against organised and economic crime.

- With regard to public administration reform, technical assistance has been provided to design organisational changes with a view to improving efficiency and coordination at ministerial level.

The Phare Review for 2000 confirmed the accession-driven approach and emphasised the importance of helping countries to prepare for the Structural Funds. The Review foresees the possibility that management of the Phare funds can be fully decentralised from 2002 if the strict pre-conditions set down in the Co-ordination Regulation 1266/99 are met. Second, Phare programming can be moved onto a multi-annual basis if supporting strategies are in place. Third, the trends introduced in 1997 continue with an increased role for Delegations, further

streamlining of procedures and, lastly, increasing emphasis on raising the verifiable and quantifiable impact of Phare projects in institution building, investment in compliance with the *acquis* and economic and social cohesion.

The management of Phare programmes has improved since the last Regular Report. The contracting process has significantly speeded up and all parties involved will therefore experience fewer bottlenecks, while projects will have ample time for implementation. The Phare programme has also benefited from a new monitoring system which has more firmly integrated project implementation with policy objectives.

Nevertheless, the comments contained in the last Regular Report are still considered to be valid. Therefore, in order for the Czech Republic to move smoothly from managing pre-accession funds such as Phare to the far larger amounts under Structural Funds, improvement of the capacity of public administration is paramount. Of particular importance are adequate human resources and efficient and effective organisational structures for all relevant bodies.

In the past year the importance of the National Fund has been increasingly recognised by the Czech authorities. In February 2001, it was upgraded from a unit to a department in the Ministry of Finance, its staff was more than doubled and its structure re-organised to deal more effectively with the 3 pre-accession programmes running. The National Fund's capacity has therefore increased significantly since the last Regular Report. However, the Commission and the National Fund need to cooperate to further improve the channelling of funds to contractors. In the near future, the National Fund faces some tough challenges, the most important being the preparation of the Czech bodies which managed Phare and ISPA for accreditation by the Commission.

Regarding the performance of the main Czech management bodies, implementation by the Central Finance and Contracts Unit has been satisfactory. This is also the case for the implementation of works projects by the Centre for Regional Development; however, the preparation of grant schemes under Cross Border Cooperation (99 SPF and SME fund) by the Centre for Regional Development has not been entirely satisfactory. Preparation for Structural Funds by the Ministry for Regional Development has been steadily progressing. The second draft of the National Development Plan was finalised in July 2001. However, more work needs to be done on the preparation of individual projects.

The Czech authorities have continued to prepare for the establishment and implementation of the **SAPARD** programme. The Czech Rural Development Plan, on which SAPARD is based, was approved by the Commission in October 2000. Since then, the Multi-Annual Financing Agreement and the Annual Financing Agreement for the SAPARD 2000 programme were signed in February 2001. The final step concerns the accreditation of the SAPARD Agency at the Ministry of Agriculture. The accreditation package was submitted to the Commission in October 2001.

As concerns the **ISPA** programme, since the last Regular Report, three transport and two environment projects have been approved for financing from the 2000 budget (total allocation 69.3 million) on the basis of the sectoral strategy documents for transport and environment. All projects proposed for the 2001 budget have been submitted, and two have been approved by the Commission.

The implementing agencies for ISPA are the Ministry of Transport for transport projects, and the Centre for Regional Development at the Ministry of Regional Development for environment projects. It is anticipated that the management of the ISPA programme in the Czech Republic will be decentralised in late 2002 after accreditation of the relevant managing entities by the Commission.

Twinning

One of the main challenges the candidate countries continue to face is the need to strengthen their administrative capacity to implement and enforce the *acquis*. As of 1998, the European Commission proposed to mobilise significant human and financial resources to help them in this respect, through the process of twinning of administrations and agencies. The vast body of Member States' expertise is now being made available to the candidate countries through the long-term secondment of civil servants and accompanying short-term expert missions and training.

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

A total of 372 twinning projects, primarily in the fields of agriculture, environment, public finance, justice and home affairs and preparation for the management of Structural Funds, have been funded by the Community between 1998-2000. These represent the principal priority sectors that have been identified in the Accession Partnerships. But also other important sectors of the *acquis* have been addressed through twinning, for example, social policy, fight against drugs, transport, and telecommunications regulation.

Thanks to the strong support and response from EU Member States 103 twinning partnerships, funded by Phare 1998 and involving all candidate countries and almost all Member States are coming to an end or have been concluded. Under Phare 1999 a further 124 projects are being implemented and the programming exercise for Phare 2000 includes a further 145 twinning projects. The 2001 programming exercise foresees 131 twinning projects in all Phare beneficiary countries as well as Cyprus and Malta. Furthermore, the candidate countries are being offered the possibility of drawing on Member States' expertise through Twinning light, to address well-circumscribed subjects of limited scope, which emerge during the negotiation process as requiring adaptation. It is estimated that around 250 twinning projects are operational throughout the candidate countries at any one time.

For the Czech Republic, the first twinning projects from Phare 1998 have come to an end and the first positive results are being seen in the strengthening of administrative capacity. In addition to the 8 projects which commenced in 1999, a further 10 projects started in 2000. These projects aim to strengthen the phyto-sanitary administration, help implement strategies in the water sector, make recommendations regarding the system of indirect taxation, improve the control and management of EC financial flows, combat economic crime, prepare for the implementation of Schengen, combat organised crime, make recommendations regarding human resource policies and prepare for the European Social Fund, improve health and safety at work, and assist in the design and implementation of supplier linkage and upgrading programme. All 18 twinning projects are currently being implemented, while a further 23 projects are due to start before the end of 2001.

Negotiations / screening

The analytical examination of the *acquis* (screening) for the Czech Republic has taken place in the context of meetings of the Association Committee and the sub-committees.

Since the opening of accession negotiations, substantial discussions on the individual chapters of the *acquis* started, and by June 2001, negotiations on all chapters (with the exception of chapter 30 – Institutions and chapter 31 – Other) had been opened. By the end of September 2001, the following 19 chapters had been provisionally closed: science and research, education and training, small and medium-sized enterprises, statistics, industrial policy, telecommunications, fisheries, consumer protection, free movement of goods, customs union, external relations, common foreign and security policy, EMU, free movement of services, company law, social policy and employment, environment, free movement of capital, culture and audio-visual policy. Negotiations continue for the remaining chapters.

B. Criteria for membership

1. Political criteria

Introduction

The political criteria for accession to be met by the candidate countries, as laid down by the Copenhagen European Council in June 1993, stipulate that these countries must have achieved “stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities”⁴.

In its 2000 Regular Report on the Czech Republic’s progress towards accession, the Commission concluded that:

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

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

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

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

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

The section below aims to provide an assessment of developments in the Czech Republic since the 2000 Regular Report, as well as of the overall situation in the country, seen from the perspective of the political Copenhagen criteria, including as regards the overall functioning of the country’s executive and its judicial system. Developments in this context are in many ways closely linked to developments regarding the Czech Republic’s ability to implement the *acquis*,

⁴ These principles have been emphasised in the Charter of Fundamental Rights of the European Union, that was proclaimed at the Nice European Council in December 2000

in particular in the domain of justice and home affairs. Specific information on the development of the Czech Republic's ability to implement the *acquis* in the field of justice and home affairs can be found in the relevant section (*Chapter 24 – Co-operation in the field of justice and home affairs*) of part *B.3.1.* of this Report.

Recent developments

The social democrat (CSSD) minority government has entered into its fourth year in office in a context of overall political stability. It continues to function normally in both domestic and foreign affairs and to pursue its programme of economic and social reform and preparation for EU accession. Recent developments include the announcement by the Prime Minister of his intention to stand down at the next elections, which are scheduled for June 2002, and a government reshuffle following the resignation of the Finance Minister.

The "Opposition Agreement" between the government and the main opposition party, the ODS, was renewed in March 2001 and extended until the next elections on the basis of reciprocal commitments relating to the government programme. Four centre-right parties (KDU-CSL, US, ODA and DEU), combined into the "Quad-coalition", who have been actively participating in the democratic process, have declared their intention to run together in the next general election for the first time. Elections were held in November 2000 to one third of the Senate and to 13 of the 14 newly created regions. As a result, the Quad coalition became the largest party in the Senate, the ODS the second largest and the CSSD the third largest. In the regions, the ODS became the leading party in 7 of the new regions, the Quad in 5 and the communists (KSCM) in one.

There is a basic consensus amongst all political parties represented in Parliament in favour of EU accession. Furthermore, the government, the ODS and the Quad coalition now meet regularly to review progress on EU accession, both as regards preparatory work and the negotiations, with a view to maintaining momentum. The President and the government are active participants in the debate on the post-Nice agenda.

1.1. Democracy and the rule of law

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

The Parliament

The Parliament continues to *function* smoothly overall, and the enhanced procedures mentioned in the previous Regular Report remain in place. The Committee for European Integration of the Chamber of Deputies continues to hold discussions with Ministers on legislative proposals prior to submission by the Government to the Parliament. The Senate, in plenary and in its committees, has continued to play its role in the legislative process and some of its proposed amendments have been accepted by the Chamber of Deputies. The Senate also conducted its first public hearing, which dealt with the late 2000-early 2001 crisis in Czech TV. .

The pace of the legislative process has somewhat diminished compared to the previous period. From October 2001 to the end of September 2001, 94 Acts were promulgated in the Collection of laws (compared to 132 Acts indicated in the previous Regular Report), of which 27 were identified by the government as EU-related (compared to 79 indicated in the previous Regular Report). Also, as regards EU related legislation, the Parliament has sometimes adopted legislation which is insufficiently aligned with the *acquis*, forcing the government to resubmit proposals, and thus delaying the alignment process. The available fast-track procedure has not yet been used to adopt EU-related legislation.

In January 2001, the Constitutional Court abrogated key provisions of a CSSD-ODS sponsored electoral law, on the basis of a complaint from the President. The Court ruled that the law violated the Constitution's guarantee of proportional representation in elections to the Chamber of Deputies. A second amendment to the electoral law is thus now necessary to bring it in line with the Constitutional Court's ruling.

The executive

The structure and functioning of the government and administration is in general stable and some improvements in effectiveness have been achieved. However, the outstanding reform agenda remains long and has only just begun to be tackled in key areas.

In particular, the Czech Republic still does not have a specific legal framework for its civil servants. The 1999 Accession Partnership established as a short term priority the adoption and implementation of the Act on the Civil Service. Furthermore, the Government's 1998 Manifesto identified the Act on the Civil Service as one of the most important objectives to be reached by mid-election term (ie mid – 2000). The Act on the Civil Service has been proposed by the government and a first reading was held by Parliament in May 2001. However, discussions so far have shown that a sufficient consensus on the reform is still lacking in Parliament. In view of the key importance of this Act, this is regrettable.

In the meantime, some positive steps have been taken by the government. Thus, a Department for the Civil Service has been established within the Office of the Government, with the task of coordinating civil service reform. Also, a Code of Ethics for civil servants has been established. Furthermore, a decision has been taken to set up an Institute of State Administration which will be responsible for organizing training for all state civil servants.

In January, an amendment to the "Lustration Law" entered into force, prolonging its validity until the Civil Service Act is adopted. As indicated in the previous Regular Report, it is important that this deadline for terminating the lustration measures be respected.

The adoption of the Civil Service Act remains a precondition for establishing an independent, professional, stable and accountable public administration. The previous Regular Report identified the absence of this Act as impacting negatively on the effectiveness of the public administration, in particular by encouraging short-term political appointments and by preventing the establishment of attractive career prospects.

These concerns remain undiminished. Thus, a political agreement needs to be achieved in order to take reform, including the Civil Service Act, forward. Membership of the EU will also create new demands on the public administration, in terms of European policy-making, implementing

the *acquis* and managing funds. Full political commitment is needed to adopt and implement the necessary modernization of the administration for the Czech Republic to be prepared to fully benefit from EU membership.

More progress has been achieved in taking forward the process of decentralisation with the establishment at the beginning of 2001 of regional authorities and regional offices. Following the November regional elections, several important laws entered into force: in particular, the Acts on Regions, District Offices, and Budgetary Rules. The regions are still in the process of taking up the new competencies attributed to them, (education, regional development, social affairs, transport, culture, environment, health); in particular, the financial arrangements remain to be settled.

The judicial system

Since the previous Report, the reform process has regained momentum, and the new Minister of Justice has conducted a review of the comprehensive reform programme with a view to ensuring Parliamentary acceptance of the remaining elements. The re-codification of civil law has made good progress whilst efforts continue on criminal law as well as the organisation of the courts and self-government of the judiciary.

The judicial system is composed of four main tiers: district courts, regional courts, high courts and the Supreme Court. In addition there is the Constitutional Court, which may be addressed directly in some cases. Prior to the communist era, the court system was largely based on that of the Austro-Hungarian Empire. Subsequently, post 1989 basic codes have drawn upon pre-war, communist and modern elements and thus have required extensive revision.

Currently, judges are nominated by the Ministry of Justice and appointed for life by the President of the Republic. State prosecutors are subject to a security vetting procedure. The Ministry of Justice determines the number of judges and state prosecutors and their promotion and administers the budgetary resources of the judiciary. Judges' salaries, which are relatively high, are set by Parliament. Judges are constitutionally independent, although the Minister of Justice can formally recall them.

The 1999 Accession Partnership established as short and medium term priorities the implementation of a programme to reform the judiciary by filling vacancies, simplifying procedures, and stepping up the training of judges in EC law, and furthermore by reforming the functioning of the judges and state prosecutor's office. The following developments can be noted over the reporting period:

- An important reform of the Criminal Proceedings Code has been adopted. The reform eliminates the former duplication of tasks between investigators and prosecutors by shifting the responsibility for the pre-trial phase to the prosecutors. Accelerated proceedings have also been introduced for minor crimes. Thus the reform aims to increase the capacity to investigate cases and bring them expeditiously to trial.
- As regards civil and commercial law, the Act on Judicial Executors (Bailiffs) entered into force in May 2001. Based on the French model of "huissiers de justice", this Act aims to ensure greater effectiveness in the application and enforcement of court judgements. Subsequently, the first 89 executors were appointed. Also, amendments of the Civil

Proceedings Code and the Commercial Code, which aim to simplify and accelerate proceedings as discussed in the previous Report, came into force in January 2001.

- Training is provided in a number of areas including human rights and civil and criminal judicial cooperation. However, with a view to improving training capacity, the Ministry of Justice is in the course of establishing a Judicial Academy, reworking the curricula for training of judges, with assistance from Phare.
- Some improvement has been achieved in the provision of administrative support to judges. 591 higher court officials (assistants) now work with judges and should help in speeding up court proceedings.
- Over the last year there has been an increase in the number of judges and state prosecutors and these new posts have been almost fully filled. In April 2001 the number of posts for judges was increased to a total of 2,893 (against 2,081 in 2000) with 2,585 serving judges, implying 308 vacancies. The number of posts for State Prosecutors was increased to a total of 1,055 posts (against 990 in 2000) with 936 serving individuals, implying 119 vacancies.
- A new proposal has been made by the government to take a first step towards self-government of the judiciary. It envisages the creation of new Judicial Councils which would have the powers of consultative bodies. Emphasis is also put on life-long training and re-examination of judges. The Parliamentary debate on this issue is ongoing.

The key areas for further improvement of the judicial system remain the speeding-up of court proceedings, the enforcement of court judgements, training of judges and prosecutors and administrative support for judges and courts. The implementation of the amended Civil Proceedings Code should be underpinned by adequate human and material resources. Figures from the Ministry of Justice show that the duration of criminal proceedings has been slightly reduced in 2000 in comparison with 1999 and 1998⁵. However, as regards civil proceedings, the situation has deteriorated⁶. It should be noted however that the amendment to the Civil Proceedings Code only entered into force on 1 January 2001. In 2000, 32 disciplinary proceedings were initiated against judges, and 20 so far in 2001 (July 2001).

Courts (in particular district courts, and partly regional courts) continue to suffer from a lack of modern equipment and information technology, although some progress has been made. The Phare programme is contributing to remedy shortcomings in this area.

Notwithstanding the key positive development represented by the setting up of specialised units at the High Public Prosecution Offices and the Supreme Public Prosecution Office in Prague, Olomouc and Brno, efforts need to be stepped up as regards the capacity to handle complex cases of economic crime, including money laundering, and organized crime. In addition, special attention needs to be given to ensuring ability to cope with EC law.

It remains important to find a workable consensus on the independence and self-government of the judiciary.

⁵ (251 days for cases in district courts against 263 days in 1999 and 292 in 1998; 506 in regional courts against 542 days in 1999 and 517 in 1998).

⁶ (555 days for cases in district courts in 2000 against 483 days in 1999 and 458 in 1997-1998).

Overall, the judicial system is facing the task of upgrading itself to meet the increasingly complex demands which are made of it. The government is making significant efforts to this end, and the system is improving. The number of judges and prosecutors can be considered satisfactory and the conditions are being created to allow increases in efficiency. However, further efforts are needed.

Anti-corruption measures

The Czech authorities have taken some important measures to strengthen the fight against corruption and economic crime. Nonetheless, corruption and economic crime (fraud, money laundering, institutional theft and the phenomenon of “tunnelling” or asset-stripping) remain a serious cause for concern. In fact, surveys of public opinion show a consistent increase in the perception of corruption and economic crime. Concern is greatest as regards the state administration, the police and intelligence services, healthcare, banking and the political sphere.

To address this issue, the following steps were undertaken during the reference period:

- As mentioned above, the Criminal Proceedings Code has been adopted with the intention of making the investigation of crimes more effective and increasing the capacity of the authorities to bring cases to court.
- Specialised units at the High Public Prosecution Offices and the Supreme Public Prosecution Office on corruption and economic crime have become operational in Prague, Olomouc and Brno. These Public Prosecutors have formed joint investigation teams together with specialised police and investigation offices. Following these organisational improvements there has been an encouraging increase in the capacity to bring cases to trial, and during 2001 there have been a number of high-profile prosecutions and sentences for economic crimes⁷.
- In order to improve coordination among law enforcement agencies, the Government created the National Criminal Office in January 2001. It brings all the specialised police services together under a single framework.
- The new Act on Witnesses provides the police with a legal instrument for applying specialised protection measures for witnesses, in particular in cases concerning corruption, economic crime and organised crime. This step should help ensure more effective prosecutions.

At this stage it is too early to assess what impact these measures, together with the new Criminal Proceedings Code, are having in practice. Figures made available by the Ministry of Justice show the judicial results obtained during 2000. As regards corruption (bribery), there were 160 prosecutions and 117 convictions. As regards “abuse of the position of public officials” there were 232 prosecutions and 100 convictions. As regards “fraud” there were 9,445 prosecutions and 6,034 convictions, in “credit fraud” there were 619 prosecutions and 243 convictions, in “legalisation of proceeds from crime” there were 15 prosecutions and 6 convictions.

⁷ They have, so far, been processing 47 cases of serious economic and financial crime, involving 101 individuals.

The Government's report on progress in implementing the "Clean Hands Campaign" launched against corruption in 1999 highlights concerns about possible cases of corruption among Judges and State Prosecutors. It also highlights that organised corruption is most often encountered in the traffic police and aliens services. The report further underlines a growing willingness on the part of police officers to cover up corruption among colleagues. When analysing the typology of the crimes committed by the police force, it is evident that crimes of abuse of power are dominant (166 cases in 1999-38% of the total).

The report concludes that the lack of success of anti-corruption policy so far is due to "implementing activities by state administration not [*being*] accompanied by adequate changes in the political environment". Thus there continues to be a need for clear political leadership and setting of example from all political figures in order to create a more favourable environment for, and to mobilise a sceptical public opinion behind, anti-corruption measures.

However, the continued absence of a civil service law and its counterpart for the police, combined with insufficiently attractive career prospects, hamper efforts to fight corruption. In this context, it is important for the government to ensure a high level of transparency in public procurement decisions. Whilst the Act on Conflicts of Interest and the Code of Civil Service Ethics establish standards which should be respected, they do not provide instruments for enforcement, such as strong sanctions.

In November 2000 the Czech Republic signed the Council of Europe Civil Law Convention on Corruption. The other major anti-corruption conventions have already been ratified. The Czech Republic continues to participate actively in the monitoring of anti-corruption measures adopted by the OECD working group on bribery in international commercial transactions.

1.2. Human rights and the protection of minorities

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

The Czech Republic furthermore completed its participation in the *main international human rights conventions* by signing the revised European Social Charter (see annex). However, the Additional Protocol to the European Social Charter, providing for a system of collective complaints, has not been signed.

In November 2000 the Czech Republic signed Protocol No. 12 to the Convention for the Protection of Human Rights and Fundamental Freedoms, prohibiting all forms of discrimination. Through the adoption of the new Law on the Rights of National Minorities, a first step forward has been taken in transposing the anti-discrimination *acquis* (see below).

The internal institutional framework in the field of human rights remains stable and has been consolidated. The outgoing Government Commissioner for Human Rights has been replaced and the new incumbent continues to chair the Council for National Minorities, the Council for Human Rights and the Inter-Ministerial Roma Commission. These structures together employ a total of 13 staff and are financed from the budget of the Office of the Government. The Commissioner and his staff could further develop the breadth and depth of their activities if

more resources were made available. The role of these structures is discussed in more detail in the relevant sections below.

The Public Protector of Rights (Ombudsman), and his deputy were elected by the Chamber of Deputies and began operating in mid-December 2000. Since then the Office of the Ombudsman has quickly acquired a high profile and attracts much public interest. Thus the Ombudsman received a total of 3,538 complaints between February 2000, when the law entered into force, and the end of April 2001. A total of 1617 (i.e. 46%) complaints have already been dealt with. Most of the complaints concern restitution claims, disputes over real estate and complaints about social insurance, the police, army and prison services. The Office employs 46 people, including 14 lawyers, and has an independent chapter in the 2001 State Budget amounting to €4.3 million.

Following the loss of a number of cases in the course of 2000, a law on the provision of information to the European Court of Human Rights and the statute on a government commissioner to represent the Czech Republic at the European Court of Human Rights were adopted.

Civil and political rights

Additional steps have been taken to further improve the protection of civil and political rights, although some issues continue to merit attention.

There has been strong NGO criticism of the treatment of protestors detained by the *police* during the IMF/World Bank meetings in November 2000, with concerns about violations of human rights being raised. The inspection service of the Ministry of Interior and the Police Presidium carried out investigations but concluded that only 4 cases were found to be justified and no police officers were charged with committing a criminal act. This outcome has raised some questions about the effectiveness of the existing police complaints procedures.

As regards *police detention*, persons in detention continue to be unable to notify a third party of their situation.

Trafficking in women and children remains a cause for concern and therefore the government has adopted a National Plan Combating Commercial Sexual Abuse. The Czech Republic continues to be at the same time a country of origin, destination and transit. Increased efforts are needed to successfully suppress such trafficking, which is closely linked to organised crime. Also, increased provision should be made for the care and protection of the victims of trafficking. Sex tourism prevention has been more actively enforced by patrols in high risk areas and by public awareness campaigns.

Prison conditions generally continue to meet minimum international standards and the Minister of Justice has continued to take steps to improve the situation. Statistics from the Prison Services indicate that as of May 31st the total population has fallen to 21,758, or 108% of capacity, with pre-trial detainees making up 27% of the total. A further decrease is expected due to the impact of the amended Criminal Proceedings Code which should shorten the time necessary to bring cases to court and thus reduce the number of detainees held in *pre-trial custody*. Also, the amendment to the custody law which came into force in January 2001 improves the conditions of detainees held in custody in line with the recommendations of the

Committee of the European Convention for the Prevention of Torture and inhuman or degrading treatment or punishment (CPT).

In July, the Government decided to grant temporary protection to Chechen refugees. In 2000, 8,788 people requested *asylum* in the Czech Republic, an increase of 22% on 1999. As of May 13th, 6,315 people had requested asylum in 2001, suggesting another steep increase. In 2000, 133 people were granted asylum and, by December, 1,192 people covered were living in the Czech Republic after being granted asylum there. The government continues to fund an integration programme.

The *Aliens' law* was amended in April 2001, on the basis of proposals made by the Czech Council for Human Rights. In particular, new provisions allow children of foreigners living in the Czech Republic to automatically acquire permanent residence. Most parts of the amendment came into force in July 2001 while some parts will only enter into force in January 2002.

The Ministry of Interior's Report on Extremism noted that in 2000 the number of *racially motivated crimes* rose to 364, compared to 316 in 1999 and 133 in 1998. The Human Rights Commissioner has called upon law enforcement agencies to be tougher in dealing with racially motivated crimes.

In November an amendment to the Penal Code entered into force which imposes prison terms of between 6 months and 3 years for denying the Nazi holocaust and the Communist genocide. The amendment also outlawed the incitement of hatred based on race, religion, class, nationality, or other group.

As regards *freedom of expression* and the media, in early 2001 certain Czech journalists and the International Federation of Journalists expressed concerns as regards alleged political influence in the Czech media. The Council of the Czech Republic for Broadcasting, charged with oversight of public service TV, was accused of being subject to political influence. In December 2000 it dismissed the Director-General of public television and then hastily appointed a new, allegedly partial, Director-General. As a result, the staff of the public service television first went on strike and then started to produce their own, competing, news broadcasts. The annual report of the Czech Human Rights Commissioner concludes that neither version of the news was objective.

New legislation has since been adopted, on the basis of which a new Council for Broadcasting has been elected. The amended legislation aims to ensure that the composition of this Council reflects a broad range of political, regional, social and cultural opinion. In addition, the Chamber of Deputies adopted a Resolution calling on all politicians and constitutional bodies to respect the independence of Czech Television.

The spirit in which these changes were made should be maintained.

Freedom of religion is enshrined in the Constitution of the Czech Republic and no particular problems have been noted in this regard.

The government has supported the *civil society* sector through the publicly funded Foundation Investment Fund. In order to ensure that NGOs can become self-sufficient, the authorities are encouraged to continue to develop a legal and fiscal framework which is favourable to NGO development and which promotes a responsible domestic donor culture.

As regards the *restitution of property*, in August the government took the first decision on the transfer of property and land to the Association of Jewish Communities in the Czech Republic. This decision was based on the Act on Moderating some Property Injustices caused by the Holocaust, which entered into force in July 2000.

Economic, social and cultural rights

Some significant steps have been taken to further improve the respect of economic, social and cultural rights, although certain issues continue to merit attention.

The amendment to the Labour Code that entered into force in January 2001 brought about major legislative changes by introducing the principle of *equal treatment* for all employees and strengthening the ban on any form of discrimination. Also, the amendment to the Civil Proceedings Code, which came into effect in January 2001, shifts the burden of proof in cases of discrimination based on gender.

The optional protocol to the Convention on the Elimination of All Forms of Discrimination against Women (CEDAW) was ratified in February 2001.

According to statistical office data, in 1999, the average income of women was 73.2% of that of men. In comparison to 1996, this implies a deterioration of 4%. The report on the fulfilment of government priorities for the realisation of the equal opportunities between men and women points to limited financial resources. Of the 200 members of the Chamber of Deputies, 31 are women (16%) whilst of the 81 members of the Senate, 10 are women (12%). The Cabinet of the government includes no women.

The Czech government has taken some steps to address the unequal access to employment for the *disabled*. Thus, an amendment to the Act on Income Tax has increased the tax deductions of employers who employ handicapped people.

The Czech-Moravian Confederation of Trade Unions, the major umbrella *trade union* organisation has denounced the labour practices of some foreign investors obstruct the right to unionise. These worrying developments were also reflected in the Report on the Human Rights situation for the year 2000, which stated that there had been efforts by employers to limit the right of employees to unionise.

Minority rights and the protection of minorities

The 2000 Regular Report noted that increased efforts had been made by the Czech authorities to address the condition of the Roma, notably in education, but that a lasting improvement would require sustained effort over time. Over the reference period, considerable further efforts have been made by the Czech government as regards national minorities and the Roma.

Overall, the situation as regards non-Roma minorities (for example, Slovaks, Poles, Germans, Hungarians and Ukrainians) is satisfactory. Part of the Roma population, estimated to be up to 300,000 or 3% of inhabitants, continues to suffer from widespread discrimination and from far below average living conditions and opportunities. They also continue to be victims of racially motivated crimes.

Education levels for Roma children remain low. These children still account for some 70 % of the children sent to special schools, with little chance of later entering mainstream schools. There are a number of cases still pending at the European Court of Human Rights alleging *de facto* segregation. The Roma continue to suffer from a very high rate of unemployment and there has been little progress in reducing this. Housing conditions are still much worse in the Roma communities than amongst the general population. Many Roma reside in low-quality municipal apartments often with inadequate hygienic conditions, which leads frequently towards social marginalisation.

The 1999 Accession Partnership established as a short and medium term priority the continued improvement of the situation of the Roma, by strengthening policies and budgetary means. The following developments have been noted during the reference period:

- Implementation of the Framework Convention for the Protection of National Minorities has proceeded and was the subject of an opinion by the Council of Europe in April 2001. This welcomes the efforts made by the Czech Republic and makes recommendations to further help improve implementation.
- The Law on the Rights of National Minorities, which entered into force in August 2001, strengthens the legislative framework for the protection of minorities by providing a point of reference for the judicial system and the administration. The law provides a definition of a national minority as, “a group of citizens of the Czech Republic living on the current territory of the Czech Republic that differentiate themselves from the rest of the citizens and through their ethnic, linguistic and cultural origin create a minority that at the same time wish to be considered a minority”. The rights which are granted to national minorities are set out in the Law and include the right to use minority languages and the right of consultation on minority issues.
- Furthermore, the Law consolidates the institutional framework by formalising the status of the Council for National Minorities as an advisory body to the government which, in the future, will be headed by a member of the government. The body aims to ensure that minorities have access to the decision making process as well as the opportunity to make proposals. Thus the Council is to comprise representatives from the “national minorities” together with representatives from state bodies. It also has responsibility for administering state budget funds which are allocated for activities supporting minorities.
- Building on the first experience in 2000, in 2001 the government allocated a further € 700,000 to the Inter-Ministerial Roma Commission to administer projects for the support of the Roma community. Moreover, the permanent staff of the Commission was increased by two.
- Active steps have continued to be taken to promote mutual respect and to fight discriminatory attitudes. State grants are given to support a number of activities by or for national minorities. For example, the government approved the allocation of €300,000 for an anti-racism campaign entitled “Tolerance Project ” consisting of communication and cultural activities focusing on the national minorities present in the Czech Republic.
- The Ministry of Education has adopted a strategy for the improvement of the education of Roma children. In June 2001, there were 221 assistant teachers helping Roma children in

kindergartens, primary schools and special schools. In addition, the Ministry of Education , in conjunction with the Ministry of Culture, has taken measures to increase cultural awareness and understanding by organising special seminars for teachers and continuing to support the distribution of Roma publications in public libraries and schools.

- The network of “Roma advisers” in the districts has continued to play a key positive role. In practice, advisers have gradually become contact-points for the Roma communities themselves. Advisers liaise with the Inter-Ministerial Roma Commission and some are currently members of it.

