

4. ECONOMIC AND SOCIAL COMMITTEE

Opinion of 9 September 1998 of the Economic and Social Committee on "The Czech Republic within the framework of enlargement and the strengthening of the preaccession strategy". CES 1161-1998

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(CES 1161-1998)

On 29 January 1998 the Economic and Social Committee, acting under Rule 23(3) of its Rules of Procedure, decided to draw up an Own-initiative Opinion on

The Czech Republic within the framework of enlargement and the strengthening of the pre-accession strategy.

The Section for External Relations, Trade and Development Policy, which was responsible for preparing the Committee's work on the subject, adopted its opinion on 23 July 1998. The rapporteur was **Mr Masucci**.

At its 357th plenary session of 9 and 10 September 1998 (meeting of 9 September), the Economic and Social Committee adopted the following opinion by 115 votes, with three abstentions:

I. Introduction

A. Following the formal start of negotiations for the accession of central and eastern European countries (CEEC) and Cyprus to the European Union, established by the Council on 13 and 14 December 1997, the preparation of applicant countries has taken a further, decisive step ahead.

What formerly appeared to be a desirable objective - albeit without a specific timeframe - now involves precise phases that each country has to complete with regard to economic, political and social reform, in order to be able to fulfil the criteria laid down in Copenhagen and Madrid.

A. In recent years the Committee has paid the utmost attention to the complex problems that enlargement entails. From a more political and general point of view, it has expressed its opinion on the 1996 White Paper and on the start of negotiations and the effects of enlargement. It has also adopted several other opinions on specific subjects, discussing in depth the consequences of CEEC accession on Community policies.

A. More recently, the Commission has adopted ten draft decisions establishing the principles, priorities, intermediate objectives and conditions of the Accession Partnerships for each applicant country.

The partnerships are an essential element of the EU's enhanced pre-accession strategy and indicate the priorities that each applicant country should follow in adopting the "acquis communautaire", as well as the financial resources available for that purpose.

A. The Committee intends to contribute to the solution of the problems in each applicant country as reported by the Commission, by drawing up opinions which examine the most important constitutional, economic and social issues.

In these opinions, the Committee particularly wishes to highlight and strengthen the position of the social partners in central and eastern European countries, with regard to the social and economic effects of enlargement in societies undergoing great changes; it also wishes to highlight the assessments made by the social partners of Member States and any questions the latter might have regarding the consequences of EU enlargement on Community policies.

I. The EU Accession Procedure for the Czech Republic

A. The Association Agreement

1. Diplomatic relations between the Czech Republic and the EU formally got under way in September 1988. After the events of 1989, following a preliminary agreement on trade and cooperation in 1990, the Association Agreement was signed on 16 December 1991.

This agreement was subsequently renegotiated after the founding of the Czech Republic and the Slovak Republic. It was signed in October 1993 and entered into force on 1 February 1995. The Czech Republic applied for EU membership on 17 January 1996.

1. The Government Committee for European Integration was set up in November 1994. The Committee is chaired by the Prime Minister and is composed of the ministers of finance, trade and industry, agriculture, foreign affairs, labour and social affairs, justice, and a minister without portfolio. It has 22 specialist working groups, including one on legislative harmonization.

1. The institutional framework of the Europe Agreement is fully operational and there is close cooperation with the Commission on state aid, industrial and commercial property rights, macroeconomic policy and customs duties. There were no particular problems until the beginning of 1997, when several products of EC origin conforming to EC standards were refused entry to the Czech market. Moreover, in April 1997 a system of import deposits was introduced; this was in conflict with the Europe Agreement, and has since been abolished.

1. Since 1991 the Czech Republic has been proceeding along the road to harmonization and in early 1995 a timetable was established. In spring 1996 the Czech government drafted a document in response to the Commission's White Paper on the Internal Market in which it outlined the priorities to be put into effect by the year 2000.

New structures were to be set up for environmental protection, direct and indirect taxation, the safeguarding of personal data, and social policy. The Commission noted, however, that at the time of the drafting of the opinion on the Czech Republic (see Agenda 2000), "these intentions are yet to be implemented".

