EU enlargement: a giant step?

In the lead up to the accession of ten new member states to the EU next year, HOGAN & HARTSON consider some of the main legal and commercial issues companies established or looking to invest in the region must face.

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Illustration: Michelle Thompson

On 1 May 2004, ten new countries will join the EU, creating an internal market of 25 countries with a population of 450 million. Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, the Slovak Republic and Slovenia will join the existing 15 EU member states to increase the size of the single market by some 40% and create one of the world's largest trading blocks.

The forthcoming enlargement of the EU represents the largest expansion in its history. It presents both enormous opportunities and challenges for companies. An enlarged EU market functioning on the basis of a common set of rules and standards with free movement of goods, services, capital and people across 25 countries should facilitate trade and create increased investment

Focus on the Czech Republic

Territory	79,000 sq. km
Population	10.3 million
Government	Center-left coalition formed by Social Democrats, Christian Democrats and Union of Freedom (Liberals)
National currency	Czech crown (CZK)
Euro membership expected	2009
Other parties	Civic democrats and Communists

Economic indicators

Gross domestic product (GDP)	US$58.1bn (2002) (www.oecd.org)
Real growth in % GDP	2 (2002)
GDP per capita	EUR 6,971 (US$7,954) (2002)
Unemployment rate	9.15% (2002)
Inflation rate	1.8% (2002)

Key industries

In the wake of the major investment of Volkswagen in Skoda at the beginning of the 1990s, other automotive-related producers followed suit, establishing the Czech Republic as a country of automotive industry. For instance, in 2002 Toyota Peugeot Citroen Automobile announced a EUR1.5 billion (about US$1.7 billion) investment.

The electronics sector has also boomed in recent years, again as a result of foreign investment. Other important manufacturing sectors include, precision engineering, life sciences, plastics and R&D centres. The fastest growing services sectors are software development, experts' solutions centres, shared services centres and high-tech repair centres.

Trade

Trade balance 2002: EUR-2,315 million (about US$-2,758 million). Current EU member states are the main trading partners of the Czech Republic. 69% of Czech exports are destined for the EU, 35% of which are taken by the German market. 60.1% of imports are from the EU, 35.9% coming from Germany.

opportunities. At the same time, one of the main challenges for companies already established in the accession countries or planning to invest there is compliance with the rapidly changing legal and enforcement regimes. New rules on public procurement, state aids, product standards, employment, environment, health and safety issues, customs and VAT, among others, all necessitate changes to business practices and procedures for companies operating in those countries.

Preparation for such changes in advance of accession is important both in terms of the smooth operation of business and to avoid liability for breach of the rules. Ongoing compliance and training programmes for businesses in the accession countries will also be important in educating people on the ground on the substance and significance of the new laws and regulations and in minimising the risk of enforcement actions.

Against this backdrop, this article:

- Briefly outlines the preparations the ten new member states have undertaken in the lead up to accession.

- Focuses on the following key areas where business can expect to find significant changes and potential compliance issues:

  - general competition law;

  - state aids;

  - public procurement;

  - environmental law; and

  - employment law.

- Provides essential economic and political background on a cross-section of some of the acceding member states (*see the individual country focus boxes throughout this article*).

The lead up to accession

Over the past few years, the ten new member states have been progressively adapting their laws and policies in preparation for joining the EU. Ten years ago, the European Council meeting in Copenhagen fixed the following criteria for EU membership:

- Democracy, the rule of law, human rights and respect for minorities.

- A functioning market economy, and the capacity to cope with competitive pressures.

Investor benefits
The Czech Republic has been sustaining its position as the number one attractor of foreign direct investment within Central and Eastern Europe for several years. A still relatively cheap yet well-qualified labour force, governmental investment incentives, developed infrastructure and geographical position are probably the main attractions for investors.

Key challenges
Although the main privatisation wave has ebbed, some blue chip national companies still wait to be delivered into private hands, mainly Cesky Telecom (former incumbent landline operator together with its daughter company Eurotel Praha, the leading mobile phone operator in the Czech Republic) and companies in the electrical energy sector. The Czech government is struggling to stop the growing public finance deficit and is therefore expected to go ahead with the privatisation process in the near future.

Even though some progress has been achieved in the reform of public administration, businesses in the Czech republic still face a great deal of bureaucracy.

The Czech Office for Protection of Competition has recently intensified its activities and is expected to apply competition regulation more diligently as a result of the forthcoming EU membership.

