

EU Accession Survey



Hogan & Hartson's EU Accession Group

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Our EU Accession Group is uniquely placed to advise you on the important legal and regulatory challenges and exciting business opportunities resulting from the EU enlargement process. Made up of dedicated representatives from across Europe, the Group combines specialist EC law expertise (from years of experience representing clients before the European Commission, the European Parliament and the Council - developing, supporting, opposing and modifying legislation, and advising clients on all aspects of EC law and policy on their business) with in-depth local market knowledge in EU member states.

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Introduction

The largest expansion of the European Union in May 2004 since its creation has generated a great deal of interest in the economic and business practice implications for the accession countries and existing EU members. The referendums currently being held in accession countries measure not only the levels of public support for accession but also the differing levels of enthusiasm for such a move; in countries that had (by 3 June 2003) held a referendum on accession, turnouts varied from 45% in Hungary to 60% in Slovenia.

However, the levels of awareness, preparedness and opinions on accession among three business communities - senior executives of corporates, lawyers and financial advisers - in accession countries are less transparent. Hogan & Hartson set out to answer questions on how these communities believe accession will impact on their domestic economies, the effect on company growth and profitability, and the sectors likely to benefit and be adversely affected after May 2004. Furthermore, when formulating the survey, Hogan & Hartson believed that it was important to find out the level of awareness among the corporate community about the implications for their business from changes in legislation and regulation after accession.

Methodology

Hogan & Hartson, in association with Remark, canvassed the opinions of 20 managing director-level financial intermediaries with recent M&A experience in EU accession countries, 30 lawyers in firms with headquarters in Lithuania, Latvia, Estonia, Slovakia and Slovenia and 100 corporates in the countries due to join the EU in May 2004.

Weight was given to the number of corporate respondents according to the size of the country's GDP (36 Polish, 20 Czech, 6 Slovak, 20 Hungarian, 5 Estonian, 5 Latvian, 7 Lithuanian, and 2 Slovenian). The survey was conducted by telephone interview and fax in April and May 2003.

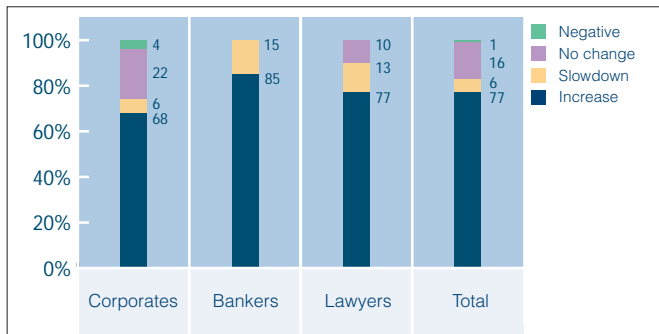


Macro Economic Effects of Accession

A boost for growth

Accession to the EU is expected to have a beneficial effect on economic growth, according to most of the senior corporate executives, bankers, and lawyers (Figure 1). Overall, 77% of respondents expect economic growth to increase following accession. In particular, bankers are most optimistic, with none of the respondents expecting accession to have a negative effect.

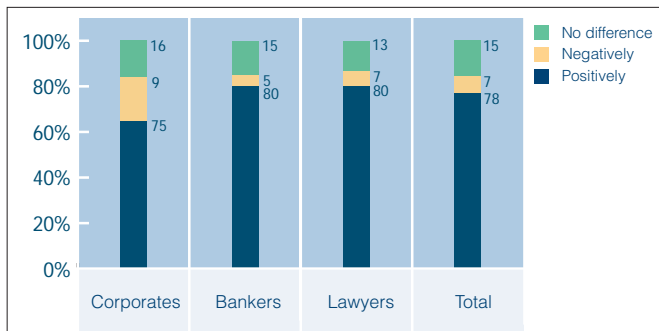
*Figure 1.
What do you expect to happen to economic growth in the accession countries, 2004-9?*



Foreign Direct Investment levels to increase

Similarly, 70% of respondents expect foreign direct investment levels to increase, with only 6% predicting a decrease. Such an anticipated increase in foreign direct investment levels is considered by at least 78% of all respondents (and 75% of corporates) to be good for domestic business (Figure 2).