1. While participating in the structured dialogue at all levels, the Czech Republic would like the meetings to be more practical and appears to prefer a bilateral political dialogue within the Association Council.

A. Agenda 2000

1. The political, economic and social situation of the Czech Republic has been examined, aside from any particular current circumstances, according to the provisions established by the Copenhagen and Madrid Councils.

In July 1997, as part of Agenda 2000, the Commission presented its opinion on the Czech Republic's application. This opinion was to form the basis for the assessments made by the Luxembourg Council in December 1997.

1. The overall assessment of the political criteria is a positive one - i.e. the criteria have basically been fulfilled.

According to the Commission, the Czech institutions function well and the various authorities carefully respect the limits of their powers and make the effort to cooperate with each other. The Parliament works satisfactorily without overstepping its authority and with full participation from the opposition.

a) The public sector suffers from the absence of a civil service statute and from very low salaries. This is leading the best civil servants to transfer to the private sector.

a) The functioning of the judiciary is, however, a delicate matter, not so much due to personnel shortages or inadequate facilities, but for a more serious reason - the lack of experience and professionalism of judges who are having to grapple with completely new legislation and without the support of a consolidated case law.

a) Civil and political rights are guaranteed, as is access to justice, freedom of association and demonstration, although there are still some difficulties with information - the press is regulated by a 1966 law which restricts access to administrative documents, and the audiovisual sector has not adapted to the emergence of private broadcasting.

There are some serious problems regarding the situation of the Roma gypsies, who are subject to discrimination and violence and receive insufficient police protection. Following a serious crisis during the division of Czechoslovakia into two independent states, when administrative sanctions were imposed upon a number of Roma gypsies who had not complied with certain bureaucratic procedures for new citizenship, the authorities have recently promoted a cultural support campaign for the gypsy people, but much remains to be done.

1. With regard to economic criteria, it must not be forgotten that the Czech Republic has a very prestigious past. The Commission has rightly pointed out that before the second world war, it was one of the richest countries in Europe.

This is important because, also from a psychological point of view, it has facilitated the return to a market economy with price liberalization, the privatization of companies, currency convertibility and a rigorous monetary and fiscal policy.

a) State enterprises have been privatized somewhat hastily and the public has been involved in the process by means of a "voucher" system. Rapid and widespread privatization has therefore taken place in all economic sectors, although state presence is still strong, particularly in certain sectors such as banking and in approximately 60 large companies.

a) Consumer prices have been almost completely liberalized - some charges, such as those for transport, communications, water and energy, which until two years ago were under state control for social reasons, have been greatly increased and will continue to go up in 1998.

The system of state subsidies has also been reduced, the particular aim being to avoid hindering the development of competition and of the market.

a) Trade, on the other hand, has slowed down both due to the unfavourable economic climate and the introduction in April 1997 of import deposits on a number of consumer goods. These were introduced in order to curb the trade deficit and reduce the budget deficit.

a) There are also restrictions on capital outflow. The considerable influx of capital throughout 1996 has kept the currency stable, despite the presence of a large trade deficit. But in 1997, the combination of both political instability and huge trade deficits brought about a currency crisis which, at the end of May, led to a 20% devaluation against the dollar and a 7% devaluation against the German mark. This has inevitably rekindled inflation and slowed down convergence with EU rates.

1. With regard to the market economy criterion, the Commission has concluded that the Czech Republic does in fact have a functioning market economy. From prices to company ownership, the transition to a full market economy is at an advanced stage, although the persistently high trade deficit and the trade structure could pose problems for macroeconomic stability.

Furthermore, in order to achieve longer term growth, the productive system will have to be completely restructured. However, it is significant that the Czech Republic was the first applicant country to join the OECD.

a) As for the Czech Republic's ability to stand up to competition, the Commission has admitted that it is having difficulty in assessing whether the Czech economic system is able to fulfil this criterion.

