

**Comprehensive monitoring report  
on  
the Czech Republic's  
preparations for membership**

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## A. INTRODUCTION

The accession negotiations with the Czech Republic were successfully concluded on 13 December 2002 and the Treaty of Accession was signed on 16 April 2003. In a referendum held on 13-14 June 2003, a majority of Czechs expressed their support for membership of the European Union. Following ratification of the Treaty of Accession, the Czech Republic will join the EU on 1 May 2004.

In its Strategy Paper “Towards the enlarged Union”, which accompanied the 2002 Regular Reports, the Commission stated that:

*“Acceding countries need to implement the acquis by the date of accession, except in cases where transitional arrangements have been agreed. Commitments undertaken in the negotiations must be fully met before accession. The Regular Reports point to a number of areas where further improvements need to be made in the context of the political and economic criteria and in relationship to the adoption, implementation and enforcement of the acquis. These should be vigorously pursued. In order to analyse progress and to facilitate successful membership of the European Union, the Commission will regularly monitor this and report to Council. The Commission will produce six months before the envisaged date of accession a comprehensive monitoring report for the Council and the European Parliament.”*

The Copenhagen European Council in December 2002 concluded that:

*“Monitoring up to accession of the commitments undertaken will give further guidance to the acceding states in their efforts to assume responsibilities of membership and will give the necessary assurance to current Member States.”*

and the Thessaloniki European Council in June 2003 stated that:

*“...the ten acceding States are encouraged to keep up their efforts so that they are fully prepared to assume the obligations of membership by accession. This also includes the necessary translation of the Community acquis. With a view to making a success of enlargement, the monitoring of these preparations has been intensified on the basis of reports submitted regularly by the Commission.”*

As the accession date of 1 May 2004 draws closer, this report presents a comprehensive state of play of the findings of the regular monitoring carried out by the Commission, building upon the findings of the 2002 Regular Report for the Czech Republic. The report contains two main parts.

The first part deals with economic issues. It describes briefly economic developments in the Czech Republic, and then goes on to assess the implementation of the necessary economic reforms in the areas highlighted in the conclusions of the 2002 Regular Report for the Czech Republic as being in need of further improvements.

The second part gives an overview of where the Czech Republic stands in implementing all commitments and requirements arising from the accession negotiations for each *acquis* chapter, both in terms of legislation and from the perspective of implementing structures, including administrative capacity and enforcement. In view of their importance for the implementation and enforcement of the *acquis*, the overall state of

readiness of the public administration and the judicial system and the development of effective anti-corruption measures are assessed in an introductory section to this part.

This report reflects the situation at the end of September 2003. It records decisions actually taken, legislation actually adopted, measures actually implemented and structures actually in place and functioning by that date.

For each chapter of the *acquis*, this report identifies the areas in which the Czech Republic is expected to be, or is already, in a position to implement the *acquis* and the areas where further action is still needed. Where relevant, the report also points out issues where lagging or deficient preparations are a cause of serious concern. This assessment starts from the premise that the Czech Republic must be fully prepared for membership from the date of accession. In cases where transitional arrangements have been agreed in the accession negotiations, their effect on the Czech Republic's obligations is duly reflected in the assessment.

Numerous sources of information have been used to compile this report. The Czech Republic was invited to provide information on its state of preparedness. The Report also draws on information provided by the Czech Republic within the framework of the Association Agreement and the accession negotiations, as well as on peer reviews that have taken place to assess its administrative capacity in specific areas. Council deliberations and European Parliament reports and resolutions have been taken into account in drafting it.<sup>1</sup> Where relevant, the Commission has also drawn on assessments made by various international organisations such as the Council of Europe, the OSCE and the international financial institutions, and by non-governmental organisations.

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<sup>1</sup> For the European Parliament the rapporteur is Mr Jürgen Schröder.

## **B. ECONOMIC ISSUES**

In its 2002 Regular Report, the Commission concluded that

*“The Czech Republic is a functioning market economy. The continuation of its current reform path should enable the Czech Republic to cope with competitive pressure and market forces within the Union.*

*Improvements can be made as regards the management of public finance, in particular by addressing the high and rising mandatory and quasi-mandatory government expenditures. Reforms of social expenditure, such as pension and health care schemes must be pursued. Furthermore, a more decisive approach towards selling off bad assets of the Czech Consolidation Agency would free the economy of misallocated resources.”*

The principal purpose of this part of the Comprehensive Monitoring Report is to assess the implementation of recommendations for improvements in the areas identified in last year’s Regular Report. The focus is on the change since last year and not on the overall degree of functioning of the market economy or degree of competitiveness. The assessment can be found in Section 2. Section 1 briefly describes recent economic developments in the Czech Republic including the continuation of the reform path since last year’s Report.

### **1. Economic developments**

*The Czech Republic has broadly maintained macroeconomic stability. However, public finances have deteriorated.* Despite the floods, the strengthened national currency (koruna) and sluggish external demand, GDP growth remained at 2% in 2002. Both private and public consumption and, to a lesser extent, exports have supported real GDP growth. Household demand remained robust, growing in 2002 at a rate around 4%, thanks to a sustained increase in disposable income supported by real wage growth. Public consumption also increased, at a rate of 5.7%, driven by one-off expenditures in military procurement, last year’s flood-related spending and high pressure from unemployment and social payments. Fixed investment only went up by 0.6% in 2002. An increase in export capacity and competitiveness counteracted the appreciation of the national currency and weak external demand resulting in an increase of exports in 2002 by 3.8%. In 2002, inflation fell to 0.1% which was below the lower limit of the target band set up by the monetary authorities. The survey-based unemployment rate decreased over the last three years to 7.3% in 2002, however it started to worsen in the first quarter of 2003. Registered unemployment remained high and kept rising. The employment rate has slightly increased to 65.5%. The general government deficit in 2002 was 3.9% of GDP. When the Czech Consolidation Agency (CKA) activity is taken into account the deficit is estimated to rise to 6.7% of GDP (according to PEP 2003). An improvement in the terms of trade (export prices were falling by 1.4% but import prices by 4.3%) explains mostly why the trade deficit came down to 3.5% of GDP in 2002, two percentage points lower than the previous year figure. The current account deficit deteriorated to 5.3% of GDP in 2002, as the improvement in the trade balance deficit did not offset the decrease in the surplus of the balance of services. As in the previous years, the Czech economy continued to be able to finance those deficits thanks to FDI inflows, which amounted to 13.4% of GDP for 2002.

Czech Republic		1998	1999	2000	2001	2002	2003 latest
Real GDP growth rate	per cent	-1.0	0.5	3.3	3.1	2.0	2.1 Q2
Inflation rate	per cent	9.7	1.8	3.9	4.5	1.4	-0.2 August <sup>a</sup>
- annual average							
- December-on-December	per cent	5.8	2.5	4	3.9	0.1	-0.2 August
Unemployment rate	per cent	6.4	8.6	8.7	8.0	7.3	7.6 Q1
- LFS definition							
General government budget balance	per cent of GDP	-4.5	-3.7	-4.0	-5.5	-3.9 p	
Current account balance	per cent of GDP	-2.3	-2.8	-5.3	-4.6	-6.3 p	
	million ECU/Euro	-1187	-1470	-2946	-2930	-4692 <sup>b</sup>	-2611 Jan.-July <sup>b</sup>
Gross foreign debt of the whole economy	Per cent of exports of goods and services	36.2	36.2	41.2	37.5	:	
- debt export ratio	million ECU/Euro	10 778	11 326	16 042	16 960	:	
Foreign direct investment in flow	Per cent of GDP	4.8	9.3	:	8.6	13.4 <sup>b</sup>	
- balance of payments data	million ECU/Euro	2416	4792	:	5489	9889 <sup>b</sup>	2502 Jan.-July <sup>b</sup>

Sources: Eurostat. National sources. OECD external Debt Statistics

<sup>a</sup> Moving 12 months average rate of change.

<sup>b</sup> Source: Website of the Czech National Bank.

P= provisional figures

*The Czech Republic continued on its reform path, albeit hesitantly.* According to government plans, coal mines, electricity, petrochemical and telecommunication firms are planned to be privatised. Coal mines in Northern Bohemia should be sold by the end of 2003. The petrochemical holding Unipetrol will be again offered for privatisation as a whole in a public tender to be held in 2004. Czech Telecom privatisation will not occur before 2005. The government has postponed it due to the difficult international market environment and with a view to increase potential privatisation receipts. Czech Airlines, Czech Airports Authority, Czech Post and Czech Railways are not yet for sale. In order to pave the way for privatisation, Czech Railways were transformed in January 2003 (the Railway Route Administration responsible for the management of the state-owned physical infrastructure and all liabilities, and Czech Railways, a public company, responsible for running the business). Last January, the largest domestic steel-maker Nova Hut Ostrava was privatised, after the restructuring plan for the Czech steel industry was agreed upon. The government has amended the commercial code and is preparing a new Bankruptcy Law. It also provided training to improve the skills of judges and trustees involved in the process of liquidation and restructuring of firms under financial distress. In particular, the regulation of the exit of non-viable firms to permit fast-track restructuring has to be implemented. The government also introduced a new administrative court circuit. Structural shortcomings in the labour market remain to be tackled to allow for an effective reduction of the actual unemployment. Weaknesses, both in the supply and demand side, were well identified in the Joint Assessment of the

Employment Policy Priorities and the subsequent progress reports. Government policy should find the right balance between structural reforms in the labour market and the welfare system, on the one hand, and the priorities stemming from employment policy, social integration and learning development, on the other. Other crucial issues which continue to affect the labour market are the lack of geographical mobility caused *inter alia* by underdeveloped transport infrastructure and the rent controls in the housing market.

Main Indicators of Economic Structure in 2002		
Population (average)	Thousand	10.201
GDP per head <sup>a</sup>	PPS	
	Per cent of EU average	60
Share of agriculture <sup>b</sup> in:		
- gross value added	Per Cent	3.7
- employment	Per Cent	4.9
Gross fixed capital formation/GDP	Per Cent	26.3
Gross foreign debt of the whole economy/GDP <sup>c</sup>	Per Cent	26.6
Exports of goods & services/GDP	Per Cent	65.2
Stock of foreign direct investment <sup>d</sup>	Million Euro	23352
	Euro per head	2289
Long term unemployment rate	Per Cent of labour force	3.7
<i>Source: Eurostat</i>		

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

b Agriculture, hunting, forestry and fishing.

c Data refer to 2001.

d Data refer to 2000.

## 2. Implementation of recommendations for improvements

*The continued deterioration of the general government deficit led the government to undertake steps towards the **consolidation of the public finances** and to present a set of measures aiming at bringing the deficit down to 4% by 2006.* Last year's Report pointed to the need to address the high and rising mandatory and quasi-mandatory public expenditures. The tendency towards expenditure increases appears to be present in other areas of public spending. As mentioned before, the general government deficit in 2002 is estimated at 6.7% of GDP, after the activities of the CKA were included. This limits the leeway to let automatic stabilisers play, running the risk that the public budget may become pro-cyclical, counter to the objective of medium term fiscal consolidation. Not only the level of the deficit creates concerns, but also the structure of the budget. This situation led the government to approve a package for reforming the Czech public finances to save the equivalent of 3.6% of GDP spread over three years. The main objective of the reform proposal is to reduce the public deficit to 4% of GDP in 2006, the last year of the current legislature, from 7.6% estimated by the Czech authorities for the year 2003. The government plans that 30% of the deficit reduction should be achieved through revenue increases and 70% through cuts in expenditures, among them in salaries of civil servants and in discretionary spending of individual ministries. The Lower Chamber of Parliament approved the necessary laws on 26 September 2003. In addition, the Parliament should approve medium term expenditure frameworks with the budget for

the next year. The expenditure frameworks set a binding trajectory of general government spending for three years. Spending by extra-budgetary funds would be incorporated in the expenditure ceilings of responsible ministries.

*A deeper and a more comprehensive reform affecting the social benefits and **the pension system and healthcare** is needed.* In order to achieve long-term fiscal stability, further measures have to be implemented, especially as regards mandatory and quasi mandatory expenditures, social benefits and the pension system and healthcare reform. The current pension system on a pay-as-you-go basis is planned to be modified from a defined-benefit into a new defined-contribution one (Notional Defined Contributions -NDC system) in which people could see their total contribution on their own accounts. The health care system remains to be restructured in order to control costs and eliminate the debts of the main health care facilities.

*The Czech Consolidation Agency resumed the **selling off of bad assets** to private investors. This process should accelerate in order to free the economy from misallocated resources.* In 2002, the CKA was estimated to hold bad assets amounting to roughly 15% of GDP at face value. Given this huge amount, the impact of the CKA activities on public finances needs to be fully assessed. The Agency auctioned in September 2002 and in June 2003 two bad asset packages, amounting in total to the equivalent of 4.4% of GDP at face value. Despite this progress, questions remain concerning the transparency of sales of bad assets.

### C. COMMITMENTS AND REQUIREMENTS ARISING FROM THE ACCESSION NEGOTIATIONS

As we approach the actual date of accession and the entry into force of the mutual rights and obligations enshrined in the Treaty of Accession, it is necessary to focus efforts on ensuring that the Czech Republic is fully prepared in all areas of the *acquis* from the start of its membership. In other words, the Czech Republic must meet its commitments and requirements arising from the accession negotiations.

In the 2002 Regular Report on the Czech Republic, the Commission found that:

*“The Czech Republic is generally meeting the commitments it has made in the negotiations. However, delays have occurred with regard to the full alignment of public procurement legislation, completion of alignment regarding mutual recognition of professional qualifications, adoption of parts of veterinary legislation, and the completion of alignment of certain VAT and excise duties. These issues need to be addressed.*

*Bearing in mind the progress achieved since the Opinion, the level of alignment and administrative capacity that the Czech Republic has achieved at this point in time, and its track record in implementing the commitments it has made in the negotiations, the Commission considers that the Czech Republic will be able to assume the obligations of membership in accordance with the envisaged timeframe. In the period leading up to accession, the Czech Republic needs to continue its preparations, in line with the commitments it has made in the accession negotiations.”*

As regards the administrative capacity to implement the *acquis*, the overall findings were as follows:

*“Overall, the administrative capacity of the Czech Republic has been strengthened considerably. Efforts need to be pursued in particular as regards agriculture, the environment, regional policy, justice and home affairs as well as financial control. Special attention should be given to the structures necessary to ensure sound and efficient management of EC funds. Currently ongoing activities, notably the strengthening of the internal audit units through increasing human resources and training, need to be vigorously pursued in order to attain full operational capacity by accession.”*

As part of its continuous monitoring, the Commission services addressed two letters to the Czech Republic in March and June 2003 expressing concern over its preparedness in the field of mutual recognition of professional qualifications within the chapter on free movement of persons, the upgrading of agri-food establishments within the agriculture chapter, the establishment of a central harmonisation unit within the financial control chapter, and the alignment on VAT and excise duties within the taxation chapter, and calling for urgent action to remedy these shortcomings.

In order to give further guidance to the Czech Republic in its preparation efforts and to give the necessary assurance to current Member States and other future Member States, this part of the comprehensive monitoring report, in Section 2, gives an overview of where the Czech Republic currently stands in implementing all commitments and requirements arising from the accession negotiations for each of the 29 chapters of the *acquis*. It covers the whole body of the *acquis*, on a chapter-by-chapter basis, both in

terms of legislation and from the perspective of implementing structures, including administrative capacity and enforcement.

The principal commitment undertaken by the Czech Republic in the accession negotiations is to be fully prepared for membership in all areas by the date of accession. In a number of areas, however, commitments were made to put in place and implement the *acquis* according to specific timetables even before accession. This report examines the extent to which these commitments have been met, and where delays have occurred, but the principal focus of the assessment remains the requirement that the Czech Republic must be fully prepared as from accession. Naturally, in cases where transitional arrangements have been agreed, their effect on the Czech Republic's obligations is duly reflected in the assessment. On the other hand, it should be underlined that, in order for the Czech Republic to make effective use of its eligibility for Community structural funds from 1 January 2004, the relevant *acquis* in areas such as public procurement, state aid and environmental protection will need to be fully respected from 1 January 2004 in relation to the implementation of structural funds actions<sup>2</sup>.

For each chapter, a conclusion is provided, which is structured in the following way.

*Firstly*, it identifies those areas where the Czech Republic is essentially meeting the commitments and requirements arising from the accession negotiations and is expected to be, or is already, in a position to implement the *acquis* from accession. This does not exclude the possibility that certain actions are still to be taken, but these should under foreseeable circumstances not pose particular difficulties.

In a *second* paragraph, the assessment identifies any areas where important further action is still needed in order to complete preparations for membership. In some cases these preparations are ongoing, but enhanced efforts or quicker progress may be called for. These are issues which can still be remedied taking into account the accession date of 1 May 2004 but which require the special attention of the authorities.