Accession timeline
The Czech Republic is expected to meet by 2009 the Maastricht criteria required to join the Euro (maximum budget deficit of 3% of GDP).

The main transitional arrangements are in the following areas: free movement of workers; capital movements and payments; pharmaceutical product patent; restructuring of the steel industry; public health, waste management and waste water.

Commission assessment
In the overall assessment made in the Commission's 2003 Comprehensive Country Monitoring Report on preparation for membership, the Commission concluded that the Czech Republic has achieved a high degree of alignment with the *acquis*. However, the Commission also pinpointed the following areas as requiring further improvement: free movement of persons (mutual recognition of qualifications); agriculture (public health); and road transport.

Milan Lovisek and Lukas Mikeska, Hogan & Hartson, Czech Republic

- The ability to take on the obligations of membership (in other words, to apply effectively EC rules and policies).

This latter requirement implies that accession countries must adopt into their legal systems the vast body of EC law including the EC Treaties, as well as the secondary legislation set out in numerous regulations and directives, and decisions of the European courts, covering a broad range of areas from competition law to food safety and environmental laws (the so- called *acquis communautaire*) (the *acquis*). Accession countries are also required to set up mechanisms for effective enforcement of those laws.

The Commission has been monitoring closely the progressive implementation of the *acquis* and issuing regular reports on a country-by-country basis on progress towards accession (the most recent report was issued in November). It will continue this monitoring role right up to accession and beyond. In their accession negotiations with the EU, some countries have agreed transitional arrangements that will allow them to postpone implementation of certain legislation. These transitional arrangements are included in the Accession Treaty that was signed by the EU member states and the accession countries in April this year. However, the transitional arrangements are limited and the vast bulk of EC law has already been adopted or is about to be adopted and implemented by the accession countries in time for their becoming full members of the EU in May 2004.

Key areas of change

General competition law
The accession countries have already implemented EC competition rules to the extent that this is required. Many of the detailed competition rules as they apply, for example, to vertical agreements, licensing arrangements, R&D and specialisation agreements, are contained in regulations that will be directly applicable in the accession countries, without the need for specific reference to these provisions in national law. Accession countries also have established national agencies charged with the enforcement of both EC and national competition rules.

In addition, from May 2004, competition enforcement in the new member states will not be the prerogative of the national agencies alone since the Commission will have the same powers it has now in relation to enforcement of competition rules in the existing 15 member states, including powers to:

- Dawn raid companies for suspected infringements.

Focus on Hungary

Territory	93,036 sq. km
Population	10 million
Government	Socialist-Free Democrat Coalition, ruled by Socialist majority
National currency	Hungarian Forint (HUF)
Euro membership expected	1 January 2007
Other parties	Fidesz - Hungarian Civic Union (right), Hungarian Democratic Forum (right centre), Christian Democrats (right), Smallholders Party (right), Hungarian Justice and Life Party (extreme right) and the Labor Party (extreme left)

Economic indicators

Gross domestic product (GDP)	US$58.4bn (2002) (www.oecd.org)
Real growth in % GDP	3 (2003)
GDP per capita	US$7,958
Unemployment rate	6.7% (2003)
Inflation rate	5.0% (2003)

Key industries

Wholesale and retail trade, banking, food industry, engineering (car assembly), pharmaceutical industry (generic), construction, communications (mobile communications), microelectronics and software development and tourism (spas and conferences).

Trade

Trade balance 2002: EUR-3,424 million (about US$-4,080 million). Main import partners: Germany (33.71%), Italy (9.65%), Austria (8.8%), Russia (8.64%) and France (6.58%). Main export partners: Germany (37.73%), Austria (8.32%), Italy (6.49%), France (6.32%) and the UK (4.75%). OECD imports: 73.2%, EU imports: 56.3%. OECD exports: 86.2%, EU exports: 75.1%.

Investor benefits

Hungary has cultivatable land and an appropriate climate for agriculture along with relatively cheap and skilled labour, as well as a developed processing industry and services sector.

Key challenges

Preservation of the country's competitive advantages (such as relatively cheap and skilled labour) is a major challenge. Providing support and tax incentives within the EC law framework to small and medium-sized undertakings (SMEs) and maintaining and improving on

- Initiate investigations requiring companies to respond to formal requests for information on agreements and practices.

- Levy fines (up to 10% of turnover) for competition infringements.