However, it could do so if companies were restructured more rapidly, thus improving the quality of products, as the Czech Republic has a skilled, though insufficient, workforce and reasonable infrastructure.

1. The basis for EU membership is the ability to guarantee the four freedoms of movement (goods, capital, services, people). This ability consists basically of the adoption of the "acquis communautaire". This entails not only the adoption of legislation, but also the setting up of adequate administrative and judicial structures.

Here, too, the Commission has stated that it is as yet unable to give an assessment of each of the measures which according to the Czech authorities have been adopted.

In total, the Czech Republic considers that it has transposed 417 of the 899 regulations and directives cited in the White Paper. The Commission rightly emphasizes, however, that it is not enough to merely transpose the texts; concrete measures for implementation must also be introduced and an effective administrative infrastructure set up.

a) The ESC's specific role means that it accords particular attention to economic and social cohesion, and the Commission's comments offer the opportunity to pose some serious questions.

More specifically, with regard to social dialogue it is stated that "the government's policies have not helped to encourage employers to negotiate within the framework of social dialogue. The trade unions are concerned that the government does not take account of the opinion of the social partners, except on questions linked to wages and working conditions of a company". For this reason, too, the Commission has concluded that "the social dialogue is not yet well established".

a) On a more positive note, the labour market has not yet had to deal with much unemployment, although it may have to in the future (and to some extent this has already begun) as a result of industrial restructuring. Problems will soon arise with regard to the retraining of part of the labour force, particularly of unskilled workers. The country will therefore have to set up a huge training scheme for adults, in order to enable them to adapt to structural changes.

a) With regard to social expenditure, the Commission envisages that the levels of, and instruments for, social protection will have to be improved, as will the health service. The situation regarding the legal protection of workers is, however, fairly positive, as general principles on health and safety at work and equal opportunities have been accepted.

A. The Accession Partnership

The Committee thinks that the draft decisions on the Accession Partnerships will be extremely important for finding concrete answers to all the problems highlighted in Agenda 2000.

Priorities are put forward for each applicant country, based on the in-depth analysis contained in the Commission's opinions. The aim is to help applicants to identify those sectors in which more work must be done and to prepare them for the accession process.

The Committee intends to examine the content of these draft decisions and to subsequently follow the national programme for the adoption of the "acquis" that each applicant country is obliged to present by 30 March 1998.

The Committee will closely follow the monitoring of the Accession Partnerships that is to be carried out using the instruments of the Europe Agreement (sub-committees, Association Committee and Council). The Committee also wishes to be consulted on the first report to the European Council, which the Commission is to submit to the Council at the end of 1998.

I. The political and economic context

A. After years of stability (1990 - 1995), Vaclav Klaus's Civic Democratic Party (ODS) lost its majority in the 1996 elections and since then political instability has prevailed, with the parties becoming increasingly contentious. In recent years there has been little dialogue between the majority and the opposition and with public opinion. The media speak of "arrogance and inability to communicate".

A. In 1997 the Czech Republic suffered a grave political and institutional crisis. Serious political corruption scandals came to light, and the Klaus government resigned in December following allegations of illegal financing. Tensions arose between the government and the President's office, which decided to opt for a new government of technocrats led by the Governor of the Central Bank, **Josef Tosovsky**, who was to remain in office until the elections, which were on 19 June.

On 2 February 1998 **Vaclav Havel** was re-elected President of the Republic.

A. The general public is not happy, both because of the increase in charges for basic services brought about by the financial crisis, which triggered the devaluation of the koruna in July 1997, and because of the financial scandals that have engulfed banks and investment funds, creating a climate of uncertainty and mistrust.

Increasingly complicated problems have also arisen with the Slovak Republic - tight border controls, international telephone charges between border areas in which calls were previously charged at local or regional rates, almost non-existent political relations.

A. At the economic level, it must be remembered that unlike Hungary and Poland, in which market reform was introduced - albeit tentatively - in the 1980s, before 1989 Czechoslovakia had one of the most rigid state-planned economies.