*Thirdly*, where relevant, the assessment also identifies issues that are of serious concern. These are areas where serious shortcomings exist which are likely to persist after accession unless immediate remedial action is taken. These issues require the urgent attention of the authorities.

In view of their importance for the implementation and enforcement of the *acquis*, the *overall* state of readiness of the public administration and the judicial system and the development of effective anti-corruption measures, together with the question of the translation of the *acquis* into Czech, are evaluated in a separate Section 1.

## **1. Administrative and judicial capacity**

### ***Public administration***

As regards the structure of the *central state administration*, the basic principles are set forth in the 1969 *Act on Establishing Ministries and other Central Bodies of State*

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<sup>2</sup> See also the Commission Communication "on the implementation undertaken by the acceding countries in the context of accession negotiations on Chapter 21 - Regional policy and coordination of structural instruments" of 16 July 2003 (COM(2003) 433 final).

*Administration*, which has been frequently amended. The Act lays down the competencies and functions of the various departments. It currently identifies 15 ministries and 11 agencies of central administration.

The Czech Republic accomplished a significant step forward in May 2002 by providing a specific legal framework for its civil service with the adoption of its Civil Service Act. The act sets out the legal status of the central state administration officials and aims at creating an independent, transparent, stable, liable, efficient, professional and non-political public administration. The Act will improve professional standards through the introduction of open recruitment procedures and training methods. To that effect, an independent Institute of State Administration was established in July 2001. The system of remuneration will be clarified and standardised, and should result in an improvement of the salaries of civil servants.

However, the act sets forth a gradual implementation of its provisions during a transition period, which extends up to two years from entry into force. Moreover, further delay will occur as a result of the adoption by Parliament in July 2003 of a Government proposal to postpone its entry into force to 1 January 2005 due to the financial burden caused by the floods of 2002. This development is unfortunate, as the Czech Republic will enter the EU with a central administration at the very early stage of its reform process.

Beyond the existence of a code of conduct and the introduction of specific internal ethical norms, a proper degree of openness and transparency in the Czech public administration has still not been fully reached. Thus, the obligation of transparency embedded in the new act should create the legal basis for meeting this need and provide the necessary incentives.

The rather strong hierarchy that characterises the Czech administration represents an obstacle to the development of inter-service co-ordination and hampers planning and policy-making. However, the establishment in June 2002 of the General Directorate for the Civil Service should improve the allocation of human resources throughout the administration through a process of “systematisation” which will determine the number of civil servant posts and the funds earmarked for salaries in the ministries and other bodies.

Overall, human resources standards have improved at central level, enabling thereby an increase in the quality of administrative decisions. However, lack of prestige and relatively low levels of remuneration weaken the ability of the administration to retain employees. As a result, staff turnover is high and forces the different services to ensure training for their newcomers more frequently.

As regards the reform of territorial public administration, the process of *decentralisation* to the regional and local level is now near completion with the abolition of the districts on 1 January 2003. The 14 regions have received considerable powers notably in the areas of education, health care, territorial planning and environment. Moreover, many State administration competencies have been transferred from the 73 former districts (*okresy*) to 205 newly established municipalities, including competence for the state welfare system, issuance of building permits, management of construction proceedings, environment, landscape protection, management of forests, hunting, fishing, waste, small trades, and motor vehicle registers.

Regional self-government is now provided through regional assemblies directly elected. These assemblies elect the regional Presidents (*hejtman*s) and Councils, both executive bodies of the Region. At the local municipality level, the elected municipal assemblies elect municipal councils and Mayors.

Overall however, as a result of this transfer of competencies, the control of legality needs clarification and so does the financial reform accompanying this change. Resources from the regional budgets for the territorial self-governing units to assume their new autonomy are not yet defined.

The officials of regional and municipal authorities are governed by the Act on Officials of the Territorial Self-Governing Units adopted in June 2002. This Act aims to set up a framework for professionalism and focuses on more transparent procedures and stringent criteria for recruitment by strengthening continuous training of officials and increasing standards of service to the public.

### ***Judicial capacity***

The Czech judicial system is composed of four main tiers: 86 district courts, 8 regional courts, 2 high courts and the Supreme Court. In addition there is the Constitutional Court, which may be addressed directly by citizens in some cases of violation of fundamental rights. In January 2003, the Supreme Administrative Court was established, as required by the Constitution. Together with the 'administrative senates' based at the regional courts, this aims at ensuring the citizens' right of recourse against public actions.

Judges are nominated by the Ministry of Justice and appointed for life by the President of the Republic. Certain 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 are higher than those of other categories of civil servants and are set by Parliament. The number of judges and state prosecutors has remained relatively constant: in May 2003, there were 3 043 judges' posts of which 2 633 are filled, while the total number of public prosecutors' posts is 1 250, of which 971 are filled.

The fundamental principle of independence of the judiciary is anchored in the Czech constitution of 1993, although the Minister of Justice remains responsible for appointing, transferring and terminating the appointment of the president and vice-presidents of courts. The constitution sets forth a general principle of incompatibility, whereby judges cannot hold high political office or have any other public function. Moreover, judges are required to refrain from anything which might threaten the impartiality of their judicial decision-making. With the exception of the Constitutional Court judges, judges are not banned from joining political parties or movements. The constitution does not provide for a system of immunity for judges.

The Act on Courts and Judges, which entered into force in April 2002, constituted a move towards self-government of the judiciary by the creation of Judicial Councils which have the status of consultative bodies at all court levels. The Act also created a Judicial Academy, which began its operations in October 2002. The main objective of the Academy is to provide life-long training to the judiciary, as well as supporting the 3-year initial training of judicial trainees, who are obliged by law to attend 15 working days training per year. Courses have thus far been organised on an *ad hoc* basis, but the first full academic year will begin in autumn 2003.

A complaint from the President of the Republic to the Constitutional Court, concerning the division of powers and the independence of the courts, led to the annulment of certain parts of the Act on Courts and Judges in 2002. This included provisions on the compulsory evaluation of competence of judges and the compulsory nature of training of judges in the Judicial Academy. The Act on Courts was amended in June 2003 to take into account the objections of the Constitutional Court.

Access to justice is satisfactory, however not all citizens may be fully aware of their entitlement. Legal aid is available both in criminal and civil cases, either by virtue of the code of criminal procedure (free legal representation for defendants and victims) or by request to the Chamber of Advocates under the Act on Attorneys.

The speed and efficiency of the enforcement of civil judgements have been significantly improved since the establishment of the Chamber of Judicial Executors, which began operating in 2001 under the Act on Private Bailiffs. 108 judicial executors' posts have been created and appear to be working efficiently.

A key area for further improvement remains the reduction in length of court proceedings. According to recent statistics provided by the Ministry of Justice, the duration of criminal proceedings in 2003 has actually worsened in most cases, compared to 2002.<sup>3</sup> However, one area where significant progress can be noted is in the processing of cases before the commercial registry in Prague.

As regards administrative support for judges, staff shortages and a lack of financial resources persist especially at district court level. As of May 2003, there were 700 higher court officials, compared to 621 in 2002. Their training is ensured by a single school, the academy for judges' clerks, in Kroměříž (South Moravia).

#### *Anti-corruption measures*

According to the 2003 evaluation report of GRECO (Council of Europe Group of States against Corruption), available indicators suggest that corruption remains a cause for concern. The Czech Republic has taken a number of administrative and legal measures to strengthen the fight against corruption. The legal instruments required by the *acquis* are almost all in place, and the necessary structures within law enforcement agencies and the judiciary have been created. However, the main problem remains the relatively unimpressive results in the prosecution of corruption cases.

Following the introduction of the governmental programme on combating corruption in 1999, each Ministry had to draw up its own anti-corruption programme and appoint a co-ordinator responsible for its implementation. Since April 2002, this requirement is now being extended to administrative bodies other than ministries. The Ministry of the Interior is the national co-ordinator of anti-corruption measures. The Ministry of the Interior's 2003 report on corruption drew attention to numerous defects in law and practice concerning public procurement. Several ministries, especially the Ministry of the Interior, have developed public awareness campaigns.

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<sup>3</sup> From January-April 2003, the duration of criminal proceedings was 271 days for cases in district courts against 273 days in 2002; 766 days for cases in regional courts against 726 days in 2002. The duration of civil proceedings was of 592 days for cases in district courts against 562 days in 2002; 277 days for cases in regional Courts against 276 days in 2002.

In 2002, 332 persons were charged with abuse of authority of a public official, 45 persons were accused of accepting bribes, 120 persons were accused of offering bribes and 3 persons were accused of indirect bribery. Several hundred convictions were secured in 2002.

In May 2003 the government approved its annual report on the fulfilment of its national programme on combating corruption, which concluded that corruption is still widespread. The report notes that corruption usually takes the form of abuse of power or acceptance of bribes. The report sees little progress in the results of anti-corruption measures and highlights the fact that corruption still continues to affect the proper functioning of the state administration, the police (especially the aliens police and the traffic police), healthcare, banking and the judiciary, and that it also influences the political sphere. Consequently, the government decided to intensify its effort with the planned introduction of several new measures.

The merger of two police services to form the Service for Criminal Police and Investigation represented a significant step forward. This was completed with further internal developments in April 2003, including in particular the merger of two specialised services (the Department for Revealing Corruption and Major Economic Crime and the Bureau for Financial Crime and Protection of the State). The merger was accompanied by important improvements in working methods, which are likely to enhance the effectiveness of the unit. (*See also Chapter 29 - Financial and budgetary provisions*)

The Ministry of the Interior has established an anti-corruption commission, which is responsible for detecting corruption among Interior Ministry employees and police officers. A special telephone hotline and e-mail address have been established to enable citizens to submit complaints of corruption. However, the number of cases of corruption detected remains extremely low. The Czech customs administration updated its Integrity Action Plan which was first adopted in 2000. An Internal Inspection Unit was recently established to combat corruption; two officers responsible for inspection have been appointed to each regional directorate.

The Czech Republic is a party to the Council of Europe Convention on Money Laundering, Search, Seizure and Confiscation of the Proceeds from Crime and to the Criminal Law Convention on Corruption, as well as to the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions. It also acceded to the Council of Europe Civil Law Convention on Corruption as of 1 January 2003. 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. It joined GRECO, the Council of Europe Group of States against Corruption, in February 2002.

GRECO adopted a report on the Czech Republic as part of its first evaluation round in March 2003 in which nine concrete recommendations were made. GRECO expressed concern about the breadth of immunity from criminal prosecution enjoyed by Members of Parliament and recommended that clear criteria should be developed concerning when immunity should be lifted. GRECO also noted that it had the impression that corruption was more widespread than shown by the official data and that further measures should be taken without delay to prevent undermining the economic, social and political foundations of Czech society. In particular, GRECO drew attention to the low number of successful prosecutions for corruption offences.

### *Translation of the acquis into Czech*

In accordance with Articles 2 and 58 of the Act of Accession, all acts adopted by the Union's institutions and the European Central Bank prior to accession become applicable to the new Member States and are to be published in the Official Journal of the European Union in the new official languages. While the EU institutions take responsibility for the final revision and publication of the translations, it falls to the acceding states to produce the translations and to ensure a thorough legal and linguistic revision.

The translation and revision of *acquis* acts provided by the Czech authorities has been conducted efficiently and cooperation with the EU institutions has been smooth. The number of Czech texts finalised by mid-September is high, between 25 and 30% of the total volume and further voluminous uploads are expected soon. The quality of Czech legal terminology seems to have been given sufficient attention.

## 2. The chapters of the *acquis*

As indicated, the following review of the Czech Republic's ability to assume the obligations of membership has been structured in accordance with the list of 29 *acquis* chapters. Accordingly, this section opens with an assessment of the *acquis* relating to the cornerstones of the internal market which are known as the "four freedoms", and continues with a systematic review of each of the chapters, covering all aspects of the *acquis*, 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 principle of the free movement of goods implies that products must be traded freely from one part of the Union to another. In a number of sectors, this general principle is supplemented with a harmonised regulatory framework, following the "old approach" (imposing precise product specifications) or the "new approach" (imposing general product requirements). The transposition of harmonised European product legislation represents the vast majority of the content of this chapter. In addition, efficient administrative capacity to apply horizontal and procedural measures in areas such as standardisation, certification and market surveillance is essential. This chapter also covers detailed EC rules on public procurement, requiring specialised implementing bodies.

Framework legislation for the **horizontal and procedural measures** necessary for the administration of the *acquis* in the new approach sector is in place, as are the implementing structures in the fields of standardisation, metrology, accreditation, conformity assessment and market surveillance. The national standardisation body, the Czech Standards Institute (ČSN), is a full member of both CEN and CENELEC and is the national representative organisation in ETSI. Legislation on the procedures for provision of information in the field of technical regulations is in place. Market surveillance structures are satisfactory.

The Czech Republic has transposed the **sectoral legislation** under the **new approach** and in general alignment has been found to be satisfactory. New legislation on the safety of toys and on explosives for civil use has now been adopted.

The Czech Republic has transposed most of the **old approach** directives. However, the *acquis* on wood has not yet been transposed. Amendments to the Act on Metrology and a new Act on Chemicals were adopted. Having recognised that the identification of "new" chemical substances on its market is a matter of priority, the Czech Republic should provide for the appropriate notification of such substances in accordance with the *acquis*. Legislation in the areas of fertilisers, drug precursors, pharmaceuticals, cosmetics, textiles and glass has been adopted. Implementation structures are in place and essentially satisfactory. Minor amendments are being made to the Act on Consumer Protection in relation to transposition of the *acquis* on footwear and to legislation on motor vehicles and wheel tractors. In the area of pharmaceuticals, the Czech Republic has not yet completed the revision of marketing authorisations nor preparations for the application of EU centralised procedure and mutual recognition of national authorisations. The Czech Republic is carrying out improvements to implementation on a continuous basis, but particular attention should be paid to medicinal products and

cosmetics. Preparations for Czech participation in the RAPEX information system on dangerous products are ongoing.

Transposition of the foodstuffs *acquis* is almost complete, though further amendments to framework legislation (notably for the deletion of the pre-market approval for food for particular nutritional uses) and to national measures on labelling, official control irradiation, novel foods, labelling of genetically modified foodstuffs and monitoring of temperatures are necessary to ensure full alignment. Gradual administrative strengthening (from a high base) continues at the State Veterinary Administration, which is the main supervisory body for animal-origin foodstuffs, and at the Czech Agricultural and Food Inspection (CAFI) under the Ministry of Agriculture, which is in charge of such issues as official control on contaminants, pesticide residues, food hygiene in processing plants and labelling. Further efforts are still needed to: ensure that Hazard Analysis Critical Control Points (HACCP) is enforced at all stages and that overall strategy and co-ordination between implementing bodies is ensured; improve the procedures for handling alerts (RASFF); and guarantee effective controls concerning food irradiation (and to adopt and implement the necessary labelling requirements). Efforts by the Ministry of Health in the accreditation and specialisation of laboratories and training of officials and inspectors following re-organisation should continue. Aspects of food safety are also covered under *Chapter 7 – Agriculture*.

The adoption of the Act on **Public Procurement** still needs to be finalised, to ensure equal access for Community companies through abolition of the national preference clause, alignment on remedies, transparency, time limits and thresholds.

The Ministry of Regional Development has overall responsibility for public procurement legislation. The lack of qualified staff working at the ministry in this area should be urgently addressed. The Office for the Protection of Economic Competition exercises the surveillance of adherence to the Act on Public Procurement when awarding public contracts. The level of administrative capacity seems sufficient. Staff in both organisations, as well as in other relevant institutions (ministries, regional bodies, etc.) will need re-training once the adoption of the new, aligned public procurement act is finalised.

In the **non-harmonised area**, the Czech Republic has conducted a screening of national legislation possibly in contradiction with the principle of free movement of goods. An inter-ministerial group has been established to oversee identification and removal of any such obstacles. This screening must continue and the identified barriers must be removed. Potential obstacles to the free movement of goods posed by the legislation should primarily be solved by inclusion of mutual recognition clauses. Czech legislation ensures inclusion of such clauses in all new laws regulating non-harmonised areas. The Ministry of Industry and Trade is responsible for ensuring the insertion of these clauses in existing legislation, but there remains some uncertainty as to how this will be effected. The *acquis* on arms and ammunition has been transposed. The *acquis* concerning cultural heritage objects has been largely transposed. Preparations have been made to apply the rules on product safety checks at external borders from accession. Administrative co-operation arrangements between customs and market surveillance authorities have been set up and contact points appointed; however, the future activities of custom officers are not yet specified, and this should be addressed.

## *Conclusion*

The Czech Republic is essentially meeting the requirements for membership as regards **horizontal and procedural measures, new approach sectoral legislation** and in the **non-harmonised area** and is expected to be able to apply this *acquis* from accession. Attention should be paid to ensuring that remaining legislative steps are taken in good time and that administrative preparations are finalised. In the non-harmonised area, attention must be paid to inclusion of mutual recognition clauses into the existing legislation.