*Figure 2.
How do you think FDI will affect domestic businesses?*



Mixed views about profitability

However, views were more varied about the effects of accession on profitability. While 75% of bankers expect a positive effect on profitability just over half the corporates (52%) surveyed shared this view.

‘Companies to grow organically’, say bankers but executives expect to be bought

Views differ more widely on the ways to achieve company growth (Figure 3). 49% of corporate respondents expect company growth to be achieved domestically through acquisitions by foreign companies with 22% expecting growth to occur organically. This contrasts with bankers, 55% of whom expect organic growth and only 15% through acquisition by foreign companies.

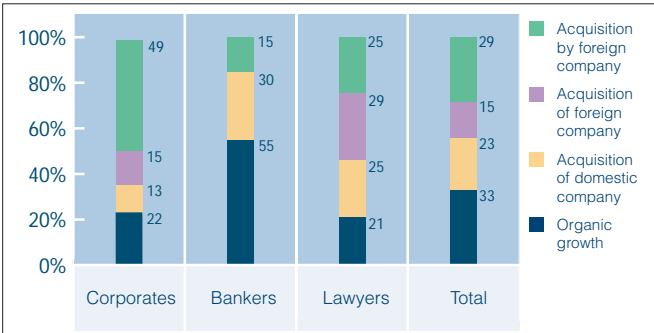


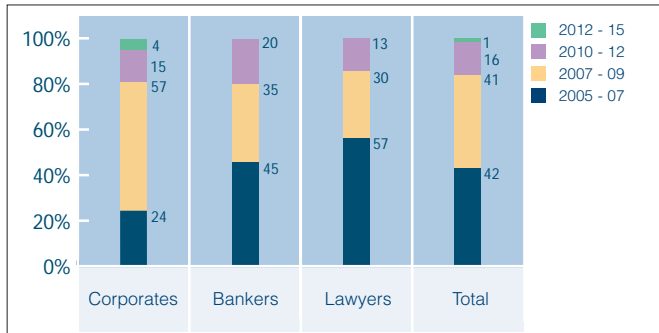
Figure 3. How do you think company growth will be achieved in the three years after accession?

Overall, all three respondent groups expect accession to bring benefits to their domestic economies. This optimism is borne out in expectations on adoption of the Euro and the full implementation of EU legislation.

Quick adoption of the Euro

Over 80% of all respondents expect the Euro to be adopted by 2009, with many bankers and lawyers expecting the single currency to be adopted by 2007. However corporates are more cautious with only 57% expecting it to occur between three to five years after accession (Figure 4).

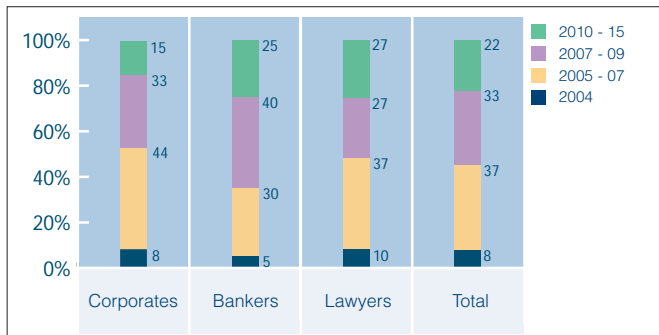
Figure 4.
When do you expect the Euro to be adopted by new members?



Quick implementation of all EU Legislation

By contrast 52% of corporates expect full implementation of EU legislation to take place by 2007, compared with 35% of bankers and 47% of lawyers (Figure 5).

Figure 5.
How long do you expect it will take for accession countries to fully implement EU legislation?



Effects on industry sectors - a big effect on agriculture

When asked what sectors would benefit and which would be adversely affected respondents provided some contrasting results.

The sector expected to benefit most from accession is the services sector (21% of responses) (Figure 6). The development of this sector and its increase in importance in existing EU economies has been witnessed by Eastern European countries, who now see this as an inevitable step towards modernisation of their own economies.