A market economy was rapidly created in the early 1990s, radically transforming the country and making it increasingly attractive to foreign investors. The government implemented currency convertibility, price liberalization and a huge privatization scheme involving the entire people.

A. Approximately 80% of Czech industry changed hands. Millions of convertible vouchers were issued, enabling over six and a half million Czech nationals to try out the stock market. This model was admired and imitated by other central and eastern European countries.

However, the privatization scheme turned out to be something of a sham and was implemented without any rules. The real beneficiaries have been the investment funds and the banks that created them and that have been managing investors' shares.

But the banks remain in state hands, and the lack of control and regulation has fostered a huge amount of fraud - millions of dollars belonging to small savers have disappeared due to the lack of control mechanisms.

There have also been positive privatizations, such as the telecommunications sector, where the Spt monopoly was sold to a Swiss-Dutch consortium, and the energy sector in which the two main Czech refineries were taken over by a consortium formed by Agip, Conoco and Shell.

A. The Czech Republic, which until two years ago was considered "top of the class" in the difficult transition gamble, is now undergoing an identity crisis. New laws against rampant corruption are needed in order to achieve a greater transparency on the capital market and more balanced economic growth.

The current economic and political crisis has highlighted the fact that the transformation process was not as advanced as was previously thought and that more time and attention are needed.

A. On the other hand, there is real freedom of the press, thought and association. From a cultural point of view, the Czech Republic is undoubtedly one of the liveliest and most interesting countries in eastern Europe.

A. While up to a year ago the risk was perhaps that of painting too rosy a picture, today there is the risk of doing the very opposite.

Negative signs are certainly not lacking - the stagnation of inflation, which is hovering around double figures, the growth in unemployment, the deterioration in the trade balance; all these are symptoms of the general recession from which the Tosovsky government, pursuing a policy of austerity and transparency, has tried to rescue the country.

A. Micro- and macroeconomic measures have been adopted, leading to a real growth forecast of somewhere between 1% (OECD) and 2.5-3% (IMF) for 1998.

The economic indicators for the first few months of 1998 have been positive. Foreign accounts and other financial parameters have improved, productivity has risen, thanks partly to wage moderation, and new jobs are being created once again.

The privatization programme, which includes the banking sector, is continuing, and legislation on financial investments (the stock exchange) has been tightened up.

Inflation is still high, however; the Central Bank's aim is to reduce it to 6%.

Due to a lack of investment, there are still considerable difficulties in the environmental and energy sectors, particularly where the application of EC directives is concerned.

I. **Employment, social policy and social dialogue**

A. The opinion on the enlargement of the European Union, adopted at the plenary session of 29-30 October 1997, also gave the opportunity of outlining the concept of a "European social model", in order to establish a benchmark. The following three basic elements were identified:

- social policies - in other words, the co-responsibility of the state in seeking to attain a high level of employment, policies on income redistribution, social security, the safeguarding of workers' health and equal opportunities;
- social dialogue, in order for the representative bodies of workers and social interest groups to have their say in the decisions of companies and of the public authorities;
- industrial relations, based on the collective autonomy of the social partners.

A. Some of the medium-term priorities of the Accession Partnership agreement with the Czech Republic are: to develop adequate structures for the labour market and to review employment policy in order to prepare for involvement in EU coordination; to bring Czech legislation on health and safety at work into line with EU legislation and to strengthen the framework; to enhance equal opportunities for men and women; to further develop an active and autonomous social dialogue; to promote social protection and to make progress in raising public health standards to the level of those in the EU.

A. **Employment**

1. Over the last few years (1991-1997), the level and pattern of employment in the Czech Republic has undergone significant changes:

- the active population has grown (by approximately 290,000);
- from 1990 to 1993 the official employment rate went down by around 10%, from 5.4 million to 4.9 million; unemployment rose, particularly among women, and the number of foreign workers fell;
- from 1994 to 1996, some 200,000 new jobs were officially created, half of which went to foreign workers. In 1997 the job market stagnated and unemployment rose; approximately 3.5% of the workforce are currently foreign workers;
- the greatest job losses have been in agriculture, industry and construction, while the services sector has seen a 53% rise in employment;
- more people are becoming self-employed (craftsmen, small companies, tradesmen) - there are now over 750,000 self-employed workers;
- a fairly strong illegal economy is developing; from 1992 to 1997 it has been estimated that at least 250,000 Czech citizens and 80-100,000 foreigners were involved in this illegal economy, which includes criminal offences.