The Czech Republic is meeting the majority of the requirements for membership as regards **old approach sectoral legislation** and **public procurement**. Further efforts are still needed to complete alignment and implementation of legislation in the area of foodstuffs. Additional efforts should be made to provisionally notify "new" chemical substances prior to accession so as to ensure the continued marketing of such substances. In the area of public procurement, legislative alignment must be finalised. After that has been accomplished the required implementing measures, administrative preparations and training must be effectively pursued.

## *Chapter 2: Free movement of persons*

The *acquis* under this chapter provides for non-discriminatory treatment of workers who are legally employed in a country other than their country of origin. This includes the possibility of cumulating or transferring social security rights, which requires administrative cooperation between Member States. In order to facilitate the practice of certain professions, the *acquis* under free movement of persons also includes specific rules concerning mutual recognition of qualifications and diplomas; for certain professions a harmonised training curriculum must be followed to be able to use the professional title. Furthermore, this area also covers the residence and voting rights of EU citizens in any Member State.

Significant work remains to be done in the field of **mutual recognition of professional qualifications**, where the Czech Republic's legislation is not in line with the *acquis*. Legislation to transpose the general system of recognition and many of the sectoral directives remains to be adopted. Particular efforts are needed to ensure alignment with the relevant sectoral legislation on the recognition of qualifications of doctors, dentists, pharmacists, general care nurses and midwives. Subordinate provisions, e.g. the training curricula, also remain to be adopted. Requirements concerning veterinary surgeons have only been partly transposed, an amendment aligning legislation on architects has been adopted, and the transposition of the *acquis* on lawyers has been largely completed.

The Ministry of Education, Youth and Sports will be the central authority responsible for co-ordination of administrative activities in the recognition of professional qualifications. The existing National Academic Recognition Information Centre (NARIC) and the National Institute for Technical and Vocational Education will support the Ministry in its co-ordination. Professional associations and the Ministry of Trade will also be involved according to the specific field of activity. It will be important to ensure that all such bodies have enough well-trained staff to carry out their tasks effectively.

In the area of **citizens' rights** legislative alignment has been largely completed through legislation on residence, education, elections to the municipalities and elections to the

European Parliament. An amendment to the Act on Registration of Residents remains to be adopted and the Ministry of Education, Youth and Sports must ensure that there are no breaches of equal treatment in the provision of education. The main administrative structures for implementation are in place; electoral rolls including EU nationals will need to be prepared for the 2004 European Parliament elections.

As regards **free movement of workers**, a transitional arrangement has been agreed. For the first two years following accession, current Member States will apply national measures, or bilateral agreements, to regulate the access of workers from the Czech Republic to their labour markets. These arrangements may continue up to a maximum of seven years. An amendment will be needed to the Civil Service Act to ensure that access for EU citizens to employment in the public sector is not overly restricted. An amendment to pensions legislation to align on supplementary pension rights of workers moving within the European Union remains to be adopted.

With regard to **co-ordination of social security systems**, no transposition into national legislation is needed to achieve alignment with the *acquis*, but appropriate administrative capacity needs to be ensured through staffing increases and training. The Centre for International Reimbursements will co-ordinate administration of health care expenses. Although these structures remain to be completed, preparations, including training, are on track.

### *Conclusion*

The Czech Republic is essentially meeting the commitments and requirements in the areas of **citizens' rights**, **free movement of workers** and **co-ordination of social security systems** and is expected to be in a position to apply the *acquis* from accession after the remaining legislative work is completed. Equal treatment in the provision of education and access to employment in the public service must be guaranteed and the supplementary pension rights system must be adapted. The ongoing measures to ensure adequate administrative capacity in these areas should be continued.

Serious concerns exist relating to the Czech Republic's preparations in the area of **mutual recognition of professional qualifications**. The Czech Republic must substantially enhance its efforts to transpose both the general system and the sectoral directives on doctors, dentists, pharmacists, general care nurses and midwives. The required administrative bodies must be fully established and the capacity to implement this *acquis* reinforced. In addition, all necessary steps concerning training and curricula need urgently to be taken. Unless immediate action is taken across an important and extensive range of issues, the Czech Republic will not meet the requirements for membership in this area.

### *Chapter 3: Freedom to provide services*

Under this chapter, Member States must ensure that the right of establishment and the freedom to provide services anywhere in the EU is not hampered by national legislation. In some sectors, the *acquis* prescribes harmonised rules which must be respected if the internal market is to function; this concerns mainly the financial sector (banking, insurance, investment services and securities markets) but also some specific professions (craftsmen, traders, farmers, commercial agents). Harmonised rules concerning personal data protection and certain information-society services must also be respected.

Although the *acquis* on commercial agents has been transposed, legislative alignment is not complete concerning the **right of establishment and freedom to provide non-financial services**. In particular, in Czech legislation regulating economic activity a clear distinction should be made between economic operators providing services in the Czech Republic temporarily and those established permanently, so as to ensure free provision of cross-border services. This has not been done sufficiently in the existing trade licence legislation, which needs to be improved in order to ensure the free provision of cross border services. Screening needs to be completed as regards other legislative or administrative restrictions which are not compatible with the principle of the freedom to provide services in the light of the relevant case law of the European Court of Justice, and the identified restrictions will need to be removed upon accession.

In the field of financial services, **banking-sector** legislation is largely in line with the *acquis*. The e-money directive and capital adequacy rules have not been fully implemented.

Legislative progress is necessary in the **insurance sector**, where some further transposition is needed concerning life, non-life and motor vehicle insurance, insurance contracts, intermediaries and loss adjusters.

In the area of **investment services and securities markets**, alignment needs to be completed. The directive on financial collateral needs to be transposed.

In the field of banking supervision, the performance of the Czech National Bank is satisfactory. However, the financial independence of the Securities Commission has not yet been guaranteed. An agreement signed in February 2003 aims to reinforce co-operation between the authorities in banking and financial-market supervision. In the field of insurance, the supervisory body is not yet fully independent in political and budgetary terms. The Czech Republic should ensure that it is able to meet its target in establishing this regulator; and in particular that it has sufficient specialised staff.

The Czech Republic has broadly aligned its legislation on **protection of personal data and the free movement of such data**. However, a number of amendments are necessary to refine the Data Protection Act and the Banking Act. The Office for Personal Data Protection has proved to be fully independent and effective. Additional staff needs to be recruited to guarantee a long-term sustainable performance.

In the area of **information-society services**, a White Paper on e-commerce was finalised in May 2003 but the e-commerce directive has not yet been transposed. The *acquis* on conditional access has not yet been implemented and minor amendments are needed to the Law on Electronic Signatures.

### *Conclusion*

The Czech Republic is essentially meeting the requirements for membership and is expected to be in a position to implement the *acquis* in the areas of **banking, investment services and securities markets** and the **protection of personal data** by the time of accession. Full transposition of the *acquis* in these areas needs to be completed and the independence of the supervisory bodies safeguarded. The Office of Personal Data Protection would benefit from further strengthening.

The Czech Republic is meeting the majority of the requirements for accession in the areas of **right of establishment and freedom to provide non-financial services, insurance**, as well as in the field of **information-society services**. In order to complete preparations for membership, legislative alignment must be accelerated in those areas. Urgent action needs to be taken in the field of trade licensing in order to ensure that the Czech Republic is in accordance with fundamental EU rules on the free provision of services and the right of establishment by accession.

#### ***Chapter 4: Free movement of capital***

Under this chapter, Member States must remove all restrictions in national law on the movement of capital between themselves, but also with third countries (with some exceptions) and adopt EU rules to guarantee the proper functioning of cross-border payments and transfers of all forms of capital. The *acquis* under this chapter also includes harmonised rules on payments systems and the fight against money laundering, requiring adequate enforcement capacity.

In the area of **capital movements and payments**, the Czech Republic is to a large extent in line with the *acquis* but a few measures remain to be taken. The Czech Republic still needs to harmonise fully the prudential rules relating to the placement of assets of insurance companies, pension funds, and saving and credit unions. The assessment of whether the special rights retained by the state in privatised companies are compatible with the *acquis*, also remains to be carried out. The Czech Republic must still remove the restrictions on foreign direct investment in the air transport sector.

In accordance with the transitional arrangement, the Czech Republic will remove the restrictions on the acquisition of secondary residences by EU nationals non-resident in the Czech Republic and by EU companies by May 2009 at the latest. Similarly, in accordance with the transitional arrangement it has been granted, the Czech Republic will remove the restrictions on the acquisition of agricultural land and forests by EU nationals and by EU companies by May 2011 at the latest.

In the field of **payment systems**, the Czech Republic is completing its legislative alignment, while the implementing structures are in place and function adequately. In particular, the provisions on securities settlement systems of the *acquis* on securities finality remain to be adopted.

In the area of **money laundering**, the Czech Republic still has to amend its anti-money-laundering legislation in line with the most recent *acquis* and, *inter alia*, extend the range of subjects obliged to report suspicious transactions to cover lawyers, accountants, tax advisors, auditors and notaries. Moreover, the Czech Republic is completing implementation of the Financial Action Task Force recommendations and is fulfilling its commitment to phasing out anonymous accounts. Implementing structures, the financial intelligence unit needs to be further strengthened both in terms of staff and equipment (*see also chapter 24 – Justice and home affairs*).

#### ***Conclusion***

The Czech Republic is essentially meeting the requirements for membership and is expected to be in a position to implement the *acquis* in the area of **capital movements**

**and payments** and **payment systems** from the date of accession. A limited number of specific issues will still need to be addressed in these areas before accession.

The Czech Republic is meeting the majority of the requirements for membership as regards the fight against **money laundering**. In order to complete preparations for membership, the Czech Republic must transpose the recent *acquis* and further reinforce its administrative capacity to effectively implement the *acquis* on money laundering.

### ***Chapter 5: Company law***

Under this chapter, Member States must adopt and apply harmonised rules required for the proper operation of companies in the internal market. They concern five legislative fields: company law in the strict sense, accounting law, intellectual property rights, industrial property rights, and the recognition and enforcement of judgements in civil and commercial matters as well as of contractual obligations.

In the field of **company law** as such, the Czech Republic has aligned its legislation with the *acquis*. Further efforts are still needed to improve administrative capacity and the overall business environment (in particular the efficient enforcement of commercial judgements). As regards the commercial registry, significant progress has been made in speeding up company registration and reducing the backlog of cases of the Prague Commercial Registry. Efforts need to be maintained in order to secure this positive trend at a national level.

The Czech Republic's commitments in the field of **accounting** have been met and it will be in a position to implement the *acquis* in this field from the date of accession. The administrative structures are adequate.

As regards **protection of intellectual and industrial property rights (IPR)**, the majority of commitments have been met on copyright and related rights. However, with respect to the Directive on copyright in the Information society, further alignment is needed with regard to the provisions relating to the protection of technological measures and rights management information. The Trademark Act still remains to be adopted.

Special transitional rules will apply in relation to pharmaceutical product patents, involving the non-applicability of Community exhaustion to certain exports from the Czech Republic, as regards the granting of supplementary protection certificates for medicinal and plant protection products, as well as in relation to the extension of registered or pending Community trademarks to the territory of the Czech Republic.

Concerning the enforcement of IPR, the necessary structures are in place but need to be strengthened, in particular to combat media piracy. Video piracy has been reduced due to enforcement measures, but software and music piracy levels remain high. Further training and better co-ordination between enforcement bodies (customs, police and judiciary) should remain a priority, as should the control of cross-border trade in counterfeit goods and the speed and efficiency of court procedures in this area. The specialised police unit foreseen in the field of IPR has not yet been established.

The **Regulation replacing the Brussels Convention** on mutual recognition and enforcement of foreign judgements in civil and commercial matters will be directly applicable upon accession, and accession to the **Rome Convention** will only be possible

upon accession. The Czech Republic should designate the relevant Courts or other authorities to ensure swift implementation of these provisions (*see also Chapter 24 - Justice and home affairs*).

### *Conclusion*

The Czech Republic is essentially meeting the commitments and requirements arising from the accession negotiations in the areas of **company law** and **accounting**, as well as on the **Regulation replacing the Brussels Convention** and the **Rome Convention**. The Czech Republic is expected to be in a position to implement the *acquis* from accession, provided that the final legislative alignments are completed.

The majority of commitments and requirements arising from the accession negotiations in the field of the **protection of intellectual and industrial property rights** have been met. Further legislative adjustments are required in respect of copyright and related rights, and trademark rules. Although the legislation is mostly in line, however, enhanced efforts must be made to strengthen enforcement of intellectual and industrial property rights. Better co-ordination among enforcement bodies is required and the efficient functioning of a well-trained judiciary should be given particular attention.

### *Chapter 6: Competition policy*

The competition *acquis* covers both anti-trust and state aid control policies. It includes rules and procedures to fight anti-competitive behaviour by companies (restrictive agreements between undertakings and abuse of dominant position), and to prevent governments from granting state aid which distorts competition in the Internal Market. Generally, the competition rules are directly applicable in the whole Union, and Member States must fully co-operate with the Commission on the enforcement of these rules.

In the **anti-trust** sector, the Czech Republic has adopted legislation containing the main principles of Community anti-trust rules as regards restrictive agreements, abuse of dominant position and merger control. The Czech Republic needs to ensure that its legislation is not in contradiction with the most recent Community block exemptions. Preparation should continue, as appropriate, for the application of the EC's new procedural regulation.

The Czech Republic has the necessary implementing structure in place and the Office for the Protection of Competition is functioning well. In view of the decentralised application of the antitrust rules under the EU's new procedural regulation, further strengthening of the administrative capacity would still be opportune. Further efforts are needed to raise the awareness of all market participants and to build up a credible and transparent competition culture. Specialised training for judges in economic and competition issues is still not sufficient.

The enforcement record of the Competition Office is generally satisfactory. In order to strengthen it further, priority should be given to cases creating the most serious distortions to competition. Furthermore, the policy on sanctions (fines on competition infringements) should be reinforced.

As regards **state aid**, the Czech Republic is applying state aid rules covering the main principles of the *acquis*. The amendment of the Investment Incentives Act, which aims

*inter alia* to establish a fully compatible investment incentives scheme, remains to be completed.

The Czech Republic has the necessary implementing structure in place. Further efforts are needed to raise awareness of state aid rules among all market participants and aid grantors. Further attention needs to be paid to training in this field, both at the level of the national state aid authority (the Competition Office) and the judiciary.

The enforcement record of the Competition Office is not wholly satisfactory. The assessment of the aid measures has not always been carried out in line with the *acquis* and has diverged from the Commission's practice. The Czech Republic must ensure that all State aid measures, including investment incentives, are properly monitored and controlled. In general, reinforced efforts are required to ensure fully satisfactory enforcement.

The Czech Republic is fulfilling its commitment to create full transparency as regards all State aid measures taken in the process of restructuring of its banking sector. The Czech Republic would need to remain vigilant on any new measure in the run up to accession.

The Czech Republic benefits from a transitional arrangement in relation to the restructuring of the steel industry until December 2006. In this context, the Czech Republic is allowed to grant restructuring aid to a pre-defined group of steel companies until the end of 2003 for which the restructuring process would have to be completed by 2006. The Czech Republic is also obliged to report on the implementation of the restructuring program on a half-yearly basis. Furthermore, it is important to observe that no restructuring aid may be granted exceeding the specified amounts or to companies outside the group of steel mills specified in the special Protocol of the Accession Treaty. As regards public undertakings and undertakings with special or exclusive rights, the Czech Republic still needs to fully adopt the Transparency Directive by the date of accession.

### *Conclusion*

The Czech Republic is essentially meeting the commitments and requirements arising from the accession negotiations in the area of **anti-trust** and is expected to be in a position to implement this *acquis* from accession. In completing preparations for membership, the Czech Republic should finalise the necessary legislative fine-tuning, and should continue to develop a track record of proper application of the antitrust rules.

The Czech Republic is meeting the majority of the commitments and requirements arising from the accession negotiations in the area of **State aid**. In order to complete preparations for membership, the Czech Republic must ensure proper enforcement of all State aid measures. The Czech Republic must also ensure full implementation of the agreed framework for the restructuring of the steel industry, and in particular, guarantee that no restructuring or any other incompatible aid is granted to steel companies that are not covered by the Protocol on steel.

### *Chapter 7: Agriculture*

The agriculture chapter covers a large number of binding rules, many of which are directly applicable. The proper application of these rules and their effective enforcement

by an efficient public administration are essential for the functioning of the common agricultural policy. This includes the setting up of management systems such as a Paying Agency and the Integrated Administration and Control System, which are covered under "horizontal issues". below, and also the capacity to implement rural development actions. The acceding countries must be ready to be integrated into the common market organisations for a range of agricultural products, including arable crops, fruits and vegetables, and meat. Finally, this chapter covers detailed rules in the veterinary field, which are essential for safeguarding animal health and food safety in the internal market, as well as in the phytosanitary field, including issues such as seed quality, harmful organisms and plant protection products.

