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ON

CZECH REPUBLIC'S

PROGRESS TOWARDS ACCESSION

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A. Introduction

a) Preface

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

The Luxembourg European Council decided that:

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

On this basis, the Commission presented a first series of Regular Reports in October 1998, a second in October 1999, a third in November 2000, and a fourth in November 2001.

In its 2001 Enlargement Strategy Paper, which accompanied the 2001 Regular Reports, the Commission indicated that, given the pace of negotiations and the progress made so far, the Commission should be able to make recommendations on those candidate countries ready for accession on the basis of its 2002 Regular Reports. At its meeting in Seville in June 2002, the European Council concluded that “in order to enable the European Council to be held in the coming autumn to decide which will be the candidate countries with which negotiations can be concluded at the end of 2002, [...] the Commission will have to draft appropriate recommendations in the light of the Regular Reports.” The Commission has prepared this fifth series of Regular Reports with a view to the Brussels European Council in autumn 2002.

The structure followed for this Regular Report is largely the same as that used for the 2000 and 2001 Regular Reports. In line with previous Regular Reports, the present Report:

- describes the relations between the Czech Republic and the Union, in particular in the framework of the Association Agreement;
- analyses the situation in respect of the political criteria set by the 1993 Copenhagen European Council (democracy, rule of law, human rights, protection of minorities);
- assesses the Czech Republic’s situation and prospects in respect of the economic criteria defined by the Copenhagen European Council (a functioning market economy and the capacity to cope with competitive pressures and market forces within the Union);

- addresses the question of the Czech Republic's capacity to assume the obligations of membership, that is, the *acquis* as expressed in the Treaties, the secondary legislation, and the policies of the Union. In this part, special attention is paid to nuclear safety standards, which were emphasised by the Cologne and Helsinki European Councils. This part includes not only the alignment of legislation, but also the development of the judicial and administrative capacity necessary to implement and enforce the *acquis*. The European Council stressed the importance of this latter aspect at its meeting in Madrid in 1995 and on a number of subsequent occasions, most recently at Seville in June 2002. At Madrid, the European Council stressed that the candidate countries must adjust their administrative structures, so as to create the conditions for the harmonious integration of these States. The Seville European Council also stressed how important it was that candidate countries should continue to make progress with the implementation and effective application of the *acquis*, and added that candidate countries must take all necessary measures to bring their administrative and judicial capacity up to the required level.

This Report takes into consideration progress since the 2001 Regular Report. It covers the period until 15 September 2002. In some particular cases, however, measures taken after that date are mentioned. It looks at whether planned reforms referred to in the 2001 Regular Report have been carried out, and examines new initiatives. In addition, this Report provides a global assessment of the overall situation for each of the aspects under consideration, setting out for each of them the main steps still to be taken by the Czech Republic in preparing for accession.

Furthermore, in view of the fact that the 2002 Regular Reports will provide the basis on which the Commission will formulate its recommendations as to which countries are ready to conclude negotiations, this Report includes an evaluation of The Czech Republic's track record since the 1997 Opinion. As regards the economic criteria, the report also provides a dynamic, forward-looking evaluation of the Czech Republic's economic performance.

For each of the negotiating chapters, this Report provides a summary evaluation of the extent to which commitments made in the negotiations have been implemented, as well as an overview of transitional arrangements that have been granted. The commitments made by each country reflect the result of the accession negotiations, and, in accordance with the principle of differentiation underlying the negotiation process, may differ between countries. Where negotiating countries have committed themselves to completing specific measures by the time of accession, the Commission assesses the relevant preparatory processes. For chapters on which the accession negotiations continue, and final commitments remain to be defined, an indicative assessment is given of the state of implementation of the commitments that have been made to date.

The Report contains a separate section examining the extent to which the Czech Republic has addressed the Accession Partnership priorities. This section also assesses the progress the Czech Republic has made in implementing the measures set out in the Action Plan for strengthening administrative and judicial capacity that the Commission developed with each negotiating country in the spring of 2002.

As has been the case in previous Reports, "progress" has been measured on the basis of decisions actually taken, legislation actually adopted, international conventions actually ratified (with due attention being given to implementation), and measures actually implemented. As a matter of principle, legislation or measures which are in various

stages of either preparation or Parliamentary approval have not been taken into account. This approach ensures equal treatment for all the candidate countries and permits an objective assessment of each country in terms of their concrete progress in preparing for accession.

The Report draws on numerous sources of information. The candidate countries have been invited to provide information on progress made in preparations for membership since the publication of the last Regular Report. The information each of the candidate countries has provided within the framework of the Association Agreement and the negotiations, the National Programmes for the Adoption of the *Acquis* where they are available, as well as the process of developing the Action Plans, and various peer reviews that have taken place to assess candidate countries' administrative capacity in a number of areas, have served as additional sources. Council deliberations and European Parliament reports and resolutions¹ have been taken into account in the preparations. The Commission has also drawn on assessments made by various international organisations, and in particular the contributions of the Council of Europe, the OSCE and the international financial institutions, as well as those of non-governmental organisations.

b) Relations between the European Union and the Czech Republic

Recent developments under the Europe Agreement including bilateral trade

The Czech Republic has continued to implement the Europe Agreement and contributed to the smooth functioning of the various joint institutions. The eighth Association Council meeting is scheduled for November 2002, and the eighth Association Committee meeting was held in April 2002. The sub-committees continue to function as a forum for technical discussions, and five of the eight met during the first half of 2002. The Joint Parliamentary Committee comprising representatives of the Czech and European Parliaments met in December 2001 and in April 2002. A Joint Consultative Committee with the Committee of the Regions was set up in 2001 and met in January 2002. Its aim is to assist Czech regions and towns in preparing for enlargement. The first steps towards establishing a work programme for the Committee were taken. A Joint Consultative Committee with the Economic and Social Committee was set up in June 2002.

Trade between the EC and the Czech Republic has continued to increase. In 2001 EC exports to the Czech Republic amounted to € 27.3 billion (61.8% of total Czech imports) and EC imports from the Czech Republic amounted to € 25 billion (68.9% of Czech exports). The main categories of Community exports to the Czech Republic in 2001 were machinery and electrical goods, transport equipment and base metals. The main Czech exports to the Community were machinery and electrical goods, transport equipment, base metals and textiles.

Under the agreement resulting from the first round of trade negotiations in the agriculture sector (adopted on an autonomous basis pending the conclusion of an Additional Protocol to the Europe Agreement), approximately 96% of EC agricultural imports from the Czech Republic and 75% of EC agricultural exports to the Czech Republic are duty-free or benefit from preferential rates (average trade figures 1998-2000).

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

Negotiations on a further round of liberalisation, covering more sensitive sectors, began at the end of 2001 and were concluded in June 2002. The resulting agreement, scheduled to take effect in January 2003, enhances the existing agricultural trade preferences between the parties and promotes the full and partial lifting of import duties either within tariff quotas or for unlimited quantities in sectors such as cereals, dairy products, beef and sheep meat. This further agreement also includes a commitment by the parties to remove export refunds for certain sectors.

In March 1996 the Council mandated the Commission to open negotiations on the reciprocal recognition, protection and control of wine names and spirits designations, including trade arrangements, with the Czech Republic. The negotiations resumed in January 2001, after an interruption in 1997 due to legal obstacles on the Czech side, and are still underway.

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

Procedures are underway for implementation of the protocol agreed with the Czech Republic on liberalisation of trade in fish and fisheries products.

The Government respected its commitment in January 2002 to withdraw the Decree adopted in November 1999, which had increased customs duties on imports of road tractors for semi-trailers originating in EC countries. As of January 2002, the Czech Republic removed the last import duties on industrial products originating in the EC.

The Protocol to the Europe Agreement on European Conformity Assessment (PECA) which has been in force since July 2001 has been functioning as envisaged in facilitating trade by extending recognition in the area of conformity assessment and the acceptance of industrial figures.

The Czech Republic decided to unilaterally introduce a temporary suspension of 12 tariff lines in the civil aircraft sector as of January 2001. Despite objections raised by the EU, this measure has been maintained in 2002.

One new anti-dumping investigation is underway, on imports of welded tubes and pipes (iron and non-alloy steel); provisional measures were imposed in March 2002. Definitive anti-dumping duties on imports of tube and pipe fittings (iron and steel) were imposed in August 2002. In June 2002, the Czech Republic made a request for the prolongation of the period during which public aid may be granted for restructuring purposes to the steel sector under Protocol 2 of the Europe Agreement.

In March 2002, in response to protectionist measures taken by the US, which greatly restricted access to their market and created the risk of considerable trade diversion, the EU initiated provisional safeguard measures, with erga omnes effect, on imports of certain steel products. The measures were partly confirmed in September 2002.

Accession Partnership

A revised Accession Partnership was adopted in January 2002. Its implementation is reviewed in Part D of this Report.

Action Plan for reinforcing administrative and judicial capacity

As announced in the Commission's 2001 Enlargement Strategy, in spring 2002 the Commission and the Czech Republic jointly developed an Action Plan to strengthen the Czech Republic's administrative and judicial capacity, on which a common understanding was reached in April. The revised Accession Partnership adopted in January has served as the point of departure for this exercise.

The purpose of this Action Plan is to identify jointly the next steps required for the Czech Republic to achieve an adequate level of administrative and judicial capacity by the time of accession, and ensure that all necessary measures in this regard are taken, providing the Czech Republic with targeted assistance in areas that are essential for the functioning of an enlarged Union. As such, the Action Plan is a key tool for meeting the common objective of the EU and the Czech Republic, i.e. to ensure that the Czech Republic's preparations for accession take place as effectively as possible within the planned timeframe.

The implementation of the Action Plan is reviewed in Part D of this Report.

National Programme for the Adoption of the Acquis

No new up-date of the National Programme for the Adoption of the Acquis was adopted this year. However, the Government of the Czech Republic adopted a resolution in April 2002 entitled "Summary of the Remaining Tasks of the Czech Republic for the Accession to the European Union". This was then updated in June. The summary sets out the legislative and administrative tasks remaining to be accomplished under the Copenhagen Criteria and the chapters of the acquis.

Community assistance

Three **pre-accession instruments** have been financed by the European Community to assist the applicant countries of Central and Eastern Europe with their pre-accession preparations: the **Phare** programme; **SAPARD**, which provides aid for agricultural and rural development; and **ISPA**, which finances infrastructure projects in the fields of environment and transport. The support provided by these programmes is focused on the Accession Partnership priorities which are intended to help the candidate countries meet the criteria for membership.

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

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

Phare provides the applicant countries of Central and Eastern Europe with support for institution building, investment to strengthen the regulatory infrastructure needed to ensure compliance with the *acquis*, and investment in economic and social cohesion. This

support comprises co-financing for technical assistance, “twinning” and investment-support projects, to help these countries with their efforts to adopt the *acquis* and strengthen the institutions necessary for implementing and enforcing the *acquis*. Phare also helps the candidate countries develop the mechanisms and institutions that will be needed to implement Structural Funds after accession and is supported by a limited number of measures (investment and grant schemes) with a regional or thematic focus. In the context of the Action Plans for strengthening administrative and judicial capacity, particular emphasis is placed on the issue of institution building and associated investment intended to ensure compliance with the *acquis*. For 2002, the Commission has mobilised special financial assistance of up to €250 million to accompany negotiating countries' efforts, over and above the indicative annual allocations for each of the Phare countries, bringing total Community assistance for strengthening the administrative and judicial capacity of the negotiating countries in 2002 to around €1 billion.

The Phare programme allocated commitments of €664.5 million to the Czech Republic during the 1992-2000 period and €86.6 million in 2001². The **2002 Phare Programme** for the Czech Republic consists of an allocation of € 60 million for the National Programme, complemented by € 24.8 million under the Phare 2002 supplementary institution building facility. The 2002 Phare programme focuses on the following priorities:

- Strengthening civil society (€3 million).
- Ensuring the capacity to apply internal market rules and regulations, in particular in areas such as financial markets, economic competition and customs administration (€18.3 million).
- Ensuring implementation of the *acquis* in the agriculture sector, including improving veterinary controls and diagnostic methods in the phyto-sanitary sector (€12.4 million).
- Strengthening the environmental sector, with particular emphasis on air and water pollution (€7.4 million).
- Addressing important issues in the area of justice and home affairs, such as border protection, the Schengen Action Plan and Information System and the upgrading of the probation and mediation services (€18.7 million).
- Applying EU directives in the railway sector (€0.7 million).
- Ensuring that the Czech Republic complies with the *acquis* in the area of employment and social affairs, including the establishment of a modern public health information system, participation in the EQUAL Initiative and social security (€7.4 million).
- Strengthening the administrative capacity to implement the *acquis*, including improving the management of human resource development and preparing self-government bodies (regions and municipalities) for the implementation of the *acquis* (€2.7 million).

2 These figures include an allocation for Cross-Border Cooperation (CBC) Programmes of € 19 million in 2000, and € 19 million in 2001.

- Improving economic and social cohesion, in particular by building up the implementation capacity of the designated managing authorities and other bodies responsible for the Structural Funds and the Cohesion Fund. (€6.3 million).

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

In 2002, the Czech Republic has also participated in and benefited from Phare-funded multi-country and horizontal programmes, such as TAIEX the Small and Medium-Sized Enterprises Facility, SIGMA and the nuclear safety programme.

Phare also co-finances the participation of the Czech Republic in various Community Programmes, namely Socrates, Leonardo, Youth for Europe, the Multi-annual Programme for Enterprises and Entrepreneurship, Culture 2000, Media Plus, IDA, E-content, Customs 2002 and the European Environment Agency (€7.9 million in 2002).

Overall, the impact of Phare has been positive. Effective transfer of know-how, equipment and financial resources has taken place in a number of important fields such as public administration reform, improving the business environment including for small and medium sized enterprises (SMEs), justice and home affairs, agriculture and the environment.

For example, in the Czech Republic, Phare has played a particularly important role in:

- Developing civil society and integrating the Roma community: a total of over €4.5 million has been granted, for 128 projects, including 51 benefiting the Roma community.
- Supporting the reform of the judicial system and of public administration: advice and equipment are being provided for the establishment of a central training academy for judges and advice is being provided on how to implement the new Civil Service Act.
- Improving the business environment, with a project aiming to streamline commercial and trade registers, improve legislation pertaining to bankruptcy and creditor protection, and speed up court proceedings.
- Helping to Make the internal market work, through support for a series of regulatory bodies, including the Energy Regulatory Authority, the Telecommunications Office and the Office for Personal Data Protection.
- Consolidating security, by providing advice and equipment for the fight against organised crime, the fight against drugs and preparations for the Schengen border regime.

The 2000 Phare Review confirmed the accession-driven approach and emphasised the importance of helping countries to prepare for the Structural Funds. The trends introduced in 1997 have continued, with an increased role for Commission Delegations, further streamlining of procedures and increasing emphasis on raising the verifiable and quantifiable impact of Phare projects on institution building, investment in compliance with the *acquis* and economic and social cohesion.

The Review also provided for the possibility of further decentralisation of Phare management, by waiving the requirement for *ex ante* approval by the Commission Delegations for tendering and contracting. For this to be possible, strict pre-conditions covering programme management, financial control and structures regarding public finance must be met. An extended decentralised implementation system (EDIS) should be put in place for each negotiating country, at the latest by the time of accession. High-Level Working Groups are being established for each country to oversee this process, along with other key procedural steps, in the run up to accession.

In the Czech Republic, the overall management of Phare has continued to improve. Project design is better, and procurement time has been reduced. As regards programming, monitoring and evaluation, the Centre for Foreign Assistance fulfils its co-ordinating role, though its capacity should be increased and it should endeavour to be more proactive. With regard to procurement and payments, the performance of the National Fund and all Phare implementing agencies has been satisfactory, though with some exceptions in the case of the Centre for Regional Development.

The Commission adopted the Czech **SAPARD** Programme on 26 October 2000. The indicative allocation for SAPARD in the Czech Republic for 2002 at 2002 prices is €23.1 million (allocation 2001:22.9 millions, at 2001 prices). The programme focuses on two major priorities: improvement of production and marketing structures in agriculture and food processing (62% of the EC funds) and sustainable development of rural areas (35% of EC funds), 3% being devoted to technical assistance and vocational training.

The Multi-annual Financing Agreement (MAFA), which sets out the rules for implementing SAPARD, and the Annual Financing Agreement (AFA), which sets out the Community financial commitment to the Czech Republic for the year 2000 were signed on 5 February 2001. The AFA 2001 has been agreed and is in the final stages of the procedure for signature.

The following structures are responsible for the implementation of SAPARD in the Czech Republic: the National Fund, located within the Ministry of Finance, administers SAPARD funds under the responsibility of the National Authorising Officer (NAO) and is responsible for the national accreditation of the SAPARD Agency; the Managing Authority for SAPARD is a separate department within the structure of the SAPARD Agency. The Decision-Making Group will be part of the Managing Authority, and will be set up by the Ministry of Agriculture in agreement with the Ministry for Regional Development; the SAPARD Agency of the Czech Republic is responsible for the implementation of the measures as defined in the Programme. The SAPARD Agency has delegated some tasks – related to selection of projects – to the Ministry for Regional Development pursuant to a contract concluded between the SAPARD Agency (the Ministry of Agriculture) and the Ministry for Regional Development.

In April 2002, the Commission provisionally conferred management authority for SAPARD, on a fully decentralised basis, to the SAPARD Agency of the Czech Republic. This Commission decision includes approval of seven out of nine measures contained in the SAPARD Programme representing 97% of the amount available for the Czech Republic. Following this decision, the Commission made an initial payment on account to the National Fund.

A Monitoring Committee has been established by the Management Authority and has met three times.

The objectives of the **ISPA** programme were fixed by the strategy documents produced for the transport and environment sectors in 2000. For road transport, the emphasis is on eliminating major bottlenecks and environmental black-spots, by closing gaps in uncompleted expressways and motorways. In the rail sector, the main priority is to complete the modernisation and upgrading of the main international corridors, as identified in the TINA report (Transport Infrastructure Needs Assessment). Programming for 2002 aims to redress the balance between the transport and environment sectors in terms of annual commitments. An adequate pipeline of projects should be prepared, especially in the environment sector, so as to be ready to absorb the future allocation of ISPA and Cohesion Fund resources.

Three environmental projects were approved in 2001: drinking and waste water in North Bohemia with an ISPA contribution of €12.9 million, waste water treatment in Jihlava (€9.6 million) and upgrading the sewer system in Olomouc (€10.1 million). Three transport projects were approved in 2001: technical assistance for transport project management (€0.2 million) and, in the road sector, the Belotin By-pass (€17.1 million), and the Dobra-Tosanovice-Zukov expressway stage I (€19.8 million).

The commitment of ISPA funds for the Czech Republic amounted to €70 million for 2000 and €69.9 million for 2001, bringing the total to €136.9 million. The figure for 2001 represented 6% of the ISPA budget, which was below the mid-point of the Czech indicative allocation, owing to a lack of suitable environment projects presented for financing. The allocation for 2002 will be between €59.9 million and €87.1 million.

One of the main challenges facing the Czech Republic in 2002 is to achieve an orderly start to implementation of ISPA projects approved in 2000 and 2001. In 2001, implementation in the transport sector was limited to the preparation of tender files and publication of the 2000 projects. Since then, contracts have been signed or are ready to be awarded. At the end of 2001 the Commission approved a technical assistance package to prepare the Czech authorities for EDIS (extended decentralisation) for ISPA (with ISPA financing of €0.7 million).

Twinning

One of the main challenges still facing the candidate countries is the need to strengthen their administrative and judicial capacity to implement and enforce the *acquis*. As of 1998, the European Commission began to mobilise significant human and financial resources to help them with this process, using the mechanism of twinning administrations and agencies. In 2001, the Commission strengthened this emphasis on institution building further, through the launch of the Action Plans for strengthening administrative and judicial capacity.

The twinning process makes the vast body of Member States' expertise available to the candidate countries through the long-term secondment of civil servants and accompanying short-term expert missions and training.

A total of 503 twinning projects were funded by the Community between 1998 and 2001. Between 1998 and 2000, these projects primarily targeted the main priority sectors identified in the Accession Partnerships: agriculture, the environment, public finance, justice and home affairs and preparation for the management of Structural Funds. Since 2000, other important sectors of the *acquis* have also been addressed through twinning,

such as social policy, the fight against drugs, transport, and telecommunications regulation. Twinning now covers all sectors pursuant to the *acquis*.

Thanks to the strong support of the EU Member States, 103 twinning partnerships were funded by Phare 1998, involving all the candidate countries and almost all the Member States. These first-generation projects have already come to an end. Under Phare 1999, a further 123 projects are currently being implemented and the programming exercise for Phare 2000 included a further 146 twinning projects. The 2001 programming exercise includes 131 twinning projects embracing all the Phare beneficiary countries, as well as Cyprus and Malta. Under the 2002 programming exercise, 119 twinning projects have already been planned and approved for implementation. A substantial number of additional twinning projects are planned, and these should be approved and implementation launched before the end of 2002. They include twinning projects identified in the Action Plans for strengthening administrative and judicial capacity in the negotiating countries. It is estimated that around 300 twinning projects are operational throughout the candidate countries at any one time. Furthermore, the candidate countries are being offered a further way of drawing on Member States' expertise through "Twinning light", a mechanism to address carefully-circumscribed projects of limited scope which emerge during the negotiation process as requiring adaptation.

For the Czech Republic a total of 61 twinning projects were funded by the Community between 1998 and 2001. In total [x] projects are now running, covering areas such as the legal business environment, pension reform, public procurement, preparing for the CAP/EAGGF, integrated pollution prevention and control (IPPC), corruption and economic crime, the Supreme Court, Supreme Audit Office, the Central State Administration, preparations for the Structural Funds, and financial control.

2002 also saw the start of "Twinning light" projects in the areas of combat of organised crime, environmental indicators and IPPC.

Negotiations

Since the opening of accession negotiations, substantive discussions on the individual chapters of the *acquis* have started, and by June 2002, negotiations on all chapters (except Chapter 31 – Other) had been launched.

By the end of June 2002, the following 25 chapters had been provisionally closed: science and research, education and training, small and medium-sized enterprises, statistics, industrial policy, telecommunications, fisheries, consumer protection, free movement of goods, customs union, external relations, common foreign and security policy, EMU, free movement of services, company law, social policy and employment, environment, free movement of capital, culture and audio-visual policy, free movement of persons, financial control, taxation, energy, justice and home affairs, and regional policy.

B. Criteria for membership

1. Political criteria

Introduction

The political criteria for accession to be met by the candidate countries, as laid down by the Copenhagen European Council in June 1993, stipulate that these countries must have achieved “stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities.”³

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

“The Czech Republic’s political institutions function properly and in conditions of stability. They respect the limits on their competences and cooperate with each other. Legislative elections in 1992 and 1996 were free and fair. The opposition plays a normal part in the operation of the institutions. Efforts to improve the operation of the judiciary and to intensify the fight against corruption must be sustained.

There are no major problems over respect for fundamental rights. There are, however, some weaknesses in laws governing freedom of the press. Particular attention will need to be paid to the conditions governing any further extension of a law excluding from public service members of the former security service and active members of the Communist regime. There is a problem of discrimination affecting the Roma, notably through the operation of the citizenship law.

The Czech Republic presents the characteristics of a democracy, with stable institutions guaranteeing the rule of law, human rights, and respect for and protection of minorities.”

In its 2001 Regular Report, the Commission found that:

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

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

3 In the meantime, through the entry into force of the Treaty of Amsterdam in May 1999, the political criteria defined at Copenhagen have been essentially enshrined as a constitutional principle in the Treaty on European Union. Article 6(1) of the consolidated Treaty on European Union reads: "The Union is founded on the principles of liberty, democracy, respect for human rights and fundamental freedoms and the rule of law." Accordingly, Article 49 of the consolidated Treaty stipulates that "Any European State which respects the principles set out in Article 6(1) may apply to become a member of the Union." More recently, these principles were emphasised in the Charter of Fundamental Rights of the European Union, which was proclaimed at the Nice European Council in December 2000.

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

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

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

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

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

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

The section below provides an assessment of developments in the Czech Republic, seen from the perspective of the Copenhagen political criteria, including the overall functioning of the country's executive and its judicial system. Such developments are in many ways closely linked to developments regarding the Czech Republic's ability to implement the *acquis*, in particular in the domain of justice and home affairs. Specific information on the development of the Czech Republic's ability to implement the *acquis* in the field of justice and home affairs can be found in the relevant section (*Chapter 24 – Cooperation in the field of justice and home affairs*) of part B.3.1. of this Report.

Recent developments

The minority Social Democrat government continued to function normally in both domestic and foreign affairs and to pursue its programme of economic and social reform. It completed its full term in office, which began in 1998 and was brought to a close by the parliamentary election of 14-15 June 2002.

The Organisation for Security and Cooperation in Europe (OSCE) monitored the elections, at the invitation of the Czech government, and found that the election process

met all international standards. In particular, the Czech Statistical Office acted as a model of transparency by efficiently publishing the election results.

As no party won a simple majority of seats, the President invited the leader of the largest party, the Social Democrats (CSSD), to conduct talks with other parties with a view to forming a government. Subsequently, on 15 July the President appointed the new government composed of the CSSD and the Coalition parties. The CSSD has 11 ministers including the Prime Minister, the Christian Democrats (KDU-CSL), has 3 ministers including Foreign Minister, and the Freedom Union (US-DEU) has 3 ministers. This new coalition government has a majority of 101 seats out of 200 in the House of Deputies.

There continues to be a basic consensus amongst political parties in favour of European Union membership. Prior to the elections the outgoing government continued to meet regularly the main opposition parties to review progress on EU accession. The new government has confirmed accession to the European Union as a top priority.

1.1. Democracy and the rule of law

The Czech Republic has achieved stability of institutions guaranteeing democracy and the rule of law. This was the conclusion of the 1997 Opinion and the subsequent Regular Reports, and has been confirmed by developments over the past year. This section focuses on the most significant developments since the last Regular Report.

The Parliament

The overall operation of the Parliament has remained smooth, including during the pre-electoral period. Since the 2001 Regular Report, there has been an acceleration in the legislative process as regards EU-related acts.

The procedures mentioned in the previous Regular Report which aim at streamlining cooperation between the Parliament and the Government on EU affairs remain in place. The Committee for European Integration of the Chamber of Deputies continues to hold discussions with ministers on legislative proposals prior to submission by the Government to the Parliament. As in previous years, the government avoided using the fast track procedure for the adoption of EU-related legislative proposals.

With a view to EU accession, new mechanisms for enhanced communication between the Government and the Parliament are being introduced, such as the one contained in the amendment to the Constitution which entered into effect in June 2002. It requires the Government to inform the Parliament on a regular basis – and in advance – of issues concerning the obligations stemming from the Czech Republic's membership of the EU.

A second amendment to the electoral law was passed in January 2002 following the abrogation by the Constitutional Court of a previous amendment which, the Court ruled, violated the constitutional guarantee of proportional representation. The new amendment sought to strike a compromise by reducing the majoritarian elements of the original proposal.

As regards non-legislative EU-related matters, both Houses selected, in good time, their representatives and alternates to the Convention on the future of Europe.

The executive

Welcome progress has been achieved in the establishment of an independent, professional, stable and accountable public administration at central level. An important step forward was taken with the adoption of the Civil Service Act in May 2002 after difficult discussions and a close vote in Parliament. The Act creates a specific and comprehensive legal framework for the central public administration and reforms the existing arrangements in a number of key areas.

Personnel policy is to be depoliticised by the creation of a General Directorate for the Civil Service which is to be responsible for the application of unified human resources management throughout the administration, in coordination with senior officials in the Ministries and other bodies.

The allocation of human resources throughout the administration is to be rationalised through a process of “systematisation” which aims to determine the number of civil servant posts and the funds earmarked for salaries in the Ministries and other bodies.

Professional standards are to be improved in a number of ways. There will be increased use of competitive exams for recruitment and filling of vacancies. Existing state employees will also be required, during a transition phase, to pass an exam in order to be appointed as civil servants under the Act. Also, there is provision for more systematic assessment of civil servants’ performance as well as clearer criteria for promotion.

The Institute of State Administration is to coordinate and provide an upgraded system of training for new recruits and throughout the career of officials, as well as targeting specific subjects such as European Union Affairs and languages.

The system of remuneration is clarified and standardized. The remuneration system under the Civil Service Act is designed to overall improve the salaries of civil servants.

Thus the scope of the Act appears ambitious and comprehensive. Nonetheless, for the Act to have a significant impact it will need to be implemented in a constructive and cooperative spirit, on the basis of a wide political consensus.

The Commission has consistently stressed that a stable public administration based on a clear legal framework and characterised by professionalism and independence from undue influences is essential if the Czech Republic is to fully benefit from membership of the European Union. However, the transition period for full implementation of the Act extends to the end of 2006 and it may take a considerable amount of time before the benefits of the Act will start to be felt. Therefore, an acceleration of the timetable for implementation would be desirable.

The officials of regional and municipal authorities will be governed by the Act on Officials of the Territorial Self-Governing Units adopted in June. This Act also aims to set up a framework for professionalisation. The Act focuses on more transparent procedures and more stringent criteria for recruitment, strengthening continuous training of officials and increasing standards of service to the public. In compensation, some longer holidays and additional severance pay are provided for.

In 2002 the decentralisation process continued. In January 2002 the regions were granted a fixed portion of tax revenue thus increasing their own resources and getting more

decision making autonomy. Furthermore, the limits on the capacity of the regions to run debts, introduced in November 2001, have been abolished. By mid 2002 a further raft of legislation was adopted concerning the transfer of competencies as well as property and staff from the District Offices, which are due to be abolished as of January 2003, to the municipalities and regions. It has not been decided yet, which part of the resources of the regional budgets would be increased to accompany the transfer of the remaining competencies.

The judicial system

Since the previous Regular Report the Czech Republic has made further progress with judicial reform, in particular as regards administrative law, the organisation and self-administration of the judiciary and the implementation of the new Code of Criminal Proceedings.

The 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 alleged violation of fundamental rights. Prior to the communist era, the court system was largely based on that of the Austro-Hungarian Empire. Since then, post-1989 basic codes have drawn upon prewar, communist and modern elements and thus require extensive revision.

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, which are relatively high, are set by Parliament. The Constitution enshrines the independence of judges, although the Minister of Justice is responsible for appointing, transferring and terminating the appointment of the President and Vice-Presidents of courts.

Several developments can be noted over the reporting period. The important and much debated Act on Courts and Judges entered into force in April 2002. The Act introduced a first step towards self-government of the judiciary by the creation of Judicial Councils which have the status of consultative bodies at all court levels. It also seeks to promote greater professionalisation of the judiciary by establishing new procedures for the selection, training and evaluation of judges. However, members of the judiciary and the Union of Judges criticised the Act as undermining the independence of judges and, for similar reasons, the President of the Republic referred it to the Constitutional Court.

In June the Constitutional Court subsequently struck down certain provisions of the Act, on the grounds that they did not respect the constitutional principle of division of legislative, executive and judicial powers or the principle of independence of the courts. These provisions concerned the system of "re-evaluation" of judges' competence during their career, the compulsory training of judges in the Judicial Academy and the performance of administrative responsibilities by the Presidents and Vice-Presidents of courts.

The ongoing constructive debate in the Czech Republic concerning the reform of the judicial system can be expected to continue.

The Act on Courts and Judges also creates a new Judicial Academy. This began operations in September 2002. The Academy is to provide life-long training for the judiciary. The Ministry of Justice has revised the curricula for training of judges and State prosecutors, covering all relevant areas including human rights as well as civil and criminal judicial cooperation. It is important that the appropriate representatives of the judiciary are involved in the functioning of the Judicial Academy.

The Administrative Court Proceedings Code and the Act for Solving Some Questions of Jurisdiction were adopted in March 2002 and will enter into force on 1 January 2003. They introduce a new, modern system of administrative law which consists of Regional Courts, which will act as first instance courts for all administrative matters, and a Supreme Administrative Court, which will act as the second instance. This system was adopted following a Constitutional Court decision that the current arrangements were unconstitutional. Furthermore, the Administrative Court Proceedings Code extends the possibility of free legal aid to administrative justice. These reforms should complement the adoption of the Civil Service Act (*see previous section on the executive*) in establishing a legal framework governing administrative actions.

The amendments to the Criminal Proceedings Code and to the Act on State Prosecutors (adopted in December 2001) began to be implemented in January 2002 and March 2002 respectively. Both amendments strengthened the powers of the State prosecutors, who are directly responsible for investigating all criminal offences, including economic crime, money laundering, organized crime, corruption and misuse of powers. The amendments to the Criminal Proceedings Code and the reform of the system of criminal prosecution have had a very beneficial effect on the efficiency of preparation and organisation of criminal trials and have reduced delays in the criminal trial system. Cases appear to be better prepared for trial, pre-trial proceedings are faster than before and the incidence of guilty pleas before trial has increased. The amended Criminal Proceedings Code also regulates the use of pre-trial detention (*see below under Civil and political rights*).

On the basis of the Act on Judicial Executors of 2001, 103 judicial executors' offices have been created and the Chamber of Judicial Executors has begun to operate. This is an important step forward which has improved the speed and efficiency of the enforcement of civil judgements.

Administrative support for judges has improved. For example, as of 1 January 2002, there were 621 higher court officials, compared to 591 noted in the previous report. Since the previous Regular Report, the number of judges and State prosecutors has increased. By 1 January 2002 the number of judges' posts had increased to 2 941 (in comparison with 2 893 in 2001); 2 669 judges were in active service (as of 1 April 2002) while 272 judicial vacancies remained. The total number of public prosecutors' posts had increased to 1 250 by 1 January 2002 (compared to 1 055 in 2001); 973 prosecutors were in active service (as of 1 April 2002) while 277 vacancies remained.

Good progress continues to be made in the re-codification of criminal and commercial law, with a view to its completion by January 2005.

Access to justice is reasonably well maintained save that, except in family cases, there is still no general provision in most first instance courts for emergency judges for urgent matters when the courts are closed. Legal aid is available in criminal and civil cases. However, less well informed members of the public may not be fully aware of their

entitlement. The development of professional enforcement officers has improved the speed and efficiency of enforcement of judgements.

A key area for further improvement remains the reduction in length of court proceedings, which are a concern also for the Human Rights Commissioner. In particular, the amendments to the Civil Proceedings Code of 2001 have so far had little discernible effect except that injunctions can now be more speedily obtained. Otherwise, the civil litigation system does not yet appear to have become significantly speedier. Recent figures from the Ministry of Justice show that the duration of criminal⁴ and civil⁵ proceedings increased in 2001 compared to 2000 and 1999.

Overall, the recent judicial reforms need to be further underpinned by additional human and material resources. The burden of routine administrative duties continues to slow down the justice system by deploying judges on routine administrative work when they could otherwise be deployed in judging cases. Therefore, increased efforts are needed to ensure adequate administrative support for judges and courts, notwithstanding some progress in the provision of information technology to the courts. District courts and some regional courts continue to lack sufficient financial support.

Judicial training is developing well but there is an urgent need for the further training of teaching staff in interactive methods, such as simulated hearings, and regarding the reform of the system of criminal prosecution. The setting up of the judicial academy is a positive step, although its success depends on how far judges can make use of it, since it is situated far from the judicial centres of Brno and Prague.

Furthermore, there is widespread dissatisfaction with, and allegations of corruption concerning the administration of the commercial business register which is operated by the judiciary. The register appears to be chronically understaffed. The 15-day deadline for handling requests for company registration, introduced by an amendment to the Civil Proceedings Code, has not so far had a significant impact.

Finally, the courts do not have sufficient judges trained in asylum law or available to hear the number of asylum cases likely to come to court in the near future. The capacity of these courts needs to be strengthened in order to cope with the introduction of the new appeals procedure.

Anti-corruption measures

Surveys indicate that corruption and economic crime remain a serious cause for concern. During the reporting period, the Czech authorities undertook a number of administrative measures to strengthen the fight against these phenomena. In April 2002 the Government approved its own report on corruption which confirms that the situation is not improving. It noted that bribery in the public administration and fraud in the private sector continue to be significant problems. It highlights the fact that corruption continues to affect the proper functioning of the state administration, the police (especially the aliens police and the traffic police), healthcare, banking, the judiciary and intelligence services and that it

4 (265 days for cases in district courts against 251 days in 2000 and 263 in 1999; 627 in regional courts against 506 days in 2000 and 542 in 1999).

5 (560 days for cases in district courts against 555 days in 2000 and 483 in 1999; 296 days in regional courts).

also influences the political sphere. Public opinion is increasingly concerned about corruption and economic crime.

Since the previous Regular Report, a number of steps have been taken to combat corruption.

As a consequence of amendments to the Criminal Proceedings Code, the Police Presidium has been undergoing an internal reorganisation since 1 January 2002. Two services have responsibilities in the field of the fight against corruption and economic crime: the Service for Criminal Police and Investigation and the Office for Financial Crime and State Protection. Their respective competencies still need to be more clearly defined and coordination with related agencies should continue to be improved. Corruption within the police is directly investigated by specialised state prosecutors.

The new specialised police unit for witness protection, which was established following the entry into force of the Act on Witnesses, is fully operational. This unit provides protection measures for witnesses, particularly in cases concerning corruption, economic crime and organised crime.

The establishment of specialised units on corruption and economic crime at the Supreme Public Prosecutor's Office in Brno, with branches at the High Public Prosecutor's Offices in Prague, Ostrava and Olomouc, represent a major positive step. During 2001, there were a number of high-profile prosecutions and convictions for economic crimes. Between 5 October 2000 and the end of May 2002 the specialised offices at the Supreme State Prosecutor's Office noted the following results: 139 investigations were opened, of which 99 are still under investigation, while 40 investigations have been completed. Regarding corruption within the police force, the Government report notes that the traffic police and aliens police services remain particularly affected. The Act on the Status of Members of the Security Forces, which also included a code of ethics for police officers was rejected by Parliament in 2002 and will need to be resubmitted.

Each Ministry is required to draw up its own anti-corruption programme and appoint a co-ordinator responsible for its implementation. The Ministries of the Interior and of Finance have developed such programmes for police and customs officers. The Ministry of Finance is putting in place a regulatory framework which empowers specialised police services to obtain access to data concerning taxation, and is appointing officials from regional tax authorities to permanent joint teams. Several ministries are developing public awareness campaigns and a telephone hotline and e-mail address have been established.

As regards public procurement, an amendment was adopted in May 2002 which strictly limits the use of emergency 'fast-track' procedures. This is welcome as it should significantly contribute to the transparency and predictability of future decisions in this field.

The adoption of the Civil Service Act (*see above on the executive*) should, as it is gradually implemented over a lengthy transition period, help increase transparency and standards in public administration. It should reinforce the requirements of the 2001 Code of Ethics on the basic obligations, rights and duties of civil servants. However, much will depend on the spirit in which the Act is implemented, including implementing regulations.

Figures made available by the Ministry of Justice indicate the following results for 2001: as regards corruption, there were 200 prosecutions (compared to 160 in 2000) and 117 convictions (also 117 in 2000). As regards “abuse of the position of public officials”, there were 262 prosecutions (compared to 232 in 2000) and 99 convictions (100 in 2000). As regards “fraud”, there were 9,486 prosecutions (9,445 in 2000) and 5,491 convictions (6,034 in 2000); for “credit fraud” there were 1,592 prosecutions (619 in 2000) and 652 convictions (243 in 2000), for “legalisation of proceeds from crime” there were 40 prosecutions (15 in 2000) and 3 convictions (6 in 2000).

The government report of April 2002 on progress in implementing the National Programme for Combating Corruption concludes that one of the main reasons why anti-corruption policy is not successful is that the efforts of the public administration do not have sufficient political support, as there is not sufficient parliamentary consensus on a comprehensive anti-corruption programme.

The report also notes that present capacities to combat corruption are inadequate, although the merger of the police and investigators and the concomitant strengthening of the role of the public prosecutor represent a major achievement. At present, even though the number of convictions for corruption is increasing, it remains low in relation to the total number of crimes detected. The next step to be taken by the Czech authorities is to intensify training in order to strengthen and further specialise the skills of the personnel working in these specialised departments. Additional human and technical resources also need to be made available.

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 has signed but not ratified the Council of Europe Civil Law Convention on Corruption. 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. In February 2002, the Czech Republic joined GRECO, the Council of Europe Group of States against Corruption. A GRECO evaluation mission to the Czech Republic is scheduled for October 2002.