In April the Government Commissioner for Human Rights submitted the first report on the fulfilment of one of the tasks contained in the government policy for Roma of June 2000. The report indicates that the task concerning the legislative framework to allow for “equalising actions” has not been fulfilled. The complete report is to be submitted by the end of October. So far, however, progress on achieving the tasks set has been mixed. For example, the government proposals to phase out the system of special schools and to facilitate integration of Roma into mainstream primary schools were unsuccessful because they were part of a wider reform of the education system which, regrettably, was rejected by Parliament.

Other areas requiring attention include the full integration of policies concerning the Roma and other minorities at regional and municipal levels. Strategies need to be developed to improve opportunities for Roma in employment and housing.

More generally, efforts need to be continued to strengthen respect within administrative bodies, law enforcement authorities as well as in the majority population for cultural and ethnic diversity. The central government should avail itself of the necessary means to be able to ensure that all levels of administration, including regional and local, fully abide by and implement the legislation in place as regards minority rights. *Inter alia*, an effective appeal system, which may lead to appropriate compensation and sanctions, is required in order to deal with cases of discrimination. Equally, the police and judiciary have a key role to play in ensuring impartiality in their dealings with the Roma community.

Over and above the measures taken by the government and which have been reviewed above, the challenge of improving the situation of the Roma community will need to be pursued resolutely and vigorously.

1.3. General evaluation⁸

In its 1997 Opinion, the Commission concluded that the Czech Republic fulfilled the political criteria. Since that time, the country has made considerable progress in further consolidating and deepening the stability of its institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities. Over the past year, further efforts have been made in this direction. The Czech Republic continues to fulfil the Copenhagen political criteria.

The government has also taken steps to improve the functioning of the central and regional administration. However, it is regrettable that the Czech Republic continues to lack a Civil

⁸ See "Making a success of enlargement: Strategy Paper and Report of the European Commission on the progress towards accession by each of the candidate countries", COM (2001) 700.

Service Act for its public administration; this is essential for establishing independence, professionalism and stability.

The reform of the judiciary has gained significant momentum. Work in the area of civil law has made good progress whilst efforts continue on criminal law as well as the organisation of the courts and self-government of the judiciary. In particular, a radical reform of the Criminal Proceedings Code has been adopted which aims to increase the capacity to investigate effectively and bring cases efficiently to trial.

Some additional measures to fight against corruption and economic crime have been taken. Nonetheless, corruption and economic crime remain a serious cause for concern, as evidenced by a governmental report which calls on support from the political forces to address the issue.

The Czech Republic has consolidated its internal institutional framework in the field of human rights. However, increased efforts are necessary to better fight the persistent trafficking of women and children.

Considerable efforts have been made by the Czech government as regards Roma and other minorities. However, further measures to combat widespread discrimination are needed, in line with the government policy for the Roma of June 2000. The central government should ensure that all levels of administration, including regional and local, fully abide by and implement the legislation in place as regards minority rights and that the financial resources necessary to do so are available.

Some progress has been made in addressing the Accession partnership priorities although continued efforts are necessary. The government has proposed a *Civil Service Law* to the Parliament but this has not been adopted and implementation of a comprehensive reform has thus not started. Continued and encouraging progress has been made on the *reform of the judiciary*. The majority of the tasks contained in the government's resolution of 1997 concerning the *Roma* have been fulfilled and the government has adopted a long-term policy towards the *Roma*. However, further efforts are needed to implement measures to fight discrimination.

2. Economic criteria

2.1. Introduction

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

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

This finding was confirmed in the 1998 and 1999 regular reports. In its 2000 regular report the Commission found that:

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

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 previous annual Regular Reports.

2.2. Economic developments

The overall macroeconomic situation in the Czech Republic has improved. In 2000, for the first time after three years of recession, the Czech economy experienced positive GDP growth, which accelerated in the first half of 2001. The economic upswing was primarily driven by high fixed investment in the context of restructuring in the corporate sector and considerable foreign direct investment inflows. This development has brought along a widening current account deficit and has contributed, jointly with high energy import prices and price deregulation measures, to an increase of the inflation rate. Driven by high foreign capital inflows, the Czech koruna has appreciated against the euro. In order to stem this appreciation, monetary policy eased modestly but has been tightened again in the light of stronger inflationary pressures. The fiscal stance has remained quite loose and has a pro-cyclical effect on the economy. While, the high general government deficit reflects the costs related to the clean up of the banking and the corporate sector, it is also the result of only insufficient reforms in the area of mandatory expenditures and shortfalls on the revenue side.

| Main economic trends | | | | | | | |
|-----------------------------------|------------------|----------|----------|----------|----------|----------|--------------------------------|
| Czech Republic | | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 latest |
| Real GDP growth rate | per cent | 4.3 | -0.8 | -1.2 | -0.4 | 2.9 | 4.0 Jan-June |
| Inflation rate ⁹ | | | | | | | |
| - annual average | per cent | 9.1 | 8.0 | 9.7 | 1.8 | 3.9 | 4.7 ¹⁰ September |
| - December-on-December | per cent | 8.6 | 9.4 | 5.8 | 2.5 | 4.0 | 4.7 ¹¹ September |
| Unemployment rate, end-year | | | | | | | |
| - ILO definition | per cent | 3.9 | 4.8 | 6.5 | 8.7 | 8.8 | 8.5 September |
| General government budget balance | per cent of GDP | -1.7 | -2.7 | -3.8 | -4.0 | -4.2 | : |
| Current account balance | per cent of GDP | -7.5 | -6.1 | -2.4 | -2.9 | -4.8 | : |
| | Million ECU/euro | -3,426.3 | -2,845.0 | -1,191.8 | -1,470.2 | -2,567.5 | -1,259 ¹² Jan-June |
| Foreign debt | | | | | | | |
| - debt export ratio | per cent | 43.2 | 42.5 | 44.1 | 37.4 | 29.9 | : |
| - gross foreign debt | Million ECU/euro | 10,330 | 11,224 | 13,055 | 11,659 | 11,764 | : |
| Foreign direct investment in flow | | | | | | | |
| - balance of payments data | per cent of GDP | 2.5 | 2.5 | 6.6 | 11.6 | 9.0 | : |
| | Million ECU/euro | 1,140.3 | 1,152.2 | 3,317.3 | 5,932.8 | 4,979.6 | 2,579 ¹³ Jan-June |

⁹ PROXY HICP since 1996 (see methodological notes).

¹⁰ Moving 12-month average rate of change, national CPI

¹¹ National CPI

¹² Source: Website of National Bank

¹³ National CPI

Progress in the area of structural reform has been mixed. As indicated by strong foreign direct investment and a substantial growth rate in fixed investment, restructuring and modernisation in the corporate sector accelerated and strengthened the production capacities of the economy. Foreign-owned companies developed better than domestic enterprises which still face considerable difficulties in access to bank and market financing. Though the financial sector has been improving, its role as a financial intermediary has remained weak. The privatisation of the last majority-state-owned commercial bank in June 2001 should contribute to a further improvement. Though privatisation in the corporate sector did not progress as initially scheduled, four strategic enterprises have been privatised. The efforts of the government to clean up the bad assets through Konsolidacni Banka were encouraging but have stalled. Since September 2001, Konsolidacni Banka has been transformed into the Czech Consolidation Agency, a non-bank institution which is officially assigned with the task of managing and pooling bad assets and selling them off to private sector investors.

| Main Indicators of Economic Structure in 2000 | | |
|--|-----------------------------|--------|
| Population (average) | thousand | 10,273 |
| GDP per head ¹⁴ | PPS | 13,500 |
| | Per cent of EU average | 60 |
| Share of agriculture ¹⁵ in: | | |
| - gross value added | per cent | 3.9 |
| - employment | per cent | 5.1 |
| Investment-to-GDP ratio ¹⁶ | per cent | 28.3 |
| Gross foreign debt/GDP ¹⁷ | per cent | 40.8 |
| Exports of goods & services/GDP | per cent | 71.4 |
| Stock of foreign direct investment | Million Euro | 22,732 |
| | Euro per head ¹⁸ | 2,213 |

P: provisional data

The Czech Republic has made no further progress in catching up with the EU. The 2000 average per capita income in purchasing power standards amounted to 60% of the EU average. This was the same level as in 1999. Hence, last year the downward trend starting in the mid nineties has come to a halt. There is a marked difference between the capital and the rest of the country. The capital, Prague, reached 115% of the EU average but all other regions remained well below 75% in 1998. The economic activity rate has remained rather constant at around 60% - 61% between 1995 and 2000. However, over the same period, the employment rate fell significantly, reflecting the rise in unemployment. The unemployment rate was 8.8% in 2000 with higher rates for young people (17%) and women (10.5%) than for men (7.3%). Unemployment has been increasingly concentrated among the less skilled and the rise of long-term joblessness has continued for several years now. Long-term unemployment continues to rise and reached 4.3% of the labour force in 2000. Prague is hardly affected by unemployment while regions under industrial restructuring are burdened with persistently high unemployment rates.

¹⁴ Figures have been calculated using the population figures from National Accounts, which may differ from those used in demographic statistics.

¹⁵ Agriculture, hunting, forestry and fishing.

¹⁶ Data refer to Gross fixed capital formation as % of GDP.

¹⁷ Estimated.

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

2.3. Assessment in terms of the Copenhagen criteria

The existence of a functioning market economy

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.

There is a consensus about the most urgent economic policy priorities in the Czech Republic but longer-term structural issues remain to be addressed. The agreement between the minority government and the largest opposition party has continued and the state budget for 2001 was approved by Parliament on time, which had not been possible in the year before. Although there is a consensus on economic policy priorities, no agreement on the implementation of measures to reduce budget deficits could be found. As a result, the government has resorted to extra-budgetary funds (housing, transportation) and short-term adjustments in order to meet the growing needs for public investment on the one hand, and the increasing costs of the clean up of the banking sector on the other hand. Also, a consensus needs to be built on a strategic approach to employment and social policy.

In April 2001, the government approved the first Czech "Pre-accession Economic Programme" (PEP), which is part of the pre-accession fiscal surveillance procedure launched by the EU Commission. The PEP was prepared under the leadership of the Ministry of Finance. Line ministries and institutions like the Czech National Bank (CNB) contributed to the drafting. Since the government has approved the PEP, it represents a firm political commitment, and it is important that the PEP is fully anchored into the government's decision making process.

In June 2001, the government approved the "Strategy for Promoting Economic Growth", the so-called "Big Bang plan". Under the approved scheme, a total of CZK 166 billion would be spent in 2001 and 2002. For the current year, the envisaged expenditures are included in the approved budget.

The Czech economy has returned to growth. In 2000, real GDP growth amounted to 2.9%. The economy enjoyed significant export growth with 23.4% at current prices. However, this impressive development was outpaced by even stronger import growth of 27.9%. The recovery of domestic demand was primarily due to a rise of 4.2% in fixed investment reflecting the realisation of latent restructuring needs and high foreign direct investment inflows. Overall, gross capital formation jumped by 10.3%. Household consumption rose only 1.8% and government consumption decreased by 1.3%. In the first half of 2001, GDP grew by 3.4% annually. Gross fixed capital formation and final consumption of households, with growth rates of 7.7% and 3.8% respectively, pushed up GDP, while government consumption fell. Over the last twelve months, labour productivity grew faster than real wages.

The nature of the economic pick-up has had a delayed impact on the labour market. The participation rate fell from 71.8% in 1999 to 71.2% in 2000, and the employment rate decreased from 65.6% to 64.9%, respectively. New investment generated new employment opportunities while accelerating restructuring resulted in job losses. The widespread use of

early retirement schemes also influenced the decrease of unemployment. The unemployment rate rose slightly to 8.8% at the end of 2000, from 8.7% in 1999, but has been decreasing since and reached again 8.5% at the end of September 2001. Unemployment has been increasingly concentrated among the less skilled. The rise of long-term joblessness has continued for several years now. In 2000, it increased to 4.3% of the labour force, up from 3.1% in 1999. Efforts of the authorities to improve flexibility on the labour market have been unable to reverse this unfavourable trend so far. The scarcity of affordable housing in particular has hampered mobility. The mismatch between social benefits and minimum wages has been another restraining factor.

The inflation rate edged up to 3.9% in 2000 from a very modest 1.8% in 1999. In the light of increasing economic activity, the impact of price deregulation, and higher oil and gas prices, inflation nevertheless remained subdued. Net inflation amounted to 3%. Yet again in 2000, the net inflation target of the CNB, set at $4.0\pm 0.5\%$, was undershot. In the second quarter of 2001, inflation accelerated at a faster pace. The structure of the price increases (mainly food, transport and recreation) indicated that inflation was not only driven by external factors but was more broad-based. However, inflation (national CPI) decelerated again in September 2001.

In April 2001, the CNB changed its inflation target from net inflation to headline inflation. For the current year, net inflation still serves as the reference and is targeted to end up at $3.0\pm 0.5\%$. The "Long-term Monetary Strategy for the period 2002 to 2005" has embarked upon headline inflation targeting, which facilitates the reception by the public, even though in an economy with transition features headline inflation might be more difficult to forecast. However, the central bank would apply escape clauses should unexpected moves in administered price deregulation occur. The inflation target is set as a band which should continuously fall from 3% - 5% in January 2002 to 2% - 4% in December 2005.

Monetary policy has remained accommodating over the last twelve months. In February 2001, the CNB lowered all its policy rates. The key two-week repo rate was cut to 5%, the discount rate to 4% and the Lombard rate to 6%. The move did not feed through in higher lending to the corporate sector as commercial banks, still in the process of improving their risk assessments and overall governance, have remained cautious in lending. In reaction to the pick-up in inflation throughout the first half of the year, the CNB increased the policy rates by 25 basis points at the end of July this year. This step underpins the CNB's commitment to price stability.

In an environment of strong foreign capital inflows, the Czech koruna has continued to appreciate against the euro. The appreciation has not adversely affected the competitiveness of Czech exports so far. However, to avoid an undesirable strength of the currency, the government and the CNB have agreed on joint measures. One of these is the establishment by the CNB of a special account to collect privatisation receipts from foreign investors. The CNB has expressed its willingness to use intervention in the foreign exchange market.

The current account balance has been deteriorating significantly. In 2000, the current account balance showed a deficit of 4.8% of GDP and in the second quarter of 2001, it is estimated to amount to 5.5% of GDP. The sharp deterioration is due to the rising trade deficit. The latter has been influenced by rising oil prices but also by the need to import sophisticated investment goods in the light of economic restructuring. In particular, the structure of imports indicates that there has been no move towards a higher share of consumer goods so far. The

current account deficit has been more than fully covered by the surplus on the financial account. The Czech Republic has been recording massive inflows of foreign direct investment which reached 9.1% of GDP at the end of 2000 and the performance in the first half of 2001 has been similar. However, the portfolio investment balance recorded a net outflow, which mainly reflects Czech commercial banks' purchase of foreign securities.

The general government deficit widened in 2000. Based on GFS methodology, the general government featured a deficit of 4.3% of GDP in 2000 excluding privatisation revenues, up from 1.6% of GDP in 1999. According to harmonised EU standards (ESA 95), the general government deficit widened from 4% in 1999¹⁹ to 4.2% in 2000²⁰. The deficit for 2001 has been planned at 7% of GDP. The rising deficit is the result of shortfalls on the revenue side. On the expenditure side, they combine two effects. One is the one-off effect of the clean up of the banking sector and the restructuring of the corporate sector, due to delayed implementation of structural reforms. The second effect is the increase in mandatory expenditures from insufficient reforms of the social security system, and which represent a medium-term challenge to fiscal consolidation. The government has started to reform the pension system by modifying generous early retirement schemes and strengthening the relationship between contributions and benefits. However, only a more profound reform of the complete social security system can ensure its sustainability, as regards the ageing population, inter-generational acceptance and competitiveness.

General government debt has been growing fast, though its level is still low in international comparison. The deficits of the state budget as well as the losses of Konsolidacni Banka, and ad hoc expenditures related to covering costs (e.g. the collapse of the credit unions) have added to the debt stock. In 2000, the general government debt, in ESA 95 standards, increased to 17.3% of GDP compared to 15% in 1999. This general government debt does not include all liabilities of the state nor the indirect liabilities of the government in the form of state guarantees, which in the Czech Republic are substantial.

Some progress was made towards greater fiscal transparency, but the implementation of new off-budget funds has complicated the structure of public budgets. Starting with the 2001 budget, the government has integrated into the state budget the operations of the State Financial Assets and Liabilities, which include what are termed "transformation institutions" such as Konsolidacni Banka. This move has reinforced the credibility of the state budget balance and strengthened parliamentary control over public finances. However, the implementation of the new off-budget entities created in 2000 - the Transportation Fund and the Housing Fund - to finance infrastructure expenditures, has unnecessarily added to the complexity of public budgets. The National Property Fund is supposed to provide financing to these funds (which links their financial basis to a certain extent to privatisation receipts). In the context of pension reform, the government is planning to set up another extra-budgetary fund, the Social Insurance Fund.

¹⁹ A large part of this rise in the 1999 deficit is due to the different accounting rules for bank restructuring costs, under the GFS or ESA 95 methods.

²⁰ Two figures are given for the government balance. One is based on the most commonly used national concept, and the other is calculated according to the European System of Accounts (ESA 95), which was reported by the candidate countries for the first time this year.

First steps to enhance the budgetary process are taken. In 2001, the new Act on Budgetary Rules, which defined the budgetary process for the state budget, came into force. Furthermore, the government is preparing a new framework that refers to all governmental levels. The concept is based on five principles (fiscal transparency, budgetary stability, allocative and operational efficiency, decentralisation, and financial management) which should help to better plan and control budgetary processes. The implementation of an adequate budgetary framework comprising planning, execution, monitoring and final evaluation of budgetary processes on all administrative levels seems to be an urgent task.

Policy co-ordination between the government and the CNB has remained good. It has not been adversely affected by the new procedures set out in the amendment to the CNB Act, which entered into force at the beginning of 2001. In April 2001, the government and the CNB reached agreement on the inflation target for 2002 and the new inflation targeting framework. In view of the appreciating trend of the Czech koruna, both institutions have furthermore agreed on joint measures to keep the exchange rate at an appropriate level.

Market forces determine the prices of the vast majority of goods and services. Trade and foreign exchange regimes have been liberalised. The government has committed itself to completing the process of price deregulation by the end of the parliamentary term in mid 2002. Keeping to the schedule of price adjustments is crucial, to support the CNB's inflation target and to allow for cost recovery specifically in the area of utilities. Administered prices form nearly 18% of the consumer basket. Price alignments in the energy sector have continued in 2000 and in 2001. The government's effort to replace the current regime for rents, which had been deemed unconstitutional by the Constitutional Court, by an alternative system was brought down in Parliament. The persistence of the rent regime hampers labour market mobility and acts as a strong disincentive for potential investors in housing.

The privatisation process has continued. 80% of GDP is produced in the private sector. The State, through the National Property Fund, holds stakes in 281 companies, but only those in 38 "strategic" companies are financially significant. Since the last Regular Report, only four big privatisations have taken place so far: Prazske vodovody a kanalizace (operations, but not infrastructure), Komerčni Banka, Ceske Radiokomunikace and Ceska Pojistovna . The government has committed itself to an ambitious privatisation plan for 2001, which includes the telecommunication companies, the electricity and gas operators and distributors, and the steel makers. Privatisation remains a central element of the government's economic reform strategy.

Overall, market entry and exit mechanisms are slowly improving. Business registration continues to be a cumbersome process, marred by inequality of treatment and lack of transparency. The number of newly created firms in the SME sector amounted to roughly 25,000 in 2000 while the total number of SMEs reached about 760,000. Domestic start-ups continue to face a difficult financing environment, as the commercial banks have remained cautious in lending.

The implementation of the amended Bankruptcy Law in May 2000 has resulted in only modest improvements. Though creditor rights in bankruptcy procedures have been somewhat strengthened, they remain limited as regards the creditor's possibility to control the process. The role of the court continues to be dominant. Composition (reorganisation) as an effective proceeding to resolve insolvency cases by mutual agreement has still not been sufficiently used. The Bankruptcy Law needs to be amended yet again in order to provide the enterprise sector with an efficient way to disposing of assets of companies in difficulty. The government is

preparing a new Bankruptcy Law which aims at resolving the remaining problems and which, furthermore, needs to be fully compatible with the acquis.

There continues to be serious concern about economic crime and its impact on the business climate in the Czech Republic. In particular, the practice of stripping of assets from enterprises, known as “tunnelling”, has become more sophisticated. This situation represents a major challenge for the law-enforcement authorities. The police has increased the number of cases brought to the attention of the courts, and the courts have handed down convictions in several high-profile cases.

Banking restructuring has made considerable progress. At the end of June 2001, the banking sector comprised 40 commercial banks, of which 27 had majority foreign ownership. Nearly 90% of total banking assets are managed by foreign-controlled banks. With the sale of Komerční Banka privatisation of the banking sector was completed. Prior to the sale, Komerční Banka had been largely freed of its non-performing loans, which had been transferred to Konsolidacní Banka. Additionally, the state provided a guarantee worth CZK 20 billion in order to cover doubtful loans. The take-over of Investiční a Poštovní Banka (IPB) by Československá Obchodní Banka (CSOB) in June 2000, after IPB had been put into forced administration, has still not been finally settled. In order to encourage the take-over, the government had initially issued a full guarantee over IPB's assets which was supposed to expire by the end of June 2001. However, the government and CSOB have not yet reached agreement on the final conditions of IPB's sale.

The overall health of the banking sector has improved in 2000. Total bank assets represented about 143% of GDP at the end of 2000. Commercial banks achieved a profit of CZK 15.0 billion against a loss of CZK 5.6 billion in 1999, and their capital adequacy has risen from 13.6% to 14.9%. In spite of an increase in the volume of client deposits, the volume of outstanding loans has decreased. Financial intermediation reached only a modest 57% of GDP. The high amount of non-performing loans continues to act as a drag on the banking sector, though the government bailouts have decreased the share of classified credits to 29.5% as a percentage of total credit volume at the end of 2000, down from 32.2% at the end of 1999. In 2000, reserves and provisions covered about 65% of non-performing loans.

Non-performing loans of Czech commercial banks have reached 28% of GDP. In 2000, roughly 35% of the non-performing loans of commercial banks were labelled as losses. Non-performing loans of the old IPB could amount to additional 4% of GDP. In aggregate data, the Konsolidacní Banka group had assets of CZK 284 billion at the end of 2000. Konsolidacní Banka has started to tackle its portfolio of assets in order to maximise recovery and minimise the costs of managing these assets. In February 2001, Konsolidacní Banka auctioned off a first block of some 500 loans worth a nominal CZK 12 billion which drew interest from international debt-recovery firms. The proceeds from the sale reached 7% of nominal value, which compares favourably to the return on assets through the bankruptcy procedure. Konsolidacní Banka also sold some CZK 1.9 billion worth of claims on the Internet. Since then, however, this process has stalled. In August 2001, Konsolidacní Banka ceased to exist and was replaced by a Czech Consolidation Agency, dedicated to the management and recovery of bad assets. This new agency will work without a banking licence, which frees it from restrictions concerning ownership positions.

Financial intermediation of the securities market has remained on a low level. Market capitalisation reached 23.2% of GDP at the end of 2000. As regards the other non-bank financial sector, its importance is also very limited, but in particular the insurance and the leasing sectors show dynamic growth tendencies. The situation on the Czech capital markets is improving slowly. The Czech Securities Commission has played a more active role and progress in legislation has been made. The legal environment has been adjusted towards EU standards with the entry into force on 1 January 2001 of three pieces of legislation: the amendments to the Commercial Code, the Securities Act, and the Bonds Act. Another amendment regarding the competencies of the Securities Commission is under discussion. It aims to increase the Securities Commission's regulatory and enforcement powers and to transfer from the Ministry of Finance to the Securities Commission the supervision of pension funds.

Supervision of the financial sector has improved but needs further strengthening particularly in the non-banking sector. Supervision of the financial sector is carried out by three bodies, the CNB, the Ministry of Finance and the Czech Securities Commission. They co-ordinate their supervisory work based on a trilateral agreement. The supervisory bodies jointly aim to develop a system of consolidated supervision, which is urgently needed. Furthermore, the building of risk-based supervision and supervision of financial conglomerates remain to be tackled.

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

The 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 before accession. Both the volume and the range of products traded with EU Member States provide evidence of this.

The Czech economy is a functioning market economy. Macroeconomic stability has improved during the last twelve months but remains endangered by simultaneously growing external and fiscal imbalances. Macroeconomic policy has been conducted with a sufficient degree of predictability to allow proper decision-making by economic agents. Co-ordination of economic policies and an improved macroeconomic stability have contributed to a better environment for economic activity.

The Czech Republic has a well-skilled labour force. The good quality of professional education and short qualification periods of the labour force represent an asset in competition for foreign direct investment. However, the share of persons with tertiary education amounts to 12%, which is low in international comparison while most of the labour force has completed secondary schools (66%). With rapidly changing requirements on the labour markets and the increasing integration into the world economy, the Czech education system faces the challenges of increasing the share of academics and of providing tools to enable the workforce to adapt to life-long learning.

Employment policy measures are focused on fostering labour market flexibility. There seems to be a policy consensus on the most pressing labour market deficiencies in the Czech Republic: increasing regional disparities in unemployment, rising unemployment levels within what are considered high-risk groups and a declining employment rate, especially in the older age groups. Nevertheless, progress towards resolving these problems has been slow. The mobility of the labour force remains restrained as long as adequate housing cannot be provided due to the highly regulated rent market. Active employment policy measures need to be focused on target groups with a clear linkage to market requirements. The abolition of too generous early retirement schemes, as introduced recently with the first step of pension reform measures, will help to safeguard an adequate employment level.

For years, the Czech Republic has experienced high levels of gross fixed capital formation. As a ratio of GDP, fixed investment has been fluctuating around 27% of GDP. Physical infrastructure is well developed overall. The additions to the capital stock have improved output growth, and taken into account recent progress in corporate restructuring, it is evident that investment is starting to bear fruit. It is worth noting that productivity growth has continued to outstrip real wage increases. As regards general government expenditures, it is noteworthy that the share of capital expenditure as a ratio of GDP has remained high compared to the EU average. For 2001, it is planned to amount to 6.1% of GDP (6% in 1999).

The Czech economy has continued to successfully attract strong foreign direct investment (FDI) inflows. In 2000, the inflows amounted to €4.98 billion or about 9.3% of GDP. 82% of FDI inflows originated from the EU and about 95% from OECD countries. FDI was concentrated in manufacturing and financial services. In the first half of 2001, the Czech Republic received an amount of €2578 million of FDI inflows. Greenfield investments in manufacturing have been particularly promoted by the investment incentives packages introduced in 1998 and made uniform by law since 2000. The programme has been adjusted in 2001 in order to fully bring the investment incentives under the Act on State Aid in line with the acquis. Currently, the benefits of the programme are being extended to investments in high technology and services. The package of investment incentives contains the possibility of direct tax holidays of up to ten years, duty free technology imports, job creation and training grants, and subsidies for building up infrastructure.

The process of enterprise restructuring has been uneven. Restructuring of export-oriented firms in foreign ownership has been proceeding considerably faster than that of domestic firms. The financial performance of the corporate sector as a whole has begun to improve, mainly thanks to the development of foreign-owned enterprises. A large part of the domestically owned enterprises have remained highly indebted and loss-making. The revitalisation programme introduced in 1999 has been reoriented. The Revitalisation Agency, which was in charge of restructuring eight large-scale enterprises in distress, has been re-integrated into Konsolidacni Banka. However, two enterprises have been privatised and another four companies are supposed to be sold soon. The results of revitalisation have been difficult to achieve, mainly because of the delays and inadequacies of the legal framework, especially the bankruptcy procedure. Restructuring of the steel sector and of the chemical industry still has to be tackled.

The importance of small and medium-sized enterprises (SMEs) has been growing though these suffer from difficulties in external financing. In 2000, SMEs comprised nearly 60% of the Czech workforce and they produced around 40% of the GDP. As regards external

trade, the SME sector contributed slightly more than 36% to total exports and absorbed 49% of the Czech imports. However, limited access to outside financing and to business advice have continued to restrain the economic potential of this sector. Commercial banks have remained cautious in lending money to SMEs. The government has adopted a number of measures to further enhance the economic environment for SMEs, but only full and transparent implementation of the programmes can contribute to substantial improvements.

The openness of the Czech economy has been growing continuously. In 2000, exports and imports of goods and services amounted to 150% of GDP, compared to 127% a year earlier. Trade integration with the EU has reached a high level. Czech exports to the EU accounted for about 69% of total exports while imports from the EU amounted to 62% of the total. In general, trade with developed market economies has intensified further. As regards the commodity structure, external trade is focused on higher value-added goods. Machinery, transport equipment and other manufactured products have remained the main traded goods. These categories have also continuously increased in importance as a share of total exports to the EU. The price competitiveness of Czech goods improved slightly in 2000.

2.4. General evaluation²¹

The Czech Republic is a functioning market economy. Provided that it makes further progress towards medium-term fiscal consolidation and completes the implementation of structural reforms, it should be able to cope with the competitive pressure and market forces within the Union in the near term.

The macroeconomic performance has improved overall. Growth has resumed and broadened, while the favourable performance on inflation has been maintained. Efforts are being made to increase the transparency of the public accounts. Sustained high domestic and, in particular, foreign, investment has engendered substantial restructuring and high productivity growth in the corporate sector. Further progress has been made on the restructuring of banks and privatisation of this sector is complete.

However, the current account deficit has widened and the budget deficit has considerably risen, driven by transformation related one-off costs and an accommodating cyclical stance. In addition, the medium-term sustainability of public finances is not yet assured. Further improvements of the legal framework for market entry and exit, as well as a forceful implementation of the prudential regulations for the financial sector are essential. The authorities should resume the process of disposing of bad loans after the restructuring of banks. Their efforts to privatise or restructure the remaining large state-owned enterprises should be pursued actively so as to strengthen corporate governance and efficiency.

²¹ See "Making a success of enlargement: Strategy Paper and Report of the European Commission on the progress towards accession by each of the candidate countries", COM (2001) 700.

3. Ability to assume the obligations of membership

Introduction

This section aims to update the Commission's 2000 Regular Report on 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 implements its objectives. Alongside an evaluation of relevant developments since the 2000 Regular Report, this section seeks to provide an overall assessment of Czech Republic's ability to assume the obligations of membership, and of what remains to be done. This section is structured to follow the list of twenty-nine negotiating chapters, and incorporates an assessment of the Czech Republic's administrative capacity to implement the *acquis* in its various aspects. The Czech Republic's progress in translating the *acquis* into its official language is assessed in a separate section.

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

The European Council in Santa Maria da Feira and in Gothenburg in June 2000 and June 2001 respectively recalled the vital importance of the applicant countries' capacity to implement and enforce the *acquis*, and added that this required important efforts by the applicants in strengthening and reforming their administrative and judicial structures. Building on the assessment of the Czech Republic's administrative capacity provided in the 2000 Regular Report, the present Report seeks to add further depth and detail, focusing on the main administrative structures which are required for implementing the *acquis* in its various aspects.