However, while the accession countries have put in place EC and national competition rules regulating anti-competitive agreements and arrangements and abuse of dominance, to date there has been little evidence of strict enforcement of such rules across the board. In addition, there is a perceived gap between the existence of the rules and awareness of those rules among the players in the market. Provisions in contracts or practices that would normally come under scrutiny by counsel in the existing member states may currently fly below the radar screen in some of the accession countries.

There are no transition periods for new member states to apply and enforce these competition rules and companies can expect that their agreements and practices will face greater scrutiny following accession. Typical potential issues to be reviewed in contracts and practices in these countries include:

- Long term exclusivity provisions in purchase and supply arrangements.

- Post-term non-compete obligations.

- Restrictions in distribution contracts on unsolicited sales to customers outside the allotted territory.

- Any actions to "encourage" distributors to apply recommended resale prices.

- Information exchanges between competitors.

- Rules for participation in trade association meetings.

- Cross-licensing of competing technologies combined with restriction of field of use to separate product markets.

- Exclusion of customers of parallel importers from the benefit of guarantees or after sales services.

In addition, companies need to assess whether they may be conthe current level of foreign direct investment are also development priorities. In addition, stabilising the volatility of the local currency and maintaining an inflation rate of below 5% are essential economic issues the country must face.

Other development priorities relate to: infrastructure development (improving roads), the construction industry, informatics and communications, and increasing productivity.

Accession timeline

The government target for adoption of the Euro is 1 January 2007, although the wider forecast estimates that it will not be before 2008 to 2010.

In the accession negotiations Hungary received transitional periods in all areas for which it had put forward an official request. These relate to: free movement of capital (purchase of secondary residences, purchase of agricultural land/forestry); agriculture (possibility of a simplified scheme for direct payments, various transitional periods in respect of drinking milk, wine growing, rural development); taxation (reduced VAT rate for certain heating products and supply of natural gas and electricity); environment (packaging and packaging waste, urban wastewater treatment, hazardous waste); and free movement of persons (transitional arrangement put forward by the EU in respect of restrictions on the movement of workers from Hungary to the EU).

Commission assessment

The most recent assessment was extensive and comprehensive. The outlook remains positive, despite some fundamental reservations.

According to the Commission's 2003 Comprehensive Country Monitoring Report on preparation for membership, Hungary has generally met the commitments it made in the accession negotiations. However, immediate and decisive action is needed to address four issues in the agriculture chapter (delays in setting up the Paying Agency, delays in setting up the Integrated Administration and Control System, rural development and public health in agro-food establishments).

In the following areas Hungary partially meets the commitments it made in accession negotiations: free movement of goods (food safety, public procurement); company law (enforcement of the protection of intellectual and industrial property rights); information society (postal services, information society); regional policy (institutional structures, financial management); environment (industrial pollution, nature protection); consumer protection (market surveillance); and social policy (framework legislation for anti-discrimination).

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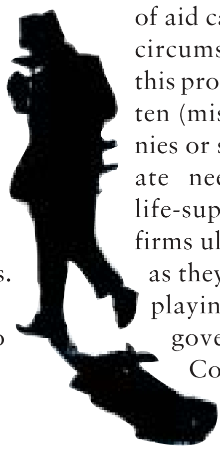
sidered dominant in the relevant markets in which they operate. If they have high market shares in the markets concerned, they also need to assess practices such as:

- Product tying.
- Discounts awarded on the basis of exclusive purchase commitments.
- Refusals to supply certain customers.
- Refusal to license IP rights.
- Refusal to grant access to an essential facility.



State aids

State aids deserve specific mention in the accession context since traditionally, many of the accession countries did not regulate the granting of such aid and did not view state aid as unlawful. State aid control in the EU is centered on the principle that aid granted to enterprises via state resources is by definition incompatible with the Common Market, although some types of aid can be justified in exceptional circumstances. The reason behind this prohibition is that state aid is often (mis)used to keep some companies or sectors – although in desperate need of restructuring – on life-support, while unsubsidised firms ultimately run into difficulties as they cannot compete "on a level playing field" with those receiving governmental support. If the Commission finds an aid incompatible with the Common Market, it can require the aid (with interest) to be repaid by the beneficiaries. Under certain circumstances, illegal state aid may also be recoverable from the successors or purchasers of assets of the entity that received the aid.