### **Horizontal issues**

The Czech Republic has decided to merge the State Agriculture Intervention Fund (SAIF) and the Agrarian **Paying Agency** (APA) into one single paying agency but appropriate legal and administrative arrangements have yet to be completed. A substantial amount of work remains to be done, notably in terms of organisation (internal and with the delegated bodies) and the IT system. Attention should be given to ensuring that the timetable for the remaining work is respected.

The Czech Republic has made progress in establishing of a functioning **Integrated Administration and Control System** (IACS), notably in setting up of the Land Parcel Identification System, but substantial efforts are still needed in order to have the system operational by accession.

The SAIF will be responsible for the administration of **trade mechanisms**. The relevant control tasks will be the responsibility of the customs services and the State Veterinary Service. Legislation in this area remains to be adopted and administrative structures and procedures remain to be fully put in place. In particular, clear agreement must be reached on the sharing of responsibilities amongst the services involved.

The Responsibility for **quality policy** and **organic farming** rests with the Ministry of Agriculture, for quality policy in co-ordination with the Office for Industrial Property. Legislation in this field is largely in line with the *acquis*.

The Czech Republic has met the commitments and requirements arising from the accession negotiations in the area of the **Farm Accountancy Data Network** (FADN) and is expected to have implemented the FADN by accession.

**State aid** measures in the field of agriculture remain to be brought into line with the *acquis* by the time of accession.

As concerns direct payments to farmers, the Czech government has decided to apply the single area payment scheme (SAPS) in the first years after accession.

### **Common market organisations**

SAIF will be responsible for intervention as well as inspection and authorisation of payments for **arable crops**. Implementing rules on potato starch and cereals remain to be adopted. The establishment of the actual structures, including intervention centres, needs to be accelerated. Further progress is required as regards the *acquis* on fibre crops.

SAIF has been designated as the body responsible for the **sugar** common market organisation (CMO). A system of sugar quotas has been in place since 2001 but only in 2003 was the appropriate legislation adopted to make the system operational. However, the Czech legislation is still not in compliance with the *acquis*. Other mechanisms of the CMO for sugar, such as inter-professional agreements and provisions for trade with third countries, still need to be established at the legal and administrative level.

Implementing legislation as regards marketing standards for **fruit and vegetables** has been adopted, but it is still lacking on recognition of producers' organisations, approval and control of operational programmes and control of operational funds. Administrative capacity needs to be strengthened, in particular concerning price reporting, controls for producers' organisation and inspection at the export stage.

In the area of **wine and alcohol**, the CMO for wine remains to be fully set up. A new Act on Viticulture needs to be adopted. Administrative capacity has already been more or less designated or is already in place, but the vineyard register is only partially aligned with the *acquis*. The implementation of controls on wine circulation (in particular the accompanying documents) also requires particular attention.

Since 2001 the Czech Republic has a **milk** quota system, which remains to be aligned on the *acquis*. The legal basis for implementing the milk CMO has not yet been adopted. Proper administrative structures are in place and preparations for full implementation of all mechanisms in the milk sector are ongoing.

Legislative measures have been adopted regarding carcass classification for **beefmeat, sheepmeat and pigmeat**. Regarding beef, legislation remains to be adopted on labelling and price reporting and controls on carcass classification need to be reinforced. Regarding pig meat the legal basis for controlling carcass classification is not yet in place. Appropriate administrative structures are in place, with the exception of those required for the labelling system.

For **eggs and poultry**, legislative measures as well as administrative structures are in place as regards marketing standards, price reporting and the reporting of production statistics.

### **Rural development**

The horizontal legislation and administrative structures for implementation of rural development measures have largely been put in place. APA will be the paying agency for rural development and will be responsible for implementation of the measures. The Agency already has substantial experience with the implementation of SAPARD. The Czech Republic has transmitted its formal draft Rural Development Plan for EAGGF Guarantee expenditure to the Commission

### **Veterinary and phytosanitary issues**

Transposition of legislation on transmissible spongiform encephalopathies (**TSEs**) and **animal by-products** has been partly achieved. Full implementation needs to be accelerated, in particular as regards the total feed ban.

The establishment of the **veterinary control system in the internal market** needs to be completed. The administrative structures in this area need to be strengthened. The Czech Republic has not joined the computerised network linking veterinary authorities ANIMO.

Transposition of the *acquis* for identification and registration of animals remains to be completed. A central computer database for bovine animals has been operational since January 2002 but needs to be updated. The law on financing of veterinary inspections and controls has been partly transposed but remains to be implemented. Implementing regarding veterinary checks of imports from third countries and rules for imports has not yet been adopted. The only border inspection post that the Czech Republic plans to bring into continue after accession is the one located at Prague's airport. Considerable work is still needed at these premises.

Regarding **animal disease control** measures, national contingency plans on foot-and-mouth disease, classical swine fever, Newcastle disease and avian influenza have been provided. The Czech Republic has joined the Animal Disease Notification System (ADNS) on a voluntary basis. Legislation on **trade in live animals and animal products** still needs to be transposed and implemented.

Legislation on **public health** protection has been largely transposed but gaps remain in the fish sector. Transitional arrangements have been granted for certain red meat, poultry, egg and dairy establishments until the end of 2006. Products from these establishments will be restricted to the national market. The upgrading of establishments needs to be accelerated. The Czech Republic has given a commitment that all establishments in operation after accession will be in compliance with the *acquis*. There is a high probability that a significant number of agri-food establishments will not be in compliance with the relevant EU requirements at the date of accession.

The *acquis* on **common measures** (including zoonoses) largely remains to be transposed. The residue control system is not fully effective.

The *acquis* in the field of **animal welfare** remains to be transposed, and efforts need to be stepped up in order to ensure actual implementation and enforcement. The Czech Republic has been granted a transitional arrangement until the end of 2009 as regards the conditions for laying hens in certain farms.

In the field of **zootechnics**, transposition and implementation of the *acquis* remain to be achieved.

Alignment with the *acquis* on **animal nutrition** still needs to be completed by an Amendment to the Act on Feedingstuffs.

In the field of **phytosanitary legislation**, the Plant Health Act (harmful organisms and plant protection products) and legislation related to pesticide residues still need to be adopted. The Seeds Act has been adopted. Numerous implementing decrees remain to be adopted. Plant passport and registration of producers, growers and traders have been introduced. The administrative structures in this field are adequate.

The Czech Republic must ensure that international veterinary and phytosanitary agreements are brought into compliance with the EU *acquis* by accession.

The Czech Republic has made very little progress in ensuring a comprehensive approach to enhancing food safety throughout the food chain. Aspects of food safety are also covered under *Chapter 1 – Free movement of goods*.

### *Conclusion*

The Czech Republic is essentially meeting the commitments and requirements arising from the accession negotiations, in (as far as the horizontal issues are concerned) **quality policy** and **organic farming**, the **Farm Accountancy Data Network (FADN)** and **state aid**; as far as the common market organisations (CMOs) are concerned, in **arable crops**, **fruit and vegetables**, **milk**, **sheep and pigmeat** and **eggs and poultry**; and in **rural development**. In the veterinary field, the requirements for **animal disease control measures** are essentially met. The Czech Republic is expected to be in a position to implement this *acquis* in these areas from accession.

The Czech Republic is partially meeting the commitments and requirements for membership as regards the **Paying Agency**, **Integrated Administration and Control System (IACS)**, **trade mechanisms**, CMOs for **sugar**, **wine** and **beefmeat**, and most of veterinary and phytosanitary issues (**TSEs and animal by-products**, **veterinary control systems in the internal market**, **trade in live animals and animal products**, **common measures**, **animal welfare**, **zootecnics**, **animal nutrition**, and **phytosanitary measures**). Unless efforts are accelerated in these areas, there is a risk that functioning systems will not be in place at accession.

There are serious concerns about the progress with **public health** protection (upgrading of agri-food establishments). Unless immediate remedial action is taken, the Czech Republic will not be in a position to implement the *acquis* in this area by the date of accession.

## ***Chapter 8: Fisheries***

The *acquis* on fisheries consists of regulations, which do not require transposition into national legislation. However, it requires the introduction of measures to prepare the administration and the operators for participation in the Common Fisheries Policy (in the areas of market policy, resource and fleet management, inspection and control, structural actions and state aid). In some cases, existing fisheries agreements or conventions with third countries or international organisations need to be adapted.

In the field of **resource and fleet management, and inspection and control**, the Czech Republic needs to adopt the remaining legislation, including a new Act on the import control system, in order to be able to implement the *acquis* by accession. Administrative capacity in this sector should be further strengthened through an increase of staff.

In the area of **structural actions**, the Czech Republic has submitted to the European Commission the chapter on fisheries in the Czech Operational Programme on “Rural Development and Multifunctional Agriculture”. A Managing Authority for this Operational Programme has also been established. However, additional specific staff needs to be allocated to the Rural Support Service of the Ministry of Agriculture for the administration of the Financial Instrument for Fisheries Guidance (FIFG).

Regarding **market policy**, the Czech Republic has met the commitments and requirements arising from the accession negotiations. The administrative structures are adequate to implement the *acquis* in this area.

As regards **state aid** to the fisheries sector, the Czech Republic must bring its national aid schemes into conformity with the *acquis* by accession.

The Czech Republic is not party to any **international fishing agreements**.

### *Conclusion*

The Czech Republic is essentially meeting the commitments and requirements arising from the accession negotiations and is expected to be in a position to implement the *acquis* in the area of **fisheries** as from accession. The administrative capacity is adequate overall, but needs to be strengthened for the management of the fisheries part of the Operational Programme.

### *Chapter 9: Transport policy*

EC transport legislation aims at improving the functioning of the Internal Market by promoting efficient and environment- and user-friendly transport services. The transport *acquis* covers the sectors of road transport, railways, aviation, maritime transport and inland waterways. Member States are required to adopt and implement legislation concerning technical and safety standards as well as social standards. In order to further develop the European Single Transport Market, EC legislation also includes rules on market liberalisation. An important aspect of EC maritime policy is the establishment of Union-wide maritime safety standards.

The extension of the **trans-European transport networks** has been defined. While the necessary implementing structures in this area are in place, the capacity of the Ministry of Transport to prepare, manage and monitor transport projects requires further strengthening, in both qualitative and quantitative terms.

In the land transport sector, serious delays have occurred in the implementation of the Czech Republic's commitments with regard to the **road transport acquis**. While framework legislation is in place and in line, secondary legislation remains to be completed in order to ensure alignment with the *acquis*. Alignment with the fiscal *acquis* is not yet completed as regard rules on charges for the use of infrastructure. In the area of the social *acquis*, legislation is in line with the *acquis*, but implementation remains insufficient. The administrative capacity needs to be increased rapidly in order to reach the volume of checks required by the *acquis*. This is needed in order to ensure compliance with driving times and rest periods. In the technical field, implementing legislation remains to be adopted, notably with regard to speed limitation devices, driving licences, safety advisers for the transport of dangerous goods, vehicle registration documents and roadside inspections. The implementation of roadworthiness testing at the roadside for commercial vehicles and the supervision of the privately-run vehicle test centres are insufficient. Ministry supervision of the enforcement structures and the inadequate enforcement are of particularly serious concern. Moreover, checks on the transport of dangerous goods by road need to be significantly increased. Administrative capacity should be strengthened through further staff increases and the training of specialised staff in supervisory and control functions. The Czech Republic has agreed to a transitional arrangement put forward by the EU concerning gradual reciprocal access to the cabotage market in the road haulage sector (for a maximum duration of five years).

Transposition of the **rail transport acquis** is taking place according to schedule. The process remains to be completed with regard to the revised railway *acquis* of February 2001 and the interoperability directives. In the framework of the ongoing reorganisation process, the capacity of the railway administrations needs to be further strengthened. In

particular as regards track access charging and capacity allocation, procedures and task allocation should be reviewed and training of staff should be pursued. The separation of accounts between infrastructure rail freight and rail passenger transport must be completed.

On **inland waterways** transport, legislative alignment is not yet completed, in particular as regards the establishment of the Inland Waterway Fund, the reciprocal recognition of navigability licences, the technical requirements for waterway vessels, and the reciprocal recognition of boatmasters' certificates. Apart from the need to establish the Inland Waterway Fund, administrative structures in this area are in place and satisfactory.

In the area of **air transport**, the relevant legislation has been transposed and is generally in line with the *acquis*. On licensing, some modifications are needed. Secondary legislation is still being adopted in order to complete alignment with the *acquis*. Administrative capacity needs further strengthening.

In the field of **maritime transport**, framework legislation is in place and in line with the relevant *acquis*. However, the adoption of implementing legislation remains to be completed, in particular in relation to the *acquis* adopted under the "Erika" packages relevant to the Czech Republic. The administrative structures in this area are in place and satisfactory.

### *Conclusion*

The Czech Republic is essentially meeting the commitments and requirements arising from the accession negotiations as regards **trans-European transport networks, rail transport, air transport, maritime transport** and in the area of **inland waterways**. The Czech Republic needs to reinforce administrative capacities regarding trans-European transport networks and air transport and to complete alignment in the areas of air transport, maritime transport and inland waterways. The Czech Republic needs to adopt legislation transposing the revised railway *acquis* and continue implementing the re-organisation of the railway sector

There are serious concerns as regards the implementation of the **road transport** *acquis*. Urgent improvement is needed in the implementation of the social and technical *acquis*. Unless immediate action is taken, the Czech Republic will not meet the requirements for membership in this area by the time of accession.

### *Chapter 10: Taxation*

The *acquis* on taxation largely covers indirect taxation, as concerns VAT (value-added tax) and excise duties. It lays down definitions and principles of VAT. Excise duties on mineral oils, tobacco products and alcoholic beverages are regulated at EU level as concerns the structure of the duty, the level of minimum rates and the holding and movement of excisable goods. As concerns direct taxation, the *acquis* covers some aspects of corporate taxes and aims mainly at removing obstacles to cross-border activities between enterprises. Finally, the Community legislation in the area of administrative co-operation and mutual assistance provides tools to prevent intra-Community tax evasion and tax avoidance on both direct and indirect taxation.

In the area of indirect taxation, alignment needs to be completed as concerns the scope and definition of the application of the reduced **VAT** rate for some supply of goods and services, and to a lesser extent the scope of exempt transactions. The Czech Republic also needs to align its legislation to the *acquis* in the following areas: VAT refunds to foreign taxable persons not established within the Czech Republic; further reduction of the registration and exemption threshold for small and medium-sized enterprises (SMEs) to the equivalent level for which a derogation has been granted in the accession negotiations (see below); introduction of certain special schemes including for second hand goods, travel agents, investment gold; introduction of the intra-Community regime. The necessary administrative structures for VAT are in place. Further modernisation and reinforcement of the tax administration is in progress and should be completed.

The Czech Republic has been granted transitional periods as regards the continued application of the reduced VAT rate on the supply of construction work for residential housing not provided as part of a social policy (until 31 December 2007), and on the supply of heat energy used by households and small entrepreneurs who are not registered for VAT for heating and hot utility water preparation (until 31 December 2007). The Czech Republic obtained derogations concerning the application of a VAT exemption on international passenger transport and of a VAT exemption and registration threshold of €35,000 for SMEs.

As concerns **excise duties**, the Czech Republic has recently adopted legislation aiming to fully align with the *acquis*, except for the areas where transitional measures were granted in the accession negotiations. The necessary administrative structures are in place. The transfer of the administration of excise duties to the customs administration is progressing according to plan, but it should be ensured that remaining actions are completed as scheduled.

The Czech Republic was granted a transitional period regarding delayed implementation of the excise duty rates on cigarettes and other tobacco products (until 31 December 2006 in respect of the minimum excise duty equivalent to 57% of the retail selling price and the minimum excise duty of € 60 per 1000 cigarettes of the category most in demand, and until 31 December 2007 in respect of the minimum excise duty of € 64 per 1000 cigarettes of the category most in demand), and a derogation to continue to apply its excise duty rate scheme for small fruit growers' distillation, provided that the quantity does not exceed 30 litres of fruit spirit per year per household and that the reduced excise rate is not less than 50% of the standard national duty rate for ethyl alcohol.

Significant delays have occurred in the permanent closure of duty free shops at land borders, which have still not been closed, despite the commitment of the Czech Republic to ensure this by December 2001 and subsequently by 31 December 2003. There has been a recent decision to further delay the closure of the duty free shops until 31 March 2004.

As regards **direct taxation**, the Czech Republic needs to complete alignment with the Directive on indirect taxes on the raising of capital and the Merger and Parent/Subsidiary Directives and to transpose the Directives on Interests and Royalties and on Taxation of Savings Income. In order to comply with the principles of the Code of Conduct for Business Taxation, the Czech Republic should improve transparency of its investment incentive legislation. The administrative structures are in place as regards the direct taxation field, and they are essentially satisfactory.