1.2. Human rights and the protection of minorities

The Czech Republic continues to respect human rights and freedoms. This was the conclusion of the 1997 Opinion and the subsequent Regular Reports, and has been confirmed over the past year. The following section focuses on the most significant developments since the last Regular Report.

The Czech Republic has acceded to the *main international human rights conventions (see annex)*. The Additional Protocol to the European Social Charter, providing for a system of collective complaints, was signed on 26 February 2002. However, the revised European Social Charter, signed in November 2000, has not yet been ratified.

In May 2002, the Czech Republic signed Protocol No 13 to the Convention for the Protection of Human Rights and Fundamental Freedoms on the abolition of the death penalty in all circumstances.

The Czech Republic has signed but not ratified Protocol No. 12 to the Convention for the Protection of Human Rights and Fundamental Freedoms prohibiting all forms of discrimination. The principle of non-discrimination is enshrined in the Czech Charter of Fundamental Rights and Freedoms. So far, however, comprehensive anti-discrimination legislation is lacking. The Government set a timetable for the transposition of the EC anti-discrimination *acquis*. On 20 February, the Government entrusted the Deputy Prime Minister with drafting the laws, regulations and administrative provisions necessary to comply with the *acquis* by the end of 2002. An inter-ministerial working group has been set up to assist in the drafting of anti-discrimination legislation and in the creation of a body for the promotion of equal treatment (*see Chapter 13 - Social policy and employment*).

The internal institutional framework in the field of human rights has been further consolidated with the appointment of one of the Deputy Prime Ministers as chair of the Council for Roma Affairs (formerly the Inter-Ministerial Roma Commission) and of the Council for National Minorities. The Government Commissioner for Human Rights continues to chair the Council for Human Rights. The role of these structures is discussed in more detail in the relevant sections below.

The Public Protector of Rights (Ombudsman) and his Office have continued to perform their tasks. The Ombudsman received a total of 5,996 complaints in 2001. A total of 3,139 (i.e. 52%) of these have been addressed. Most of the complaints concern restitution claims, disputes over real estate and complaints about social insurance, the police, the army and prison services. At 31 December 2001, the Office employed 86 people, including 54 dealing directly with complaints; its independent chapter in the 2002 State Budget amounts to CZK 80.8 million. The high number and great variety of complaints received by the Ombudsman's Office indicate that it is responding to a very real social need.

Civil and political rights

Additional steps have been taken to further improve the protection of civil and political rights, although some issues remain a source of concern.

In order to reduce instances of *degrading treatment by the police*, training of the police is ongoing, including in the area of respect for human rights and communication with the public. Also, the State Prosecutors now are responsible for overseeing the investigation of police misconduct where this may constitute a criminal offence. However, efforts need to be continued to improve the system for redress against police misconduct, in particular through the adoption of a Code of Ethics.

Trafficking in human beings still remains a cause for concern but the Government has undertaken significant steps to combat it. The Czech Republic continues to be simultaneously a country of origin, destination and transit. The amendment to the Criminal Code, which entered into force in June 2002, extends the scope of the provisions to "trafficking in human beings" thus also covering children. Trafficking is also recognised as occurring out of the Czech Republic as well as into the Czech Republic, and in response, the related sentences have been increased. The Council for Human Rights highlighted the need to improve the prosecution and punishment of the perpetrators of trafficking in human beings. To this end it proposed a set of measures that were adopted by the Government but still need to be implemented. In July 2002 the

Government adopted a report on the implementation of the 2000 National Plan Combating Commercial Sexual Abuse of Children and updated the Plan. The report highlights that the level of awareness and communication of the responsible organisations has improved. The Plan aims, inter alia, to further strengthen the legal framework.

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

The average length of *pre-trial detention* decreased to 171 days at end of March 2002 compared to 176 days at end of March 2001. The amended Criminal Proceedings Code, which entered into force on 1 January 2002, regulates recourse to pre-trial detention, and should further reduce the number of persons held in custody. As of end March 2002, pre-trial detainees made up 18% of the total prison population (compared to 27% in May 2001).

Prison conditions continue to meet minimum international standards but also to attract criticism. Since the previous Regular Report, the Ministry of Justice has sustained its efforts to further improve the situation. Statistics from the Prison Services indicate that, as of end May 2002, the total prison population had fallen to about 17 600 (compared to 22 000 in May 2001). The rare use of alternative punishments limits the scope for a further reduction of the prison population. There remain concerns about the absence of judicial review procedures for prison service decisions regarding prisoners, such as disciplinary punishments.

In 2001 the number of asylum seekers continued to increase and in fact a record high number of 18 096 people requested *asylum* in the Czech Republic, an increase of 106% on 2000. As of end July 2002, 5,209 people had requested asylum since the beginning of the year, suggesting a progressive decrease from the peaks reached in 2001. The Government continues to fund an integration programme. An amendment to the Asylum Law, which entered into force in February 2002, tightened the conditions for granting asylum. It also established a second independent appeal instance for rejected asylum applications. The amendment also accelerates the processing of cases in which the reason for requesting asylum is not in line with the UN Convention relating to the Status of Refugees of 1951. The existing *Aliens' Law* has been criticised by the Council of Human Rights for not being anchored in a comprehensive migration policy.

The Ministry of the Interior's Report on Extremism noted that in 2001 the number of *racially motivated crimes* that were registered rose to 452 compared to 364 in 2000 and 316 in 1999. The Czech Penal Code specifically penalises a number of acts motivated by racism and intolerance, including incitement to hatred. However, the implementation of the relevant provisions remains reportedly unsatisfactory, and there are indications that law enforcement agencies have, in certain cases, failed to take appropriate action.

As regards *freedom of expression*, there has been little progress in tackling the lack of transparency and stability in the television sector. This is a cause for concern, given the important role of television in any modern democracy. There are now two disputes between foreign investors and their Czech partners, about the ownership of broadcasting licences and control of commercial television stations, which may have to be solved in international arbitration courts. The Council for Radio and Television Broadcasting should exercise its responsibilities more effectively and needs to maintain its political independence.

As regards the *freedom of religion*, a new law on the freedom of religion and on the status of churches and religious societies entered into force in January 2002. The law regulates the status and registration of churches and religious societies. It provides that 300 members are necessary for the registration of a church or religious society as a legal entity. Moreover, in order to conduct certain activities, such as religious teaching in school, the law requires the collection of 10,000 signatures. The law has been criticised as discriminating against minority religions. Also, the Czech Bishops' Conference stated that the law infringes on the right of churches and religious societies to manage their institutions, especially those committed to social and charitable work, by imposing new administrative measures and controls.

The Government supported civil society through the publicly funded Foundation Investment Fund. In order to ensure that *NGOs* can become self-sufficient, the authorities have started to take steps to develop a legal and fiscal framework that is favourable to NGO development and promotes a responsible domestic donor culture. The amendment to the law on foundations and foundation funds, which regulates and standardises the regime of foundations and foundation funds, entered into force in July 2002.

As regards the *restitution of property*, in March 2002 the Government took further steps to transfer property to the Association of Jewish Communities in the Czech Republic, on the basis of the Act on the Alleviation of Some Property Injustices caused by the Holocaust. The Commission dealing with the reparation of property injustices caused by the Holocaust, which was set up in 1998, was wound up in March as it had fulfilled its mandate.

In 2002 there was considerable public discussion concerning the Czechoslovak Presidential Decrees of 1945 and ensuing post-war legislation relating to the Sudeten German population as well as restitution legislation and practice since the early 1990s. The then Prime Minister Miloš Zeman and Commissioner Günter Verheugen made a joint statement in April 2002 on these issues. On this occasion they agreed to carefully review all legal aspects, including existing jurisprudence, of these complex matters. At the end of the reporting period this exercise was still ongoing. The Czech Parliament and the European Parliament also adopted resolutions on these subjects.

Economic, social and cultural rights

Some significant steps have been taken to further improve respect for economic, social and cultural rights, although certain issues still need attention.

The Council for *Equal Opportunities* started its work on 1 January 2002. It is chaired by a Member of Parliament, and is composed of 23 members, including deputy ministers, representatives from NGOs, experts and the Government Commissioner for Human Rights. Its task is to advise the Government on equal opportunities legislation, set priorities in the realisation of equal opportunities projects and co-ordinate officials in line ministries in charge of equal opportunities. The major legislative changes brought about by the amendment to the Labour Code, which entered into force in January 2001 – introducing the principle of equal treatment for all employees and strengthening the ban on any form of discrimination – have unfortunately so far gone largely unnoticed. More pro-active enforcement and awareness campaigns are needed.

According to statistical office data, in 2000 the average gross income of women was 70.1% of that of men. This indicates a deterioration of 3.1% from 1999. However, on a positive note, the newly elected 200-member Chamber of Deputies includes 34 women (17%), a slight increase over the previous Chamber (16%). Moreover, the new Cabinet includes two women while the previous Cabinet had none.

The amendment to the Act on Social and Legal Protection of Children came into force in January 2002. The Report on Human Rights situation of the Government Commissioner for Human Rights notes that the implementation of this law should be improved to ensure that there is effective monitoring of the placing of children in institutional care. Alternative solutions, such as different types of family care, need to be fully considered.

There have been calls to improve mental health care and the rights of the *mentally disabled*. Whilst significant improvements have been achieved, further reform is called for to develop community-based support services and to improve the quality of care in mental health institutions.

As regards *trade union rights*, the Czech-Moravian Confederation of Trade Unions (CMKOS), the major umbrella trade union organisation, continued to denounce obstructions to the right to unionise, particularly in large-scale retail chains owned by foreign firms. The Report on Human Rights of the Government Commissioner for Human Rights noted two breaches of trade union rights in firms that are part of multinational corporations.

Minority rights and the protection of minorities

Over the past few years, the Czech authorities have taken several crucial steps in this area. A legislative framework regulating the rights of national minorities entered into force in August 2001, and a government policy for Roma (the “Concept for Roma Integration”) was adopted in June 2000. Since then, the policy, which is funded from the state budget, has been regularly updated. However, while the situation of non-Roma minorities in the Czech Republic (i.e. essentially Slovaks, Poles, Germans, Hungarians and Ukrainians) is largely satisfactory, Roma still suffer from widespread discrimination in education, employment and housing. There have been further cases of racially motivated violence against Roma.

The 2001 Regular Report noted that while the Government had made considerable efforts as regards Roma and other minorities, further governmental and non-governmental measures to combat widespread discrimination were still needed. Over the reference period, the Government has adopted some more measures in favour of the Roma minority.

The first Report on the situation of national minorities in 2001, submitted in line with the Law on the Rights of National Minorities and adopted by the government in June 2002, identified a number of persistent problems, mainly related to the use by members of minority groups of their mother tongue. The Council also administers grants from the state budget to minorities. In 2001 approximately CZK 30 million was allocated to supporting publications by and for minority groups, CZK 10 million for cultural activities and CZK 15 million for educational activities.

In November 2001 the Government adopted a set of measures to achieve a more vigorous implementation of the government policy for Roma of June 2000. Key measures include

the extension of the “street workers” (social workers) scheme, the adoption of a primary school pilot project over the 2002-2003 school year and the extension of preparatory classes to prepare Roma children for mainstream primary schools and the presence of assistant teachers beyond primary school.

In January 2002, the Government updated its policy towards the Roma, first adopted in June 2000, by assessing the fulfilment of its tasks and setting out the main priorities for the future. These include the strengthening of the human rights institutional framework; anti-discrimination measures, in line with the *acquis*; affirmative action in education, employment, social and health care and housing; support for the development of Roma language and culture; changing social attitudes; ensuring the security of the Roma.

However, the budgetary framework for this policy is fragmented along ministerial lines so the necessary resources, for example for housing programmes, need to be made available in the state budget for 2003. Also, regional and local authorities, which are indispensable for the implementation of such a programme, are invited to participate but mechanisms for their coordination are lacking.

The Inter-Ministerial Roma Commission, now called the Council for Roma Affairs, has 14 Roma regional representatives and an equal number of officials from the ministries. As in 2001, the Council was allocated CZK 25 million to administer projects for the support of the Roma community, mainly comprising scholarships for Roma students and support for social workers. In February, the Government released a further CZK 9 million to complete the housing project “Co-Existence Village” in the city of Ostrava (northern Moravia), started in 1999, which addresses the needs of socially disadvantaged families, some of whom were affected by the floods of 1997.

Building on the experience of the anti-racism campaign “Tolerance Project”, the Government approved in April a new campaign worth CZK 6 million, consisting mainly of an information and media campaign at regional and local level, a media presentation of the Roma social street workers project, as well as an education campaign at secondary schools.

The Government approved a set of measures dealing with the education of Roma children. The Government thus reacted to the final recommendations of the UN Human Rights Committee, which deplored the segregation of Roma children in special schools. The measures include the dissemination of information material, a voluntary full-time schooling pilot project in five primary schools, and the continuation of the preparatory classes scheme.

Following transfer of competence to the regions, the Regional Premiers (*hejtmani*) have decided to appoint Roma coordinators in only 7 out of 13 regions so far. Meanwhile the fate of the much appreciated Roma advisors seems uncertain, as their administrative basis, the District Offices, will be abolished by the end of 2002. This extensive network has proved useful, by providing local contact points with the Community and by bringing Roma interests to the greater attention of the public administration. The appointment of Roma coordinators in the regions still lacking them and the preservation of the Roma advisors’ network are important to maintain the momentum.

The National Action Plan on Employment for 2002 contains several measures aimed at improving the situation of the most disadvantaged groups on the labour market, in particular programmes aimed at boosting their qualifications and encouraging retraining.

Also, the activities of the Committee for Long-term Unemployed aim to facilitate co-operation between all relevant actors at regional level in improving the situation of the most vulnerable groups on the labour market. In co-operation with Roma organisations, the Committee supports employment and creation of jobs for Roma population. Furthermore, the Committee supports development of specific educational and training programmes and seminars for disadvantaged groups.

In spite of these efforts, widespread discrimination continues to exist and the Government's efforts to date have not yet reached a threshold capable of bringing about structural change. More attention should be given to achieving results in this area and to measuring progress in achieving them.

Regrettably, the new School Act laying down, *inter alia*, a wider reform of the education system, notably phasing out the system of special schools, was again rejected by Parliament. Meanwhile, the steps taken thus far by the Ministry of Education appear ad hoc and low impact. Nevertheless, both preparatory classes and the promotion of Roma assistant teachers in the classroom have had encouraging results on a small scale.

Roma unemployment remains very high. Widespread discriminatory hiring practices are still being reported. The Ministry of Labour and Social Affairs has so far been unsuccessful in defining an incentive structure for the employment of Roma, as well as for positive actions, as called for by the government policy.

The government policy document recognises the gravity of the problem of the segregation of Roma into inferior categories of social housing (so-called "*holobyty*") and includes a survey of the situation. The absence of legislation against discrimination in the field of housing makes Roma families vulnerable to eviction, as local authorities have discretionary powers in the allocation of municipal housing.

An effective appeal system which may lead to appropriate compensation and sanctions, is required in order to deal with cases of discrimination. The Human Rights Commissioner has emphasised the need for comprehensive anti-discrimination legislation to be adopted and existing legislation to be applied more forcefully. For example, so far there has been no successful case concerning racial discrimination in the field of employment, despite the relatively strong legal framework which exists. Equally, the police and judiciary have a key role to play in ensuring impartiality in their dealings with the Roma community, as does the media in promoting tolerance of diversity. Decisive measures are needed to combat racially motivated violence, including where it would be committed by the police.

As reported in previous years, the Czech Republic is a party to the Framework Convention for the Protection of National Minorities. In February 2002, the Committee of Ministers of the Council of Europe concluded⁶ that the Czech Republic had made commendable efforts to support national minorities and their respective cultures. However, there was still scope for improvement, including by law-enforcement officials, especially as regards the Roma. Real problems remained as regards discrimination against the Roma in various fields.

6 Resolution Res CMN (2002)2 of 6 February 2002.

1.3. General evaluation⁷

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

The government has taken further steps to improve the functioning of the central administration. In particular, it has adopted a Civil Service Act which establishes a legal framework for the central public administration and reforms the existing arrangements in a number of key areas. The Act foresees a gradual implementation of its provisions during a transition period which may extend up to the end of 2006, in order to allow sufficient time for their careful preparation and thorough application. Nonetheless, it would be desirable for full implementation to be achieved as soon as possible so that the Czech public administration will be better equipped to deal with the extra demands created by accession to the European Union. The process of decentralization has continued, with the continued transfer of competencies to the regions and municipalities.

The reform of the judiciary has made further progress, in particular with the introduction of a new system of administrative law and the implementation of the streamlined Criminal Proceedings Code. However, further efforts are needed to reduce the length of court proceedings, particularly in civil cases. Overall, the recent reforms need to be underpinned by additional human and material resources as well as increased judicial training.

Some additional legal and organizational measures have been taken to fight against corruption and economic crime, which remain a cause for serious concern. Efforts need to be increased. In particular it is necessary to ensure that the relevant law enforcement institutions receive additional human and technical resources. A recent government report highlights the importance of ensuring full support from political forces in this field.

The Czech Republic continues to respect human rights and freedoms.

An amendment to the Asylum Law, which entered into force in February 2002, tightened the conditions for granting asylum. It also established a second independent appeal instance for rejected asylum applications. The Council for Equal Opportunities started its work in January 2002.

Some additional activities have been undertaken to improve the difficult situation facing the Roma community. However, more structural measures are needed in order to achieve significant results in remedying discrimination in access to education, housing and employment. The adoption of comprehensive anti-discrimination legislation would be an important step forward in this regard.

⁷ See "Towards the Enlarged Union: Strategy Paper and Report of the European Commission on the progress towards accession by each of the candidate countries ", COM (2002) 700.

2. Economic criteria

2.1. Introduction

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

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

In its 2001 Regular Report, the Commission found that:

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

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

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

In the analysis below, the Commission has followed the methodology applied in the Opinion and the previous Regular Reports. The analysis in this year's Regular Report takes stock of the developments since the Opinion was drafted.

2.2. Economic developments

The Czech economy has returned to solid growth rates following a recession in 1997 and 1998. The currency crisis of 1997 revealed macroeconomic imbalances caused by a transition path that had not sufficiently underpinned macroeconomic reforms with microeconomic restructuring. As a result, the external balance became unsustainable and it was necessary to introduce an austerity package which led to output decline and rising unemployment. The economy regained growth in 1999 on the basis of increasing external demand. More recently, domestic demand has become the driving force of growth. However, the disastrous flooding, which hit the country in August 2002, might weigh on the short-term economic performance in the second half of the year. Accelerating growth of fixed investment, not least pushed by strong foreign direct investment (FDI), has upgraded the production capacities of the economy. This has resulted in productivity gains and an increasing competitiveness of Czech goods. The current account deficit has risen as economic activity has gained pace. However, the deficits have been fully covered by the surpluses on the financial account. Wage increases broadly in line with productivity growth have allowed for a rise in private consumption in tandem with low inflation. Monetary policy has successfully pursued its disinflation path keeping the inflation rate on low single digit levels. The strong appreciation of the Czech crown

against the euro since the end of 2001 led the government and the central bank to agree on a bundle of measures to contain further significant appreciation. Overall, the economic policy mix has improved since 1997. However, the fiscal stance of the government has loosened in recent years. In the absence of structural reforms on the expenditure side of public budgets, this could endanger the medium-term sustainability of public finances.

Main Economic Trends								
Czech Republic		1997	1998	1999	2000	2001	Average	2002 latest
Real GDP growth rate	per cent	-0.8	-1.0	0.5	3.3	3.3	1.1	2.5 Q1
Inflation rate	per cent	8.0	9.7	1.8	3.9	4.5	5.6	3.2 July ^b
- annual average								
- December-on-December	per cent	9.4	5.8	2.5	4.0	3.9	5.1	0.2 July
Unemployment rate	per cent	4.3	5.9	8.5	8.8	8.0	7.1	7.7 Q1
- LFS definition								
General government budget balance	per cent of GDP	-2.7	-4.5	-3.2	-3.3	-5.5	-3.8	
Current account balance	per cent of GDP	-6.1	-2.3	-2.8	-5.5	-4.7	-4.3	
	Million ECU/€	-2,835	-1,187	-1,470	-3,082	-2,945 ^c	-2,304	-504 Jan.-March ^c
Gross foreign debt of the whole economy	per cent of exports of goods and services	42.5	45.2	46.8	38.1	:	:	
- debt export ratio								
	Million ECU/€	11,224	13,599 ^a	14,563	14,792	:	:	
Foreign direct investment inflow	per cent of GDP	2.5	6.6	11.6	9.8	8.7	7.8	
- balance of payments data								
	Million ECU/€	1,148	3,303	5,932	5,405	5,489	4,255	725 Jan.-March ^c

Sources: Eurostat. National sources. OECD external Debt Statistics

^a series break as a result of some technical changes to the definition.

^b Moving 12 months average rate of change.

^c Source: Website of the National Bank.

Substantial progress in structural reform has paved the way for a growth-supportive economic environment. Since 1999, the supply side of the economy has considerably strengthened with the help of strong foreign direct investment and accelerating growth

rates in fixed investment. Increasing productivity and higher competitiveness have encouraged the Czech export sector. After a long-winded and costly process, banking privatisation was completed in 2001. This has speeded up the final restructuring of the sector and has improved the conditions for more business oriented financial services. This and an upgrade of regulation and supervision, which brought it closer to international standards, has put the stability of the financial sector as a whole on a firmer footing. Restructuring and privatisation of state-owned enterprises in the corporate sector has progressed and has left over only some large-scale sensitive cases. The banking and corporate sector have largely been freed of bad assets which are now concentrated in the portfolio of the Czech Consolidation Agency, the state's bail-out institution. Efforts to sell off the bad assets to private investors, which had stalled for some time, were recently resumed.

The Czech Republic has made no progress in terms of real income convergence with the EU. In 2001 the average per capita income in purchasing power standards amounted to 57% of the EU average. As regards the income level, there is a marked difference between the capital and the rest of the country. Prague reached 124% of the EU average in 1999 but all the other regions remained well below 75% in 1999. The economic activity rate has been at relatively high levels of around 71-72%. However, over the same period, the employment rate fell significantly from 68.5% to 65% reflecting the rise in unemployment. The unemployment rate was 8% in 2001 with higher rates for young people (16.3%) and women (9.6%) than for men (6.7%). Unemployment has been increasingly concentrated among the less skilled. The rise of long-term joblessness as a share of total unemployment has continued for several years now. In 2001, it rose to 52.9% up from 32.3% in 1997. Prague is hardly affected by unemployment at all while regions undergoing industrial restructuring are burdened with persistently high unemployment.

Main Indicators of Economic Structure in 2001		
Population (average)	Thousand	10,224
GDP per head ^a	PPS	13,300
	per cent of EU average	57
Share of agriculture ^b in:		
- gross value added	per cent	4.2
- employment	per cent	4.6
Gross fixed capital formation/GDP	per cent	28.3
Gross foreign debt of the whole economy/GDP ^c	per cent	26.5
Exports of goods & services/GDP	per cent	71.3
Stock of foreign direct investment	Million €	23,352 ^c
	€ per head ^a	2,284
Long term unemployment rate	per cent of labour force	4.2

^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 2000.

2.3. Assessment in terms of the Copenhagen criteria

The existence of a functioning market economy

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

The governments since 1997 have been able to maintain a general consensus about economic policy priorities in the framework of EU accession. However, there have been different views on the speed and sequencing of the economic reform path. These different views have at no point put into question the overall commitment to EU accession. Policy co-ordination between the government and the Czech National Bank (CNB) has broadly worked well and the independence of the CNB has finally been enshrined with the amendment of the Act on the CNB in 2002. The Czech Republic has participated in the Pre-accession Fiscal Surveillance. At the end of August 2002, it submitted its latest Pre-Accession Economic Programme, which was adopted by the government on 28 August 2002.

Average growth of 1.1% over the period has been composed by two years of contraction in 1997 and 1998 and a subsequent recovery. Macroeconomic stability has been regained. Prior to the recovery, the economy had to go through its first post-transition crisis which was provoked by macroeconomic imbalances coupled with substantial shortcomings on the microeconomic reform agenda. The implementation of an austerity package consisting of tight fiscal and monetary policies led to an output decline in 1997 and 1998, but adjusted economic fundamentals subsequently improved the conditions for growth. Since 1999, the economy has been recovering again with average growth of 2.4% since then. First, the economic pick up was driven by external demand and – to a lesser extent - by private consumption while fixed investment was still declining. With growth prospects improving on the back of an increasingly stable macroeconomic environment and attractive investment incentives, fixed investment has since been boosted. This has been supported by very high foreign direct investment. Domestic demand has become the driving force of economic growth, a development which has cushioned the impact of the 2001 economic slowdown in the EU. In 2001, GDP increased at the same growth rate of 3.3% as in the previous year, though with a clear deceleration over the course of the year. Fixed investment grew by a substantial 7.2% and household consumption by 3.9%. External trade contributed negatively to growth as imports grew faster than exports. The performance in the first quarter in 2002 has extended the slowdown of GDP growth. The growth rate reached 2.5% year-on-year with household consumption increasing by 4.1% and fixed investment 8.1%. It is worth noting, that the growth in fixed investment was strongly pushed up by sizeable investment expenditures by the Czech army. Exports and imports both grew at the same rate of 3.1%.

In August 2002, the Czech Republic was seriously hit by devastating floods. Preliminarily, the damage has been estimated to amount up to CZK 100 billion (€ 3.3 billion). While most of the damage has to be covered by private households and insurance companies, public finances will also be affected by necessary contributions to

flood relief. The overall economic impact of the flood cannot yet be assessed but it is likely to slow down economic growth in 2002.

The current account deficit averaged 4.1% of GDP between 1997 and 2001. Since 1998, the deficits have been financed by high inflows of foreign direct investment. In 1996/1997, the economy was confronted with unsustainable current account deficits due to soaring deficits in foreign trade. The implementation of the austerity measures in 1997 led to a temporary sharp deceleration of imports. With the economy recovering since 1999, the trade and current account deficits have widened again. However, the trade deficits have been dominated by investment good imports and there is no indication so far that consumer goods imports are getting out of hand. In 2001, the trade balance recorded a deficit of 5.5% of GDP and the current account deficit ended up at 4.7% of GDP. The deficit was easily financed by a financial account surplus. In the first quarter of 2002, the trade balance posted an estimated deficit of 4.6% of GDP and the current account deficit reached 4.2% of GDP.

Unemployment remains high due to restructuring and structural mismatches on the labour market. The unemployment rate (labour force survey data) has more than doubled, from 4.3% in 1997 to 8.8% in 2000. Its decrease to 8% in 2001 appears to be in particular the result of an amendment to the Labour Code limiting overtime work. The unemployment rate reflects the impact of the 1997 crisis and subsequent economic restructuring which only started at a late stage in the transition process. Employment fell in each year between 1997 and 2000, amounting to a cumulative loss of employment of nearly 5% during that period. Only in 2001 was a small rise in employment of 0.3% registered. Though the adjustment process has been accompanied by accelerating investment and new employment opportunities, these have not been able to compensate for the job losses. The composition of unemployment reveals the structural shortcomings in the labour markets. Workers in sectors undergoing restructuring find it difficult to move to other sectors or regions with a higher growth potential since flexibility and mobility are hampered by deficiencies in re-qualification and the scarcity of affordable housing in more prosperous regions. In certain circumstances, the social benefit system may work as an disincentive to take up work. Hence, while some regions and sectors suffer from high and even increasing unemployment, others are reporting the first signs of shortages in the skilled labour force.

Inflation has remained at relatively low levels. After peaking at 9.7% in 1998, the inflation rate dropped to a very low 1.8% in the following year. However, since the beginning of the economic pick-up, as price deregulation measures have also been taken up again and pushed by the increase in international commodity prices, the inflation rate edged up to 3.9% in 2000 and 4.5% in 2001. Throughout the first half of 2002, inflationary pressures were subdued. Slackening economic activity, low international commodity prices but also the strong Czech crown have contributed to this development. In the first half of 2002, consumer price inflation was 3% higher than in the corresponding period of the previous year.

The current monetary and exchange rate policy framework of direct inflation targeting and a managed exchange rate float have served the economy well. Inflation targeting was introduced in 1998, with net inflation serving as the reference until 2001. In the first years, the inflation targets of the CNB were undershot. With its "Setting of the Inflation Target for the Period 2002 to 2005", the CNB has embarked upon headline inflation targeting which helps ensure that the public accepts the targets. The inflation target is set as a band which should fall continuously from 3% to 5% in January 2002 to 2% to 4% in

December 2005. In the event of unexpected moves in regulated prices, the CNB has the option of applying escape clauses in order to meet its targets. Since its sharp depreciation in 1997, the Czech crown has shown an appreciating trend against the euro. This upward movement has accelerated strongly since the end of 2001 when conjectures on high foreign capital inflows due to planned privatisations, the run up to EU accession and market perceptions of possible dates of the adoption of the euro, fuelled market expectations. In the first half of 2002, the Czech crown appreciated nominally by 9.2% against the euro. In the light of the strong upward move of the exchange rate, the government and the CNB agreed in mid January 2002 on a joint strategy to prevent a further strengthening of the Czech crown. Essentially, the strategy aims at withholding foreign currency denominated public revenues, in particular privatisation receipts, from the market. Additionally, the CNB has attempted to contain the appreciation by a mix of interest rate cuts, market interventions and public declarations. However, the CNB has made clear that its policy interventions do not aim at reversing the general trend of appreciation of the Czech crown but at preventing excessively strong fluctuations and an exchange rate which is not anchored in real sector developments. Overall, monetary policy has been accommodating since 1998. Policy rates have been cut back several times, recently reaching 3% for the main interest rate, the two-week repo rate. The real short-term interest rate⁸ has equally significantly been falling from around 11% in 1997 to 0.5% in 2001. Monetary conditions reflect the low inflationary environment and the strong exchange rate of the Czech currency.

Reluctance to undertake comprehensive expenditure reforms has led to a deterioration in public finances. The previous government pursued only modest fiscal consolidation, but the fiscal programme of the newly-elected government is not very ambitious in this respect, either. On the basis of harmonised EU standards (ESA 95), the general government deficit has averaged 3.8% of GDP from 1997 to 2001. In 2001, the deficit reached 5.5% of GDP and it is anticipated that it will surge to 6.6% of GDP in 2002. Public budgets have to swallow the costs resulting from the delayed implementation of structural reforms, in particular the clean-up of the banking sector and the restructuring of the corporate sector. The previous government's efforts to reform the pension system have been insufficient: it has only modified relatively generous early retirement schemes and strengthened the relationship between contributions and benefits. Mandatory and quasi-mandatory expenditures of the state budget have increased by roughly 10 percentage points of GDP since 1995 and account for about 80% of state budget spending. This has translated into pro-cyclical budgets in 2001 and 2002. The fact that public budgets suffer from a large share of mandatory and quasi-mandatory expenditures which leaves only tight room for fiscal manoeuvring proves particularly unfortunate in view of the necessary spending on flood relief. The government has announced that it does not intend to increase the planned state budget deficit in 2003 to shoulder the additional financial burden but rather that it will give priority to tax increases and to discretionary expenditure cut backs. However, the urgency of a comprehensive reform concept with clear priorities in the area of mandatory expenditures should not be affected by the impact of the floods. Without tackling this problem medium-term fiscal consolidation is unlikely to be reached.

General government debt has been moderate but this does not completely reflect government's financial exposure. General government debt reached 23.6% of GDP at the end of 2001, up from 13.7% in 1998. Past and current levels of government debt do not

8 Day-to-day money market rate, corrected for by consumer price inflation (HICP)

fully reflect the actual picture of indebtedness as they include only part of the debt of the transformation institutions and guarantees of the government and the National Property Fund. The government has started to gradually internalise these respective liabilities in the general government debt. That adds substantially to the statistically reported stock of government debt over time.

Good progress has been made towards greater fiscal transparency and better fiscal management. The government has taken measures to improve the transparency and management of public finances, such as introducing new budgetary rules in 2001 and the integration of the Czech Consolidation Agency into general government as of September 2001. However, the government has also created new extra-budgetary funds, which have increased the complexity of public budgets. This development complicates the process of monitoring and controlling public spending. Also, the introduction of an additional layer of government in the context of decentralisation, the regional governments, represents a specific challenge to fiscal management. The changes that arise from this reform, such as transfers of properties and financial resources in line with responsibilities, require a number of transitory arrangements which make it more difficult to analyse and to monitor the fiscal developments in 2002.

The macroeconomic policy mix has been broadly adequate. With the implementation of the stabilisation measures in 1997, fiscal and monetary policies became tight and thus managed to successfully re-establish conditions for macroeconomic stability. Since then, monetary policy has followed an accommodating course focused on securing the inflation targets while also supporting economic growth. Fiscal policy has become increasingly expansionary. Therefore monetary policy has undertaken stronger efforts to secure macroeconomic stability. However, the strategy of the government and the CNB to keep the exchange rate at an appropriate level has underpinned the commitment of both policymakers to co-operate for the sake of preserving stability and growth. Overall, the continuous high inflows of foreign capital - of which by far the majority is medium to long-term capital – suggest that markets consider the macroeconomic conditions to be stable in the Czech Republic.

The majority of prices for goods and services and the trade and foreign exchange regimes have been liberalised in the first half of the 1990s. The deregulation of energy prices and rents is progressing well. Alignment of electricity prices for private households with cost recovery levels has been achieved. As regards the gas market, the process is near completion. .. The rent deregulation scheme provides for regular annual adjustments. The size of the adjustment depends on the evolution of the construction price index, and thus does not primarily take into account market rents. The persistence of a rent regime which does not sufficiently allow for direct market-based alignments continues to hamper labour market flexibility and acts as a strong disincentive for potential investors in housing.

The private sector is firmly established and accounts for the overwhelming part of the Czech economy. Private ownership has become the dominant form of ownership. In 2001, 79.8% of GDP was produced in private companies, in contrast to 74.7% of GDP in 1997. The land market has been liberalised and land registers, broadly speaking, work properly. The supply of industrial and commercial land has continued to exceed demand, although the market in economically booming regions like Prague is tighter. Overall, the state still owns a significant share of land.

The privatisation process is close to completion but some strategic enterprises in the corporate sector still await a change of ownership. The state, through the National Property Fund (NPF), has completed roughly 97% of the privatisation projects which were envisaged in 1991. Privatisations since the last regular report include the chemical holding Unipetrol which was sold to a domestic investor, the monopoly gas importer Transgas including the stakes in gas distribution companies, the steel producer Nova Hut and the telecoms operator Cesky Telecom. While some 230 companies remain to be privatised only a few of these can be considered financially and economically significant.

Market entry and exit mechanisms are working but need to be improved in order to make the economy more efficient. The business registration process and registration of modifications have remained unnecessarily lengthy procedures. The introduction of a 15-day limit within which the court must start processing an application, which entered into to force with the amendment of the Civil Proceedings Code on 1 January 2001, has not had so far a significant impact. In the absence of a comprehensive approach to facilitate the whole registration process, procedures continue to be marred by unequal treatment and lack of transparency. In 2001, the number of newly created companies in the SME sector amounted to about 9,000 while the total number of SMEs reached some 770,000. Financing conditions for domestic start-ups have continued to be tight since banks apply tough business plan assessments and strict credit rules. The banks' cautious lending practices are a consequence of the unsatisfactory bankruptcy legislation which has not been changed since May 2000. Intensified training measures for judges and trustees aiming to make the implementation of bankruptcy procedures more effective have in no way been able to compensate the legislative deficiencies, though they have upgraded the skills of the staff involved. Overall, the use of composition as an effective means of resolving insolvency cases has remained very limited and creditor rights have remained weak.

Property rights are established and transferable. The investment climate has improved substantially over the past years, not least because of a comprehensive strategy to attract foreign direct investment. However, there are still some impediments to economic activity, such as those mentioned in the paragraph above. Small, and in particular domestic, enterprises are more affected by these problems while foreign-controlled companies are more able to bridge or circumvent these difficulties. The occurrence of economic crime has been a difficult challenge for the authorities to deal with even if progress has been achieved in fighting this phenomenon.

Privatisation and consolidation have laid the foundations for a solid financial sector which is able to fulfil its intermediation role. The financial sector as a whole is characterised by a relatively strong banking sector which has emerged from a long-winded and costly restructuring and privatisation process. Banking privatisation was completed in 2001. At the end of March 2002, the banking sector comprised 38 banks of which 26 had majority foreign ownership. About 95% of total banking assets are controlled by foreign-controlled banks. The market as a whole is fairly concentrated. In 2001, the three largest banking groups accounted for around 60% of total banking assets. While in general foreign ownership has been crucial in enhancing corporate governance and pushing forward business reorientation in the banking sector, this did not work well in the case of the Investicni a Postovni Banka (IPB) which was put under forced administration in June 2000 and subsequently sold to a big commercial bank in the Czech Republic. The non-performing assets of IPB are being transferred to the Czech

Consolidation Agency and the final bail-out of IPB is likely to amount to some 4% of GDP.

The overall health of the banking sector has improved substantially over time. In the course of restructuring, large parts of the non-performing loan portfolios of the banks were shifted to the state's bail-out institution. The clean-up of the bank portfolios has resulted in a decline in total assets to GDP (116% at the end of 2001 compared to 132% at the end of 1997) but has strengthened the overall health of the sector. At the end of March 2002, classified credits amounted to 19.6% of total credits, compared to 27% at the end of 1997 and 32.2% at the end of 1999⁹. In March 2002, net profits to average assets increased to 1.46% up from losses of -0.18% in 1997, and the capital adequacy ratio stood, at the end of March 2002, at 14.9% compared to 9.7%. Despite an increase in deposits from 63.3% of GDP in 1997 to 70.2% in 2001, the volume of outstanding credits to the private sector has decreased from 58.5% of GDP at the end of 1998 to 47.5% at the end of 2001. The ratio for credits to the corporate sector fell while the credit-to-GDP ratio for households was on the rise. The decline in business lending can partly be explained by the transfer of bad assets from the banking sector to the state's bail out institution, but it is also due to the introduction of stricter risk assessments which has put an end to the way banks conducted their lending activities in the past, which was not always fully based on thorough commercial considerations.

The non-bank financial sector is still relatively small but stands ready to play a bigger role in intermediation. Market capitalisation of the equity market plunged from roughly 29.5% of GDP in 1997 to a mere 15.7% of GDP in 2001. This drastic decrease must be assessed partially as the result of an adjustment process of voucher privatisation related inflation of investment funds on the market. However, the equity market is characterised by low liquidity reflecting both demand and supply shortcomings. The bond market has developed better and comprises a sizeable volume of corporate bonds and government bonds. Capitalisation of this market amounted to 14.9% of GDP in 2001, up from 10.4% of GDP in 1997. In particular insurance companies and – after a far-reaching consolidation process - pension funds seem to be well placed for expansion.

The completion of privatisation and enhanced supervision have helped the stability of the financial sector. Further efforts to strengthen supervision in the non-banking sector, however, remains essential. Supervision of the financial sector is carried out by three bodies, the CNB, the Ministry of Finance and the Czech Securities Commission. They co-ordinate their supervisory work on the basis of a trilateral agreement. The aim of the supervisory bodies is to jointly develop a system of consolidated supervision, but, as yet no consensus has been achieved in this area. Supervision of the insurance sector, which is the responsibility of the Ministry of Finance continues to require special attention because of the long-acknowledged capacity problems.

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

The ability to fulfil this criterion depends on the existence of a market economy and a stable macroeconomic framework, allowing economic agents to make decisions in a

9 These data have to be looked at with caution since they do not only reflect the cleaning up of the credit portfolio but also the declassification of the Czech Consolidation Agency from the banking sector. The Agency has replaced the former Czech Consolidation Bank as per 1.9.2001.

climate of predictability. It also requires a sufficient amount of human and physical capital, including infrastructure. State enterprises need to be restructured and all enterprises need to invest to improve their efficiency. Furthermore, the more access enterprises have to outside finance and the more successful they are at restructuring and innovating, the greater will be their capacity to adapt. Overall, an economy will be better able to take on the obligations of membership the higher the degree of economic integration it achieves with the Union before accession. Both the volume and the range of products traded with EU Member States provide evidence of this.

Macroeconomic stability has been sustained over the last three years but the fiscal imbalance could put it at risk. Macroeconomic policy has been conducted with a sufficient degree of predictability to allow proper decision-making by economic agents. Market mechanisms work sufficiently well and allow an efficient allocation of resources. A successful economic policy-mix and macroeconomic stability have created a stable environment for economic activity.