Although beneficiaries of state aid are not obliged or even entitled to notify the Commission about a member state's plans to grant aid, they have a clear interest in verifying whether the member state has complied with all obligations under EU state aid rules, before accepting the aid in question. This is particularly relevant in the context of accession, where aid that was considered lawful under the "old regime" may come up for review by the Commission upon accession.

In preparation for accession, the accession countries have adopted national legislation on the control of state aid. As many of the accession countries used to have command economies where state aid control

Focus on Latvia

Territory	64,600 sq. km
Population	2.325 million (July 2003)
Government	Coalition formed by New Era (conservative), Greens and Farmers Union (centre), Latvia's First Party (conservative), For Fatherland and Freedom/LNNK (conservative)
National currency	Lats (LVL)
Euro membership expected	2007/2008
Other parties	People's Party (conservative), National Harmony Party (socio-democratic), For Human Rights in United Latvia (combination of left and left-centre)

Economic indicators

Gross domestic product (GDP)	US$8.405 billion (2002)
Real growth in % GDP	6.1 (2002)
GDP per capita	US$3,596 (2002)
Unemployment rate	8.5% (July 2003)
Inflation rate	1.9% (2002)

Key industries

Information technologies, electronic and mechanical engineering, chemical and pharmaceutical industries, wood processing, food processing and textiles.

Trade

Trade balance 2002: EUR-1,873 million (about US$-2,343 million). Main import partners: Germany (15.78%), Russia (9.97%), Lithuania (9.40%), Finland (7.39%) and Sweden (6.45%). Main export partners: Germany (16.11%), the UK (15.61%), Sweden (10.88%), Lithuania (7.90%) and Estonia (5.92%).

Investor benefits

Latvia is located at the crossroads of Northern and Eastern Europe, on the east coast of the Baltic Sea. Its strategic location forms the basis for Latvia's economic success and the Latvian economy continues to enjoy stable growth. In 2001, GDP increased by 7.95% and in 2002 by 6.1%, and Latvia has good preconditions for economic growth in the future. The macroeconomic environment in Latvia is stable. A functioning liberal and open market economy has been created. The workforce is comparatively cheap and easy to train. The average educational level is quite high and there are highly qualified experts in many sectors, including high technologies such as IT, chemistry and pharmacy.

Investors are eligible for specific forms of support, including tax relief in special economic zones, and local tax

was not an issue, a radical change of course was introduced in these countries by adopting EC-style procedures for notifying and clearing state aid measures via national (competition) bodies.

As of 1 May 2004, the EC regime for state aid control will become directly applicable in the new member states, and enforcement of the state aid rules will pass exclusively to the Commission. Aid schemes will be classified into two main categories, "existing aid" or "new aid". Aid schemes put in place in a new member state before the date of accession and still applicable after that date will be regarded as *existing aid*, provided that:

- The aid was put into effect before 10 December 1994; *or*

- The aid is explicitly listed in the accession documents; *or*

- The aid was assessed by the relevant national state aid monitoring body and found to be compatible with the *acquis,* and the Commission has raised no objection against the aid (on the ground of serious doubts as to its compatibility with the Common Market).

The Commission has the power to monitor and periodically review existing aid, but it can only restrict or prohibit it as for the future, without the possibility of recovery.

State aid measures that do not meet the above conditions will be regarded as *new aid,* which will need to be notified to the Commission. In addition, new aid falls under the "standstill" provision, as a result of which the new member state would have to cease granting the aid pending review by the Commission, until the latter has authorised it. State aid measures that are put into effect in a member state in contravention of the notification and standstill obligations will be regarded as *unlawful aid*.

In spite of this general approach, the Accession Treaty contains specific transitional state aid arrangements that enable certain new member states to continue specified aid for a limited period following accession, even though that aid is not compatible with the Common Market. Special transitional arrangements have been set up for fiscal aid schemes and/or restructuring aid to sensitive industries (for exrelief. The following special economic zones exist in Latvia: Ventspils Free Port, Liepaja Special Economic Zone and Rezekne Special Economic Zone. Incentives in special economic zones include: 80 to 100% reduction in corporate, property and land taxes; and a full exemption from VAT and customs duties upon the importation of goods into the zone from abroad.

The high investment rate, opportunities to receive substantial support from the EU pre-accession funds, as well as EU structural funds, and the improving business environment indicate that sustainable growth will also continue in the coming years.