In the 2000 Regular Report, the Commission concluded that :

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

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

Concerning the field of *innovation*, a great deal of progress in transposing the *acquis* has been made concerning the liberalisation of the telecommunications market through the strengthening

of the regulatory body and the abolition of the exclusive rights of the current operator. On audiovisual policy, further efforts are needed for alignment with the *acquis* and it is necessary in particular to strengthen the supervisory authority.

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

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

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

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

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

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

The majority of the priorities of the *Accession Partnership* have been addressed although the efforts made thus far should be built upon in order to meet more fully the set objectives. Progress has been particularly satisfactory on free movement of goods, employment and social

affairs and telecommunications. However in some areas the short-term priorities have not been sufficiently pursued. This is the case as regards Company law with respect to minority shareholders, and in the area of the free movement of services where capital market surveillance has not been adequately strengthened. As regards the audio-visual sector, little alignment has taken place. Progress on the environment and Justice and Home Affairs has been limited.

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

3.1. The chapters of the *acquis*

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

Chapter 1: Free movement of goods

The positive assessment of the last two Regular Reports, noting continued progress, can be repeated this year.

Framework legislation in the area of **horizontal and procedural measures** is largely in place. The Act on Public Health Protection entered into force in January 2001, further aligning horizontal legislation on public health protection with the *acquis*. The July 2001 Act on General Product Safety provides the framework for safety checks at external borders in line with the *acquis* on product safety in the case of products imported from third countries. There are no particular developments to report in the areas of administrative capacity for free movement of goods between Member States (the ‘strawberry’ regulation), notification, or the interchange of data between administrations, where preparations are ongoing.

Further progress has been achieved on the alignment of **sector specific legislation** with the entry into force of new Government Orders and amendments to existing Government Orders transposing the relevant New Approach Directives. About 90% of Harmonised European Standards have now been implemented.

Concerning the New Approach Directives, following the entry into force of the new Telecommunications Act and two implementing decrees in 2000, a Government Order on technical requirements and conformity assessment for Radio and Telecommunications Terminal Equipment entered into force in May 2001. Government Orders have entered into force for Home Appliances and Non-Automatic Weighing Instruments (NAWI) with elements of the latter (mainly on marking) to come into force on accession. Progress has been achieved with the adoption of new Government Orders on Recreational Craft and *in vitro* diagnostic medical devices and amendments to the existing Government Orders on medical devices and active implantable medical devices. An amendment to the Act on Mining, Explosives and State Mining Administration has further aligned Czech legislation with the *acquis* on explosives for civil use. Authorised bodies for NAWI and for Recreational Craft are in place.

Concerning the Old Approach Directives, an amendment to the Act on Fertilisers transposing the *acquis* on fertilisers entered into force in January 2001. Government Orders on gas pressure tanks and aerosol dispensers have been adopted and will enter into force in January 2002. Following amendment of the Act on Consumer Protection, steps have been taken to align with the *acquis* on crystal glass and labelling of footwear with decrees effective since January 2001. Pre-market approval has been abolished for cosmetic products. In the field of legal metrology and pre-packaging, progress has been achieved through the adoption of implementing Decrees to the amended Act on Metrology. The 1995 Decree on Good Laboratory Practice was replaced by a new one, which entered into force in August 2001. In the area of motor vehicles, the new Act on Technical Conditions for Operating Vehicles on Roads was adopted in January 2001 and entered into force in July 2001. In the area of foodstuffs the Act on Public Health Protection, and an Amendment to the Act on Foodstuffs and Tobacco Products came into force in January 2001 (*see also chapter 7 – Agriculture*). During 2001 the Czech Republic transposed much of the *acquis* on food labelling and contact material. Along with the steady publication of implementing measures, Czech legislation in this area has become largely compatible with the *acquis* although some gaps remain.

In March 2001 an Act on the Return of Unlawfully Exported Cultural Goods was adopted. The strengthening of administrative capacity for the implementation of horizontal and procedural measures and sector specific legislation continues, building from a high base. An application by the Czech Commission for Conformity Assessment for full membership of the European Organisation for Conformity Assessment (EOTC) has been approved. Preparations for Czech participation in the RAPEX information system on dangerous products are ongoing and the Czech Republic has expressed a wish to develop links with the Rapid Alert Systems for Defective Products (RAPID). Gradual administrative strengthening (from a high base) continues at the State Veterinary Administration (the main supervisory body for animal-origin foodstuffs) and the Czech Agricultural and Food Inspection (CAFI) which supervises the safety and quality of food.

The process of alignment in the fields of **non-harmonised areas**, (Articles 28 - 30 of the EC Treaty) continues, with the focus now shifting toward how to implement the principle of mutual recognition for products in this field.

There has been no particular progress in the area of **public procurement** since the last Regular Report. The Office for Protection of Economic Competition is responsible for ensuring compliance with the law, employing about 20 staff on public procurement.

Overall assessment

The Czech Republic has aligned with the *acquis* in this field to a significant degree. The overall level of administrative capacity is good. The Czech Republic should continue to improve its customs and market surveillance infrastructures, ensuring effective co-operation among competent authorities enhances safety checks on products at external borders.

The Czech Office for Standards, Metrology and Testing currently monitors and co-ordinates matters in the field of free movement of goods between Member States (the ‘strawberry’ regulation), and is also active in the area of exchange of information and notification about technical requirements. Formal establishment of the structures required by the *acquis* in these areas should be completed by accession. Preparations are ongoing for participation by the

Czech Office for Public Information Systems in the interchange of data between administrations to support the single market's regulatory regime and the implementation of Community policies.

Legislation concerning essential requirements and conformity assessment procedures (the Amended Act on Technical Requirements for Products) has been in force for over a year and functions satisfactorily. Harmonisation with the New and Global Approach Directives continues but the majority of work has been concluded. Some gaps remain; for instance the Provision of Information in the Field of Technical Standards and Regulations. Government Orders transposing the technical requirements of construction products and the *acquis* on wood remain to be adopted.

Those bodies charged with standardisation and certification continue to function well. There is still a need for an administrative body responsible for exchange of information and notification about technical requirements. The Czech Office for Standards, Metrology and Testing, which is the central state administration responsible for legislation in the field of industrial goods, and which organises the system of conformity assessment, performs its duties independently of the Ministry of Industry and Trade (MIT), to which it is formally subordinated. The competence of the staff and the level of equipment is generally good.

The Czech Standards Institute (CSNI) is a member of the European standardisation Committees CEN and CENELEC and of the European Telecommunications Standards Institute (ETSI). The Institute, which is independent, issues standards, and co-operates with its international counterparts. The Czech Accreditation Institute (CIA) is an independent company, although the Ministry of Industry and Trade has a role in appointing board members. It ensures accreditation of laboratories and certification bodies. The CIA is a full member of the European Co-operation for Accreditation (EA) and the international accreditation organisations ILAC and IAF. It became a signatory to MLA IAF (for the accreditation of certification bodies certifying Quality Systems) in September 1999. In November 2000 it signed the ILAC mutual recognition agreement on results in the field of testing and calibration.

The Czech Trade Inspectorate (CTI) performs market surveillance of industrial products and is also the main supervisory body for protection of consumer economic interests. The CTI's performance is generally satisfactory. Market surveillance for certain specific sectors (e.g. foodstuffs, medicinal products, cosmetics) is performed by a range of other bodies. Market surveillance is generally good although there is scope to improve co-operation between the bodies involved and to refine and strengthen the collection of data, which is sometimes still lacking as certain market surveillance data do not separate market from production surveillance. Steps have been taken to strengthen the bodies responsible for market surveillance of cosmetics and pharmaceuticals. However, further alignment is still necessary in the area of pharmaceuticals, where resourcing difficulties remain and where measures concerning registration, market authorisation, market surveillance, and co-ordination in the area of the safety of medicinal products and advertising need to be fully transposed.

Progress has been made in the areas of explosives for civil use with amendment of the Act on Mining, Explosives and State Mining Administration. Further adjustment will be made in the area of chemical substances before accession and additional steps taken to strengthen administrative capacity, for example certifying additional laboratories. The National Health Institute contains the notification body for chemicals which will use the institute's equipment and

other infrastructure. The body currently employs 5 people, the intention is to double that number by the end of 2002 with the Health Ministry providing training.

The Czech Republic has advanced well in the transposition and implementation of foodstuffs legislation. However, the *acquis* is not fully transposed: for instance as regards additives, chemical analyses of foodstuffs, hygiene and controls. General obligatory pre-market approval of foodstuffs has been abolished but pre-market approval for foods of special nutrition remains and should be stopped well before accession to allow the market and operators to become familiar with procedures. Other outstanding issues include regulation of advertisement and rules on hazard analysis and sampling.

The institutions for implementation are largely in place, divided mainly between the Ministry of Health and the Ministry of Agriculture. The State Veterinary Administration is the main supervisory body for animal-origin foodstuffs, its structures for control and inspection are well established and generally function well, in the country and at the border. The Czech Agricultural and Food Inspection (CAFI) supervises the safety and quality of food. The laboratories of the Czech Agriculture and Food Inspectorate have been accredited according to international standards. However, the Public Health laboratories are only gradually being accredited according to EC standards. Proposals should be developed in preparation for engagement in the Rapid Alert System for Foodstuffs and to optimise the performance of the laboratory network.

In an internal process relating to the free movement of goods in the non-harmonised areas, the Czech Republic has developed a list of measures which it deems necessary but which may be considered contrary to Articles 28-30 of the EC Treaty. These measures will have to be reviewed and discussed, as will the Czech Republic's intentions for inserting relevant mutual recognition clauses into national legislation.

The Act on General Product Safety which entered force in July 2001 has further aligned Czech legislation with the *acquis*. Nevertheless, several issues remain to be clarified, including the lack of a clear definition of the producers and of their obligations, confidentiality requirements and the protection of professional secrecy.

Completion of alignment in the area of public procurement will require continued legislative progress and appropriate administrative adjustment and strengthening. Steps should be taken to ensure clarity and predictability in this field, including necessary legislative amendments strictly limiting the use of fast-track procedures (Article 50 (1) paragraph (a) of the Public Procurement Act) to emergency situations and excluding the possibility of arbitrary government decisions. Contracts should be decided on the basis of transparent and non-discriminatory tendering procedures.

In the area of Public Procurement the Office for Protection of Economic Competition ensures compliance with Czech legislation, whilst the Ministry of Regional Development has been given overall competence for public investment and currently has 15 staff working on public procurement.

Chapter 2: Free movement of persons

There has been some progress since the previous Regular Report but a number of the issues it identified still require further action. Preparations have continued but the passing of legislation and establishment of administrative structures remains to be completed.

In the area of **mutual recognition of professional qualifications**, there have been no significant developments. A Government Resolution of July 2001 set out a timetable for the submission of draft legislation by the Ministries of Health, Regional Development, Justice and Agriculture and also made the Minister of Education responsible for co-ordination of the administrative authorities in the area of mutual recognition of professional qualifications.

In the area of **citizens' rights**, an amendment to the Act on Residence of Aliens, which aims to achieve a higher degree of compatibility with the *acquis* regarding the treatment of both EU and non-EU nationals entered into force in July 2001. However, further amendment will be necessary before accession to complete alignment.

As regards the **free movement of workers** technical preparations by the Employment Services Administration for participation in the European Employment Services System (EURES) are ongoing.

With respect to the **co-ordination of social security systems** the Czech Republic has continued to implement bilateral agreements and progress continues in terms of strengthening administrative structures and capacity.

Overall assessment

A steady increase in preparatory work in this area is beginning to pay dividends. There is an increased awareness of *acquis* requirements, accompanied by the development of strategies and mechanisms to realise these requirements. Transposition must continue and where appropriate, be accelerated. A significant amount of legislative and administrative capacity building work remains. Continued legislative alignment is required in particular with the sectoral directives, residency of foreigners and social security matters. New legislation on citizens rights and employment (free movement of workers) will be necessary.

In the area of mutual recognition, the legal framework of both diplomas and professional qualifications still does not match EC requirements and further efforts are needed. A general system should be established and the gradually increasing emphasis on the distinction between academic and professional qualifications should be developed and accelerated. Further progress is also needed to ensure alignment with the sectoral directives. A range of ministries and professional chambers are responsible for professional recognition, whilst the Ministry of Education, Youth and Sports plays a co-ordinating role. The inter-Ministerial working group for mutual recognition at the Ministry of Education, Youth and Sports is active and the key issues on which progress is necessary have been identified: for example, approval of the Czech Republic's list of all regulated professions, introduction of legislation to transpose the sectoral directives and establishment of a Centre for the Recognition of Professional Qualifications. With respect to professional qualifications obtained before harmonisation the Czech Republic should introduce measures to ensure that all its professionals can, as of accession, meet the requirements laid down by the directives.

The Nuclear Act should be amended to abolish the permanent residence requirement in this sector. A list of regulated professions was submitted to the government in June 2001. It will also be important to ensure that any language requirements connected with professional recognition respect the principles of non-discrimination and proportionality. It should be ensured that, by accession, there are no provisions in Czech legislation which contradict Community rules, in particular with respect to nationality, residence or language. The establishment of a Centre for the Recognition of Professional Qualifications is planned for 2002.

The Ministry of Labour and Social Affairs is responsible for the co-ordination of social security and the free movement of workers. As mentioned in the previous Regular Report, an inter-connected system including the Ministry of Labour and Social Affairs, the Labour Offices and the EURES system has not yet been established. Preparations by the Employment Services Administration for participation in the EURES system are ongoing.

Some further work will also be necessary to continue to develop the necessary administrative structures for the future co-ordination of social security systems and to train the necessary staff. The expansion of the foreign section of the Czech Social Security Administration will require sustained effort in order to reach the necessary levels of capacity.

Chapter 3: Free movement of services

Steady legislative progress has been made since the previous Regular Report, with the passing of legislation such as the amendment to the Act on Accounting and a partial amendment to the Act on Banks. The gradual strengthening of administrative capacity continues.

In the area of **freedom of establishment and freedom to provide services**, progress has been very limited. The new Commercial Code which entered into force in January 2001 contained provisions relating to self-employed Commercial agents.

In the field of **financial services**, transposition of the *banking* sector *acquis* continues, with the adoption in August 2001 of a partial amendment to the Act on Banks which further develops deposit claims insurance. The process of bringing credit co-operatives under fully-fledged banking supervision should be closely monitored. Implementation of the revised Bankruptcy Act of 2000 has been slow and procedures cumbersome.

A number of accounting amendments (scope, accounting year definition, rules on opening and closing balance sheets and on disclosure and depreciation) were included in the Income Tax Law which came into force in January 2001. An amendment to the Act on Accounting was approved by Parliament in September 2001 and will enter into force in January 2002. The amendment covers a range of institutions, including banks and insurance companies and amongst its provisions, will allow the implementation of International Accounting Standards in national legislation.

There have been no particular legislative developments in the *insurance sector*. The Czech Government recently approved the sale of its 30% stake in Česká pojišťovna, the country's largest insurance company.

In the area of *investment services and securities markets*, amendments to the Acts on Securities, Bonds and the Stock Exchange came into force in January 2001. The main changes

to the Securities Act were on rules governing conflict of interest, obligations and the establishment of a guarantee fund for securities traders. An amendment to the Act on Collective Investment entered into force in January 2001, enabling foreign investment companies to obtain licences for the Czech market. Two decrees, relating to the acquis on the admission of securities to stock exchange listing and the reporting of trades, respectively, entered into force in the first half of 2001.

The Securities Commission has been considerably reinforced, more than doubling its staff to circa 130 persons since the last Regular Report. The Securities Commission makes use of all the powers attributed to it in its role as market regulator, and in taking punitive action and imposing fines (an average of 100 legally enforceable decisions every month). However, stronger regulatory powers and an extension of the scope of its activities would improve the transparency of Czech financial markets. Tightening the conditions for acquiring a license to operate in the Stock Exchange has led to a dramatic decrease in companies active in the market, which remains highly illiquid and has yet to fulfil its potential.

An amendment to the Act on Data Protection was adopted in May 2001, further aligning Czech legislation in the area of **protection of personal data and free movement of such data**. In July 2001 the Czech Republic ratified Council of Europe Convention 108 on the Protection of Individuals with Regard to the Automatic Processing of Personal Data.

Good progress has been made in the area of the **information society**, and the Acts on Public Information Systems and on Electronic Signatures were adopted in autumn 2000. The Office for Public Information Systems (OPIS) was established in October 2000 and is responsible for the creation and development of public administration information systems. The Copyright Act which entered into force in December 2000, transposed the conditional access directive.

Overall assessment

As stated in the previous Regular Report, the overall situation is satisfactory with the Czech Republic having introduced legislation to adopt much of the *acquis* in most of the areas covered by this chapter. This solid base has been further developed over the past year with the passing of legislation such as the amendment to the Act on Accounting and a partial amendment to the Act on Banks. However, an important amendment to the Act on Banks has been delayed.

The Czech Republic should ensure that any obstacles to the right of establishment and the free provision of services (Articles 43 and 49 of the Treaty establishing the European Community) are identified and national legislation amended accordingly. In the field of freedom of establishment and freedom to provide services (craftsmen, traders, and farmers) new legislation on Trade Licensing will be necessary to meet this requirement.

In the banking sector, an important amendment to the Act on Banks, dealing with regulation and banking supervision, has been delayed. Therefore further action is still required, in particular to provide for the principle of a single banking licence, consolidated supervision, enhanced co-operation with foreign supervisors, and exchanges of information. As noted in the previous Regular Report, the Czech Republic also needs to make progress by adopting the new Act on Payments. Alignment in the sphere of accounting has been improved by adoption of the amendment to the Act on Accounting which applies across a range of financial organisations.

Solvency problems within the Credit Unions sector are a cause for concern, with a high percentage of the Unions in difficulties. Although the sector is relatively small, and while the Act on Credit Unions of May 2000 has improved the situation somewhat, further alignment with the acquis, improved administration and supervision, increased stability and the bolstering of public trust are all necessary.

The Banking Supervision Department of the Czech National Bank is generally effective and its compliance with EC and international standards is up for review. Although privatisation of the banking system should have a positive effect on the key problem of non-performing loans, it should also be noted that the Department will continue to face the legacy of previous banking sector difficulties.

Further legislative steps concerning Insurance Contracts, Insurance Advisors and Loss Adjusters will be necessary to complete alignment in the insurance sector. The Czech Republic has yet to transpose some of the main objectives of the third-generation life and non-life directives. The process of de-monopolisation of the insurance industry continues. The Act on Liability Insurance for Damage Caused by Operation of a Vehicle and Amendments to the Third-Party Motor Liability Insurance Act which entered into force between July 1999 and January 2000 have contributed to alignment in their particular fields. Improvements need to be made in the area of registration and further changes will be necessary to align fully with the Fourth (Motor) Directive. In addition, steps will have to be taken to ensure the separation of life from non-life insurance activities.

The Insurance and Pension Funds Supervision Department of the Ministry of Finance has 40 employees, with an additional 10 to be recruited by the end of 2002. Many of the present staff are new and are therefore undergoing training. Plans to transform the Department into an independent supervisory body are under discussion, but no legislation has been prepared yet. More emphasis has to be put on the system of effective prudential supervision that ensures the principle of mutual recognition in relation to cross-border insurance business within the EU. The Ministry works with other relevant bodies in the Czech Republic, such as the CNB and the Securities Commission, but co-ordination could be further improved.

In the area of *investment services and securities' markets*, important progress has been made with the amendments to the Acts on Securities, Bonds and the Stock Exchange. Further measures will be necessary to complete harmonisation of the securities market with the acquis, addressing issues such as co-operation between the Czech Securities Commission and those in Member States and the minimum level of investor compensation. As stated in the 2000 Regular Report, the Czech Securities market still suffers from the structural problem of the "two prices" system, which will need further attention.

The Ministry of Finance is responsible for drafting legislation relating to the capital market, whereas surveillance of the market falls within the remit of the Securities Commission, which was established 3 years ago. Staffing of the Securities Commission is now largely adequate, with no significant increases planned. A code of best practice was recently approved and a new Department (on Mandatory Buy-Outs and Commercial Code subjects) established. Stronger regulatory powers for the Securities Commission and an extension of the scope of its activities would improve the transparency of Czech financial markets.

In the field of the protection of personal data the current legislation is largely in line with the *acquis*, although some fine-tuning will be required for full compliance. An independent supervisory authority - the Office for Personal Data Protection (OPDP) - was established on 1 June 2000. The Office carries out the standard activities of an independent supervisor (registration, consulting, promotion of data protection awareness, control, issuing permissions for data transfers abroad, etc.) and is empowered to impose financial sanctions. Staff levels are to be increased from 45 at present (seven of whom are inspectors) to approximately 85 by the end of 2001, with further moderate growth in 2002. Since 1 October 2000, the OPDP has also been responsible for the accreditation of certification authorities and supervision of the accredited authorities in the field of electronic signatures. 10 employees will be involved in e-signature matters. Emphasis should now be placed on ensuring that the office is in a position to exercise adequate powers and that citizens, enterprises and the public sector are aware of their respective rights and obligations in this field.

The Czech Republic has made good legislative progress in the field of the information society. Laws on Technical Requirements, Public Information Systems and Electronic Signatures have been in force since 2000, with further alignment to be completed upon accession. Future efforts should concentrate on the effective implementation of the adopted laws and on the transposition of the electronic commerce directive. Certain elements of the electronic signatures law will have to be reviewed. The Office for Personal Data Protection will be in charge of the accreditation and supervision of certification authorities.

Chapter 4: Free movement of capital

The previous Regular Report indicated that significant progress had been made, but since then only a few developments have taken place.

In the field of **capital movements and payments**, the new Act on Telecommunications that abolishes restrictions on direct investment into local telephone networks entered into force in January 2001. Parliament adopted the amendments to the Foreign Exchange Act and to the Act on Bonds at the end of 2000 with effect as from January 2001. The first of these amendments allows residents to carry out operations on deposit accounts abroad, and the second removes the need for a prior authorisation for issuing debt securities to the foreign capital market.

New powers have been given to the Czech National Bank this year, through the amendment to the Act on the Czech National Bank, which will administer and supervise interbank payment systems. Also, legislation regarding payments in the capital market was further aligned, whereby settlements may only be made by a company licensed by the Securities Commission.

As regards **money laundering**, from January 2001 new anonymous accounts (bearer passbooks) are forbidden by an amendment to the Civil Code. However, existing anonymous accounts remain operational, although subject to increased surveillance.

Since August 2000, when all banks were required to report all suspicious transactions to the Financial Analytical Unit, 86 complaints have been transmitted to the Police Service for the Discovery of Corruption and Serious Economic Crime (SPOK).

Overall assessment

The overall level of alignment is quite high, but a number of elements are still missing.

In the field of **capital movements**, liberalisation in line with the *acquis* is almost completed. The main remaining restrictions concern acquisition of real estate by non-residents and foreign direct investment in air transport, as well as the full alignment of rules relating to placement of assets of institutional investors.

Concerning **payments systems**, alignment with the *acquis* remains to be completed in the area of securities' settlement systems. A body responsible to handle customer complaints on cross border credit transfers remains to be established.

As regards administrative capacity, the Ministry of Finance and the CNB ensure supervision of foreign exchange and are also responsible for collecting statistical data.

As regards **money laundering**, existing anonymous accounts (bearer passbooks) have still to be abolished. The Czech Republic will amend its Banking Act in order to discharge existing bearer passbooks, but it needs to shorten the period during which existing anonymous accounts can still be used.

The specialist institutions, the Financial Analytical Unit (FAU) and the SPOK are collaborating quite effectively. The FAU, created in 1996, currently has a staff of 28 persons and the SPOK 212 policemen and 12 civilian employees. Further strengthening of the FAU and the SPOK is necessary, in particular by filling vacancies. More emphasis should be placed on reinforcing co-operation between the responsible bodies and on rendering prosecution of complaints lodged by the FAU with the law enforcement bodies more effective. Adequate criminalisation of acts of money laundering is also a priority. Compliance with the Recommendations of the Financial Action Task Force should be ensured.

Chapter 5: Company law

Since the 2000 Regular Report, further good progress has been made.

As regards **company law** as such, the major amendment to the Commercial Code mentioned in last year's Regular Report came into force on 1 January 2001. It aims to bring legislation fully into line with all existing Company Law Directives by strengthening protection of creditors and minority shareholders, introducing detailed provisions for mergers and divisions of companies, and specifying the rules for registration of companies on the Commercial Register. This includes a time limit of 15 days for Register Courts to make a decision on receipt of an application for registration. Moreover, the databases of the Central Register and the seven Register Courts are now accessible via the Internet.

In the area of *auditing*, the new Act on Auditors came into force on 1 January 2001, ensuring full compliance with the *acquis*, in particular by aligning the legislation on conditions of foreign ownership with the 8th Company Law Directive. A number of amendments were made to the *accounting* legislation through the entry into force of the Income Tax Act on 1 January 2001. These changes included the scope of the Accounting Act (*see also chapter 3 – Free movement of Services*), definition of the accounting year and rules on disclosure and depreciation. An advisory body, the Commission for strategic issues in accounting and auditing,

has been established at the Ministry of Finance. Its tasks include making proposals for restructuring of the accounting system and regulation of the profession.

In the area of **intellectual property protection**, the new Copyright Act entered into force in December 2000. This aims at full alignment with the *acquis*, covering *inter alia* computer programmes, satellite broadcasting, data bases, rental and lending rights, copyright and related rights and copyright in the Information Society. The Act also largely reflects the requirements of the WIPO Copyright Treaty and the WIPO Performances and Phonograms Treaty, both of which were adopted by the Parliament in August 2001. In the last Regular Report, it was noted that an extension of the Copyright section of the Ministry of Culture was vital in view of its increased responsibilities under the new Act. The staff numbers have now been increased by one to 3.5, but need to be strengthened further.

In the field of **industrial property rights**, the new Acts on Protection of Biotechnical Inventions and Protection of Industrial Designs entered into force on 1 October 2000.

The enforcement of intellectual and industrial property rights has been strengthened considerably by an amendment to the Civil Proceedings Code, in force since 1 January 2001, which introduces, *inter alia*, an obligation on courts to decide on interim measures within 7 days. The new Act on Judicial Executors, in force since May 2001, should improve the enforcement of judgements.

In the area of administrative capacity, efforts are being made to improve the knowledge of judges in the field of intellectual and industrial property rights, for instance through continued training initiatives and the creation in July 2001 of specialised judicial chambers for IPR cases, in all Regional Courts.

Overall assessment

There is already a high degree of compatibility with the overall company law *acquis*, with only a small number of issues still outstanding.

With regard to intellectual and industrial property rights legislation, the Czech Republic has during the past year implemented all the remaining current EC legal instruments and is very close to full compliance with the *acquis*. Further adaptation of the copyright legislation will be required in the future, in view of new *acquis*. The accession of the Czech Republic to the European Patent Convention, intended for July 2002, has yet to receive parliamentary approval.

Several measures which are required to achieve full compatibility (such as the EU-wide effect of national exhaustion of trademark rights and the establishment of a national trademark court) can only be enacted upon accession to the EU.

The enforcement and monitoring capacity of the relevant authorities in the field of IPR, such as customs authorities, police, judiciary and trade inspectorate should be further strengthened. In the light of the increasing workload, judicial and administrative bodies' mutual co-ordination and co-operation should be improved, and continued emphasis given to specialised training for judges and prosecutors. Efforts should be made to reduce the average length of criminal proceedings, and for courts to apply an adequate level of criminal sanctions to persons convicted of copyright infringement, in order to ensure more effective enforcement.

The combating of software and music piracy and counterfeiting remains an area of concern, despite serious efforts undertaken by the Czech authorities. The strengthening of administrative capacity and enforcement measures (including border control) should therefore continue to be a high priority.

With respect to the Rome Convention, the Czech Republic has to prepare the necessary legislation in order to allow for swift implementation of the convention after accession. The Czech Republic has started the necessary preparatory work for a swift implementation of the Regulation replacing the Brussels Convention, especially in relation to the courts which may be designated for the purpose of the Regulation.

Chapter 6: Competition policy

Since the last regular Report, further progress has been made, particularly as regards legislative alignment.

In the **anti-trust** field, the Czech Republic has continued to make progress. A new Act on the Protection of Economic Competition entered into force on 1 July 2001. It contains the main principles of the *acquis* as regards restrictive agreements, abuse of dominant position and merger control. The Act also makes significant amendments to the procedural provisions of the law, in an effort to speed up proceedings and make them more effective.

As regards secondary legislation, the Czech Republic on 1 July 2001 transposed an entire set of Community block exemptions (including the Community's new policies on vertical and horizontal restraints) by way of Decrees. These cover certain agreements in the insurance sector, vertical agreements, technology transfer agreements, motor vehicle distribution and servicing agreements, research and development agreements, specialisation agreements, railway, road and inland waterway transport agreements, and agreements concerning consultations on prices in passenger air transport and allocation of airport slots.

During the year 2000, the Office for Protection of Economic Competition (OPC) produced 73 anti-trust decisions (5 on horizontal agreements, 20 on vertical agreements, 4 on abuse cases and 44 on mergers). There were 16 appeals of OPC decisions, all in the field of anti-trust. In 2000, the OPC imposed fines amounting to 36,350,000 CzK (€1.06 million).

In the field of **state aid**, the Czech Republic has also continued to make progress. In April 2000, the Ministries and central bodies of state administration were requested to provide the OPC with all relevant information for the review of existing state aid programmes (predating the new State Aid Act), and the Office has since assessed 92 such state aid programmes and proposed appropriate measures to ensure their compatibility with the *acquis*. State aid providers have been required to amend and align existing state aid schemes with the *acquis* within 2 months of the OPC's proposal.

The latest state aid Report, submitted in November 2000, covers the year 1999 and is of good quality. A comprehensive state aid inventory is kept up to date. A notification duty was imposed by virtue of a Decree requiring *ex ante* notification of all future state aid projects. This entered into force in December 2000. . The Czech Republic has proposed a regional aid map, which will fix the maximum aid intensities in the assisted regions, for joint adoption by the Association Committee.

As regards secondary legislation, the Czech Republic has confirmed that Czech law allows for direct reference to the *acquis* through the Europe Agreement and its Implementing Rules. The Czech Republic, therefore, does not need to separately adopt new secondary state aid legislation. For reasons of transparency, the Office for the Protection of Economic Competition has published a series of guidance notes explaining the *acquis* in the various areas of state aid control.

In the framework of the Europe Agreement's state aid provisions, the Czech government in September 2001 submitted a restructuring programme for the Czech steel industry. This is currently under discussion with the Commission.

Since the entry into force of the State Aid Act in May 2000, the OPC has begun to develop an enforcement practice in this field, issuing 140 decisions between 1 May 2000 and 15 May 2001.

Overall assessment

. The Czech Republic has advanced significantly in addressing the remaining legislative gaps, identified in the 2000 Regular Report and the Czech Republic's legislation is now largely in line with the *acquis*.

As regards administrative capacity, the Office for the Protection of Economic Competition appears to be well staffed and trained. It currently has a total staff of 129, consisting of lawyers, economists and administrative personnel. The Antitrust Section of the Office has a staff of 32 qualified officials and the State Aid Section currently consists of 16 officials (including 14 qualified staff members).