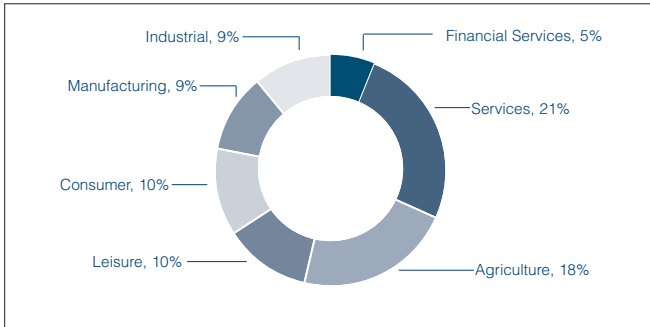


Figure 6.
What sector do you think will benefit most from accession to the EU?
(All respondents - Top 8 sectors)

Agriculture is considered to be the other sector to benefit, with a number of respondents mentioning that incomes from the sector will increase and that farmers' social situation in the medium term will improve, even if the sector's share of GDP and relative position in the world food sector declined. Corporate respondents, in particular, mentioned agriculture as a sector expected to benefit. Although lawyers and bankers also mentioned agriculture, the service sector is expected to benefit most from accession in their view.

Conversely, agriculture is, however, considered by almost half of all respondents (48%) to be the sector most adversely affected by accession (Figure 7). Heavy industry, energy, manufacturing and mining are also mentioned as sectors expected to fare badly after May 2004.

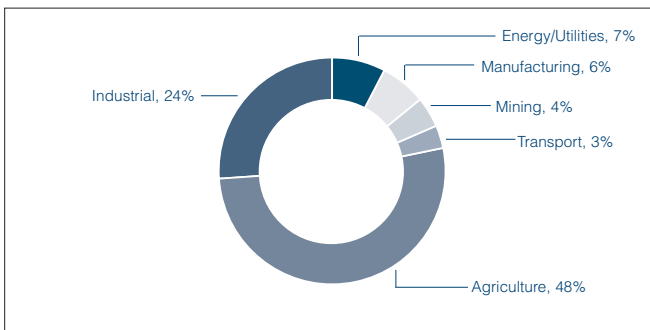


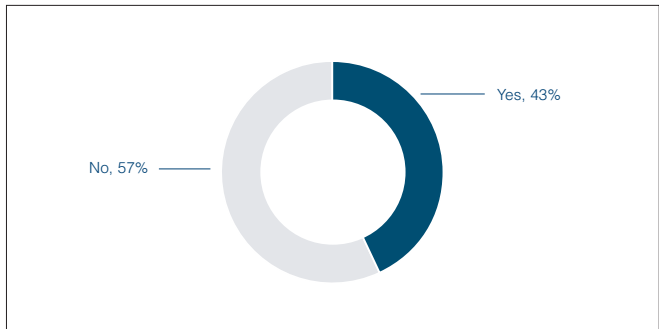
Figure 7.
What sector do you think will be adversely affected by accession to the EU?
(All respondents - Top 6 sectors)

Corporate Views on Accession

Majority of companies have not conducted any sort of EU audit

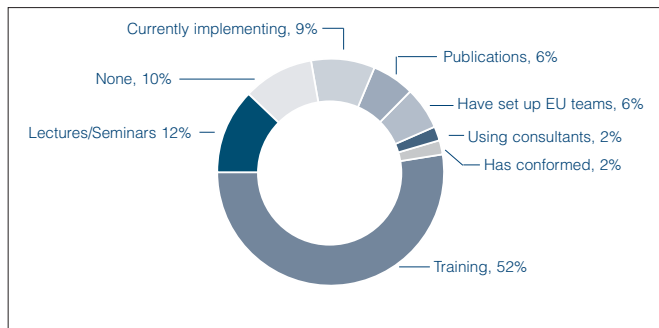
Overall, the results of the survey suggest that a majority of corporates are not prepared for accession (Figure 8). When asked whether they had performed any sort of EU regulation audit 57% of corporate respondents replied they had not, which is surprising given that 88% use external legal advisers.

*Figure 8.
Have you performed
any sort of EU
regulation audit?*



77% of corporates currently possess in-house counsel. Of these respondents the most popular step taken for EU accession has been training, accounting for 52% of the responses given (Figure 9).

*Figure 9.
What steps have you
taken in preparation
for EU accession?
(If the corporate
possesses in-house
counsel)*



Despite the preparation made by some firms on EU accession the lack of research conducted, in the form of a regulation audit, helps to explain the low level of confidence expressed by the corporate community on future legislative and

regulatory changes.

