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REGULAR REPORT
ON
CZECH REPUBLIC'S
PROGRESS TOWARDS ACCESSION
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2002

REGULAR REPORT
ON
the Czech Republic's
PROGRESS TOWARDS ACCESSION

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Introduction

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 decisions on the conduct of the accession negotiations and 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.

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

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 resolutions 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.

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).

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 investigations 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 2001. 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).
- 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.

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 were 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 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 P>

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 open 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.

Criteria for membership

Political criteria

Introduction

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

In its 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 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 nment 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.

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 to be comprehensive. Nonetheless, the Act to have significant impact 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 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 criminal and civil 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), the traffic police), healthcare, banking and intelligence services and it 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: 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 9,445 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.

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 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 1 0,000 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 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 proactive 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 1 0 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 "*bolobyty*") 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 concluded 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.

General evaluation

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.

Economic criteria

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.

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 - annual average	per cent	8.0	9.7	1.8	3.9	4.5	5.6	3.2 July ^b
- December-on-December	per cent	9.4	5.8	2.5	4.0	3.9	5.1	0.2 July
Unemployment rate - IFS definition	per cent	4.3	5.9	8.5	8.8	8.0	7.1	7.7 Q1
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	
Gross foreign debt of the whole economy - debt export ratio	Million ECU/€ per cent of exports of goods and services	-2,835 42.5	-1,187 45.2	-1,470 46.8	-3,082 38.1	-2,945 ^c :	-2,304 :	-504 Jan.-March ^c
Foreign direct investment inflow - balance of payments data	Million ECU/€ per cent of GDP	11,224 2.5	13,599 ^d 6.6	14,563 11.6	14,792 9.8	: 8.7	: 7.8	
	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-agnostic 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 as a whole 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 - employment	per cent per cent	4.2 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 € € per head ^d	23,352 ^e 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.

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 a 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 4.8% 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 benefits system may work as a 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 since the end of 2001 when consensus on high foreign capital inflows due to planned privatisations, the run up to EU accession and market expectations 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 raise 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 accommodative 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 rate 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 (ISA 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 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 little 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 23.0% of GDP at the end of 2001, up from 13.7% in 1998. Past and current levels of government debt do not 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 intensify these respective liabilities in the general government debt. That adds substantially to the statistically reported stock of government debt over time.

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

Czech legislation on nuclear energy and radiation protection will be amended with a view to bringing it into line with the *aquis*. Application must be ensured by the relevant Czech authorities, including the State Office for Nuclear Safety. As regards 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 medical 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 an 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 stocks.

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 1st 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 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 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 *aquis* so as to create efficient competitive firms.

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 nationwide 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 SMEs 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 nationwide programme 17% for regional programmes.

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

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.

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.

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.6 – 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 *aquis* 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 *aquis* 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.

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 a 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.

as % of exports

Gross foreign debt of the whole economy d)	42.5	45.2	46.8	38.1	:
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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.

non-residents: Gold is valued at end-year market price. *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

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 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.