The OPC has a reasonably good enforcement record in the anti-trust field, although further strengthening of enforcement, as well as a more deterrent sanctioning policy, are required. Priority should be given to cases which are concerned with the most serious distortions of competition.

In the state aid field, the OPC also appears to have a reasonably good enforcement record. However, rigorous and effective enforcement of the state aid rules, increased transparency, and the ability of the OPC to act independently and with the full co-operation of state aid providers must be demonstrated, including in sensitive areas, such as the restructuring of non-viable segments of the steel industry and the final stages of financial sector restructuring and privatisation.

Chapter 7: Agriculture

Agriculture in the Czech Republic accounted for 3.9% of gross value added in 2000²². Employment in agriculture slightly declined over the past year, accounting for 5.1% of total employment in 2000²³. In 2000, EC imports²⁴ of agricultural products originating in the Czech

²² The source for all agricultural statistics is EUROSTAT unless otherwise specified.

²³ EUROSTAT Labour Force Survey definitions (LFS). Agricultural employment is defined in LFS terms as economically active persons who gain a significant part of their income from agriculture.

Republic increased by 29 % to €489.3 million. EC exports to the Czech Republic increased by 12 % to €1,072.3 million. The trade balance in favour of the Community amounted to €583.1 million compared to €578.3 million in 1999. The most important product groups in terms of EC imports from the Czech Republic are oilseeds (24 %) with an increase of 21 % and beverages (20 %) with an increase of 63 %. As far as EC exports to the Czech Republic are concerned, the most important sectors are prepared feed (12 %) with an increase of 22 %, fruit (10 %) with an increase of 6 %, miscellaneous preparations (8 %) with a decrease of 5 %, vegetables (7 %) with an increase of 4 % and tobacco (7 %) with an increase of 11 %.

In 2001, the state agricultural budget will amount to approximately € 391.0 million, which represents 2% of the state budget. Support schemes for the agrarian sector amount to €192.1 million, while support for forestry and water management account for €14.9 million and €9.2 million respectively. An amount of € 14.0 million has been allocated to support of renewing assets in forestry and agriculture. The state subsidy to the State Agriculture Intervention Fund amounts to € 118.8 million and NPAA implementation expenditures account for € 19.2 million.²⁵

Since last year's Regular Report, the Czech Republic has taken further steps as regards its agricultural policy, in particular as regards preparing the administrative structures necessary to implement the Common Agricultural Policy and transposition in the phytosanitary field.

In May 2001, an amendment to the Act on Conditions of Transfer of Agricultural and Forest Land From the State to Other Persons and to the law on the Land Fund was adopted, facilitating sale of some agriculture premises and of the land on which they are built.

Horizontal issues

With regard to preparations for the *European Agricultural Guidance and Guarantee Fund (EAGGF)*, it has been decided that the National Paying Agency will be established as a part of the State Agriculture Intervention Fund. The Act on Budgetary Rules entered into force in January 2001 and aims to be fully aligned with Community rules.

As to preparations to establish the *Integrated Administration and Control System (IACS)* the identification of cattle was introduced on a voluntary basis in July 1999 and has been obligatory since 1 January 2001. According to the Breeding Act, which entered into force in January 2001, the obligations related to animal identification shall be met by breeders of pigs, sheep and goats by April 2002. Digital photographs of the whole territory of the Czech Republic have been taken and will serve as a basis for the central land register. A special IACS department has been set up at the Ministry of Agriculture.

In the field of *organic farming*, an Act on Ecological Agriculture entered into force in January 2001, setting rules for ecological agriculture and labelling of organic foodstuffs as well as import requirements for organic products from other countries.

²⁴ Source of trade figures: Uruguay Round definition of agricultural products, figures taken from EUROSTAT COMEXT (see U.E. 12/15: Commerce des Produits Agricoles 1988-2000, 1 Partie D.G. AGRI/A.2 Analyses quantitatives, préventions, statistiques, études, 2001, p. 10-57 et 86-89).

²⁵ Source: Czech Ministry of Finance.

With regard to *trade mechanisms*, the structures of the State Agriculture Intervention Fund, have been further developed to implement the *acquis* in this field.

In the field of *quality policy*, no particular development has been noted over the past year.

Concerning *the farm accountancy data network (FADN)*, the current system, which is partly in line with the *acquis*, has been extended to cover more farms.

As regards administrative capacity, a restructuring of the Ministry of Agriculture was implemented in April 2001 in order to prepare for the future management of the common agricultural policy. The new organisation is a step in the right direction, and further organisational changes are being discussed.

Common market organisations

Good progress has been made in this field, in particular as regards the State Agriculture Intervention Fund (SAIF), which has been developed as an administrative structure responsible for market organisation. The statutes of the SAIF were adopted in February 2001, and the SAIF has received additional competencies by decrees providing for market intervention in relation to a number of commodities. A new department for the SAIF was established in the Ministry of Agriculture in April 2001.

Concerning *arable crops*, further preparations for implementing the CAP have been achieved. A decree has been adopted which provides for conditions and principles of financial support for production of potato and wheat starch and subsidies for the export of foodstuffs made of potato starch. Another decree provides for rules to be respected by the SAIF when deciding on export subsidies for the export of malt. A government order laying down the principles of performance of intervention purchases and sales of cereals was approved in June 2001. A Government Regulation laying down the conditions for providing financial support and compensation for setting aside land, as well as the principles for the sale of rape grown on set-aside land has been adopted.

A decree defining *sugar* production quotas for 2001/2002 to 2004/2005 and a system for the organisation of the market in sugar, using the basic elements of the EC system, has also been approved.

In the field of *specialised crops*, measures similar to those in the Community have been introduced for registration of wine-growing and viticulture and for import control. In the *fruit and vegetable* sector, the Czech Republic has continued the harmonisation of its standards with UN/ECE standards.

In relation to *animal products*, milk production quotas were introduced in April 2001, based on the Act on the State Agriculture Intervention Fund, and the government has introduced export subsidies for dairy products. A system to support milk consumption (“school milk scheme”) has also been introduced. A new department for the milk sector was established in the Ministry of Agriculture in January 2001. A Decree on beef labelling was adopted and will enter into force partly in October 2001 and partly in January 2002. The common classification of carcasses (SEUROP) has been used for pork meat since April 2001. A decision was taken in September 2001 to establish the Classification Agency for slaughter animals as of January 2002.

Rural development and forestry

With regard to the implementation of *agri-environmental measures*, a Government order has been approved introducing a system of support for rural development programmes, which include agri-environmental programmes. The department of rural development support has been reinforced with 4 experts. A horizontal plan for rural development is being drafted and is intended to serve as a basis for future support provided by the EAGGF guarantee section.

Veterinary and phytosanitary issues, including food safety

In general, little legislative progress has been noted in the veterinary field over the past year. However, good progress was made in establishing the system of animal identification. The identification and registration of cattle was introduced on a voluntary basis in July 1998 and has been obligatory since January 2001. According to the Breeding Act, which entered into force in January 2001, the obligations relating to animal identification shall be met by breeders of pigs, sheep and goats by April 2002. An implementing Decree concerning cattle, sheep and goats was adopted in April 2001, stipulating the manner of identification, keeping and submission of records. Following the identification of two BSE cases in 2001, the Czech Republic introduced testing of all slaughtered bovines aged over 30 months, removal of Specified Risk Material (SRM) and a set of new rules for treating risk material. In the context of the Geographical BSE Risk Assessment, the Czech Republic has been classified in group III.

In the **phytosanitary** field good legislative progress has been made over the past year. In the field of *plant health (harmful organisms and pesticides)*, an amendment to the Act on Phytosanitary Care entered into force in January 2001, reinforcing the protection against harmful organisms. It aims to align legislation with Community rules on the registration of growers, producers and importers of vegetable products. The provisions on import registration were implemented as of July 2001. A second amendment to the Act on Phytosanitary Care was adopted in July 2001, and will enter into force in January 2002. The amendment aims to enhance alignment with the *acquis* as concerns the registration of producers, growers and importers of plants and plant products, introduction of a plant-passport system, protected zones and import and export protection. However, the provisions on plant passports will not enter into force until March 2002.

In the field of *plant hygiene*, no particular development has been noted over the past year.

In the field of *plant variety protection*, the Act on Plant Varieties entered into force in January 2001, and aims to reflect the *acquis* in this field. In particular, it widens the range of rights to plant varieties to be protected.

As regards administrative capacity in the phytosanitary field, the Czech Republic further prepared for incorporation into the EUROPHYT system, upgraded the equipment of diagnostic laboratories and strengthened the central regulatory capacity of plant protection product registration.

As regards **food safety** (*see also chapter 1 – Free movement of goods*), the Czech Republic produced a Food Safety Strategy in April 2001 which outlines the systems for co-ordination between the various official bodies involved, their competencies, organisation and staffing.

Overall assessment

Overall, legislative alignment has reached a good level and the setting-up of implementing structures for the common agricultural policy is well underway.

In the field of **horizontal issues**, the administrative structures needed to implement Community *trade mechanisms* need to be finalised. In the field of *quality policy*, supervision mechanisms in line with Community requirements need to be completed. It has been decided that the National Paying Agency will be established as a part of the State Agriculture Intervention Fund (SAIF), which will require an amendment of the Act on the SAIF. As regards preparations for *the Community Integrated Administration and Control System (IACS)*, the legal framework for animal identification and registration is largely in place but the establishment of the land parcel identification system needs to be completed. As regards *the Farm Accountancy Data Network (FADN)*, the existing surveys are only partly in line with the *acquis*. There is a need to ensure collection of data and administrative capacity in conformity with Community requirements. Co-operation on the exchange of data must also be ensured.

As regards administrative capacity, the reorganisation of the Ministry of Agriculture is a step in the right direction, but further reorganisation is foreseen to reflect the organisation necessary to ensure suitable implementation of the common agricultural policy by accession.

As regards the implementation of **common market organisations**, the State Agriculture Intervention Fund (SAIF) has started working on specific market regulation in order to prepare for the function of an intervention agency. It is currently not fully equivalent to intervention agencies in the EU, and needs to be adapted before accession. An effective network with a reliable market monitoring system, capable of collecting price data in real time at all points in the chain is lacking. Legislation establishing quality and marketing standards for *arable crops* and *animal products* needs to be completed. The Czech Republic also needs to complete market regulation for *specialised crops*. Further steps are needed to align with the *acquis* on the market organisation for sugar. The marketing standards for fruit and vegetables are currently aligned with Community requirements. However, the quality control system in the area of fruit and vegetables needs reorganisation. Five producer organisations in this field have been established and benefit from State financial assistance, but the existing legal framework for producer organisations is not in line with Community requirements.

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

Concerning the **veterinary** field, new horizontal legislation is in place since 1999. However, further legislative work is needed to ensure transposition of veterinary legislation, e.g. in the fields of *animal welfare*, *rules concerning imports from third countries* and *veterinary controls*. As regards veterinary control in the internal market, the system of checks during transport and at destination needs to be aligned. Furthermore, preparations for participation in the animal movement control system (ANIMO) need to be completed. The system for financing of veterinary controls needs to be aligned with the *acquis*. Border inspection and import checks need to be reinforced and aligned with Community requirements. The border post at Ruzyně airport needs to be completed and suitably equipped, and the staff should be trained with regard to border inspection procedures. In the field of *control of animal diseases and animal*

health, preparations for participation in the animal notification system (ADNS) are well advanced.

In order to provide an efficient animal disease prevention system, the current system for animal identification needs to be centralised and connected to the Czech epidemiological surveillance network. Furthermore, the designation of competent authority for the setting-up of the database for bovine animals needs to be aligned with the *acquis*.

As regards *animal waste treatment*, most of the rendering plants for high-risk waste are operating according to Community requirements. As regards *public health protection*, a substantial portion of the plants processing products of animal origin do not yet meet Community hygiene and public health requirements. An overall plan is needed with regard to the modernisation strategy for these establishments. In the field of *animal nutrition*, the *acquis* has largely been transposed. The State Veterinary Administration (SVA) as well as the Agriculture and Food Inspectorate (CAFI) generally function well. The CAFI information network has improved but an on-line connection with the Customs Directorate needs to be established.

In the **phytosanitary** field, a good level of legislative alignment has been achieved. In the field of *plant health (harmful organisms)*, inspection and control structures appear adequate, but plant passports still need to be introduced as foreseen by the legislation adopted. In the field of *quality of seeds and propagating material*, appropriate inspection and control structures are largely in place but the mechanisms need to be completed. As regards *pesticides and residue levels*, all Maximum Residue Levels are not yet fully aligned with Community rules. . The State Phytosanitary Administration has prepared its linking to the EUROPHYT information system in the field of plant health and harmful organisms, but the system needs to be completed. The State Phytosanitary Administration generally functions well, and the situation with regard to specialised equipment is improving. However, further strengthening in terms of sufficient number of adequately trained staff and equipment is needed. An institute for plant identification remains to be set up and the Central Institute for Supervision and Testing in Agriculture needs to be further aligned.

With regard to **food safety**, the system of inspections is not fully in line with the *acquis*.. The HACCP (Hazard Analysis at Critical Control Points) system, which involves measures to identify and control hazards related to food processing and the monitoring of safety requirements has been obligatory for all food producers since January 2000 (*see chapter 1 – Free Movement of Goods*).

Chapter 8: Fisheries

Some further progress has been made in this area over the past year. Fisheries activities in the Czech Republic are limited to aquaculture, mainly carp.

Since the last Regular Report, no particular development has taken place as regards **the management of resources, inspection and control**. , In the field of **structural actions**, a number of programming documents have been drawn up to prepare for the fisheries structural policy.

As regards **market policy**, a producer organisation has been established in 2001, which should help to improve the processing and marketing of fishery products in line with EC practices. The

Czech Statistical office has started collecting market data on quantities and prices of Czech fish production.

As concerns **state aid** to the fisheries sector, support programmes from the state budget via subsidies granted for monitoring fish productivity continued in 2001. Subsidies will be granted only for activities which improve the fish culture.

An amendment to the Act on Fisheries entered into force in October 2000, extending the scope of the fishery law and introducing selective administrative procedure for fish management in fishery districts.

As for administrative capacity, the special unit on fisheries within the Ministry of Agriculture established in 1999 has been abolished and the personnel has been integrated into other departments of the Ministry.

Overall assessment

The Czech Republic's fisheries policy is partly aligned to the *acquis* in this area. Further progress is needed both as regards the legislative transposition and as concerns administrative capacity necessary to implement the Common Fisheries Policy. Legislation regarding the control of imported fish needs to be adopted, and the control system for sources and species of fish needs to be set up. In order to establish a well-functioning monitoring system for the control of fish resources and imports, co-operation between relevant authorities should be improved.

Institutions also need to be set up in order to implement the *acquis* as regards controlling the implementation of common market standards, collecting and transmitting data concerning the markets and applying the recognition conditions for producer organisations. Further efforts are required also to prepare for the implementation of the *acquis* concerning the management of Community structural actions in fisheries. Preparations for the fisheries structural policy, in particular as regards programming documents, are well underway.

Since the Czech Republic is a landlocked country, parts of the *acquis* in fisheries are of lesser importance for this country.

Chapter 9: Transport policy

Since the previous Regular Report the Czech Republic has made good progress, especially concerning road transport legislation.

Concerning **Trans-European Transport Networks**, the State Fund for Transport Infrastructure is progressively taking on its role as the central financing authority for transport infrastructure investments. Financing for the development, construction, maintenance and modernisation of roads, motorways, railways and inland waterways is provided to approximately 100 beneficiaries, the most important of which are Czech Railways and the Road and Motorways Directorate in the Ministry of Transport.

As regards transport infrastructure, in March the Government took an innovative step by entering into a partnership with the private sector, when it awarded the right to build and operate a motorway from Lipník to Ostrava to a private company. However, concern has been

expressed about the transparency of the award procedure which was carried out without public tender.

Concerning investments in rail transport infrastructure, progress has been made with line refurbishments on Corridors IV and VI.

With regard to **land transport**, a number of legislative developments have taken place. On *road transport*, the Act on the Conditions of Operating Vehicles for Road Communications came into force in July 2001. Moreover, a new Act on Road Communications, regulating rights and obligations of road traffic participants, and the Act on Obtaining and Upgrading Professional Competence for Motor Vehicle Driving, came into force in January 2001. In May 2001 the Government approved the INTERBUS agreement on occasional international bus transport.

Concerning *rail transport*, no progress can be reported in transposing the EC acquis in this key sector, although the government has made proposals. No new developments can be reported with regard to *inland waterways transport*.

As regards **air transport**, the Czech Republic became a full member of the Joint Aviation Authority on 12 December 2000 and is thereby bound by all Joint Aviation Requirements. Although an advisory Committee for Slot Allocation was established in October 2000, actual decisions concerning scheduled flights are made by the Czech national carrier Czech Airlines. Administrative capacity has been strengthened: both Air Traffic Control, which has also been reorganised, and the Civil Aviation Authority have received additional staff.

No developments can be reported with regard to **maritime transport**.

Overall assessment

The Czech Republic is quite advanced in legislative terms, in particular on road transport. Regarding railways, substantial further legislative changes, in particular to the Act on Tracks, will be required. Most importantly, administrative capacities still have to be strengthened, in particular in the road transport area.

On horizontal issues, the State Fund for Transport Infrastructure should improve the development of transport infrastructure. However, the direct financial dependence of the Fund on unpredictable levels of funding via privatisation revenue, even if reduced, continues to cause problems for the financing of important infrastructure projects. Concerning road transport, further harmonisation with the transport acquis has been achieved in particular with the adoption of the Act on the Conditions of Operation of Vehicles for Road Communications. Administrative capacity in the road transport sector, however, gives cause for concern, as fines levied are too low to have deterrent effects and the supervisory capacity of the Ministry over regional and district authorities, which are undergoing administrative reform, is too weak. The 350 transport officers working in district offices levied 1900 fines during their 7600 checks of transport companies in the year 2000. Within the context of decentralisation, a plan for the transfer of responsibilities is needed together with a strengthening of the supervisory role of the Ministry. Currently a sub-section of the Department for Road Transport in the Ministry of Transport with four members of staff supervises the enforcement of fiscal, social and judicial measures implemented by district offices, including market and professional access requirements

such as financial standing, good repute and professional competence. It also serves as the appeal authority on such issues as access to the profession and observance of AETR rules. Considering the size of its task, the sub-section is considerably under-resourced.

With regard to rail transport, the legislative delays underlined in the previous Regular Report have not been redressed. Furthermore, new *acquis* has been adopted by the EU in 2001 concerning the establishment of a liberalised market. Thus, substantial legislative work remains necessary in order to achieve alignment ahead of accession. In particular, further steps need to be taken to implement the new railways *acquis* in order to ensure independent functions of the infrastructure manager as regards allocating of capacity and charging.

Currently, the Czech Railways Authority (DU) functions smoothly in the context of existing legislation as the executive organ for railways and rail transport. It employs about 60 staff, spread across four regional offices. DU's main responsibilities are the regulation of rail transport, the allocation of infrastructure, the authorisation of infrastructure construction and the approval of technical qualification of rail equipment. The Authority furthermore issues legislative norms, e.g. on safety standards and checks the application of the current legislation. The authority depends financially and organizationally on the Ministry of Transport, which sets the budget and appoints the General Director. The Authority performed over 1000 inspections of rail operators in the year 2000, levying 15 fines.

As concerns **air transport**, the Czech Republic has shown a clear determination to accelerate harmonisation with the aviation *acquis*. The Czech Republic is now a member of the Joint Aviation Authority. The establishment of the Committee for Slot Allocation is a welcome step towards independent slot allocation. An independent air accident investigation authority remains to be established.

Regarding **inland waterways**, an inland waterway fund, responsible for administering possible capacity measures in case of market crises still has to be established.

The Czech Waterways Administration (SPS) is the administrative authority for all navigable inland waterways. It employs approximately 300 people and functions satisfactorily. The responsibility of the SPS is to establish navigation safety and to monitor the observance of the law by all ship and port operators. The SPS also maintains a register of all vessels operating under the Czech flag. The total registered tonnage of vessels in the Czech Republic amounts to 150 000 tonnes and decreased by approximately 10% last year. The SPS has the authority to inspect and levy sanctions against operators. However, it is not clear to what extent these powers are used. The maintenance of waterways and investments in waterways, as well as the demarcation of waterways, falls under the responsibility of the separate River Management Office which is subordinate to the Ministry of Agriculture.

Chapter 10: Taxation

Since last year's Regular Report, the Czech Republic has made limited progress, and this solely in the area of excise duties.

As regards **indirect taxation**, a positive step was taken with the amendment to the Act on Excise Duties, which entered into force on 1 July 2001, introducing a single combined (specific/ad valorem) duty on cigarettes. At the same time, fiscal stamps indicating the retail-

selling price were introduced for cigarettes, cigars and cigarillos. Under the same legislation, the excise duty rates on certain mineral oils were increased (the Czech Republic has already achieved the required EC minimum excise duty rate on unleaded petrol); wine has become subject to excise duty at the zero rate; products subject to excise duties, which are placed in free zones or warehouses and rendered back to the inland have become taxable; and tax exemption of losses caused by force majeure has been introduced.

No progress can be reported in the alignment of VAT legislation. In fact, a step backwards was noted, when the VAT rate for restaurant services was decreased from 22% to 5% on 1 April 2000, thereby bringing it out of line with the *acquis*.

Last year's Regular Report noted the adoption of new legislation providing for the permanent closure of duty-free shops at land borders by 31 December 2001. However, in July 2001 the Czech parliament adopted a new Act, postponing such closure, until December 2003.

No progress can be reported in the area of **direct taxation**.

Progress was made in the area of **administrative co-operation and mutual assistance**. The Act on International Assistance in the Recovery of Certain Financial Claims entered into force in January 2001. It transposes the *acquis* (to the extent that measures can be implemented pre-accession) on mutual assistance in the recovery of claims related to the European Agricultural Guidance and Guarantee Fund, agricultural levies, and customs duties in respect of VAT and certain excise duties.

In the area of **administrative capacity** the Acts on Free Access to Information and Electronic Signature of 2000 contribute to greater efficiency and transparency in the tax administration.

Overall assessment

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

As regards indirect taxation, the 2000 amendment to the Act on VAT brought forward alignment of indirect taxation legislation. However, further alignment is needed as regards the most substantial issues, such as the approximation of VAT and excise duty rates, as well as the scope of VAT exempt transactions. It will be important to ensure that existing and future legislation complies with the principles of the Code of Conduct for Business Taxation.

As already highlighted in last year's Regular Report, the Czech Republic needs to establish an adequately structured and coherent legislative timetable in these sensitive areas. In view of the significant impact on consumer prices which alignment with the *acquis* is likely to have, the Czech Republic should aim at a gradual legislative approximation of VAT and excise rates in order to avoid economic disruption at a later stage. The Czech Republic should also ensure that its commitment to close duty-free shops at land borders is fulfilled and implemented by 31 December 2001.

As regards **administrative capacity**, the process of modernisation of the tax administration is underway, although it is still in the preparatory phase. Work on the establishment of an independent authority responsible for tax and customs administration is ongoing, however the legislative steps to ensure the creation of such a body have not yet been taken. Genuine action is

still required in most areas and more concrete progress is needed to ensure the proper and efficient functioning of the tax administration upon accession. In this regard, efforts should in particular concentrate on improving tax collection.

Chapter 11: Economic and monetary union

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

Since the previous Regular Report, progress has been made only in certain areas.

As regards the prohibition of **direct public sector financing** by the Czech National Bank (CNB), provisions have been adopted which prevent the CNB from granting short-term credit to the government, in line with the *acquis*

The CNB's right to set the minimum interest rates on deposits and the maximum interest rates on credits provided by or granted to banks was also abolished. This provision could have been considered as a case of **privileged access of the public sector to financial institutions** and its removal represents therefore substantial progress in alignment with this part of the *acquis*.

The amendment to the Act on the CNB which entered into force in January 2001 failed to ensure the independence of the national central bank by stipulating that the inflation target and the exchange rate regime shall be set in agreement with the Government and by dividing the CNB budget into two separate parts with one of them being subject to approval by Parliament. As regards the primary objective of the CNB, the move from "stability of the currency" to "price stability" brought the amended CNB Act closer to the provisions of the Treaty and the ECB Statute. However, in June 2001 the Constitutional Court of the Czech Republic ruled that the above-mentioned provisions were unconstitutional.

Overall assessment

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

Overall, a significant part of the EMU *acquis* has been adopted but some fundamental elements are still missing.

A good level of alignment has been reached as regards the prohibition of direct public sector financing by the Central Bank and on the prohibition of privileged access of the public sector to financial institutions.

As regards independence of the Czech National Bank, the decision of the Constitutional Court invalidated the most prominent incompatibilities with the *acquis* in the area of institutional independence which had been introduced with the amendment of the CNB Act: the need to agree with the Government on the inflation target and the exchange rate regime and the division of the CNB budget into two separate parts, one of them being subject to approval by the Chamber of Deputies. However, other imperfections with respect to the *acquis* remain such as the provisions setting the grounds for dismissal of CNB Board members and the absence of provisions to ensure judicial review by an independent court in the case of dismissal of Board members other than the Governor (personal independence). Thus further efforts are needed to complete alignment with the *acquis* as regards central bank independence.

Following the ruling of the Constitutional Court, “price stability” cannot be implemented as the primary objective of the CNB as long as “stability of the currency” is established as the central bank’s primary objective in the Czech constitution.

As regards administrative capacity, the CNB functions effectively. The level of professionalism of its staff is high and turnover of staff is low. Both the CNB and the Ministry of Finance have good analytical capacities enabling them to conduct economic dialogue in an EU environment. However, improvements in administrative capacity are still required in the Ministry of Finance, in particular to prepare medium term fiscal frameworks and statistics.

Chapter 12: Statistics

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

As regards **statistical infrastructure**, legislation is substantially aligned with the *acquis*. The amendment to the State Statistical Service Act, which will allow the Czech Statistical Office (CSO) access to the Ministry of Finance’s tax registers, entered into force in January 2001. Full implementation of this amendment requires the Ministry of Finance to provide the data from the districts.

As regards the administrative structures for implementing and enforcing the *acquis*, the coordinating role of the statistical office has been strengthened and, following the creation of the new regional governments, the CSO has adjusted its structure by establishing regional representations in all 14 regions. At the end of 2000 the opinion poll institute was shifted from the CSO to the Academy of Science as an independent research body.

Demographic and social statistics are largely in line with EC standards. A major exercise was the 2001 National Census which was conducted in line with EUROSTAT methodology. The preliminary results for some basic indicators were available in July 2001 and final results will be published in August 2003. Municipal and Governmental bodies were sometimes at cross purposes and some minor irregularities in the collection of data were reported.

In the field of **regional statistics**, the Czech government has upgraded its system of regional classification to bring it into line with the EC system of regional classification (NUTS). A new law on the Establishment of Higher Self-Administering Units will increase the number of regions from 8 to 14 at the NUTS III level. However, this will mean that the NUTS II level will have to be redefined accordingly. Regional classification should be consistent with new legislation and requires further improvement regarding the data for NUTS II and III levels. Also, the

methodology and the collection of regional integrated data needs improvement. In particular, the methodology for regionalisation of indicators should be fine-tuned according to EUROSTAT standards.

In the area of **macro-economic statistics**, the CSO has improved the quality and reliability of its output, notably in the area of National Accounts. In the field of **business statistics**, the process of meeting the main EC requirements is still ongoing. The work on the processing of data from the industrial sector according to the PRODCOM nomenclature has progressed, as has the collection of data from the business environment. The quality of the business statistics register has still to be improved. The reliability of data could be improved by using more data sources from other institutions. Work continues on the harmonisation of the Register of Economic Subjects (RES) and profiling of local units and 'kind of activity units'. Following the amendment to the Statistical Service Act, the co-ordination of data with the tax and social registries and RES is progressing well. The administrative capacity of the unit dealing with RES methodology should, however, be increased.

The **external trade statistics** conform to international guidelines and the methodology used conforms to that used by the EC. In relation to this, the administrative capacity of the relevant unit should be increased.

For **agricultural statistics**, the methodological approach was improved to reflect the EC requirements, and the work on covering individual commodities and the regionalisation of data is progressing well. The analytical work following the completion of the 2000 Agro census is proceeding well in line with the EUROSTAT standards. Data will comply with standards after the Agro census data have been processed. The methodology for environmental data (e.g. waste statistics) should be modified following the forthcoming entry into force of the new Act on Waste.

Overall assessment

Overall, the Czech Republic is well advanced in the field of statistics. The CSO functions well and is preparing for accession to the EU. The legislation is substantially aligned with the *acquis*.

There is a need, however, to ensure that the various registers are updated, well co-ordinated and harmonised. The methodology of data collection and processing needs to be fine-tuned to reflect the EUROSTAT standards, and to avoid some remaining inconsistencies in the quality and timeliness of data provision.

Data collection at the regional level has to be improved. For external trade statistics, access to tax registers will be specifically important to prepare the implementation of INTRASTAT. In this respect, the administrative capacity of the data processing unit, notably regarding regional accounts, should be strengthened. As regards macroeconomic statistics, the main objective should be to ensure the reliability of collected data.

The administrative structures to implement and enforce the *acquis* are largely in place and operate in line with the principles and standards practised in the EU. The CSO has improved its co-ordinating role particularly in respect to accessing the data of other authorities. There is, however, still a problem concerning the tax register of the Ministry of Finance.

Preparations are necessary in order to fully implement INTRASTAT after accession. However, the human and financial resources of the CSO are not yet sufficient to meet the increased need for structured data in line with the *acquis*. Also, in line with the increased workload relating to the massive volume of processed data, overall strengthening of CSO capacity, both at headquarters and in the field, is necessary.

Chapter 13: Social policy and employment

During the reference period the Czech Republic has continued to build on the good progress acknowledged in the previous Regular Report.

Amendments to the **Labour Code**, aiming at transposition of much of the *acquis* in this field, entered into force in January 2001, with the exception of those provisions relating to the posting of workers and European works councils. As regards **equal treatment for women and men**, with the entry into force of the Labour Code, the Act on Civil Proceedings and the Amendment to the Salary and Bonus Act, the Czech Republic has made further progress in aligning legislation with the *acquis* in this field. Regarding **health and safety** at work, the amendment to the Labour Code intends, *inter alia*, to finalise transposition of the Framework Directive. A Government Order adopted in April 2001 addresses transposition of the *acquis* on chemical agents.

In April 2001, a Government Order on health protection of employees was approved, with the aim of transposing the *acquis* as regards display screens, carcinogens, biological agents, asbestos and noise. In September 2001, the Government adopted legislation intended to transpose the Directive on work equipment.

The Act on **Public Health** Protection entered into force in January 2001, and most relevant secondary legislation had been prepared by June. The Act, together with the implementing regulations, ensures alignment with a substantial part of the relevant *acquis*. The Act contains the codification of rights and obligations of institutions in the protection of the population's health and the powers and authority of state healthcare supervisory bodies. The Labour Code amendment referred to above bans smoking at the workplace in case there are any non-smokers present. Actual observance of the Code should be monitored, however. In February, an amendment to the Act on Public Health Insurance was passed extending the validity of existing legislation beyond December 31 and incorporating a ruling by the Constitutional Court on the bargaining procedure. The new Act stipulates that in cases where bargaining is unsuccessful or if its outcome clashes with the law or public interest, the prices agreed on in the previous period will remain in force.