On **administrative co-operation and mutual assistance**, the Czech Republic is taking the necessary steps to transpose the *acquis* and implement it by accession, both from the legislative point of view and as concerns organisational structures, including information technology systems. A Central Liaison Office (CLO) has been set up, but needs to be expanded to cover intra-Community transactions. The Excise Liaison Office (ELO) has also been established, but needs to be further staffed. Preparations for the VAT Information Exchange System (VIES) and for the System for Exchange of Excise Data (SEED) databases are ongoing and are proceeding according to plan.

### *Conclusion*

The Czech Republic is essentially meeting the commitments and requirements arising from the accession negotiations in the **taxation** chapter, except for duty free shops at land borders. In light of the repeated failure to close such shops and in particular in light of the recent further postponement of their closure until end March 2004, it is most important that shops are now closed without any further delay. Subject to legislative alignment being completed, the Czech Republic is expected to be in a position to implement the *acquis* from accession.

### *Chapter 11: Economic and monetary union*

EC legislation on Economic and Monetary Union (EMU) contains specific rules ensuring the independence of central banks in Member States, prohibiting indirect financing of the state by the central bank, and disallowing privileged access of the public sector to financial institutions. These rules must be transposed into the national legislation, despite the fact that the Czech Republic will not yet adopt the euro as a currency from accession. EMU policy also includes the co-ordination of exchange rate and economic policies, adherence to the stability and growth pact and the statutes of the European System of Central Banks.

The Czech Republic has met the commitments and requirements arising from the accession negotiations in the area of **economic and monetary union** and is in a position to implement the *acquis* as from accession.

### *Chapter 12: Statistics*

The *acquis* in the field of statistics requires adoption of basic principles such as impartiality, reliability, transparency, confidentiality of individual data and dissemination of official statistics. It also covers methodology, classifications and procedures for data collection in various areas such as statistical infrastructure, macro-economic and price statistics, business statistics, transport statistics, external trade statistics, demographic and social statistics, agricultural statistics and regional statistics. The focal point of the statistical system of a country is the National Statistical Institute, which acts as the reference point for the methodology, production and dissemination of statistical information.

The Czech Republic is essentially meeting the commitments and requirements arising from the accession negotiations in the area of **statistics** and is expected to be in a position to implement the *acquis* as from accession. The Czech Republic needs to improve the quality and the timeliness of data in certain domains such as national accounts, government finance statistics, household budget surveys, business statistics,

and data for agricultural prices and incomes. Furthermore, the Czech Republic needs to complete data-bases for regionally structured data.

### ***Chapter 13: Social policy and employment***

The *acquis* in the social field includes minimum standards in fields such as labour law, equal treatment of women and men in employment and social security, and health and safety at work. Specific binding rules have also been developed in public health (on tobacco control and surveillance and control of communicable diseases) and recently also with respect to non-discrimination on grounds of racial or ethnic origin, religion or belief, disability, age or sexual orientation. The European Social Fund (ESF) is the main financial tool through which the EU supports the implementation of its Employment Strategy and contributes to social inclusion efforts (implementation rules are covered under Chapter 21, which deals with all structural instruments). The acceding countries are expected to be able to participate in social dialogue at European level, and in the EU policy processes in the areas of employment, social inclusion and social protection.

Recent amendments to the **labour law** have further aligned Czech legislation with the *acquis*. However, transposition of legislation has to be completed on some aspects as regards protection of young people, part-time and fixed-term work, working time, transfer of undertakings and insolvency. The legislation transposing the *acquis* on posting of workers needs significant technical revision to ensure its full compatibility. The transposition of the new *acquis* concerning the involvement of workers in the European Company and the information and consultation of workers is foreseen after accession. The independent guarantee fund for employees is in place and functioning well.

The Czech Republic has transposed almost all legislation in the field of **equal treatment of women and men**, and, in general, the legislative transposition is in line with the *acquis*. However, the *acquis* on equal treatment in occupational social security schemes still remains to be transposed. Moreover, the pensionable age for male and female civil servants will have to be equalised upon accession, when the pension scheme constitutes pay within the meaning of the EC Treaty and case law. With regard to equal access to employment, effective sanctions against discrimination must be provided and provisions in the labour code protecting women in preventing them from work underground and physically heavy work need to be removed. It will also be necessary to introduce a compulsory period of maternity leave for pregnant workers as well as a clear clause to cover protection of workers on parental leave against dismissal. Implementing structures are largely in place, but need further strengthening.

In the area of **health and safety at work**, most of the legislation has been transposed. Further legal adjustments are necessary with regard to the Framework Directive. Moreover, transposition needs to be completed in the areas of workplace requirements, work equipment, temporary or mobile construction sites, workers potentially at risk from explosive atmospheres, medical treatment on board vessels and work at a height (new *acquis*). The National Labour Inspectorate is in place, but needs further strengthening, in particular as regards computerisation. Co-operation and co-ordination between the occupational safety inspection and health at work inspection bodies should be considerably improved. The use of risk premiums to compensate for hazardous working conditions should be abolished.

As regards **social dialogue**, effective tripartite social dialogue is well established. Autonomous bipartite social dialogue between employer and worker representatives needs to be strengthened notably through giving more autonomous collective bargaining space to social partners, and with the view to progressively increasing social dialogue coverage in terms of labour force and enterprises covered by collective agreements. Specific emphasis should also be given to the emergence of autonomous social dialogue in the public sector. In general, the administrative capacity of both government and social partners needs to be reinforced.

In the field of **public health**, the Czech Republic has recently adopted legislation aiming at transposing the new tobacco *acquis*. The system of surveillance, prevention, and control of communicable diseases in the Czech Republic is aligned with the *acquis*. The Czech Republic also has the necessary capacity to be incorporated into the EU communicable disease surveillance and control structures. Attention should be paid to the improvement of the health status of the population and to health expenditure.

Concerning **employment policy**, efforts are still needed to effectively implement the priorities identified in the Joint Assessment of the Employment Priorities (JAP). Further action should focus on the reform of the education and vocational training systems, in particular the implementation of a new comprehensive life-long learning facility, providing stronger incentives for job creation and people to take up jobs and strengthening the public employment service. In view of the ageing of the population and the consequent pension problem, more and continued efforts are needed to increase the participation of older workers.

The administrative capacity of the structures for **European Social Fund (ESF)** management and implementation has been strengthened in order to be ready for efficient use of the ESF. Further efforts are, however, necessary, especially as regards training of new staff. The Czech Republic has a first experience of participation in EQUAL. Preparations need however to be further enhanced.

The Commission and the Czech Republic are finalising the Joint Memorandum on Social Inclusion (JIM), which identifies key challenges and possible policy orientations for promoting **social inclusion**. On this basis, an integrated strategy and a National Action Plan on social inclusion will have to be developed. Analytical work and social statistics systems on poverty and social exclusion should continue to be improved in line with the EU commonly agreed indicators on social inclusion.

In the field of **social protection**, continued efforts are required to reform the health care and pension systems. To improve social protection, the Government has adopted a national programme to prepare the Czech Republic for an increasing number of elderly citizens and focusing on the social impact of an ageing population.

Concerning **anti-discrimination**, the government agreed on an approach for a new anti-discrimination act aiming at transposing the relevant *acquis*. However, legislation remains to be fully aligned with the *acquis* and the Equality Body required by the *acquis* needs to be established. As regards the situation of the Roma minority, the multi-faceted discrimination and social exclusion faced by the Roma continues to give cause for concern. Unemployment affecting the Roma continues to be disproportionately high. Widespread discriminatory hiring practices are still being reported. Efforts aimed at defining an incentive structure for the employment of Roma should be intensified. As regards the integration of the Roma in the education system, the phasing out of the

system of special schools should be pursued. Local levels of government need to show a greater commitment to addressing the particular problems of the Roma, in particular in the field of housing. The future ESF support for the Roma should also receive more emphasis in the proposed programmes.

### *Conclusion*

The Czech Republic is essentially meeting the commitments and requirements arising from the accession negotiations in the areas of **labour law, equal treatment of women and men, social dialogue, public health, employment policy, social inclusion and social protection** and is expected to be in a position to implement this *acquis* from accession. Certain specific aspects of measures in the fields of labour law and equal treatment of women and men need further legal alignment. As regards employment policy, the effective implementation of the priorities identified in the Joint Assessment Paper is necessary to prepare for full participation in the European Employment Strategy.

The Czech Republic is meeting the majority of the requirements for membership in the fields of **health and safety at work, European Social Fund and anti-discrimination**. In order to complete preparations for membership, further legal alignment and co-ordination of the administrative structures as regards inspections is needed in the field of health and safety at work. With regard to European Social Fund, including EQUAL, while considerable progress has been achieved during the last few months, further efforts are urgently needed in order to strengthen the administrative capacity for management, implementation, monitoring, audit and control at both national and regional level. Attention must be given to alignment with the anti-discrimination *acquis*, and considerable efforts should aim at improving the situation of the Roma minority.

### *Chapter 14: Energy*

EU energy policy objectives include the improvement of competitiveness, security of energy supplies and the protection of the environment. The energy *acquis* consists of rules and policies, notably regarding competition and state aids (including in the coal sector), the internal energy market (for example, opening up of the electricity and gas markets, promotion of renewable energy sources, crisis management and oil stock security obligations), nuclear energy and energy efficiency. This chapter also covers important aspects on the safety of nuclear installations.

With respect to **security of supply**, and in particular oil stocks, both framework and implementing legislation are in place and in line with the *acquis*. The administrative capacity required - the Administration of State Material Reserves - is in place. Building up of oil stocks is -despite some delays for some product categories -essentially taking place in accordance with the transitional arrangement the Czech Republic has been granted, namely to reach the 90 days of oil stocks required by the *acquis* by the end of 2005.

In the field of **competitiveness and the internal energy market** (electricity and gas sectors), transposition of the *acquis* is taking place according to schedule. Framework legislation is in place and in line with the *acquis*. Regarding electricity, implementing legislation is in place and in line with the *acquis*. However, as regards gas, implementing legislation is only partially adopted and needs to be completed in order to prepare the opening of the gas market. Market opening in the gas and electricity sectors is taking

place in line with the commitments made in the negotiations. Electricity and gas price distortions have been removed in line with the commitments made. The regulatory body, the Energy Regulatory Office, whose task it is to oversee the gas and electricity markets, is established but needs to be further strengthened. The Czech Republic was granted a transitional arrangement to implement the market opening provisions of the gas directive until end 2004. The Czech Republic should transpose the recently adopted electricity and gas directives in line with the timetable laid down by this *acquis*.

As regards solid fuels, the Czech Republic must continue to prepare for the application of EU State Aid regulations for the hard coal industry and will have to abolish any import restrictions for hard coal upon accession.

In the area of **energy efficiency and renewable energy**, framework legislation is in place. Implementing legislation is largely in place and needs to be completed. Administrative structures in this area, with the Czech Energy Agency as the main institution, are in place but need to be strengthened. A State Programme for Promotion of Energy Savings and Use of Renewable Sources of Energy is being implemented.

In the field of **nuclear energy and nuclear safety**, the Czech Republic meets the commitments and requirements arising from the accession negotiations and is in a position to implement the Euratom *acquis* as from the date of accession. During the accession negotiations, the Czech Republic committed itself to providing additional information on measures taken to implement the recommendations of the June 2001 Council Report on Nuclear Safety in the Context of Enlargement. The Czech Republic provided such information in July and September 2001 and in April 2002. The Czech Republic has also been providing regular information on the licensing status of the Temelin Nuclear Power Plant. In June and September 2003, the Czech Republic submitted additional information covering all recommendations, including those related to high energy pipes and valves at Temelin NPP and the bubbler-condenser system.

### *Conclusion*

The Czech Republic is essentially meeting the commitments and requirements arising from the accession negotiations in the **energy** chapter and is expected to be in a position to implement the *acquis* in this area by accession. The Czech Republic needs progressively to build up oil stocks in line with the schedule agreed during the negotiations. In addition, the Czech Republic must complete alignment by adopting implementing legislation as regards the gas market. It needs to strengthen the Energy Regulatory Office and the Czech Energy Agency.

### ***Chapter 15: Industrial Policy***

EC industrial policy seeks to enhance industrial competitiveness and rates of employment, whilst operating in markets open to international competition. Its aim is to speed up adjustment to structural change, encouraging an environment favourable to initiative and to the development of undertakings throughout the Community. EC industrial policy mainly consists of policy principles and horizontal and sectoral industrial policy communications.

The Czech Republic's **industrial strategy** essentially complies with the concepts and principles of EC industrial policy, i.e. it is market-based, stable and predictable. The necessary administrative structures are in place.

The **privatisation and restructuring** process has not yet been fully completed in the energy, telecommunications and steel sectors. Priority should be given to ensuring that restructuring policy is implemented in a manner which conforms to the competition and state aid *acquis*, in order to create efficient and competitive firms. The necessary administrative structures in this area are in place.

### *Conclusion*

The Czech Republic is essentially meeting the commitments and requirements arising from the accession negotiations in the area of **industrial policy** and is expected to be in a position to implement the *acquis* from accession. In completing preparations for membership, the Czech Republic should ensure the continued implementation of its steel restructuring programme in line with the *acquis*.

### *Chapter 16: Small and Medium-sized Enterprises*

SME policy aims to improve the formulation and co-ordination of enterprise policy across the internal market with a view to supporting the development of SMEs. In doing so, it seeks to improve the overall business environment in which SMEs operate. SME policy consists largely of consultation fora and Community programmes, as well as of communications, recommendations and exchanges of best practices.

The Czech Republic is essentially meeting the commitments and requirements arising from the accession negotiations in the chapter **small and medium-sized enterprises**. Alignment with the new Commission recommendation on the SME definition should be carried out. The implementation of the European Charter for Small Enterprises should be maintained.

### *Chapter 17: Science and research*

Due to its specificity, the *acquis* in the field of science and research does not require any transposition in the national legal order. However, the necessary implementing capacity needs to be created to allow for effective participation in activities under the Framework Programmes in the field of research.

The Czech Republic has met the commitments and requirements arising from the accession negotiations in the area of **science and research** and will be in a position to implement the *acquis* as from accession.

### *Chapter 18: Education and training*

Education, training and youth is primarily the competence of the Member States. The Community's *acquis* consists of a directive on education of the children of migrant workers, and of action programmes and recommendations. The necessary implementing capacity needs to be in place to allow for effective participation in the Community programmes related to this chapter (Leonardo da Vinci, Socrates and Youth).

The Czech Republic has met the commitments and requirements for membership in the area of **Community programmes**, and will be in a position to implement this *acquis* from accession. The implementing capacity for Community programmes will need to be enhanced to benefit from additional allocations for decentralised actions following accession.

In the area of **education of children of migrant workers**, due implementation of the *acquis* needs to be ensured.

### *Conclusion*

The Czech Republic is essentially meeting the commitments and requirements arising from the accession negotiations in the area of **education and training** and is expected to be in a position to implement this *acquis* from accession. Efforts to implement the *acquis* on education of children of migrant workers should continue.

## ***Chapter 19: Telecommunications and information technologies***

The *acquis* in the field of telecommunications consists mainly of the 1998 regulatory framework and a 2000 regulation, and is aimed at the elimination of obstacles to the effective operation of the single market in telecommunications services and networks, and the achievement of universally available modern services. A new regulatory framework on electronic communications was adopted in 2002 and must be implemented. As regards postal services, the objective is to implement the single market by opening up the sector to competition in a gradual and controlled way, within a regulatory framework which assures a universal service (1997 and 2002 *acquis*).

In the field of **telecommunications**, the Czech Republic's framework legislation is mostly in line with the *acquis* adopted in the period 1998 to 2000, except for the cost-orientation of certain prices which continue to hamper the full liberalisation of the market. The 2002 *acquis* remains to be transposed. While the necessary administrative structures in this area are in place, changes are necessary to provide for the appropriate powers and independence of the regulator. In particular, the continued presence of appointees from the Ministry of Informatics in the management of the incumbent operator is incompatible with the separation of functions required by the *acquis*. Finally, the *acquis* on universal service remains to be fully implemented.

In the area of **postal services**, legislative alignment on the second postal directive has been achieved but remains to be implemented. Universal services remain to be clearly defined in line with the present *acquis*. The administrative capacity in this sector needs to be further strengthened including through further staffing and training.

### *Conclusion*

The Czech Republic is essentially meeting the commitments and requirements arising from the accession negotiations in the **postal services** sector and is expected to be in a position to implement the *acquis* in this area by accession. The Czech Republic should ensure the full implementation of the *acquis* in the postal sector and should ensure the correct application of the universal service *acquis*.

The Czech Republic is partially meeting the commitments and requirements arising from the accession negotiations in the **telecommunications** area. In order to complete preparations for accession, the Czech Republic must adopt the new *acquis* in this area. Additionally, the competencies and independence of the regulator in the telecommunications sector need to be further strengthened.