The well-skilled labour force has been an asset for coping with economic restructuring and making the Czech economy more competitive. The high quality of professional education and the short time required to obtain qualifications together with relatively low wage costs have been an advantage in competition for foreign investments. While the majority of the labour force have completed secondary education (about 66%), the percentage of people with tertiary education has remained at a level of about 12%. Considering the trend towards increasingly advanced production technologies, a more sophisticated services sector and deeper integration into the world economy, education must be able and willing to meet higher demands. The education system faces the challenge of expanding tertiary education and providing the workforce with tools to adapt to life-long learning in order to continuously meet changing labour market requirements.

Employment policy is focused on fighting unemployment and on fostering flexibility. Progress in this policy area has been rather limited, though there seems to be a policy consensus on the most pressing deficiencies on the labour market: increasing regional disparities in unemployment, rising unemployment levels within what are considered high-risk groups and a declining employment rate in the older age groups. Labour force mobility will remain limited as long as adequate housing cannot be provided due to the highly regulated rent market. Active employment policy measures need to be focused on target groups with a clear linkage to market requirements.

High levels of gross fixed capital formation have significantly improved the supply side of the economy. Over the last five years, fixed investment has averaged 28.8% of GDP. Private investment has reached 23.8% of GDP on average, thus leaving about 5% for public investment which compares favourably to the EU average. This strong investment performance has helped to replace the old capital stock and has upgraded production capacities. As a result productivity increases of about 3.2% on average over the last three years have pushed up output growth and improved competitiveness. Physical infrastructure as a prerequisite for smooth economic development has got closer to international standards. The road and railway network is well-developed and offers adequate transport possibilities, even if additional investment is needed to develop Trans-European Networks. Existing bottlenecks have been targeted by investment programmes.

The Czech economy has emerged as an attractive market for foreign investment. From 1997 to 2001, inflows of foreign direct investment (FDI) reached an average of 7.8 % of GDP, peaking at 11.6 % in 1999 and then decreasing to 8.7 % in 2001. In the first quarter

of 2002, FDI reached €3.1 billion. FDI inflows originated mainly from the EU and other OECD countries and were concentrated in the machinery and equipment sector and in the financial services sector. Privatisation-related FDI has accounted for a large share of total FDI, but greenfield and brownfield investment has gained increasing importance. This development has been supported by offering attractive incentive packages to foreign investors. The Czech Investment Incentive Act provides a large number of investment incentives that can be combined. The Office for the Protection of Economic Competition ensures the compliance of the investment grants with the acquis.

Corporate restructuring has proceeded but a number of important enterprises have to catch up on this. Overall, restructuring of export-oriented firms in foreign ownership has been much deeper and faster than that of domestic firms. Since companies under foreign control generally benefit from more favourable financing conditions and work under better corporate governance, they tend to be more competitive on the markets. This has strengthened the financial performance of the corporate sector as a whole. However, a number of domestically owned enterprises have remained highly indebted and loss-making. In particular, some steel companies have yet to go through thorough restructuring processes before they can become competitive market players. The restructuring of major players in the gas market and the attempt to restructure electricity utilities is the result of considerable efforts by the Czech government to prepare the gas and electricity sectors for the internal energy market. The Czech Consolidation Agency has been successful in preparing two large enterprises for privatisation so far (Tatra Kopřivnice and Zetor Brno) and is trying to achieve the same for other strategic companies. Remaining restructuring cases could benefit from a revival of sales of non-performing assets by the Czech Consolidation Agency.

The sectoral structure of the economy, which is characterised by a relatively large manufacturing sector, has altered only marginally. The share of the manufacturing sector in the economy has altered with the economic cycle. Its decline, both in terms of gross value added and of employment, came to a halt in 1999, and it has been rising again since then. In 2001, industry (without construction) produced 34% of gross value added, the same share as in 1997. The development of the services sector in terms of GDP shows just the reverse trend, though its share in total employment has been on the rise over the whole period. In particular, financial intermediation and the tourist sector posted gains. The gross value added of construction fell from 8% in 1997 to 7% in 2001 with a smaller drop in the share of total employment. The agricultural sector has never posed a severe challenge in terms of structural adjustment because of its small size; it decreased from a mere 4.4 % of gross value added in 1997 to 3.9 % in 2001.

The importance of small and medium-sized enterprises (SMEs) has been growing, but it has not been possible to exploit the full potential of the SME sector for economic growth. In 2001, SMEs produced 42% of GDP and employed about 60% of the workforce. As regards external trade, the SME sector has constantly increased its share in total exports. Expansion of the SME sector is one of the economic policy priorities. There has been a growing awareness that not only limited access to outside financing and to business advice but also skills gaps and lengthy administrative procedures are severely hampering the economic potential of this sector. The government has set up a series of support programmes aiming to reduce these shortcomings, though tackling the administrative burden on SMEs and start-ups could in itself significantly improve the situation. As regards access to financing, the introduction of a central register of credits should help overcome the reluctance of banks to lend money. Of particular importance is the absence

of mechanisms addressing the setting-up of venture capital funds, seed capital schemes, equity, etc. Such forms of financing are particularly necessary to build up new technology-based SMEs.

Government policies have continued to interfere in the markets though to a decreasing extent. The biggest source of market distortion remains the presence of state aid in state-owned enterprises. Large state aid has been awarded to the steel sector and the banking sector. Hidden subsidies to the corporate sector take the form of tax and social security arrears. There is also a broad range of state support to the corporate sector comprising investment grants, tax holidays and employment and qualification measures. One set of these investment incentives is targeted in particular at large foreign investors in order to attract foreign capital and know-how and another one aims first of all at SMEs.

The Czech economy is very open and trade integration with the EU has reached high levels. While in 1997 exports and imports of goods and services amounted to 119% of GDP, this ratio rose to more than 145% in 2001. Exports to the EU also showed a clear upward trend, from roughly 60% of total exports in 1997 to about 69% in 2001. Imports from the EU as a percentage share of the total, by contrast, have hovered around the five-year average of 62%. In general, trade with developed market economies has intensified, but trade relations with other transition economies have been extended as well. External trade is concentrated to a very high degree on technology and capital-intensive manufactured goods, with an emphasis, on the export side, on road vehicles and electrical machinery.

The economy as a whole has achieved a satisfactory level of competitiveness. Unit labour costs have declined except for the year 1999. Continuously high inflows of FDI and gains in labour productivity over the last five years have enhanced the external competitiveness of the Czech economy. It has been possible to maintain this competitiveness despite the significant appreciation of the Czech crown against the currencies of its main trading partners. Only during 1997 did the Czech crown depreciate in real terms. Thereafter it resumed its appreciating trend. Between the beginning of 1997 and April 2002 its real effective appreciation, in terms of producer prices, vis-à-vis its partner countries amounted to a total of 16%, or an annual average rise of nearly 3%. However, during the first half of 2002, the appreciation was very steep, but it is not yet possible to judge to what extent this development has harmed the overall competitiveness of the external sector.

2.4. General evaluation¹⁰

The 1997 Opinion already acknowledged the substantial reform efforts undertaken by the Czech authorities to transform their economy. Since the Opinion, and against a challenging international economic environment, economic performance has improved. Macroeconomic stability has been achieved, reforms have deepened while the Czech authorities' commitment to the economic requirements of EU accession has been sustained.

10 See "Towards the Enlarged Union: Strategy Paper and Report of the European Commission on the progress towards accession by each of the candidate countries", COM (2002) 700.

Hence, it is 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 to private investors would free the economy of misallocated resources.

3. Ability to assume the obligations of membership

Introduction

This section addresses the question of the Czech Republic's ability to assume the obligations of membership – that is, the legal and institutional framework, known as the *acquis*¹¹, by means of which the Union implements its objectives. Alongside an evaluation of relevant developments since the 2001 Regular Report, this section seeks to provide an overall assessment of the Czech Republic's ability to assume the obligations of membership, and of what remains to be done. Furthermore, it includes an evaluation of the Czech Republic's track record since the 1997 Opinion. It also provides, for each of the negotiating chapters, a summary evaluation of the extent to which commitments made in the negotiations have been implemented, as well as an overview of transitional arrangements that have been granted.

This section is structured in accordance with the list of 29 negotiating chapters, and incorporates an assessment of the Czech Republic's administrative capacity to implement the *acquis* in its various aspects. The Czech Republic's progress in translating the *acquis* into its official language is assessed in a separate section.

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

In June 2002, the Seville European Council repeated how important it was that candidate countries should continue to make progress with the implementation and effective application of the *acquis*, and added that candidate countries must take all necessary measures to bring their administrative and judicial capacity up to the required level. Building on the assessment of the Czech Republic's administrative capacity provided in the 2001 Regular Report, the present Report seeks to add further depth and detail, focusing on the main administrative structures required for implementing the various aspects of the *acquis*.

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

"If the Czech Republic continues its efforts on transposition of the acquis relating to the single market and intensifies work on its implementation, the Czech Republic should become capable in the medium term of applying it fully. The import deposit scheme will need to be resolved within the terms of the Europe Agreement. Particular effort, including investment, will be needed to meet the acquis in sectors such as agriculture, environment and energy. Further administrative reform will be indispensable if the Czech republic is to have the structures to apply and enforce the acquis fully."

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

In the 2001 Regular Report, the Commission found that :

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

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

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

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

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

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

In the area of economic and social cohesion, progress on legal transposition has continued. As regards social policy and employment, alignment has progressed on equal treatment, labour law and health and safety at work. On regional policy, the legal framework for the future implementation of the structural funds has been further completed. However, additional efforts are needed to ensure that the administrative

bodies responsible are fully functional, trained and well co-ordinated in order to be ready for implementation of the structural funds upon accession.

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

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

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

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

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

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

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

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

3.1. 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 negotiating chapters. Accordingly, this section opens with an assessment of progress relating to the cornerstones of the internal market which are known as the "four freedoms", and continues with a systematic review of progress on 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

Progress since the last Regular Report

The positive assessment of previous Regular Reports, noting continued good progress, can be repeated this year.

Framework legislation in the area of **horizontal and procedural measures** is in place. A May 2002 amendment to the Act on Technical Requirements for products, elements of which enter into force on accession, refines the obligations of producers and importers and provides for the abolition of the dual system of declaration of conformity according to the origin of products.

A Government Resolution of March 2002 provides the basis for the necessary infrastructure in the area of notification. A Government order laying down the procedure for provision of information in the field of technical regulations in line with the *acquis* was adopted in July 2002.

Sector specific legislation has been largely transposed. In the past year, new or amended Government Orders have transposed the *New and Global Approach acquis* on technical requirements for products in terms of noise emissions (November 2001), on cable-way installations, on explosives for civil use (January 2002), on technical requirements for CE marking of construction products (April 2002), on technical requirements for non-automatic weighing instruments, and on recreational craft. Under those areas covered by the *Old Approach Directives*, implementing Decrees have been adopted in the areas of metrology and motor vehicles. The existing Act on Metrology was also amended. In the field of pharmaceuticals for human use, the *acquis* on advertising has been transposed.

The Czech Trade Inspectorate recruited 24 new officials during 2001-2002. During 2002 it will receive additional funding for the reinforcement of inspection work. The Czech Republic prepared an analysis of the market surveillance system for various sectors at the end of 2001 with a view to carrying out improvements.

A new Act on State Agricultural and Food Inspection was adopted in April 2002, further transposing the *acquis* on market surveillance of foodstuffs (*see also Chapter 7 - Agriculture*). It takes effect from January 2003 and aims to improve domestic co-ordination and harmonisation with international agreements. In December 2001 a 'Strategy for Ensuring Food Safety in the Czech Republic' was adopted as the basis for implementing a 'from farm to fork' approach. The newly established Separate Food Safety Unit of the Ministry of Agriculture and the Food Safety Coordination Group will

be responsible for implementation, with a report on overall food control system and implementation due by the end of 2002. A March 2002 amendment to the Act on Advertising Regulation transposed the *acquis* on the labelling, presentation and advertising of foodstuffs.

There has been continued steady progress with training for Czech participation in the RAPEX information system on dangerous products.

A new Act on Weapons and Ammunition was adopted in March 2002 covering the acquisition and possession of weapons, the placing of weapons and ammunition on the market and the supervision of explosives for civil use. The adoption of implementing legislation began with a June 2002 government order. A May 2002 Act on the Export of Cultural Goods Outside the External Borders of the EU aims to ensure uniform external border controls after accession.

As regards alignment with the **non-harmonised area**, the Czech Republic is refining a list of measures which potentially could be in conflict with Articles 28 – 30 of the EC Treaty. Any such measures will have to be justified in line with the Communities' established practice. A June 2002 Resolution makes provision for administrative structures overseeing the free movement of goods between Member States under these Articles. The Resolution also provides for the introduction of mutual recognition clauses in new and amended technical legislation.

In the area of **public procurement**, a May 2002 amendment strictly limits the use of emergency 'fast track' procedures and should significantly contribute to the transparency and predictability of decisions in this field.

Overall assessment

Horizontal legislation functions satisfactorily, central laws in this respect being the Amended Act on Technical Requirements for Products, the Act on Public Health Protection and the Act on General Product Safety. The latter requires further amendment to align with new *acquis*. Following the amendment to the Act on Technical Requirements for Products, the Government Orders implementing the Act should be amended as appropriate. Almost all transposition of the New and Global Approach Directives has been concluded.

A number of institutions are responsible for implementation of horizontal and sector-specific legislation. Standardisation and the conformity assessment system are administered satisfactorily by the Czech Office for Standards, Metrology and Testing (COSMT) and the Czech Standard Institute (CSNI). The COSMT also covers legislation in the field of industrial goods, and the exchange of information and notification about technical requirements. For the latter, new structures and procedures need to be established. The COSMT performs its duties independently of the MIT (to which it is formally subordinated) and co-operates with the Office for Public Information Systems. The competence of the staff and the level of equipment is good.

The Czech Republic now implements 99% of all harmonised European standards. The Czech Standards Institute (CSNI) is independent and a member of the European standardisation Committees CEN and CENELEC and of the European Telecommunications Standards Institute (ETSI). It is also a member of the International Organisation for Standardisation (ISO) and the International Electrotechnical

Commission (IEC). The Czech Accreditation Institute (CAI) is an independent company, although the Ministry of Industry and Trade has a role in appointing board members. It ensures accreditation of laboratories and certification bodies. The CAI is a full member of the European Co-operation for Accreditation (EA) and the international accreditation organisations ILAC and IAF. It is a signatory to MLA IAF (for the accreditation of certification bodies certifying Quality Systems) and to the ILAC mutual recognition agreement on results in the field of testing and calibration.

The Czech Trade Inspectorate (CTI) is the main supervisory body for the protection of consumer economic interests and performs market surveillance of industrial products. Its performance is generally satisfactory. The CTI has a central unit and 14 regional inspectorates, employing more than 500 staff, about 440 of whom are inspectors. The increased demand for surveillance stemming from recently amended legislation will require further increases in capacity and effectiveness.

Market surveillance for certain specific sectors (e.g. foodstuffs, medicinal products, cosmetics) is performed by a range of other bodies. The quality is generally good although improvements could still be made. Areas for priority action are cosmetics and pharmaceuticals. The National Health Institute contains the notification body for chemicals, which uses the institute's equipment. The body currently employs 5 people. At present only one laboratory satisfies the Good Laboratory Practice requirements for the testing of chemical substances notified in the Czech Republic.

The Czech Republic should complete alignment in the pharmaceuticals sector and ensure alignment with the *acquis* in the field of chemicals. Transposition of the *acquis* on rough wood has been delayed. In the area of motor vehicles, further progress is required to transpose EC technical regulations.

Despite the generally advanced level of transposition and implementation in the area of foodstuffs, some further adjustment of Czech legislation (for example the Food Act and related legislation) is necessary and the pre-market approval system retained for a small number of special foods needs to be abolished. The institutions for implementation are in place, primarily divided between the Ministries of Health and Agriculture. The State Veterinary Administration is the main supervisory body for animal-origin foodstuffs and its structures for control and inspection generally function well, domestically and at the border. The Czech Agricultural and Food Inspection (CAFI) supervises the safety and quality of food and its laboratories are accredited according to international standards. Public Health laboratories are gradually being accredited according to EC standards. Preparations in the field of novel food (including genetically modified food) and on rapid alert seem to be on schedule. A contact point needs to be designated for the Rapid Alert System and responsibilities should be clearly defined with clear criteria distinguishing emergency cases from less-hazardous products for cases of withdrawal of products from the market. The list of approved novel and genetically modified food should be brought in line with the *acquis*. Co-ordination between all institutions in charge of control needs to be ensured.

In the area of firearms, the adoption of implementing legislation to the new Act on Weapons and Ammunition should continue. There is also a need to fully align legislation concerning the return of unlawfully removed cultural goods.

Concerning the free movement of goods in the non-harmonised areas, any measures determined to be unacceptable within the scope of Articles 28-30 of the EC Treaty will

have to be removed and all potentially conflicting measures that are to be kept will need careful justification. The necessary legislative and administrative steps need to be taken to ensure effective transposition and implementation of mutual recognition clauses. Additional legislative and administrative progress will be needed to ensure the interchange of data between administrations.

Further progress is required in the area of public procurement. According to a Czech government report, since 1998 public tenders have been organised for only 1,483 orders out of 6,853. Furthermore, current Czech legislation is not based on the same principles as the *acquis*, drawing instead on a United Nations model. Whilst the May 2002 amendment to the Public Procurement Act should bring more transparency, legislative shortcomings remain, including the scope of the law, time limits, the public remedies system, procurement under thresholds and the non-elimination of a national preference clause. A new, fully compliant Act is still required as a top priority. Appropriate administrative adjustment and strengthening will then also be needed. The creation of a registry of state contracts has been announced. It is aimed at increasing transparency of public procurement. The registry is to be under the Regional Development Minister.

The Ministry for Regional Development has overall responsibility for public procurement, in particular as regards public investment. The lack of qualified staff working on this area in the Ministry should be addressed. The Office for Protection of Economic Competition ensures compliance with public procurement legislation. It currently has 26 staff carrying out surveillance of public procurement and the level of administrative capacity is good.

Conclusion

In its 1997 Opinion, the Commission concluded that the Czech Republic had progressed very well in the taking on of the *acquis* related to the free movement of goods. However, there needed to be certainty that products conforming to EC standards were allowed onto the Czech market. Developments concerning the safety of industrial products needed to be monitored, both concerning legislation and implementing structures. Provided current efforts were maintained, free circulation of goods should be made possible in the medium term. Also, further work was needed to align with public procurement legislation. Furthermore the Czech Republic should make certain that any national measures were proportional and did not hinder trade.

Since the Opinion, the Czech Republic has continued to perform well in the vast majority of matters related to the free movement of goods. The Czech Republic has overall achieved a high degree of transposition with the *acquis* on free movement of goods. Administrative capacity is generally good.

Negotiations on this chapter have been provisionally closed. The Czech Republic has not requested any transitional arrangements in this area. The Czech Republic is meeting the majority of the commitments it has made in the accession negotiations in this field. However, delays have occurred on alignment with the *acquis* on public procurement. This needs to be urgently addressed.

In order to complete preparations for membership the Czech Republic's efforts now need to focus on legislative progress on public procurement, completing the structures for

implementation and ensuring that any national measures are proportional and do not hinder market access.

Chapter 2: Free movement of persons

Progress since the last Regular Report

Further progress has been made since the previous Regular Report although a number of legislative steps and elements of administrative preparation remain outstanding.

In the area of **mutual recognition of professional qualifications**, there have been few significant developments. An amendment to the Act on Advocacy was adopted in June 2002 to ensure that from accession conditions for EU advocates will be the same as those for Czech citizens. A list of all regulated professions has been largely completed – this is necessary for recognition under the general system.

In the area of **citizens' rights**, the Act on Municipal Elections was adopted in December 2001, providing for EU citizens' rights on matters such as voting and standing as candidates in municipal elections. An amendment to the Act on Residence of Aliens, which aims to complete alignment with the *acquis* regarding the treatment of both EU and non-EU nationals, was adopted in May 2002 and will enter into force on the date of accession.

As regards the **free movement of workers**, an April 2002 amendment to the Employment Act should ensure transposition of the relevant *acquis* concerning the employment of EU citizens. Certain provisions, including the equality of EU workers, will enter into force on accession. The amendment also provides a legal basis for the operation of the European Employment Services EURES in the Czech Republic, practical preparations for which are ongoing at the Employment Services Administration. An amendment to the Nuclear Act was made in December 2001 allowing EU citizens equal access to employment opportunities in that sector. As regards the public sector, compliance with the *acquis* on the employment of EU citizens in the public sector is to be achieved via the Employment Act in combination with the 2002 Civil Service Act. Many provisions of the latter enter into force in January 2004.

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

Overall assessment

Further legislative progress must be made in the area of mutual recognition of qualifications with the adoption of several measures transposing the sectoral directives, notably the envisaged Act on the Ability for Health Care Provision and Further Education of Health Care Professions and amendments to the Act on Performance of the Profession of Certified Architects and Certified Engineers and Technicians engaged in Construction. Although in the case of veterinarians, compliance with the *acquis* is high, amendments to the Veterinary Act and the Veterinary Surgeons Act are needed. In the area of the health care professions, training and curricula will also need to be adjusted if Czech-qualified professionals are to enjoy the full benefits of mutual recognition. Specific legislation is needed to enable midwives to work autonomously. The Czech Republic still needs to

make considerable efforts to ensure that all its professionals, particularly in the health care sector, will as of accession meet the requirements laid down by the *acquis*. A major effort is needed in the short term to improve considerably training for nurses and midwives. With respect to professional qualifications obtained before harmonisation, the Czech Republic should introduce measures to ensure that all its professionals can, as of accession, meet the requirements of the *acquis*.

The legal framework for both diplomas and professional qualifications still does not match EC requirements and further efforts are needed. A legal framework for the general system should be established and the increasing awareness of the distinction between academic and professional qualifications should be developed and accelerated.

A range of ministries and professional chambers are responsible for professional recognition, co-ordinated by the Ministry of Education, Youth and Sports. An inter-ministerial working group develops the Czech approach on key issues. The Ministry still has to create, on the basis of the existing list of regulated professions, a list of bodies designated to certify the professional qualifications of nationals and to decide on applications from other Member States' citizens for mutual recognition in cases of regulated professions or regulated professional activities. The Czech Republic has not yet established a national centre in charge of handling procedures for the mutual recognition of professional qualifications, despite having set several deadlines for doing so. When established, the centre is to act as a national co-ordinator under the Ministry of Education and is to be composed of the existing National Academic Recognition Information Centre, the National Institute for Technical and Vocational Education and contact persons within relevant ministries, with a national co-ordinator located in the Ministry of Education.

Following legislative progress on residency rights and municipal elections, the Czech Republic is now largely aligned with the *acquis* on citizens' rights. Preparation of legislation relating to elections to the European Parliament should continue.

Framework legislation is in place in the area of the free movement of workers. Access to employment for EU nationals will be restricted only in the armed forces (including the police) and certain positions in the civil service (as per the Civil Service Act). These restrictions should not be contrary to the Community *acquis*, which requires a case by case analysis of whether the decisions to be taken by a person in a particular position require the exercise of public authority. By accession, it has to be ensured that all of the Czech Republic's legislation is aligned with Community rules, in particular with respect to nationality, residence and language requirements. Legislation needs to be monitored to ensure that it distinguishes between academic and professional recognition and includes simpler procedures to allow for the provision of services. In addition, EU workers legally resident in the Czech Republic must have access to the same 'social advantages' as Czech nationals. In the field of supplementary social security of migrants, alignment with the *acquis* concerning employees' supplementary pension insurance should be completed before accession.

With a view to the future co-ordination of social security systems, further work to develop the necessary administrative structures is necessary so as to enable the Czech Republic to apply the *acquis*. This concerns in particular the Ministry of Labour and Social Affairs and the Ministry of Health and the Czech Social Security Administration and Labour Offices. The implementation of several bilateral agreements on social

security will facilitate the Czech republic's compliance with EC regulations as of accession.

Training and legislative preparations by the Czech authorities for participation in EURES are well under way. An interconnected system between the Ministry of Labour and Social Affairs, the Labour Offices and the EURES system needs to be put in place by the date of accession.

Conclusion

In its 1997 Opinion, the Commission concluded that the necessary structures in this area seemed to be in place but that it was not always easy to assess their real effect and enforcement. The Commission added that the Czech Republic was aware of the outstanding issues that needed to be resolved with regard to the movement of persons, and that, from a technical point of view, adaptation of regulations would be necessary in the medium term.

Since the Opinion, the Czech Republic has made good progress, particularly in the areas of citizens' rights and free movement of workers. Overall, a good level of alignment has been reached, although there remain gaps as regards the mutual recognition of professional qualifications in the health sector, and administrative capacity is satisfactory.

Negotiations on this chapter have been provisionally closed. The Czech Republic has not requested any transitional arrangements and has agreed to a transitional arrangement in respect of the free movement of workers put forward by the EU. Restrictions on the movement of workers from the Czech Republic to the EU will apply for a minimum two-year period as of the date of accession and may remain in force for a maximum of seven years. The Czech Republic is meeting the majority of the commitments it has made in the accession negotiations in this field. However, delays have occurred in completing alignment as regards mutual recognition of qualifications, in particular in the health sector, and with regard to the establishment of the appropriate administrative bodies in this field. These issues need to be urgently addressed.

In order to complete preparations for membership, the Czech Republic's efforts now need to focus on the area of mutual recognition of professional qualifications, in particular the urgent adoption of outstanding legislation on the health sector. Work should also continue on the administrative preparations for the co-ordination of social security systems.

Chapter 3: Freedom to provide services

Progress since the last Regular Report

Good legislative progress has been made in relation to the banking sector since the last Regular Report. The gradual strengthening of administrative capacity has continued.

There have been no significant developments in the area of **freedom of establishment and freedom to provide services**.

In the field of **financial services**, transposition of the *banking sector acquis* has been largely completed. The 'harmonisation' amendment to the Act on Banks entered into

force in May 2002, with some provisions applicable as of accession. The amendment to the Act on Banks addressed outstanding issues such as the reinforcement of consolidated banking supervision, deposit guarantees, stricter licensing rules, the recognition of licences issued in Member States and enhanced international co-operation on banking supervision; in a number of these areas secondary legislation will also be necessary. The adoption of such measures continues – for instance the Czech National Bank’s Decree on the Prudential Rules of Parent Undertakings on a Consolidated Basis entered into force in August 2002.

There have been no particular legislative developments in the *insurance sector*, although some progress was made with the completion of the re-licensing of insurance companies in line with the 2001 Act on Insurance Companies. The new licences will allow companies to operate on the entire EC market after accession.

In the area of *investment services and securities markets* an amendment to the Securities Commission Act was adopted in June 2002, which reinforces the position of the Securities Commission, widening the obligations for information provision by market participants and granting the Securities Commission the authority to issue secondary legislation.

In the area of **protection of personal data and free movement of such data**, the amendment to the Act on Banks unfortunately is not in full compliance with the *acquis*.

There have been no major legislative developments in the area of the **information society**. An amendment to the Act on electronic signature entered into force in July 2002. The Czech Republic has continued to make progress toward transposition of the e-commerce directive with the adoption of a green paper and the establishment of a co-ordination committee. A Government order laying down the procedure for provision of information in the field of technical regulations in line with the *acquis* has been adopted.

Overall assessment

The Czech Republic should ensure that any obstacles to the right of establishment and the freedom to provide services (Articles 43 and 49 of the Treaty establishing the European Community) are identified and national legislation amended accordingly. Any licensing regime applicable to EC service providers must be in line with the *acquis* and proportionate. In particular, the existing trade licensing Act does not seem to meet these requirements.

In the banking sector, the amended Act on Banks dealing with regulation and banking supervision and the new Act on Payments have helped ensure a comprehensive transposition of the relevant *acquis*, although it is too early to judge their implementation. They also provide a base for necessary secondary legislation.

The Czech National Bank’s (CNB) Banking Supervision Group is generally effective. Organisational changes aim to enhance the independence and efficiency of banking supervision, which is divided between the regulation and supervision departments. CNB regulations provide the basis for implementation of many *acquis* requirements and international regulatory standards in areas such as a credit register and consolidated supervision. However, certain elements require further development. Also, co-operation between supervisory authorities should be strengthened. The ongoing removal of non-performing loans from the banks’ balance sheet should have a positive effect on this

sector. The credit unions sector accounts for a small (and decreasing) portion of the Czech financial services sector. Many big credit unions have collapsed in recent years and the Czech Republic has set aside money for compensation. Tougher requirements have stabilised the sector, although regulation and supervision should be further improved.

Progress is necessary in insurance where the necessary legislative amendments should be completed. Whilst the Insurance Act of April 2000 was a positive development, it does not fully transpose the insurance *acquis*. In particular, core elements of the third generation of the life and non-life *acquis* are not yet fully implemented. This should be addressed with an amendment of the Act. Further transposition will be needed to cover insurance contracts, intermediaries, advisors and independent loss adjusters, the fourth motor directive and an amendment on motor third-party liability insurance.

The regulator, the Insurance and Pension Funds Supervision Office of the Ministry of Finance, has increased its staff to around 50 and on-site inspections have become more frequent. Mutual recognition in cross-border insurance business within the EU has been enhanced by re-licensing. The Office has autonomy within the Ministry of Finance, but remains a part of the Ministry. The intention to transform the Department into an independent supervisory body has not yet been finalised and should be addressed.

In the area of investment services and securities markets, amendments to the Acts on Securities, Bonds and the Stock Exchange marked significant progress and have been accompanied by a significant number of related decrees. However, new legislation on Capital Markets is needed to fully align with *acquis* principles on the functioning of capital markets. A new Act on Collective Investment is needed to replace the present Act on Investment Companies and Investment Funds, which does not transpose all the relevant *acquis*. Progress should also be made on a number of implementing decrees.

The competencies of the Ministry of Finance and the Securities Commission in capital markets supervision will need to be clarified to ensure that the independence of the Commission is beyond question. The Securities Commission was strengthened by a June 2002 amendment, which widened the obligations for information provision by market participants and gave it powers of secondary legislation. Staffing (133) is adequate, with no significant increases planned. Further strengthening of the independence of the Securities Commission would be welcome, particularly in terms of financial independence, with its operations not being funded from the State budget.

Legislation in the field of the protection of personal data is largely in line with the *acquis*. However, amendments to the 2000 Data Protection Act are still needed to make it fully compliant with the *acquis*. Furthermore, other relevant legislation must also respect the *acquis*.

The Office for Personal Data Protection (OPDP) is an independent supervisory authority responsible for this area; it performs the standard activities of an independent supervisor and is empowered to impose financial sanctions. The Office is operational and it has achieved important progress in ensuring compliance with the Law and raising awareness. However, lack of office space and low salaries make it difficult to hire all the personnel allocated in the budget and thus the Office remains understaffed. The Office is also responsible for the accreditation of certification authorities and supervision of the accredited authorities in the field of electronic signatures.

The Czech Republic has made good legislative progress in the information society field. Laws on Technical Requirements, Public Information Systems and Electronic Signatures have been in force since 2000, with further alignment to be completed upon accession. Elements of the Electronic Signatures Law will have to be reviewed. The Office for Public Information Systems co-ordinates and creates conditions for electronic commerce in the Czech Republic. No concrete legislative steps have yet been taken to transpose the e-commerce *acquis* but preparations continue.

Conclusion

In its 1997 Opinion, the Commission concluded that the situation in the financial sector was not satisfactory. There were doubts about transparency and free competition in the banking market and the crisis of the major privatised banks gave the impression that banking supervision needed to be strengthened. In the securities and insurance fields free, competitive markets with adequate supervision remained to be established. The same applied in the insurance field. As regards data protection, it was necessary to establish an independent body responsible for the supervision of the application of the law.

Since the Opinion, the Czech Republic has made significant progress in addressing these questions. In particular, transposition of the banking *acquis* has advanced well and regulation of the financial sector has improved. Also, the Office for Personal Data Protection has been established. Overall, alignment is on track and has reached a good level and administrative capacity is satisfactory.

Negotiations on this chapter have been provisionally closed. The Czech Republic has not requested any transitional arrangements. The Czech Republic is generally meeting the commitments it has made in the accession negotiations in this field.

In order to complete preparations for membership the Czech Republic's efforts now need to focus on further alignment as regards trade licensing, insurance, investment services and securities sectors as well as on strengthening supervision of financial services.

Chapter 4: Free movement of capital

Progress since the last Regular Report

Since the previous Regular Report, significant progress has been made regarding this chapter.

In the field of **capital movements and payments**, an amendment to the Foreign Exchange Act has been adopted. As of January 2002 it abolishes restrictions on acquisition of real estate by branches and agencies established in the Czech Republic.

In terms of **payment systems**, the amendment to the Act on Banks, which entered into force on 1 May 2002, has abolished the Czech National Bank's monopoly on clearing domestic inter-bank currency payments. It has also aligned Czech legislation with the *acquis* concerning the single licence for institutions authorised to issue electronic payment instruments.

The new Act on Payments, together with amendments to the Act on Bankruptcy and Act on International Private Law, implements the *acquis* on cross-border credit transfers and

provides protection for banks' customers. It also partially transposes the provisions of the *acquis* on transactions by electronic payment instruments.

The Act on Financial Arbitration, which will enter into force as of January 2003, aims at establishing an out-of-court redress scheme for the settlement of payment disputes. It creates an independent arbitrator, elected by the Chamber of Deputies, who will solve disputes of up to € 50 000, and will function as an autonomous department of the Czech National Bank.

As regards **money laundering**, the amendment to the Act on Banks prohibits any new deposit or payment of interest on existing anonymous accounts (bearer passbooks) from 1 January 2003. Thereafter, holders of these passbooks will have a period of 10 years to close their accounts. An amendment to the Criminal Act establishes the effective criminalisation of acts of money laundering.

In 2001, 1 750 reports of suspicious transactions were received by the Financial Analytical Unit, while 101 complaints were transmitted to the Police Service for the Discovery of Corruption and Serious Economic Crime (SPOK). In the first seven months of 2002, the respective figures were 742 and 52.

Overall assessment

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

Concerning payments systems, alignment with the *acquis* is almost complete. However, the remaining provisions on transactions by electronic payment instruments, as well as the provisions on securities settlement systems of the Settlement Finality *acquis* need to be transposed.

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

Necessary infrastructure in relation to payment and securities' settlement is now in place.

As regards money laundering, existing anonymous accounts (bearer passbooks) will be abolished on 1 January 2003. However, holders of these bearer passbooks will have a rather long period of 10 years to close their accounts.

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

Conclusion

In its 1997 Opinion, the Commission concluded that the degree of capital movement liberalisation already achieved by the Czech Republic was very substantial, with liberalisation of inward capital movements proceeding much more rapidly than that of outward capital flows. It added that the Czech Republic was expected to face no major difficulties in eliminating the remaining restrictions on the movement of capital in the medium term, thus fully assuming the Community *acquis* in this area.

Since the Opinion, the Czech Republic has made steady progress, both in aligning its legislation and in developing the necessary administrative structures. The overall level of alignment is almost complete.

Negotiations on this chapter have been provisionally closed. The Czech Republic has been granted transitional arrangements concerning the acquisition of secondary residences (for a period of five years following accession) and the acquisition of agricultural and forestry land (for a period of 7 years following accession), with the exclusion of self-employed farmers from the EU. The Czech Republic is generally meeting the commitments it has made in the accession negotiations in this domain.

In order to complete preparations for membership, the Czech Republic's efforts should now focus on completing alignment and eliminating all remaining restrictions, completing the administrative structures necessary to implement the *acquis* in this area, and reinforcing administrative capacity, paying particular attention to the bodies involved in the fight against money laundering.

Chapter 5: Company law

Progress since the last Regular Report

Since the last Regular Report, the Czech Republic has continued to make progress in the implementation and enforcement of the *acquis* in this chapter, in particular within the framework of the ongoing overall judicial reform.

As regards **company law** as such, no significant developments can be reported.

In the area of *accounting*, an amendment to the Accountancy Act, which aims to align Czech accounting legislation with the *acquis*, was approved in September 2001 and entered into force in January 2002. The Act introduces the obligatory use of International Accounting Standards for the consolidated accounts of listed companies, and introduces fair value accounting for certain financial instruments.

In the field of **industrial and intellectual property protection**, the Czech Republic acceded to the European Patent Convention in July 2002. A new Act on Protection of Geographical Indications and Designations of Origin was adopted in November 2001 and entered into force in April 2002. The Czech Republic deposited its instrument of accession to both the WIPO Copyright Treaty and WIPO Performance and Phonograms Treaty in October 2001.

Further progress has been made in the criminal enforcement of intellectual and industrial property rights (IPR) with the entry into force in January 2002 of the amended Criminal

Proceedings Code, which streamlines the investigation and prosecution of IPR crime, by *inter alia* shortening the preparatory proceedings, merging the role of investigators and police into one service, strengthening the role of the public prosecutor and greatly reducing the possibility of appeal courts returning cases to lower courts.

In September 2002 a significant amendment to the Act on Measures Concerning Import, Export and Re-Export of Goods Violating some Intellectual Property Rights entered into force. The amendment is aimed at ensuring full alignment with the *acquis* on measures prohibiting the release for free circulation, export, re-export or entry of counterfeit and pirated goods, and strengthens the powers of customs offices to decide in unambiguous cases whether goods are to be released for free circulation or confiscated and destroyed.

In 2001, there was a total number of 80 cases involving seizure of goods infringing copyrights and trademarks, for a value of over CZK 97 million (€ 2.85 million). In the year 2000, the number of cases was 67.

As regards the **Regulation replacing the Brussels Convention** on jurisdiction and enforcement of judgements in civil and commercial matters and the **Rome Convention** on the law applicable to contractual obligations, preparatory work is now underway to ensure that the Regulation is implemented swiftly.

Overall assessment

As regards accounting, national accounting legislation needs to include requirements additional to IAS to ensure full compliance with the *acquis*, e.g. disclosure requirements on the number of staff, the emoluments and advances to 'Directors', the inclusion of the profit and loss account of parent companies in the consolidated accounts as well as audit and publication requirements.

Further efforts are needed to improve the overall business environment, in particular through the more efficient operation of the company register and more effective enforcement of judgements by the commercial judiciary.

Concerning the intellectual property *acquis*, some further alignment with the EC copyright Directive is required as regards provisions relating to technological measures, rights management information. Also the resale rights Directive remains to be transposed.

With regard to intellectual property rights enforcement, the high levels of software and music piracy which, according to the private sector, are respectively at 43% and 48%, remain a source of concern. Enhancement of the administrative capacity of enforcement bodies, including controls against cross border trade of pirated and counterfeited goods and better co-ordination among enforcement bodies, must remain a matter of priority.

Conclusion

In its 1997 Opinion, the Commission concluded that there should be no major difficulties in bringing Czech legislation fully in line with EC legislation in the medium term in the fields of company law and accounting, and that further efforts were required in the area of intellectual property protection.

Since then, the Czech Republic has made steady progress in aligning with the *acquis* in this area, particularly as regards transposition in the field of industrial and intellectual

property rights. Gradual progress has also been made with regard to strengthening administrative capacity. Overall, a high degree of compatibility with the *acquis* has been achieved and administrative capacity is generally satisfactory.

Negotiations on this chapter have been provisionally closed. The Czech Republic has not requested any transitional arrangements in this area and has agreed to the proposal put forward by the EU relating to industrial property rights and Community Trademark. The Czech Republic is generally meeting the commitments it has made in the accession negotiations in this field.

In order to complete preparations for accession, the Czech Republic's efforts now need to focus on ensuring full alignment with the *acquis* along the lines set out above, intensifying measures to combat piracy and counterfeiting, strengthening border controls and, more broadly, further improving co-ordination between enforcement bodies (customs, police, judiciary).

Chapter 6: Competition policy

Progress since the last Regular Report

Since the last Regular Report, the Czech Republic has made further progress in this area.

In the **anti-trust** field, Czech legislation is already largely compatible with the *acquis*.

The *Office for the Protection of Competition*, which is the national competition authority in the Czech Republic, has continued to build on its enforcement record over the past year. In 2001, 132 anti-trust decisions were adopted (22 on restrictive agreements, 5 on abuse of dominance and 105 on merger cases), 12 of which were prohibitions and conditional approvals (4 with fines). In 2001, there were three court appeals against competition office decisions and all were rejected.