The medium-term prospects (up to the year 2000) are as follows:

- by the end of the century the active population will have grown by at least 236,000; job demand will increase more slowly, however, because of young people's greater inclination for study and training;
- the demand for employment will still be high in the year 2000, however, as will the risk of growing unemployment.

1. In 1996, the unemployment rate in the Czech Republic was by far the lowest among the central European transitional economies (186,000, or 3.5%). But economic stagnation in 1997 raised the figure to over 260,000.

The structural features of Czech unemployment are:

- higher unemployment among the less educated - particularly among manual workers, women and young people; a significant growth in unemployment among the disabled (who represent 3% of all workers, but 18% of the unemployed). Another serious problem is the lack of work for the Roma population;
- significant regional differences in unemployment levels;
- a growth in long-term unemployment, which now affects approximately one-fifth of the unemployed. Some of these people have lost all interest in job-seeking and survive on benefit.

1. The Czech Republic has recently attracted many immigrants, both legal and illegal, from other central and eastern European countries. In June 1997 at least 178,000 foreign workers were legally living in the country, including 73,000 Slovaks, 42,000 Ukrainians and 13,000 Poles. There are at least another 80-100,000 illegal migrant workers.

This influx of foreign workers, both legal and illegal, means cheaper, more flexible labour. This has obvious advantages for companies, which are not heavily penalized even when they breach their contractual obligations.

1. The 1991 Law No. 1 enshrines the right to work as a right of the people. It provides for a shake-up of the public employment service and the introduction of non-profit-making private employment agencies. The law also lays down recruitment procedures, and procedures for labour

shedding in the case of company restructuring. Lastly it makes provision for financial contributions to companies that take on new staff.

1. Working terms and conditions are regulated exclusively by the 1965 Labour Code, which has not undergone any significant changes.

There are only two types of employment contract - temporary or permanent. It is generally acknowledged that the Labour Code, which is inappropriate for the new-style labour market, needs to be radically changed.

1. The social partners' role in establishing the new rules, either via consultation or collective bargaining, is very small, as is the trade unions' role in safeguarding employment - not least because the latter has not been a problem up to now.

Current legislation only covers individual dismissals, but the new laws on collective bargaining open up new horizons for the prevention of mass lay-offs.

A. Social dialogue

1. A key instrument and seat of social dialogue in the Czech Republic is the council for economic and social consultation, where representatives of the government and the social partners meet to discuss labour legislation, salaries and social affairs.

a) During the past year, the economic crisis has been accompanied by a crisis in social dialogue, particularly at the central level. Within the government coalition, those who considered social dialogue to be inappropriate for tackling social policy issues proved to be the most influential. An attempt was thus made to reduce dialogue - also on social reform - to a minimum, leading to tension between the government and the social partners.

a) While the trade unions were calling for social reform to achieve a real active labour policy buttressed by regulations and concrete provisions, in order to ensure a decent standard of living, better labour and social security legislation and measures to support the family and socially disadvantaged groups, the government was focusing on a policy of austerity, with cuts in social spending as their main target.

a) The difficulty in establishing a three-way dialogue (and in some cases the government's outright refusal to do so) has forced the social partners to seek alternative ways and to put direct pressure on Parliament to push for changes in legislation.

On many occasions, MPs, in agreement with the trade unions, have managed to pass amendments which have moderated the worst effects of certain laws affecting workers and citizens.

1. In view of the economic and social reforms needed to adopt the 'acquis communautaire', it is therefore essential that social dialogue be resumed and strengthened at all levels.

1. On the whole, the ideas behind labour legislation in the Czech Republic, as well as the institutions and procedures it covers, are similar to those in the various EU legal systems. But

progress still has to be made and the minimum standards laid down by European directives must also be adopted.