Key challenges

The objective of the Latvian government is to create conditions for stable economic growth in Latvia by maintaining the stability of the Lats, low inflation and keeping the budget deficit within 3% of GDP limit. With regard to structural reforms, there is a plan to complete the privatisation of large-scale public enterprises, improve the regulation of public services and improve competition in the energy and telecommunications sectors.

The Latvian government continues gradually to reduce the tax burden by decreasing corporate income tax and the overall rate of social contribution. As a result, Latvia's government is very concerned about EU initiatives concerning harmonisation of taxes, which may decrease the country's competitiveness.

As regards the implementation of *acquis*, compliance with EC environmental standards imposes the most significant costs on the Latvian government, as well as on business operators.

Accession timeline

The country is expected to adopt the Euro as currency in 2007/2008.

During the accession negotiations Latvia obtained 35 transition period arrangements for applying *acquis*. The majority have been introduced in the following areas: environment (the recovery and recycling of packaging waste, treatment of urban waste); agriculture and fisheries (veterinary and phytosanitary legislation, a specific management regime in the entire Gulf of Riga); and free movement of capital (a seven-year transitional period for the acquisition of agricultural and forestry land).

Commission assessment

According to the Commission's 2003 Comprehensive Country Monitoring Report on preparation for membership, Latvia has reached a high level of alignment with the *acquis* in most policy areas. There are however four areas of concern: free movement of persons (mutual recognition of qualifications); agriculture (animal by-products); taxation (co-operation and mutual assistance in the field of VAT), and customs union (administration and operational capacity).

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ample, shipbuilding) in Cyprus, Hungary, Malta, Poland and Slovakia. In addition, state aid to transport and agricultural sectors will be subject to a different regime, as the majority of accession candidates have no experience in monitoring public aid to those sectors.

Public procurement

The EC public procurement rules require competitive tendering for public contracts, transparency and equal treatment for all EU tenderers with the aim of ensuring that the contract is awarded to the tenderer offering best value for money. Public contracts with a value above certain thresholds are subject to common EC rules regulating advertising of procurement contracts, invitations to tender and the award of contracts.

Contracts for public works and for purchases of goods and services by public authorities and public utilities currently account for around 14% of the EU's GDP with a value of around EUR1,000 billion (about US$1,141 billion), and this market will further expand with the accession of the new countries whose authorities will be subject to the same rules. Like state aids, some accession countries have not traditionally regulated the award of public contracts and the adoption and implementation of these rules has been one of the sticking points in the preparation for accession. In its 2003 Comprehensive Report, the Commission stated as follows: "The Czech Republic, Estonia, Latvia, Hungary, Malta and Poland have not completed alignment with the EU public procurement rules. This must now be undertaken, taking into account that only expenditure relating to projects implemented in full conformity with the EU public procurement rules will be eligible for co-financing under structural funds as from January 1 2004" (*2003 Comprehensive Monitoring Report of the European Commission on the state of preparedness for EU membership (of the candidate countries*). (Structural funds are intended to enhance economic and social cohesion and to improve the structural imbalances across the EU. Structural funding is the EU's most significant funding mechanism accounting for around a third of the total EU budget.)

Companies who have been battling against discriminatory practices in the award of such contracts should

Focus on Poland

Territory	312,685 sq. km
Population	38.6 million
Government	Democratic Left Alliance, Labor Union (left)
National currency	Zloty (PLN)
Euro membership expected	2007/2008
Other parties	Civic Platform (right), Law and Justice (right), Polish Families League (center), Polish Peasants Party (center)

Economic indicators

Gross domestic product (GDP)	US$167 billion (2002)(www.oecd.org)
Real growth in % GDP	4.5% (average for 1990 - 2000); 1.3% (2002); 2.5-3% (2003 - estimated); 5% (2004 - projected)
GDP per capita	US$9,529.97 (2002)
Unemployment rate	17.6% (August 2003)
Inflation rate	1.9% (2002)

Key industries
Machine building, iron and steel, coal mining, chemicals, shipbuilding, food processing, glass, beverages and textiles.

Trade
Trade balance 2002: EUR-14,900 million (US$-17,753 million). Main import partners (2002): Germany (24.3%), Italy (8.4%) and the Russian Federation (8.0%). Main export partners (2002): Germany (32.3%), France (6.0%) and Italy (5.5%).