In October 2001, the Office issued a Decree concerning the notification of mergers, including the use of a standard form.

In an effort to concentrate its resources on the most serious anti-competitive behaviour, the Office has revised its Leniency Programme of July 2001 in line with the Commission's new programme of February 2002, in order to further encourage whistleblowing by participants in cartels.

During 2001 the Office also intensified measures to increase public awareness of its activities, including press conferences, a regular information bulletin, and further development of its internet site, which, since February 2002, also includes a 'cartel register' listing all agreements for which an exemption or negative clearance has been granted.

In the field of **state aid**, the Czech Republic has already incorporated the basic principles of the *acquis*.

An amendment to the Investment Incentives Act came into force in January 2002, which creates a direct connection between the Act and the State Aid Act. The Czech Republic has also proposed a regional aid map, which is in line with the *acquis*, for joint adoption by the Association Committee. The State Aid Report for 2000 was transmitted to the

Commission in December 2001 and follows the methodology and presentation of the European Commission's survey on state aid in the EU.

In 2001 the Office for the Protection of Competition, which is also the national state aid monitoring authority, issued a total of 137 state aid decisions where of 8 were non-approvals and conditional approvals. The Office currently employs 16 people in the state aid section. The necessity to assess every individual aid award under the Czech Investment Incentives Act creates a heavy workload, which could be avoided by establishing a fully compatible investment scheme.

Overall assessment

As regards anti-trust, the overall assessment is positive. Alignment of legislation is already well advanced. The enforcement record of the Office for the Protection of Competition is in general satisfactory. Not least in view of the planned modernisation and decentralisation of the application of EC antitrust rules, efforts to further strengthen the enforcement record need to continue, giving priority to cases concerning the most serious distortions of competition and imposing more deterrent sanctions.

As regards state aid, the overall assessment is satisfactory despite remaining difficulties with regard to past enforcement in the banking sector for which there also remains a need for increased transparency. Furthermore, it is essential that state aid enforcement in the steel sector continues and in particular that a close control over the specific work being undertaken to prepare the steel industry for restructuring is maintained. In the steel industry, aid for restructuring can only be given if the national and individual restructuring programmes of the companies include necessary measures for reaching viability and necessary cuts in production capacity, in line with the requirements set out in Protocol 2 of the Europe Agreement.

As regards administrative capacity, the Office for the Protection of Competition is a fully independent authority and has sufficient resources and expertise in place. It has broad powers to enforce the competition rules. Currently, the Office employs 129 officials in total.

Conclusion

In its 1997 Opinion, the Commission concluded that the Czech Republic had already made considerable progress in terms of approximation of legislation in the field of anti-trust, and that the enforcement efforts made by the Office represented an important step forward. As regards state aid, the powers of the monitoring authority to examine compatibility of aid measures needed to be clarified and improved.

Since the Opinion, the Czech Republic has made steady progress, in particular as regards legislative alignment. The administrative capacity of the Office has also been gradually strengthened, and an enforcement record has been developing in both the fields of anti-trust and state aid, for the latter of which the Office took over responsibility in 2000. Overall, on legislative alignment, administrative capacities and enforcement record the Czech Republic is reasonably advanced, except enforcement in the areas of banking, where increased transparency is also needed, and steel, where enhanced monitoring will be required.

Negotiations on this chapter continue. The Czech Republic has not requested any transitional arrangements in this area.

In order to complete preparations for membership, the Czech Republic's efforts now need to focus on strengthening its enforcement record in the field of state aid by ensuring more effective and fully transparent state aid control and monitoring, in particular in the steel and banking sectors, and on ensuring that it continues to update its alignment as the *acquis* in this area evolves.

Chapter 7: Agriculture

Progress since the last Regular Report

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

Agriculture in the Czech Republic accounted for 4.2% of gross value added in 2001, compared to 4.3% in 2000¹². Employment in agriculture accounts for 4.6% of total employment¹³.

In 2001, overall agricultural trade¹⁴ between the Czech Republic and the EC increased largely, clearly due to the « double-zero-agreement » to liberalise trade in agriculture. EC imports of agricultural products originating in the Czech Republic increased by 11 % to € 548 million. EC exports to the Czech Republic increased by 12 % to € 1,215 million. The trade balance in favour of the Community amounted to € 667 million compared to € 589 million in 2000. EC imports were dominated by wines and vinegar, oilseeds, dairy products and residues from food industries. Residues from food industries, fruit and nuts and preparations of fruit and vegetables were the main export goods from the EC.

According to the Act on the State Budget for 2002, the state agricultural budget will amount to approximately € 0.42 billion, which constitutes 1.8% of the state budget. The support schemes in agriculture account for € 0.22 billion, while the support to forestry amounts to € 25 million. Support to water management amounts to € 14 million. The implementation of the National Programme accounts for € 23 million. Moreover, an amount of € 94.5 million has been allocated to the State Agricultural Intervention Fund, 93% of this amount is aimed for market regulation.¹⁵

By the end of 2001, it was estimated by the Ministry of Agriculture that 97.9% of restituable agricultural land had been restituted.

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

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

14 Source of trade figures: WTO definition of agricultural products, figures from EUROSTAT COMEXT (see U.E. 12.15: Commerce des produits agricoles 1998-2000, 1 Partie D.G. AGRI/G.2 Analyses quantitatives, prévisions, statistiques, études, 2001, pp. 10-57 et 86-89).

15 Source: Czech Ministry of Finance

Horizontal issues

With regard to preparations for the *European Agricultural Guidance and Guarantee Fund (EAGGF)*, a decision was taken in May 2002 to divide the responsibility for administration of the CAP between two paying agencies, i.e. the State Agriculture Intervention Fund (SAIF) and the body currently performing the role of SAPARD Agency. According to the decision, the SAIF will be responsible for intervention, export refunds, import and export licences, administration of production quotas, and the collection of sugar production levies. The SAPARD Agency will be responsible for certain structural programmes and direct payments. The decision changes the previous plan to have one Paying Agency for all CAP purposes.

The SAPARD Agency received the conferral of management of aid and started accepting projects from applicants on 15 April 2002. The SAIF staff has been increased by 20 persons. The Agency is based on a fully electronic platform.

In July 2002, the Independent Market Information System (IMIS), currently managed by the Research Institute for Agricultural Economics, was put under responsibility of the State Agriculture Intervention Fund (SAIF).

In the past year, preparations have continued to establish the *Integrated Administration and Control System (IACS)*. The identification of cattle has been obligatory since 2001 and provisions relating to identification and registration of pigs, sheep and goats, entered into force in April 2002. Preparations to have a fully operational IACS are well advanced. Recent aerial photographs (1998-2001) covering the whole territory are available. The Czech Republic has opted for the methodology of physical blocks to build its land parcel identification system, i.e. blocks of parcels delimited by permanent boundaries such as roads, rivers, forests, etc. The digitalisation of these blocks has been completed. A register of special cultures was finalised in June 2002. The IACS unit in the Ministry of Agriculture has been reinforced by five employees in the past year.

With regard to *trade mechanisms*, a task force has been established to deal with the preparation of the relevant schemes after accession, i.e. the licence system, export refunds, securities and control mechanisms for trade with third countries.

In the field of *quality policy*, the Act on the protection of designations of origin and geographical indications entered into force in April 2002, aiming to set up the necessary control structures in this area by authorising the Czech Agricultural and Foodstuff Inspection (CAFI) to carry out necessary controls.

In the field of *organic farming*, the Ministry of Agriculture has prepared and communicated widely the Code of Good Farming Practice.

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

Two new sub-departments were established within the Ministry of Agriculture as of January 2002, one responsible for the agro-foodstuffs sector with regard to environmental matters and one dealing with all matters concerning the wine sector.

Common Market Organisations

The SAIF has continued expanding its operations in the area of *arable crops*.

Concerning *sugar*, several decrees and government orders have been introduced to the previously existing sugar quota regime.

As regards *specialised crops*, steps have been taken to align Czech legislation with the *acquis* in the area of hops, through the pilot registration of hops' sales contracts. The Czech Republic has continued the harmonisation of its *fruit and vegetable* standards with those prevalent in the EU. A new Act on the State Agricultural and Food Inspection (CAFI) was adopted in April 2002, aiming to transpose the *acquis* with regard to quality control in this field. In the *wine* sector, a new Act on Viticulture and Wine Making entered into force in March 2002, aiming to align Czech legislation with the Community oenological practices.

In relation to *animal products*, the Classification Agency for slaughter animals was established in January 2002 to perform the classification of carcasses based on the common classification of carcasses system (SEUROPO).

Rural development and forestry

Work on the Horizontal Rural Development Programme (HRDP) has continued over the past year, covering *inter alia* agri-environmental measures. In April 2002, the strategic environmental assessment and ex-ante assessments of the HRDP started. The accreditation of the SAPARD Agency, which will be responsible for certain structural programmes after accession, was achieved in April 2002 (*see Section A.b. – Relations between the European Union and the Czech Republic*).

Veterinary and phytosanitary issues, including food safety

In general, little legislative progress has been noted in the **veterinary field** over the past year with regard to *common measures, animal welfare, veterinary control, control of animal diseases and animal health* and *animal waste treatment*. However, further progress was made in establishing the system of *animal identification*, as secondary legislation relating to identification and registration of pigs, sheep and goats entered into force in April 2002. The Czech authorities are participating in the computerised network linking veterinary authorities ANIMO on a voluntary basis as of July 2002 in order to prepare for full application by accession. As regards *public health protection*, some of the plants processing products of animal origin which did not meet Community requirements on public health were closed in 2001.

In the field of *control of animal diseases and animal health*, the Czech Republic has joined the animal disease notification system (ADNS) after completing preparations for participation in May 2002.

In the **phytosanitary field**, good legislative progress has continued over the past year. In the field of *plant health (harmful organisms and pesticides)*, a second amendment to the Act on Phytosanitary Care entered into force in January 2002. It aims to enhance alignment with the *acquis* on the registration of producers, growers and importers of plants and plant products, protected zones and import and export protection. Based on this legislation, plant passports were introduced in March 2002 and provisions concerning the registration and use of pesticides will enter into force in October 2002. The new Act on the Czech Agricultural and Food Inspection (CAFI) authorises CAFI to carry out monitoring of maximum residue levels.

As regards administrative capacity in the phytosanitary field, the Czech Republic further prepared for incorporation into the EUROPHYT system, upgraded the equipment of diagnostic laboratories and strengthened the central regulatory capacity of plant protection product registration. An amendment to the Act on the Central Institute on Supervision and Testing in Agriculture was approved in March 2002, laying down *inter alia* rules for performing specialised testing.

As regards **food safety** (see also Chapter 1 – *Free movement of goods*), the Act on State Agricultural and Foodstuffs Inspection was adopted in March 2002, aiming to align the control of foodstuffs with the EC requirements. The Act will enter into force in January 2003. The Czech government approved a food safety strategy in December 2001. In accordance with this strategy, a special unit for food safety within the Ministry of Agriculture and a co-ordination group for food safety have been established with the aim of ensuring co-ordination between control bodies for foodstuffs and to set up scientific committees. Scientific committees were set up in July 2002 for veterinary issues, animal nutrition, plant protection in relation to the environment and foodstuffs.

Overall assessment

In the field of **horizontal issues**, continued attention should be paid to the further development of the two paying agencies, where the adequate structure, division of tasks and staff levels need to be ensured. The administrative structures needed to implement Community *trade mechanisms* are partly in place but need to be finalised. The same is true of organic farming. As regards *quality policy*, supervision mechanisms in line with Community requirements have been set up but need to be completed. As regards preparations for *the Integrated Administration and Control System (IACS)*, the land register and the legal framework for animal identification and registration are largely in place but the establishment of an integrated system needs to be completed. The Czech Republic will have the possibility of testing the reliability of its system with its national schemes before accession, which should allow for adjustments if necessary. This will contribute to meeting the requirements of the *acquis* in this field. As regards *the Farm Accountancy Data Network (FADN)*, the existing surveys are only partly in line with the *acquis*. There is a need to ensure collection of data and administrative capacity in conformity with Community requirements. Co-operation on the exchange of data must also be ensured. The Ministry of Agriculture has been partly reorganised and generally functions well.

As regards the implementation of **Common Market Organisations**, the State Agriculture Intervention Fund (SAIF) has introduced a specific market regulation in order to prepare itself for taking up the function of an intervention agency. The SAIF is currently not fully equivalent to intervention agencies in the EU, and needs to be upgraded in order to cover all the specific instruments of Community market regulation. The independent market information system needs to be improved and integrated in order to comply with Community requirements on price data monitoring and reporting. Legislation establishing quality and marketing standards for *arable crops* needs to be completed. A system of production quotas for sugar has been established, which needs to be further aligned with the *acquis*. The Czech Republic also needs to complete market regulation for *specialised crops*. In the field of fruit and vegetables, quality standards have been aligned with those prevalent in the Community. However, control procedures and the recognition of producer organisations need to be further aligned. In the field of *wine*, an efficient connection between the cadastre and vineyard register needs to be

completed. Furthermore, inspection practices in this field need to be aligned with Community practices. Further legal alignment is necessary to complete preparations for implementation of the CMO in this field. In relation to *animal products*, a system of production quotas for milk has been established, which is partly in line with the Community system but needs to be further aligned with the *acquis*. The (*SEURO*P) has been used for pigmeat since April 2001. Legislation establishing quality and marketing standards for animal products needs to be completed.

The Czech Republic is well advanced in the area of **rural development and forestry**, where the horizontal legislation and administrative structures for implementation have largely been put in place. A first draft of the Rural Development Plan has been prepared.

Concerning the **veterinary** field, an amended framework law remains to be adopted to ensure transposition of veterinary *acquis*, e.g. in the fields of *animal welfare*, *rules concerning imports from third countries*, *animal identification* and *veterinary controls*. As regards veterinary control in the internal market, the system of checks during transport and at destination needs to be aligned. The fee level for veterinary border checks is in line with Community requirements but the overall system of financing of veterinary controls needs to be further aligned with the *acquis*. The identification and registration of bovine animals, obligatory since 2001, is progressing well and development of the system for tracing bovines is in progress. Border inspection and import checks need to be reinforced and aligned with Community requirements. Considerable efforts are still needed for the border inspection post at Ruzyně airport Prague to be ready at accession. The post still needs to be completed and suitably equipped, and the staff should be trained with regard to border inspection procedures.

As regards plants processing products of animal origin, the Czech Republic still needs to revise upgrading plans, fully in line with the *acquis*. The State Veterinary Administration should also closely monitor the implementation of the plans.

In the field of *control of animal diseases and animal health*, the Czech Republic has joined the animal disease notification system (ADNS).

As regards *animal waste treatment*, most of the rendering plants for high-risk waste are operating according to Community requirements, but plants for low-risk waste remain to be aligned. In order to ensure alignment with Community rules on specified risk material, the Czech authorities still need to ensure the removal of vertebral column from the feed chain. Also, cadavers must be excluded from the feed chain.

As regards *public health protection*, not all establishments processing products of animal origin yet meet Community hygiene and public health requirements. Classification of processing plants according to the level of compliance with Community rules has been carried out and modernisation plans have been established to reach Community requirements. It is important that the classification of its establishments is fully reliable and that the severity of deficiencies to be rectified is correctly estimated. Some establishments evaluated as having little prospect of meeting the relevant *acquis* have been closed. Serious efforts are needed to ensure that a legal basis is put in place for the implementation of the *acquis* on hygiene, so that the upgrading plans for establishments can be adequately assessed and can take full account of all relevant provisions of the *acquis* concerned. Accordingly, a review of the upgrading plans will be required, and strong monitoring of the State Veterinary Administration will need to be ensured.

The State Veterinary Administration (SVA) as well as the State Agriculture and Food Inspectorate (CAFI) generally function well. The CAFI information network has improved but an on-line connection with the Customs Directorate needs to be established.

In the **phytosanitary** field, a certain level of legislative alignment has been achieved. In the field of *plant health (harmful organisms)*, inspection and control structures appear adequate, and plant passports have been introduced.

In the field of *quality of seeds and propagating material*, appropriate inspection and control structures are largely in place. A new Act on Seeds and Plant Propagating Material remains to be adopted to complete alignment. As regards *pesticides and residue levels*, not all maximum residue levels are yet fully aligned with Community rules. Full alignment with the *acquis* in this field, including measures relating to registration of plant protection products, will be achieved by a new Act on Phytosanitary Care.

In the field of *animal nutrition*, the main parts of the *acquis* have been transposed. However, full alignment still needs to be ensured with regard to Transmissible Spongiform Encephalopathies (TSE)-related *acquis* in this area.

The State Phytosanitary Administration generally functions well, and the situation with regard to specialised equipment is improving.

With regard to **food safety** (*see also Chapter 1 – Free Movement of Goods*), the institutions for implementation are in place, primarily divided between the Ministries of Health and Agriculture. The State Veterinary Administration is the main supervisory body for animal-origin foodstuffs. Its structures for control and inspection generally function well. The Czech Agricultural and Food Inspectorate (CAFI) supervises the safety and quality of food, and its laboratories are accredited according to international standards. The Hazard Analysis at Critical Control Points system (HACCP), which involves measures to identify and control hazards related to food processing and the monitoring of safety requirements, is obligatory for all food producers since January 2000. As regards BSE, the Czech Republic has introduced a comprehensive testing programme, which has progressively been aligned with the Community programme, and a proper rendering system has been ensured.

Conclusion

In its 1997 Opinion, the Commission concluded that further alignment to the *acquis* was still necessary, although significant progress had been made in adopting the measures mentioned in the Commission's White Paper. The Commission added that particular efforts were needed in relation to the implementation and enforcement of veterinary and phytosanitary requirements and upgrading of establishments to meet EC standards. Furthermore, the administrative structures needed to be strengthened to ensure the necessary capacity to implement and enforce the policy instruments of the CAP. Further restructuring of the agri-food sector was also needed to improve its competitive capacity. The Commission concluded that if such progress were accomplished, accession in the medium term should not be accompanied by significant problems in applying the common agricultural policy in an appropriate manner.

Since the Opinion, the Czech Republic has made steady progress, in particular as regards the strengthening of administrative capacity to implement the CAP and the transposition

of phytosanitary legislation. The overall level of preparation in the agricultural sector is good, except as regards veterinary legislation.

Negotiations on this chapter continue, although all negotiation issues in the veterinary and phytosanitary fields have been clarified. In the veterinary field, the Czech Republic has been granted a transitional arrangement for public health for some establishments for animal products (until 31 December 2006) and for animal welfare, for some establishments, to fulfil certain cage height requirements in non-enriched cages for laying hens (until 31 December 2009). The Czech Republic is meeting the majority of the commitments it has made in the accession negotiations in this field. However, delays have occurred, compared to the original time schedule, on completing alignment in the veterinary field. This needs to be urgently addressed.

In order to complete preparations for membership, the Czech Republic's efforts now need to focus on continued strengthening of administrative structures for the implementation of the Common Agricultural Policy and on ensuring the harmonisation of veterinary legislation (adoption of the framework law and technical legislation).

Chapter 8: Fisheries

Progress since the last Regular Report

Some further progress has been made in the area of fisheries over the past year concerning structural actions and market policy.

Since the last Regular Report, no particular development has taken place as regards **resource management, inspection and control**.

In the field of **structural actions**, good progress was achieved with the setting up of a managing authority for the Community Financial Instrument for Fisheries Guidance (FIFG).

As regards **market policy**, the Czech Statistical Office has continued to collect market data on quantities and prices of Czech fish production.

As concerns **state aid** to the fisheries sector, support programmes from the state budget via subsidies granted for monitoring fisheries productivity continued in 2002.

As regards administrative capacity, no particular developments have been recorded concerning the establishment of a separate fisheries unit at the Ministry of Agriculture.

Overall assessment

Since the Czech Republic is a landlocked country, only parts of the *acquis* on fisheries are applicable for it.

Legislative alignment regarding the control of imported fish needs to be completed and, in order to establish a well-functioning monitoring system for the control of fish resources and imports, co-operation and co-ordination between relevant authorities should be improved.

The data collection system on fish products is operating in line with the *acquis*, and the price and monitoring systems are in place.

Preparations for the fisheries structural policy, in particular as regards programming documents, are well underway.

Conclusion

In its 1997 Opinion, the Commission concluded that for the Czech Republic, fisheries should not represent a problem for accession.

Since the opinion, the Czech Republic has progressed satisfactorily on administrative capacity. However, the Czech Republic fisheries policy is not yet fully aligned with the *acquis* in this area.

Negotiations on this chapter have been provisionally closed. The Czech Republic has not requested any transitional arrangements in this area. The Czech Republic is generally meeting the commitments it has made in the accession negotiations in this field.

In order to complete preparations for membership the Czech Republic's efforts now need to focus on completing legislative transposition in particular regarding the control of imported fish and further strengthening the administrative capacity to implement the Common Fisheries Policy.

Chapter 9: Transport policy

Progress since the last Regular Report

In the area of transport policy, further progress has been made in the Czech Republic since the last Regular Report, in particular as concerns land transport.

Concerning **Trans-European Transport Networks**, little progress has been achieved in transport infrastructure construction, although work is ongoing to prepare and adopt relevant projects. The State Transport Infrastructure Fund, established in 2000, continued its efforts to develop transport infrastructure, including at trans-European level. The Fund is responsible for financing the development of roads, motorways, railways and inland waterways. Financing is provided to approximately 100 beneficiaries, the most important of which are Czech Railways and the Road and Motorways Directorate in the Ministry of Transport. This year the Fund is operating with a budget of CZK41.3bn (€1.3bn). The State Transport Infrastructure Fund recently increased its staff to approximately 30 people.

With regard to **land transport**, further legislative alignment can be noted. On *road transport*, there was alignment with regard to EC rules on driving licenses and social legislation on driving times and rest periods in the road transport sector. An amendment to the Act on Roads enabling private investment in public infrastructure was also adopted. It allows for transfer of some ownership rights to a private investor for a maximum of 30 years. A further amendment to the Act on Road Transport was adopted which aligns Czech legislation with the *acquis* on provision of safety advisors for the transport of dangerous goods.

Concerning the technical control and supervision of road transport, in February 2002 the Government approved an enforcement concept providing for the establishment of external mobile enforcement teams to monitor compliance by trucks with technical and safety standards.

As regards *railway transport*, the Act on Czech Railways Restructuring was adopted in February 2002. According to the Act, the current rail operator, Czech Railways, will be divided into two entities: the joint-stock company Czech Railways, fully owned by the State, for rail passenger and freight operations, and a special State Authority, Railtrack Administration, for the ownership and financial management of the construction and maintenance of track. However, the actual management, construction and maintenance of track will be delegated back to Czech Railways.

On *inland waterways* transport, no developments can be reported in this area.

With regard to **air transport**, in June 2002 an amendment to the Act on Civil Aviation was adopted providing, *inter alia*, for the establishment of an independent air accidents investigation body. The Czech Republic, as a member of the Joint Aviation Authority, participates in the drafting and preparing of Joint Aviation Requirements (JAR) and has continued to adopt and implement new JARs. The Czech Civil Aviation Authority has further increased its staff since mid-2000 by 41 employees, 10 of whom were recruited in the last quarter of 2001.

No developments have been registered regarding **maritime transport**.

Overall assessment

As regards Trans-European Transport Networks, the State Fund for Transport Infrastructure is still understaffed in relation to the increased number of infrastructure projects for which it is responsible. The Fund should further increase staff levels according to the approved institutional plan, which provides for 43 employees.

As regards road transport, the Czech Republic is advanced in terms of legal alignment with the relevant *acquis*. Further efforts are still to be made in the implementation of social rules (checks on driving times and rest periods) in particular for domestic road transport operations. The ratification process of the INTERBUS agreement remains to be completed. Following the adoption of the amendment to the Act on Road Transport, recruitment of safety advisers must be ensured. The newly adopted concept of enforcement of technical State controls of road transport represents a step forward in the process of strengthening administrative capacity in road transport. Nevertheless, work needs to be done on implementation and the concept remains to be put in practice.

In the railways sector, considerable further effort is still necessary for the implementation of the revised railway *acquis*. Although the adoption of the new Act on Czech Railways Restructuring represents a step forward, legislative alignment needs to be completed, in particular concerning the allocation of infrastructure capacity and on the issue of the interoperability of the rail system. Special attention should be paid to how the essential functions of infrastructure management are organised and carried out. Restructuring and modernisation of the sector should continue in order to make rail transport more competitive and cost-effective. The capacity of the railway administrations must be reinforced.

As far as *inland waterway transport* is concerned, the Inland Waterway Fund still needs to be set up and EC rules concerning safety advisors for the transport of dangerous goods still need to be transposed.

As regards **air transport**, the overall level of transposition and implementation of EC rules in the field of civil aviation is good. Following the amendment to the Act on Civil Aviation, the independent air accidents investigation body needs to be made operational. A decision on who will be the national co-ordinator for slot allocation still has to be adopted and implemented. Currently the task is carried out by a co-ordinating committee composed of a representative of Czech Airlines and of the Czech Aviation Authority.

With regard to **maritime transport**, the Czech Republic is a member of the International Maritime Organisation and the level of harmonisation in this field is high.

Concerning administrative capacities, in line with the public administration reform, responsibilities will be transferred from district offices dealing with transport issues to either regional offices or to municipalities with an authorised municipal office or with extended delegated competencies. For this, a significant increase in the number of officials is required.

Conclusion

In its 1997 Opinion, the Commission concluded that the Czech Republic had made notable progress in the adoption of the *acquis* in the transport sector. Provided that it improved the operation of its domestic road haulage market (in particular on market access, safety rules and tax) and the financial transparency of the rail sector, the transport sector was unlikely to pose major problems as regards adoption of the internal market *acquis*. It would be necessary, however, to make sure that the resources needed to lay the foundations for the future trans-European transport network, extended to include the new member countries, were made available. It would also be advisable for the Czech Republic's administrative structures, and in particular bodies supervising areas such as safety, to be rapidly reinforced.

Since the Opinion, the Czech Republic has made steady progress in aligning with the *acquis*. Its legislation in the transport sector, in particular on road transport and air transport is now to a great extent in line with the EC *acquis*. Overall, administrative structures are partially in place and need further strengthening throughout the transport sector.

Negotiations on this chapter continue. The Czech Republic has not requested any transitional arrangements. The Czech Republic is meeting the majority of the commitments it has made in the accession negotiations in this field. However, delays have occurred on the setting up of an independent air accident investigation authority; this is being addressed.

In order to complete preparations for membership, the Czech Republic's efforts now need to focus on the implementation of the social *acquis* in the road sector, substantial further legislative alignment with the railways *acquis*, the completion and strengthening of the institutional framework throughout the transport sector and the development of transport infrastructure in line with the Trans-European Transport Networks.

Chapter 10: Taxation

Progress since last Regular Report

Since the last Regular Report, the Czech Republic has made limited further progress in the field of taxation.

No legislative progress can be reported in the field of **indirect taxation** or in the field of **direct taxation**. As of April 2002 a VAT rate of 10% on bus transport operated by Austrian companies has been introduced.

As regards **administrative co-operation and mutual assistance**, a Central Liaison Office (CLO) was set up in February 2002 within the tax administration. The unit currently has 5 staff. The implementation of the VAT Information Exchange System (VIES) started in January 2001, and a test platform has been developed, so as to allow a pilot test in 2002.

As regards administrative capacity, preparations have continued for the transfer of administration of excise duties to the customs authorities. An excise duty unit has been established at the General Directorate of Customs, the human resources responsible for excise duty administration at local, regional and central level have been allocated, and various training initiatives are underway. However, the necessary concrete legislative steps still remain to be taken. A new Code of Ethics for Tax Administration officials has been developed and incorporated into the Administration's internal procedures. As part of the process of transferring the administration of excise duties to the Customs Administration an excise unit has been established within the General Department of Customs, which is responsible for the whole preparatory process and for co-ordination of all activities.

Overall assessment

As regards VAT, the Czech Republic needs to align the scope of reduced and the standard VAT rates respectively, as well as the scope of VAT exempt transactions and to introduce the relevant provisions for intra-Community transactions. In the field of excise duties, further alignment is needed in particular as regards duty rates for mineral oils. The establishment of tax warehouses needs to be completed. As a result of delays incurred in the process of gradual alignment on the level of rates, alignment of both VAT and excise rates has not yet taken place.

As regards direct taxation, the Czech Republic will need to align its legislation further with the *acquis*. Action will have to be taken to amend the legislation to eliminate potentially harmful tax measures, so as to comply upon accession with the Code of Conduct for Business Taxation to the same extent as current Member States. The Commission's initial technical assessment of potentially harmful measures applied in the Czech Republic is ongoing.

The VAT rate for restaurant services, which was decreased from 22% to 5% in April 2000 (as reported in the last Regular Report), remains out of line with the *acquis*. The VAT rate of 10% on bus transport operated by Austrian companies is not in line with the *acquis*, as the VAT rate is applied only against Austrian bus operators and not in a

general manner on such transport transactions, and may therefore constitute a discrimination.

Duty free shops at land borders remain to be closed.

As regards administrative capacity, the Czech Republic has strengthened and modernised its tax administration, both regarding VAT and direct taxation, which appears to have adequate legislative and administrative structures as well as adequate resources to ensure effective tax collection, enforcement and controls. The transfer of the administration of excise duties to the Customs administration is progressing according to plan, but the Czech Republic should ensure that the remaining actions are carried out as planned to ensure that it will be able to meet all the requirements upon accession. In the field of information technology the Czech Republic is progressing at a satisfactory pace and provided that progress proceeds according to plans, the country should be in a position to meet its obligation upon accession.

Conclusion

In its 1997 Opinion, the Commission concluded that the *acquis* in respect of direct taxation should present no significant difficulties and that as regards indirect taxation, the Czech Republic should be able to comply with the *acquis* on VAT and excise duties in the medium-term, provided that a sustained effort was made. The Commission added that it should be possible for the Czech Republic to start participating in mutual assistance as the tax administration developed its expertise in this respect.

Since the Opinion, VAT legislation, and to a lesser extent excise legislation, have been brought broadly into line with that of the Community. With regard to administrative capacity, the Czech Republic has made progress in modernising and strengthening its tax administration. Overall, the Czech Republic has achieved a good level of alignment, but it needs to be completed in important areas of VAT and excise. Strengthening of administrative capacity is on track.

Negotiations on this chapter have been provisionally closed. 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 (until 31 December 2007) and on the supply of heat energy used for heating and hot utility water preparation, for householders and small entrepreneurs who are not registered for VAT (until 31 December 2007). The Czech Republic was also allowed to apply a VAT exemption and registration threshold of € 35 000 for small and medium-sized enterprises. In the field of excise duties, the Czech Republic was granted a transitional period regarding a delayed implementation of the excise duty rates on cigarettes and other tobacco products (until 31 December 2006) and a permanent 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. The Czech Republic is meeting the majority of commitments it has made in the context of the accession negotiations. However, delays have occurred in transposing the *acquis*, in particular in respect of the alignment of both excise and VAT duty rates (where the Czech Republic had committed itself to a gradual three-year alignment). Furthermore, the closure of duty free shops at land borders, originally planned for December 2001, has now been postponed until the

end of 2003, contrary to the Czech Republic's earlier commitment. These issues need to be urgently addressed.

In order to be ready for membership, the Czech Republic should focus further efforts on completing transposition as a matter of urgency— except for areas where transitional arrangements were agreed - in the areas of VAT and excise duties, including intra-Community transactions. Current preparatory work on new legislation as regards VAT and excise duties should be stepped up so as to ensure alignment with the *acquis*. The Czech Republic should also pursue the reinforcement of the tax administration in order to ensure its effective functioning upon accession. Ongoing efforts to strengthen administrative capacity in this area should be vigorously pursued.

Chapter 11: Economic and Monetary Union

Progress since the last Regular Report

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

Since the last Regular Report, the Czech Republic has made significant progress in the adoption of EMU-related *acquis*.

In March 2002, Parliament amended the Law on the Czech National Bank (CNB) with a view to aligning it fully with the *acquis*. The amendment entered into force on 1 May 2002. The Law confirmed the **prohibition of direct public sector financing**.

As regards the prohibition of **privileged access of the public sector to financial institutions**, the amendment has abolished the CNB's right to set the minimum interest rates on deposits and the maximum interest rates on credit provided by or granted to banks.

As regards the **independence of the national central bank**, the amendment to the Act on the CNB has ensured compatibility with the *acquis* with changes in the area of financial, personal, and institutional independence. Additionally, an amendment to the Constitution of the Czech Republic has ensured that the primary objective of the central bank is defined as price stability.

Overall assessment

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

The developments since the last Regular Report have completed the process of legislative alignment with the EMU *acquis*.

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

Conclusion

In its 1997 Opinion, the Commission concluded that the Czech Republic's participation in the third stage of EMU as a non-participant in the Euro area should pose no problems in the medium term, while central bank legislation needed to be made compatible with EC rules.

Since the Opinion, progress was initially uneven, but major steps forward have been taken over the past year, and the Czech Republic has achieved a very high level of alignment with the EMU-related *acquis*.

Negotiations on this chapter have been provisionally closed. The Czech Republic has not requested any transitional arrangements in this area. The Czech Republic is generally meeting the commitments it has made in the accession negotiations in this domain.

In order to complete preparations for membership, the Czech Republic's efforts now need to focus on reinforcing its administrative capacity, in particular to prepare medium-term fiscal frameworks and statistics.

Chapter 12: Statistics

Progress since the last Regular Report

The Czech Republic has continued to make steady progress over the past year.

As regards **statistical infrastructure**, considerable enhancements to the information and communications technologies of the Czech Statistical Office (CzSO) were made. This was linked to an extensive training scheme in order to make full use of the capacities. Moreover, the CzSO started using the Total Quality Management model and adopted a Code of Ethics for its staff. The regional offices were reorganised following the new regional structure of the country.

The Statistical Office has substantially strengthened its administrative capacity for implementing the *acquis* with the establishment of its regional representations in all 14 regions (provisional Nomenclature of Territorial Units for Statistics at level 3 (NUTS classification)).

All major **classifications**, which are relevant for implementing the *acquis*, are in force in the Czech Republic. As indicated, there is a regional sub-division of the country's territory, which corresponds to the NUTS classification and divides the Czech Republic into 14 districts at level 3, coinciding with the 14 regional governments created in 2000.

No major developments can be reported as regards **sectoral statistics**.

As regards Government finance statistics, the methodology and the CzSO's co-operation with the Ministry of Finance have made progress concerning the recording of tax revenues on accrual basis and the coverage of transactions of non-budgetary institutions. The Statistical Business Register made significant progress over the past year by implementing a profiling exercise of local units and by improving cross-checking with other administrative sources. Thus, the quality of the register has improved considerably.

For **external trade**, work concentrated on the preparations of INTRASTAT, a system monitoring trade between Member States.

In **agriculture statistics** data from the agriculture census have been used to considerably improve the farm register. Significant progress was made in the fields of economic accounts, incomes and prices in agriculture.

Overall assessment

Some further improvement of the statistical law, such as widening the scope of the responsibilities of the members of the Statistical Council and fixing the term of appointments for the top management in the law could help to enhance the workings of the Czech Statistical Office. Given the fact that the Czech statistical system is a rather decentralised system with many statistical surveys outside the CzSO survey programme, the co-ordinating role of the CzSO needs further strengthening.

As regards sectoral statistics, the Czech Republic is well advanced. In demographic and social statistics, in most areas the outputs of statistical production compare with those in most EU countries. Social protection accounts need to be developed. Statistics at regional level are well developed and have been brought into line with the new regional organisation of the country. Many data are available at NUTS 2 and 3 and some at NUTS 4 level.

Macro-economic statistics are produced on the basis of the European System of Accounts (ESA-95) methodology at a high level of compliance. The Czech Republic is a member of the European comparison programme, which supplies the data for the compilation of Purchasing Power Standards. Monetary, financial and balance of payments statistics are compiled by the Czech National Bank. Annual and quarterly balance of payments statistics follow the 5th IMF Manual and EC requirements. Government finance statistics need to be brought in line with the ESA 95 concept.

Structural business statistics and production statistics are produced at a very high level of compliance. Short-term business statistics are well developed. Attention should be paid to improving the quality and accuracy of business statistics and reducing the heavy response burden on enterprises through better use of administrative sources like the tax register. For the latter, better co-operation with the Ministry of Finance is needed.

As for environment statistics, the CzSO is able to deliver most of the indicators required but efforts are needed to bring them into line with EC standards.

Conclusion

In its 1997 Opinion, the Commission concluded that the Czech Republic should be able to comply with EC requirements within the next few years provided that continuing progress was made.

Since the Opinion, the Czech Republic has made good further progress in most areas of statistics; in addition, a population and housing census and an agricultural census were conducted in 2001 and 2000 respectively. Overall, the Czech Republic is well advanced in this field of statistics. The commitment and high level of competence of staff as well as the newly developed planning system and quality approach constitute a good basis for *acquis* implementation that still has to be undertaken before accession.

Negotiations on this chapter have been provisionally closed. The Czech Republic has not requested any transitional arrangements in this area. The Czech Republic is generally meeting the commitments it has made in the accession negotiations in this field.

In order to complete preparations for membership, the Czech Republic's efforts should now focus on further improving the quality of the business register and the corresponding surveys among business operators. In general the accuracy and coverage of data needs to be improved further along the lines set out above. The full operation of INTRASTAT at the date of accession needs to be ensured.

Chapter 13: Social policy and employment

Progress since the last Regular Report

The Czech Republic has continued to make very good progress in the area of social policy and employment.

Regarding **labour law**, an amendment to the employment act strengthened compulsory support for the employment of the severely disabled handicapped in sheltered workshops and improved the conditions of disabled citizens' employment and the stability of organisations employing them. An act on the working hours of employees with irregular working hours in transport applied the *acquis* related to this category of workers.

As regards **equal treatment for women and men**, in October 2001 the Government approved the creation of the Council for Equal Opportunities for Men and Women, which met for the first time in April 2002. The Council is an inter-ministerial consultative and advisory body with a mandate to promote European gender equality policy. In addition, since January 2002, each Ministry has created a permanent position for an official charged exclusively with the agenda of equal opportunities for men and women. An amendment to the Employment Act, approved by Parliament in April 2002, further refines the definition of direct and indirect discrimination in access to employment. It will also empower the labour offices to implement various affirmative measures in order to eliminate or at least decrease inequalities on the labour market.

Regarding **health and safety at work**, several government orders implementing the *acquis* have been adopted on the basis of the amended Labour Code. A government order adopted in September 2001 fully transposed the Directive concerning the minimum safety and health requirements for the use of work equipment by workers, and will enter into

force in January 2003. The Directive on the minimum health and safety requirements for the use by workers of personal protective equipment at the workplace has been transposed and entered into force in January 2002. The Directive on the minimum requirements for the provision of safety and health signs at work was fully transposed and will enter into force in January 2003.

Regarding **social dialogue**, the social partners have decided not to conclude a long-term social stability pact for the moment. The tripartite social dialogue at national level continues to work well.

As regards **public health**, amendments to the Act on Addictive Substances added new substances, introduced stricter controls and increased the penalty for breaching the Act. An amendment to the Atomic Act aligned regulations for the protection of physicians and patients from ionising irradiation. The amendment implies stricter requirements for medical instruments, devices and personnel using ionising irradiation, in particular diagnostic X-ray machines and workplace equipment, as well as regular equipment controls. An amendment to the Health Care Act harmonised the processing of personal data related to the provision of health care, put electronic documentation on an equal footing to paper documentation and redefined the function and operation of the national health information system. An amendment to the Act on Public Health Protection reforming the Public Health Service has been adopted. The reform aims to streamline the management of the Service at the central, regional and local levels. Also, there has been useful progress on improving the health status of the population.

In terms of **Employment Policy**, the Joint Assessment of Employment Policy Priorities (JAP) was signed in May 2000. As part of the monitoring process of the Employment Policy Review, a second progress report on the implementation of the priorities identified in the JAP was submitted to the Commission by Czech Republic in June 2002. This report presents an important step in assessing the extent to which Czech Republic is progressing towards its objectives of labour market reform and adaptation of its employment system in order to prepare for future participation in the European Employment Strategy after accession. The situation on the labour market has not evolved significantly, and the high and growing long-term unemployment is becoming an increasing problem. Unemployment remains between 8% and 9% with strong regional disparities. The overall unemployment rate was 8% in 2001 with 6.7% for men and 9.6% for women. The National Action Plan for Employment (NEAP) for 2002 was adopted in March. Support for employment, business activities and helping companies and employees to adjust to changes are the main pillars of the plan. It includes measures aimed at combating long term unemployment and emerging skill shortages, reducing unemployment of the disabled and other groups experiencing difficulties on the labour market, including the Roma.