The European Social Charter, in particular, should be adopted and the international conventions on the protection of workers, such as ILO Conventions 131, 151 and 154, should be ratified.

The elaboration of the new Labour Code could therefore be an important chance to establish a close, three-way collaboration and to resume social dialogue.

1. With regard to collective bargaining, the trade unions' role generally appears to be somewhat limited, both at national and at company level. This is mainly due to the fact that the transition to a system based on private enterprise enhanced the powers that the current system grants to the entrepreneur in terms of type and hours of work, wages and job stability.

It is also due to the lack of a strong national organization for employers, and therefore the lack of an exact counterpart of an influential trade union.

1. In general, it has to be said that the government's policy has been to distance itself from the advancement of social dialogue and collective bargaining rather than to support it.

This begs the question: how much of this is down to ideology and how much of it is due to the awareness that the European integration process will entail a tough economic confrontation based on competitiveness?

1. The equal opportunities policy, meanwhile, is now focusing mainly on mothers with small children.

There are certain laws which hinder women's right to work, both in the public and private sector, including posts in public institutions. However, the new labour code will contain new gender-equality rules to promote equal opportunities.

a) In April, the government approved a resolution on priorities in furthering equal opportunities. The resolution contained measures to make people more culturally and socially aware and to encourage the appointment of women to posts in government and in the public administration. Each minister will implement the policies for which he or she is responsible, for instance using the opportunities offered by the Czech Republic's participation in international programmes and activities, in collaboration with non-governmental organizations.

Other measures approved concern the laws on equal rights, setting up in business and other productive activities, family care, the protection of maternity and children's rights and the combating of violence against women.

A. Social protection and other policies

1. Social expenditure is currently around 20% of GDP and is divided as follows: pensions 9%, sickness 2.5%, health service 7.5%, employment measures 1%. If one includes help for the disabled and for families with children, as well as new unemployment benefits and a "minimum subsistence" allowance, the figure rises to 25%.

Altogether, the social security system tends to protect families more than single people.

1. The level of pension expenditure is conspicuously low, well below the Community average (14%). The social security system will have to gradually guarantee a better standard of living for the elderly.

Because of current demographic trends and in view of probable growth of GDP but also of prices, it will be difficult to maintain the real purchasing power of pensions, which, in any case, is still too low.

Pensions should therefore be increased in line with the cost of living.

a) One-third of the population now contributes towards a private, supplementary pension. So far, employers have not contributed towards pensions but, to restore the balance of the pension system, it appears inevitable that a contribution system for companies will have to be created. The companies have declared their willingness to contribute.

A heated debate on reform of the pension system is under way. The general trend is towards a three-tier system of basic, supplementary and individual pensions.

1. The education and health sectors are both problematic, as they are the target of government reform proposals geared, above all, to curbing expenditure.

a) Education is proving to be a particularly delicate issue. The government - despite the lack of an overall development strategy for education - has proposed a secondary-school reform which would entail higher costs for students.

Teachers are to work longer hours, despite persistent staff shortages and recruitment problems caused by very low salaries.

The series of teachers' strikes in January 1997 and a major demonstration in April this year were symptoms of serious discontent.

a) In the health sector, the principle of solidarity is now less widely applied. But because of opposition by the trade unions and other social groups, the government has not yet managed to push through its proposal to make patients pay for, or contribute towards, the health service.

1. Action also needs to be taken on the health and safety of workers. In this regard, ILO Conventions 155 and 161 on the subject should be fully enforced.

ILO Convention 81, on inspections in the workplace, and Convention 176, which mainly regards the health and safety of miners, have not yet been ratified by the Czech government.

Insurance against accidents in the workplace should also be introduced, workers should be given more information and greater preventive measures should be taken.