In January, the Government passed an amendment to the Act on Health Care aiming to harmonise the Health Care Act with the strict Act on Protection of Personal Data, which was passed in 2000. The amendment defines medical data and who can access it, and puts electronic storage on an equal basis with paper storage.

Regarding **social dialogue**, the entry into force of the amendment to the Labour Code and to the Employment Act intends to promote social dialogue at enterprise level. This represents a significant step and needs to be implemented at local level. Tripartite social dialogue at national level continues to work well. Social partners are actively involved in the preparations for

accession. Work between the government and the social partners for a long-term social stability pact is ongoing.

As a follow-up to the Joint Assessment of Employment Policy Priorities signed in May 2000 between the Czech Republic and the European Commission, a first assessment of progress in implementation of these policies took place in September 2001. The situation on the labour is starting to improve. Unemployment started to fall at the end of 2000. The overall unemployment rate was 8.8% in 2000 with 7.3% for men and 10.5% for women. The National Employment Action Plan (NEAP) for 2001 was adopted in February. Support for employment, business activities and helping companies and employees to adjust to changes are the main pillars of the plan. One of the plan's goals is to reduce indirect payroll costs. It stipulates co-ordination of programmes for support of small and medium-size enterprises (SMEs), and the creation of conditions for the development of consulting services for SMEs and also stipulates for the increase of minimum wage. It includes measures aimed at solving unemployment of the physically handicapped and other groups experiencing difficulties on the labour market, including the Roma.

In the field of social protection, pension reform is on-going. The amendment to the Pension Insurance Act was adopted and came into force in July. The Act tightens conditions for early retirement and provides incentives for later retirement.

The amendment to the Labour Code contains a fundamental **anti-discrimination** provision, which – among other things - aims to substantially improve the protection of employees against any discrimination in employment.

Overall assessment

Overall, legislative alignment is well advanced. However, enforcement of legislation in areas such as occupational health and safety and public health still needs to be strengthened and in areas where new legislation has been adopted, such as equal treatment for women and men, enforcement awaits first assessments.

As regards **labour law**, the Directive on Young People is only partially transposed. Strengthening of the capacity and co-operation of the institutions in charge of labour inspections is also needed. As regards **equal treatment for women and men**, the Czech Republic has made important steps forward in the alignment of Czech legislation. The *acquis* on equal treatment in occupational social security remains to be transposed and certain provisions of the newly amended Labour Code, which seem to be incompatible with the *acquis* will need to be addressed. Although some implementing secondary legislation in the field of **health and safety** has already been issued, a substantial amount of work remains to be done. Harmonisation with the *acquis* will only be achieved once implementing regulations are issued and put into practice. As concerns the administrative capacity to implement the *acquis*, continued efforts are needed to strengthen enforcement bodies, notably the national labour inspectorate. Co-operation between employers and employees in health and safety at work should be enhanced and particular attention should be paid to small and mid-size enterprises. As regards **social dialogue**, autonomous social dialogue needs to be strengthened especially at sectoral level, where the number of collective agreements continues to be limited. The Czech Republic should continue to promote forms of dialogue and workers' participation at enterprise level, especially

with regard to the implementation of the relevant *acquis*. Social dialogue in the public sector as well as in public enterprises needs to be progressively improved.

The Czech Republic has further progressed in transforming the labour market and adapting its **employment** system so as to be able to implement the European Employment Strategy. The capacity of the public employment services needs to be further strengthened, as defined in the Joint Assessment of Employment Policy Priorities (JAP). The process of restructuring is causing employment problems, which are particularly acute in certain regions. This makes the implementation of further reforms of tax, benefit and social assistance systems particularly important, in addition to the implementation of active employment policies already introduced and planned, in particular in the context of the Joint Assessment of Employment Policy Priorities and the National Employment Plan. In order to assure smooth implementation of future European Social Fund (ESF) programmes, the administrative capacity of the precursor of an ESF management office needs to be strengthened. It is also important that the contents of future ESF interventions is embedded in the European Employment strategy and the fight against social exclusion.

The Ministry of Labour and Social Affairs (MoLSA) is a central institution of state administration responsible for the issues addressed under this chapter. It has a staff of over 500 people. It is competent and well informed on EU related issues, and harmonisation efforts are well advanced. The bulk of remaining work consists in the implementation and enforcement of new legislation, and the testing of newly created structures. Supervision of occupational health and safety and working conditions is the responsibility of the Czech Occupational Safety Office (COSO), which reports to MoLSA. Activities of COSO are to undergo changes further to recent legislative developments, which aim to ensure alignment with EC standards and policies in labour inspection.

The co-ordination on equal opportunities and equal treatment for men and women is a competence of the Ministry of Labour and Social Affairs. In May 2001 the Government decided that by January 2002, each Ministry should create a permanent position for an official charged exclusively with the agenda of equal opportunities for men and women and approved an updated list of Government priorities in this field. Despite several changes of ministerial posts since the last Regular Report, no female members of Cabinet were appointed. The Czech Government has had no female members since coming to power in July 1998.

As for health-related issues, the Ministry of Health (MoH) is responsible for health care, public health and related activities. It has a staff of over 300 people. Instability in terms of political leadership and staff over the last decade adversely affected all its departments. The situation has stabilised in the past year but the necessary reform of the health care system and in particular of its financing has not significantly progressed. The legislative process of harmonisation with the *acquis* in the area of public health should be continued. A new act on protection against damage caused by tobacco products, alcohol and addiction drugs should be adopted. The institutional basis of public health protection should be created, resulting in restructuring of public health protection bodies with increased ability to implement the State administration tasks, to enforce legislation and to adjust to the public administration reform. The administrative capacity of these bodies, in particular hygienic services, should be strengthened at the central level to continue with transposition where a significant amount of work remains to be done. An integrated information system covering relevant public health protection issues should be set up. Enforcement of legislation concerning tobacco control should be improved. The Czech Republic

should develop a national system for the epidemiological surveillance and control of communicable diseases that will enable it to participate in the Community Network of surveillance and control of communicable diseases.

The Hygienic Service section of the Health Ministry has staff of 25 of whom 2 deal with legislation, 2 with occupational health and 3 with nutrition. A recent FVO mission concluded that this does not correspond to the tasks and that capacity should be strengthened.

As regards social protection, the need for pension reform is recognised by the Czech Republic, which has a number of proposals at hand. It will be important to track the development of these reforms, and others such as the strengthening of health care financing. The combating of exclusion, as laid down in Art. 136 of the Treaty establishing the European Community, is part of the objectives of EU social policy. As decided at the Lisbon and Nice European Councils, policies to combat social exclusion combine commonly agreed objectives at EU level, national action plans. The Göteborg European Council in June 2001 invited candidate countries to translate the Union's objectives of promoting social inclusion into their national policies.

Further efforts are needed to ensure alignment with the *acquis* on anti-discrimination based on Art. 13 of the Treaty.

Chapter 14: Energy

Since last year's Regular Report, which concluded that significant further efforts were needed for alignment with the *acquis*, considerable progress has been made, in particular with the adoption of the new Energy Act.

With regard to **security of supply**, the Czech Republic has further increased oil stocks with a view to complying with the *acquis*, reaching a considerable part of the required level.

As regards the issues of **competitiveness and the internal energy market**, the new Energy Act came into force on 1 January 2001. This Act aims to align Czech legislation with the *acquis* and constitutes an important development in the energy sector. The Act defines the legislative framework with regard to market regulation and a number of technical issues for the electricity and gas sectors, as well as the heating sector. Also, the Energy Act provides for a gradual liberalisation of the electricity market, including third party access starting in 2002. Full opening of the electricity market is expected to take place in 2006. Furthermore, the Energy Act also provides for third party access and a gradual liberalisation of the national gas market.

During 2001 there was some progress with price liberalisation. In January, prices for both natural gas and electricity prices were increased.

Under the Energy Act, an Energy Regulatory Office (ERO) was established in January. This is a state regulatory body funded from a separate chapter of the state budget, with an annual budget of €1.6 million. The ERO is responsible for the promotion of competition and the protection of consumers where competition is not possible. To this end, the ERO has the right to improve the regulatory framework by passing secondary legislation. Its competencies include the granting of market licenses, setting market rules and regulating prices.

The Regulatory Office recruited 40 members of staff by July 2001 and has started to draft secondary implementing legislation. It took its first independent pricing decision in July 2001, when gas prices were raised again.

The Energy Act also extends the responsibilities of the State Energy Inspectorate. The inspectorate will check the application of the Energy Act and the Act on Energy Management and is the only institution empowered to levy fines. Under the Act, an Electricity Market Operator has been established as a state-owned stock company with registered shares. In line with the gradual opening of the market, it will develop, apply and supervise the rules of electricity trading and set up a spot-market in electricity. It will also ensure the financial settlement of electricity trades and clear differences between planned and actual electricity trading.

With regard to the planned energy privatisations, some progress has been made in implementing the Government decision of October 2000 to privatise the dominant electricity generator CEZ *en bloc* with the regional monopoly electricity distributors, and the monopoly gas supplier Transgas *en bloc* with the regional monopoly gas distributors.

Concerning *solid fuels*, in the year 2000 the mining industry witnessed an increase in demand for brown and hard coal due to increased consumption by the electricity and heat generating industry. This allowed a reversal of the long-term decline in activity. In November 2000 the Government decided to postpone the closure of the last remaining uranium mine by two years to the end of 2003 at the latest. In January 2001 the national uranium market was formally liberalised and opened to international competition. However, a delay in the planned closure of a uranium mine and the award of a contract for it to supply CEZ mean that the State-owned mining company DIAMO will continue for the time being to supply almost all uranium currently traded on the Czech market.

On 1 January 2001 the Act on Energy Management came into force. It aims to contribute to the economic use of energy by outlining the framework for a National Programme for Economical Energy Management, and it creates a framework for alignment with energy efficiency *acquis*. Furthermore, it establishes compulsory energy audits for certain projects and stipulates rights and obligations in the management of energy.

The Czech Energy Agency monitors the enforcement of the new Act. However, little progress has been made with the envisaged improvements in **energy efficiency**. In the year 2000, the Czech Energy Agency reduced investments in energy savings by a third, which subsequently fell to under a third of the 1999 level. This trend has continued in the year 2001.

With regard to **nuclear energy**, the Commission in its Regular Report 2000 encouraged the Czech Republic to ensure that the operator and regulator of nuclear power plants reach and maintain the high level of nuclear safety demanded by the European Council.

On 9 October 2000 fission reaction was initiated in the first reactor unit of the Temelin Nuclear Power Plant and test operation of the plant continued throughout the reporting period. During these tests, a number of technical adjustments were made, partly to the reactor, but mainly to the secondary non-nuclear circuit of the plant (steam turbine). In this context, the reactor was shut down on several occasions. These occurrences did not give rise to concerns in terms of the

International Nuclear Events' Scale. Nevertheless, the test operation of the plant and questions on the plant design led to considerable public concern, particularly in neighbouring Austria.

In December 2000, the European Commission engaged in an effort to mediate between both Governments on the basis of an agreement ("Melk Protocol") reached between the Czech Prime Minister and the Austrian Federal Chancellor, in the presence of the Commissioner for Enlargement. As part of this agreement, the Czech Republic voluntarily undertook an extended and comprehensive environmental impact assessment of the Temelin NPP, guided by the EC *acquis* on Environmental Impact Assessments. In addition, the Commission conducted an expert mission with trilateral participation to assess nuclear safety issues regarding the Temelin NPP. The mission concluded its work in summer 2001.

The State Office for Nuclear Safety (SUJB) has continuously monitored the developments at the Temelin and Dukovany nuclear power plants. In the case of Temelin, it issued permits for the plant to proceed to new testing phases upon the completion of each previous phase.

Overall assessment

The Czech Republic has transposed much of the current *acquis* in this sector and now needs to ensure full and timely implementation of legislation. To this end, the administrative capacity of the new bodies which have been established should be strengthened.

With regard to **security of supply**, the Czech Republic has continued to increase oil stocks and is encouraged to continue its efforts. Regarding **solid fuels**, a substantial proportion of electricity continues to be generated from coal. The coal mining sector has been restructured and parts have been privatised and the Czech Republic is encouraged to continue restructuring. The adoption of the new **Energy Act**, which is an important step towards alignment with the internal energy market *acquis* (electricity and gas directives), needs to be followed up with appropriate secondary legislation in order to make it fully operational. As regards energy market liberalisation, the Act establishes the gradual opening of the national market. However, in respect of gas the Act does not fully transpose all requirements of the *acquis*. Remaining price distortions need to be eliminated.

Delays in the **privatisation**, as decided by the Czech government, of CEZ and Transgas, as well as of the regional electricity and gas distributors, may hamper the ability of the privatised firms to adequately prepare for the scheduled market liberalisations. Further efforts are needed to improve **energy efficiency**. The adoption of the Act on Energy Management is a first step. It must now be complemented by implementing legislation and must be strictly enforced if it is to generate positive results. The adoption of the National Programme for Economical Energy Management should provide positive impetus in this direction. However, continuing high levels of energy intensity give scope for considerable energy savings. The **administrative bodies** legally established under the Act are not yet fully operational. The Energy Regulatory Office is gradually assuming its responsibilities. It suffers from substantial administrative limitations that can only be improved through an increased budget. Currently it is forced to borrow staff from other institutions on an ad-hoc basis and to contract out part of its work in order to address its most pressing responsibilities. The independence of the Energy Regulatory Office has been questioned by independent power generators. The State Energy Inspectorate witnessed an expansion of its responsibilities under the Energy Act, and its resources should be reinforced as a consequence. The Czech Energy Agency should strengthen its capacity in order to deal more

effectively with the challenge of raising energy efficiency. The administrative capacity of the Electricity Market Operator will be verified once it becomes operational in January 2002 as scheduled.

As regards the issue of nuclear energy, the European Union has repeatedly emphasised the importance of a high level of nuclear safety in candidate countries. In June 2001, the Council of the European Union took note of a Report on Nuclear Safety in the Context of Enlargement. This report contains findings on the situation and perspective regarding nuclear safety in each candidate country, as well as recommendations for specific improvements. In July, the Commission conveyed this report to the candidate countries.

General recommendations of the Council Report call for all candidate countries with nuclear power plants to complete their plant-specific safety improvement programmes, and to ensure that their programmes include measures considered good practice within the European Union, particularly regarding various specified safety measures dealing with matters such as assessment practices, emergency procedures, feedback of experience, resources of the regulatory authority and other aspects.

The report recommends all candidate countries to continue their national programmes regarding the safe management of spent fuel and radioactive waste, and regarding the safety of their research reactors.

With regard to the Czech Republic, the Council Report recommends measures to complete the regulatory review regarding the bubbler condenser systems of the Dukovany NPP. Furthermore it recommends two specific measures to ensure the safe operation of the Temelín NPP, regarding the safety case demonstrating protection against high energy pipe breaks and consequent failures of steam and feedwater lines, as well as measures to complete the demonstration of the reliable functioning of safety and relief valves.

The State Authority for Nuclear Safety has a good knowledge of EU matters in its fields of activity, supported by membership of the Nuclear Regulatory Working Group. It employs 190 people, of which 125 are inspectors. A further 140 people are employed by its two technical support organisations. Staff turnover is very low: over the last year, 4 people left the SUJB, mostly due to retirement. Since the beginning of October 2000, the SUJB has come under pressure as the test operation of the Temelin Nuclear Power Plant began. During test operation SUJB monitors the reactor carefully. It issues licenses for the reactor to move from one test level to the next. Overall, the regulation of the nuclear industry in the Czech Republic is comparable with Western European practice.

The Czech Republic will need to ensure compliance with Euratom requirements and procedures. In this respect, due attention will need to be given to Euratom safeguards, in particular regarding the reporting of nuclear material flows and inventories directly by the persons or structures operating nuclear installations or storing nuclear material.

Chapter 15: Industrial policy²⁶

Since the last Regular Report, some progress has been made in the development of industrial policy, but less concrete progress has been achieved in the areas of restructuring and privatisation.

As regards **industrial strategy**, in November 2000, the Government approved the 'Industry' Sector Operational Programme (SOP) for 2001-2006. The programme is targeted at implementation of defined priorities of industrial policy, which aim to enable Czech industry to be competitive after accession to the EU, as well as preparation for the use of Structural Funds and the Cohesion Fund. Priority is given to structurally affected regions, support of structural changes in enterprises, support to SMEs, human resource development in industry, use of new technologies and development of trade. The implementation of this programme has begun, and an implementation agency (CzechIndustry) has been set up. So far, 107 projects are being supported under the programme. As regards administrative capacity, 4 more staff have been employed within the Ministry of Industry and Trade in connection with programme implementation.

A 'Plan to help industrial companies with structural changes was approved by the government in December 2000 as part of the government's wider 'Action Plan to reinforce the capacity of industries to cope with competitive pressures' of January 2000. The latter will be implemented over the next three years and aims to restructure major industrial companies and make them competitive following accession to the EU. It will include support for innovation projects seeking growth in profits, labour productivity and employment. The Office for the Protection of Economic Competition (OPC) has approved the Plan, except where it relates to undertakings with activities in sensitive sectors, companies in difficulty and operating aid.

A 'Programme for the promotion of industrial zones in 2001-2006' was approved by the government in March 2001 (following consultation with the OPC) and aims to provide municipalities, autonomous regions and developers with grants for the creation of industrial areas and related infrastructure.

No particular developments can be reported in the field of **investment promotion**.

With regard to **privatisation and restructuring**, the Revitalisation Agency, which was set up under the 1999 Revitalisation Programme and given the task of managing the restructuring and sale of eight large and heavily indebted industrial companies, ceased to exist on 1 February 2001 and was merged into Konsolidacní Banka. The Government has since transformed Konsolidacní Banka into the "Czech Consolidation Agency" and the restructuring process will be carried on by this new body, which started its activities on 1 September 2001. Most of the eight companies which were re-nationalised through the Revitalisation Programme have not yet been sold to private investors.

Some progress can be reported in the area of privatisation. The privatisation of the financial sector has been completed, and the Government has launched tenders for the sale of the energy utilities (electricity and gas).

²⁶ Developments concerning Industrial policy should be seen in relation to the overall enterprise policy, including the SME policy (see chapter 16 - *Small and medium-sized enterprises*).

The **restructuring of the steel industry** has not yet begun. In August 2001 the Czech government approved a restructuring programme for the steel industry and presented it to the European Commission.

It should be noted that an important element of any industrial policy is the control of State aid, and that the compatibility of support schemes with EC rules, including the restructuring provisions of the ECSC Treaty, will have to be examined (*see Chapter 6 - Competition policy*).

Overall assessment

The Czech Republic's industrial policy is largely in conformity with the principles of EC industrial policy, and the requisite policy instruments and framework are in place. The approval of the Sector Operational Programme (SOP) is a sign of further progress.

Continued improvement of the business environment should remain a priority (*see also Chapter 16*).

The momentum of restructuring and privatisation, which was noted last year, appears to have slowed down as regards major industrial undertakings. As was already highlighted in last year's Report, the successful completion of restructuring and re-privatisation of the companies which were acquired by the Revitalisation Agency should be a priority for the Czech government.

The implementation by the government of a viable restructuring programme and individual business plans for the steel sector, which is fully in line with the state aid *acquis*, should now be a high priority. The Czech steel industry urgently needs comprehensive restructuring to become internationally competitive.

The institutional structures operating in the area of industrial policy work well. In particular, the efforts of the government agencies promoting commercial activities (CzechTrade and CzechInvest) have continued to be very successful. Their performance is positive and contributes to attracting investment into the Czech Republic and to the promotion of Czech business abroad.

Chapter 16: Small and medium-sized enterprises²⁷

Since the last Regular Report, further progress has been made by the Czech Republic with regard to SMEs, including on policy implementation.

As regards **SME policy**, in December 2000 the Government approved a Long and Medium-term Policy for SMEs until 2004, as well as 17 support programmes for SMEs for the years 2001-2004. The Policy focuses in the medium term on the improvement of the **business environment** for SMEs through access to capital resources, information technologies, education, advisory and consulting services, technical standardisation and certification. The Programmes enable SMEs to receive state support for projects relating to industrial manufacturing, construction, crafts and services, including trade, health care and pharmaceutical

²⁷ Developments concerning SME policy should be seen in relation to the overall enterprise policy, including Industrial policy (*see chapter 15 - Industrial policy*).

services. The main support instruments improving access to capital for SMEs will be guarantees for bank credits and leasing, guarantees for capital entry, credits at reduced interest rate and subsidies for the payment of costs related to certification systems.

The National Discussion Group, appointed by the Minister of Industry and Trade, further developed its activities with the aim of improving the business environment for SMEs. Topics addressed included access of SMEs to capital, advice and information and co-operation with state administration and private institutions.

As regards administrative capacity, the Business Development Agency's staff was increased by 8 employees in 2000.

Overall assessment

The Czech Republic's policy towards SMEs is already largely in line with that of the EU.

Further efforts should be made to improve the business environment, including the efficiency of judicial proceedings, the protection of creditors and access to capital. With regard to the latter, the Czech-Moravian Guarantee and Development Bank and the Business Development Agency play an important role.

The various instruments, partners and institutions comprising the business support system function well. Existing advice and assistance services include the network of Regional and Information Centres (which was extended from 21 to 29 in 2000), 5 Business Innovation Centres and 7 EuroInfo Centres.

To improve links between SMEs and industry, and R&D institutes and universities, the Ministry of Industry and Trade runs three specialised support programmes for SMEs aimed at research, development and innovative business (Technos, Transfer and Park).

Support programmes for SME industrial research and development should continue and support for technology transfer should be further promoted.

With regard to the SME definition, further alignment with the *acquis* should be ensured..

The implementation of SME policy is monitored by the Ministry of Trade and Industry and by the Ministry of Regional Development. There is sufficient administrative capacity for this purpose. Further strengthening of collaboration with the Ministry for Regional Development should be a priority, to ensure business support in regions, with particular focus on future financing by Structural Funds.

Chapter 17: Science and research

The Czech Republic has continued to take steps to ensure implementation of the *acquis* and to build up the appropriate capacities in the field of research and technologies.

The Government has made progress in preparing the implementation of the National Policy in Research & Development which was adopted in 2000. In January, the Government approved an Order on targeted financing of science, and agreed funding conditions. Research and development for the needs of the State, and targeted research, will be entitled to 100 % State

budget funding. Industrial research can be subsidised at 50 % and development at 25 %. The Order will remain valid until the envisaged new Act on Research and Development comes into force.

In January, the Government also introduced a central registry of research and development projects which are fully or partially funded from the State budget. The central registry is to keep the public informed about research and development projects funded from the State treasury, bring the funding under public control, and prevent duplicate funding of projects.

During 2001, the Czech Republic continued to be fully associated with the Fifth Framework Programme as well as the Euratom Framework Programme. The national information network (NINET) which was previously established as informal partnership of national, regional and branch organisations, has become a formal network.

The state budget approved for the year 2001 covers 80 % of the Czech contribution to the programme. As for other candidate countries associated with the Fifth Framework Programme, the Czech Republic has been granted observer status in CREST (*Comité pour la Recherche Scientifique et Technique*).

Overall assessment

There is already a high level of alignment with the *acquis*. However, financial support for science and development remains relatively low. For the further development of the sector and for an effective integration of the Czech Republic into the European Research Area, it is important to increase the gross domestic expenditure on research and technological development. Concrete measures are also required to stimulate business enterprise expenditure on research and to favour fresh capital investments.

Legislation on Research and Development should be adopted to harmonise the conditions for state support of research and technological development with those within the EU, to specify the legal status of the institutions as well as to regulate their creation and liquidation.

Though the financial and institutional framework for participation in the Fifth Framework Programme is well established, the reinforcement of research-related administration capabilities as well as the strengthening of research-related infrastructure is necessary to ensure successful participation of the Czech Republic in the Framework Programme.

Chapter 18: Education and training

Some further progress has been made in this field. Since the School Act was rejected by the Parliament in May 2001, no progress has been achieved in the field of legislative alignment. This act was intended to further align the legislation with, *inter alia*, the *acquis* on education of children of migrant workers and on the promotion of European pathways in work-linked training.

In the past year, the Czech Republic has continued to participate in the **Community programmes** in this area (*see section A.b - Relations between the European Union and Estonia*). In the reference period, the Czech Republic started to participate in the second

generation of Community programmes Socrates and Leonardo as well as in the new Youth programme (which incorporates European Voluntary Service activities).

No progress has been made in alignment with the *acquis* as regards **education of children of migrant workers**.

The Czech Republic has made progress in **reforming its education and training system** and in introducing European standards. The reform of the public administration has decentralised responsibilities in education to regional authorities (secondary education) and municipalities (primary education) and set conditions for more democracy and participation in the whole educational system. The transfer of competencies started at the beginning of 2001 and is an on-going process. An amendment to the Higher Education Act was adopted and entered into force in July 2001, which introduces obligatory bachelor studies before masters' studies following recommendations made in the Bologna Declaration.

The Act on Rights of Minorities adopted in May 2001 provides for the right of any minority to education in its language. Some initiatives have been taken to improve access to education for Roma children, including a new Romany cultural and educational centre in Breclav and preparatory classes in south Bohemia.

Overall assessment

Participation in Community programmes has proven to be successful and the established mechanisms for participation are functioning well.

It is still necessary for the Czech Republic to ensure full transposition and implementation of the EC Directive on education of children of migrant workers.

Some progress has been made as regards improving educational opportunities for children from social and culturally disadvantaged backgrounds.

Chapter 19: Telecommunications and information technologies

Progress made by the regulatory body since the last report has been good but important policy issues raised in the previous report have not been addressed.

Progress since the last report has consisted of various measures that give effect to the Telecommunications Act including several important items of secondary legislation. In particular, licences for new entrants were issued in advance of the market opening date of January 2001 and, subsequently, the new regulatory body has issued a series of crucial decisions relating to the interconnection of competing networks. In consequence, the Czech market is now very active and the commercial behaviour of the incumbent has changed significantly.

The development of all basic functions of the Office for Personal Data Protection (established in June 2000) are under way. Also, an electronic public administration (e-Government) and educational institutions access to Internet are being set up in the framework of the e-Europe+ Action Plan for candidate countries.

As regards the **postal services**, the Act on Postal Services entered into force in July 2001 as did the related implementing decrees. The Act and procedural regulations were created on the

basis of the *acquis* for postal services. Accessibility and quality of domestic mail service, is provided on a level comparable to that in EU Member States. The Law implies that national regulatory authority is the Ministry of Transport and Communications. There is as yet no autonomous regulatory body for posts. From the operational point of view the incumbent universal service provider has progressively modernised its infrastructures, developed new IT services, co-operated with similar Western European operators and adopted new definitions of mail categories in order to align them with the EC procedures.

Overall assessment

The Czech Republic has advanced significantly in this area over the last few years, but a number of important outstanding issues remain in the telecommunications sector.

The date of 1 January 2001 for full liberalisation was fixed in 1994, but the provision of carrier selection facilities that are vital to effective competition has been unjustifiably delayed. This has undermined the market opening and has hindered new entrants in certain respects. This is harmful to the interests of consumers and of investors in companies which compete with the incumbent operator in which the state has a financial interest. This situation should be rectified without further delay.

Also, the interconnection prices for competing networks which were determined by the regulatory process are above the equivalent prices in the EU and were not based on the appropriate costing methodology.

The Ministry of Transport and Communications retains significant powers of a regulatory nature. It is inconsistent with the principle of separation of regulatory and operational functions for Ministry officials to be involved in any way in the managerial or supervisory boards of operating companies or in their privatisation.

Despite the above defects, much progress has been made in the telecommunications sector over the last few years and the infrastructure's size and degree of modernisation is a good achievement. The new regulatory body (the Czech Telecommunications Office) has made a good start. The remaining problems regarding the alignment with the *acquis*, particularly: separation of regulatory and operational functions, cost-orientation of tariffs, asymmetric regulation and the availability of carrier selection facilities should be urgently resolved.

The Ministry will have to move quickly to implement local loop unbundling.

It will be necessary to ensure that any mechanism for assessing the cost of providing the universal service identifies the real net cost, based on independently certified audits, and allows for a transparent determination of whether the universal service obligation is an unfair burden on the designated carrier.

As for postal services, the Czech republic has established a good basis and should be able to adopt the relevant Community legislation timely. However, an independent regulatory body for the Postal Services, whose legal basis in line with the Postal Directive, needs to be established.

Chapter 20: Culture and audio-visual policy

The Czech Republic's legislative alignment with the *acquis* has improved significantly since last year's Regular Report. There has been no particular progress in the strengthening of administrative capacity.

With the entry into force of the new Act on Radio and Television Broadcasting in July 2001, the Czech Republic has made very significant progress in aligning with the Community **audio-visual** *acquis*. The Act also entrusts the Council of the Czech Republic for Broadcasting with a number of new obligations and responsibilities, for which it is expected to receive appropriate additional resources. Furthermore, it has created the necessary conditions for the Czech Republic to ratify the Council of Europe Convention on Transfrontier Television and to sign and ratify its Protocol.

In the field of **culture**, implementation of the 'Concept for Cultural Policy in the Czech Republic' continues in all cultural sectors.

Overall assessment

The Czech Republic is now relatively advanced in this domain, although some further efforts are required. There has been significant progress in terms of legislative alignment but no particular progress on administrative capacity. Should implementation of the new Act on Radio and Television Broadcasting require strengthening of the relevant bodies then appropriate resources should be made available.

With the entry into force in July 2001 of the new Act on Radio and Television Broadcasting, the Czech Republic has made considerable progress in aligning with the **audio-visual** *acquis*. Some further technical adjustments will be necessary before accession, but Czech legislation is now largely in line with the *acquis* in this area.

It is too early to judge how effectively the new responsibilities of the Council of the Czech Republic for Broadcasting will be exercised. As indicated in the previous Regular Report, it remains particularly important to establish and supervise effectively a transparent and predictable regulatory framework. The Department of Mass Media in the Ministry of Culture administers legislation in the areas of broadcasting, film, video and periodical press. The current number of staff (12) is adequate.

The Czech Republic should move towards ratifying the Council of Europe Convention on Transfrontier Television. Upon ratification the Czech Republic will also be bound by the Protocol amending the Convention.

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

Since the previous Regular Report, further progress has been made in preparing for the implementation of structural policies.

With regard to **territorial organisation**, the Czech Republic has completed the establishment of territorial units corresponding to NUTS classification. There are 14 regions at NUTS III level (*kraj*), and 8 regions (cohesion region) similar to NUTS II. The classification has been agreed

with the Commission and has been effective for statistical purposes from January 2000, and for legislative purposes from January 2001. At the same time, the Czech Republic has started with the creation of a national implementation structure for the European Social Fund.