In relation to preparations for future European Social Fund (ESF) programmes, the Ministry of Finance was chosen as Paying Authority for all the Structural Funds including the ESF. However, the Ministry of Finance will delegate part of its tasks to the Ministry of Labour and Social Affairs, which will also act as Managing Authority for the Sectoral Operational Programme Human Resources Development and for the EQUAL Community initiative programme.

As a follow-up to the Gothenburg European Council, where the EU invited the candidate countries to translate the EU objectives into their national policies, the Commission and the Czech Republic have initiated a joint co-operation exercise to prepare for future

participation in the EU **social inclusion** process after accession. This exercise consists in joint identification of the social exclusion challenges and relevant policy responses. The Czech Statistical Office co-operates with Eurostat to produce data on poverty and social exclusion. Preliminary figures suggest that overall income disparities seem to be relatively low, as is the poverty rate after social transfers (8%). In this context, and in line with its strong commitment to developing social policy, the Government is reviewing its efforts in a number of policy areas to better fight poverty and social exclusion.

As regards other areas of **social protection**, the Government has adopted a national programme, devised to prepare the Czech Republic for an increasing number of elderly citizens and focusing on the social impact of an ageing population. An amendment to the social insurance act allowed those who provide all-day care to their disabled children to earn additional money without losing the right to social allowance.

In the field of **anti-discrimination**, an amendment to the Employment Act of May 2002 introduces the possibility to take positive measures to reinforce the integration of certain disadvantaged groups in the labour market.

In terms of administrative capacity, the Ministry of Labour and Social Affairs is the central state administration responsible for the issues addressed under this chapter except public health. The Ministry has a staff of about 560 people. It is a stable and competent administration, well advanced in the area of EC-related issues. Its policies in all areas of responsibility are based on long-term strategies. It needs to focus on implementation and enforcement of new legislation and testing of newly created administrative structures. Human resources policy requires particular attention due to the high average age of employees. Supervision of occupational health and safety and working conditions is the responsibility of the Czech Occupational Safety Office (COSO), which has a staff of nearly 450 and reports to the Ministry of Labour and Social Affairs. Activities of COSO are to undergo changes further to recent legislative developments, which aim to ensure alignment with EC standards and policies in labour inspection. The Ministry of Health is responsible for health-related issues, in particular public health, epidemiology, health insurance, pharmacology and drug control. It has a staff of over 300 people.

Overall assessment

As regards labour law, all the relevant *acquis* has been fully transposed except in the area of protection of young people at work, where further alignment is necessary. The administrative capacity and co-operation of the institutions in charge of labour inspections need further strengthening. The Czech Republic will have to transpose the new *acquis* related to the involvement of workers in the European Company and to information and consultation of workers.

As regards equal treatment for women and men, Czech legislation has been largely aligned with the *acquis*. The co-ordination of equal opportunity issues and equal treatment for men and women is a competence of the Ministry of Labour and Social Affairs. Institutional and administrative structures for implementing and enforcing the *acquis* require further strengthening.

In the field of health and safety at work, a substantial amount of work has been completed, even if a new Act on Labour Inspection remains to be adopted. Additionally, several items remain to be adopted as secondary legislation. Enforcement bodies, in

particular labour inspectorates, need further strengthening. An increase in inspections of small and medium-sized enterprises should be a priority. Changes in the inspection protocol arrangements are also required in order to attain the objectives foreseen for the enforcement structures. The current practice of occupational safety inspection largely corresponds to that in the EU, except that the process of supervision and enforcement is still not completed. The occupational health agenda performed separately by the public health services should be better co-ordinated with labour inspection. Legal inconsistencies remain in the surveillance of technical equipment by the Institute of Technical Inspection. Co-operation between social partners in health and safety at work should be enhanced, in particular in small and medium-sized enterprises.

As regards social dialogue, additional attention should be paid to further improvement of the system of extending collective agreements and to links between different levels of social dialogue. Bipartite social dialogue needs to be reinforced, especially at sectoral and enterprise levels, including in new private enterprises. At tripartite level, although social partners are already actively involved in the preparations for accession, their ability to participate in the implementation of the relevant *acquis* should be strengthened.

In the area of public health, a few gaps remain in terms of harmonisation of legislation. To this end a new act on protection against damage caused by tobacco products, alcohol and addictive drugs needs to be adopted.

Enforcement of legislation concerning tobacco control should be improved. The national system for epidemiological surveillance and control should be adapted to link to the Community Network of surveillance and control of communicable diseases. The Public Health Service section of the Health Ministry should be significantly strengthened. The surveillance, prevention and control of communicable disease in the Czech Republic is regulated by the Act on Public Health Protection and amendments to related Acts.

Regarding employment, the Joint Assessment of the Employment Policy Priorities (JAP) represents an important step in the preparations for accession. Progress in the implementation of these policies is assessed regularly and it is important to ensure effective monitoring of the phasing-in of the priorities and commitments contained in the JAP. It is important to continue the reform to increase the incentives for participation in the labour market, to modernise the education system, including vocational training system life-long learning policies, to respond to the demand of the labour market, and to continue the efforts to make the public employment service more effective. Special measures have to be taken in regions affected by industrial restructuring where employment problems are particularly serious.

The administrative capacity of the structures for European Social Fund (ESF) management and implementation are being strengthened to be ready for an efficient use of the ESF. It is also important that the contents of future ESF interventions are embedded in the European Employment Strategy and the fight against social exclusion.

A national integrated strategy to promote social inclusion, taking into account the EU objectives, needs to be developed. As poverty and social exclusion are multidimensional by nature, it is important to promote an integrated approach mobilising various governmental bodies and all relevant stakeholders in the process. It is also crucial to continue the development of social statistics systems on poverty and social exclusion in line with the EU commonly agreed indicators on social inclusion. As regards social

protection, a political consensus on the future direction of the pension reform has not yet been reached, even though the need for fundamental changes has been understood.

Further efforts are needed to ensure alignment with the *acquis* on anti-discrimination. Legislation transposing the anti-discrimination *acquis* still needs to be introduced and implemented and the Equality Body required by the *acquis* has to be established.

Conclusion

In its 1997 Opinion, the Commission concluded that provided the Czech Republic pursued its efforts, both in terms of adoption and of application of the EC *acquis*, it was likely to be able to take on the obligations of EC membership in the social area in the medium term. Issues requiring attention included the health system, tobacco legislation, long-term unemployment and social security and welfare.

Since the Opinion, the Czech Republic has made substantial and steady progress in the areas of labour law, health and safety at work and social protection. A particular effort was made in the area of employment policy and as regards equal treatment for women and men. Overall a high level of alignment has been achieved. Administrative capacity is satisfactory but should be further strengthened and implementation should be stepped up.

Negotiations on this chapter have been provisionally closed. The Czech Republic has not requested any transitional arrangements. The Czech Republic is generally meeting the commitments it made in the accession negotiations in this field.

In order to complete preparations for membership, the Czech Republic's efforts should now focus on completing transposition in the fields of labour law, tobacco and anti-discrimination, and effectively implementing the *acquis*, especially in the areas of public health and health and safety at work.

Chapter 14: Energy

Progress since the last Regular Report

Since last year's Regular Report, which concluded that considerable progress had been made in preparing for the internal energy market, further progress has been made, in particular as regards the adoption of implementing legislation in the area of the internal energy market.

Concerning **security of supply**, and with a view to complying with the *acquis*, the Czech Republic has further increased oil stocks to 80 days of average annual consumption.

With regard to **competitiveness and the internal energy market**, good progress was made in the reporting period. The Ministry of Industry and Trade and the Energy Regulatory Office have issued a considerable amount of implementing legislation with the aim to implement the Energy Act. The Decrees regulate *inter alia* the organisation of the electricity market, both for eligible and captive customers, the construction of and access to the electricity and gas network infrastructure, the cost and revenue calculation for utilities, licensing rules, provisions for emergency states and co-generation. In January 2002 the gradual liberalisation of energy markets started – as foreseen under the Energy

Act – when the market was liberalised for entities consuming over 40GWh of electricity annually. This led to a reduction in electricity prices by approximately 5% during the first quarter of 2002 for this market segment, which has 65 eligible customers representing approximately 30% of the Czech market. At the same time, electricity prices for households were raised by 9.9% on average on 1 January 2002, thereby broadly reaching cost recovery levels. Gas prices have also moved towards cost recovery: they were first increased again by 4.5% on average in January 2002, but then reduced by 9% on average in April 2002, reflecting lower international gas purchase prices.

Since the last Regular Report, the Energy Regulatory Office has received additional State resources worth € 2m, bringing its 2002 budget up to € 3.8m. This has allowed the Office to recruit additional staff, bringing the total to 75. Over the past year, the Regulator has taken some important decisions concerning market rules, prices in captive market segments and electricity trade, and has issued a substantial amount of the above-mentioned implementing legislation. In addition, the Regulator has arbitrated in several conflicts between companies active on Czech energy markets. It has also licensed enterprises active on the Czech energy market.

With the beginning of the electricity market liberalisation, the Electricity Market Operator became operational in January 2002. In the first months the Operator, equipped with a 2002 budget of € 6.6m and 22 staff, handled some 2%-3% of the whole market volume. In May the Government decided to gradually increase the market capitalisation of the Operator in order to take account of its increasing business scope and to prepare the ground for its potential future partial privatisation.

The State Energy Inspectorate, whose task is to enforce provisions of the Energy Act and Act on Energy Management, including prices, carried out almost 1000 inspections in 2001 and levied 150 fines worth CZK 6m (€ 200,000). Staff levels have remained unchanged at 180 employees, since the planned recruitment of up to 50 new staff members has been postponed again to 2003-2004 due to budgetary constraints.

Since the last Regular Report, progress has been made as regards the restructuring of energy markets and privatisation. In December 2001 the Government decided to sell the Czech monopoly gas importer and owner of the transit network, together with shares giving majority stakes in seven out of eight regional gas monopoly distributors. The new company is therefore largely integrated both vertically and horizontally. The privatisation was concluded in May 2002 after the Competition Office cleared the takeover subject to conditions that were accepted by the buyer.

The privatisation of the Czech electricity industry was postponed by the Government in January 2002 after none of the foreign bidders met the Government conditions, namely the minimum price asked. Subsequently, the Government adopted a new strategy and in June the State-owned dominant generator CEZ acquired shares from the National Property Fund, giving it majority control over five regional electricity distributors and blocking minorities in the remaining three. In return, CEZ sold its majority in the electricity transmission system operator, keeping a blocking minority. The Government has thus sought to ensure the existence of CEZ as an integrated electricity generation and distribution company and regional player in an integrating European electricity market. Meanwhile, the Office for the Protection of Competition is conducting an analysis of this restructuring.

Concerning *solid fuels*, little progress can be reported with regard to the restructuring of the coal sector, which is closely connected to the restructuring and privatisation of the electricity industry. In 2001 demand for brown and hard coal remained stable at 50m tonnes and 11m tonnes respectively, after a one-year increase in 2000 following a long-term decline in activity during the 1990s. In June the Government decided again to extend uranium mining at the last remaining mine in Dolni Rozinka by two years to the end of 2005. This decision follows a previous extension of two years until December 2003.

As regards **energy efficiency**, the Government adopted the first Annual State Support Programme for Energy Saving and the Use of Renewable Energy Sources, based on the National Programme for Economic Energy Management and Use of Renewables. The first Annual Programme establishes aims and benchmarks for subsequent projects which are managed by various Ministries, depending on sectoral responsibility. The Czech Energy Agency manages projects on behalf of the Ministry of Trade and Industry. In 2001 it managed projects worth € 3.3m, less than half of the 2000 value and one-third of the 1999 figure.

Concerning **nuclear energy**, the Czech Republic operates two nuclear power plants at Dukovany and Temelin. At the Dukovany NPP, four units of the VVER 440/213 type are in operation. At the Temelin NPP, two units of the VVER 1000/320 type are currently in different stages of commissioning.

Test operations of the first reactor unit of the Temelin NPP were completed in June 2002 with full power operation attained. Presently the unit is undergoing trial operation, the last stage of commissioning prior to receiving a license for commercial operation. In June 2002 the self-sustaining fission reaction was initiated at the second reactor unit and test operations are ongoing in accordance with a license granted by the regulatory authorities. During these tests the reactors were powered down on a number of occasions and some technical adjustments were made, mainly to the secondary non-nuclear circuits of the plant. Since the last Regular Report one incident in February 2002 at the first unit has been classified in terms of the International Nuclear Events' Scale as INES I.

Implementation of the recommendations of the June 2001 Council Report on Nuclear Safety in the Context of Enlargement is ongoing. With regard to the specific recommendation in that Report that the Czech Republic complete the regulatory assessment of the VVER 440/213 bubbler condenser containment function under design basis accidents, the Czech Republic, together with Hungary and Slovakia, is financing a set of additional tests to support this review. The evaluation of the results is due to be presented by December 2002 to all three regulatory authorities.

Concerning nuclear safety, an amendment to the Atomic Act was approved and entered into force in July 2002. The amendment aims at aligning Czech legislation with the *acquis* on radiation protection, emergency preparedness, shipment of radioactive substances and waste, and contamination of food and feedingstuffs. The amended Atomic Act also covers Euratom Safeguards.

In 2001 the State Office for Nuclear Safety carried out over 1250 inspections and 86 investigations of reported extraordinary cases (not related to nuclear power plants). In addition, it monitored closely operations at the Temelin and Dukovany nuclear power plants. As regards the former, the State Office issued permits for the plant to proceed to

new testing phases as appropriate. The Office has also begun to prepare reporting systems vis-à-vis the Euratom office to meet the Euratom Safeguards requirements.

In November 2001, the Heads of Government of the Czech Republic and Austria, using the good offices of the European Commission, concluded the Melk Process with an agreement on follow-up measures, in particular as regards nuclear safety issues. During the process, the Czech authorities voluntarily undertook an environmental impact assessment of the Temelin Nuclear Power Plant.

Overall assessment

As regards security of supply, the Czech Republic has reached a good level of security but needs to complete its efforts. The Administration of State Material Reserves functions well as the 'crisis' body in emergencies and seems to function in line with the *acquis*.

Concerning the establishment of a competitive internal energy market, partial market opening and the adoption of implementing legislation to the Energy Act have contributed to the current high level of alignment with the *acquis*, particularly as regards electricity. With regard to gas, implementing legislation remains to be completed in order to fully align Czech legislation with the *acquis*, in particular as regards market opening and market rules. The gas and electricity sectors are now generally well prepared for the competitive internal energy market through the privatisation of major players in the gas market, the restructuring of electricity utilities and the broadly cost-reflective electricity prices. Transparency and openness must be ensured during the ongoing electricity utilities restructuring and privatisation process.

Administrative capacities have been further improved. In a difficult environment, characterised by industry restructuring and privatisation as well as market liberalisation, the Energy Regulatory Office has been able to assume a relatively independent position, demonstrated by decisions on high profile cases such as the allocation of infrastructure capacity for electricity imports. However, despite improvements, a further strengthening of financial and human resources, which are currently far lower than originally planned, is urgently required to ensure adequate regulation of energy markets in line with their progressive liberalisation. The Electricity Market Operator has had a successful start in organising and operating the short-term electricity market. The Operator will need to be upgraded substantially in line with increased market liberalisation. Further financial and human resources are required to this end. The State Energy Inspectorate has not yet received additional financial and human resources, to reflect the new responsibilities transferred to it in 2001-2002, thus resulting in weak enforcement capacities. Resources remain to be strengthened and existing staff need to be prepared adequately for new responsibilities. With current resources, the Inspectorate will not be in a position to adequately meet its obligations.

Concerning solid fuels, considerable proportions of electricity continue to be generated from coal.

Although a first Annual Programme has been developed to enhance energy efficiency and the use of renewable energy, State funds supporting concrete projects managed by the Czech Energy Agency were again reduced in 2001, reflecting the low political priority given to this issue by the Government. Efforts should therefore be stepped up.

The European Union has repeatedly emphasised the importance of a high level of nuclear safety in candidate countries. In June 2001, the Council of the European Union took note of a Report on Nuclear Safety in the Context of Enlargement. This Report contains recommendations to all candidate countries to continue their national safety improvement programmes, including the safe management of spent fuel and radioactive waste and the safety of their research reactors.

During the first half of 2002 a special Peer Review on nuclear safety assessed the progress made by candidate countries in implementing all the recommendations. This exercise, conducted under the auspices of the Council, resulted in a Status Report published in June 2002, which concludes that the Czech Republic has accepted and addressed all the recommendations contained in the Report on Nuclear Safety in the Context of Enlargement of June 2001. Most of the recommendations have been adequately addressed. With regard to one specific recommendation concerning completion of the full verification of the containment bubbler-condenser systems for the Dukovany NPP Units 1-4, the Czech Republic has indicated adequate measures, but the Status Report emphasises that the Czech Republic is expected to ensure that they are implemented. Moreover, the Czech Republic should continue to devote attention to two specific recommendations concerning high energy pipe breaks and valves at the Temelin NPP.

As regards the two specific recommendations concerning high energy pipe breaks and valves at the Temelin NPP, the safety case for these two issues is to be developed during autumn 2002.

Czech legislation on **nuclear energy** and **radiation protection** has been amended with a view to bringing it into line with the *acquis*. Application must be ensured by the relevant Czech authorities, including the State Office for Nuclear Safety. As regards radiation protection, funds so far have not been appropriated to ensure the correct implementation of the amended Act, in particular regarding protection from radiation originating from old hospital equipment.

The Czech Republic will need to ensure compliance with Euratom requirements and procedures. In this respect, due attention will need to be given to Euratom safeguards, in particular regarding the reporting of nuclear material flows and inventories directly by the persons or structures operating nuclear installations or storing nuclear material. It should be noted that the Czech Republic has concluded a Full-Scope Safeguards Agreement with the IAEA.

Conclusion

In its 1997 Opinion the Commission concluded that provided that efforts were maintained, the Czech Republic should be in a position to comply with most of the EC energy legislation over the next few years, adding that aspects such as the adjustment of monopolies, access to networks, energy pricing, emergency preparedness (including the building up of mandatory oil stocks), state intervention in the solid fuels and uranium sectors, and the development of energy efficiency needed to be closely followed. The Commission further pointed out that, although no major difficulties were foreseen for compliance with Euratom provisions, the nuclear safety standards should be tackled appropriately in order to bring all the nuclear plants to the safety level required; and longer term solutions for waste needed to be defined.

Since the Opinion, the Czech Republic has made good progress throughout this sector, notably with regard to oil stocks, the internal energy market (electricity and gas), nuclear issues and the gradual development of administrative capacity. Overall, there is a good level of alignment, in particular as regards the establishing of a competitive electricity market, and administrative capacity is satisfactory.

Negotiations on this chapter have been provisionally closed. The Czech Republic has been granted a transitional period for the building up of oil stocks (until 31 December 2005) and one for the opening up of the gas market (until 31 December 2004). The Czech Republic is generally meeting the commitments it has made in the accession negotiations in this field.

In order to complete preparations for membership the Czech Republic's efforts now need to focus on full and timely implementation of legislation, in particular with regard to gas, on further efforts in the field of energy efficiency and renewable energy, as well as on further strengthening of administrative capacity of the newly established bodies, in particular the energy regulator and the energy efficiency agency. The Czech Republic needs to continue its progressive building up of oil stocks.

Chapter 15: Industrial policy¹⁶

Progress since the last Regular Report

Since the last Regular Report, some progress has been made in the field of industrial policy, in particular as regards restructuring and privatisation.

In the area of **industrial strategy**, the Czech Republic has mainly focused on the implementation of the Sector Operational Programme Industry (SOP Industry), which has been drawn up for the period 2001-2006. Projects in the framework of the SOP Industry focus mainly on supporting the competitiveness of Czech industry and preparing it for the use of Structural Funds. In 2001 a total of ten support projects were launched in the framework of the SOP Industry, mainly to reinforce the performance of manufacturing industry and industrial services, and in 2002 six new projects have been launched. The SOP Industry is currently being updated with a view to appointing executive and financing bodies for future use of Structural Funds and the Cohesion Fund.

With regard to investment promotion, an amendment to the Act on Investment Incentives was adopted and entered into force in January 2002. It is designed to improve the existing system and establish more transparent conditions for granting incentives. The amendment aims to improve supervision of the fulfilment of general terms by individual recipients of incentives. The Czech Republic continues to attract a high level of FDI (€ 5.5 bn or 8,7 % of GDP in 2001 and € 6 bn in the first half of 2002, with high shares in the transport and communication sectors). The investment promotion agency CzechInvest completed 25 projects in the first half of 2002, of which 15 in the automotive sector.

As regards **privatisation and restructuring**, agreement was reached in June 2002 to sell Nova Hut, the largest state owned steel works. Privatisation is expected to be completed by end-2002, and restructuring of the company will take place over the coming years in

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

the framework of the Government's overall strategy for the future of the steel sector. In the same month, the Czech Republic formally requested an extension of the period during which state aid may be granted for restructuring of the steel sector under the Europe Agreement.

The Czech Consolidation Agency, which manages state property, including restructuring of state-owned commercial enterprises and the management of claims, has been able to accelerate the disposal of its assets thanks to a government resolution of October 2001. The resolution established an implementing body for company-restructuring (the Czech Government Council – Investment Council), which is composed of representatives of ministries, trade unions, as well as the Consolidation Agency, and the National Property Fund. It also introduced two programmes (“Exit” and “Balance”) aimed at stabilising and reviving selected industrial plants through divestment of selected assets on the one hand and financial restructuring on the other. The programmes are only applicable to companies in which the state has a direct capital or loan engagement and which are either in the portfolio of assets of the Czech Consolidation Agency, or will be transferred into it by a further government resolution. So far, the Council has recommended nine companies for inclusion in the programmes.

Further progress has been achieved regarding privatisation. Since the last Regular Report, the government has taken decisions on the privatisation of the monopoly gas importer Transgas, the chemical holding Unipetrol, the steel producer Nova Hut and the telecommunication provider Cesky Telecom. The share of GDP produced in the private sector was 79,8 % in 2001 (compared with 74,7 % in 1997).

Overall assessment

The political, legal and administrative frameworks for facilitating industrial restructuring and improving the competitiveness of Czech industry are in place. The positive performance of government agencies promoting commercial activities (CzechInvest and CzechTrade) is continuing. Administrative capacities in the field of industrial policy are satisfactory.

The Czech Republic is expected to speed up its restructuring process and to continue to apply the principles of the EC's industrial policy, in particular in the steel sector. Particular attention needs to be paid to ensuring that privatisation and restructuring are carried out in compliance with state aid rules (see *Chapter 6 — Competition*). Further efforts should be made to improve the business environment (see *Chapter 16 — Small and medium-sized enterprises*).

Conclusion

In its 1997 Opinion, the Commission concluded that most sectors of Czech industry should face no major problems in integrating into the enlarged EU market in the medium term, provided that efforts in restructuring and modernisation were continued, and reinforced in the case of heavy industries. Efforts to enhance and maintain competitiveness would be needed in the long term.

Since the Opinion, the Czech Republic has made good progress in most areas, in particular the completion of privatisation of most sectors, and continuing attraction of a high level of foreign direct investment. Overall, the Czech Republic's policy towards

industry generally complies with the principles of EC industrial policy, i.e. it is market-based, stable and predictable. The institutional structures operating in the area of industrial policy work well.

Negotiations on this chapter have been provisionally closed. The Czech Republic has not requested any transitional arrangements in this area. The Czech Republic is generally meeting the commitments it has made in the accession negotiations in this field.

In order to complete preparations for membership, the Czech Republic's efforts now need to focus on speeding up completion of restructuring of the remaining heavy industries - in particular the steel industry - and ensuring their capacity to compete on the enlarged Single Market. Great care will have to be taken that the policy of restructuring is implemented in a manner which conforms to the competition and state aid *acquis* so as to create efficient competitive firms.

Chapter 16: Small and medium-sized enterprises¹⁷

Progress since the last Regular Report

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

As regards **SME policy**, a new Act on support to SMEs was adopted in 2002 and will come into force in January 2003. On this basis, the responsibility for regional support will be transferred from the Ministry of Regional Development to the SME Department of the Ministry for Industry and Trade.

In April 2002, the Czech Republic endorsed the European Charter for Small Enterprises as the basis for its action to support and develop small enterprises. The European Charter, adopted by the European Council in June 2000, is the reference document in the field of enterprise policy within the socio-economic strategy set up at the Lisbon European Council. The reporting process on the implementation of the European Charter in the Czech Republic started in May 2002.

The implementation of the 2001-2004 Long- and Medium-term Policy for SMEs has continued. It consists of 10 nation-wide and 7 regional programmes for structurally affected and economically weak regions, aimed at facilitating business plans, improving competitiveness, assisting entrepreneurs, creating new jobs, and giving SME clusters a better position on the market. In 2002, the total amount of public support to SMEs will amount to €39 million, with 83% spent for nation-wide programmes and 17% for regional programmes.

No particular progress has been achieved in improving the **business environment**. No particular progress can be noted in the area of bankruptcy legislation and business registration.

17 Developments concerning SME policy should be seen in relation to overall enterprise policy, including industrial policy (see Chapter 15 – Industrial policy).

The National Discussion Group, appointed by the Minister of Industry and Trade and composed of representatives from the business sector and from the State administration, is monitoring the SME business environment, with special attention to access to finance.

The new Act on Support to small and medium-sized enterprises, due to come into force in January 2003, also provides for compliance with the EC Recommendation on the **SME definition**.

Overall assessment

Further efforts are required to improve the business environment, especially the enforcement of legislation, the efficiency of the judiciary, the protection of creditors, business registration, and access to finance, in particular non-banking finance.

As regards administrative capacity, the central body responsible for the formulation and co-ordination of enterprise and SME policy is the SME Department of the Ministry of Industry and Trade, while the Business Development Agency takes part in the implementation of SME policy. Further strengthening of the administrative capacity of the SME Department of the Ministry will be needed as it takes on the responsibilities transferred from the Ministry of Regional Development.

Rationalisation of different business support services should be further continued and the establishment of an “SME one-stop-shop” should be envisaged.

The National Discussion Group should further ensure that business organisations are heard as regards SME policy. The involvement of business organisations in the preparation of legislation should be continued. The results of consultations should be reflected in the final versions of the laws, while businesses should be better informed about changes in legislation.

With more than 10 different SME business organisations besides the Economic Chamber, the Czech Republic has one of the highest numbers of business representations. These representations should either enhance their co-operation or merge in order to put their case better to the authorities. In early 2002, the merger of two associations into a stronger Association of Small and Medium-sized Enterprises and Crafts of the Czech Republic is a positive development in this respect.

Conclusion

In its 1997 Opinion, the Commission concluded that the basic structures for SMEs were in place in the Czech Republic, but that there was a need for further refinement and increased coherence in policy for SMEs.

Since the Opinion, the Czech Republic has made good progress in formulating SME policy and in developing support programmes. Its policy towards SMEs is generally in line with the approach promoted at EU level.

Negotiations on this chapter have been provisionally closed. The Czech Republic has not requested any transitional arrangements in this area. The Czech Republic is generally meeting the commitments it has made in the accession negotiations in this field.

In order to complete preparations for membership, the Czech Republic's efforts now need to focus on improving the business environment, and in particular strengthening the legal framework and facilitating access to finance.

Chapter 17: Science and research

Progress since the last Regular Report

Since the last Regular Report, further progress has been achieved. The main development in this field concerns the Act on State Support to Research and Technological Development, which was adopted in March and entered into force in July 2002. The Act provides for the allocation of public funds to research and development, outlines the rights and duties of private and legal entities dealing with research and development, establishes an evaluation system, and lays down the tasks and obligations of the relevant Government bodies.

During 2002, the Czech Republic continued to be associated with the **Fifth EC Framework Programme** and with the Fifth Euratom Framework Programme. The National Information Network (NINET), which is financially supported by the Government, continued to develop successfully.

The Czech Republic has expressed interest in being associated with the Sixth Framework Programme. In Spring 2002, expressions of interest were submitted to the National Contact Organisation, fully in line with the Commission invitation.

Over the current year, the part of the gross domestic expenditure on Research and Development coming from the state budget has remained relatively low (0.54% of gross domestic expenditure), despite the Government's decision of 2000 to reach the level of 0.7% of GDP in 2002.

Overall assessment

The framework for co-operation in the field of science and technology (including National Contact Points) is well established. The research-related administrative capacity and infrastructure of the Czech Republic need, however, to be further improved. Despite the legislative progress, the financial support for science, research and development remains relatively low.

Conclusion

In its 1997 Opinion, the Commission concluded that no major problems were expected in this field and that accession would be of mutual benefit.

Since the Opinion, the Czech Republic has made progress in this area. By the recent adoption of the Act on State Support for Research and Technological Development, the Czech Republic has harmonised the conditions for state support for research and technological development with those within the EU. Overall, the framework for co-operation is well established although administrative capacity needs to be strengthened.

Negotiations on this chapter have been provisionally closed. The Czech Republic has not requested any transitional arrangements in this area. The Czech Republic is generally meeting the commitments it made in the accession negotiations in this domain.

In order to complete preparations for membership, the Czech Republic's efforts now need to focus on increasing the gross domestic expenditure on research and technological development, and on encouraging enterprises to commit higher expenditures to research. This will contribute to the further development of the sector and to the effective integration of the Czech Republic into the European Research Area, as well as to its successful association with the relevant Community programmes.

Chapter 18: Education and training

Progress since the last Regular Report

Further progress has been made in this field.

During the reference period, the Czech Republic has continued to participate in the **Community programmes** in this area (*see section A.b – Relations between the European Union and the Czech Republic*). Due to the increasing popularity of the Youth Programme, the Czech Republic has decided to devote approximately 330 000 € to additional funding for the projects selected.

The provisions concerning alignment with the *acquis* on the **education of children of migrant workers** were adopted in May 2002. As of the date of accession, children of migrant workers who are EU nationals will have free access to pre-school and elementary school education.

As regards the **reforms in the education and vocational training system**, decentralisation has progressed, with regional authorities assuming control over secondary school property and the development of the secondary school system as well as over the financial framework for schools. The municipalities are responsible for these issues in primary education.

In April 2002, the Government adopted a long-term strategy on Education, which sets the strategic objectives for the years 2003-2006.

Overall assessment

The Czech Republic has gradually increased its involvement in Community programmes. The administrative and absorption capacity for these programmes is now well established and the Czech Republic's participation in the Community programmes is successful.

Legislative alignment with the *acquis* on education of children of migrant workers is well advanced.

Conclusion

In its 1997 Opinion, the Commission concluded that no major problems were expected in the perspective of accession, in the field of education and training; the Commission expected the Czech higher education and vocational training system to meet the

Community standards in the medium term. The Commission also underlined that the participation of the Czech Republic in Community programmes would have positive effects and represented a good preparation for integration.

Since the 1997 Opinion, the Czech Republic has made steady progress over the years, in particular as regards participation in Community programmes. Overall, the Czech Republic has achieved a good level of alignment and administrative capacity is satisfactory.

Negotiations on this chapter have been provisionally closed. The Czech Republic has not requested any transitional arrangements in this area. The Czech Republic is generally meeting the commitments it has made in the accession negotiations in this field.

In order to complete preparations for membership, the Czech Republic's efforts now need to focus on preparing the practical implementation of the newly adopted provisions for the education of children of migrant workers upon accession.

Chapter 19: Telecommunications and information technologies

Progress since the last Regular Report

Since last year's Regular Report, the Czech Republic has progressed significantly in terms of liberalisation of the telecommunications market but not as regards the clarification of the regulatory framework.

Concerning **liberalisation of the telecommunications market**, significant, although tardy, progress was made with the introduction of the carrier selection facility in July 2002. The Czech Telecommunications Office has granted prefixes to all operators that intend to enter the market in July 2002. The legal framework for the number portability facility is set in the Telecommunications Act, but it is due to be provided only from January 2003. A general re-numbering plan was successfully implemented in September 2002.

Competition is strong in mobile services, where the penetration rate has reached 70%. The mobile sector has become a direct competitor to the incumbent's fixed network service. There are three GSM operators and the Government has granted two out of the three available Universal Mobile Telecommunications System (UMTS) licences, so that UMTS operations can begin when market conditions permit.

Increased competition in fixed network services has been made possible by big improvements in speed of delivery of interconnection, the level of interconnection prices and access to carrier selection facilities. Fixed wireless access has been licensed for some years and is beginning now to be used more widely for broadband Internet access. Fixed network modernisation is complete but penetration peaked at 38% and is now slowly falling.

In August the government decided to privatise the state's majority stake in the incumbent dominant operator, Cesky Telekom. This should help to improve the competitive environment.

No progress can be reported as regards the improvement of the **regulatory framework**.

In March 2002 the Czech Government adopted an Updated Action Plan of State Information Policy in order to bring its targets closer to those of e-Europe+ 2002. It contains, among other elements, a list of information society projects to be implemented by Public Administration bodies.

As regards **postal services**, no particular progress can be reported since the last Regular Report.

Overall assessment

Concerning liberalisation of the telecommunications market, the existing legal framework has not facilitated the entry of alternative operators to the market. Vital facilities for market liberalisation, such as carrier selection, have only recently become available. The market has been largely controlled by a single operator in which the State holds a majority stake. The incumbent has achieved much in modernising its network, but has been constrained by regulation to maintain a less than fully commercial approach to its business. For these reasons it has been difficult for alternative operators to compete even though the market has legally been open. The recent decision to go ahead with privatisation of the incumbent should, once implemented, help to improve the competitive environment.

Local loop unbundling remains to be achieved. Current legislation (including recent implementing legislation) does not fully transpose the *acquis* as regards universal service.

The amended legal framework needs to ensure that vital parts of the earlier *acquis* are properly implemented before moving on to reflect the updated *acquis* for the sector.

Cost orientation for voice telephony supplied by operators with significant market power is missing. The Czech Republic has not yet been able to evaluate the economic implications of fully implementing the universal service *acquis*. The Czech Republic will need to transpose the updated telecommunications *acquis* before accession and to complete the implementation procedures as soon as possible afterwards.

As regards the regulatory framework, the Czech Telecommunications Office has been legally established as the Regulator. However, considerable powers remain at the Ministry of Transport and Communications. The authorities have not yet responded to the EC's repeatedly expressed view that the presence of Ministry appointees in the management structure of the incumbent is incompatible with the *acquis*. This is a problem because of the Ministry's involvement in the enactment of implementing legislation, e.g. in relation to universal service. A clear separation between operational and regulatory functions needs to be secured and maintained.

The Regulator has some functions not required by the *acquis* which dominate its budget. Where its powers are sufficient, it has been effective in regulating the sector, but there remain weaknesses in the primary law, particularly concerning the timely enforcement of the Regulator's decisions. Thus legal amendments are necessary to provide for the appropriate competencies and independence of the Regulator.

As regards postal services, the Czech Republic has made good progress with the level of alignment with the *acquis*, but it needs to establish an independent regulatory body. Legislation in force lacks clarity on the definition of the reserved area and some discrepancies exist regarding universal service obligations. Also, further implementing

legislation is necessary in order to achieve full alignment with the Community postal *acquis*.

Conclusion

In its 1997 Opinion, the Commission concluded that the Czech Republic should have little difficulty in complying with the *acquis* in the medium term, provided that current efforts in transposition of laws and their implementation were continued. It added that the tariffs should be further re-balanced in order to enable the public operator to take up competition.

Since the Opinion considerable progress has been achieved. The Czech Republic's telecommunications policy developed strongly along EC lines with an emphasis on competition, development of the telecommunications infrastructure and diversification of the market. However, competition in the telecommunications market was held back unnecessarily for 18 months after market opening in January 2001. The situation was compounded by the relatively weak position of the Regulator and by gaps in the Telecommunications Act. Despite these problems, the Czech Republic is now overall relatively well advanced as regards the market liberalisation. Further efforts are needed to complete the process of liberalisation. Alignment with the postal services *acquis* has made good progress but regulatory improvements are necessary.

Negotiations on this chapter have been provisionally closed. The Czech Republic has not requested any transitional arrangements. The Czech Republic is generally meeting the commitments it has made in the accession negotiations in this field.

In order to complete preparations for membership the Czech Republic's efforts now need to focus on full liberalisation of the telecommunications market and on strengthening the regulatory framework, both in the telecommunications and in the postal sector.

Chapter 20: Culture and audio-visual policy

Progress since the last Regular Report

There have been no major developments in this sector since the last Regular Report.

In the area of the **audio-visual** *acquis*, an amendment to the Act on Advertising Regulation in force since June 2002 further specifies the responsibilities of the Council for Radio and Television Broadcasting as regards the supervision of advertising. According to the Czech authorities, current indications suggest that all national television broadcasters will meet their 2002 obligations for the promotion of European and independent works. The period since the last Regular Report has been characterised by a continued lack of transparency and stability in relation to questions of ownership and control of commercial TV stations. A second such dispute has now arisen and may also have to be solved in international arbitration courts.

There has been some development of administrative capacity at the Council for Radio and Television Broadcasting. Its budget has been increased and computerisation of the Council's office should release resources for the establishment of a system for monitoring the promotion of European works, although additional resources may be needed to further strengthen capacity.

A Memorandum of Understanding, providing for the Czech Republic's participation in the Community Media Plus and Media Training programmes was signed in July 2002, taking effect from January 2002.

In the field of **culture**, the Association Council decision allowing the Czech Republic to participate fully in the Culture 2000 programme as from 2001 was adopted in October 2001. Implementation of the 'Concept for Cultural Policy in the Czech Republic' continues, elements of which have been amended, consolidated and transposed through the Government's "Culture Policy Paper".

Overall assessment

The 2001 Act on Radio and Television Broadcasting brought the Czech Republic's legislation largely into line with the audio-visual *acquis*, although some refinement is still necessary, in particular regarding the technical adjustment of subsidiary criteria for jurisdiction. Effective implementation of the Act is likely to require the strengthening of administrative capacity.

It remains particularly important that the Czech Republic establish and supervise effectively a transparent and predictable regulatory framework in the audio-visual sector. As the main broadcasting regulator, the Council for Radio and Television Broadcasting will be key in this process. The Council should ensure the timely, objective and effective application of broadcasting legislation.

The Department of Mass Media in the Ministry of Culture administers legislation in the areas of broadcasting, film, video and periodical press. The current number of staff (11) is adequate.

The 2001 Act on Radio and Television Broadcasting created the conditions for ratification of the Council of Europe Convention on Transfrontier Television and its Protocol, which the Czech Republic should now conclude.

Conclusion

In its 1997 Opinion, the Commission concluded that the Czech Republic would need to make major efforts to adapt its regulatory framework and industry structures if it were to meet EC requirements in the audio-visual sector.

Since the Opinion, the Czech Republic has made significant legislative progress, especially in the last two years. Overall, the Czech Republic is well advanced in terms of legislative alignment in this area. The necessary administrative structures are in place.

Negotiations on this chapter have been provisionally closed. The Czech Republic has not requested any transitional arrangements. The Czech Republic is generally meeting the commitments it has made in the accession negotiations in this field.

In order to complete preparations for membership, the Czech Republic's efforts now need to focus on the final necessary legislative adjustments and improvement of regulation. It remains particularly important to establish and supervise effectively a transparent and predictable regulatory framework.

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

Progress since the last Regular Report

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

With regard to **territorial organisation**, the preparation for defining the Objective 2 eligible area in the region of Prague has been finalised.

Concerning the **legislative framework**, the Act on Environmental Impact Assessment entered into force on 1 January 2002 and should ensure compliance with the relevant *acquis*. The Act on Financial Control entered into force in January 2002, in line with the *acquis* in this field. The relevant secondary legislation was approved in March 2002.