Slightly over half (51%) of those surveyed rate their knowledge of the impending regulatory issues as unsatisfactory. Their desire to gain more of an understanding was tempered, however, by a lack of certainty over the extent to which EU accession is expected change their business practices. When asked what their expectations were with regard to the effects of accession only 33% of respondents thought their business practices would be changed considerably (Figure 10).

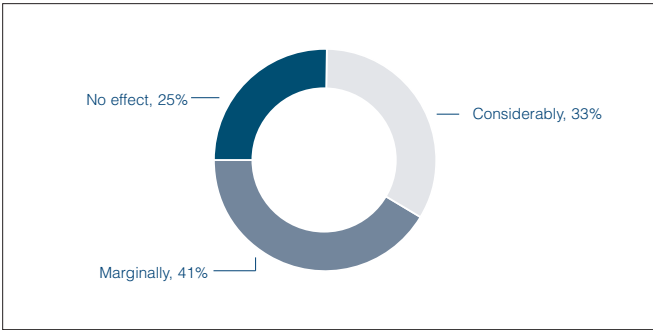


Figure 10. To what extent do you expect EU accession will affect your business practices?

At the same time a surprisingly small number of corporates expressed confidence in their knowledge of sector specific law, with only 26% rating their knowledge as “good”. The expectation must be that, with the accession date looming, senior corporate executives will attempt to address the gaps they feel they have with regard to certain EU issues.

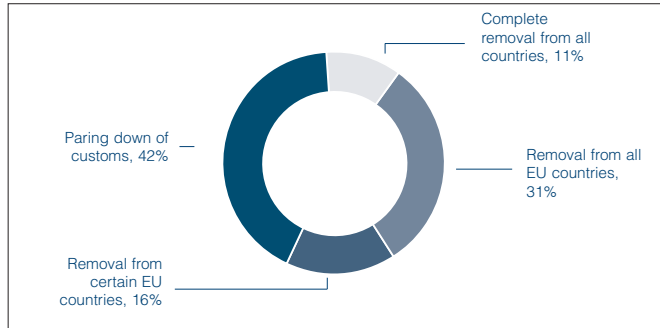
Poor knowledge of customs procedures ...

When asked questions on actual processes that will take place with accession the level of corporate knowledge is mixed. One of the key foundations of the European Union is the creation of the single market. This will provide both opportunities and challenges to accession countries. Only 26% of corporates rated their knowledge of EU aid or subsidies in their sector as “good”. One respondent said, “Although the EU offers aid much of it is not able to be realised as there are very strict conditions and it is often not well explained.”

One of the more surprising findings from the survey was the lack of awareness by corporates of the effect accession will have on domestic customs procedures (Figure 11). Only 31%

of respondents expect a removal of customs procedures from all EU countries. By contrast, 42% believe that customs procedures will merely be “pared down” between countries in the EU.

*Figure 11.
What do you expect
will happen to customs
procedures after
accession?*



That one of the fundamental concepts of the European Union is misunderstood by such a relatively large number of corporates ought either to be a cause for concern, one year prior to accession, or evidence that company advisers have not sufficiently briefed their clients as to the necessary regulatory changes.

... but better on qualifications for state aid

However, it would be untrue to say that corporates are uninformed on all issues relating to the EU. Respondents demonstrated a good knowledge of the effect that EU accession would have on state aid, with a correct assumption that it would be allowed for certain sectors and Small and Medium Sized Enterprises (SMEs) (Figure 12).

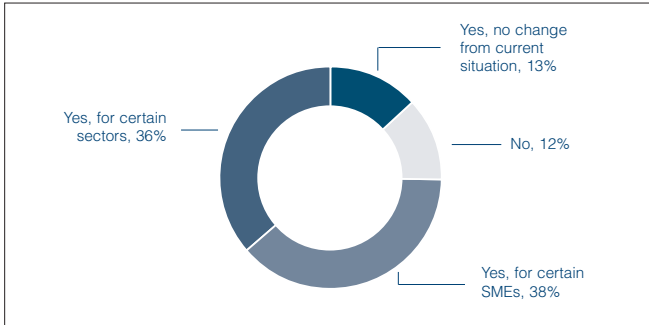


Figure 12.
Do you expect state aid will be allowed in the EU under any circumstances?