Concerning **the legislative framework**, the important Act on Support to Regional Development and the Act on Budgetary Rules entered into force in January 2001. The Act on Environmental Impact Assessment was adopted in December 2000 and should come into force as of 1 January 2002. The Act should ensure full compliance with the relevant *acquis*. The Act on the Regions and the Act on Municipalities came into force in November 2000, formalising the status of the regions and municipalities, and the functioning of their respective bodies, administrative structures and assemblies. Related legislation on the city of Prague and district authorities also came into force in November 2000.

The Act on Financial Control was adopted in August 2001 and is due to enter into force in January 2002. It aims to comply with the *acquis* in this field.

As regards the **institutional structures**, the Act on Support to Regional Development stipulates that Regional Councils should be set up at NUTS II level, ensuring programming and implementation of regional development programmes. It is also the basis for the establishment of Regional Development Committees, which should monitor and evaluate programme implementation. All Regional Councils have been established. The setting up of the Committees is at different stages. In January 2001, the new regional governments ("hejtmanstvi") at NUTS III level were installed, and are gradually becoming operational.

The National Programming Committee for Economic and Social Cohesion (NPC-ESC) was replaced by the National Management and Co-ordination Committee (NMCC), and should become the future Monitoring Committee at national level.

Regarding **programming**, the revised National Development Plan (NDP) was presented to the Commission in July 2001. It consists of 8 Regional Operational Programmes and 6 Sector Operational Programmes.

No significant developments can be reported as regards the **preparation of an evaluation and monitoring system**.

In the field of **financial management and control**, the coming into force of the Act on Budgetary Rules in January 2001 allows for the compilation of medium-term budgetary outlooks and constitutes the legal basis for multi-annual programming. The Act also provides for implementation of the principle of co-financing, in line with the *acquis*.

As regards **statistics** for the implementation of the structural funds, decisions on NUTS classification in accordance with Community rules have been taken. Monitoring of most economic and social indicators is ensured by the Czech Statistical Office at the different NUTS levels.

Overall assessment

Overall, legislative alignment for this chapter is well advanced. However, additional efforts are still needed to establish operational bodies, to extend administrative capacity and to reinforce interministerial co-ordination for the implementation of the Structural Funds. Above all, the

administrative capacity of the units within the ministries to be designated as future Managing or Paying authorities needs to be considerably strengthened so that they will be effectively able to take responsibility for the management and implementation of Structural Funds assistance.

In order to complete the **legislative framework**, further efforts are needed in particular on alignment with the public procurement *acquis* and in ensuring full compliance with the financial control *acquis*.

As regards the institutional structure, the new regional governments will function in parallel with the existing District Offices until the latter are abolished at the end of 2002. In the meantime the financing arrangements for the regional governments remain to be fully defined and will impact on the ability of the regions to contribute to a functioning co-financing system for Structural Funds.

The Czech authorities should urgently take a number of fundamental decisions on the implementation of Structural Funds Programmes, most notably on the number of Operational Programmes, and the nomination of the managing authorities and of the paying authorities for the future Community Support Framework and Operational Programmes. In addition, the relevant administrative structures are not yet fully operational and political decisions concerning the allocation of competencies need to be taken.

As regards programming, the revised NDP is a good starting point for Structural Funds programming, but several elements will have to be added or improved in order to accept the NDP as a development plan in the framework of the Structural Funds. The current NDP contains a proposal for 8 Regional Operational Programmes. This proposal has still to be formalised by the Government. The Czech authorities envisage to submit the final version of the NDP by end 2002.

Further progress is needed to raise the technical capacity to prepare a suitable pipeline of projects, which will be eligible and ready to be financed when the Structural and Cohesion Funds will be released. Efforts need to be done to develop the necessary project development capacity both at national, regional, and local level.

The partnership principle has been applied during the drawing up of the NDP, but has yet to include comments from the self-governing regions. Further attention is needed to ensure there is sufficient representation from economic and social partners and other relevant bodies. Attention needs to be paid to information flows and dissemination methods as well as the time needed to incorporate wide-ranging views into documentation, formulating strategic aims and priorities. Application of the partnership principle in the NUTS II-level Regional Development Committees has to be ensured.

In relation to financial management and control, the Czech Republic needs to ensure that the necessary legislative framework is in place for the co-financing of Structural and Cohesion Funds assistance, including provisions for transfer of funds during its implementation. Appropriate systems and procedures for financial management and control need to be established, in particular in relation to the structure of the managing and paying authorities, in order to fulfil the specific requirements of the Structural Funds regulations.

A proper system and capacity for monitoring and evaluation needs further development. The timely availability and functioning of an effective monitoring system will be of crucial importance for the implementation of the Structural Funds programmes.

Concerning the European Social Fund, further efforts are required to improve the administrative capacity and the mechanism for the coordination of ESF interventions in the context of the European Employment Strategy and the Inclusion Process.

As regards regional statistics, the Czech authorities will have to ensure that the available data are brought up to the level required for regional policy planning and programming, in particular the ex-ante evaluation.

Chapter 22: Environment

Since the last Regular Report, the Czech Republic has made good progress as regards the transposition of the environmental *acquis*. Concerning the reinforcement of administrative capacities, some progress has also been achieved.

The updated State Environmental Policy, adopted by the government in January 2001, aims at ensuring **the integration of the environment into other policies**. The programme follows the 6th Environmental Action Programme and provides the basis for the forthcoming National Strategy for Sustainable Development.

Concerning **horizontal legislation**, the adoption of the Act on Environmental Impact Assessment in March 2001, which aims to fully transpose the *acquis* except for the new Community directive on strategic environmental assessment, constitutes a major development. The new Act on environmental impact assessment will come into force in January 2002. With regard to **civil protection**, the Government has adopted secondary legislation implementing the Act on Crisis Management. The decrees came into force in November 2000 and January 2001.

In the area of **air quality**, some progress has been achieved through the adoption of the Act on the Conditions for Operation of Vehicles on Roads, which came into force in July 2001. The act aims to align Czech legislation with the *acquis* on the quality of petrol and diesel fuel.

As regards the area of **waste management**, the adoption of the Waste Act in May 2001 provides the legislative framework for the reform of the current waste management system. The act will come into force in January 2002. In addition, secondary legislation concerning the quotas for the recovery and recycling of packaging waste and an inventory of equipment concerning PCBs/PCTs has been adopted.

In the field of **water quality**, the new Act on Water and the Act on Water Supplies and Sewage Systems, aiming to align with obligations from all EC water legislation, were adopted in July 2001. In addition, the Czech government took the decision to declare the entire territory a sensitive area for the treatment of waste water, which is an important step.

In the field of **nature protection, industrial pollution control and risk management and nuclear safety and radiation protection**, no particular development has been noted in terms of transposition of legislation over the past year.

In the field of **chemicals and genetically modified organisms**, a number of implementing decrees specifying technical conditions and risk categories for the use of GMOs have entered into force. They mainly relate to the Act on genetically modified organisms and products, which entered into force in January 2001. Decrees related to the handling of chemicals have also been adopted.

Concerning **noise**, the Government order on noise emissions came into force in July 2001. It does not, however, incorporate new acquis in this field.

The Government adopted the updated **directive-specific implementation plans**, which take into account the progress achieved to date. In addition, **investment strategies** for certain water and waste legislation have also been adopted by the government. **Investments** in the field of environment in the year 2000 decreased to approximately CzK 20.3 billion (€0.6 billion), corresponding to 1.04% of GDP²⁸. In 2000, the State Environment Fund invested CzK 2.8 billion (€81.5 million) into the environment, mostly into water and air pollution projects.

As regards **administrative capacity** at central level, the Ministry of Environment established an inter-ministerial commission on reporting in April 2001, in line with the reporting directive. In 2000, the staff of the Ministry was strengthened with 38 persons, and has reached a total of 511 people. The administrative reform, and in particular the creation of 14 regions as of January 2001, will have important implications for the environment field, as competences are being transferred to the regions and municipalities. In the past year, 50 persons from the Ministry of Environment and 19 from the District Offices were transferred to the regional authorities. In total, an average of five staff members work in the environment department of the regional authorities.

Enforcement of environmental rules is, to a great extent, carried out by the Czech Environment Inspectorate (CEI), which has recruited additional staff in order to reinforce its inspection capacities. About 60 new inspectors were hired, bringing the total number to 465. In 2000, the inspectorate undertook 18 500 inspections, imposing fines worth €2.15 million. Every regional office of the CEI now employs at least one lawyer trained in the legal procedures that must be followed when levying fines.

The State Office for Nuclear Safety (SONS), the central administrative body for the state administration and supervision in the field of nuclear energy and radiation protection, recruited 13 new employees in 2000 and 10 in 2001 (see chapter 14: energy)

Overall assessment

The Czech Republic has achieved good legislative progress in aligning with Community legislation. The adoption of important framework and horizontal legislation, including the Act on Environmental Impact Assessment, the Waste Act and Water Act, constitute significant developments. However, as regards the newly adopted waste and water related legislation, some non-complying provisions need to be brought in line with the acquis. Adoption and implementation of important pieces of legislation also remain to be achieved in the fields of air protection, industrial pollution control and nature protection, in order to comply with Community legislation. Furthermore, there are gaps related to secondary legislation governing implementation and enforcement measures.

The recently updated directive-specific implementation plans and investment strategies still need to be based on a bottom-up inventory, including detailed figures concerning compliance and non-compliance and detailed implementation measures. Only after such an inventory has been

²⁸ Czech Statistical Office.

established will the Czech Republic be in a position to develop the overall investment strategy, including a project pipeline, and back-up its financial estimates. In the mid 90s, the Czech Republic's environmental investment was at a high level, amounting to around 2.4% of GDP. In 2000, however, there was a decrease in environmental investment to around 1.04% of GDP. Considerable investments need to be secured, also in the medium-term, to ensure implementation of the environmental acquis. The Czech Republic should continue to integrate environmental protection requirements into the definition and implementation of all sectoral policies with a view to promoting sustainable development.

Concerning **administrative capacity**, institutional arrangements for environmental protection and enforcement have long been in place and the competencies for the main requirements of the acquis have been identified. However, there is still a need to strengthen co-operation and co-ordination among the different governmental bodies. Administrative capacity is weakened by a lack of clear allocation of competencies or overlapping competencies, in particular in the water sector.

Some uncertainties remain as regards the implications of the administrative reform on the environmental sector. The distribution of competencies and tasks between national, regional and local bodies needs to be clearly established. The abolition of district offices and the resulting shift of competencies to the newly-established regional authorities and municipalities create significant challenges to the implementation of the environment acquis. At present some 1500 people are enforcing environmental legislation on the district level, and it is important to ensure that the transfer of responsibilities to regional authorities is accompanied by the recruitment/transfer of a sufficient number of staff and the provision of adequate equipment and logistics. Current administrative overlaps in inspection activities should also be addressed in the framework of the transfer of responsibilities from the district offices to regional authorities.

The system of licensing and permitting facilities that emit pollutants is defined, but lacks an integrated approach. An integrated permitting system will need to be established in order to ensure compliance with the IPPC directive.

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. A high level of compliance has been achieved for monitoring air emissions, control of radiation protection resources, nature conservation, and in relation to limiting noise. However, the functioning of the monitoring system in the water sector, in particular as regards groundwater, needs strengthening.

With regard to environmental inspections, administrative capacity needs to be further reinforced. The increase in the number of inspectors at the Czech Environmental Inspectorate constitutes an important improvement. However, despite an increase in both the number and average value of fines levied, the value of fines continues to be too low to have a strong deterrent effect.

Chapter 23: Consumers and health protection

Progress has continued since last year's Regular Report. Legislative developments have been accompanied by steady administrative improvement and an awareness of further steps to be taken.

Significant progress has been made as regards **safety related measures** with the adoption of the Act on General Product Safety in February 2001, which came into force in July 2001. Amongst its provisions the Act makes producers, importers and distributors responsible for the introduction of safe goods on the market and obliges them to provide relevant information to consumers. The Act brings Czech legislation largely into line with the *acquis*, although it should also be noted that the Directive on General Product Safety is currently being revised.

Concerning **non-safety related measures**, amendments to the Civil Code relating to the transposition of Directives on protection of consumers in respect of contracts negotiated away from business premises, distance contracts, and on unfair terms came into effect in January 2001. A new Act on Consumer Credit which further aligns Czech legislation with the *acquis* was adopted in August 2001. It will enter into force in January 2002.

Concerning the **market surveillance mechanism**, progress has been made in clarifying the division of responsibilities between the organisations involved.

Over the latter part of 2000 and the first six months of 2001, the Czech Trade Inspectorate significantly increased its level of activity against the practice of 'Dual Pricing' – cases in which foreigners are charged more than Czech nationals for equivalent services. This action and the publicity it received has resulted in a decrease in the rate of incidence of dual pricing from 14.7% of targeted inspections in 2000 to 8.2% in 2001. Given the focused nature of these inspections, it appears that this phenomenon is becoming less significant, which is a welcome development, as is the more vigorous regulation of this area.

In November 2000 the Government set out responsibilities between Ministries for the implementation of the Concept of Consumer Policy for the years 2001-2005. The concept sets out a range of consumer protection aims for the Czech Republic, including completion of alignment, focus on new advances and the development of consumer awareness and its appropriate supporting structures.

Overall assessment

The Czech Republic has during the past four years taken significant steps in terms of legislation, planning and achievement of administrative reform. A number of further measures are still required to complete legislative alignment and ensure effective administration.

With the entry into force of the Act on General Product Safety in July 2001, Czech legislation in this area has been brought further into line with the *acquis*, including the outlining of the structures which will be used to identify dangerous products at external borders, an issue raised in the last Regular Report. Some further adjustments may be necessary to complete alignment on a number of issues.

A new Act on Consumer Credit, further aligning Czech legislation with the *acquis*, was adopted in August 2001 and enters into force in January 2002. Further work is needed in areas such as misleading advertising, timesharing, guarantees, payments and credits provided across internal borders, injunctions and price indication.

Overall competence in the area of consumer protection lies with the Ministry of Industry and Trade. The consumer protection department of the Ministry has been strengthened and

currently has a staff of 12. The Czech Agricultural and Food Inspectorate (CAFI) has 500 employees, of whom over 200 are professional inspectors and approximately 100 laboratory staff. This appears sufficient, although low salaries hamper recruitment. The Czech Trade Inspectorate (CTI) made almost 60 000 inspections during the last twelve months, and analysed over 3 000 complaints from consumers. It employs over 500 staff, of whom 450 are inspectors. Staff turnover is high, with inspectors staying an average of 2-3 years. Both the CTI and CAFI have now started to use the wider powers granted to them by the amended Act on Czech Trade Inspection.

The market surveillance mechanism is divided between several bodies, with the majority of supervisory activity conducted by three organisations: the Czech Agricultural and Food Inspectorate (CAFI) and the State Veterinary Administration are active in specified areas of food control, whilst the Czech Trade Inspectorate (CTI) conducts much of the supervision of non-food products and the protection of the economic interests of consumers. A range of other smaller bodies are responsible for particular niches within market surveillance as a whole.

In addition to these bodies, the Ministries of Agriculture, Health, Regional Development, and Finance have relevant responsibilities. The Ministry of Industry and Trade (MIT) acts as central co-ordinator. Whilst progress has been made in clarifying the division of responsibilities between the organisations involved, further improvements will be needed to ensure that information flows are smooth and comprehensive. Czech preparations for participation in the Rapid Exchange of Information System (RAPEX) are ongoing, led by the MIT. In the meantime the Czech Republic is a participant in the transitional RAPEX system, which provides for co-operation between Central and Eastern European countries and aims to assist preparation for the full RAPEX system.

The concept of consumer policy has been updated for the period 2001-2005. It includes the intention to complete transposition of the *acquis* by the end of 2002 and, as mentioned in the previous Regular Report, measures to strengthen administrative structures, rationalise market surveillance and boost the role of relevant non-governmental organisations (about 60 are currently involved in consumer protection). In addition, it also calls for the simplification of the exercise of consumer rights and increased awareness of such rights, along with enhancing Czech involvement in relevant international organisations.

In addition to the steps already taken, administrative structures should be further strengthened as appropriate. The concept of consumer policy recognises that a number of improvements should still be made to the system of market surveillance, and in particular, any institutional adjustments or reallocation of resources necessary to complete the administrative restructuring of the sector.

Twenty-eight centres for consumer consultation and complaints mediation are presently operating in the Czech Republic. Support to relevant non-governmental organisations should continue and their role should be enhanced. Funding for consumer organisations rose from CzK 4.5 million in 1999 to CzK 10 million in 2000. This figure did not increase in 2001. Consumer organisations have created two umbrella organisations and have seen their membership increase substantially. Integration into EC structures such as the European Committee of Consumer Unions (BEUC) and European Association for the Co-ordination of Consumer Representation (ANEC) should continue as far as possible.

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

Since the 2000 Regular Report, further progress has been made in the Czech Republic in the fields of data protection, border control, visas, migration and police co-operation. However, little progress can be reported in the fight against “white collar” crime (including money laundering, fraud and corruption).

The Czech Republic made substantial progress in further aligning its legal framework as concerns **data protection**. The Parliament adopted an amendment to the Police Act that regulates data protection in police matters, as required for participating in Schengen and Europol, and has ratified the 1981 Council of Europe Convention in this area. The Office for Personal Data Protection came into operation following the appointment of its President by the President of the Republic on a proposal from the Senate. Three out of the proposed seven independent inspectors have also been appointed. The Office prepares public reports on its activities and must give permission for processing of personal data. Any data administrator must apply to the Office for a permit to transfer personal data abroad. The Office conducts investigations either in response to complaints or randomly, but also according to a yearly programme, and can impose penalties. The staff (around 50) is envisaged to grow to about 85 by the end of 2001. Within the police, data protection is still left to the IT-Department but the Police Presidium plans to establish a special unit dealing with this and other Schengen issues.

The Czech Republic has made good progress in aligning its **visa** policy with that of the EU, including as regards airport transit visas. The amendment to the Act on the Residence of Aliens, which entered into force in July 2001, is a further step in the direction of full alignment with the *acquis*. It reduces by half (to 90 days) the time for issuing visas and removes some of the entry requirements like the health insurance certificate. As regards administrative capacity, visa matters are overseen by the Department for Asylum and Migration Policy in co-operation with the Alien and Border Police. An on-line system for issuing visas is currently operating between the Ministry of Foreign Affairs and 104 out of the 107 competent diplomatic missions and is connected also with the main border crossing points.

With regard to **border control**, the Government has undertaken several administrative and legal measures to ensure co-ordination between the relevant departments dealing with illegal immigration. Controls at most official crossing points have improved over the past two years due to new equipment (such as on-line connection to headquarters) and the decision to create, by 1 January 2002, an integrated Alien and Border Police (ABP) to ensure state border protection and inland control of illegal immigration. The shift of responsibility for the Border Police from the District to the Regional level has also improved the situation, although the lack of a central border police command hampers co-ordinated action exceeding regional range. Since May 2000, special mobile search units have been in operation in the Moravian and Bohemian border regions.

The Czech Republic is making progress in aligning itself with the **Schengen** requirements and continues to prepare for future participation in the Schengen Information System. The Government established a very thorough Schengen Action Plan in this respect. All new passports are machine-readable, although no deadline has yet been set for withdrawing non machine-readable passports.

As regards **migration**, the Czech Parliament adopted an amendment to the 2000 Act on the Residence of Aliens which will enter into force on 1 January 2002, and which represent further progress in the field of family reunification and expulsion practice. The Czech Republic also started negotiations with a view to the conclusion of new readmission agreements with Slovakia, Italy and Benelux, Yugoslavia, FYROM, Algeria, China, India, Sri Lanka, Iraq, Iran, Vietnam, Russia and Afghanistan.

As far as **asylum** is concerned, an amendment to the 2000 Act on Asylum, aimed at bringing Czech legislation closer to the *acquis* in important areas, is pending in the Parliament. The proposed amendment seeks to fight abuse of access to the labour market by asylum seekers. If adopted, it would also create a second-instance independent appeal level, and put in place provisions for applying the Dublin Convention after accession. As regards implementing capacity, the number of asylum adjudicators and assistants was increased by 14 at the asylum policy department and 3 new offices were opened with 19 new staff. Lecturers from the Ministry of Foreign Affairs, NGOs, the UNHCR and EU Member States provide training. Compared to previous years, asylum applications seem to have decreased. The Government decided to provide temporary protection for Chechen refugees in 2001. The capacity of the asylum reception centres has been increased recently.

In the fields of **police co-operation**, the fight against organised crime, corruption and economic crime, the Czech Republic continued to make encouraging progress in aligning its legislation and substantially reorganising its law-enforcement authorities. In April 2001, the act on witness protection and the amendment to the Police Act entered into force, which is necessary for participation in Europol and international co-operation. To address the lack of co-operation among agencies, the National Police Criminal Office was created in January 2001. It unites specialised services for organised crime, drug trafficking, corruption and serious economic crime, surveillance, witness protection and for the central information system. The Government took the decision to abolish the Office of Investigation, which will be merged with the Criminal Police with a view to the creation, by 1 January 2002, of the unified Criminal & Investigation Police Service. The Czech Republic successfully negotiated a co-operation agreement with EUROPOL which is due to be signed at the end of 2001.

As regards **the fight against fraud and corruption** (*see Section B.1.1- Democracy and the rule of law*), the Czech Republic signed the 1999 Civil Law Convention on Corruption and is continuing preparations for full co-operation with OLAF upon accession. The Government is redrafting the Criminal Code with a view to ensuring alignment with the *acquis* on corruption.

The Government adopted the new 2001 - 2004 National **Drug** Policy Strategy to be implemented through all involved institutions, at all levels. It aims to fulfil the measures set out in the EU Action Plan for 2000-2004. Since January 2001, the National Anti-Drug Headquarters has been part of the new National Criminal Office, but continues to co-ordinate the regional units and investigates narcotic cases on a national and international level.

As concerns the fight against **money laundering** (*see also Chapter 4 - Free movement of capital*), although the Parliament approved the amendment of the Code of Criminal Proceedings which further aligns criminal legislation in this field, only a few cases of money laundering have been prosecuted to date. In 2001 the Financial Analytical Unit under the Ministry of Finance conducted 15 inspections of financial institutions (including pension funds,

leasing and insurance companies, real estate agencies, exchange offices) against 14 in 2000. The Unit imposed fines on 5 institutions in 2000, for a total value of approx. €125,000.

In the field of **customs co-operation**, the Czech authorities have further developed their IT and risk-analysis system, through the development of an electronic system (with risk profiles). A pilot computer system is being introduced in an increased number of customs offices.

With regard to **judicial co-operation**, the Czech Republic has made further progress in the field of criminal matters with the adoption of the amendment to the Criminal Proceedings Code, which strengthens the role of the prosecutor in the pre-trial procedure and which will facilitate direct contacts among international judicial bodies. It will also further contribute to the preparations for Schengen judicial co-operation. On civil matters, the Convention on International Access to Justice as well as the European Conventions on the Execution of Children's rights and on the Legal Status of Children born out of Wedlock were ratified.

Overall assessment

Overall, legal alignment under each topic of this chapter is now quite well advanced. Nevertheless, further progress is still required to translate policy intentions into an operational policing strategy, organisational structure and planning.

As regards **data protection**, the amended Police Act is now well aligned with the *acquis* and with the 1987 Recommendation of the Council of Europe concerning the use of personal data in the police sector. The short-term priority of the Accession Partnership has therefore been well addressed. Nevertheless, the implementation of the new Police Act will need increased efforts from the Ministry of Interior. Although the latter announced staff reinforcements and purchasing of equipment, it still needs to develop a plan to guide the implementation process given the scale of changes that will be needed. The Czech Republic also needs to implement adequate data protection for full participation in the Customs Information System and the Naples II Convention. As regards the effectiveness of the supervision capacity of the Office for Personal Data Protection, the Czech Authorities are still in the very early stages of implementation. The 2000 and 2001 budgets of the Office (about 1 M€ and 2.2 M€ respectively) seem to be sufficient to cover normal operating costs but do not reflect the need to establish suitable headquarters for the Office, an element which strongly limits its activities.

The Czech Republic has further aligned its **visa** regime to ensure full alignment before accession, and the new amendment to the Aliens Act has also improved the conditions for granting visas. As regards administrative capacity, however, there is still a need to take full account of migratory risks and to improve identity checks and the detection of the misuse of visas. Not all official border crossings are yet connected to the on-line system for issuing visas.

Although the Czech Republic has taken a number of measures to strengthen **border control**, to ensure co-ordination for full participation in the Schengen Information System and to reinforce the policy against illegal immigration, there are still large migration flows through the territory and widely recognised difficulties in intercepting illegal immigrants at the green borders with Slovakia in particular. Far fewer illegal immigrants are caught there than at the Austrian and German borders. The main reasons are the lack of personnel and equipment, deficient communication, and inadequate organisation. The Aliens and Border Police are also clearly hampered in their performance by serious lack of financial resources, notably to pay overtime,

which leaves control posts understaffed on weekends and holidays. The Czech authorities still need to decide upon the exact organisation, structure and staff of the ABP. As long as the mobile units remain under the command of the regional police chief, who can use them for other purposes, effective control of the green border will be hampered. An integrated border management system needs to be established, including co-ordination with customs authorities and the creation of a common database.

The Government has drawn up a high quality **Schengen** action plan. The successful implementation of this high-quality plan hinges on the above constraints being effectively addressed.

As regards **migration**, the new amendment to the Act on the Residence of Aliens is a positive step towards the full alignment of Czech legislation, but serious constraints remain for international companies, as the Act maintains a wait of 180 days for the issuing of a work permit. The main problem remains the question of the readmission of illegal immigrants, since they are not appropriately escorted by the police to the border. Moreover, these persons often misuse the asylum system. In 2000, of the 11,792 persons readmitted from Germany and Austria, only 2,531 were expelled. Therefore, more than 9,000 persons remained in the Czech Republic or again entered or attempted to enter the EU. The above amendment tries to address this problem but the Czech authorities should clearly improve their expulsion and readmission practices.

The envisaged amendment to the Act on **Asylum**, which is aimed at bringing Czech legislation further in line with the *acquis*, remains to be adopted. The Czech Republic provides fairly good integration opportunities for recognised refugees. Nonetheless, the concepts of “safe third country” and “safe country of origin” are still missing. The adoption of the amendment should contribute to combating the misuse of asylum procedure. The Czech Republic must take steps to ensure that the concept of "temporary protection", which has been used in the case of Chechen refugees, is applied in conformity with international standards, and thus confined to cases of mass influx of displaced persons. As far as implementation capacity is concerned, training of staff, especially in the courts that will soon need to deal with appeals, should be increased further.

In the field of **police co-operation and the fight against organised crime**, progress has been made in alignment with the *acquis*, including the Europol Convention and international police co-operation. The Czech Republic has signed the UN *Convention Against Transnational Organised Crime* and should accede to its Protocols reasonably soon. As regards implementation, the adopted amendment to the Criminal Proceedings Code, which will enter into force in January 2002, represents very important progress. The creation of the unified Criminal & Investigation Police Service is a major step towards the setting-up of a system comparable to the systems of the EU Member States. The reform shifts the responsibility for the pre-trial criminal phase from the investigator to the prosecutor and introduces accelerated proceedings. Monitoring needs to be conducted to see whether this genuinely improves the combating of economic and organised crime. The new law will pose considerable challenges for District Courts and Prosecutors due to the current lack of adequate training and equipment.

Organised crime concentrates on trafficking in human beings (prostitution, illegal immigration), drugs, stolen cars and money laundering. While the police is regarded as competent in solving everyday minor crime, it is much less equipped to combat economic crime efficiently. The main

difficulty remains the lack of a multi-disciplinary approach in this area. Police efficiency is generally hampered by the absence of adequate training, human and material resource and career planning.

Regarding the **fight against fraud and corruption**, the increased penetration of legal economic activities by criminal organisations hampers the development of the Czech economy as well as the confidence of foreign investors. The efficiency in combating economic crime and corruption needs to be improved through effective co-operation between enforcement agencies, qualified staff and adequate training. The reform of the pre-trial procedure and the internal re-organisation of the main law enforcement bodies that have now been decided should contribute to improving the situation.

The police are as well as other parts of the administration affected by corruption. Administrative police departments, which deal with permissions, registration of official documents etc. have a bad name in this respect. The whole system of registration, examination and publication of complaints against the police needs more transparency. According to a Police survey, officers see precise delineation of powers, greater accountability, introduction of non-cash transactions and harsher punishment as the most successful solution.

With regard to the protection of the financial interests of the European Communities, the Czech Republic needs to continue to align its legislation with the *acquis*, and in particular with the 1995 Convention on the Protection of the Financial Interests of the European Communities and its protocols.

The Czech Republic has long been a transit country for **drug traffickers**. The problem of drug abuse is still fairly low in comparison with western European countries, but criminal gangs try to encourage the consumption. A new law to prevent the production of designer drugs (misuse of precursors) is therefore necessary, even if the National Strategic Plan for 2001 - 2004 has been approved. Anti-drug policy is co-ordinated by an Inter-Ministerial Drug Commission and consists of preventive and punitive measures. The Czech Republic envisages creating a National Focal Point to participate in the European information network on drugs and drug addiction (Reitox) of the European Monitoring Centre for Drugs and Drug Addiction. The efforts focus on introducing a central information system, and on the training of all involved institutions in the use of hardware and software and in methodological aspects.

As regards **money laundering**, besides some gaps in the legislation, which should be covered by a new Criminal Code, enforcement still needs to be improved considerably. The lack of adequate definition of money laundering in the Penal Code has meant that there have been virtually no prosecutions for this crime. Moreover, the maximum punishment is significantly lower than for financial or tax fraud. There are too many different government institutions involved and insufficient co-ordination. The Financial Analytical Unit (FAU) is functioning. However, the law-enforcement agencies involved in the process should provide a regular feedback on their activities and decisions following complaints lodged by the FAU. Police departments, prosecutors and courts continue to need specialised training.

The Czech Republic has achieved a high level of compatibility in its alignment with the *acquis* in the field of **customs co-operation**. In order to complete it, a further set of amendments to the Czech Customs Code is required. As regards administrative and operational capacity, the Czech Republic should continue to install and implement customs-related IT applications. With

respect to border control and enforcement, particular attention should be paid to the reduction of waiting times at the border. Customs authorities need further training on combating illegal migration in order to assist the detection work of the border and police authorities.

As far as **judicial co-operation** is concerned, the Czech Republic has continued to ratify international conventions included in the *acquis* and has concluded a bilateral Additional Protocol to the European convention on extradition and legal assistance in criminal matters with Germany. Similar protocols are also being prepared with Poland and Slovakia. However, the Czech Republic has not yet acceded to the European Convention on the International Validity of Criminal Judgements, and the definition of a criminal organisation will have to be reviewed in the context of the redrafting of the Criminal Code. New legislation is still awaited as regards combating trafficking in human beings and sexual exploitation of children, and criminal liability of legal persons. Improvement is still needed in practical judicial co-operation, which continues to suffer from insufficient manpower and bureaucratic obstacles.

The Czech Republic has ratified all the **human rights** legal instrument under the Justice and Home Affairs *acquis*.

Chapter 25: Customs union

Since last year's Regular Report, no further developments can be reported as regards legislative transposition, but a number of steps have been taken to strengthen administrative capacity.