As regards the **institutional structures**, all Regional Councils have been established, while the new regional governments at NUTS III level have become operational. The Czech Government's Resolution of January 2002 defined the institutional framework for the implementation of the Structural Funds and the Cohesion Fund. In March 2002, the Ministries completed this resolution by designating the units responsible as managing and paying authorities and (for the Cohesion Fund) implementing bodies. The Ministry for Regional Development has been appointed Managing Authority for the Community Support Framework and the Cohesion Fund. Managing Authorities for the relevant Sectoral Operational Programmes were also appointed. A Paying Authority for the Structural Funds and the Cohesion Fund has been appointed within the Ministry of Finance. These Managing Authorities will be responsible for the programme-management and overall co-ordination, whereas some tasks will be sub-delegated to intermediate bodies, which will be entrusted with the tasks related to the management and monitoring of projects. Progress can be noted as regards the improvement of the inter-ministerial co-ordination by the establishment of the Management and Co-ordination Committee and a Working Group for Programming.

Regarding **programming**, after the Commission's comments on the NDP were sent in February 2002, the revised National Development Plan (NDP) will be presented to the Government in November 2002. It consists of one Joint Regional Operational Programme and 6 Sector Operational Programmes. Following the Czech Government's Resolution of January 2002, respect for the **partnership principle** will be ensured via the Managing and Co-ordination Committee which oversees the implementation of the National Development Plan. This Managing and Co-ordination Committee includes representatives of the pre-accession instruments co-ordination bodies, representatives of the Ministries concerned in the sphere of economic and social cohesion, NUTS II Regional Councils and other economic and social partners including non-governmental and non-profit organisations. Upon accession, the Managing and Co-ordination Committee will become the Community Support Framework (CSF) Monitoring Committee and will ensure compliance with the partnership principle.

As regards **monitoring and evaluation**, a pilot version of the Monitoring System for the Structural Funds was established at the Ministry for Regional Development in February 2002. In a second phase to be completed by mid-2003, the system will be extended to all other Government agencies and regional authorities. Ex-ante evaluation of the NDP and

the OPs (Operational Programmes) and SPDs (Single Programming Documents) began in 2002 and should run parallel to the drafting of the different programmes.

In the field of **financial management and control**, significant progress was achieved with the Act on Financial Control, which stipulates the setting up of a system of financial control in the public administration by July 2002. Consequently, internal audit units are being established in all ministries involved in the implementation of the Structural Funds and the Cohesion Fund.

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

Overall assessment

As regards the territorial classification, the Czech Republic has completed the establishment of territorial units corresponding to NUTS classification. There are 14 regions at NUTS III level (*kraj*), and 8 regions (cohesion region) similar to NUTS II. In order to complete the legislative framework, alignment with public procurement *acquis* is needed.

As regards the institutional structure, most of the units appointed Managing or Paying Authorities have had experience with the implementation of Phare, ISPA and SAPARD programmes. However, certain units have had only limited experience with the implementation of EC programmes, and their administrative capacity is an issue of concern. Consequently, a coherent human resources strategy, including training and budgetary implications, needs to be established.

The National Development Plan needs to be approved. A timetable has been set with regard to the preparation of the programming documents. Considerable work remains to be done to fulfil the requirements of the *acquis* regarding the Single Programming Documents, the Operational Programmes and the Programme Complements and the Community Support Framework by the end of December 2002. It is especially important that an agreed implementation system is finalised rapidly to enable the relevant structures to develop suitable inter-ministerial co-ordination, partnership arrangements and information channels, which can be realistically tested during the remaining pre-accession period. Further progress is needed to raise the technical capacity to prepare a suitable pipeline of projects, which will be eligible and ready to be financed when the Structural and Cohesion Funds are released. Efforts need to be made to develop the necessary project development capacity both at national, regional, and local level.

The same applies to the nomination of all intermediate bodies. An agreed designation of tasks, roles and responsibilities still has to be achieved. This is an urgent issue for finalising drafts of the National Development Plan and Operational Programmes by the end of 2002. Moreover, a thorough review of capacities will be needed once all tasks and responsibilities are known.

Increased efforts are needed to develop the appropriate channels of communication to enable local authorities, social and economic partners – including bodies representing employment, environment and equal opportunities at national, regional and local levels – to be directly and more visibly involved in formal consultation processes. While the basic

structures do exist through the various committees already functioning, it is expected that the partnership principle will be applied when developing the forthcoming information and publicity strategies for the Operational Programmes.

The Czech Republic should further accelerate its preparatory work on the monitoring system for the Structural Funds and extend its interconnection to other central authorities, managing authorities and regional implementing agencies.

Preparations for financial management and control need to be finalised as soon as possible.

In relation to financial management and control, the Czech Republic is generally well advanced in legislative alignment. However, the appropriate systems and procedures for financial management and control still need to be strengthened, in particular as regards the structure of the Managing and Paying Authorities. Internal audit units are being established in the ministries responsible for the implementation of the Funds. The central audit service within the Budgetary Supervisory Service co-ordinates these services. However, these departments still need to be strengthened and the training of internal auditors should be a priority in this respect. Common guidelines for the internal audit services are being drawn up. The Czech Republic has introduced multi-annual planning of budgetary expenditure. Its budgetary legislation also contains sufficient flexibility to transfer allocations between funds and priorities. As regards regional statistics, the Czech authorities will have to ensure that the available data are brought up to the level required for regional policy planning and programming, monitoring and evaluation, in particular the ex-ante evaluation.

Conclusion

In its 1997 Opinion, the Commission concluded that the Czech Republic still needed to establish a legal, administrative and budgetary framework for an integrated regional policy and ensure its compliance with EC rules. The Commission added that, given the Czech Republic's administrative capacity and the necessary political awareness, the Czech Republic should, in the medium term, be ready to apply the Community rules and channel funds from the EC structural policies.

Since the Opinion, the Czech Republic has made important progress in legislative terms, and, more recently, has moved forward with developing the necessary administrative capacity. Overall, legislative alignment is well advanced, although further efforts are required on public procurement. As regards administrative capacity the implementing structures are in place but further efforts are needed to make them fully operational.

Negotiations on this chapter have been provisionally closed. The Czech Republic has not requested any transitional arrangements in this area. The Czech Republic is generally meeting the commitments it has made in the accession negotiations in this domain.

In order to complete preparations for membership, the Czech Republic's efforts should now focus on clearly defining the final implementation structures and further reinforcing their administrative capacity, strengthening inter-ministerial co-operation and partnership, and further reinforcing systems and procedures for effective monitoring, financial management and control.

Chapter 22: Environment

Progress since the last Regular Report

Since the last Regular Report, good progress has continued as regards the transposition and implementation of the environmental acquis. Concerning the reinforcement of administrative capacity some progress has also been achieved.

As regards the **integration of environment into other policies**, the government adopted a national strategy for sustainable development in the second half of 2001, which aims to be in line with the 6th Environmental Action Programme.

Concerning **horizontal legislation**, secondary legislation on environmental impact assessment was adopted and came into force in January 2002. The Czech Republic ratified the Kyoto Protocol in November 2001.

In the area of **air quality**, the Act on Air Protection adopted in February 2002, entered into force in July 2002 and aims to transpose the *acquis* relating to air pollution, protection of the ozone layer and climate change. The requirements for the preparation of action plans in zones or agglomerations within which limit values for certain pollutants have been exceeded have also been incorporated in the new Act. All secondary legislation in the field has been adopted. Implementing legislation defines limit values, emission ceilings, and limits.

In the area of **waste management**, framework legislation and some implementing legislation is in place. The Act on Waste and the Act on Packaging Waste came into force in January 2002, together with a number of implementing decrees defining selected waste streams, and transposing the European waste catalogue, obligations on hazardous waste and the labelling of batteries. Measures to ensure that waste is recovered or disposed of without endangering human health are in place. The list of wastes and the rules for handling hazardous waste ensure that no abandonment, dumping or uncontrolled disposal of waste takes place. The permitting system has also been established. A nation wide collection system has been set up for packaging waste plastic, glass, paper and some metals. Periodic inspections are carried out by the Czech Environmental Inspectorate. The Centre for Waste Management, which was established in autumn 2001, has so far recruited 26 staff members. It is preparing the waste management plans and designing the waste information system. The centre is also responsible for the shipment of waste. About 41,5 mio tonnes of waste per year are generated. Waste is mainly disposed in landfills and incinerated, whereas the recycling rates are low. Implementing guidelines and concrete action plans remain to be developed in order to ensure the efficient application of new legislation by the responsible authorities. The use of untreated sewage sludge in agriculture is prohibited, a monitoring system has been established.

In the field of **water quality**, a number of implementing decrees were adopted. An assessment of data necessary for the monitoring of dangerous substances as well as a preliminary identification of polluters of List I and II substances and their registers has been carried out. A system for the authorisation of List I substances to waters and to sewers is in place.

In the field of **nature protection**, no progress can be noted with transposition of legislation. The necessary information for the selection of special protected areas under the Birds Directive has been selected.

Concerning **industrial pollution control and risk management**, the Act on Integrated Pollution Prevention and Control was adopted in February 2002, and is scheduled to enter into force in January 2003. Important progress has been achieved with the setting up of a clear permitting procedure as well as the establishment of the IPPC Agency within the Czech Environmental Institute, with a total staff of 12 persons. Training of staff in the regional authorities and the departments of the state administration has started. Inspection and enforcement will be carried out by the Czech Environmental Inspectorate, which has a high level of expertise. A new category covering large combustion plants has been introduced in the new Air Act. Approved monitoring methodologies, a certain licensing system as well as programmes to reduce emissions from large combustion plants are already in place.

In the field of **chemicals and genetically modified organisms**, secondary legislation has been adopted over the past year. Furthermore, the Act on Biocides and related secondary legislation entered into force in July 2002, aiming to transpose the *acquis* in this field. Progress has also been achieved regarding implementation on biocides with the establishment of an Authorisation Authority as well as the related procedures and a system concerning the classification, packaging and labelling of biocides. As regards ozone depleting substances in 2002 a reduction and, in specified cases, ban of using HCFC has been introduced. A system for recycling ozone depleting substances has also been introduced.

Concerning **noise**, a Government Regulation laying down technical requirements for products concerning emissions of noise, came into force in April 2002. The legislation aims to fully transpose all EU obligations in this sector. Good progress on implementation has been achieved. The inspection system checking that appliances are correctly labelled as well as the corresponding enforcement system has been established.

In the field of **nuclear safety and radiation protection**, the amendment of the Atomic Act, adopted in December 2001, came into force in July 2002 together with some secondary legislation, aiming to fully transpose the *acquis* in the area of radiation protection and emergency preparedness. Through these legislation obligations for the shipment of radioactive waste has also been transposed. (*see chapter 14: energy*)

The current national implementation plan for environment was updated at the end of 2001.

The Czech Republic has carried out a range of actions to develop its **administrative capacity** in the field of environment. The administrative reform is ongoing. The Act on Municipalities was adopted in June 2002, which should help determine the need for human and financial resources as certain environmental responsibilities are taken over by authorised municipalities from the districts in January 2003. Over the past year, regional authorities have hired additional staff responsible for environmental issues. At the central level, the Ministry of the Environment employs 435 people at its headquarter in Prague and 115 people in its regional departments. It hired during the reporting period 40 members of staff for various technical units. On average, there are ten persons working on environmental issues in each of the 14 new regional authorities.

The Czech Environmental Inspectorate, the main responsible authority for the enforcement of environmental legislation, carried out about 19,500 inspections in 2001 and imposed 2,627 fines worth approximately € 2.1 million. The actual level of fines was substantially reduced by the Ministry of the Environment during appeal procedures. In 2001, of the total of appeals to the Ministry of the Environment an average of 55% of the fines were confirmed, 25% of the fines were reduced and 20% of the fines were cancelled. Enforcement has been strengthened with the amendment of the criminal Law which now defines particular acts of non-compliance with nature protection legislation as a crime. Through the amendment it also became possible to fine natural persons and not just legal persons.

Overall assessment

While the Czech Republic has achieved considerable alignment with the EC environmental *acquis*, it still needs to adopt legislation in order to complete transposition in the fields of horizontal legislation (environmental impact assessment), waste management (titanium dioxide, implementing legislation), industrial pollution and risk management (implementing legislation), water quality (alignment of the Public Health Act and the Water Act, implementing legislation), and nature protection (transposition of the habitats and birds directives). Close attention should be paid to the implementation of the *acquis* with regard to horizontal legislation (co-ordination among different permitting systems such as nature and IPPC, implementing guidelines), air quality (preparation of programmes, enforcement in existing installations), waste management (implementing guidelines, waste management plans), water quality (clarification of competencies and co-operation, upgrading of monitoring systems, application of the permits for List I substances), nature protection (management and protection of habitats), industrial pollution and risk management (permitting of new installations, guidelines for major accident hazards) and chemicals and GMOs (funding of laboratories) as well as staff training in all sectors and strengthening of lower level administrations.

Concerning horizontal legislation, the main responsibilities and consultations procedures have been established. Despite some staff strengthening, implementing authorities need further guidance, training and resources. Co-ordination among the different permitting procedures, in particular as regards implementation of Article 6 of the Habitats Directive is still necessary.

As regards air quality, the monitoring network appears largely sufficient. The public is regularly provided with information on air quality. Action plans are being drawn up to indicate short term measures to be taken where there is a risk of alert thresholds being exceeded. Main enforcement measures are in place but need upgrading to also cover existing industrial plants. To improve implementation, the mechanisms required to reach established emission ceilings need to be clarified and implementing authorities need guidance on how to achieve the emission ceilings as well as to perform and enforce emission reduction plans and air quality improvement plans. As a first step, a national emission reduction programme and regional programmes need to be prepared.

As regards water quality, further efforts are required to ensure the alignment of the Public Health Act and the Water Act with the *acquis*. A very fragmented monitoring system is in place. In order to fully align the system upgrading is necessary in particular as regards groundwater, drinking water, dangerous substances and nitrates is necessary. The legal system for permitting, inspections and enforcement is clearly established, but

responsibilities are divided among a very high number of institutions. For drinking water, surface waters for abstraction are identified, but small distribution systems are not yet included in the monitoring system. For nitrates, steps for implementation have been undertaken, including the ongoing work on the establishment of vulnerable zones, and action plans for pilot projects on some farms as well as the pilot projects for the establishment of the code of good agricultural practice. A reduction programme for List II substances remains to be established and permits for dangerous substances still need to be reviewed.

The principle of integration requires continuous attention both at national and local level. The Czech Republic needs to continue integrating environmental protection requirements into the definition and implementation of all other sectoral policies so as to promote sustainable development.

The Czech Republic's administrative capacity to implement the EC environmental *acquis* still requires attention. In general, institutional arrangements for environmental protection and enforcement have long been in place and the competencies for the main requirements of the *acquis* have been identified. However, the existence of a large number of institutions dealing with environmental issues does not contribute to an efficient allocation of resources or clear administrative responsibilities. The Czech environmental administration employs a very high number of staff with a good technical knowledge in particular at the national level as well as in the specialised environmental institutions. Whereas the national level as well as specialised environmental bodies seem very well staffed in terms of numbers, the staff resources at regional and local level seem quite low. While the setting up of the new three tier administrative structures has started well, the lack of clear allocation of competencies and overlapping seems to continue since the reform has not been based on a holistic approach, considering only the division of competencies among the different governmental levels. There is a need to establish decision-making procedures, co-operation and co-ordination among different governmental bodies at all levels in particular in the water sector. At the regional and local level, enforcement and application of environmental legislation need to be further improved by additional staff, financial support, equipment and well defined division of competencies as well as guidance provided by the central administration.

Permitting procedures and conditions are well established by primary or secondary legislation. The current system is based on a multi-media approach, involving several institutions. Once the new IPPC Act is in force one integrated permit will be issued for each IPPC installation issued by the regional authorities. For non-IPPC installations a multi-media approach will continue. The timely issuing of integrated permits will be a main challenge because permitting staff can only be recruited once the new Act on IPPC comes into force. Some of the main challenges for the regional authorities will be to set up good co-operation between permitting, enforcement and inspection authorities, to ensure adequate staffing for the work load and training for the review and renewal of existing permits before accession.

The current monitoring practice is based on different monitoring types and includes monitoring activities covered by a variety of state institutions, out-sourced monitoring activities carried out by private companies, as well as self-monitoring. A clearer division of competencies and an upgrading of the monitoring system in the water sector is necessary.

A good system for inspection and enforcement has been established. The Czech Environmental Inspectorate has one central and ten regional offices. It is staffed with some 400 inspectors, which appears adequate. However, inspection responsibilities of regional authorities need to be defined more clearly in order to avoid overlaps. Despite an increase of both the number and average value of fines levied, the value of fines continues to be too low to have a strong deterrent effect.

Waste management plans, river basin management plans and action programmes under the air framework *acquis* remain to be adopted. However, the directive specific implementation plans and investment strategies still need to be based on inventory lists, including detailed figures concerning compliance and non-compliance and detailed implementation measures. Only after such an inventory has been established will the Czech Republic be in a position to develop an overall investment strategy, including a project pipeline, and back-up its financial estimates. This is essential to strengthen the investment planning and programming at the central and regional level.

Considerable investments still need to be secured, to ensure implementation of the environmental *acquis*.

Conclusion

In its 1997 Opinion, the Commission concluded that with maintained levels of investment, transposition of the environmental *acquis* as well as effective compliance with important elements of it should be achieved in the medium term. However, compliance with a number of pieces of legislation requiring a sustained high level of investment and considerable administrative effort could be achieved only in the long term (e.g. urban waste water treatment, drinking water, aspects of waste management and air pollution legislation).

Since the Opinion, the Czech Republic has achieved considerable legislative alignment with the *acquis* in most environment sectors, in particular in the past few years, and has progressed in developing the necessary administrative capacity to implement the *acquis* in this area. High investments in the environment sector in the mid 1990s have produced notable results.

Negotiations on this chapter have been provisionally closed. The Czech Republic has been granted transitional arrangements for packaging and packaging waste (end 2005) and urban waste water treatment (end 2010). The Czech Republic is meeting the majority of the commitments it has made in the accession negotiations in this field. However, delays have occurred on air, water and industry, but have been caught up in the meantime.

In order to complete preparations for membership, the Czech Republic's efforts now need to focus on finalising transposition and implementation (horizontal legislation, water quality, waste, nature protection and IPPC), ensuring the provision of the necessary financial means, and strengthening overall administrative capacity, in particular at the regional and local level.

Chapter 23: Consumers and health protection

Progress since the last Regular Report

Good progress has been made since last year's Regular Report with the adoption of a number of non-safety related legislative measures. The process of administrative improvement continues with further enhancement of the market surveillance structures.

There have been no significant developments in the area of **safety related measures**, where Czech legislation is largely in line with the *acquis*.

A number of pieces of legislation have been adopted concerning **non-safety related measures**. In March 2002 a new Act on Payment Conditions was adopted which, along with the Act on Financial Arbitration, aims to raise consumer protection and secure out-of-court settlement of disputes arising from payments (*see Ch 4: Free Movement of Capital*). The Act on Consumer Credit, which further aligned Czech legislation with the *acquis*, entered into force in January 2002, aiming to improve consumer protection in this matter and to unify the rules for providing information on consumer credit prices. Amendments to the Civil Code made in March and April 2002 aim at transposing the *acquis* relating to guarantees on consumer goods, injunctions and timeshare. The Act on Timeshare increased protection made on a timeshare basis. An extensive amendment to the Act on the Regulation of Advertising was also adopted in April 2002, including measures on misleading and comparative advertising, advertising of tobacco products and defining a new system of supervisory bodies relating to advertising.

Concerning the **market surveillance mechanism**, administrative capacity has been further enhanced through training and development of strategies. The Czech Republic has continued to strengthen the Czech Trade Inspectorate, recruiting 24 new officials and increasing its budget for inspection work by CZK 15 million (€ 440,270) in 2002. The Inspectorate made nearly 50 000 inspections in 2001 and analysed more than 3 500 complaints from consumers.

An amendment to the Civil Court Procedure and the Consumer Protection Act has allowed consumer organisations to commence proceedings for an injunction for the protection of consumers' interests. The number of non-governmental consumer organisations has reached 13 whilst the number of centres for consumer consultation and complaints mediation has increased from 28 to almost 50. Non-governmental consumer organisations continued to develop in 2002 and a steady increase in professionalism may be noted. Integration of consumer NGOs into European structures such as the European Bureau of Consumer Unions (BEUC), the European Association for the Co-ordination of Consumer Representation in standardisation (ANEC) and, recently, the Association of European Consumers (AEC) has continued. Funding for consumer organisations rose from CZK 10 million (€ 293,513) to CZK 13.8 million (€405,048) in 2002.

At the end of 2001 a Business Ethics Association was established under the auspices of the Czech Confederation of Commerce. The firms and organisations within the association accept the observance of a Code of Ethics for consumers. The code is already being applied in mail order, doorstep sales, advertising and tourist services.

Overall assessment

Legislative alignment is well advanced. The Act on General Product Safety of February 2001 makes producers, importers and distributors responsible for ensuring that goods introduced onto the market are safe and obliges them to provide relevant information to consumers. The Act also outlined structures which will be used to identify dangerous products at external borders. Nonetheless, further amendments to the Act will be necessary to complete alignment, in particular to incorporate new *acquis* in this area.

Further efforts are needed on alignment with the *acquis* as regards the indication of prices.

Responsibilities for the implementation of legislation in the sector were set out in the Concept of Consumer Policy for the years 2001-2005, published in November 2000. The concept also sets out a range of consumer protection aims for the Czech Republic, including completion of alignment and a focus on new advances and the development of consumer awareness.

The Ministry of Industry and Trade (MIT) has overall responsibility for consumer protection. Its consumer protection department has been strengthened in previous years, currently employing 12. Consumers themselves are represented in discussions on consumer policy by a consumer advisory committee.

Market surveillance is divided between several bodies, with the majority of activity conducted by: the Czech Agricultural and Food Inspectorate (CAFI), the State Veterinary Administration (specified areas of food control) and the Czech Trade Inspectorate (CTI) (non-food products and protection of consumers' economic interests). Other smaller bodies are responsible for particular niches within market surveillance whilst the Ministries of Agriculture, Health, Regional Development, and Finance have relevant responsibilities, with the Ministry of Industry and Trade (MIT) as central co-ordinator. The division of responsibilities between the organisations involved has been increasingly clarified. However, efficiency and co-ordination among actors could still be further improved. Efforts should continue to increase the operability of the existing system for the exchange of information between market surveillance bodies.

The Czech Agricultural and Food Inspectorate (CAFI) has 500 employees, of whom over 220 are professional inspectors and approximately 100 laboratory staff. The CAFI made over 22,000 inspections during 2001, and analysed over 2,000 complaints from consumers. The Czech Trade Inspectorate (CTI) has over 500 staff, of whom about 440 are inspectors. Low salaries impede the recruitment of young qualified staff, in particular inspectors.

The TRAPEX (Transitional Rapid Exchange of Information System) is fully operational, and its contact point in the Czech Republic is the Czech Trade Inspectorate. Czech preparations for participation in the Rapid Exchange of Information System (RAPEX) are ongoing, led by the MIT.

At present there are 13 independent non-governmental consumer organisations in the Czech Republic. Their work focuses on giving free advice and information through almost fifty advice centres, publishing and education, the comparative testing of products and goods, and out-of-court settlement of disputes. Although they have made some

progress in expanding their membership base, it remains relatively small. Support for such consumer organisations and their role should continue to be enhanced.

Although consumers have adequate access to justice through the courts in order to seek individual redress, a simplified exercise of consumer rights through out-of-court bodies and procedures would be desirable in order to provide alternative dispute resolution systems. It is important that consumers' awareness of their rights be increased and their interest in product safety enhanced.

Conclusion

In its 1997 Opinion, the Commission concluded that considerable work on approximation would be needed to bring Czech measures on consumer policy into line with the *acquis* in the medium term and that there was also a need to co-ordinate and organise the responsibilities of the different institutional bodies involved.

Since the Opinion, the Czech Republic has made significant progress in these matters. Framework legislation on product safety has been adopted along with numerous non-safety related measures. Overall, legislative alignment is advanced and there has been a steady reorganisation and strengthening of administrative structures.

Negotiations on this chapter have been provisionally closed. The Czech Republic has not requested any transitional arrangements in this area. The Czech Republic is generally meeting the commitments it has made in the accession negotiations.

In order to complete preparations for membership, the Czech Republic's efforts should now focus on the fine-tuning of legislation, the adoption of any outstanding measures and the ongoing improvements to co-ordination amongst the institutions involved.

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

Progress since the last Regular Report

Since the 2001 Regular Report, the Czech Republic has nearly completed its legal alignment with the *acquis* under this chapter and has made further notable progress in the institutional and implementing capacity building in all fields. Despite notable efforts, the major gap remains the ineffectiveness of combating "white collar" crime and corruption (*see Chapter 3 - Freedom to provide services*).

The Czech legislation on **data protection** has been further supplemented through an amendment to the Act on Classified Data adopted in June 2002. The 1981 Council of Europe Convention in this field entered into force in November 2001, and in April 2002 the Government signed the Additional Protocol on Supervisory Authorities and Trans-border Data Flows. The new Police Act is being implemented through an April 2002 internal instruction regulating the processing of data in the framework of criminal procedures. Protection of customs-related data will be ensured by the amendment to the Customs Act, which entered into force on 1 July 2002. As regards the supervision capacity, the staff of the Office for Personal Data Protection has reached 69 employees, and the seven independent inspectors have all been appointed. The Office registered about 14 000 data administrators in 2001 and issued 304 decisions on transmitting data abroad out of which 14 were fully or partially negative. Since June 2001, 41 on-the-spot

inspections have been initiated (including one within the Police) and 57 measures have been taken such as data liquidation, restriction of scope of processed data and improvement of security measures. Within the police, 60 police officers (out of a total of 120) have been recruited so far to deal with this issue. Their training started recently.

The Czech Republic has continued to make good progress in aligning its **visa** policy with that of the EU. It aligned its visa obligations with the *acquis* in December 2001, and is currently preparing a standard visa-free agreement with certain countries, in line with EU visa-free travel. The Act on the Residence of Aliens, already amended in 2001, was further amended in May 2002. Thus, a new visa sticker for short-term and long-term stay was developed which corresponds to the EU visa sticker as far as possible and is being gradually introduced. The country has achieved considerable progress in modernising the visa issuing procedure: new general consulates have been opened in Poland and the Russian Federation and an on-line system is currently operating between all 108 Czech diplomatic missions issuing machine-readable visas (except Zimbabwe), the Ministry of Foreign Affairs and the Alien and Border Police Service. The upgraded visa software ensuring higher data transmission speed and improved data security is now installed at the diplomatic missions. So far, about 800 000 visas have been issued under the new visa system.

With regard to **border control**, a new Act on State Border Protection was approved in April 2002 that further contributes, together with the amendment to the Aliens Law, to the full alignment of the Czech legislation with the Schengen/EU requirements. The new Act will enter into force on 1 January 2003 except for those provisions that will enter into force as of the date of lifting of internal border controls. It introduces the concept of border protection for preventing illegal border crossings in compliance with Schengen standards and ensuring the regularity and continuity of border protection. The enhanced efforts at operational level have led to rather positive effects on control of migration flows and as regards interception of illegal immigrants (especially on the Austrian and German borders), the number of whom declined by 28% in 2001, according to Czech statistics (13 000 less than in 2000). The majority of the problems identified in the 2001 Regular Report have been addressed.

An amendment to the Criminal Procedure Act was also adopted, which addresses Schengen judicial co-operation in criminal matters, in particular liaison magistrates. The Alien and Border Police (ABP) has a new structure as of 1 January 2002, which makes it more independent at the regional level. The ABP now comprises National Headquarters, seven Regional Directorates and the executive departments such as searching and residence checking departments (mobile units). The latter, created in all border regions at the end of 2001, are in charge of the detection and prevention of illegal immigration, cross-border crimes and illegal employment or residence. The technical equipment has also been improved (thermal-vision units, CO2 detectors, optical equipment for reading machine-readable documents). In the first quarter of 2002, extensive training for the top management of the Ministry of the Interior and the Police took place and a new system for training trainers in the area of travel documents was introduced. A new facility with a capacity for 145 third country nationals awaiting expulsion was opened in Velké Přílepy in February 2002.

Since November 2001, the Czech Republic continued to make important progress in the implementation of its **Schengen** Action Plan. The Government reviews progress every six months. The Police President decided to create one central authority for setting up the

National Schengen Information System (N-SIS). Two agreements with Germany on cross-border surveillance and hot pursuit largely based on the Schengen model have been ratified. The Czech Police has prepared draft similar agreements with Slovakia, Poland and Austria.

As regards **migration**, the new amendment to the Act on the Residence of Aliens will enter into force partially on 1 January 2003 and fully by the date of lifting of internal border controls. This amendment defines the conditions for residence and the rights and duties of EU citizens on the Czech territory after accession, and incorporates an amendment to the Act on Travel Documents to enable EU citizens to enter with their ID card. The amendment also regulates the issue of refusing entry into the territory for reasons of public order. The effective readmission of illegal immigrants, using escorts organised by the police, has improved since the last Report. The Czech Republic is still negotiating the conclusion of new readmission agreements with the Benelux countries and Slovakia, and has initiated negotiations with Belarus, China, FYROM, India, Iran, Iraq, Moldova, the Russian Federation, Sri Lanka, Ukraine, Vietnam and Yugoslavia. It signed a readmission agreement with Slovakia in July 2002.

Another positive development was the adoption in November 2001 of the amendment to the Act on **Asylum**, which entered into force on 1 February 2002. The amendments provide for appeal against administrative decisions in asylum cases, define the concept of manifestly unfounded application and restrict access to employment by applicants for asylum. An application for asylum is now initially dealt with by the Department for Asylum and Migration Policies of the Ministry of the Interior. Currently, an applicant can appeal against a refusal to the Administrative Division of the High Court in Prague; a further appeal on matters of law by way of cassation may be submitted to the Supreme Administrative Court. From January 2003, the Prague Regional Court will hear appeals instead of the High Court. The Ministry of the Interior increased the capacity of 12 reception centres to reach a total capacity of 2 368 places (or 3 116 places in emergency situations).

The amendment to the Act on Asylum should be seen in the light of the very considerable increase in asylum applications in 2001 (18 082 against 8 788 in 2000). The Czech Republic received about 4 500 new asylum seekers in the first half of 2002. The majority of the cases in 2001, as over the previous years, came from Ukraine, Moldova, Romania (which number has dropped in 2002), Vietnam, India, Georgia, Armenia, the Russian Federation, Belarus and Afghanistan. On the other hand, far fewer applicants were granted asylum in 2001 (75) than in 2000 (133), and it seems that this trend will also be reinforced as a consequence of the amended Act.

In the fields of **police co-operation and the fight against organised crime**, the draft Act on the Service Status of the Members of the Security Forces was rejected by the Parliament in March 2002. On the other hand, the police ethics code, which was included in the above draft, was adopted. The Czech Republic made encouraging progress on the implementation of the main legal and institutional reforms decided last year. The act on witness protection and the amendment to the Police Act were implemented and a new unit on witness protection was created. Following the 2001 amendment to the Code of Criminal Proceedings, the Police Presidium started in January 2002 an in-depth reorganisation of its services, based on the principle of the abolition of the corps of investigators. The reform focused on the creation of the Criminal Police and Investigation Service (CPIS), which co-ordinates the activities of the main specialised

departments. The Czech Republic made also important progress as regards international co-operation. It signed the agreement with EUROPOL on 5 March 2002, which entered into force in August 2002, and concluded co-operation agreements with Austria, France, Germany and Italy, while continuing to negotiate with Belgium, Ireland and the United Kingdom. Finally, a new liaison officer is being trained to be posted to Ukraine by 2003.

In the **fight against terrorism**, the Czech Republic adopted in April 2002 a National Action Plan in response to the events of 11 September 2001 in the United States, and started preparing the harmonisation of its criminal code with a view to the ratification of the UN Convention for the Suppression of the Financing of Terrorism. It also passed new anti-terrorism legislation including measures against the financing of terrorism. The staff of the department for combating organised crime was increased and a new department was set up to be the counterpart of EUROPOL and of the anti-terrorist forces of the Member States and candidate countries in this area.

As regards **the fight against fraud and corruption** (*see Section B.1.1- Democracy and the rule of law*), no further progress in terms of legislative harmonisation can be reported on remaining issues. The further amendments to the Criminal Code concerning the criminal liability of legal persons and redefinition of corruption in the private sector remain awaited. Moreover, in April 2002 the Government approved a report on corruption which underlines that the situation is not improving. Data on bribery and crimes committed by public officials as well as data from public opinion research studies have shown that the number of corruption-related criminal offences detected has increased. It confirmed that latent corruption is still widespread, including in administrative police departments. On the other hand, the number of investigated and prosecuted bribery cases has also risen (especially in the areas of active corruption and credit fraud). Some positive developments can however be reported: the Czech Republic acceded in February 2002 to the Council of Europe Group of States against Corruption (GRECO) and the Supreme State Prosecutors' Office in Brno signed a co-operation arrangement with OLAF in January 2002. The specialised units of the former in Prague, Olomouc and Brno have confirmed the encouraging results obtained in terms of prosecution and conviction already mentioned in the previous Regular Report.

The Czech Republic has made progress in implementing its National **Drug Policy Strategy 2001-2004** through all involved institutions at all levels and adopted in June 2002 a long-term action plan to implement the EU Action Plan for 2000-2004. Since the reorganisation of the Police Presidium in January 2002, the National Anti-Drug Headquarters have been part of the CPIS but continue to co-ordinate the regional units and investigate narcotics cases at national and international levels. In June 2002 the Government established the Czech National Contact Point, which is to become fully operational as of January 2003.

In the field of the fight against **money laundering** (*see also Chapter 4 - Free movement of capital*), the Czech Republic has implemented the 2001 amendment to the Code of Criminal Proceedings, while amendments to the Criminal Code extending and clarifying criminal sanctions (up to five years) entered into force in July 2002. In 2001, there was an increase in the number of persons prosecuted for money laundering (40 against 15 in 2000 and 16 in 1999), while there was a decrease in the number of convicted persons (3 against 6 in 2000 and 5 in 1999). The Financial Analytical Unit (28 staff) under the Ministry of Finance filed 376 suspicious transactions and lodged 26 complaints in the first half of 2002 (against 101 for the whole of 2001).

In the field of **customs co-operation**, an amendment to the Customs Act which aims to simplify existing procedures entered into force in July 2002. As regards the 1995 Convention on the use of information technology, the Customs Service has a platform of Customs Information Systems, which consists of the Anti-Fraud Information System, with its Early Warning System, and about 6 500 personal computers. The training is focusing on information systems for customs purposes. Moreover, the Programme at the national level on Memoranda of Understanding has been approved and implemented.

With regard to **judicial co-operation** in both civil and criminal matters, the Czech Republic has almost finalised the legal approximation with the *acquis*. The amendments to the Criminal Code in the fields of Schengen judicial co-operation, the definition of criminal organisation, trafficking in human beings and the sexual exploitation of children entered into force in July 2002. In June 2002, bilateral agreements with Germany on the European Conventions on Mutual Assistance in Criminal Matters and on Extradition entered into force. The Czech Supreme State Prosecutors' Office in Brno also represents the Czech Republic in its co-operation with EUROJUST.

Overall assessment

As regards **data protection**, the Czech legal framework is now fully aligned with the *acquis* in this chapter. The Police is fulfilling requirements in this area following the adoption of specific instructions, specialised police staff recruitment, training and regular co-ordination meetings between the Office for Personal Data Protection (OPDP) and the different law enforcement authorities. The OPDP is now operational and has reached a reasonable staffing level, although additional staff remains necessary. The police needs to recruit 60 other specialised officers and provide information to the public. In principle, police-related data can only be used by authorised officers and be kept for a necessary period of time, and if such data has not been processed or updated within two years, the record is automatically deleted. The main gap remains the lack of preparation of the Customs administration in this area. Close attention should be paid to this by the Czech Republic in order to accede to the Customs Information System and the Naples II Conventions upon accession.

The Czech Republic has almost completed the approximation of its **visa** regime. The outstanding task remains the alignment with the EU visa-free travel list. The new amendment of 2002 to the Act on the Residence of Aliens is indeed another positive development as regards the issuing of visa stickers with high security features. Regarding its administrative capacity, and despite the fact that the Czech Republic has continued to make notable progress, it is still necessary for regional and district authorities to pay attention to migration risks.

The Czech Republic has continued to strengthen its overall strategy and systems of **border control**. The controls at official border crossing points are performed in a satisfactory manner and all have an on-line connection to their headquarters. On the other hand, there are still gaps to be addressed as concerns the control of green borders with Slovakia. The Czech-Slovak border management agreement remains to be revised. The fact that Regional Directorates have direct command over these units can be regarded as very positive. Nonetheless, the national Headquarters still need to be reinforced. Encouraging improvements have been achieved in the supply of modern equipment, the setting up of a new training system and the opening of new detention facilities.

The Czech Republic continued to implement all legal, institutional and operational commitments included in its 2001 **Schengen** action plan, according to the time schedule for the year 2002. The further implementation of the action plan will notably depend on the conclusion of remaining bilateral co-operation and readmission agreements.

As regards **migration**, the new amendment of April 2002 to the Act on the Residence of Aliens fully aligns the Czech legislation with the *acquis*. The authorities should continue these encouraging efforts and now focus on the effective conclusion of new readmission agreements with Belarus, China, FYROM, India, Iran, Iraq, Moldova, the Russian Federation, Sri Lanka, Ukraine, Vietnam and Yugoslavia.

As far as **asylum** is concerned the amendment to the Act on Asylum constitutes a further step towards full approximation of the Czech legislation. As far as implementation capacity is concerned, the Czech authorities should increase the number of judges available to conduct review hearings and expand judicial education in this field. As regards the reception centres, the Czech Republic provides fairly good integration opportunities for recognised refugees. On the other hand, it should address the overcrowded police detention centres where asylum applicants who entered the country illegally are awaiting a decision.

In the fields of **police co-operation and the fight against organised crime**, authorities admit that combating corruption, economic and financial crime and drug trafficking is still very problematic. Confiscation of the proceeds of crime also remains problematic. The security risks concerning organised crime are still concentrated in trafficking in human beings (prostitution, illegal immigration), drugs, stolen cars and money laundering. The new unit on witness protection is fully operational, although its strategy should be further elaborated in close co-operation with the judiciary and the prison system.

The Police started from 1 January this year an in-depth reorganisation of its criminal and investigation services following the reform of the Code of Criminal Proceedings launched in 2001 with a view to setting up a system comparable to those of the EU Member States. Without prejudging the real impact of this reform at this early stage, it seems that it has allowed the different criminal and investigation services involved to address more efficiently classic, simple criminal cases, prosecution of which has been simplified and accelerated. The impact on the performance of State Prosecutors and Judges needs to be addressed rapidly by the Ministry of Justice, notably through concrete measures with a view to improving their training. So far, the reform has been positively perceived by the different law enforcement authorities. Efforts should now focus on enhancing quality management to make them more service-oriented, reducing the rather lengthy procedures at the court level and strengthening prosecutors' offices since their tasks have been enhanced. Statistical instruments for measuring crime rate should be improved, while new methods of technical crime investigation, including development of forensic investigation should be further developed.

The Czech Republic has signed but not yet ratified the 2000 UN Convention against transnational organised crime (Palermo Convention). Also, the three protocols to this Convention have not yet been signed.

In the **fight against terrorism**, the National Action Plan adopted by the Czech Republic contains an analysis of the methods and means used by terrorists (including funding), the description of the current situation and the measures for combating terrorism in the

country. It also includes a list of international obligations and their impact upon legislation.

Unfortunately, the effectiveness of the **fight against fraud and corruption** has not sufficiently improved. Further qualified staff to support the work of police investigators and prosecutors and adequate training continue to be urgently needed.

With regard to protection against fraud, the Czech Republic will be ready upon accession to ensure effective co-operation between law enforcement agencies, the judiciary and OLAF by acceding to the second protocol to the Convention on the Protection of the Financial Interests of the European Communities. Although the Supreme State Prosecutors' Office has started to involve all relevant authorities in this area, further support from all Government agencies is necessary to ensure an efficient anti-fraud strategy. The main task of the Police now consists in further clarifying the concrete division of labour, especially in the area of "white collar" crime, between the specialised central Police departments. The Czech Republic should pay more attention to the fact that prevention through transparency and accountability standards is as important as repressive tools.

As regards **money laundering**, the Czech Republic has aligned its legal framework with the *acquis* thanks to an amendment to the Criminal Code which includes new provisions to penalise money laundering and enable prosecution of money laundering on a wider scale. However, only a few prosecutions and convictions in comparison with the number of cases of financial or tax fraud investigated or suspected can be reported. Although each institution can be considered as fully operational (Financial Analytical Unit, specialised police and Prosecutors' Office departments), further promotion of a multi-agency approach is still necessary, especially in terms of exchange of information, feedback on activities and specialised training.