I. **The outlook**

A. On 25 and 26 June, the study group had a series of interesting meetings in Prague with the representatives of the EU delegation and also with politicians and directors of the Ministry of Foreign Affairs, the Ministry of Labour and Social Affairs and the Ministry of Industry. It also met with the leaders of the CMKOS (Czech-Moravian Confederation of Trade Unions), the confederation of private-sector business, a farmers' organization and the Confederation of Arts and Culture.

These meetings enabled the study group to form a clearer opinion.

A. The elections held on 19 June changed the political scene, but not enough to establish a straight majority.

Neither of the two main parties have a majority, so they will have to resort to forming alliances that may prove difficult to handle. The Social Democrats won 32.3% of the votes and 74 seats (out of 200), the Civic Democratic Party won 27.7% and 64 seats, the Communist Party 11.1% and 25 seats, the Christian Democrats 9% and 19 seats and the Freedom Union 8.6% and 18 seats.

The anticipated period of instability will make it more difficult to manage the economy and to pass the reforms necessary for further integration, especially those that require a strong political will.

1. Nevertheless, at the political level there is general consensus over EU membership, a fact that was highlighted in all party manifestos, except for that of the Communist Party.

So far there have been no particular delays and there is certainly no danger of an administrative breakdown, since the continuation of negotiations with the EU has been guaranteed. But if the new government does not have a solid majority it will be difficult to continue transposing the *acquis* at a steady pace.

A. The National Statistics Office forecast for GDP growth in 1998 has been revised downwards from 1.6-2% to 1.4%, but the forecast for 1999 is 3%.

Some macroeconomic indicators confirm that the economy is on a downward trend: the OECD and the Czech government, in particular, agree that the end of 1998 will see unemployment rise to 6%. Forecasts on inflation, however, are somewhat divergent: according to the OECD, inflation reached 13.4% (on an annual basis) in March; the government, however, believes that it will stabilize at 12% at the end of the year.

Trade, in contrast, is looking up: the trade deficit should be reduced considerably, thanks to a better export structure.

Economic recovery is essentially linked to a positive export trend. In the first quarter, exports increased by 45%.

There are three reasons for this: the devaluation of the koruna in May '97, increasing demand in Germany and in major European countries and the launch of the restructuring process which is gradually enabling the country to regain competitiveness.

However, there is a lack of the know-how, technology and capital needed for restructuring - the latter being in short supply, particularly at the present time.

A. Some of the priorities set by the Ministry of Industry for the coming years are: tax relief on company income, VAT reductions, a gradual decrease in indirect taxes, price liberalization and the creation of an adequate legislative framework (particularly regarding capital markets, economic competition, trading laws etc.) to be subsequently brought into line with EU legislation.

A. With regard to industrial policy, it will be important for Czech companies to overcome their lack of competitiveness in the domestic and foreign markets. This is not so much due to technical and technological standards as to the level of labour productivity and a low value added.

It is therefore vitally important to: continue the process of industrial restructuring from the point of view of organization, property, financial and personnel structure; pave the way for increased labour productivity (including linking pay rises to productivity); and create a more favourable environment for foreign investment.

Of equal importance is the government's commitment to concluding the privatization process in the banking sector by using a more transparent and controlled method.

1. The Tosovsky government did attempt to improve conditions for foreign investment by putting forward a package of measures which were approved in April 1998. These measures included complete tax exemption for investors in the first five years of business.

However, the measures received a lukewarm response, as the minimum investment limit was rather high (25 million dollars) and neighbouring countries such as Poland and Hungary were offering better conditions and fast-growing economies.

A. In conclusion, the Czech economy is undoubtedly strongly dependent on the economic situation in the EU and a new problem is looming on the horizon - unemployment.

1. It is unclear to what extent the forecast of a rise in the unemployment rate to 6% by the end of 1998 takes account of:

- the restructuring processes still under way;
- the schemes in place for cutting jobs in the civil service and in the transport and energy sectors which are to open up to foreign capital.

1. An unemployment rate of 6% may not seem serious to the EU, which is used to much higher rates, but it should be stressed that this figure is likely to grow and unemployment is a new, little-known phenomenon in this country. In addition, the service sector is at saturation point and does not seem able to absorb the newly unemployed.