No particular developments can be reported regarding the **EC Customs Code and its implementing provisions** or the **customs *acquis* outside the Customs Code**.

As regards international Agreements and Conventions, the Czech Republic ratified the revised International Convention on the simplification and harmonisation of customs procedure (the Kyoto Convention) in June 2001. New intergovernmental agreements on co-operation in customs matters have been concluded with South Africa, Turkey and Slovenia. Co-operation agreements have also been concluded at regional level, with Germany, Slovakia and Poland.

Concerning **administrative and operational capacity** to implement the *acquis*, several initiatives have been taken. An analysis of interconnectivity with the EC IT systems has been carried out, with priority being given to the TARIC project, which was launched in the beginning of 2000. Concerning the extension of the common communication network/ common system interface (CCN/CSI) for the New Computerised Transit System (NCTS), which was agreed between the EU and the Czech Republic in April 2000, the pilot operation began in March 2001. The Czech Customs Administration is also focusing on preparations to integrate EU IT systems such as Quota, and the Early Warning System (EWS) into the national customs declaration system.

The Act on International Assistance in the Recovery of Certain Financial Claims (including agricultural levies and customs duties) entered into force in January 2001.

In the fight against corruption, a draft Integrity Action Plan of the Czech Customs Administration has been developed, building on the principles of the 1993 Arusha Declaration of the Customs Co-operation Council (World Customs Organisation).

A new training system was approved in April 2001 and is implemented from September 2001. It gives more emphasis to specialised and on-the-spot training. Specialised training focusing on post-clearance control in economic operators' premises was launched in April 2001. The preparatory activities of the Customs Administration to take over the administration of excise tax have begun. An excise tax unit has been established at the General Directorate of Customs, at the Operational Division.

Further measures have been taken to reduce waiting times at borders, including construction of new border posts, use of simplified procedures for customs clearance and selective targeting of controls based on risk analysis.

Overall assessment

Although a high level of alignment has already been achieved between the customs legislation of the Czech Republic and the Community *acquis*, the amendment to the Customs Act which will complete alignment with the *acquis* in the customs area has not entered into force yet.

From the administrative and operational capacity point of view, the Czech Republic continues to make good progress. The Customs Directorate is a well-organised administration, and benefits from significant autonomy within the Ministry of Finance. A computerised customs declaration processing system, a computerised quota administration system and a computerised revenue collection and accounting system are fully operational. The Customs Directorate has been implementing the Action Integrity Plan and has continued its fight against fraud. Further progress is expected once responsibility in respect of excise duties has been transferred to the Customs administration. Moreover, a new organisational structure of the tax and customs administration is being considered, with a view to setting up a new joint and independent institution competent for the administration of tax and customs matters. (See *Chapter 10: Taxation*)

To ensure the smooth implementation of the *acquis*, continued efforts should be made in the area of administrative and operational capacity particularly as regards ethics, training, IT development and border management. With regard to IT development, it must be emphasised that flawlessly functioning EC-compatible IT systems should be in place at least one year before EU accession, in order to guarantee interconnectivity with the EC customs computerised systems.

Enhanced co-operation with other enforcement bodies should also be a priority in the fight against fraud and economic crime. (See *Chapter 24: Justice and Home Affairs*)

Efforts have been made to reduce waiting time at borders, but the positive effects still remain to be seen and further improvement is required.

The Czech Republic should ensure that its commitment to close duty-free shops at land borders is fulfilled and implemented by 31 December 2001.

Chapter 26: External relations

Since the previous Regular Report the Czech Republic has continued to align with the *acquis* with regard to the common commercial policy and to coordinate positions and policies within the World Trade Organisation, in particular with regard to the preparation of the New Round.

As regards the **common commercial policy**, upon accession the Czech Republic will be required to align its tariffs with those of the EC. The Czech Republic's applied tariffs currently average 6.2% on all products, 13.4% on agricultural products, 0.1% on fishery products and 4.6% on industrial products. By comparison the EC tariffs²⁹ currently stand at 6.3% on all products, 16.2% on agricultural products, 12.4% on fishery products and 3.6% on industrial products.

The Czech Republic has unilaterally applied a suspension of MFN tariffs levied on imports of twelve civil aircraft products. This temporary measure is due to come to an end on 31 December 2001.

The Czech Republic has completed the legislative framework related to the creation of trade policy instruments and the implementation of WTO commitments; no further developments can be reported in this field.

With regard to administrative measures, in July 2001 a new division of the Ministry of Industry and Trade for multilateral relations and European integration was created, which includes a department for European integration and EC law (32 employees) and one for international economic organisations, safeguard measures and anti-dumping (26 employees).

As regards **bilateral agreements with third countries**, negotiations were concluded for a Free Trade Agreement between the Czech Republic and Croatia, and the text was initialled in April 2001. Negotiations have also been concluded for non-preferential agreements with Jordan, Syria and Saudi Arabia.

In the field of **development policy and humanitarian aid**, the Czech Republic is an active member of the OECD and it is adapting its development practices to the principles laid down by the Development Assistance Committee. The Interior and Foreign Ministries have together prepared a draft Scheme on Humanitarian Aid of the Czech Republic Abroad, which specifies the rules of co-operation and decision-making procedures in this field. The government has also adopted a Resolution initiating a study analysing the co-ordination and implementation by relevant Czech government ministries of foreign development aid in the years 1996-2000, with a view to formulating future policy in this area.

Overall assessment

The Czech Republic's trade policy and its participation in international economic organisations is already to a large extent in line with those of the Union. In the context of the WTO framework, EU policies and positions are generally supported.

With regard to WTO plurilateral agreements, the Czech Republic has observer status to the Agreements on Civil Aircraft and Government Procurement and is a member of the Information Technology Agreement. By the time of accession, the Czech Republic will need to have joined the WTO plurilateral agreements on Civil Aircraft and Government Procurement.

²⁹ WTO bound tariffs after full implementation of all concessions including - where possible - estimated ad valorem equivalents of specific and compound tariffs.

Further co-ordination is needed to ensure the alignment of the Czech Republic's GATS commitments with the EC's commitments and MFN exemptions. The Czech Republic should also ensure that its legislation on Dual Use goods is updated to take into account the new *acquis* which entered into force in September 2000.

With regard to the WTO Agreement on Textiles and Clothing (ATC), the Czech Republic has co-operated with the Community in the process of third stage notification to align its list of integrated products under the ATC to the EU's.

The Czech Republic is making considerable progress in the area of Export Credits. The Czech system is in line with the OECD Arrangement and harmonisation of medium and long term export credits with EC legislation is underway.

In addition to the FTA concluded recently with Croatia, the Czech Republic also currently has FTAs in place with Lithuania, Latvia, Estonia, Israel, Turkey and EFTA, as well as being a member of CEFTA.

Concerning bilateral agreements with third countries, any international agreement which is incompatible with the obligations of membership of the EU will have to be re-negotiated or renounced prior to accession. The Czech Republic is requested to keep the Union fully informed about existing trade agreements with third countries and of the content of negotiations aimed at the conclusion of any new trade agreement with a third country. This applies also to Bilateral Investment Treaties concluded with third countries.

The Czech Republic's alignment with and future participation in the common commercial policy is administered by the Ministry of Industry and Trade. The administrative infrastructure which needs to be in place as regards customs services is addressed under *chapter 25 – Customs union*.

Development and humanitarian aid are administered by the Ministry of Foreign Affairs. For the purpose of the Czech Republic's future financial contribution to the European Development Fund, the Czech Republic's management of its national budget organisation and management of flow of funds to the EC budget is addressed under *chapter 29 – Financial and budgetary provisions*.

Chapter 27 Common Foreign and Security policy

The Czech Republic has continued to align its foreign policy with that of the European Union and to participate constructively in the framework of the Common Foreign and Security Policy (CFSP). The Czech Republic has also manifested its interest in taking part in the setting up of the European Security and Defence Policy (ESDP).

The regular **political dialogue** established by the Association Agreement with the Czech Republic has remained active. As in previous years, the Czech Republic continues to orient its foreign policy towards the Union and to participate in the framework of the CFSP.

Since the previous Regular Report, the Czech Republic has continued to exchange information and engage in a dialogue with the EU in this framework, both in EU+15 (i.e. non EU European NATO members and candidates to the accession to the EU) and EU+6 format (i.e. non EU European Members of NATO). The Czech Republic has maintained its interest and taken part

constructively in the strengthening of the European Security and Defence Policy (ESDP). The Czech Republic played an active role in the first Capabilities Commitment Conference in November 2000 and offered 1000 troops to be integrated in the EU Rapid Reaction Force as of 2003. Participation in ESDP military initiatives has been made easier by a constitutional amendment passed in December 2001 allowing the Government to send Czech troops abroad for up to 60 days and to decide on the presence of foreign troops in the Czech Republic for the same period of time.

The Czech Republic continued to align itself regularly with **EU declarations, Common Positions, Joint Actions and other CFSP instruments** which it was invited to join, including negative measures. Since October 2000, it associated itself with 8 EU common positions, including 3 on the Federal Republic of Yugoslavia.

The Czech Republic has continued strengthening its bilateral co-operation with its neighbours. It has notably engaged in military co-operation with Slovakia and decided to set up a joint Czech-Slovak unit to serve within the KFOR mission in Kosovo. The Czech Republic has participated fully with the European Commission and Austria in a process of trilateral dialogue known as “the Melk process” in order to promote mutual understanding and exchange of information concerning the Temelin nuclear power plant.

Czech participation in regional fora remained strong. The Czech Republic held a meeting of the ‘Visegrad’ group Prime Ministers in Karlovy Vary in October 2000. The Czech Republic co-ordinated its reaction to the results of the Nice Council within the framework of the Visegrad forum, which also witnessed the signing in December 2000 of a multilateral regional co-operation agreement to be funded by the newly established Visegrad Fund.

The Czech Republic continued to actively support the Stability Pact and expressed interest in becoming a full-fledged member of it. The Czech Republic has maintained its participation in both the KFOR and the SFOR peace-keeping operations. It announced, however, in May 2001 that, for financial reasons, it would withdraw its SFOR units by the end of 2001, while reinforcing its participation in KFOR.

Based on legislation on the implementation of international sanctions to preserve international peace and security, the Czech Republic continued to largely comply with sanctions regimes imposed by the UN or the EU.) As regards administrative capacity, the creation of an electronic CFSP database is under preparation.

Overall assessment

The Czech Republic has reached a high level of alignment with the CFSP *acquis*.

The Czech Republic’s political dialogue with the EU remains fully satisfactory.

The Czech Republic has also shown active interest and a will to co-operate in conflict-prevention and peacekeeping initiatives, notably in the Balkan region (e.g. Stability Pact).

The Czech Republic’s relations with its neighbours remain good, both on a bilateral level and on a multilateral level, such as within the Visegrad forum. The Czech Republic has intensified dialogue with Austria regarding the Temelin nuclear power plant, in particular through an

agreement reached with the Austrian government in December 2000, with the participation of the European Commission, known as the Melk Protocol.

Having already subscribed to the content and principles contained in the EU Code of Conduct on Arms Exports and as a member of the Western Europe Armaments Group, the Czech Republic has substantially aligned its arms export sector with EU common standards. The Czech Republic should continue to improve and strengthen its license awarding system in order to ensure the fullest possible consistency with the EU code of conduct on arm exports.

Concerning the administrative capacity to implement the provisions relating to CFSP, the Czech Republic has a well-staffed and functioning Ministry of Foreign Affairs. The Czech Republic's MFA has reorganised in spring 2000 to create the posts of Political Director and European Correspondent. The ministry is connected to the Associated Correspondents' Network information system through which the EU communicates within the CFSP with the associated partners.

Chapter 28: Financial Control

Further progress has been made in this area since the last Regular Report, in particular in legislative alignment of the areas of public internal financial control and external audit.

As regards **public internal financial control (PIFC)**, a new Act on Financial Control in Public Administration was adopted in August 2001 and will enter into force on 1 January 2002. The adoption of a basic legal framework constitutes a step forward in the creation of a comprehensive PIFC system and introduces the concept of a functionally independent internal audit capability.

As regards administrative capacity and institution building, the staff of the Control Department of the Ministry of Finance has been increased, with a view to strengthening audit methodology and current control systems for pre-accession funds. An internal audit unit has now been established within the National Fund.

Considerable progress has been made in the area of **external audit**. The new Act on Budgetary Rules came into force on 1 January 2001 and provides for significant strengthening of the financial independence of the Supreme Audit Office (SAO). The new SAO budget procedure will be used in preparing the State Budget for 2002. A Strategic Development Plan designed to achieve full compatibility with internationally accepted standards was adopted by the SAO Board in January 2001. It provides, among other things, for further strengthening of the autonomy of the SAO and the extension of its audit mandate to all public funds including budgets of regional bodies, as well as enhanced training of auditors and a time schedule for full implementation of INTOSAI audit standards.

No new developments can be reported regarding the future **control of structural action expenditure**.

With regard to administrative capacity, the National Fund has been reorganised and its responsibilities increased, and the total number of staff has increased to 17. With regard to control of SAPARD funds, an independent internal audit unit has been established within the SAPARD agency.

With regard to the **protection of the financial interests of the European Communities**, discussions have continued during 2001 between OLAF and the Czech Supreme Public Prosecution Office in preparation for operational co-operation between the respective control services. In its Decree of January 2001, the Government decided that the Ministry of Justice should, in cooperation with the Ministry of Finance and the Ministry of Interior, endeavour to lay down the terms of cooperation with OLAF. In order to implement this decision, the Ministry of Justice adopted a Regulation in July which extends the scope of activity of the specialised units of the High Public Prosecution Office (Prague) and the Supreme Public Prosecution Office (Brno) to the field of protection of EC financial interests. The latter has been designated by the Ministry of Justice as the central contact point for OLAF.

Overall assessment

Considerable further efforts are required to accelerate the development of a comprehensive and reliable system of public internal financial control which is compatible with internationally accepted and EU-compliant standards, as well as the establishment of corresponding institutional structures. In particular, the new PIFC legislation should be followed up closely by the enactment of secondary legislation providing for the implementation of the new internal control and audit capabilities, in particular on the functional independence of internal auditors. The increase and training of staff, particularly at the level of line ministries and other spending agencies, should also be given a high priority.

The strengthening of institution building measures and administrative capacity is important not only in view of the new tasks and responsibilities created in this area but also as a pre-requisite to preparations for fully decentralised implementation of pre-accession aid and, following accession, of EC structural funds.

With a view to ensuring adequate protection of EC financial interests, the Czech Republic needs to put in place the necessary legislation to allow the competent EC bodies to carry out on-the-spot checks and to develop adequate administrative capacity to implement the *acquis*, including the ability of the Czech law enforcement bodies and judiciary to address cases where EC financial interests are at stake. Also, bilateral agreements should be concluded between the Supreme Public Prosecutor's Office, the Ministry of Finance and the Ministry of Interior in order to define the roles of the different authorities involved in the protection of the Communities' financial interests.

Chapter 29: Financial and Budgetary Provisions

Continued progress has been made both with regard to budgetary legislation and reinforcement of administrative capacity.

As regards the **national budget and EC co-financed measures**, the new Acts on Budgetary Rules and Budgetary Rules of Regional Authorities entered into force on 1 January 2001, bringing budgetary legislation more closely into line with Member States' standards. The Act on Budgetary Rules aims to improve transparency of financial flows, provides a framework for the management of budgetary relations with the EU, ensures equal treatment of EU and national funds, fully integrates the National Fund into the state budget and makes it subject to the financial control rules. It also provides for the drawing up of multi-annual budgetary outlooks. Secondary legislation implementing certain provisions of the Act has also been adopted in 2001,

in the form of several Decrees outlining principles and deadlines connected with the drafting and implementation of the state budget.

With regard to administrative capacity, the staff of the National Fund has increased staff to 17 persons over the last year. An internal audit unit has been established within the National Fund.

Concerning the **application of the own resources system**, the Czech Republic has conducted regular simulations of the theoretical calculations and procedures necessary for the proper calculation of own resources. The Own Resources unit of the Ministry of Finance, which has 5 employees, was created last year to cover the overall co-ordination of Budgetary Relations with the EU, and it continues to gather experience. It co-operates with the European integration, tax and customs units of the Ministry of Finance, as well as the Czech Statistical Office and the Ministry of Agriculture.

Overall assessment

Overall, preparations in this field are on track though continued efforts should be made.

Although basic budgetary rules are broadly satisfactory, the Czech Republic should continue to ensure that budgetary principles and rules are brought into line with those standards generally applicable in the Community.

In particular, the new budgetary legislation should be implemented, budgetary transparency should be assured and the multi-annual budgetary outlook should be made fully operational.

With regard to administrative capacity, it is crucial that the Czech Republic strengthen its ability to mobilise the human and administrative resources required to follow the Commission's operations and instructions concerning payments of own resources. In particular, greater efforts should be made in the area of tax collection, as highlighted in last year's Regular Report.

In addition to the measures taken for central co-ordination, measures are also needed for the proper collection, monitoring, payment and control of funds to and from the EC Budget. Adequate administrative capacity to duly collect and transfer in a timely manner all Own Resources to the Community budget, building on the Own Resources unit of the Ministry of Finance, will need to be established prior to accession, as will the ability to accurately and regularly report to the Commission on the situation with regard to each of the types of own resources.

In relation to the control of future EC own resources, the Czech Republic should continue its efforts to set up effective instruments to combat fraud relating to VAT and customs duties so that the protection of the financial interests of the EC can be assured.

Administrative capacity should also be strengthened in the context of the relevant policy areas described elsewhere in this Report, such as Financial Control, Customs, Taxation, Agricultural and Regional Policy.

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

Applicant countries are required to translate the various legal texts constituting the *acquis* into their national languages by the time of their accession. Primary and secondary legislation alone

represents a considerable volume of acts, roughly estimated at 60,000-70,000 pages of the Official Journal. To help the candidate countries in this process, assistance is being provided under the Phare programme. With the help of TAIEX, a centralised Translation Co-ordination Unit has been created in each of the ten candidate countries of Central and Eastern Europe.

The overall responsibility for the translation of the *acquis* in the Czech Republic lies within the Office of the Government, namely, in its Department for Compatibility with EC Law (CODEC). Within CODEC, a specialized Coordination and Revision Centre (CRC) has been assigned to organize all translation work. A new translation agency was contracted in September 2000 and the contract is entirely paid for by the Czech State budget. The CRC revises all translated documents from both legal and linguistic points of view, and asks line ministries to confirm all specialized terminology. The CRC also maintains the central database of translations which is accessible to all ministries.

Performance in this area has considerably improved. As of August 2001, all primary legislation and about 57 000 pages of secondary legislation had been translated. The translations are revised in "real time" by the CRC, while the line ministries need more time for technical verifications. Thus, about 25 000 pages had been fully revised as of May 2001. Without prejudice to the outcome of the accession negotiations, sustained efforts are required in this area.

Due attention must also be given to the training of conference interpreters.

3.3. General evaluation³⁰

The Czech Republic has made further significant progress in a wide variety of chapters of the *acquis*. Nevertheless, further efforts remain necessary in a number of areas. There has also been progress in strengthening administrative capacity, although this remains hampered by the absence of a legal framework for public administration.

Alignment on the *single market* is overall well advanced, although the remaining gaps need to be filled. On free movement of goods, there has been progress, except for public procurement, and the bodies responsible for standards and certification continue to function well. As regards free movement of persons, transposition needs to be accelerated, in particular as regards mutual recognition of professional qualifications. In the area of free movement of services, alignment with the financial services *acquis* should be pursued. The capacity of the Securities Commission has been reinforced although stronger regulatory powers would be welcome to improve supervision of financial services. As regards free movement of capital, existing anonymous accounts remain to be abolished.

Concerning *competition*, legislation is now largely in line with the *acquis*, and the enforcement record in the anti-trust and state aid fields is reasonably good. In the latter, rigorous and transparent enforcement needs to be demonstrated as regards the steel and financial sectors. The Office for the Protection of Economic Competition is overall well staffed and trained. As regards *company law*, there is a high degree of compatibility with the *acquis*; however, the

³⁰ See "Making a success of enlargement: Strategy Paper and Report of the European Commission on the progress towards accession by each of the candidate countries", COM (2001) 700.

enforcement and monitoring capacity of the relevant authorities in the field of IPR, such as customs authorities, police, judiciary and trade inspection should be further strengthened.

On *Economic and Monetary Union*, overall a significant part of the *acquis* has been adopted but further efforts are needed to complete alignment as regards central bank independence. Only limited progress has been made on *taxation*, and a number of important issues remain to be tackled on the approximation of VAT and excise duty rates. Also, more concrete progress is needed to ensure the proper and efficient functioning of the tax administration upon accession.

There has been little recent progress on *telecommunications* although overall alignment is satisfactory. The technical conditions need to be put into place to permit the foreseen liberalisation to take place. There has been a significant improvement in legislative alignment on audiovisual policy.

Further progress has been made on *sectoral* policies. As regards transport, road transport legislation has been aligned further, and the Czech Republic has become a member of the Joint Aviation Authority. However, there has been no significant progress in the railways sector. In the energy sector, considerable progress has been made in preparing for entry into the internal energy market for electricity and gas. On industrial policy, a fresh impetus is needed to take forward the restructuring of enterprises.

In the area of *economic and social cohesion*, progress on legal transposition has continued. As regards social policy and employment, alignment has progressed on equal treatment, labour law and health and safety at work. On regional policy, the legal framework for the future implementation of the structural funds has been further completed. However, additional efforts are needed to ensure that the administrative bodies responsible are fully functional, trained and well co-ordinated in order to be ready for implementation of the structural funds upon accession.

In the field of *agriculture*, there has been good legislative progress in the phytosanitary field. However, further work on alignment, for example in the veterinary area, will need to continue across the range of issues of this extensive Community policy. Good progress has been made in setting up the State Agricultural Intervention Fund but further efforts are needed, particularly in the reorganisation of the Ministry of Agriculture.

Good progress has been achieved in transposition of the *environmental acquis*. In particular, the adoption of the Act on Environmental Impact Assessment was a major development. Co-ordination amongst the relevant government bodies needs to be improved, with particular attention to the implications of the ongoing process of decentralisation.

In the field of *Justice and Home Affairs*, progress has been made in particular aligning visa policy, migration policy and on strengthening the legal framework for police and judicial co-operation. The adoption of a high-quality Schengen Action Plan is a positive development. However, significant further efforts are needed to implement government policies for combating organised crime and 'white collar' crime via effective policing strategies and organisational measures. As regards border control, whilst checks have improved at official crossings, there are still significant difficulties in intercepting illegal immigrants at the green borders with Slovakia in particular.

A high level of compatibility has been achieved with the *customs acquis*, although the amendment to the Customs Act remains to be adopted, and operational capacity has been improved. Nonetheless, further efforts are needed to ensure that EC-compatible IT systems are fully functional before accession.

Concerning *financial control*, progress has been made in legislative alignment as regards public internal financial control and external audit, although further efforts are needed to develop a comprehensive system of control.

Overall, the *administrative capacity* of the Czech Republic is being strengthened and efforts in this direction need to be pursued, in particular as regards agriculture, the environment, regional policy and border controls. Further efforts are also required to establish the necessary administrative capacity for sound, efficient and controllable management of EC funds.

The large majority of Accession Partnership priorities have been addressed and overall satisfactory progress has been achieved in meeting them. The short term priorities relating to the single market have generally been met although further efforts are needed in some areas. Limited progress has been made on taxation. The priorities relating to agriculture, the environment and Justice and Home Affairs have been partially met.

As regards the medium term priorities, those relating to the single market have been met to a large extent, except as regards public procurement. The priorities on economic and monetary union and on taxation have not been met. Some progress has been achieved in meeting the medium term priorities in the remaining fields, which have generally been partially met.

C. Conclusion³¹

In its 1997 Opinion, the Commission concluded that the Czech Republic fulfilled the political criteria. Since that time, the country has made considerable progress in further consolidating and deepening the stability of its institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities. Over the past year, further efforts have been made in this direction. The Czech Republic continues to fulfil the Copenhagen political criteria.

The government has also taken steps to improve the functioning of the central and regional administration. However, it is regrettable that the Czech Republic continues to lack a Civil Service Act for its public administration; this is essential for establishing independence, professionalism and stability.

The reform of the judiciary has gained significant momentum. Work in the area of civil law has made good progress whilst efforts continue on criminal law as well as the organisation of the courts and self-government of the judiciary. In particular, a radical reform of the Criminal Proceedings Code has been adopted which aims to increase the capacity to investigate effectively and bring cases efficiently to trial.

Some additional measures to fight against corruption and economic crime have been taken. Nonetheless, corruption and economic crime remain a serious cause for concern, as evidenced by a governmental report which calls on support from the political forces to address the issue.

The Czech Republic has consolidated its internal institutional framework in the field of human rights. However, increased efforts are necessary to better fight the persistent trafficking of women and children.

Considerable efforts have been made by the Czech government as regards Roma and other minorities. However, further measures to combat widespread discrimination are needed, in line with the government policy for the Roma of June 2000. The central government should ensure that all levels of administration, including regional and local, fully abide by and implement the legislation in place as regards minority rights and that the financial resources necessary to do so are available.

Some progress has been made in addressing the Accession partnership priorities although continued efforts are necessary. The government has proposed a *Civil Service Law* to the Parliament but this has not been adopted and implementation of a comprehensive reform has thus not started. Continued and encouraging progress has been made on the *reform of the judiciary*. The majority of the tasks contained in the government's resolution of 1997 concerning the *Roma* have been fulfilled and the government has adopted a long-term policy towards the *Roma*. However, further efforts are needed to implement measures to fight discrimination.

The Czech Republic is a functioning market economy. Provided that it makes further progress towards medium-term fiscal consolidation and completes the implementation of structural

³¹ See "Making a success of enlargement: Strategy Paper and Report of the European Commission on the progress towards accession by each of the candidate countries", COM (2001) 700.

reforms, it should be able to cope with the competitive pressure and market forces within the Union in the near term.

The macroeconomic performance has improved overall. Growth has resumed and broadened, while the favourable performance on inflation has been maintained. Efforts are being made to increase the transparency of the public accounts. Sustained high domestic and, in particular, foreign, investment has engendered substantial restructuring and high productivity growth in the corporate sector. Further progress has been made on the restructuring of banks and privatisation of this sector is complete.

However, the current account deficit has widened and the budget deficit has considerably risen, driven by transformation related one-off costs and an accommodating cyclical stance. In addition, the medium-term sustainability of public finances is not yet assured. Further improvements of the legal framework for market entry and exit, as well as a forceful implementation of the prudential regulations for the financial sector are essential. The authorities should resume the process of disposing of bad loans after the restructuring of banks. Their efforts to privatise or restructure the remaining large state-owned enterprises should be pursued actively so as to strengthen corporate governance and efficiency.

The Czech Republic has made further significant progress in a wide variety of chapters of the *acquis*. Nevertheless, further efforts remain necessary in a number of areas. There has also been progress in strengthening administrative capacity, although this remains hampered by the absence of a legal framework for public administration.

Alignment on the *single market* is overall well advanced, although the remaining gaps need to be filled. On free movement of goods, there has been progress, except for public procurement, and the bodies responsible for standards and certification continue to function well. As regards free movement of persons, transposition needs to be accelerated, in particular as regards mutual recognition of professional qualifications. In the area of free movement of services, alignment with the financial services *acquis* should be pursued. The capacity of the Securities Commission has been reinforced although stronger regulatory powers would be welcome to improve supervision of financial services. As regards free movement of capital, existing anonymous accounts remain to be abolished.

Concerning *competition*, legislation is now largely in line with the *acquis*, and the enforcement record in the anti-trust and state aid fields is reasonably good. In the latter, rigorous and transparent enforcement needs to be demonstrated as regards the steel and financial sectors. The Office for the Protection of Economic Competition is overall well staffed and trained. As regards *company law*, there is a high degree of compatibility with the *acquis*; however, the enforcement and monitoring capacity of the relevant authorities in the field of IPR, such as customs authorities, police, judiciary and trade inspection should be further strengthened.

On *Economic and Monetary Union*, overall a significant part of the *acquis* has been adopted but further efforts are needed to complete alignment as regards central bank independence. Only limited progress has been made on *taxation*, and a number of important issues remain to be tackled on the approximation of VAT and excise duty rates. Also, more concrete progress is needed to ensure the proper and efficient functioning of the tax administration upon accession.

There has been little recent progress on *telecommunications* although overall alignment is satisfactory. The technical conditions need to be put into place to permit the foreseen liberalisation to take place. There has been a significant improvement in legislative alignment on audiovisual policy.

Further progress has been made on *sectoral* policies. As regards transport, road transport legislation has been aligned further, and the Czech Republic has become a member of the Joint Aviation Authority. However, there has been no significant progress in the railways sector. In the energy sector, considerable progress has been made in preparing for entry into the internal energy market for electricity and gas. On industrial policy, a fresh impetus is needed to take forward the restructuring of enterprises.

In the area of *economic and social cohesion*, progress on legal transposition has continued. As regards social policy and employment, alignment has progressed on equal treatment, labour law and health and safety at work. On regional policy, the legal framework for the future implementation of the structural funds has been further completed. However, additional efforts are needed to ensure that the administrative bodies responsible are fully functional, trained and well co-ordinated in order to be ready for implementation of the structural funds upon accession.

In the field of *agriculture*, there has been good legislative progress in the phytosanitary field. However, further work on alignment, for example in the veterinary area, will need to continue across the range of issues of this extensive Community policy. Good progress has been made in setting up the State Agricultural Intervention Fund but further efforts are needed, particularly in the reorganisation of the Ministry of Agriculture.

Good progress has been achieved in transposition of the *environmental acquis*. In particular, the adoption of the Act on Environmental Impact Assessment was a major development. Co-ordination amongst the relevant government bodies needs to be improved, with particular attention to the implications of the ongoing process of decentralisation.

In the field of *Justice and Home Affairs*, progress has been made in particular aligning visa policy, migration policy and on strengthening the legal framework for police and judicial co-operation. The adoption of a high-quality Schengen Action Plan is a positive development. However, significant further efforts are needed to implement government policies for combating organised crime and 'white collar' crime via effective policing strategies and organisational measures. As regards border control, whilst checks have improved at official crossings, there are still significant difficulties in intercepting illegal immigrants at the green borders with Slovakia in particular.

A high level of compatibility has been achieved with the *customs acquis*, although the amendment to the Customs Act remains to be adopted, and operational capacity has been improved. Nonetheless, further efforts are needed to ensure that EC-compatible IT systems are fully functional before accession.

Concerning *financial control*, progress has been made in legislative alignment as regards public internal financial control and external audit, although further efforts are needed to develop a comprehensive system of control.

Overall, the *administrative capacity* of the Czech Republic is being strengthened and efforts in this direction need to be pursued, in particular as regards agriculture, the environment, regional policy and border controls. Further efforts are also required to establish the necessary administrative capacity for sound, efficient and controllable management of EC funds.

The large majority of Accession Partnership priorities have been addressed and overall satisfactory progress has been achieved in meeting them. The short term priorities relating to the single market have generally been met although further efforts are needed in some areas. Limited progress has been made on taxation. The priorities relating to agriculture, the environment and Justice and Home Affairs have been partially met.