The Czech Republic continues to be mainly a transit country for **drug** traffickers but is increasingly also becoming a consumption country. On the other hand, the country has been successfully combating this phenomenon. The National Strategic Plan for 2001-2004 is being implemented. At strategic level, the Inter-Ministerial National Drug Commission co-ordinates very well the different Governmental agencies and other institutions. The Czech Republic is well advanced as regards co-operation with the European Monitoring Centre for Drugs and Drug Addiction: however, in this context, the National Information Centre remains to be established.

The Czech Republic has aligned itself with the *acquis* in the field of **customs co-operation** since the amendment to the Customs Code entered into force. The Customs Service is now connected to OLAF although adequate software has still to be installed to ensure the effectiveness of this indispensable co-operation. The issue of data protection, mentioned above, needs to be urgently tackled by the Customs administration. Moreover, the latter needs to further improve its co-operation with other law enforcement agencies on combating illegal immigration, corruption and drug trafficking.

As far as **judicial co-operation** is concerned, the Czech Republic will be able to apply all *acquis*-related conventions upon accession. The Czech Republic is ready to co-operate with the newly created EUROJUST network, and the Schengen liaison network of magistrates is being smoothly completed. The Czech Republic should continue its efforts to complete its judicial reform as scheduled. Further improvements in the practical implementation of judicial co-operation are needed, especially the continuous reduction

of lengthy court procedures and bureaucratic obstacles, and ensuring sufficient manpower. The Czech Republic should take further measures to ensure implementation of the Community instruments in the area of judicial co-operation in civil matters, notably as regards mutual recognition and enforcement of judicial decisions. Direct contacts between competent judicial authorities should be made possible.

The Czech Republic is party to the **human rights** legal instruments under the justice and home affairs *acquis*.

Conclusion

In its 1997 Opinion, the Commission concluded that the Czech Republic was well placed to meet the requirements of the justice and home affairs *acquis*, provided due attention was paid to developing the expertise of the police and judiciary, and to the fight against drugs and organised crime. The Commission added that an important priority was improving border management and bringing migration flows under control.

Since the Opinion, the Czech Republic has made notable progress in developing consistent multidisciplinary strategies, reforming the different law enforcement agencies and improving their functioning. The only notable exception to this success, despite recent improvements, remains its capacity to address the phenomenon of corruption and “white collar” crime. At present, the Czech Republic has nearly completed its legal alignment with the *acquis*.

Negotiations on the chapter have been provisionally closed. The Czech Republic has not requested any transitional arrangements. The Czech Republic is generally meeting the commitments it has made in the accession negotiations in this field.

In order to complete preparations for membership, the Czech Republic’s efforts now need to focus on further improving its implementing and management capacities, as well as the human and material resources of its law enforcement agencies and judiciary, and on meeting the practical requirements of Schengen. In particular, efforts should focus on ensuring the implementation of its reform of the judicial system and of its Schengen Action Plan according to the announced time schedule and on strengthening the fight against fraud, corruption and organised crime.

Chapter 25: Customs union

Progress since the last Regular Report

Since last year's Regular Report, the Czech Republic has made further progress on legislative alignment, and also in the field of administrative capacity.

As regards alignment with the **customs acquis**, an amendment to the Customs Act was adopted in November 2001 and, together with related implementing provisions, came into force in July 2002. The amendment applies the Community rules on duty reliefs, customs procedures with economic impact (warehousing), implementation of the Common Transit system and application of simplified customs procedures. The amendment also contains provisions resulting from the revised Kyoto Convention, which the Czech Republic signed in June 2001. An amendment to the Act on Measures Concerning Import, Export and Re-Export of Goods infringing certain Intellectual

Property Rights entered into force in September 2002, and introduces new powers for customs officers in the field of counterfeiting and piracy, including the authority to inform IPR holders of the identity of declarants, and the power to declare goods counterfeited or pirated in the framework of legal proceedings. A single contact point has also been set up for the submission of requests for enforcement action, and such requests may be made in electronic form (see *Chapter 5: Company Law*). With the adoption of these provisions, the Czech Republic has completed the alignment of its customs legislation with the current *acquis* (as at December 2001).

Concerning **administrative and operational capacity**, computerisation of the customs administration has continued, and work has progressed on interconnectivity with EC systems. A national database has been created in the real environment of the future TARIC system (Integrated Tariff of the European Communities). Tests with economic operators of the Pilot Phase 2 of the New Computerised Transit System (NCTS) were completed before the end of 2001. The system is now operating at four Czech Customs offices and Phase 3.1 was successfully introduced in August 2002.

With regard to ethics and anti-corruption measures, the Internal Inspection Department within the customs administration has taken measures over the past year to detect and pursue corruption amongst customs officials. It co-operates closely with the specialised police department dealing with detection of corruption and major economic crime. A Code of Ethics is being implemented and has been published in both written and electronic form. A new training programme is being implemented since September 2001, covering the newly acquired powers of customs officers, the amended Customs Act and developments arising from EU accession.

As regards customs co-operation, several developments can be reported. A tri-lateral co-operation agreement between customs laboratories was signed in January 2002 by Hungary and the Czech and Slovak Republics. The Czech customs administration has also continued to reinforce the framework for co-operation with other services, as well as trade and industry. Two joint working groups of the Czech customs administration and Police have been set up, for the fight against illegal importation of commercial electronic devices and mineral oil products respectively. New Memoranda of Understanding were signed in the past year with the Office of Nuclear Safety and a freight forwarding company. These Memoranda focus on the fight against fraud and co-operation in the areas of simplification of customs clearance, for instance by means of information technology.

Efforts have continued to reduce waiting time at borders, including the opening of three new border posts (two with Germany and one with Poland) in the first half of 2002, and the expansion of a fourth, as well as increased use of simplified customs clearance procedures.

Overall assessment

The Czech Republic has reached a very high level of legislative alignment with the *acquis* and already has experience of applying similar provisions, as for instance quotas on much the same basis as the Community. However, it has no experience of suspensions or end-use relief, moreover, the full range of Community commercial policy measures and export refunds will not apply until accession, and these affect the context in which

the provisions in areas such as non-preferential origin, inward and outward processing are applied.

While Community simplified procedures are faithfully reflected in Czech legislation they do not seem to be much used as such; simplified procedures in use essentially involve little simplification with regard to data required or time of submission, but highly automated clearance and rapid release of goods.

The Czech Republic should now concentrate efforts on the continued strengthening of administrative capacity, in particular co-operation with other bodies to reduce piracy and counterfeiting. The Czech Republic should also continue work on anti-corruption measures and on the development of information technology systems that will allow computerised data exchange with the EC.

Conclusion

In its 1997 Opinion, the Commission concluded that if it reinforced its efforts, particularly in relation to computerisation, the Czech Republic would be ready to fulfil the responsibilities of an EC customs administration within the next few years.

Since the Opinion, the Czech Republic has made steady progress and has gradually developed and reinforced the necessary administrative capacity, where progress so far has been fully satisfactory, in particular as regards preparations for information technology interconnectivity. The Czech Republic has completed the alignment of its customs legislation with the *acquis*

Negotiations on this chapter have been provisionally closed. The Czech Republic has not requested any transitional arrangements. The Czech Republic is generally meeting the commitments it has made in the accession negotiations in this field.

In order to complete preparations for membership, the Czech Republic now needs to finalise the work on computerisation and full interconnection of national systems with EC customs IT systems and take the necessary steps to prepare for the application of measures and provisions that will be introduced only at the time of accession.

Chapter 26: External relations

Progress since the last Regular Report

Since the last Regular Report, the Czech Republic has continued to align with the *acquis* on common commercial policy and to co-ordinate positions and policies within the World Trade Organisation (WTO) with the EU, in particular with regard to the Doha Development Agenda negotiations.

As regards the **common commercial policy**, upon accession, the Czech Republic will be required to align its tariffs with those of the EC. The Czech Republic's applied tariffs currently average 6.1% (MFN) on all products, 13.5% on agricultural products, 0.1% on fishery products and 4.5% on industrial products. By comparison, EC tariffs currently stand at 6.3% on all products, 16.2% on agricultural products, 12.4% on fishery products and 3.6% on industrial products.

In the field of **dual-use goods**, an amendment to the Act on Controls of Exports and Imports of Goods and Technologies Subject to International Control Regimes came into force in June 2002. The Czech Republic keeps the industry regularly informed of developments in this field and has developed bilateral contacts with the EU Member States to exchange best practices on export control issues.

In the field of export credits, in November 2001 the Czech Republic became a Participant to the OECD Arrangement on Guidelines for Officially Supported Export Credits, which sets terms and conditions for state-supported export financing and export credit insurance.

The Czech Republic has unilaterally applied a suspension of MFN tariffs levied on imports of twelve civil aircraft products. Despite the Commission's strong opposition, this exceptional measure, introduced in 2000, and due to end in December 2001, was prolonged until December 2002. The Czech Republic will need to ensure that this tariff suspension will not be prolonged beyond 2002.

As regards **bilateral agreements with third countries**, the free trade agreement between the Czech Republic and Croatia has been provisionally applied since January 2002 pending its ratification. Preparations have begun for ensuring the termination of the Czech-Slovak customs union by the time of accession. A protocol has been prepared to the Czech-Moldovian Agreement on trade and economic co-operation of 1999, relating to the establishment of a joint commission on trade and economic co-operation. Within CEFTA, the Czech Republic signed the Additional Protocol No. 10 relating to the liberalisation of agricultural and food trade, and the Additional Protocol No. 11 relating to the rules of origin of goods.

With regard to **development policy**, co-operation and assistance, the Czech Republic is an active member of the OECD and is adapting its development practices to the principles laid down by the Development Assistance Committee. In January 2002 the Czech Republic adopted the Czech Republic Foreign Aid Programme for 2002-2007. It defines the objectives, principles and territorial and sectoral priorities of the Czech Republic's development aid and foresees institutional and financial changes which will bring the Czech system of foreign development aid closer to that of EU Member States. Total bilateral and multilateral external assistance given by the Czech Republic to developing countries in 2001 amounted to over € 34 million (1 billion Czech crowns).

Overall assessment

The EU and the Czech Republic have established a framework for co-operation regarding WTO issues both at ministerial and at departmental level. The Czech Republic has been supportive of EU policies and positions within the WTO framework, in particular also during the preparation for and the launching of the Doha Development Agenda. This close co-operation should continue.

Close co-ordination is needed and should continue, to ensure the smooth alignment of the Czech Republic's GATS commitments with the EC's commitments and MFN exemptions, and steps have been defined to this extent. The Czech Republic is a signatory to the Information Technology Agreement and an observer to the WTO plurilateral agreements on Government Procurement and on Trade in Civil Aircraft. With regard to the WTO Agreement on Textiles and Clothing (ATC), the Czech Republic

has co-operated with the Community in the process of third stage notification to align its list of integrated products under the ATC to the EU's.

In the area of dual-use goods progress has been made, however, the Czech Republic still needs to complete alignment with the *acquis*. Full alignment, in particular the general export authorisations, can only take place upon accession.

The Czech Republic currently has free trade agreements in place with Croatia, Lithuania, Latvia, Estonia, Israel, Turkey and EFTA. The Czech Republic is also a member of CEFTA. The Czech Republic needs to ensure that the Union is kept fully informed both about existing trade agreements and about any negotiations aimed at the conclusion of new trade agreements with a third country. Prior to accession, the Czech Republic will need to renegotiate or renounce all international agreements concluded with third countries that are incompatible with its future obligations as an EU Member State, including the Treaty of Friendship, Commerce and Navigation with Japan. Decisive steps are needed, as a matter of urgency, to bring bilateral investment treaties in conformity with the Treaty obligations. Failure to do so will mean that the conflict between the bilateral investment treaties and Treaty obligations will need to be resolved in the Accession Treaty.

The Czech Republic's alignment with and future participation in the common commercial policy is administered by the Ministry of Industry and Trade and the Ministry of Foreign Affairs. The administrative infrastructure, which needs to be in place with respect to customs services, is discussed in the chapter on customs union (see *Chapter 25 - Customs union*).

With the creation of Czech Aid within the Ministry of Foreign Affairs and the Czech Platform of development NGOs (Czech Forum for Development Cooperation) the Czech Republic is advancing in establishing the framework for development assistance.

Conclusion

In its 1997 Opinion, the Commission concluded that the Czech Republic was well placed to be able to meet Community requirements in this field in the medium term, provided efforts were reinforced to eliminate existing trade barriers and to align more closely with the Community trade regime.

Since the Opinion, the Czech Republic has made steady progress in aligning with the *acquis* in this area, particularly as regards export credits where compliance has been achieved. Progress has also been made with regard to strengthening administrative capacity. Overall, alignment is on track and has reached a good level and administrative capacity is satisfactory.

Negotiations on this chapter have been provisionally closed. The Czech Republic has not requested any transitional arrangements in this area. The Czech Republic is generally meeting the commitments it has made in the accession negotiations in this field.

In order to complete preparations for membership, the Czech Republic's efforts now need to focus on finishing the process of legislative alignment, on taking decisive steps, as a matter of urgency, towards the renegotiation or abrogation of its bilateral investment treaties in full conformity with its EU membership obligations, on terminating its exceptional suspension of MFN tariffs on certain civil aircraft products by December

2002 at the latest, as well as on ensuring that the administrative capacity exists to fully implement and enforce the *acquis* in this field upon accession.

Chapter 27: Common foreign and security policy

Progress since the last Regular Report

Since the previous Regular Report, the Czech Republic has continued to position its foreign and security policy in line with that of the European Union.

The regular **political dialogue** established by the Association Agreement with the Czech Republic is proceeding smoothly and the Czech Republic has played a constructive role within the framework of the Common Foreign and Security Policy (CFSP), including meetings at the level of Political Directors, European Correspondents and Working Groups.

The Czech Republic has shown a keen interest in continuing its active participation in political dialogue with the EU, including on ESDP developments. It has actively taken part in exchanges in this context with the EU, including (for ESDP) in EU+15 format (i.e. with non-EU European NATO members and candidates for accession to the EU) and in EU+6 format (i.e. non-EU European NATO members).

As regards **alignment with EU statements and declarations**, the Czech Republic has regularly aligned its positions with those of the Union and, when invited to do so, has associated itself with the Union's **common positions and joint actions**. Since November 2001, the Czech Republic has associated itself with an EU joint action concerning the EU contribution to combating the destabilising accumulation and spread of small arms and light weapons. It has also associated itself with eight EU common positions, including three on the Federal Republic of Yugoslavia.

The Czech Republic has continued to comply with **international sanctions and restrictive measures** imposed by the UN and the EU. Progress has been achieved regarding the control of arms exports. The government has shown increased awareness of the need to move towards ensuring the fullest possible consistency with the EU Code of conduct on arm exports.

During the reporting period, the Czech Republic played an active role in the Capabilities Improvement Conference in November 2001, designating 1 000 troops to take part in EU Rapid Intervention Force missions as of January 2003. The Czech Republic also offered 100 policemen to participate in the EU police force. In May 2002, the Czech Republic gained full membership of the Western European Armament Organisation (WEAO), thus taking a further step towards integration with the European Security and Defence Policy (ESDP).

Relations with Slovakia remained good and were reinforced by the decision to set-up a joint Czech-Slovak KFOR unit, which started its mission in Kosovo in March 2002. In the same month, the Czech Parliament approved participation in a joint Czech-Slovak-Polish Brigade.

Overall the Czech Republic has had constructive relations with its neighbours and within the Visegrad group, although they were overshadowed by political tensions relating to the

Czechoslovak Presidential Decrees of 1945 and related issues. In particular since the Czech general election and the dramatic flooding in central Europe during August, when there was good regional co-operation to provide mutual assistance, determined efforts have been made to overcome these differences.

As regards **regional cooperation**, in November 2001 the Czech Republic became a member of the Stability Pact for South-East Europe, of which it had been previously an observer.

In the field of defence cooperation, the Czech Republic has made considerable efforts to support international peacekeeping missions. It has continued to participate in UN (Kuwait) and OSCE peacekeeping and observer operations as well as in KFOR. It joined ISAF this year and ended its participation in SFOR in September 2001.

The Czech Republic has signed the Rome Statute establishing the International Criminal Court. It has passed new anti-terrorism legislation, including measures against the financing of terrorism (*see Chapter 24 - Co-operation in the field of Justice and Home Affairs*). It has aligned itself with the EU Plan of Action of September 2001 and with the four Common Positions on combating terrorism.

As regards administrative capacity, a new department for CFSP matters, under the control of the Political Director, was set up in the Ministry of Foreign Affairs in May 2002. An electronic database on CFSP matters is being developed.

Overall assessment

The Czech Republic has continued to participate actively in the Visegrad group; it is furthermore taking part in activities of the Central European Initiative.

Political dialogue with the EU has remained overall constructive and consistent. The Czech Republic has substantially aligned its arms export sector with the EU Code of Conduct. It has engaged constructively in multilateral fora.

The Ministry of Foreign Affairs has an administrative set-up compatible with the CFSP structures of the EU. It was reorganised in spring 2000 and now includes the posts of Political Director and European Correspondent. The Ministry is connected to the Associated Correspondents' Network information system through which the EU communicates within the CFSP with the associated partners.

Conclusion

In its 1997 Opinion, the Commission expressed the view that the Czech Republic would be in a position to effectively fulfil its obligations in the field of the Common Foreign and Security Policy.

Since the 1997 Opinion, the Czech Republic has demonstrated a satisfactory capacity to implement the CFSP *acquis* as well as to align its foreign policy with the CFSP of the Union. The Czech Republic has taken full part in the political dialogue established by the Association Agreement, and has overall maintained a high level of alignment of its foreign and security policy with the CFSP. The necessary administrative structures are now largely in place.

Negotiations on this chapter have been provisionally closed. The Czech Republic has not requested any transitional arrangements. The Czech Republic is generally meeting the commitments it made in the accession negotiations in this field.

In order to complete preparations for membership, the Czech Republic's efforts now need to focus on ensuring that its foreign policy orientation remains in line with the Union's developing foreign and security policy, adopting the legislation on economic sanctions and finalising the development of the necessary administrative structures. In particular, the Czech Republic should ensure that its national policies and practice conform to the EU's common positions, should defend these positions in international fora and should ensure that all sanctions and restrictive measures can be duly implemented.

Chapter 28: Financial control

Progress since the last Regular Report

Further progress has been made in this area since the last Regular Report.

As regards **Public Internal Financial Control** (PIFC), the new Act on Financial Control in Public Administration entered into force on 1 January 2002. The Decree implementing the Act entered into force in March 2002, while work is advanced in the establishment of functionally independent internal audit units in all budget spending centres. Internal Audit Manuals and Charters are currently being drafted under the authority of a Coordinating Unit in the Ministry of Finance. A series of training activities for PIFC has been launched in co-operation with the Czech Institute of Internal Auditors.

Progress has continued in the area of **external audit**. The criteria for compliance with international audit standards on the level of the Supreme Audit Institutions (SAI), as identified in the Recommendations of the Presidents of SAI of October 1999, are already met to a large extent by the Supreme Audit Office (SAO) in the Czech Republic. The issues of functional, organisational and operational independence of the SAO and its audit scope are satisfactory.

No formal discharge mechanisms have been introduced in the framework of the presentation of SAO reports in Parliament. The reports are made public and discussed by the relevant Parliamentary Committees. It is common understanding that the Government is required to follow up the recommendations and report on a regular basis.

Auditing procedures are governed by appropriate audit manuals based on INTOSAI auditing standards and guidelines.

As regards the **control of structural action expenditure**, the SAPARD Agency at the Ministry of Agriculture has its own internal audit unit and is further supervised by audit units of the Ministry of Agriculture and the National Fund and Supreme Audit Office. A private company delegated by the Ministry of Finance performs annual certification procedures concerning accounts of the Agency. With respect to ISPA, good progress has been made with regards to establishing a management and control system, in particular regarding the legal framework at implementation level and the development of working procedures, manuals and checklists. However, further steps need to be taken to meet the requirements for internal financial control and internal audit. The Czech Republic has

already started the gap assessment exercise which is the first step leading to the extended decentralised implementation system (EDIS).

Progress has been achieved in the area of **protection of the Communities' financial interests**. A co-operation arrangement between OLAF and the Czech Supreme Public Prosecutor's Office was signed in October 2001 and entered into force on 1 January 2002. A technical meeting was held in January 2002 to start the implementation of this agreement. Relations, for the purpose of the protection of the Communities' financial interests, between the Supreme Public Prosecutor's Office of the Czech Republic and other relevant Czech institutions are specified in an inter-institutional cooperation agreement. The new Act on Financial Control in Public Administration allows the competent EC bodies to carry out on-the-spot checks and stipulates that all public administration bodies shall be obliged to comply with such checks.

Overall assessment

As regards PIFC, further significant efforts are required to complete and strengthen the institution building for the PIFC system, notably to set up functionally independent internal audit units in all bodies of public administration. Further work is needed to finalise tertiary regulations relating to internal audit methodology. Given the continuous need for qualified staff in this area, sustainable training schemes need to be put in place and further monitored.

The strengthening of administrative capacity is of particular importance in order to complete the preparations for fully decentralised implementation of pre-accession aid and, after accession, of the Structural Funds.

In the area of external audit, the financial independence of the Supreme Audit Office (SAO) needs to be further enhanced. The procedure for discussion in parliament and the follow up of the recommendations of SAO audit reports should be formalised.

As regards the control of structural action expenditure, the Czech Republic needs to reinforce and accelerate efforts leading to the extended decentralised implementation system before mid 2003 in order to allow EDIS accreditation to be achieved in the second semester of 2003. In April 2002, the Commission adopted a Decision provisionally conferring management authority for SAPARD, on a fully decentralised basis, to the SAPARD Agency.

With a view to ensuring adequate protection of EC financial interests, the relevant Czech authorities need to develop internal co-ordination as well as the legislative framework to underpin effective co-operation with the competent EC bodies.

Conclusion

In its 1997 Opinion, the Commission concluded that the financial control system in the Czech Republic was just being developed. It added that major elements to control the allocation and use of public resources were not yet in place in the Czech Republic. However, the Commission concluded that if the necessary resources were made available, the Czech Republic should be in a position in the medium term to fulfil the EC requirements.

Since the Opinion, significant steps forward have been taken, mainly over the past two years. The development of a comprehensive system of PIFC, compatible with internationally accepted and EU-compliant standards, is under way as is the process of establishing corresponding institutional structures. Overall, legislative alignment is well advanced although it needs to be completed as regards the protection of the Communities' financial interests. Implementing structures have been established but further substantial efforts are required in order to render them fully operational.

Negotiations on this chapter have been provisionally closed. The Czech Republic has not requested any transitional arrangements in this area. The Czech Republic is generally meeting the commitments it has made in the accession negotiations in this field.

In order to be ready for membership, the Czech Republic's efforts now need to focus on implementing sound financial control systems by strengthening the required institutional structures and completing the establishment of the necessary audit tools. The legislative framework and administrative structure for the protection of the Communities' financial interests should be further strengthened. 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.

Chapter 29: Financial and budgetary provisions

Progress since the last Regular Report

Some progress has been made both in terms of legislation and reinforcement of administrative capacity.

As regards the **national budget and EC co-financed measures**, the new Act on Financial Control, which entered into force in January 2002, as well as the Implementing Decree, which was approved in March 2002, aim to improve transparency of financial flows, in line with EU standards. As regards tax collection, fraud continues to affect the VAT system.

As regards application of the **own resources system**, administrative capacity continues to be strengthened. The Co-ordinating Unit established within the State Budget Department of the Ministry of Finance co-ordinates the establishment of the necessary procedures, infrastructure and capabilities to fulfil the administrative conditions in the area of own resources'. The Unit has a permanent structure and will be responsible for the calculation, collection, payment and control of own resources and reporting to the Commission once the Czech Republic is member of the Union.

Overall assessment

As regards own resources, overall administrative preparations for the implementation of the acquis are well advanced. However, efforts are still needed in certain areas

The Czech Republic is able to calculate its overall contribution to the EC budget and able to forecast its GNP and VAT base applying the ESA-95 methodology. The Czech Republic has already made detailed simulations of the expected own resources to be collected and paid after accession.

In terms of traditional own resources, the administrative infrastructure for the assessment, collection and accounting of customs duties is largely in place. The State Agricultural and Intervention Fund should complete the preparations for collecting and accounting for sugar levies by mid-2003. However, further progress is needed with regard to the implementation of the centralised accounting system, for A and B accounts and on reporting cases of fraud and irregularities to the Commission.

In the area of VAT, the determination of net VAT receipts for own resources purposes requires close attention. At present, it is not possible to directly determine net collected tax on the central level, as net collected tax cannot be distinguished from related interest payments and penalties.

In terms of the GNP resource, the Czech Republic is already able to calculate GNI according to ESA-95, and ongoing improvements are concentrating on further harmonisation with the ESA-95 standards. The expertise of the Czech Statistical Office acquired in this area should ensure that the Czech Republic will be able to cope with all administrative conditions in the field of the GNP resource.

The necessary administrative tools to identify taxpayers and to collect VAT are in place. The Czech Statistical Office (CSO) will be in charge of the calculation of the Weighted Average Rate. The National Accounts are already compiled using the ESA-95 methodology.

The Own Resources Unit of the Ministry of Finance will need to further increase its administrative capacity in order to collect and transfer in a timely manner all own resources to the Community budget, as well as to accurately and regularly report to the Commission on the situation with regard to each of the types of own resources.

The Czech Republic should continue its efforts to combat VAT and customs duty fraud in order to adequately protect the EC's financial interests.

In addition to the need for central co-ordination of the proper collection, monitoring and payment of funds to and from the EC budget, administrative capacity should continue to be strengthened in the context of the relevant policy areas described elsewhere in this report, such as Agriculture, Customs, Taxation and Regional Policy.

Conclusion

In its 1997 Opinion, the Commission concluded that, in order to ensure that own resources were established, monitored and made available in line with Community regulations, the Czech Republic would have to overhaul its existing customs system. Furthermore, for the purposes of accurately calculating the GNP resource, considerable improvements would have to be made to the national accounts to ensure that they were reliable, homogeneous and complete. The Commission added that improving the statistics would also be essential for drawing up the VAT own resources base, which would mean bringing the Czech Republic's VAT system fully into line with the Community directives.

Since the Opinion, the Czech Republic has made considerable progress in these areas, in particular as regards the alignment of its customs system and progress towards applying the ESA-95. The legal framework for budgetary management and for the transparency and efficiency of financial flows to and from the EC budget is largely in place. Overall,

preparations in this field are on track; however, it is important that the Czech Republic take the necessary next steps with regard to the own resources system.

Negotiations on this chapter continue. The Czech Republic is generally meeting the commitments it has made in the accession negotiations in this field.

In order to complete preparations for membership, the Czech Republic's efforts now need to focus in particular on improving its calculation of the VAT base and guaranteeing the exhaustiveness of the national accounts, together with the further implementation of ESA95 methodology, for determining the GNP resource, so as to ensure the capacity to establish properly and make available the country's contribution to each of the own resources of the Communities. With regard to administrative capacity, it is necessary that the Czech Republic continue the deployment of the human and administrative resources required to follow the Commission's operations and instructions concerning payments of own resources. In particular, greater efforts should be made in the area of tax collection, especially by combating fraud in the collection of VAT.

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

Applicant countries are required to translate the various legal texts constituting the *acquis* into their national languages by the time of their accession. Primary and secondary legislation alone represents a considerable volume of texts, roughly estimated at 60 000-70 000 pages of the Official Journal. In the framework of the translation of the *acquis*, the Court of Justice has defined a set of key judgements to be translated as a priority (representing about 15 000 pages). To help the candidate countries in this process, assistance is being provided under the Phare programme. With the help of TAIEX, a dedicated database has been set up to act as a repository of all translated acts and as a tool through which candidate countries forward their translations to the Commission and the Council. The legal revisers of the Commission and the Council vet the submitted texts, they meet regularly and liaise with representatives of the centralised Translation Coordination Units in each country.

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

The performance of the Czech Republic in this area has considerably improved. The number of pages registered in the Commission database in September 2002 stands at 39 200 revised pages. According to Czech sources, all primary legislation and about 70 000 pages of secondary legislation have been translated. Sustained further efforts are required in this area.

Due attention must also be paid to the training of conference interpreters

3.3. General evaluation¹⁸

Since the Opinion, the Czech Republic has made very good progress. Whilst the pace of legislative alignment was slow in the initial period, subsequently there was a significant acceleration. In recent years there has also been steady progress in building up administrative capacity to implement the *acquis*, together with the reform of the judicial system.

Over the past year, the Czech Republic has further advanced legislative alignment, in particular as regards financial services, phytosanitary legislation, road transport, social policy, environment and justice and home affairs. However, limited further progress has been made in the field of taxation. Efforts have continued to strengthen administrative capacity, including the adoption of a legal framework for the public administration.

Overall, the Czech Republic has achieved a high degree of alignment with the *acquis* in many areas and is well advanced towards reaching adequate administrative capacity to implement the *acquis*, although further efforts remain to be made. Detailed plans have been agreed, in particular in the negotiations and in the Action Plan, to cover the remaining gaps.

In the field of the internal market, transposition of the *acquis* is well advanced as regards the four freedoms and efforts should focus on filling in the remaining gaps. Administrative capacity is generally good. On the *free movement of goods*, the Czech Republic now implements almost all harmonised European standards, including those on foodstuffs; however, market surveillance capacity will need to be further increased. Alignment with the public procurement *acquis* should be completed, building on the welcome progress achieved recently. On the *free movement of persons*, alignment is high on citizens' rights and free movement of workers, but further work is urgently needed on the mutual recognition of professional qualifications. On the *free movement of services*, transposition of the banking *acquis* has advanced well, whilst alignment needs to be completed as regards other financial sectors. Supervision of the financial sector should be further improved. On the *free movement of capital*, there has been good recent progress on removing restrictions on acquisition of real estate as well as on the regulation of cross-border credit transfers. Administrative capacity to fight money laundering should be further reinforced.

As regards *company law*, there is a high degree of alignment with the *acquis* although as regards enforcement of intellectual property rights, further improvement is required, including tackling pirated and counterfeited goods. Concerning *competition*, legislation is largely in line with the *acquis* and the Office for the Protection of Competition has developed a satisfactory track record of enforcement on anti-trust as well as state aids. The state aid enforcement and restructuring of the steel sector will need to be closely monitored. In the area of banking, increased transparency is needed.

As regards economic and fiscal matters, a high level of alignment has been achieved with the *acquis* on *economic and monetary union*, with significant recent progress as regards the independence of the central bank. A good level of alignment has been reached on *taxation*, but this needs to be completed in important areas of VAT and

18 See "Towards the Enlarged Union: Strategy Paper and Report of the European Commission on the progress towards accession by each of the candidate countries", COM (2002) 700.

excise. Continued progress is necessary to develop information technology systems for the exchange of electronic data with the Community and its Member States. Ongoing efforts to strengthen administrative capacity in this area should be vigorously pursued. A high level of compatibility has been achieved with the *customs acquis*. It is necessary to finalise the work on computerisation and full interconnection of national systems with EC customs information technology systems.

Sectoral policies have reached an overall good level of alignment with the *acquis* and administrative capacity is generally satisfactory. As regards *transport*, road and air legislation is largely in line with the *acquis* but further efforts are needed as regards the railways. Sufficient administrative capacity to enforce the *acquis* remains to be ensured. In the *energy* sector, there is a good level of alignment, in particular on establishing a competitive electricity market. Full and timely implementation of legislation now needs to be ensured. The Czech Republic has accepted and is addressing all recommendations of the Council report on Nuclear Safety in the Context of Enlargement.

In the field of *agriculture*, the overall level of preparation is good, in particular as regards the implementing structures for the Common Agricultural Policy and alignment with phytosanitary legislation. Continued efforts are needed to complete alignment and strengthen inspection arrangements in the veterinary field.

In the area of economic and social cohesion, as regards *social policy and employment*, alignment is well advanced, in particular on labour law and health and safety at work. Administrative capacity with regard to occupational health and safety, in particular the labour inspectorates, needs further reinforcement. In *regional policy*, over the last year important progress has been made so that the legal framework is largely in place. Efforts need to continue to render the implementing and control structures fully operational and as regards the technical preparation of projects eligible for Community funding.

Concerning the *environment*, the Czech Republic has achieved a high level of legislative alignment and significant investments have produced notable results, particularly as regards air and water quality. Continued efforts are needed to finalise transposition and implementation in the areas of water quality, waste, nature protection and industrial pollution prevention. Also, administrative capacity at local and regional levels needs to be ensured and long term financial investments need to be planned.

On *telecommunications*, the Czech Republic has made further recent progress and has achieved a good level of alignment concerning the development of the telecommunications infrastructure and diversification of the market. However, full market liberalisation remains to be achieved and the independence of the regulatory authority needs to be ensured.

As regards the *audio-visual sector*, the Czech Republic is well advanced in terms of legislative alignment. However, effective implementation will require strengthening of administrative capacity. It remains particularly important to establish and supervise effectively a transparent and predictable regulatory framework in the audio-visual sector.

Concerning *justice and home affairs*, notable progress has been made in almost all areas and legislative alignment is almost complete. Continued efforts should be made to ensure further upgrading of border management and the implementation of the Schengen Action Plan as well as strengthening the fight against fraud, corruption and organised crime.

Regarding financial questions, in the field of *financial control* legislative alignment is completed but further substantial efforts are required to ensure full implementation of public internal financial control. 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.

In the accession negotiations, 25 chapters have been provisionally closed. 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.

C. Conclusion¹⁹

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

The government has taken further steps to improve the functioning of the central administration. In particular, it has adopted a Civil Service Act which establishes a legal framework for the central public administration and reforms the existing arrangements in a number of key areas. The Act foresees a gradual implementation of its provisions during a transition period which may extend up to the end of 2006, in order to allow sufficient time for their careful preparation and thorough application. Nonetheless, it would be desirable for full implementation to be achieved as soon as possible so that the Czech public administration will be better equipped to deal with the extra demands created by accession to the European Union. The process of decentralization has continued, with the continued transfer of competencies to the regions and municipalities.

The reform of the judiciary has made further progress, in particular with the introduction of a new system of administrative law and the implementation of the streamlined Criminal Proceedings Code. However, further efforts are needed to reduce the length of court proceedings, particularly in civil cases. Overall, the recent reforms need to be underpinned by additional human and material resources as well as increased judicial training.

Some additional legal and organizational measures have been taken to fight against corruption and economic crime, which remain a cause for serious concern. Efforts need to be increased. In particular it is necessary to ensure that the relevant law enforcement institutions receive additional human and technical resources. A recent government report highlights the importance of ensuring full support from political forces in this field.

The Czech Republic continues to respect human rights and freedoms.

An amendment to the Asylum Law, which entered into force in February 2002, tightened the conditions for granting asylum. It also established a second independent appeal instance for rejected asylum applications. The Council for Equal Opportunities started its work in January 2002.

Some additional activities have been undertaken to improve the difficult situation facing the Roma community. However, more structural measures are needed in order to achieve significant results in remedying discrimination in access to education, housing and employment. The adoption of comprehensive anti-discrimination legislation would be an important step forward in this regard.

19 See "Towards the Enlarged Union: Strategy Paper and Report of the European Commission on the progress towards accession by each of the candidate countries", COM (2002) 700.

The 1997 Opinion already acknowledged the substantial reform efforts undertaken by the Czech authorities to transform their economy. Since the Opinion, and against a challenging international economic environment, economic performance has improved. Macroeconomic stability has been achieved, reforms have deepened while the Czech authorities' commitment to the economic requirements of EU accession has been sustained.

Hence, it is 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 to private investors would free the economy of misallocated resources.

Since the Opinion, the Czech Republic has made very good progress. Whilst the pace of legislative alignment was slow in the initial period, subsequently there was a significant acceleration. In recent years there has also been steady progress in building up administrative capacity to implement the *acquis*, together with the reform of the judicial system.

Over the past year, the Czech Republic has further advanced legislative alignment, in particular as regards financial services, phytosanitary legislation, road transport, social policy, environment and justice and home affairs. However, limited further progress has been made in the field of taxation. Efforts have continued to strengthen administrative capacity, including the adoption of a legal framework for the public administration.

Overall, the Czech Republic has achieved a high degree of alignment with the *acquis* in many areas and is well advanced towards reaching adequate administrative capacity to implement the *acquis*, although further efforts remain to be made. Detailed plans have been agreed, in particular in the negotiations and in the Action Plan, to cover the remaining gaps.

In the field of the internal market, transposition of the *acquis* is well advanced as regards the four freedoms and efforts should focus on filling in the remaining gaps. Administrative capacity is generally good. On the *free movement of goods*, the Czech Republic now implements almost all harmonised European standards, including those on foodstuffs; however, market surveillance capacity will need to be further increased. Alignment with the public procurement *acquis* should be completed, building on the welcome progress achieved recently. On the *free movement of persons*, alignment is high on citizens' rights and free movement of workers, but further work is urgently needed on the mutual recognition of professional qualifications. On the *free movement of services*, transposition of the banking *acquis* has advanced well, whilst alignment needs to be completed as regards other financial sectors. Supervision of the financial sector should be further improved. On the *free movement of capital*, there has been good recent progress on removing restrictions on acquisition of real estate as well as on the regulation of cross-border credit transfers. Administrative capacity to fight money laundering should be further reinforced.

As regards *company law*, there is a high degree of alignment with the *acquis* although as regards enforcement of intellectual property rights, further improvement is required, including tackling pirated and counterfeited goods. Concerning *competition*, legislation is largely in line with the *acquis* and the Office for the Protection of Competition has developed a satisfactory track record of enforcement on anti-trust as well as state aids. The state aid enforcement and restructuring of the steel sector will need to be closely monitored. In the area of banking, increased transparency is needed.

As regards economic and fiscal matters, a high level of alignment has been achieved with the *acquis* on *economic and monetary union*, with significant recent progress as regards the independence of the central bank. A good level of alignment has been reached on *taxation*, but this needs to be completed in important areas of VAT and excise. Continued progress is necessary to develop information technology systems for the exchange of electronic data with the Community and its Member States. Ongoing efforts to strengthen administrative capacity in this area should be vigorously pursued. A high level of compatibility has been achieved with the *customs acquis*. It is necessary to finalise the work on computerisation and full interconnection of national systems with EC customs information technology systems.

Sectoral policies have reached an overall good level of alignment with the *acquis* and administrative capacity is generally satisfactory. As regards *transport*, road and air legislation is largely in line with the *acquis* but further efforts are needed as regards the railways. Sufficient administrative capacity to enforce the *acquis* remains to be ensured. In the *energy* sector, there is a good level of alignment, in particular on establishing a competitive electricity market. Full and timely implementation of legislation now needs to be ensured. The Czech Republic has accepted and is addressing all recommendations of the Council report on Nuclear Safety in the Context of Enlargement.

In the field of *agriculture*, the overall level of preparation is good, in particular as regards the implementing structures for the Common Agricultural Policy and alignment with phytosanitary legislation. Continued efforts are needed to complete alignment and strengthen inspection arrangements in the veterinary field.

In the area of economic and social cohesion, as regards *social policy and employment*, alignment is well advanced, in particular on labour law and health and safety at work. Administrative capacity with regard to occupational health and safety, in particular the labour inspectorates, needs further reinforcement. In *regional policy*, over the last year important progress has been made so that the legal framework is largely in place. Efforts need to continue to render the implementing and control structures fully operational and as regards the technical preparation of projects eligible for Community funding.

Concerning the *environment*, the Czech Republic has achieved a high level of legislative alignment and significant investments have produced notable results, particularly as regards air and water quality. Continued efforts are needed to finalise transposition and implementation in the areas of water quality, waste, nature protection and industrial pollution prevention. Also, administrative capacity at local and regional levels needs to be ensured and long term financial investments need to be planned.

On *telecommunications*, the Czech Republic has made further recent progress and has achieved a good level of alignment concerning the development of the telecommunications infrastructure and diversification of the market. However, full

market liberalisation remains to be achieved and the independence of the regulatory authority needs to be ensured.

As regards the *audio-visual sector*, the Czech Republic is well advanced in terms of legislative alignment. However, effective implementation will require strengthening of administrative capacity. It remains particularly important to establish and supervise effectively a transparent and predictable regulatory framework in the audio-visual sector.