### ***Chapter 20: Culture and audio-visual policy***

The culture and audio-visual policy chapter requires legislative alignment with the Television without Frontiers directive and contains the community programmes Culture 2000, Media Plus and Media Training. Alignment with the Television without Frontiers directive creates the conditions for the free movement of television broadcasts within the Community. It implies basic common requirements concerning advertising; the protection of minors and public order; and the promotion of European works.

The Czech Republic's legislation is largely in line with the **audio-visual** policy *acquis*, but technical amendments to the Broadcasting Act, e.g. on the subsidiary criteria for determining jurisdiction, are required to ensure full alignment. Whilst administrative capacity for implementation of the audio-visual *acquis* is satisfactory, regulation of the sector has proved controversial. The challenge for the new Broadcasting Council is to ensure establishment of a stable, transparent and effective framework.

The Czech Republic meets the requirements for participation in Community activities in the field of **culture**.

### ***Conclusion***

The Czech Republic has met the commitments and requirements arising from accession negotiations in the field of **culture**.

The Czech Republic is meeting the majority of the requirements for membership in the area of **audio-visual policy**. In order to complete preparations for membership, the Czech Republic should adopt the remaining legislative amendments and focus its efforts on the establishment of a stable, transparent and effective regulatory framework.

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

The *acquis* under this chapter consists mostly of regulations, which do not require transposition into national legislation. They define the rules for drawing up, approving and implementing Structural Funds programmes and Cohesion Fund actions. These programmes are negotiated and agreed with the Commission, but implementation is the responsibility of the Member States. It is essential that Member States respect Community legislation in general, for example in the areas of public procurement, competition and environment, when selecting and implementing projects, and have the necessary institutional structures in place to ensure implementation in a sound and cost-effective manner from the point of view of both management and financial control.

The Czech Republic has agreed with the Commission on a NUTS classification of its **territorial organisation**.

The essential feature of the **legislative framework**, i.e. the ability to ensure multi-annual budget programming, is in place. In addition an amendment in the Act of Budgetary Rules, coming into force in January 2004, will allow the required budgetary flexibility.

The legislative framework for financial control and compliance with other Community policies is monitored in other chapters. However, in order for the Czech Republic to make effective use of its eligibility for structural funds from 1 January 2004, the relevant *acquis* in areas such as public procurement, state aid and environmental protection will need to be fully respected from that date.

The necessary **institutional structures** for the preparation and implementation of the Structural and Cohesion Funds have all been put in place.

After repeated delays, a human resources development strategy for the various bodies involved in the implementation of the Structural and Cohesion Funds was recently approved by the Government. The strategy aims at meeting the current needs for additional staff in the ministries and places particular emphasis on the regional administrations. The timely and effective implementation of this strategy is essential, if the administrative structures are to be ready by accession.

The bodies responsible for implementation of the specific financial control provisions, including the 5% and the 15% on-the-spot checks, have been identified. Satisfactory arrangements have been made for most of the programmes and the Cohesion Fund. However, for two of the operational programmes, management control and internal audit functions need to be more clearly separated.

Functionally independent internal audit units have been established within the line Ministries. Training of auditors needs to be a priority.

Inter-ministerial co-ordination is guaranteed by the Management Committee for the Community Support Framework, in which all Managing Authorities of the Operational Programmes and the Paying Authority participate in order to discuss day-to-day management issues. This Committee has an advisory role to the Managing Authority and the Monitoring Committee for the Community Support Framework.

The **programming** documents — specifically the Development Plan, the Operational Programmes, the Single Programming Documents and the programme complements — have been submitted. Ex ante evaluations have been carried out for all programmes in line with the guidelines issued by the Commission, and their conclusions were taken into account in the drafting process. Separate strategic environmental assessments were also prepared for each programme.

The Ministry for Regional Development is responsible for establishing the monitoring system for structural funds. The system has been designed to meet the requirements for computerised data transfer with the Commission and the specific data requirements per fund. Following a pilot phase, work on making the system operational in time is progressing.

The Management and Co-ordination Committee (MCC) serves as the main tool for partnership arrangements. This precursor of the Monitoring Committee for the Community Support Framework includes both public partners (ministries and regions) and private partners (social partners, NGOs), and discusses the progress of the National

Development Plan. All relevant partners have been involved in the preparation phase of each programme through consultations in various forms.

Considerable and sustained efforts are needed to establish a pipeline of projects that are ready to be implemented in technical and financial terms so as to enable the Czech Republic to benefit fully from Community funds as soon as the programme starts.

The **financial management and control** arrangements are generally satisfactory. Efforts should concentrate on drafting procedure manuals in relation to financial control, auditing, certification of expenditure, and correction of irregularities of future Structural and Cohesion Funds expenditure, including the detailed responsibilities of the Paying Authority, the Managing Authorities and the Intermediate Bodies in the field of financial management and control.

Additionality will be verified before approval of the relevant programming documents.

### *Conclusion*

The Czech Republic is essentially meeting the requirements for membership in relation to **territorial organisation** and **programming** for the implementation of actions under the Structural and Cohesion Funds. Provided its further work programme is carried out as envisaged, the Czech Republic should be in a position to meet all requirements in these areas by accession. The Czech Republic needs to focus on establishing an adequate pipeline of well-prepared projects and finalising procedures and manuals for financial management and control.

The Czech Republic is only partially meeting the commitments and requirements arising from the accession negotiations in relation to the **legislative framework, institutional structures** and **financial management and control**. In order to complete preparations for membership, a particular effort must be made in preparing the various authorities concerned, strengthening their co-ordination and administrative capacity through recruitment and training of staff. They must be prepared to apply effectively the new rules on public procurement in line with EU requirements, in order to benefit from Community funding from 1 January 2004. Particular attention must also be paid to finalising arrangements for financial management and control.

### *Chapter 22: Environment*

Community environment policy aims to promote sustainable development and protect the environment for present and future generations, and is based on the integration of environmental protection into other Community policies, preventive action, the polluter pays principle, fighting environmental damage at source, and shared responsibility. The *acquis* comprises over 200 legal acts covering horizontal legislation, water and air pollution, management of waste and chemicals, biotechnology, nature protection, industrial pollution and risk management, noise, and radiation protection. Ensuring compliance with the *acquis* requires significant investments, but also brings significant benefits for public health and reduces costly damage to forests, buildings, landscapes and fisheries. A strong and well-equipped administration at national, regional and local level is imperative for the application and enforcement of the environment *acquis*.

**Horizontal legislation** is in place and is in line with the *acquis*, except for the recent *acquis* on the strategic environmental impact assessment which needs to be transposed and implemented by July 2004 in line with the Directive, as well as minor adaptations to the Act on environmental impact assessment (EIA) in order to complete transposition of EIA by the date of accession. While the relevant administrative capacities are in place and function adequately, the competent authority for strategic environmental impact assessment still needs to be designated.

In the **air quality** sector, legislation is in place and is in line with the *acquis*, except for the recent *acquis* on ozone. Minor amendments are also needed to fully align the legislation on volatile organic compounds from the storage and distribution of petrol. Administrative capacities are in place and function adequately. Air quality plans and programmes need to be adopted as well as monitoring further enhanced by accession.

In the field of **waste management**, legislation is in place and is in line with the *acquis*, except for packaging waste, the financial security of landfills, and the recent *acquis* on end-of-life vehicles. These areas need to be transposed by accession. Administrative capacities are in place and function, but the newly established Centre for Waste Management needs further strengthening, and co-operation with the Ministry needs to be improved. However, the regional waste management plans have yet to be adopted. The establishment of collection systems and recovery and disposal facilities needs to continue. A transitional arrangement until 31 December 2005, with intermediate targets, was agreed for the implementation of rules on packaging waste.

In the area of **water quality**, legislation is in place and is in line with the *acquis*, except for bathing water and the recent framework *acquis* on water, which need to be completed by accession. The necessary implementing structures are in place and function. Due to large number of bodies in the water sector, particular attention needs to be paid to co-ordination between the various organisations involved. Water quality monitoring needs to be enhanced. The inventory of and authorisations for discharges of dangerous substances need to be completed, and programmes for nitrates and dangerous substances need to be finalised and adopted by accession. As regards urban waste water, a transitional arrangement until 31 December 2010, with intermediate targets, has been agreed.

Substantial efforts are still needed in the field of **nature protection**. As regards transposition, the adoption of framework legislation in this area has been delayed. Only the *acquis* on zoos has been transposed in full. By contrast, the *acquis* on nature protection and on endangered species, together with their implementing legislation, are still pending. Enhanced efforts are required to prepare a list of proposed sites of Community interest and to designate special protection areas by accession, and to ensure that relevant protection measures are applied by accession. Administrative capacities are in place, but further staff and technical equipment are needed to fulfil the requirements of the *acquis*, as well as with regard to the consultation process.

The legislation on **industrial pollution** is in place and is in line with the *acquis*. Administrative capacities are in place and function, but more attention needs to be paid to ensuring effective implementation of integrated pollution prevention and control (IPPC), including enforcement. The capacity to issue integrated permits for all installations subject to the rules on integrated pollution prevention and control (IPPC) has been strengthened, but particular attention needs to be paid to ensure that permits are

issued and complied with for all new IPPC installations by accession, and that permits for existing installations continue to be issued and complied with until October 2007. As regards **industrial risk management**, legislation is in place and is in line with the *acquis*. However, implementation of the provisions on major accident hazards requires attention and needs to be completed by accession. As regards large combustion plants, transitional arrangements until 31 December 2007 have been agreed for certain installations in the Czech Republic.

The legislation concerning **chemicals and genetically modified organisms** (GMOs) has been transposed and is in line with the *acquis*, except for the recent *acquis* on the deliberate release into the environment of GMOs, which needs to be transposed by accession. Administrative capacities are in place and function adequately.

Transposition of the *acquis* on **noise** is proceeding according to schedule and the legislation is in line with the *acquis*, except for the recent *acquis* on ambient noise, which needs to be completed by July 2004 in line with the Directive. Administrative capacities are in place and function adequately.

On **nuclear safety and radiation protection**, legislative alignment has been completed and the legislation is in line with the *acquis*. Administrative capacities in this area are largely in place and function adequately.

### *Conclusion*

The Czech Republic is essentially meeting the commitments and requirements arising from the accession negotiations and is expected to be in a position to implement the *acquis* in the areas of **horizontal legislation, air quality, waste management, water quality, industrial pollution and risk management, chemicals and genetically modified organisms, noise and nuclear safety and radiation protection** by accession. The Czech Republic still needs to finalise the legal alignment as regards the following areas: horizontal legislation, air quality, waste management, water quality, genetically modified organisms and noise. It needs to complete air quality plans and programmes and continue to enhance air quality and water quality monitoring. Moreover, the Czech Republic must complete inventories of and authorisations for discharges of dangerous substances, finalise the necessary programmes on water, and improve co-ordination. The establishment of waste collection systems and recovery and disposal facilities needs to continue. On industrial pollution, administrative capacity requires particular attention to ensure that permits for IPPC installations are issued and complied with according to *acquis* deadlines. As regards industrial risk management, the implementation of provisions on major accident hazards needs to be completed.

The Czech Republic is partially meeting the commitments and requirements in the area of **nature protection**. In order to complete preparations for membership, enhanced efforts are required to finalise legal alignment, to prepare the lists of proposed nature protection sites and special bird protection areas, and to strengthen administrative capacity including with regard to the consultation process.

### *Chapter 23: Consumer and health protection*

The *acquis* covers protection of the economic interests of consumers (concerning misleading and comparative advertisement, price indication, consumer credit, unfair

contract terms, distance and doorstep selling, package travel, timeshare, injunctions for the protection of consumers' interests, and certain aspects of the sale of consumer goods and associated guarantees) as well as the general safety of goods (liability for defective products, dangerous imitations and general product safety). Recently adopted legislation includes rules on general product safety and distance marketing of consumer financial services. The acceding countries need to effectively enforce the *acquis* through appropriate judicial and administrative systems, including market surveillance and a role for consumer organisations.

The Czech Republic has largely completed alignment of **safety-related measures**. An amendment to the Act of General Product Safety was adopted in August 2003. It aims at transposing the revised directive on general product safety. **Market surveillance** and enforcement is well-established and although progress has been made in clarifying the division of responsibilities between the organisations involved, further improvement is needed, in particular as regards co-ordination amongst institutions. Furthermore, the operability of the existing systems for market surveillance needs to be increased and smooth and comprehensive information flows should be ensured. Preparations for Czech participation in the RAPEX information system on dangerous products are ongoing. The Czech Trade Inspection started exchanging information through PROSAFE, the "product safety enforcement forum of Europe" dealing with the safety of consumer protection.

Legislative alignment in the area of **non-safety related measures** is largely completed. The relevant institutional and administrative framework is in place but steady strengthening of the relevant structures needs to continue. The Czech Republic has introduced an alternative dispute resolution system in the banking sector, which is financed by and operates as an independent department of the Czech National Bank (CNB). A system for the out-of-court settlement of disputes outside the financial services area should be developed as well. NGOs have been establishing networks of advisory centres to assist on alternative dispute resolution, largely by enhancing both parties' understanding of the legal situation and possible negotiated solutions.

**Consumer organisations** are represented in the Consumer Advisory Committee, which advises the Ministry of Industry and Trade. The number of active NGOs has increased and now covers a broader area, including services (telecommunications, health, social and legal services). Legal changes have allowed consumer organisations to commence proceedings for an injunction for the protection of consumers' interests. Integration of consumer NGOs into European consumer structures such as BEUC, ANEC and AEC has continued. Consumer organisations should participate more actively in the creation and observation of product safety standards and in raising awareness of consumers' rights.

### *Conclusion*

The Czech Republic is essentially meeting the commitments and requirements arising from the accession negotiations in the areas of **safety-related measures**, **non-safety related measures** and **consumer organisations** and is expected to be in a position to implement this *acquis* as from accession.

The Czech Republic is meeting the majority of the requirements for membership in the area of **market surveillance**. In order to complete preparations for membership, the Czech Republic needs to improve market surveillance to ensure the proper enforcement of legislation on safety and non-safety related measures including by strengthening the administrative capacity and structures.

## ***Chapter 24: Justice and Home Affairs***

The most developed part of this chapter is the Schengen *acquis*, which entails the lifting of internal border controls. However, much of this *acquis* will not apply to the acceding countries upon accession, but only after a later separate Council Decision. The Schengen Implementation Action Plan aims at preparing this on the basis of a credible schedule for the introduction of the Schengen provisions. Binding rules which must be put in place as from accession include part of the rules on visas, rules on external borders and the *acquis* on migration, asylum, police co-operation, combating organised crime, fight against terrorism, fraud and corruption and drugs, customs co-operation as well as human rights legal instruments. On issues such as border control, illegal migration, drugs trafficking and money laundering, organised crime, police and judicial co-operation, data protection and the mutual recognition of court judgements, acceding countries need to be equipped to meet adequate standards of administrative capacity. The establishment of an independent, reliable and efficient judiciary and police organisation are also of paramount importance.

Preparation in the Czech Republic with regard to the Schengen provisions (**Schengen Action Plan**) relevant for accession is broadly satisfactory, but further efforts are still required to conclude the remaining bilateral co-operation and re-admission agreements, as well as an agreement with Slovakia restricting border crossings to designated points, and to complete alignment of the border regime in respect of the border with Slovakia. The Czech Republic should continue its preparations for the lifting of internal borders and full implementation of the Schengen *acquis* on the basis of a further decision to be taken by the Council. The preparation for integration into the Schengen Information System (SIS) II is progressing according to schedule.

In the field of **data protection**, the Czech Republic has completed its legislative alignment, including on the use of personal data by the police and customs authorities. The national Office for Personal Data Protection needs to complete its recruitment of the necessary additional staff, including sufficient police officers to deal with police data storage.

On **visa policy**, the Czech Republic has almost completed approximation of its visa regime, but still needs to align as regards EU visa-free travel and to introduce a Schengen-type visa sticker following the transmission of the relevant technical specifications by the EU in August 2003. Administrative structures are in place and are functioning adequately.

As regards **external border control**, the Czech Republic has in general aligned its legislation on border control and border surveillance. Attention should be paid to finalising border control and crime prevention agreements with Poland, Slovakia and Austria. Concerning border management, efforts need to be accelerated to conclude a border management agreement with Slovakia. Controls at official border crossing points are performed in a satisfactory manner, however special attention should be paid to control of the green border with Slovakia.

In the area of **migration**, legislative alignment has been completed. The Czech Republic is taking action to conclude readmission agreements with third countries, however further efforts are required. The necessary administrative structures are in place and function adequately. Efforts should be made to ensure the proper implementation, at

regional and district level, of the rules on work and residence for EU and third country-citizens.