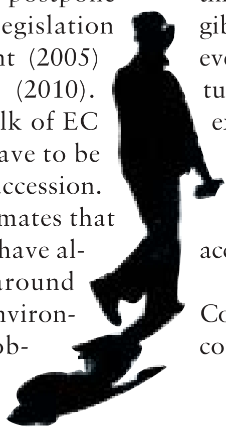
Investor benefits
Poland is a cultural, historical and political bridge between Western and Eastern Europe. It provides investors with the opportunity to reach both the developed markets of the EU and the emerging markets of Central Europe. Key foreign direct investment drivers in Poland include the biggest market size in Central Europe, one of the lowest labour costs on the continent, an improved overall business environment and growing integration with the world economy.

find it easier to penetrate these markets following accession. Conversely, companies who may have benefited from preferred supplier relationships with public authorities and utilities in accession countries need to prepare to face tougher competition and comply with strict award criteria.

Environmental law

Enlargement of the EU is also an enlargement of environmental protection as the new member states will have to apply the environmental *acquis*. Environmental standards is one of the areas where the new member states will need to do most to catch up with the rest of the EU. The new standards must be respected not only by national authorities but also by industry affected by the legislation. According to the Commission's 2003 Comprehensive Report, "In the field of environmental policy the acceding countries are for the most part well on track to be able to implement the *acquis* from accession in particular as regards horizontal environmental legislation, air quality, waste management, water quality, chemicals and genetically modified organisms, noise and nuclear safety and radiation protection."

Some countries have agreed transition periods for implementation of certain legislation, for example, the Czech Republic can postpone full compliance with legislation on waste management (2005) and water quality (2010). However, the vast bulk of EC environmental laws have to be fully implemented on accession. The Commission estimates that prospective members have already transposed around 80% of the EU's 149 environmental laws. But observing them in practice will be more difficult.



The challenge for the new member states is:

- First, to implement the *acquis*.
- Second, to finance the implementation process.

Upon accession, the level of EU cash for environmental projects will rise three-fold as the new states become eligible for EU structural funds. However, even with the grant of EU structural funds to the new states, it is expected there would still be a short fall of the total needed for environmental compliance, which the Commission puts at 2 to 3% of the accession countries' GDP.

Companies doing business in accession countries need to prepare for signifi-

Investors in Poland can obtain investment grants covering up to 25% of investment outlays, employment grants (up to EUR 4,000 (US$4,564) per job created) training grants (up to EUR 1,150 (US$1,312) per employee) and grants for infrastructure development, which are provided to communes for upgrading infrastructure related to new investment (*Law on Financial Support for Investment*). Investors who benefit from the investment grants are eligible for other forms of support, such as tax relief in special economic zones and local tax relief.

Key challenges

Although Polish infrastructure has improved significantly over the last ten years, there is still a lot to be done to catch up with Western European road, rail and environmental standards. Poland's large agricultural sector remains handicapped by structural problems, surplus labour, inefficient small farms and lack of investment. Restructuring and privatisation of "sensitive sectors" (for example, coal, steel, railroads and energy) have begun. Further cutting down of public finance depends mainly on privatisation of Poland's remaining state-owned sectors. Improving Poland's outsized foreign trade deficit and containing the budget deficit are top priorities.

Accession timeline

Poland will probably join the Eurozone in 2007/2008. During the course of the accession negotiations, Poland obtained 43 transition period arrangements in 31 negotiation chapters. The main transition periods are connected with such areas as: free movement of goods, people and capital; agriculture; competition (establishment of special economic zones); telecommunications; and IT.

Commission assessment

According to the Commission's 2003 Comprehensive Country Monitoring Report on preparation for membership, overall Poland has achieved a high level of alignment with the *acquis* in most policy areas, and is well advanced in reaching adequate administrative capacity to implement the *acquis* in a number of fields.

Areas of concern are: free movement of persons (mutual recognition of qualifications); agriculture (Paying Agency, Integrated Administration and Control System, public health, animal control); and fisheries (resource management, inspection and control, market policy).

Tomasz Dobrowolski, Hogan & Hartson, Poland

cant changes in environmental protection legislation and enforcement which, depending on the nature of their business, may require significant investment. If a company does not comply, for example, with licensing, waste management and safety requirements, it may find itself penalised by new environmental supervising bodies.

Employment law

Employment issues and worker protection are priorities for the EU, and new member states are facing wide-ranging changes in their employment laws and practices as a result of the implementation of EC rules in this area. Employers in new member states will have to spend more time and resources on systems, training and organisation to meet these obligations. The EU also requires member states to introduce penalties for employers who breach the rules.