Concerning *justice and home affairs*, notable progress has been made in almost all areas and legislative alignment is almost complete. Continued efforts should be made to ensure further upgrading of border management and the implementation of the Schengen Action Plan as well as strengthening the fight against fraud, corruption and organised crime.

Regarding financial questions, in the field of *financial control* legislative alignment is completed but further substantial efforts are required to ensure full implementation of public internal financial control. 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.

In the accession negotiations, 25 chapters have been provisionally closed. 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.

D. Accession Partnership and Action Plan for strengthening administrative and judicial capacity: Global assessment

The Czech Republic's progress and overall state of preparation in respect of the Copenhagen criteria has been examined and conclusions drawn above. The present section assesses the extent to which the priorities of the Accession Partnership have been met and the measures foreseen under the Action Plan implemented according to schedule. It should be noted that both the Accession Partnership and the Action Plan have a time perspective of two years covering 2002 and 2003, providing for another 15 months for priorities to be met. Furthermore, much has already been achieved based on previous Accession Partnerships. The present one focuses on remaining specific and well-circumscribed topics identified as requiring more work to prepare the Czech Republic for membership. Therefore the analysis below only focuses on these specific topics and does not give an overall picture of the state of preparation of the Czech Republic in each domain.

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

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

The Accession Partnerships are revised on a regular basis, to take account of progress made, and to allow new priorities to be set. The Council adopted a revised Accession Partnership for the Czech Republic in January 2002, based on a proposal from the Commission.

The revised Accession Partnership has served as the point of departure for the Commission and Czech Republic to develop jointly an Action Plan to strengthen the Czech Republic's administrative and judicial capacity.

The purpose of the Action Plan is to identify jointly the next steps required for the Czech Republic to achieve an adequate level of administrative and judicial capacity by the time of accession, and ensure that all necessary measures in this regard are taken, providing the Czech Republic with targeted assistance in areas that are essential for the functioning of an enlarged Union.

Developing adequate administrative and judicial capacity for EU membership is a demanding and wide-ranging task, which requires detailed preparations in each and every domain covered by the Union's policies and legislation. In preparing individual Action Plans, the Commission has taken a comprehensive approach. All priorities from the revised Accession Partnerships which relate to the development of administrative and judicial capacity have been included in the Action Plans. Each of these priorities is treated separately in the Action Plans, and specific measures have been designed to address each of them.

In the following, progress in addressing each of these priorities is reported. For ease of reference and to avoid repetitions, wording from the *Accession Partnerships* is rendered

in italics. As regards the measures foreseen by the Action Plan, implementation is checked against timetables and reported.

Political criteria

Democracy and rule of law

The *reform of public administration*, which was in need of particularly urgent action, has advanced with the adoption of the Civil Service Act in May 2002, in line with timetable of the Action Plan. However, entry into force of the Act has been delayed and will mostly begin only in 2004 whilst full implementation is to be achieved gradually over a transition period ending in 2007. For the Act to have a significant impact it will need to be implemented in a constructive and co-operative spirit. As regards the building of information systems, foreseen by the Action Plan, basic informatisation of the regions has been completed in line with the timetable. However, efforts need to be continued. As regards standards of availability of public services, no progress has been made so far in adopting the necessary legal amendments which were indicated in the Action Plan. As regards *training*, the Institute of State Administration, established in 2001 as noted in the Action Plan, has started operations but will become an “agency” only in January 2004 when its activities should increase significantly. Training in European affairs continues, as indicated in the Action Plan, via relevant Ministries under the overall responsibility of the Government Office.

Further progress has been made with *judicial reform*, in line with the schedule of the Action Plan, in particular as regards administrative law, the organisation and self-administration of the judiciary and the implementation of the new Code of Criminal Proceedings. As regards certain measures highlighted in the Action Plan, the use of *alternative punishments* needs to be further increased, whilst the law *on juvenile offenders* is not yet adopted. However, the *Probation and Mediation Service* is contributing to changes in penal policy. A key area for further improvement remains the reduction in *length of court proceedings* although some progress has been noted for minor misdemeanours.

The Czech authorities have taken a number of administrative measures to strengthen the *fight against corruption and economic crime*. In particular, the reform of the Police presidium as well as the implementation of the reform of the Code of Criminal Procedure have greatly contributed to a more effective framework for co-operation between different law enforcement agencies. During 2001 there were a number of high profile prosecutions and judgements for economic crime and a welcome amendment was adopted to reduce the use of “fast-track” public procurement procedures. Nonetheless, the capacity to fight corruption remains insufficient.

Human rights and the protection of minorities

The *system for redressing police misconduct* has been improved through increased training on police ethics and human rights, in line with the Action Plan. Nonetheless, further efforts are needed, for example the adoption of the Code of Ethics for the police.

Some further efforts have been made to improve *the condition of the Roma minority*, including small projects in the education, cultural and housing spheres. However, effective strategies need to be further developed, as indicated in the Action Plan, to

combat structural discrimination in employment, education and housing. Considerable further efforts need to be made to reduce discrimination in this area.

The Accession Partnership priorities have been partially met. Implementation of the measures under the Action Plan is broadly on track, except as regards the Roma minority, where progress is slow.

Economic criteria

A revised *plan for the restructuring of the steel sector* has been produced. As regards the *improvement of the business environment*, progress has been uneven. Efforts aiming at *resolving the bad loan problem* have intensified, while preparations are underway to improve the *bankruptcy legislation and its implementation*. By contrast, only partial and minimal changes have been initiated to improve the *operation of the commercial register*. As regards the *completion of privatisation in the enterprise sector and the liberalisation of utilities*, significant progress was achieved with the sale of strategic companies and utilities in the past year. Progress has continued in the area of *enterprise restructuring*, in particular through the Czech Consolidation Agency, has accelerated with the introduction of specific programmes and actions. *Support to SME development* has remained limited to the specific programmes run by the Ministry of Industry and Trade. No major *fiscal reforms*, especially in *health care and pension system*, have been initiated, resulting in the steady deterioration of public finances in the reference period.

The Accession Partnership priorities have been partially met. Implementation of the measures under the Action Plan is broadly on track with the exception of fiscal reforms where there has been no progress.

Ability to assume the obligations of membership

Chapter 1: Free movement of goods

Alignment of sectoral, horizontal and foodstuffs legislation, the implementation of the remaining New Approach Directives and the adoption of European standards is largely complete. Some further measures are needed for *effective implementation in the area of foodstuffs*. Continued training and the strengthening of administrative capacity mean that progress has been made in ensuring the *effectiveness of implementing structures, and completing reinforcement of conformity assessment*. A 2001 analysis of *market surveillance* will guide further continued enhancement of the system. A government resolution has provided the framework for structures for *exchanging information and notification on technical requirements*. As foreseen in the Action Plan, legislative steps have been adopted, whilst the additional training and analysis to ensure the effectiveness of implementing authorities is ongoing. Improved cooperation between market surveillance authorities is a regular theme. *Screening of legislation in the non-harmonised area* is ongoing, including discussions with the Commission to *ensure compliance with Articles 28-30 of the EC Treaty*. *Administrative arrangements for the future monitoring* in this area are provided for in a government resolution of June 2002 in line with the Action Plan. Technical consultations have taken place to further define the implementation arrangements for mutual recognition. The methodological guidelines, foreseen in the Action Plan, have been elaborated by the Ministry of Industry and Trade. Despite an amendment to the existing Public Procurement Act, new legislation is still needed for *alignment in the area of public procurement*, including to *abolish the national*

preference clause for public procurement by introducing access for all Community companies to award procedures in the Czech Republic. The Accession partnership priorities in the area of free movement of goods have been met, with the exception of Public Procurement. Implementation of the measures under the Action Plan is on schedule.

Chapter 2: Free movement of persons

With respect to professional qualifications obtained before harmonisation, the Czech Republic should give priority to introducing measures to ensure that all its professionals can, from accession, meet the requirements laid down by the directives. This priority has not yet been met. The Czech Republic continues to develop legislation and adjust training to *complete alignment of mutual recognition of professional qualifications and diplomas.* Further efforts are needed to align *training and education programmes.* Despite preparatory work, *the required administrative structures* are not yet all in place. The Action Plan includes the development of a National Centre for Recognition of Professional Qualifications as a national co-ordinator, to include existing relevant bodies. It has not yet been established. Implementation of measures for the *reinforcement of social-security co-ordination* is ongoing, including the restructuring, training and recruitment of additional staff foreseen in the Action Plan. However, a considerable number of extra staff is still needed, as are significant efforts to prepare municipal offices for their increased responsibilities. The Accession Partnership priorities in the area of free movement of persons have been met to a limited extent. Implementation of some measures under the Action Plan has been delayed.

Chapter 3: Freedom to provide services

Legislative alignment in the area of data protection requires some further adjustment. *Information society legislation* is largely aligned, with the exception of the e-commerce directive. Further steps are needed to *align insurance legislation.* *Supervision of financial services continues to be reinforced,* in particular through legislative developments, for instance the June 2002 amendment to the Securities Commission Act strengthening the Regulator's powers in line with the Action Plan. However, steps are still needed to establish the independence of the Insurance Regulator and ensure the financial independence of the Securities Commission. The Action Plan states that the plans to establish a fully independent Insurance Regulator are still under discussion. These should be conducted and acted upon to ensure that the target of establishing an independent supervisory body by 2004 is met. *The Office for Personal Data Protection* is proving to be an effective body although it is understaffed. The Action Plan details staffing requirements for data protection, currently only 70 of the envisaged 90 posts have been filled. The Accession Partnership priorities for the freedom to provide services have been partially met. Implementation of the measures under the Action Plan is mostly on track.

Chapter 4: Free movement of capital

An amendment to the Act on Banks entered into force in May 2002 and abolishes all *existing anonymous accounts* from January 2003. This ensures compliance with the acquis in this area as well as with *Recommendations of the Financial Action Task Force.* Under the Action Plan, the adoption of an *effective redress procedure* for the settlement of disputes between banks and customers as well alignment of legislation in the area of *payment systems* were achieved by new legislation approved in 2002. The increase in

staff at the Financial Analytical Unit foreseen under the Action Plan, is under way. The Accession Partnership priorities in the area of free movement of capital have been met. Implementation of the measures under the Action Plan is largely on track.

Chapter 5: Company law

Enforcement of intellectual property rights is being substantially strengthened, in particular through legislative reform. Training activities foreseen in the Action Plan to improve the specialisation of the judiciary are continuing and specialised chambers of regional courts dealing with IPR cases have been established and are operational. As regards the *fight against piracy and counterfeiting*, the specialised police unit, foreseen by the Action Plan, has not yet been established. The Accession Partnership priorities in the area of company law have been partially met. The implementation of the measures under the Action plan is on track.

Chapter 6: Competition

Enforcement of the rules in the anti-trust and State aid fields is being enhanced as foreseen in the Action Plan through the preparation by the Office of Competition of explanatory papers and commentaries on relevant legislation, for the benefit of the legal and business community, and the continued training of Office staff. As regards *increasing awareness of the anti trust and state aid rules among all market participants and aid grantors*, activities of the Office include the production of guidance notes and a manual for aid grantors; information letters to municipalities; and dissemination of information through news letters, press releases and the internet site of the Office. Seminars are also continuously provided for State aid grantors as foreseen in the Action Plan. No specific steps have yet been taken to address the Action Plan measure to *intensify the training of the judiciary* in the fields of anti trust and state aid. The Accession Partnership priorities in the area of competition have been partially met. Implementation of the measures under the Action plan is largely on track.

Chapter 7: Agriculture

Good progress has been made on *preparing measures to up-grade the capacity of agricultural administration and to complete preparations for the enforcement and practical application of the management mechanisms of the Common Agricultural Policy (CAP)*. The measures foreseen by the Action Plan to set up market information systems, the Integrated Administration and Control System, the Paying Agency and the Farm Accountancy Data Network are largely on track. However, a decision has been taken to have two Paying Agencies instead of one as originally foreseen. Preparations for implementation of Common Market Organisations foreseen by the Action Plan are also on track. The classification agency was set up in January 2002. Preparations for the implementation and enforcement of phytosanitary and food safety legislation is progressing well. In the veterinary field, efforts are needed to complete the border inspection post at Prague airport according to the foreseen timetable. Significant progress has been made on *reinforcing the administrative structures needed for the design, implementation, management, monitoring, control and evaluation of EC funded rural development programmes*. Preparations to complete the Horizontal Rural Development Plan (HRDP) and the Sectoral Operational Programme (SOP) are well advanced. Measures foreseen in the Action Plan in *the veterinary and phytosanitary area* are largely on track. Good progress has been made with regard to completing the system of animal identification and the transposition of phytosanitary *acquis*. Inspection arrangements in

the phytosanitary field have been upgraded. In the veterinary field, the Czech Republic joined ANIMO on a voluntary basis in July 2002. However, little progress has been made with regard to further transposition of veterinary *acquis*. Efforts are also needed to continue the upgrading of food processing establishments, in particular meat and dairy plants, so that they are in a position to respect EC food safety standards. Completion of *transposition of legislation on transmissible spongiform encephalopathies* will only be achieved with the adoption of the Veterinary framework law. Little progress has been made in this respect. *Plant passports* have been introduced as foreseen in the Action Plan and the new Act on the Czech Agricultural and Food Inspection (CAFI) authorises CAFI to carry out monitoring of maximum residue levels. In the field of animal nutrition, transposition still needs to be completed with regard to TSE-related rules. As regards spongiform encephalopathies, the Czech Republic has introduced a comprehensive testing programme, which has progressively been aligned to the one of the Community. The Accession partnership priorities in the area of agriculture have been partially met. Implementation of the measures under the Action Plan is largely on track.

Chapter 9: Transport

As regards *strengthening of administrative capacity in road transport*, some progress has been achieved in increasing human resources in relevant departments as outlined in the Action Plan, although significant further progress is needed. In the inland waterways sector further efforts to strengthen administrative capacity should be made. Concerning *railways*, several doubts remain concerning their administrative organisation although further reforms are being prepared. An *independent aviation accident investigation authority* is now provided for by law but needs to be made operational, in line with the Action Plan, but the *independent body for slot allocation* has not yet been established. The Accession Partnership priorities in the area of transport have been partially met. Implementation of the measures under the Action Plan is progressing slowly.

Chapter 10: Taxation

Urgent Priority needs to be given to *legislative alignment* of VAT and excise duty rates, which is behind schedule, as well as the closure of duty free shops at land borders. A review of Czech legislation to ensure *compliance with the Code of Conduct for Business, Taxation* is in process. The Czech Republic has not yet fully implemented the *Holding and Movements Directive*. As regards *strengthening administrative capacity, including administrative co-operation*, measures foreseen in the Action Plan are being implemented. These include technical and language training of staff; launching of projects for IT software applications to fight against fraud and tax evasion, as well as a pilot project setting up special investigation teams at regional and local level; and launching of projects for implementing administrative co-operation in the field of indirect taxation. The transfer of excise duty administration to the customs authority, as foreseen in the Action Plan, still has to be completed. Action is underway to address the urgent priority to *develop IT systems to allow for exchange of data with Member States*. A precise timetable has been established for carrying out IT tasks, as foreseen in the Action Plan. The Accession Partnership priorities in the area of taxation have been partially met. Implementation of the measures under the Action Plan is largely on track.

Chapter 11: Economic and monetary union

An amendment to the *Act on the Czech National Bank* has entered into force in May 2002 and has ensured alignment with the *acquis* in particular in relation to its independence. This priority has been met.

Chapter 12: Statistics

The *quality and coverage of statistics* has been further improved while efforts are being made in order to strengthen *statistical capacities*, including at regional level. However, as foreseen in the Action Plan, further efforts are necessary in order to increase the capacities of the business register department and ensure the *introduction of INTRASTAT* at the end of 2003. The Accession Partnership priorities in the area of statistics have been met to a large extent. Implementation of the measures under the Action Plan is on track.

Chapter 13: Social policy and employment

Significant progress was achieved in the field of *equal treatment for women and men and health and safety acquis*, while *enforcement efforts* of the whole social legal *acquis* were increased. Legislation has been adopted in line with the *anti-discrimination acquis* and structures have been set up for its implementation. The strengthening of relevant *institutional structures*, in particular labour inspectorates, as foreseen in the Action Plan, is on-going. The transposition of the *public health acquis* has continued at a satisfactory pace, while measures in the area of *surveillance and control of communicable diseases* and health monitoring and information were maintained. As foreseen by the Action Plan, the *social partners* were involved in the 2002 National Employment Action Plan, which includes the recommendations of the *Joint Assessment of Employment Policy*. Measures aimed at preparing a national strategy, including data collection, with a view to future participation in the *European strategy on social inclusion*, started in July 2002. The Accession Partnership priorities in the area of social policy and employment have been met to a considerable extent. Implementation of the measures under the Action Plan has been completed as foreseen.

Chapter 14: Energy

Preparation of the internal energy market has made progress in particular as regards electricity, where a high level of alignment has been reached, whilst in the gas sector further efforts are needed. There has also been progress in aligning prices, in particular as regards electricity. The National Regulatory Authority has recruited more staff, in line with the Action Plan, but the Electricity Market Operator has yet to achieve the staff increases envisaged in the Action Plan. *Oil stock reserves* of 80 days have been achieved, in line with the aim to progressively comply with the *acquis* level of 90 days. As regards *energy efficiency and use of renewable energy*, there is a worrying downward trend in the amount of projects being supported and efforts need to be stepped up, including through strengthening of the Czech Energy Agency. Concerning *nuclear safety*, the Czech regulatory authority, the SUJB, has continued to function smoothly. In accordance with the Action Plan, the SUJB has increased its staff in 2002 by 10. The Czech Republic has accepted the recommendations of the Council Report on Nuclear Safety in the Context of Enlargement, and is currently implementing them, paying particular attention to the issues of the bubbler-condenser systems at Dukovany, and high energy pipe breaks and valves at Temelin. The priorities of the Accession Partnership in the area of energy have been largely met. Implementation of the measures under the Action Plan is on track.

Chapter 19: Telecommunications and information technologies

As regards *transposition and implementation of the acquis*, cost orientation for voice telephony and local loop unbundling are still outstanding. The Czech Republic continues to fail to ensure the *independence of the National Regulatory Authority* as the state, which is owner of the dominant market operator, continues to participate in the board. However, good progress has been achieved in *effective interconnection pricing* and in *availability of carrier selection facilities* in order to ensure the functioning of the liberalised market. The Accession Partnership priorities in the area of telecommunications and information technologies have been only partially met. Implementation of measures under the Action Plan has been delayed.

Chapter 20: Culture and audio-visual Policy

Steps have been taken to *strengthen the administrative capacity of the Council for Radio and Television Broadcasting* through internal restructuring and an increase in financial resources which will help monitoring of new, acquis-related, commitments. The Action Plan states that the Council will be strengthened in line with the new requirements placed upon it by the 2001 Broadcasting Act. Some further strengthening in addition to the measures already taken will probably also be needed. The Accession Partnership priority in the area of culture and audio-visual policy has been largely met. Implementation of the measures under the Action Plan is on track.

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

The urgent action required for the distribution of *legal and budgetary responsibilities* between the central and regional levels as well as the *framework for the implementation of the Structural Funds* has been completed, especially through the appointment of the Managing and Paying authorities. In terms of the *improvement of the administrative capacity*, a coherent human resources strategy is being prepared, although efforts in this respect need to continue. As foreseen in the Action Plan, a Managing and Co-ordination Committee has been set up to improve *effective inter-ministerial co-ordination*. The *National Development Plan* is being updated, as foreseen in the Action Plan. *Financial management and control procedures* are being set up in all Ministries involved in the implementation of the Structural Funds. Significant efforts, which need to be continued, have been made in order to develop a suitable *project pipeline*. The Accession Partnership priorities in the area of regional policy and co-ordination of structural instruments have been partially met. Implementation of measures under the Action Plan is largely on track.

Chapter 22: Environment

Overall, good progress has been made as regards *completing transposition of the acquis*, in particular as regards *integrated pollution prevention and control*. An urgent priority should be transposition of nature protection legislation. Further efforts are also needed with regard to amending new legislation where certain provisions are currently not complying with the *acquis*, in particular in the *water and waste sectors* and as regards environmental impact assessment. Measures foreseen in the Action Plan are largely on track as regards *completing implementation of the acquis*. In the field of *environmental impact assessment*, further training activities are needed. In the water sector, as regards drinking and groundwater, as well as nitrates and dangerous substances, the monitoring network still needs to be brought in line with *acquis* requirements. In the area of *nitrates*,

the designation of vulnerable zones is ongoing and concerning *dangerous substances* the main sources of pollution have been identified and the inventory of pollution and disposal of dangerous substances has been updated. In the field of integrated pollution prevention control, the IPPC Agency has been established, training of staff in the regional authorities has started and pilot projects on permitting have started for some new installations. For biocides an Authorisation Authority as well as the related procedures and a system for the classification, packaging and labelling of biocides has been established. Concerning nature protection, further efforts are needed to keep the foreseen timetable. Work on a list of sites eligible as sites of Community importance under the Habitats Directive is ongoing and a first draft of Specially Protected Areas (SPA) designated under the Birds Directive has been completed. Some progress has been made as regards *strengthening of the administrative, monitoring and enforcement capacity at national and regional level*, in particular with personnel strengthening in the Ministry of Environment, and the Czech Environmental Inspection. Action plan measures in this respect are largely on track. As regards the *distribution of competencies*, the Act amending and repealing certain acts with respect to the abolishment of District Offices has been adopted. Further efforts are needed to *improve co-operation between responsible authorities* at all levels, in particular concerning water. *Training* activities foreseen in the Action Plan are largely on track but further activities are needed, in particular at the regional and local level. The *strengthening of investment planning capacity* needs to be further improved. Although further steps have been taken in integrating environmental protection requirements into all sectoral policies, such as the adoption of a national strategy for sustainable development, continuous attention is needed both at a national and local level. The Accession Partnership priorities in the area of environment have been met to a large extent. Implementation of the measures under the Action Plan is largely on track.

Chapter 23: Consumers and health protection

Legislative alignment in this sector has almost been completed. Both the Accession Partnership and the Action plan underline the need to *ensure the effectiveness of administrative structures, including market surveillance*. Steps have been taken to improve the effectiveness of administrative structures, including market surveillance and this ongoing process should continue. Improvements could still be made in the exchange of information between institutions and the level of consumer awareness. Rationalisation of market surveillance as included in the Action Plan is an ongoing process, guided by a Working Group for Consumer Policy. The Action Plan foresees increase in staffing of the Department for Consumer Policy within the Ministry of Industry and Trade before Accession. The Accession Partnership priorities in the area of consumers and health protection have largely been implemented. Implementation of the measures under the Action Plan is on track.

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

Measures have been taken addressing all the priorities of the Accession Partnership and the Action Plan. Implementation has advanced of the legal, institutional and operational commitments included in the *Schengen Action Plan* and preparation for future participation in the Schengen Information System (SIS) by developing national databases and registers is generally on track. In line with the Action Plan, further training for staff of the Alien and Border Police Service on the Schengen acquis has started, and a methodological guide for training has been drafted. Training on these issues, as well as participation in the SIS is an ongoing activity. Preparations for the other measures mentioned are on track, and will be implemented within the given deadline. The issues

concerning the need to *strengthen border control management* and to *improve co-ordination between organisations and the controls at the “green” borders* have been addressed with some positive results. Measures foreseen in the Action Plan are largely on track as regards the improvement of *the system for granting of visas* and of the *co-operation of all units dealing with migration*. All Aliens Police Departments, 39 border crossing points (out of 110), and 107 diplomatic missions abroad are connected to the electronic visa checking system. Adequate legislative measures have been adopted to *ensure the involvement of an independent body as the second instance in the asylum procedure*, although the Czech authorities should now focus on the implementation of the law and the training of judges. An in-depth reform of the Police Presidium as well as the implementation of the reform of the Code of Criminal Procedure have been launched in January 2002 and have already greatly contributed to: *ensuring effective implementation of the new strategy for combating organised crime; establishing a framework for co-operation between different law enforcement agencies, especially concerning the fight against financial crime and corruption, in particular concerning money-laundering, and trafficking in human beings*. However, further efforts are needed in the implementation of the project set in the Action Plan for “Prevention & Repression of trafficking in human beings, especially women and children”. In addition, specific measures were taken to *provide further training for the police concerning organised crime and drugs*, in particular as regards the liaison officer for EUROPOL and Ukraine. However, further efforts are necessary to *introduce modern equipment, such as an integrated computer-based investigation system*. Particular attention should be paid to the measures indicated in the Action Plan as regards the increase and the training of staff for the Financial Analytical Unit/FAU as well as regarding the measures necessary in the field of drugs. Preparatory measures have been taken to *ensure the implementation of Community instruments in the area of judicial co-operation in civil matters* through which EU regulations in this field will be directly applicable upon accession. The Accession Partnership priorities in the area of co-operation in the field of justice and home affairs have been met to a considerable extent. Implementation of the measures under the Action Plan is largely on track.

Chapter 25: Customs union

The urgent priority to continue *the implementation of the IT strategy of the Czech customs administration and develop IT systems to allow for the exchange of computerised data with Member States* is being addressed in accordance with the Action Plan: the Czech Republic installed CCN/CSI in 2000 and is a member of the pilot project on the development of NCTS. The national implementation of an information system for the fight against smuggling, foreseen in the Action Plan, is still to be completed. Continued efforts are being made to *strengthen customs ethics, combat fraud and corruption, protect copyright and industrial property rights and fight against economic and organised crime*. Continued efforts to *reduce waiting times at borders* are also being made, through the construction of new border posts, and increased use of simplified procedures. The Accession Partnership priorities in the area of the customs union are being met. Implementation of measures under the Action Plan is on track.

Chapter 26: External relations

The Czech Republic has continued to inform the Union of negotiations aimed at the conclusion of new trade agreements with third countries. However, the Czech Republic needs to make further efforts to take the necessary measures to renegotiate or to renounce all international agreements and treaties concluded with third countries that are

incompatible with its future obligations as an EU Member State, including bilateral investment treaties concluded with third countries. The Accession Partnership priority in the area of external relations has been partially met.

Chapter 28: Financial control

The *legislative framework* for public internal financial control has been completed. The concept of *managerial accountability* remains to be implemented. As foreseen in the Action Plan, *internal audit units* with adequate functional independence have been set up in all bodies of central administration, with the central unit in the Ministry of Finance responsible for the *co-ordination and harmonisation of the methodology* for financial management and control, the drafting of audit manuals and the training of staff.. The reinforcement of the Public Prosecutor's office to *strengthen the fight against fraud*, as foreseen in the Action Plan, is underway. As regards the *protection of the Communities' financial interests*, first steps have been taken to implement the co-operation agreement between OLAF and the Public Prosecutor's office. As foreseen in the Action Plan, efforts to ensure the correct use, control, monitoring and evaluation of *EC pre-accession funding* have been continued by the Supreme Audit Office. The Accession Partnership priorities in the area of financial control have been largely met. Implementation of the measures under the Action Plan are on track.

Annexes

***Human Rights Conventions ratified by the Candidate Countries,
15 September 2002***

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

X = Convention ratified

O = Convention **NOT** ratified

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

Statistical data

	1997	1998	1999	2000	2001
Basic data	in 1000				
Population (average) i)	10,304	10,295	10,283	10,273	10,224
	in km²				
Total area	78,866	78,866	78,866	78,866	78,866
National accounts	in 1000 Mio Czech Koruna				
Gross domestic product at current prices	1,680	1,839	1,902	1,985	2,158
	in 1000 Mio ECU/euro				
Gross domestic product at current prices	46.8	50.6	51.6	55.8	63.3
	in ECU/euro				
Gross domestic product per capita a) at current prices	4,500	4,900	5,000	5,400	6,200
	% change over the previous year				
Gross domestic product at constant prices (nat. currency)	-0.8	-1.0	0.5	3.3	3.3
Employment growth	-0.7	-1.4	-2.1	-0.7	0.4
Labour productivity growth	-0.1	0.4	2.6	4.0	2.9
	in Purchasing Power Standards				
Gross domestic product per capita a) at current prices	12,100	12,200	12,500	12,600	13,300
Structure of production	in % of Gross Value Added b)				
- Agriculture	4.4	4.6	4.2	4.3	4.2
- Industry (excluding construction)	34.1	32.5	31.8	32.3	32.9
- Construction	8.0	7.2	7.2	7.1	7.2
- Services	53.4	55.7	56.8	56.3	55.8
Structure of expenditure	as % of Gross Domestic Product				
- Final consumption expenditure	73.4	71.2	73.2	73.7	72.8
- household and NPISH	53.6	52.5	53.6	54.1	53.6
- general government	19.8	18.6	19.6	19.6	19.2
- Gross fixed capital formation	30.6	29.1	27.8	28.3	28.3
- Stock variation c)	2.0	0.9	0.3	1.4	1.6
- Exports of goods and services	56.5	58.8	60.6	69.8	71.3
- Imports of goods and services	62.5	60.0	61.9	73.2	74.1
Inflation rate	% change over the previous year				
Consumer price index	8.0	9.7	1.8	3.9	4.5
Balance of payments	in Mio ECU/euro				
- Current account	-2,835	-1,187	-1,470	-3,082	-2,945g
- Trade balance	-4,008	-2,269	-1,785	-3,394	:
<i>Exports of goods</i>	20,108	23,412	24,638	31,492	:
<i>Imports of goods</i>	24,117	25,680	26,423	34,886	:
- Net services	1,559	1,593	1,033	1,434	:
- Net income	-699	-873	-1,198	-1,444	:
- Net current transfers	315	362	479	322	:
<i>-of which: government transfers</i>	46	63	56	16	:
- FDI (net) inflows	1,148	3,303	5,932	5,405	5,489
Public finance	in % of Gross Domestic Product				
General government deficit/surplus	-2.7	-4.5	-3.2	-3.3	-5.5p
General government debt	13.0	13.7	14.5	17.0	23.7p
Financial indicators	in % of Gross Domestic Product				
Gross foreign debt of the whole economy d)	24.0	26.9	28.2	26.5	:
	as % of exports				
Gross foreign debt of the whole economy d)	42.5	45.2	46.8	38.1	:

	1000 Mio ECU /euro				
Monetary aggregates					
- M1 e)	11.0	11.5	12.4	14.2	18.3
- M2 e)	31.0	35.3	37.0	40.3	49.9
- M3 e)	:	:	:	:	:
Total credit	29.8	30.5	28.6	30.6	29.7
Average short-term interest rates	% per annum				
- Day-to-day money rate	19.2	13.6	6.8	5.3	5.0
- Lending rate	13.9	13.5	9.0	8.0	7.8
- Deposit rate	11.1	11.4	5.8	4.4	3.8
ECU/EUR exchange rates -	(1ECU/euro=Czech Koruna)				
- Average of period	35.93	36.32	36.88	35.60	34.07
- End of period	38.03	35.19	36.10	35.05	31.96
	1995=100				
- Effective exchange rate index	99.2	102.0	106.9	108.7	113.7
Reserve assets	Mio ECU/euro				
-Reserve assets (including gold)	9,136	10,765	12,888	14,173	16,410
-Reserve assets (excluding gold)	8,862	10,693	12,762	14,043	16,271

External trade	Mio ECU/euro				
Trade balance	-4,187	-2,209	-1,746	-3,394	-3,425
Exports	19,740	22,969	24,638	31,492	37,267
Imports (FOB)	23,927	25,178	26,384	34,886	40,692
	previous year=100				
Terms of trade	:	106.3	98.5	97.2	101.9
	as % of total				
Exports with EU-15	59.8	64.0	69.2	68.6	68.9
Imports with EU-15	61.8	63.5	64.2	62.0	61.8

Demography	per 1000 of population				
Natural growth rate	-2.1	-1.8	-2.0	-1.8	-1.7
Net migration rate (including corrections)	1.2	0.9	0.9	0.6	-0.8
	per 1000 live-births				
Infant mortality rate	5.9	5.2	4.6	4.1	4.0
Life expectancy :	at birth				
Males:	70.5	71.1	71.4	71.6	72.1e
Females:	77.5	78.1	78.1	78.3	78.5e

Labour market (Labour Force Survey)	% of population				
Economic activity rate (15 - 64)	71.7	71.7	71.8	71.2	70.7
Employment rate (15-64), total	68.6	67.5	65.6	64.9	65.0
Employment rate (15-64), male	77.1	76.1	74.0	73.1	73.2
Employment rate (15-64), female	60.2	58.9	57.4	56.8	57.0
Average employment by NACE branches	in % of total				
- Agriculture and forestry	5.8	5.6	5.3	5.2	4.6
- Industry (excluding construction)	32.0	31.5	31.1	31.0	31.4
- Construction	9.6	10.0	9.4	9.4	9.1
- Services	52.6	52.9	54.1	54.8	54.6
	% of labour force				
Unemployment rate, total	4.3	5.9	8.5	8.8	8.0
Unemployment rate, males	3.6	4.6	7.2	7.3	6.7
Unemployment rate, females	5.1	7.5	10.1	10.5	9.6
Unemployment rate of persons < 25 years	7.0	10.8	16.6	17.0	16.3
	as % of all unemployed				
Long-term unemployment share	32.3	31.5	36.7	50.0	52.9

Infrastructure	in km per 1000 km²				
Railway network	120	120	120	120	121
	km				
Length of motorways	485	499	499	499	517

Industry and agriculture	previous year=100				
Industrial production volume indices	104.5	101.9	96.9	105.4	106.5
Gross agricultural production volume indices	94.9	100.7	100.6	95.5	102.5

Standard of living	per 1000 inhabitants				
Number of cars h)	329.3	339.5	334.7	335.0	344.7
Main telephone lines	318.6	363.6	370.3	377.1	375.9
Number of subscriptions to cellular mobile services	50.9	94.1	189.2	423.3	676.5
Number of Internet subscriptions	5.5	7.9	19.4	40.8	122.4

p=provisional figures

- a) Figures have been calculated using the population figures from National Accounts, which may differ from those used in demographic statistics.
- b) Including FISIM.
- c) These figures include changes in inventories, acquisitions less disposals of valuables and the statistical discrepancy between the GDP and its expenditure components.
- d) Series break after 1997.
- e) 2001 figures refer to November.
- f) in 2001 - change of methodology - following 98 UN Recommendations
- g) Source: Website of the National Bank
- h) Number of cars: change of methodology
- i) Population stocks for the year 2001 were changed in the light of preliminary results of the census hold at 1 March 2001, definitive results will be available in 2003.

Methodological Notes

Inflation rate

As part of the preparations for the common currency the EU Member States (MSs) have designed a new *consumer price index* in order to comply with the obligations of the EU Treaty. The aim was to produce CPIs comparable between Member States. The main task was to harmonise methodologies and coverage. The result was the Harmonised Index of Consumer Prices (HICP). A similar exercise has been started with Candidate Countries (CC). In respect to enlargement, it is equally important that their economic performance is assessed on the basis of comparable indices. Some progress has already been made towards adapting the new rules. Since January 1999 CCs report monthly to Eurostat so-called proxy HICPs that are based on national CPIs but adapted to the HICP coverage. They are not yet fully compliant with the HICPs of the MSs. In the table, the proxy HICPs are back-calculated to 1995 (rates from 1996).

Finance

Public finance: The government deficit and debt statistics of the Candidate Countries are provisional, in the sense that they do not yet fully comply with EU methodological requirements. Broadly speaking, the general government deficit / surplus refers to the national accounts concept of consolidated general government net borrowing / net lending of ESA95. General government debt is defined as consolidated gross debt at end-year nominal value. The series are available from 1997; the 1996 data are an approximation derived from the IMF's GFS methodology.

Gross foreign debt is of the whole economy, covering both short- and long-term, but excluding equity investment and money market instruments. The source for stock of outstanding debt is OECD, while the source of GDP is Eurostat. For the ratio of gross foreign debt to exports, the national accounts definition of exports of goods and services is used (source: Eurostat). The data for 2000 are Eurostat estimates, based on joint OECD/IMF/BIS/World Bank series.

Monetary aggregates are end-year stock data, as reported to Eurostat. Generally, M1 means notes and coin in circulation plus bank sight deposits. M2 means M1 plus savings deposits plus other short-term claims on banks. M3 means M2 plus certain placements in a less liquid or longer-term form. Not all countries produce an M3 series. Total credit means loans by resident monetary financial institutions (MFIs) to non-MFI residents.

Interest rates: Annual average rates based on monthly series reported to Eurostat. Lending rates refer to bank lending to enterprises for over 1 year. Deposit rates refer to bank deposits with an agreed maturity of up to one year. Day-to-day money rates are overnight interbank rates.

Exchange rates: ECU exchange rates are those that were officially notified until 1 January 1999, when the ECU was replaced by the euro. Euro exchange rates are reference rates of the European Central Bank. The effective exchange rate index (nominal), as reported to Eurostat, is weighted by major trading partners.

Reserve assets are end-year stock data, as reported to Eurostat. They are defined as the sum of central bank holdings of gold, foreign exchange, SDRs, reserve position in the IMF, and other claims on non-residents. Gold is valued at end-year market price.

External trade

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

Having consulted issue of external trade methodology with Eurostat, changes applying since the year 2000 brought the methodology for the statistics of external trade closer to the practices of EU and EFTA member countries. All the data for 1996 to 2001 are converted to comply with the methodology for 2000.

Terms of trade. The figures are calculated from the nominal exports and import prices on the base 2000=100 by deflating according to ten SITC groups with current weights of the quarter concerned. Corresponding period of preceding year=100.

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

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

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

Demography

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

Labour force

The European Labour Force Survey is conducted in spring each year in accordance with Council Regulation (EEC) No. 577/98 of 9 March 1998. A detailed description of the sampling methods, the adjustment procedures, the definitions and the common Community coding currently used in the labour force survey is presented in the publications 'Labour Force Survey – Methods and definitions, 1998' and 'Labour Force Survey in central and east European countries – Methods and definitions, 2000'.

All definitions apply to persons aged 15 years and over, living in private households. The concepts and definitions used in the survey follow the guidelines of the International Labour Organisation. Persons carrying out obligatory military service are not included.

Persons in employment were those who during the reference week did any work for pay or profit for at least one hour, or were not working but had jobs from which they were temporarily absent. Family workers are included.

Unemployed were all persons aged 15+, who concurrently met all three conditions of the ILO definition:

have no work,

are actively seeking a job and,

are ready to take up a job within a fortnight.

Duration of unemployment is defined as:

(a) the duration of search for a job, or

(b) the length of the period since the last job was held (if this period is shorter than the duration of search for a job).

The active population is defined as the sum of persons in employment and unemployed persons.

Inactive persons are those who are not classified as persons in employment nor as unemployed persons.

Employment rates represent employed persons aged 15-64 as a percentage of the same age population.

Unemployment rates represent unemployed persons as a percentage of the active population aged 15 years and more.

Economic activity rates represent the active population aged 15-64 as a percentage of the population of the same age.

Infrastructure

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

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

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

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

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

Entry and exit lanes of motorways are included irrespectively of the location of the signposts. Urban motorways are also included.

Industry and agriculture

Industrial production volume indices. Industrial production covers mining and quarrying, manufacturing and electricity, gas, steam and water supply (according to the NACE Rev.1 Classification Sections C,D,E).

Industrial production index (IPI) is calculated by the method corresponding to the international standards based on the production statistics of selected products ("Series-witness"). It covers 88,6 % of industrial production in the Czech Republic.

Published IPI for the Czech Republic are calculated in weights of 1995 and no adjustments were done as concerns seasonal influences and number of working days.

Total agricultural output volume indices. Indices based on evaluation of all individual products of gross agricultural production in constant prices of 1989.

Standard of living

Number of cars. Passenger car: road motor vehicle, other than a motor cycle, intended for the carriage of passengers and designed to seat no more than nine persons (including the driver).

The term "passenger car" therefore covers microcars (need no permit to be driven), taxis and hired passenger cars, provided that they have less than ten seats. This category may also include pick-ups.

Internet connections. The number of Internet clients include the number of users allowed to access Internet both via phone and data concentration and commutation device, leased circuit and local computer network.

The number of servers for access to the Internet network includes the number of computers connected to the network via permanent circuit or data network, which provide applications to Internet users.

Sources

Total area, effective exchange rate index, infrastructure, industry and agriculture, external trade, labour market, standard of living, demography: National sources.

National accounts, inflation rate, balance of payment, public finance, finance: Eurostat.