In the field of **asylum**, the Czech Republic has largely completed alignment with the *acquis*, although it needs to be completed in the area of minimum standards for temporary protection. As regards implementing capacity, the Czech Republic still needs to increase the number of judges dealing with asylum appeals and step up specialised training of the judiciary in the field of asylum law. Furthermore, the Czech Republic should continue its analytical and organisational measures for active participation in EURODAC. National Access Points need to be confirmed for EURODAC and Dublinet.

In the area of **police-cooperation and the fight against organised crime**, considerable efforts are still required to ensure that the Czech Republic has an accountable, reliable and fully co-ordinated police organisation by accession. The Czech Republic has signed but not yet ratified the UN Convention against transnational organised crime, while the three protocols to the Convention have not yet been signed. The Act on the Status of Members of the Security Forces was adopted by the Parliament. The police Code of Ethics still need to be adopted. The lack of a formally adopted police Code of Ethics is a significant concern. Administrative capacity to deal with corruption within the police force remains weak, and further efforts are needed to investigate crimes committed by police officers. Further co-ordinated efforts are required to combat trafficking in women. As regards administrative capacity, the merger of the police and investigators resulted in the creation of a unified Criminal and Investigation Police, which has proved beneficial in terms of improved efficiency, but internal co-operation between specialist police departments still needs to improve. International co-operation is well-established and supported by sufficient co-operation agreements, in particular the conclusion of an agreement with Europol. Attention should be paid to the timely preparation of national procedures in order to ensure the swift ratification of the Europol Convention upon accession to the EU.

In the **fight against terrorism**, the Czech Republic still needs to ratify the 1999 UN Convention for the Suppression of the Financing of Terrorism, and should accelerate its efforts in this area. The Czech Republic should also continue its preparations to accede to the Convention on Mutual Assistance in Criminal Matters between the EU and Member States (2000) upon accession.

As regards the **fight against fraud and corruption**, the Czech Republic has largely aligned its legislation with the *acquis*, including the 1995 Convention on the Protection of the Communities' Financial Interests and its Protocols and the Council Framework Decisions on the protection of the euro against counterfeiting, although minor amendments (the liability of legal persons and the confiscation of proceeds of crime) are still required. The Czech Republic has taken measures to designate a National Central Office dealing with banknote and coin analysis. The necessary implementing structures are in place, however their effectiveness is not adequate in practice and further efforts should be made to ensure adequate support staff for police investigators and prosecutors, appropriate training and the development of a more co-ordinated multi-agency approach, which has already been started by merging the Department for Revealing Corruption and Major Economic Crime and the Bureau for Financial Crime and Protection of the State into a single Unit for Combating Corruption and Financial Crime. As regards corruption, see also *Section C.1. – Administrative and judicial capacity*.

On the **fight against drugs**, the Czech Republic has largely completed its legislative measures, but still needs to ratify the 1995 Agreement on Illicit Traffic by Sea, implementing Article 17 of the 1988 UN Convention. The National Strategic Plan for 2001-2004 is being implemented and the necessary administrative structures are in place and are functioning well. However, further efforts should be made to promote better co-operation between the National Drug Commission and police and customs. The National Focal Point started operating in January 2003; the National Information Centre still needs to be established for future co-operation with the European Centre for Drugs and Drug Addiction.

The Czech Republic still has to amend its legislation on **money laundering**. The administrative structures, including inter-agency co-operation, need to be further strengthened, in particular, the inter-agency co-operation among the Financial Analytical Unit, Prosecutors Offices and specialised police. Moreover, specialised training should be provided (*see also Chapter 4 – Free movement of capital*).

In the area of **customs co-operation**, the Czech Republic has largely aligned its legislation. Preparations are being made for accession to the Naples II Convention on Mutual Assistance and Co-operation and 1995 Convention on the Use of IT for Customs Purposes. The necessary administrative structure is in place and training is ongoing, however attention should be paid to the customs administration's co-operation with other law enforcement agencies in combating illegal immigration, corruption and drug trafficking.

In the area of **judicial co-operation in civil and criminal matters** legislative alignment, where still necessary, is ongoing, and the Czech Republic should be ready upon accession to apply it and accede to the relevant conventions. Particular attention needs to be paid to the alignment with Council Framework Decision of 13 June 2002 on the European arrest warrant and the surrender procedure between Member States. Administrative structures for direct contacts between competent judicial authorities are in place and appear to function well.

As regards the *reform of the judiciary* in general, a detailed analysis is provided in *Section C.I. – Administrative and judicial capacity*.

Most of the **human rights legal instruments** under the justice and home affairs *acquis* have been ratified by the Czech Republic.

### *Conclusion*

The Czech Republic is essentially meeting the requirements arising from the accession negotiations and is expected to be able to implement by accession the *acquis* in the areas of the **Schengen Action Plan, data protection, visa policy, external borders, migration, police co-operation and combating organised crime, fight against drugs, fight against terrorism, customs co-operation, judicial co-operation in civil and criminal matters and human rights legal instruments**.

The Czech Republic is partially meeting the commitments and requirements for membership in relation to the **fight against fraud and corruption** (including corruption within the police), where capacity and effectiveness of implementing structures needs to be enhanced and co-ordinating structures strengthened and **asylum**, where the number of judges hearing asylum appeals need to be increased and their training, improved.

Furthermore, in the area of **money laundering**, the Czech Republic needs to fully align with the *acquis*, and inter-agency co-operation needs to be improved and strengthened.

### ***Chapter 25: Customs Union***

The Customs Union *acquis* consists almost exclusively of legislation which is directly binding on the Member States and does not require transposition into national law. It includes the Community's Customs Code and its implementing provisions; the Combined Nomenclature, Common Customs Tariff and provisions on tariff classification, customs duty reliefs, duty suspensions and certain tariff quotas; and other provisions such as those on customs control of counterfeit and pirated goods, drugs precursors and cultural goods and on mutual administrative assistance in customs matters as well as Community agreements in the areas concerned, including transit. Member States must ensure that the necessary enforcement capacities, including links to the relevant EC computerised customs systems, are in place.

The Czech Republic's **customs legislation** is in line with the *acquis* up to 2002. Implementation of the remaining provisions, (essentially 2003 *acquis*), will take place upon accession, when the EC customs legislation becomes directly applicable. National provisions superseded by the *acquis* are to be repealed at the time of accession and agreements on mutual administrative assistance in customs matters are to be amended as necessary.

Concerning **administrative and operational capacity**, a functioning customs administration is in place and is expected to reach an adequate level of administrative capacity subject to completion of its preparations by the time of accession. The Czech Republic is finalising plans for the reorganisation and closure of customs offices and the redeployment of staff to address the decrease in customs work, following the conversion of external to internal trade and the abolition of EU land frontiers as a result of accession.

The customs services' capacity to combat fraud, piracy, counterfeiting and economic crime, in close co-operation with other enforcement bodies, should continue to be strengthened and inter-agency co-operation should be a priority. (*See also Chapter 5 – Company law*).

Preparation and training for the application of measures and provisions that will only be introduced at the time of accession are ongoing. Continued training efforts should be made in this respect.

The Czech customs administration is already meeting the majority of the operational capacity and interoperability requirements for computerised systems and all projects are on track to be completed before accession.

### ***Conclusion***

The Czech Republic is essentially meeting the commitments and requirements arising from the accession negotiations in the area of **customs union** and is expected to be in a position to implement the *acquis* from accession with the necessary administrative and operational capacities.

## ***Chapter 26: External relations***

The main element in this chapter, the common commercial policy, is made up of directly binding EU legislation which does not require transposition into national law. The acceding countries were requested to align before accession with the *acquis* on dual-use goods and, where applicable, export credits. Acceding countries committed themselves to ensure compatibility with the *acquis* of their bilateral agreements with third countries. In the area of humanitarian aid and development policy, countries need to ensure the capacity to participate in the EC's development and humanitarian policies.

The administrative structures for dealing with the issues related to the **common commercial policy** are in place and satisfactory. A new organisational structure has been in place within the Ministry of Industry and Trade since October 2002, with a special section for external economic relations and EU integration.

The Czech Republic has co-ordinated its positions and policies with the Commission with regard to the Doha Development Agenda. The Czech Republic should continue close co-ordination and co-operation with the Commission, mainly in order to carry on preparing the convergence of its GATS commitments and MFN exemptions into the EU ones (consolidation EU 25), to be finalised upon accession. Concerning alignment of the list of integrated products under the Agreement on Textiles and Clothing, the Czech Republic has co-operated with the Community in the process of third stage notification.

As regards dual-use goods, the Czech Republic has reached a high degree of alignment with the *acquis*. However, further alignment, in particular regarding the list of dual-use items, needs to be achieved, as export control regimes continue to adopt decisions, which the EU integrates into its legislation. Full alignment as regards the Community general export authorisation can only take place upon accession.

Legislative alignment in the field of export credits has been achieved, and the relevant administrative structures are in place and functioning well.

The Czech Republic has completed the analysis of its **bilateral agreements with third countries** and needs to take further steps to complete the ongoing process of termination or re-negotiation of those international agreements which were found to be incompatible with the *acquis*. So far, 20 agreements with third countries will be terminated upon accession at the latest. Following the successful signature of the Memorandum of Understanding regarding the bilateral investment treaty (BIT) between the Czech Republic and the USA, the Czech Republic still needs to sign with the USA the Additional Protocols to the BIT. The Czech Republic must then ensure swift ratification in order for the adaptations to enter into force by the date of its accession to the EU. Furthermore, among other agreements, the Foreign Investment Protection Agreement concluded with Canada, as well as the trade agreement with Japan need to be brought into conformity with the *acquis*.

As regards **humanitarian aid and development policy**, the Czech Republic follows the main principles of the EU's development and humanitarian aid policies and is advancing in establishing the framework for development assistance, in particular with the guidelines laid down by the OECD Development Assistance Committee as well as the commitments and objectives that the Czech Republic has approved in the context of the UN and other international organisations. In 2002, a new Concept was developed for Czech Foreign Development Aid, in line with UN Millennium Development goals. In

March 2003, the Government adopted a Medium Term Outlook for Foreign Development Aid Financing (2002-2007), including targets for the direct aid/GDP ratio. Humanitarian aid has been provided on a reasonable scale through international bodies, the Red Cross and Czech-based NGOs. The Czech Republic is advancing in establishing the administrative framework for humanitarian aid and development assistance. A new department for development co-operation and humanitarian aid was created in June 2003 within the Ministry of Foreign Affairs, together with the post of National Co-ordinator of Foreign Development Assistance. However the institutional structure is still fragmented and implementing capacity needs to be strengthened further.

### *Conclusion*

The Czech Republic is essentially meeting the commitments and requirements arising from the accession negotiations in the areas of **common commercial policy** and **humanitarian aid and development policy** and is expected to be able to implement the *acquis* from accession.

The Czech Republic is meeting the majority of the commitments and requirements for membership in the area of **bilateral agreements with third countries**. In order to complete preparations for membership in this area, the Czech Republic must finalise the steps it has taken to renegotiate or terminate its bilateral agreements to make sure that they are compatible with the *acquis* upon accession.

### *Chapter 27: Common foreign and security policy*

The *acquis* related to the common foreign and security policy (CFSP) is essentially based either on legally binding international agreements or on political agreements to conduct political dialogue in the framework of CFSP, to align with EU statements, and to apply sanctions and restrictive measures where required.

The Czech Republic has the required administrative capacity to participate in the **political dialogue**. With regard to alignment with **EU sanctions and restrictive measures, statements, declarations and démarches**, the Czech Republic still needs to adjust legislation in relation to introduction and withdrawal of economic sanctions. Moreover, the implementation of the EU Code of Conduct for Arms Exports and the fight against unauthorised weapons transfers should be enhanced. The administrative structures in this area in the Czech Republic are in place and satisfactory.

### *Conclusion*

The Czech Republic is essentially meeting the commitments and requirements arising from the accession negotiations in the chapter on the **common foreign and security policy**, and is expected to be able to participate in the political dialogue and to align with EU statements, sanctions and restrictive measures by accession.

### *Chapter 28: Financial control*

The *acquis* under this chapter consists mostly of general, internationally agreed and EU-compliant principles of public internal financial control that need to be transposed into the control and audit systems of the entire public sector. In particular, the *acquis* requires the existence of adequate ex ante financial control and functionally independent internal

audit systems; an independent external audit of the public internal financial control systems in the public sector; an appropriate financial control mechanism for EU pre-accession funding and future structural action expenditure; and arrangements on the protection of EC financial interests. In addition, an anti-fraud co-ordination service, capable of co-operating with the Commission's Anti-fraud Office OLAF at an operational level, is to be designated.

In the area of **public internal financial control**, the framework legislation is in place and in line with the *acquis*, but the Czech Republic needs to complete the necessary implementing legislation. The Central Harmonisation Unit was established in July 2003 and its effective operation should be ensured. The internal audit units in all budget-spending centres with internal audit focusing on system-based and performance-audit functions need to be adequately staffed with well-trained and experienced personnel.

In the field of **external audit**, legislative alignment has been completed. The Supreme Audit Office (SAO) is incorporating international audit standards into its current work. The SAO is functionally and operationally independent and its audit services satisfactorily cover all public and EU funds.

As regards **control over structural action expenditure**, the framework legislation in the Czech Republic is in place and in line with the *acquis*. However, the implementing legislation remains to be completed. Appropriate administrative structures are being set up and the Czech Republic should enhance its administrative capacity to manage the pre-accession funds and future structural funds in order to meet the requirements for financial control and internal audit. In particular, recruitment of additional staff for the pre-accession funds, and for the Structural and Cohesion Funds, should be reinforced and accompanied by training measures. The Czech Republic must urgently accelerate efforts to implement the extended decentralised implementation system (EDIS) for ISPA and Phare.

In the area of the **protection of EC financial interests**, the Czech Republic has further completed the framework and implementing legislation. The Supreme Public Prosecutor's Office has been designated as the Czech anti-fraud co-ordinating service (AFCOS). A co-operation arrangement was agreed with OLAF, and relations with other Czech services were specified. Attention should now be placed to ensuring implementation of effective co-operation of AFCOS with other relevant Czech institutions and bodies, and with OLAF.

### *Conclusion*

The Czech Republic is essentially meeting the commitments and requirements arising from the accession negotiations in the areas of **external audit** and **protection of the EC financial interests** and is expected to be in a position to implement this *acquis* as of accession. In the latter area, efforts should focus on effective implementation of the recently adopted legislation and co-operation arrangements.

The Czech Republic is meeting the majority of the commitments and requirements arising from accession negotiations in the area of **public internal financial control** and **control over structural action expenditure**. In order to complete preparations for membership, attention must be paid to strengthening the administrative structures including defining detailed responsibilities for all bodies involved, and in particular the internal audit units in all budget-spending centres. The functioning of the recently

established Central Harmonisation Unit should be ensured. Enhanced efforts must also be made to complete the extended decentralised implementation system (EDIS).

### ***Chapter 29: Financial and budgetary provisions***

Chapter 29 covers the rules concerning the financial resources necessary for the funding of the EC budget ('own resources'). These own resources are made up mainly from contributions from Member States based on 1) traditional own resources from customs and agricultural duties and sugar levies, 2) a resource based on VAT and 3) a resource based on the level of gross national income (GNI). Member States must ensure the creation of appropriate administrative capacity to adequately co-ordinate and ensure the correct calculation, collection, payment and control of own resources and reporting to the EU for implementation of the own resources rules.

As regards the **traditional own resources (TOR)**, a national reporting system on cases of fraud and irregularity is under preparation in the Czech Republic. Moreover, the information requirements of reporting to the Commission in line with the OWNRES system should be examined closely. The State Agriculture Intervention Fund has been designated as the authority responsible for administration of sugar levies. The A and B accounts in line with the EC system are not yet fully in place.

The Czech Republic still needs to improve its ability to correctly calculate the **VAT-based resource**, in particular as regards the calculation of the weighted average rate in accordance with ESA95.

For calculation of the **GNI-based resource**, continued efforts are needed by the Czech Republic to further improve the quality and reliability of the national accounts and GNI calculations in line with ESA95, including their exhaustiveness.

All institutions necessary for application of the own resources system in the Czech Republic exist. A unit within the Ministry of Finance co-ordinates own resources issues and is operating effectively.

### ***Conclusion***

The Czech Republic is essentially meeting the commitments and requirements arising from the accession negotiations in the area of **financial and budgetary provisions** and is expected to be in a position to implement the relevant *acquis* by the date of accession. The Czech Republic should now focus attention on completing preparations under this chapter by establishing procedures for sending reports on cases of fraud and irregularity to the Commission (OWNRES), further improving the reliability of GNI statistics and the calculation of the VAT-based resource, finalising the procedures for keeping the A and B accounts, and further developing the procedures for accounting and recovery of sugar levies.

## D. CONCLUSION

The Czech Republic has broadly maintained macroeconomic stability. However, public finances have deteriorated. The Czech Republic continued on its reform path, albeit hesitantly.