As regards the medium term priorities, those relating to the single market have been met to a large extent, except as regards public procurement. The priorities on economic and monetary union and on taxation have not been met. Some progress has been achieved in meeting the medium term priorities in the remaining fields, which have generally been partially met.

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

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

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

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

1. Accession Partnership

In the following assessments the main sub-headings are indicated in bold type and further key concepts taken from the Accession partnership highlighted in italics³².

Short-term priorities

Political criteria: The majority of the tasks contained in the government's resolution of 1997 concerning the *Roma* have been fulfilled and the Inter-Ministerial Roma Committee reports annually on progress with the remaining measures. Whilst satisfactory progress has been made overall, notably on education, progress was more difficult in combatting anti-Roma prejudice and creating employment opportunities. In summary, further steps have been taken to address **this priority, which has been partially met.**

Economic criteria: progress has been made on the *restructuring of the banking sector* as privatization in this sector has been fully completed. However, the level of *bad loans* remains very high and Konsolidacni Banka has been reorganised into an agency with the objective of accelerating the sale of these loans onto the market. Concerning the *steel sector*, the government has yet to agree a restructuring plan with the Commission. The amendment to the *bankruptcy* legislation of 2000 has had only limited impact and yet another *Bakruptcy Law* is being prepared. In summary, some further progress has been made in meeting **this priority, which has been partially met.**

³² For the detailed text of the short and medium term priorities established in the 1999 Accession Partnership please refer to Council Decision 1999/858/EC, OJ L 335, 28/12/1999, pp. 55-60.

Internal market

- In the field of *intellectual and industrial property rights*, legal transposition is completed. Implementation, enforcement and monitoring capacity of the relevant authorities should be further reinforced. **This priority has been largely met.**

The legislation in the area of *Company law* is now largely in line with the acquis. **This priority has been met.**

On *data protection*, legislation is now largely in line and an independent supervisory body established. This body, the Office for Personal Data Protection, now needs time to prove its effectiveness. **This priority has been met.**

In the area of *free movement of goods*, the Czech Republic has, in line with the 1999 Accession Partnership, made significant progress on alignment and the overall level of administrative capacity of the regulatory bodies is good. **This priority has been met.**

In the field of *free movement of capital*, liberalisation is almost completed, although restrictions remain, in particular concerning purchase of real estate by non-residents and foreign direct investment in air transport. As regards money laundering, new anonymous accounts can no longer be opened but the existing accounts have not yet been abolished. Further progress has been made in meeting this **priority which continues to have been partially met.**

As regards *free movement of services*, the Securities Commission has reinforced its administrative capacity but its legal basis needs to be strengthened to increase its autonomy and clarify its competencies. **This priority has been partially met.**

Competition: significant progress has been made in addressing the outstanding issues indicated in the 1999 Accession Partnership. **This priority has been met.**

Telecommunications: No progress has been achieved in the development of market conditions, as regards the dates for the introduction of “call by call carrier selection” and “number portability”. Also, the independence of the regulatory authority remains to be strengthened.. **This priority remains partially met.**

Audio-visual: very considerable progress has been made in aligning with the acquis. **This priority has been met.**

Taxation: There has been partial alignment with the acquis but a number of areas have yet to be fully aligned. Also, the Czech Republic has decided to postpone the *closure of duty-free shops* at the land borders, reversing its earlier decision to do so by 31 December 2001. **Limited progress has been made in meeting this priority.**

Agriculture

- Good progress has continued to be made on preparing measures to implement the *Common Agricultural Policy* and rural development policies and to align with phytosanitary legislation. In the *veterinary* field, further efforts are needed to complete alignment of legislation and to upgrade inspection arrangements. Little progress has been made with modernising *meat and dairy plants* and the priority of approving a

modernisation plan has not been met. Good progress has been made with the harmonisation of the *cattle identification* system but it is not yet completed. Further progress has been made in addressing this **priority, which has been partially met.**

Employment and social affairs

- Good continued progress has been made in developing and implementing a *national employment strategy* which is in line with the EU strategy. As regards *social dialogue*, progress has been satisfactory in strengthening dialogue at enterprise level although further efforts are needed at sectoral level. Further progress has been made in addressing this **priority, which has been largely met.**

Environment

- Good progress has been achieved in legal alignment although some gaps remain, in particular on *air protection, industrial pollution protection and control* and *nature protection*. Further efforts are needed to develop an *investment strategy* for the environment. The Act on the *Environmental Impact Assessment* has now been adopted. **Thus this priority has been partially met.**

Justice and Home Affairs

- On *border control*, progress has been achieved in improving controls at official border crossings and in preparing for the *Schengen Information System* although there are difficulties in practice regarding readmission and expulsion. On *asylum*, good progress has been made with the establishment of an independent second instance of appeal. As regards *migration*, legislation has been further aligned as regards the residence of aliens. *Organised crime and corruption* continue to represent a major challenge for the authorities. Progress has been made in legislative alignment with international conventions and in obtaining prosecutions for serious crimes. As regards *money laundering*, enforcement capacities have begun to be strengthened but there is still a low level of prosecutions and convictions. Progress has been achieved in meeting this **priority, which has been partially met.**

Reinforcement of administrative and judicial capacity, including the management and control of EU funds

- The government has proposed a *Civil Service Law* to the Parliament but this has not been adopted and implementation of a comprehensive reform has thus not started. Although some concrete steps have been taken in the meantime, still only **limited progress has been made in meeting this priority.**
- Continued and encouraging progress has been made on the *reform of the judiciary*. In particular, the reform of the Criminal Proceedings Code and the Act on Judicial Executors (Bailiffs) have been adopted. Also, the backlog of pending cases has begun to be reduced and some improvement has been achieved in the provision of administrative support to judges. Nonetheless, further efforts are needed, in particular regarding judicial self-administration and training. **This priority has been partially met.**
- As regards *financial control*, further progress has been made on both external and internal audit. As regards **public internal financial control (PIFC)**, the adoption of a basic legal

framework constitutes a step forward in the creation of a comprehensive PIFC system. **This priority has been partially met.**

- PHARE, ISPA and SAPARD: The National Development Plan and the Rural development Plan have been developed and submitted to the Commission. There has been alignment with the acquis on Environmental Impact Assessment and EIA is conducted in the framework of ISPA. However, whilst the legislative framework on public procurement is well advanced, it should be applied more rigorously. The SAPARD Agency remains to be accredited. Further progress has been made in addressing this **priority, which has been partially met.**

Medium term priorities

Political criteria: The government has adopted a new over-arching and long-term policy towards the *Roma* and has made some additional resources available. However, further efforts are needed to implement measures to fight discrimination. **This priority has been partially met.**

Economic criteria: Several SME support programmes have been implemented but there has not been significant progress in the privatization of industry and the liberalisation of utilities. The pre-accession fiscal surveillance is being conducted satisfactorily. However, reform of health care and pension reforms has advanced only slowly. **This priority has been met only to a limited extent.**

Internal market

- *Public procurement:* there has been some progress on alignment but the national preference clause remains to be abolished. Furthermore, there is concern about the use of derogations from the application of existing law. **This priority has been met only to a limited extent.**
- *Intellectual and industrial property:* legal transposition is largely completed. Implementation, enforcement and monitoring capacity of the relevant authorities should be further reinforced. **This priority has been almost fully met.**
- *Data protection:* legislation is now largely in line with the acquis and an independent supervisory body established. This body, the Office for Personal Data Protection now needs time to prove its effectiveness. **This priority has been met.**
- *Free movement of goods:* Alignment is well advanced with the passage of framework measures such as legislation on Technical requirements, Public Health Protection and Product Safety and a large number of sectoral measures. However, some gaps remain such as on medical devices and foodstuffs. Market authorisation for pharmaceuticals has not been fully harmonised. The overall level of administrative capacity is good although improvements should continue in its customs and market surveillance infrastructures, on effective co-operation among competent authorities and safety checks on products at external borders. **This priority has been largely met.**
- *Free movement of persons:* there has been limited progress on alignment of mutual recognition of diplomas. **This priority has not been met.**

- *Free movement of services*: legislative alignment on insurance is relatively well advanced but the independent supervisory body has not been created. **This priority has been partially met.**
- *Competition*: significant progress in enforcement practice has been achieved. However, rigorous application of state aid rules, in particular as regards steel and financial sectors, and anti-trust rules needs to be ensured. **This priority has been partially met.**
- *Telecommunications*: the spectrum monitoring system needs to be improved. **This priority has been partially met.**
- *Taxation*: there has been no significant progress on alignment of the VAT regime. Modernisation of the administrative structures is in the preparatory phase only. **This priority has not been met.**
- *Consumer protection*: A significant amount of progress has been made with measures such as the Act on General Product Safety, the new Concept of Consumer Policy and a steady improvement of capacity across supervisory bodies. Further measures (for example on advertising and guarantees) are still required to complete legislative alignment whilst improved coordination and reallocation of resources to reflect new responsibilities will further aid effective administration. **This priority has been largely met.**
- *Customs*: high level of compatibility has been achieved with the Community *acquis* in the customs area. On administrative and operational capacity, the Czech Republic continues to make good progress. In the fight against corruption, a draft Integrity Action Plan of the Czech Customs Administration has been developed but cooperation with other enforcement bodies should be strengthened. **This priority has been largely met.**

Economic and Monetary Union

- Alignment with the *acquis* on the independence of the National Bank is incomplete on a number of essential elements, in particular; the grounds for dismissal of CNB Board members do not fully guarantee their personal independence; the definition of institutional independence is not sufficient; the consultation procedures with regard to the exchange rate and the inflation target are not in line with the principles of institutional independence; the approval of separate “operating and investment budgets” by the Chamber of Deputies could interfere with the financial independence of the CNB. **This priority has not been met.**

Agriculture

- Overall, good progress has been made with regard to legislative alignment and the setting up of implementing structures for the common agricultural policy. However efforts need to continue across the range of the EC *acquis*. In particular, as regards the implementation of common market organisations, the State Agriculture Intervention Fund (SAIF) is currently not fully equivalent to EU intervention agencies, and needs to be adapted before accession. Concerning the veterinary field, further legislative work is needed to ensure transposition on animal welfare, rules concerning imports from third countries and veterinary controls. The plan to modernize meat and dairy plants has not been implemented. **This priority has been partially met.**

Energy

- A programme for the liberalization of utilities has been adopted and will start to be enforced as of January 2002. The foreseen liberalization of the electricity market is in line with the acquis. Gas liberalization will be acquis compliant only as of January 2005.
- Concerning nuclear safety, the 2001 report of the Atomic Questions Group recommends measures to complete the regulatory review regarding the bubbler condenser systems of the Dukovany NPP, and two specific measures to ensure the safe operation of the Temelín NPP, namely protection against high energy pipe breaks and consequential failures of steam and feedwater lines, as well as qualification of safety and relief valves.
- The State Authority for Nuclear Safety has a good knowledge of EU matters in its fields of activity, supported by membership of the Nuclear Regulatory Working Group. The SUJB functions smoothly in the context of the test-operation of the Temelin Nuclear Power Plant. Overall, the regulation of the nuclear industry in the Czech Republic is comparable with Western European practice.
- The Energy Act prepares the Czech electricity and gas markets for the EU internal market although there are some remaining issues concerning gas. Energy prices do not reflect cost recovery levels. The Energy Regulatory Authority has been established and is becoming operational.
- Oil stock requirements are steadily being aligned with the acquis requirements. Little progress has been made with regard to improving energy efficiency.
- **Further steps have been taken to meet this priority, which has been largely met.**

Transport

- Good legislative progress has been made, in particular on road transport. Regarding railways, substantial further legislative changes will be required. Administrative capacities remain to be strengthened in particular in the road transport area. On aviation, independent slot allocation needs to be applied and an independent air accident investigation authority remains to be established. **This priority has been partially met.**

Employment and social affairs

- Overall, legislative alignment is well advanced. However, enforcement of legislation in areas such as occupational health and safety and public health still needs to be strengthened and in areas where new legislation has been adopted, such as equal opportunities, enforcement awaits first assessments. **This priority has been partially met.**

Economic and social cohesion

- Regional policy has considerably improved as it is now based on a national Strategy for Regional Development. The strategy also defines the objectives and tools of the support, which correspond to EU practices. However, significant additional efforts are needed to establish operational bodies for the implementation of the Structural Funds. **This priority has been partially met.**

Environment

- The Czech Republic has achieved good legislative progress in aligning with Community legislation. However, alignment and implementation of legislation remains to be completed in the fields of *air protection, industrial pollution control and nature protection*. Furthermore, there are gaps related to secondary legislation governing implementation and enforcement measures.
- Concerning administrative capacity further efforts are needed. There is a need to strengthen co-operation and co-ordination among different governmental bodies. The process of administrative decentralization in the Czech Republic creates significant challenges to the implementation of the environment acquis. **This priority has been partially met.**

Justice and Home Affairs

- Law enforcement bodies and the *judiciary* have significantly been upgraded thanks notably to the reform of the Criminal Proceedings Code and related organisational changes. This should increase the capacity to investigate and bring cases to trial. Efforts to improve the training, equipment and administrative support of the judiciary are ongoing and need to be pursued. The efforts made by the law enforcement bodies to improve coordination should be intensified. Regarding *organised crime*, the main difficulty remains the lack of a coordinated, multi-disciplinary approach. Police efficiency is generally hampered by the absence of adequate training, human and material resource and career planning. The Czech Republic has further aligned its visa regime to ensure full alignment before accession, and the new amendment to the Aliens Act has also improved the conditions for granting visas. **This priority has been partially met.**

Reinforcement of administrative and judicial capacity, including the management and control of EU funds:

- As regards *financial control*, the staff of the relevant department of the Ministry of Finance has been strengthened, a specialised unit has been created in the National Fund and Supreme Audit Office has been reinforced. However, further institution building is necessary in order to establish a comprehensive and reliable system of financial control. **This priority has been partially met.**
- *Reform of the judiciary* is ongoing and some appreciable progress has been achieved. The re-codification of civil law is overall well advanced whilst efforts continue on criminal law as well as the organisation of the courts and self-government of the judiciary. Specialised units in the Public Prosecutors Offices on corruption and economic crime have become operational in Prague, Olomouc and Brno. **This priority has been partially met.**
- Overall the Czech Republic has made considerable progress in the field of *statistics*. The CSO functions well, although further improvements are necessary, and is preparing for accession to the EU. The legislation is substantially aligned with the *acquis*. The administrative structures to implement and enforce the *acquis* are largely in place but human and financial resources of the CSO should be strengthened to meet the increased need for structured data in line with the *acquis*. **This priority has been largely met.**

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

The Czech government presented the 2001 “National Programme for the Preparation for membership of the European Union” (National Programme for Adoption of the *Acquis*, NPAA) on 25 June 2001.

The executive summary of the National Programme presents the document in the context of the on-going pre-accession strategy and links up with the 1999 Accession partnership as well as the 2000 National Programme and the Regular Report.

The overall presentation continues to be well structured and clear, thus facilitating reference to the large amount of information which is contained in the Report. Each chapter has a uniform structure including clear tables which indicate the policy objectives, the instruments, the responsible department and a timeframe. These tables cover legislative as well as non-legislative tasks. The latter relate to implementation activities as well as, to a certain extent, reinforcement of administrative capacity.

The quality of information is generally good and there have been some improvements. However, the non-legislative challenges related to preparation for membership are, as a whole, not sufficiently addressed. More in-depth consideration and planning of appropriate measures is required.

As regards financial planning, the budgetary requirements for implementation of the NPAA have again been taken into account during the debate in Parliament on the 2001 budget. This is a very useful practice which strengthens the capacity of the National Programme to be a resource planning instrument. Nonetheless, the financial estimates would require further justification to allow evaluation of their adequacy. Furthermore, the estimates of financial needs only project up to 2002. The Czech Republic has set the target date for membership of 1 January 2003 for internal planning purposes.

Certain key chapters should be improved further. The agriculture chapter has a high quality of information, as it outlines in more detail the tasks to be fulfilled; nonetheless there are gaps, for example the modernization of meat and dairy plants is not mentioned. As regards regional policy, the quality of information is high as regards actions which have been already fulfilled, but there is less detail on the next steps. On the environment, there is good coverage of legislative aspects but too little information on how improvements will be ensured in terms of administrative capacity. The JHA chapter seems to lack a coherent policy approach. Whilst all subsectors are covered, to varying degrees of detail, there is a lack of prioritisation and of recognition of the need to improve coordination between the agencies involved.

The findings of the Regular Report have been more systematically taken into account by the NPAA as a whole (although some of the above mentioned chapters do not refer directly to the Report). On the whole, the priorities of the 1999 Accession Partnership have been addressed.

The 2001 NPAA confirms the overall good level of quality achieved in 2000. However, as per last year, further efforts remain necessary as regards the strengthening of administrative capacity, financial estimates and the setting of medium term priorities. Furthermore, the NPAA does not sufficiently coordinate the different instruments being used to prepare for membership in the different areas of the *acquis*.

Annexes

***Human Rights Conventions ratified by the Candidate Countries,
30 September 2001***

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

X = Convention ratified

O = Convention **NOT** ratified

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

Statistical data

| | 1996 | 1997 | 1998 | 1999 | 2000 |
|---|---|----------|----------|----------|----------|
| Basic data | in 1000 | | | | |
| Population (average) | 10.315 | 10.304 | 10.295 | 10.283 | 10.273 |
| | in km² | | | | |
| Total area | 78.866 | 78.866 | 78.866 | 78.866 | 78.866 |
| National accounts | in 1000 Mio Czech Koruna | | | | |
| Gross domestic product at current prices | 1.567 | 1.680 | 1.837 | 1.887 | 1.959 |
| | in 1000 Mio ECU/euro | | | | |
| Gross domestic product at current prices | 45,5 | 46,8 | 50,6 | 51,2 | 55,0 |
| | in ECU/euro | | | | |
| Gross domestic product per capita ³³ at current prices | 4.400 | 4.500 | 4.900 | 5.000 | 5.400 |
| | % change over the previous year | | | | |
| Gross domestic product at constant prices (nat. currency) | 4,3 | -0,8 | -1,2 | -0,4 | 2,9 |
| | in Purchasing Power Standards | | | | |
| Gross domestic product per capita ³⁴ at current prices | 12.000 | 12.300 | 12.200 | 12.700 | 13.500 |
| Structure of production | in % of Gross Value Added³⁵ | | | | |
| - Agriculture | 4,8 | 4,4 | 4,7 | 3,9 | 3,9 |
| - Industry (excluding construction) | 35,3 | 34,1 | 32,6 | 31,8 | 32,8 |
| - Construction | 7,7 | 8,0 | 7,1 | 7,4 | 7,1 |
| - Services | 52,2 | 53,4 | 55,6 | 56,9 | 56,2 |
| Structure of expenditure | as % of Gross Domestic Product | | | | |
| - Final consumption expenditure | 72,2 | 73,4 | 71,3 | 73,6 | 74,0 |
| - household and NPISH | 52,2 | 53,6 | 52,4 | 53,9 | 54,4 |
| - general government | 19,9 | 19,8 | 18,9 | 19,7 | 19,6 |
| - Gross fixed capital formation | 31,9 | 30,6 | 29,0 | 27,9 | 28,3 |
| - Stock variation ³⁶ | 2,3 | 2,0 | 1,2 | -0,1 | 1,4 |
| - Exports of goods and services | 52,5 | 56,5 | 58,6 | 60,9 | 71,4 |
| - Imports of goods and services | 58,9 | 62,5 | 60,0 | 62,3 | 75,2 |
| Inflation rate | % change over the previous year | | | | |
| Consumer price index ³⁷ | 9,1 | 8,0 | 9,7 | 1,8 | 3,9 |
| Balance of payments | in Mio ECU/euro | | | | |
| -Current account | -3.426,3 | -2.845,0 | -1.191,8 | -1.470,2 | -2.567,5 |
| -Trade balance | -4.691,6 | -4.023,0 | -2.278,3 | -1.784,9 | -3.560,3 |
| <i>Exports of goods</i> | 17.314,9 | 20.181,0 | 23.512,6 | 24.639,6 | 31.463,8 |
| <i>Imports of goods</i> | 22.006,5 | 24.204,0 | 25.790,9 | 26.424,5 | 35.024,1 |
| -Net services | 1.535,0 | 1.562,4 | 1.599,8 | 1.033,5 | 1.512,5 |
| -Net income | -576,7 | -701,1 | -876,8 | -1.198,1 | -828,3 |
| -Net current transfers | 307,0 | 316,7 | 363,5 | 479,3 | 308,6 |
| <i>-of which: government transfers</i> | 103,7 | 45,8 | 63,1 | 56,1 | 4,2 |
| - FDI (net) inflows | 1.140,3 | 1.152,2 | 3.317,3 | 5.932,8 | 4.979,6 |
| Public finance | in % of Gross Domestic Product | | | | |
| General government deficit/surplus | -1,7 | -2,7 | -3,8 | -4,0 | -4,2 |
| General government debt | : | 13,0 | 14,0 | 15,0 | 17,3 |

³³ Figures have been calculated using the population figures from National Accounts, which may differ from those used in demographic statistics.

³⁴ Figures have been calculated using the population figures from National Accounts, which may differ from those used in demographic statistics.

³⁵ Including FISIM.

³⁶ These figures include changes in inventories, acquisitions less disposals of valuables and the statistical discrepancy between the GDP and its expenditure components.

³⁷ Changes in Methodology: PROXY HICP since 1996 (see methodological notes).

| Financial indicators | in % of Gross Domestic Product | | | | |
|---|---------------------------------------|-------|--------|--------|--------|
| Gross foreign debt of the whole economy | 22,7 | 24,0 | 25,8 | 22,8 | 21,4 |
| | as % of exports | | | | |
| Gross foreign debt of the whole economy | 43,2 | 42,5 | 44,1 | 37,4 | 29,9 |
| Monetary aggregates | 1000 Mio ECU /euro | | | | |
| - M1 | 13,9 | 11,7 | 12,3 | 13,3 | 15,5 |
| - M2 | 32,7 | 32,0 | 36,4 | 38,4 | 42,2 |
| - M3 | : | : | : | : | : |
| Total credit | 26,1 | 29,8 | 31,4 | 29,6 | 30,6 |
| Average short-term interest rates | % per annum | | | | |
| - Day-to-day money rate | 11,6 | 19,2 | 13,6 | 6,8 | 5,3 |
| - Lending rate | 13,9 | 13,9 | 13,5 | 9,0 | 8,0 |
| - Deposit rate | 9,4 | 11,1 | 11,4 | 5,8 | 4,4 |
| ECU/EUR exchange rates | (1ECU/euro=..Czech Koruna) | | | | |
| - Average of period | 34,46 | 35,93 | 36,32 | 36,89 | 35,60 |
| - End of period | 34,25 | 38,03 | 35,19 | 36,10 | 35,05 |
| | 1995=100 | | | | |
| - Effective exchange rate index | 102,2 | 99,2 | 102,0 | 106,9 | 108,7 |
| Reserve assets | Mio ECU/euro | | | | |
| -Reserve assets (including gold) | 10.442 | 9.136 | 10.765 | 12.888 | 14.173 |
| -Reserve assets (excluding gold) | 9.858 | 8.862 | 10.693 | 12.762 | 14.043 |

| External trade | Mio ECU/euro | | | | |
|-----------------------|--------------------------|--------|--------|--------|--------|
| Trade balance | -4.440 | -4.187 | -2.209 | -1.746 | -3.394 |
| Exports | 17.462 | 19.740 | 22.969 | 24.637 | 31.492 |
| Imports (FOB) | 21.902 | 23.927 | 25.178 | 26.383 | 34.886 |
| | previous year=100 | | | | |
| Terms of trade | 100,7 | 99,5 | 103,8 | 101,4 | 95,9 |
| | as % of total | | | | |
| Exports with EU-15 | 58,6 | 59,8 | 64 | 69,2 | 68,6 |
| Imports with EU-15 | 62,4 | 61,8 | 63,5 | 64,2 | 62,0 |

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

| Labour market (ILO methodology) | % of labour force | | | | |
|--|-------------------------------|------|------|------|------|
| Economic activity rate | 61,2 | 61,1 | 61,0 | 61,0 | 60,4 |
| Unemployment rate, total | 3,9 | 4,8 | 6,5 | 8,7 | 8,8 |
| Unemployment rate, males | 3,3 | 3,9 | 5,0 | 7,3 | 7,3 |
| Unemployment rate, females | 4,7 | 5,9 | 8,2 | 10,5 | 10,6 |
| Unemployment rate of persons < 25 years | 7,2 | 8,6 | 12,4 | 17,0 | 17,0 |
| Unemployment rate of persons >= 25 years | 3,3 | 4,1 | 5,3 | 7,2 | 7,4 |
| | as % of all unemployed | | | | |
| Long-term unemployment rate | 28,2 | 28,1 | 29,5 | 36,0 | 47,3 |
| Average employment by NACE branches | in % of total | | | | |
| - Agriculture and forestry | 6,1 | 5,8 | 5,5 | 5,2 | 5,1 |
| - Industry (excluding construction) | 32,1 | 31,4 | 31,2 | 30,8 | 30,2 |
| - Construction | 9,4 | 9,7 | 9,7 | 9,3 | 9,3 |
| - Services | 52,3 | 53,1 | 53,6 | 54,7 | 55,4 |

| Infrastructure | in km per 1000 km² | | | | |
|---|--------------------------------------|-------|-------|-------|-------|
| Railway network | 120 | 120 | 120 | 120 | 120 |
| Length of motorways | km | | | | |
| | 423 | 485 | 499 | 499 | 499 |
| Industry and agriculture | previous year=100 | | | | |
| Industrial production volume indices | 102,0 | 104,5 | 101,6 | 96,9 | 105,1 |
| Gross agricultural production volume indices | 98,6 | 94,9 | 100,7 | 100,6 | 95,5 |
| Standard of living | per 1000 inhabitants | | | | |
| Number of cars | 324 | 344 | 358 | 360 | 362 |
| Main telephone lines | 273,2 | 318,0 | 363,6 | 373,5 | 377,1 |
| Number of subscriptions to cellular mobile services | 19,4 | 50,6 | 93,8 | 189,5 | 423,3 |
| Number of Internet subscriptions | 4,0 | 5,5 | 8,4 | 19,4 | 40,8 |

Methodological Notes

Inflation rate

As part of the preparations for the common currency the EU Member States (MSs) have designed a new *consumer price index* in order to comply with the obligations of the EU Treaty. The aim was to produce CPIs comparable between Member States. The main task was to harmonise methodologies and coverage. The result was the Harmonized Index of Consumer Prices (HICP). A similar exercise has been started with Candidate Countries (CC). In respect to enlargement, it is equally important that their economic performance is assessed on the basis of comparable indices. Some progress has already been made towards adapting the new rules. Since January 1999 CCs report monthly to Eurostat so-called proxy HICPs that are based on national CPIs but adapted to the HICP coverage. They are not yet fully compliant with the HICPs of the MSs. In the table, the proxy HICPs are back-calculated to 1995 (rates from 1996).

Finance

Public finance: The government deficit and debt statistics of the Candidate Countries are provisional, in the sense that they do not yet fully comply with EU methodological requirements. Broadly speaking, the general government deficit / surplus refers to the national accounts concept of consolidated general government net borrowing / net lending of ESA95. General government debt is defined as consolidated gross debt at end-year nominal value. The series are available from 1997; the 1996 data are an approximation derived from the IMF's GFS methodology.

Gross foreign debt is of the whole economy, covering both short- and long-term, but excluding equity investment and money market instruments. The source for stock of outstanding debt is OECD, while the source of GDP is Eurostat. For the ratio of gross foreign debt to exports, the national accounts definition of exports of goods and services is used (source: Eurostat). The data for 2000 are Eurostat estimates, based on joint OECD/IMF/BIS/World Bank series.

Monetary aggregates are end-year stock data, as reported to Eurostat. Generally, M1 means notes and coin in circulation plus bank sight deposits. M2 means M1 plus savings deposits plus other short-term claims on banks. M3 means M2 plus certain placements in a less liquid or longer-term form. Not all countries produce an M3 series. Total credit means loans by resident monetary financial institutions (MFIs) to non-MFI residents.

Interest rates: Annual average rates based on monthly series reported to Eurostat. Lending rates refer to bank lending to enterprises for over 1 year. Deposit rates refer to bank deposits with an agreed maturity of up to one year. Day-to-day money rates are overnight interbank rates.

Exchange rates: ECU exchange rates are those that were officially notified to DG ECFIN until 1 January 1999, when the ECU was replaced by the euro. Euro exchange rates are reference rates of the European Central Bank. The effective exchange rate index (nominal), as reported to Eurostat, is weighted by major trading partners.

Reserve assets are end-year stock data, as reported to Eurostat. They are defined as the sum of central bank holdings of gold, foreign exchange, SDRs, reserve position in the IMF, and other claims on non-residents. Gold is valued at end-year market price.

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. The term FOB means that all costs incurred in the course of transport up to the customs frontier are charged to the seller. The value of exports and imports are given in FOB.

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

Terms of trade. 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: population (X+1) - population (X) - Deaths (X) + Births (X). This assumes that any change in population not attributable to births and deaths is attributable to migration. This indicator includes therefore also administrative corrections (and projection errors if the total population is based on estimates and the births and deaths on registers). 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

All historical data from the start of the survey (1993) to 1997 were converted to the methodology used since year 1998. All data are calculated for calendar quarters.- Labour force: employed in national economy plus unemployed persons (according to the ILO definitions).

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

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

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

Have no work,

are actively seeking a job,

and ready to take up a job within a fortnight.

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

Economic activity rate (ILO methodology). Source LFSS: Percentage of the total 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 national economy.

Infrastructure

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

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

- (a) is provided, except at special points or temporarily, with separate carriageways for the two directions of traffic, separated from each other, either by a dividing strip not intended for traffic, or exceptionally by other means;
- (b) does not cross at level with any road, railway or tramway track, or footpath;
- (c) is specially sign-posted as a motorway and is reserved for specific categories of road motor vehicles.

Entry and exit lanes of motorways are included irrespectively of the location of the signposts. Urban motorways are also included.

Industry and agriculture

Industrial production volume indices. Industrial production covers mining and quarrying, manufacturing and electricity, gas, steam and water supply (according to the NACE Rev.1 Classification Sections C,D,E).

Industrial production index (IPI) is calculated by the method corresponding to the international standards based on the production statistics of selected products ("Series-witness"). It covers 88,6 % of industrial production in the Czech Republic.

Published IPI for the Czech Republic are calculated in weights of 1995 and no adjustments were done as concerns seasonal influences and number of working days.

Total agricultural output volume indices. Indices based on evaluation of all individual products of gross agricultural production in constant prices of 1989.

Standard of living

Number of cars. Passenger 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 access to the Internet network includes the number of computers connected to the network via permanent circuit or data network, which provide applications to Internet users.

Sources

Total area, effective exchange rate index, infrastructure, industry and agriculture, external trade, labour market, standard of living, demography: National sources.

National accounts, inflation rate, balance of payment, public finance, finance: Eurostat.