The major legislative changes brought about by accession include:

- Elimination of discrimination on the basis of gender, age, disability, race/ethnicity, nationality, religion or belief and sexual orientation;
- Prohibition of sexual harassment;
- The introduction of the 40-hour working week (although there are certain exceptions for each new member state regarding, for example, shift workers performing special activities such as mining) and precise limits on overtime;
- Changes to the information to be included in an employment contract;
- Delimitation of conditions for dismissal;
- Increased protection for pregnant workers and those under 18 years of age;
- Maternity and paternity leave; and
- The right for employees to be consulted on key issues affecting their employment, sometimes through work councils.

In addition, a large number of directives addressing health and safety protection will also be implemented in accession countries.

EC law aims to allow free movement of workers within the EU, and so arrangements for workers to be able to move around between existing and new member states, for example, by co-ordinating different national social security schemes, will also be required. The EU has agreed on a flexible transition period of up to seven years for limiting the inflow of workers from new member states to the existing member states.

Focus on the Slovak Republic

Territory	49,035 sq. km
Population	5.4 million
Government	Right-wing coalition formed by two liberal parties, Christian-democrats and party representing the Hungarian minority
National currency	Slovak crown (SKK)
Euro membership expected	2007-2010
Other parties	Movement Smer, Movement for Democratic Slovakia-People's party, Democratic party, Communists, Nationalists

Economic indicators

Gross domestic product (GDP)	US$24.9bn (2002) (www.oecd.org)
Real growth in % GDP	4.4 (2002)
GDP per capita	EUR 4,843 (US$5,526) (2002)
Unemployment rate	17.8% (2002)
Inflation rate	3.3% (2002)

Key industries

The focus of the Slovak economy has shifted from heavy industry to sectors such as automotive production, electronics, mechanical engineering, chemical engineering, information technology, wood processing, tourism and services. Such diversification paves the way for further stabilisation of the economy. However, some of the regions still struggle to attract more investment to tackle their massive unemployment problems.

Trade

Trade balance 2002: EUR-2,263 million (about US$-2,696 million). The EU accounts for 60.3% of Slovakian export, half of which goes to Germany. The second largest trading partner of Slovakia is the Czech Republic. Principal exports include mechanical engineering, chemicals, pharmaceuticals, rubber and metallurgy.

Investor benefits

Slovakia offers a number of benefits to investors including a low cost and highly skilled labour force, low cost utilities and various governmental investment incentives. Taking advantage of such benefits, Volkswagen, Slovakia's largest foreign investor, has already opened its third production plant in the country.

Key challenges

The right-wing Slovakian government is making a great effort to tackle the country's fiscal problems while at the same time trying to boost economic activity by cutting taxes (for example, corporate income tax to 19%). The government's aim is to help create a flexible and healthy economy and the public finance reform now in progress is regarded as one of the boldest in Europe.

While the economic and political situation has stabilised, the country remains one of the poorest in the region. High rates of unemployment, which have hit some of the regions particularly hard, keep the costs of labour low.

Accession timeline

Like other countries in the region, Slovakia is expected to fulfil Maastricht criteria and adopt the Euro between 2007 to 2010.

The main transitional arrangements are in the following areas: free movement of workers; investor compensation rules; pharmaceutical product patents; acquisition of agricultural land and forests; fiscal aid to the steel sector; and public health and packaging waste.

Commission assessment

In the overall assessment made in the Commission's 2003 Comprehensive Country Monitoring Report on preparation for membership, the Commission concluded that the Slovak Republic has achieved a relatively high degree of alignment with the *acquis* in most policy areas. However, there are two areas of concern – competition policy (steel sector) and agriculture (Paying Agency, Integrated Administration and Control System and public health).

Milan Lovisek and Lukas Mikeska, Hogan & Hartson, Czech Republic

The overall impact of EC law on workplace discrimination is that employers will have to provide equal pay and working conditions as well as equal access to training and promotion. EC law requires member states to place the burden of proof on the employer, in cases where the employee is claiming sex discrimination, to prove that there has been no discrimination. In order to prepare for the impact of anti-discrimination laws, employers will need to review their payment systems to ensure that men and women are paid equally for like work and to consider funding maternity and paternity leave. These changes will also require appropriate training for managerial staff.

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