As regards the areas, where last year's report suggested improvements, some progress has been made, but challenges remain. The continued deterioration of the general government deficit led the government to undertake steps towards the consolidation of the public finances and to present a set of measures aiming at bringing the deficit down to 4% by 2006. A deeper and a more comprehensive reform affecting the social benefits and the pension system and healthcare is needed. The Czech Consolidation Agency resumed the selling off of bad assets to private investors. This process should accelerate in order to free the economy from misallocated resources.

As regards overall administrative and judicial capacity, sufficient conditions are in place for the implementation of the *acquis* by the Czech public administration and judiciary, but there is room for further improvements. In the field of public administration, sufficient resources should be allocated to the implementation of the Civil Service Act, which will enter into force on 1 January 2005. As regards the judicial system, a key area for further improvement is the reduction in length of court proceedings. The fight against corruption should continue to receive high priority, in particular the actual prosecution of corruption cases needs to be stepped up.

As regards the implementation of the *acquis* in specific policy areas, the findings of this report are set out below.

Firstly, it should be noted that the Czech Republic has reached a **high level of alignment with the acquis** in most policy areas.

It is expected to be in a position to implement the *acquis* as required in the following areas by accession: horizontal and procedural measures, new approach legislation and the non-harmonised area in the *free movement of goods* chapter; citizens' rights, free movement of workers and co-ordination of social security systems, in terms of *free movement of persons*; the banking sector, investment services, securities markets and the protection of personal data in the area of *freedom to provide services*; capital movements and payments, and payment systems related to the *free movement of capital*; *company law* and accounting; and anti-trust rules in *competition policy*. In the area of *agriculture*, the Czech Republic is expected to be in a position by accession to implement the *acquis* in a number of horizontal areas, in most common market organisations, as regards animal disease control in the veterinary area, and in rural development; and in *fisheries*.

The Czech Republic is also expected to be in a position to implement the *acquis* by accession in: most areas in the *transport* sector; *taxation*; *economic and monetary union*; *statistics*; labour law, equal treatment of women and men, social dialogue, public health, employment policy, social inclusion and social protection in the area of *social policy and employment*; the *energy* sector; *industrial policy*; *small and medium-sized enterprises*; *science and research*; *education and training*; the postal services sector in the area of *telecommunications and information technologies*; culture in the area of *culture and audio-visual policy*; territorial organisation and programming in the area of *regional policy and co-ordination of structural instruments*; horizontal legislation, air quality, waste management, industrial pollution and risk management, water quality, chemicals and genetically modified organisms, noise and nuclear safety and radiation protection in

the area of *environment* policy; safety-related measures, non-safety measures and consumer organisations in terms of *consumer and health protection*; almost all aspects of *justice and home affairs*; *customs union*; the common commercial policy, and humanitarian aid and development policy in the *external relations* *acquis*; *common foreign and security policy*; external audit and protection of the EC financial interests in the area of *financial control*; and *financial and budgetary provisions*.

Secondly, in certain areas the Czech Republic partially meets the commitments and requirements and needs to make **enhanced efforts** in order to complete its preparations for accession.

This includes the old approach sectoral legislation and public procurement in the area of *free movement of goods*; in the area of *free movement of services*, the fields of insurance, information society services, and the right of establishment and the freedom to provide non-financial services; in the fields of *free movement of capital*, the fight against money laundering; within the area of *company law*, the protection of intellectual and industrial property rights; and state aid rules in *competition policy*. In the *agriculture* area it concerns the Paying Agency, the Integrated Administration and Control System, trade mechanisms, the common market organisations for sugar, wine and alcohol, and beefmeat, and nearly all phytosanitary and veterinary issues.

This also includes the fields of: health and safety, the European Social Fund and anti-discrimination in the area of *social policy and employment*; the *telecommunications* sector; audio-visual policy in the area of *culture and audio-visual policy*; institutional structures, the legislative framework and financial management and control in the area of *regional policy and co-ordination of structural instruments*; nature protection in the area of *environment* policy; market surveillance in the area of *consumer and health protection*; the fight against fraud, corruption and money laundering, and asylum in the area of *justice and home affairs*; *external relations*, as regards bilateral agreements with third countries; and public internal financial control and control over structural action expenditure in the area of *financial control*.

Thirdly, the Czech Republic must take immediate and decisive action to address three issues of **serious concern** in three chapters of the *acquis* if it is to be ready by the date of accession.

This concerns the field of *free movement of persons*, relating to the Czech Republic's preparations for mutual recognition of qualifications of certain professions, including in the healthcare sector. In the field of *agriculture*, it concerns progress in the upgrading of agri-food establishments in order to meet public health requirements. Finally, it concerns the field of road *transport*, where the implementation of the social and technical *acquis* should be considerably reinforced.

## STATISTICAL ANNEX

	1998	1999	2000	2001	2002
<b>Basic data</b>	<b>in 1000</b>				
Population (average) a)	10,295	10,283	10,273	10,224	10,201
	<b>in km<sup>2</sup></b>				
Total area	78,860	78,864	78,865	78,865	78,868

<b>National accounts</b>	<b>in 1000 Mio Czech Koruna</b>				
Gross domestic product at current prices	1,839	1,902	1,985	2,175	2,276
	<b>1000 Mio ECU/euro</b>				
Gross domestic product at current prices	50.6	51.6	55.8	63.8	73.9
	<b>in ECU/Euro</b>				
Gross domestic product per capita b) at current prices	4,900	5,000	5,400	6,200	7,200
	<b>% change over the previous year</b>				
Gross domestic product at constant prices (nat. currency)	-1.0	0.5	3.3	3.1	2.0
Employment growth	-1.4	-2.1	-0.7	0.4	1.0
Labour productivity growth	0.4	2.6	4.0	2.7	1.0
Unit labour cost growth	-2.2	1.1	1.3	-1.7	2.8
	<b>in Purchasing Power Standards</b>				
Gross domestic product per capita b) at current prices	12,700	12,500	12,700	13,800	14,400
	<b>in % of EU-15 average</b>				
GDP per capita b) at current prices in PPS	63	59	56	59	60
Labour productivity (GDP per person employed in PPS)	57	55	54	57	56
Structure of production	<b>% of Gross Value Added c)</b>				
- Agriculture	4.6	4.2	4.3	4.3	3.7
- Industry (excluding construction)	32.5	31.8	32.3	32.7	31.9
- Construction	7.2	7.2	7.1	6.7	6.6
- Services	55.7	56.8	56.3	56.2	57.9
Structure of expenditure	<b>as % of Gross Domestic Product</b>				
- Final consumption expenditure	71.2	73.2	73.7	73.2	74.2
- household and NPISH	52.5	53.6	54.1	53.1	52.8
- general government	18.6	19.6	19.6	20.0	21.4
- Gross fixed capital formation	29.1	27.8	28.3	27.7	26.3
- Stock variation d)	0.9	0.3	1.3	1.8	1.8
- Exports of goods and services	58.8	60.6	69.8	70.8	65.2
- Imports of goods and services	60.0	61.9	73.2	73.5	67.5

<b>Inflation rate</b>	<b>% change over the previous year</b>				
Consumer price index	9.7	1.8	3.9	4.5	1.4

	1998	1999	2000	2001	2002
<b>Balance of payments</b>	<b>in Mio ECU/euro</b>				
-Current account	-1,187	-1,470	-2,946	-2,930	-4.692 k)
-Trade balance	-2,269	-1,785	-3,394	-3,425	:
<i>Exports of goods</i>	23,412	24,638	31,492	37,267	:
<i>Imports of goods</i>	25,680	26,423	34,886	40,692	:
-Net services	1,593	1,033	1,533	1,702	:
-Net income	-873	-1,198	-1,488	-1,729	:
-Net current transfers	362	479	404	522	:
- of which: government transfers	63	56	261	269	:
- FDI (net) inflows	2,416	4,792	:	5,489	9.889 k)

<b>Public finance</b>	<b>in % of Gross Domestic Product</b>				
General government deficit/surplus e)	-4.5	-3.7	-4.0	-5.5	-3.9p
General government debt	13.7	14.3	16.6	23.3	27.1p

<b>Financial indicators</b>	<b>in % of Gross Domestic Product</b>				
Gross foreign debt of the whole economy	21.3	22.0	28.8	26.6	:
	<b>as % of exports</b>				
Gross foreign debt of the whole economy	36.2	36.2	41.2	37.5	:
Monetary aggregates f)	<b>1000 Mio ECU/euro</b>				
- M1	11.5	12.4	14.2	18.3	21.4
- M2	35.3	37.0	40.3	49.9	53.1
- M3	:	:	:	:	:
Total credit	30.5	28.6	30.6	29.7	30.4
Average short-term interest rates	<b>% per annum</b>				
- Day-to-day money rate	13.6	6.8	5.3	5.0	3.6
- Lending rate	13.5	9.0	8.0	7.8	7.3
- Deposit rate	11.1	11.4	5.8	3.8	3.0
ECU/EUR exchange rates	<b>(1ECU/euro=..Czech Koruna)</b>				
- Average of period	36.32	36.88	35.60	34.07	30.80
- End of period	35.19	36.10	35.05	31.96	31.58
	<b>1995=100</b>				
- Effective exchange rate index	102.0	106.9	108.7	113.6	126.8
Reserve assets g)	<b>Mio ECU/euro</b>				
-Reserve assets (including gold)	10,765	12,888	14,173	16,410	22,812
-Reserve assets (excluding gold)	10,693	12,762	14,043	16,271	22,670

<b>External trade</b>	<b>Mio ECU/euro</b>				
Trade balance	-2,209	-1,746	-3,394	-3,425	-2,315
Exports	22,969	24,638	31,492	37,267	40,722
Imports	25,178	26,384	34,886	40,692	43,038
	<b>previous year=100</b>				
Terms of trade	106.3	98.5	97.2	101.9	101.5
	<b>as % of total</b>				
Exports with EU-15	64.0	69.2	68.6	68.9	68.4
Imports with EU-15	63.5	64.2	62.0	61.8	60.2

	1998	1999	2000	2001	2002
<b>Demography</b>	<b>per 1000 of population</b>				
Natural growth rate	-1.8	-2.0	-1.8	-1,7	-1,5
Net migration rate (including corrections) h)	0.9	0.9	0.6	-0,8	1.2
	<b>per 1000 live-births</b>				
Infant mortality rate	5.2	4.6	4.1	4.0	4.1
Life expectancy :	<b>at birth</b>				
Males:	71.1	71.4	71.6	72.1	72.1
Females:	78.1	78.1	78.3	78.4	78.5

<b>Labour market (Labour Force Survey)</b>	<b>% of population</b>				
Economic activity rate (15-64)	71.7	71.8	71.2	70.7	70.6
Employment rate (15-64), total	67.3	65.6	65.0	65.1	65.5
Employment rate (15-64), males	76.0	74.0	73.2	73.3	74.0
Employment rate (15-64), females	58.7	57.4	56.9	57.0	57.1
	<b>as % of the total population of the same age group</b>				
Employment rate of older workers (55-64)	37.1	37.5	36.3	37.1	40.8
Average employment by NACE branches	<b>in % of total</b>				
- Agriculture and forestry	5.6	5.3	5.2	4.9	4.9
- Industry (excluding construction)	31.5	31.1	30.6	31.4	31.2
- Construction	10.0	9.4	9.4	9.1	8.9
- Services	52.9	54.1	54.8	54.6	55.0
	<b>% of labour force</b>				
Unemployment rate, total	6.4	8.6	8.7	8.0	7.3
Unemployment rate, males	5.0	7.2	7.3	6.7	5.9
Unemployment rate, females	8.1	10.3	10.3	9.7	9.0
Unemployment rate of persons < 25 years	10.8	16.6	17.0	16.3	15.4
Long-term unemployment rate	2.0	3.2	4.2	4.3	3.7

<b>Social cohesion</b>	<b>ratio of top quintile to lowest quintile</b>				
Inequality of income distribution	:	:	:	:	:
	<b>% of population aged 18-24</b>				
Early school-leavers	:	:	:	:	5.5
	<b>% of population aged 0-65</b>				
Population in jobless households (persons aged 0-65)	8.3	9.4	10.2	10.5	9.9

<b>Standard of living</b>	<b>per 1000 inhabitants</b>				
Number of cars	339.5	334.7	335.0	345.2	357.5
Main telephone lines	363.6	370.3	377.1	377.6	360.3
Number of subscriptions to cellular mobile services	94.1	189.2	423.3	679.5	844.1

<b>Infrastructure</b>	<b>in km per 1000 km<sup>2</sup></b>				
Railway network	120	120	120	121	122
	<b>km</b>				
Length of motorways	499	499	499	517	518

	1998	1999	2000	2001	2002
<b>Industry and agriculture</b>	<b>previous year=100</b>				
Industrial production volume indices i)	101.9	96.9	105.4	106.5	104.8
Gross agricultural production volume indices	100.7	100.6	95.5	102.5	95.6

<b>Innovation and research</b>	<b>as % of GDP</b>				
Spending on Human Resources (public expenditure on education)	4.20	4.34	4.38	4.28E	4.39E
	<b>as % of GDP</b>				
Gross domestic expenditure on Research & Development	1.24	1.24	1.33	:	:
	<b>per 1000 inhabitants</b>				
Level of Internet access - households	:	:	8	11	:

<b>Environment</b>	<b>tonnes CO2 equivalent per capita</b>				
Total greenhouse gases emissions	77.1	72.8	76.4	:	:
	<b>kg of oil equivalent per 1000 euro of GDP</b>				
Energy intensity of the economy	1000.5	928.2	947.6	:	:
	<b>as % of total electricity consumption</b>				
Share of renewable energy	2.2	2.7	2.8	:	:
	<b>as % of total freight transport</b>				
Modal split of freight transport	63.3	67.7	68.1	69.7	:

p=provisional figures

E=estimated data

- a) Population stocks for the year 2001 were changed in the light of preliminary results of the census held at 1 March 2001, definitive results will be available in 2003.
- b) Figures have been calculated using the population figures from National Accounts, which may differ from those used in demographic statistics.
- c) Including FISIM.
- d) These figures include changes in inventories, *acquisitions* less disposals of valuables and the statistical discrepancy between the GDP and its expenditure components.
- e) Excluding losses of CKA (Czech Agency for Consolidation). These worsen general government net borrowing for 2001 and 2002 by an estimated CZK 14.3 billion and 76.4 billion respectively.
- f) For 2002 : value at the end of October.
- g) For 2002 : value at the end of November.
- h) Change of methodology in 2001 following UN Recommendations of 1998.
- i) Year-on-year monthly indices are derived from the monthly basic IPIs. Since 2002 monthly basic IPI is calculated on new 2000 base.
- j) Conversion to EUR made by means of the annual average rate of exchange released in AMECO Database.
- k) Source: Website of the National Bank

### Methodological notes

#### Inflation rate

For details please refer to the following link to the Eurostat website:  
[http://europa.eu.int/newcronos/suite/info/notmeth/en/theme1/strind/ecobac\\_ir.htm](http://europa.eu.int/newcronos/suite/info/notmeth/en/theme1/strind/ecobac_ir.htm)

#### Finance

*Public finance:* The general government deficit / surplus refers to the national accounts concept of consolidated general government net borrowing / net lending (EDP B.9) of ESA95. General government debt is defined as consolidated gross debt at end-year nominal value.

#### External trade

*Imports and exports (current prices).* The data is based upon the special trade system. Trade Classification: Trade in goods are recorded using the commodity classification according to the Combined Nomenclature. Imports are recorded on CIF basis, exports on FOB basis.

*Imports and exports with EU-15.* Data declared by the Czech Republic.

### Labour market

Indicators are harmonised annual figures with the exception of average employment by NACE branches and unemployment rate of persons < 25 years, which are for the 2<sup>nd</sup> quarter of the respective year. The results are based on the European Union Labour Force Survey (LFS). The EU LFS is conducted on a quarterly basis in accordance with Council Regulation (EEC) No. 577/98 of 9 March 1998.

For details please refer to the following link on the Eurostat website:  
<http://europa.eu.int/newcronos/suite/info/notmeth/en/theme1/strind/emploi.htm>

### Social cohesion

For details please refer to the following link on the Eurostat website:  
<http://europa.eu.int/newcronos/suite/info/notmeth/en/theme1/strind/socohe.htm>

### 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. Until 2001 published IPI for the Czech Republic are calculated in weights of 1995. Since 2002 IPI are calculated on new 2000 base. 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.

### Innovation and research

For details please refer to the following link to the Eurostat website:  
<http://europa.eu.int/newcronos/suite/info/notmeth/en/theme1/strind/innore.htm>

### Environment

For details please refer to the following link to the Eurostat website:  
<http://europa.eu.int/newcronos/suite/info/notmeth/en/theme1/strind/enviro.htm>

Sources: Total area, External trade, Demography, Standard of living, Infrastructure, Industry and agriculture: National sources. Other indicators: Eurostat.