Furthermore, it is likely that the restructuring of Polish agriculture will cause a stream of immigrants to pour into the Czech Republic. This would place a heavy burden on the job market.

1. To tackle the work problem, appropriate policies, resources and instruments are needed. So far these have been non-existent or unsuitable, firstly because there was no unemployment and secondly because of the government's *laissez-faire* approach:

- resources allocated to the labour market are the same as when unemployment was at 3%;
- responsibilities are shared out between several ministries - some coordination is needed;
- the state employment service limits itself to providing lists of job vacancies.

1. The meetings with the Czech authorities revealed that a comprehensive plan is being drawn up to deal with the unemployment problem. The plan will cover all areas relating to basic economic growth targets, including measures to attract foreign capital, technology transfers and programmes to tackle industrial decline on a regional basis.

The government is also considering converting unemployment benefit into job-creation incentives.

1. A considerable boost for employment could also come from SMEs, which currently represent over 50% of the industrial sector.

A special law for low-interest public funding has been passed and a designated bank has been set up. Under the *Phare* scheme, innovation centres have been set up to provide assistance to SMEs.

A. As for social dialogue, the social partners bemoan the fact that they have often been briefed on, rather than involved in, the integration process. They would like to play their part at least in setting priorities - for example in the choice of Phare-funded projects.

1. So far the government has conducted the negotiations for EU accession as if it were solely a matter for the government and the President's Office.

The social partners complain of a lack of involvement and a lack of public information and debate. They also claim the right to examine and discuss all social policy issues.

Moreover, the trade unions accuse the government of using the adoption of the *acquis communautaire* as a pretext for minimizing job security.

A. The prospects of creating a collective bargaining system capable of independently regulating - at all levels - wage conditions and working standards, thus completing the establishment of a market economy, are still remote.

Work contracts do exist, however, in the major companies, where the trade unions have a firm presence and where their social partners are clearly identifiable.

1. The reasons for this delay are complex, and concern the recent establishment of an employers' association which can scarcely be called representative, a trade union which is representative (representing approximately 45% of all labour) but is also too centralized and absent at regional level; lastly, the delay could also be attributed to the will to secure social harmony in a country undergoing a difficult period of transition.

A. The reform of the labour code takes on extreme importance here because it offers the chance to start a serious debate on the philosophy behind labour relations and legislation.

There are two schools of thought here. One would like to see total contractual freedom between the parties achieved by abolishing the labour code, while the other, somewhat more balanced, acknowledges workers' right to be protected by law.

Another fundamental problem is the arrangements for worker representation at company level.

1. The problem is the absence of proper consultation. The government's and social partners' views are strongly divergent.

A. Between 1990 and 1997, the Community's Phare programme earmarked ECU493million for the Czech Republic. The funds were used for information and research programmes, training, protection of the environment, social affairs, health, human rights and the protection of ethnic minorities, particularly Roma gypsies.

The 1997 programme was geared to smoothing the way for Phare's new direction and focused on the efforts required as part of the pre-accession strategy.

The main commitments were: to consolidate the institutions and adopt the *acquis communautaire*, including updating the Accession Partnership; to participate in Community programmes; to foster the development of civil society by strengthening its organizations - essential for the consolidation of democracy; economic and social cohesion and competitiveness, the main aim being to prepare for participation in the Structural Funds.

For 1998-99 another ECU 117 million have been allocated.

The Committee hopes that cross-border cooperation programmes with neighbouring countries will be encouraged.

A. Certain sectors, such as the environment, transport and agriculture, require structural reforms to make them competitive and compatible with the single market. They also need considerable financial resources, only a small part of which will come from EU financial aid. For these sectors, the Czech authorities foresee the need for transition periods but are as yet unable to specify their timeframe.

In this regard, the Committee reiterates that in order for enlargement to be sustainable, transition periods should be used only in exceptional circumstances.

Brussels, 9 September 1998.

The President of the Economic and Social Committee
and Social Committee

Tom Jenkins

The Secretary-General of the Economic

Adriano Graziosi