Moreover, a large proportion of corporates (47%) correctly expects the maintenance of state subsidies in newly privatised industries, compared with 26% who expect their complete removal. This sound awareness of the future of state aid would suggest that corporate knowledge about accession issues is incomplete, but not negligible.

However, it is worth noting that corporates do not believe themselves to have a good knowledge of EU law - only 26% consider their knowledge of sector specific EU aid to be "good".

Environmental law will change - but how?

A large number of corporates (78%) believe that EU environmental policy will have a significant impact on industry. Such a strong opinion is not, however, backed up by specific knowledge of the legislation that will apply to these corporates. In particular, only 29% of corporates claimed to have a "good" knowledge of EU requirements regarding packaging waste and only 23% said that they had a "good" knowledge of the EU requirements regarding chemicals.

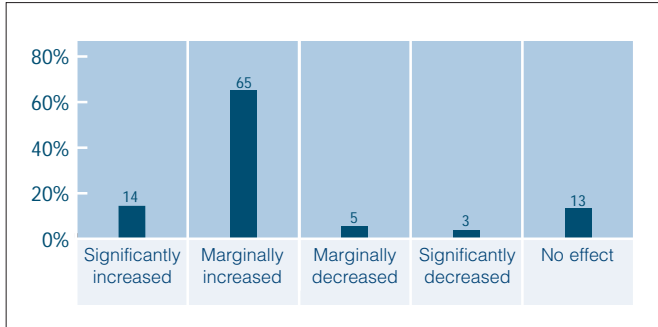
It appears as though corporates have been made aware that change is coming, but they are unsure of the details and the extent of the change.

Environmental policy is perhaps one of the most obvious visual examples of the difference between the current EU and Eastern Europe. This may be one explanation as to why corporates expect more impact from this policy than from any other specific changes to the law.

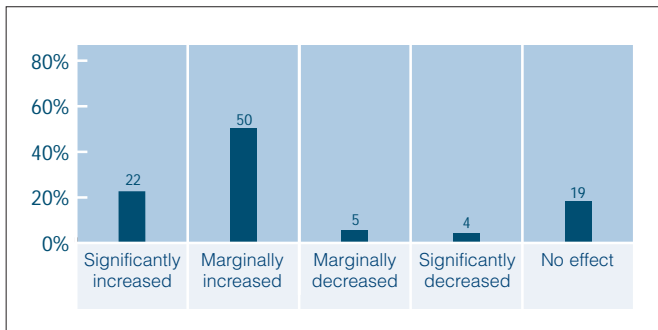
Overall costs expected to increase

The effect of a change in environmental policy and a belief that regulations will be tightened has led to the vast majority of corporates expecting an increase in overall operating costs (81%) and employment-related costs (72%) (Figures 13 and 14). In certain sectors this is expected to lead to higher prices.

*Figure 13.
How do you think
operating costs will be
affected by accession
to the EU?*



*Figure 14.
What do you expect
will happen to
employment/
payroll costs?*



Energy – increase in prices ...

Three quarters (74%) of corporates from the energy sector expect energy prices to increase as a result of EU accession (Figure 15). However, many of the respondents said that they did not expect much of an increase. One executive remarked that prices depended on the world market and so would be difficult to predict, but margins were likely to decrease.

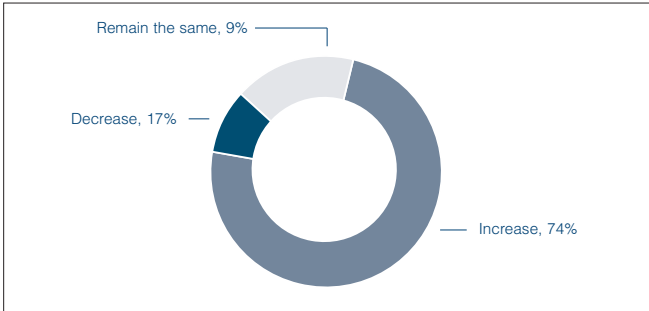


Figure 15.
What do you expect will be the effect on the level of energy prices?

... and M&A

Future M&A activity in the energy sector is expected to increase as a result of accession according to two-thirds (67%) of respondents. Only 10% expect a decrease, while 24% expect the level of M&A activity to remain the same.

Higher consumer prices expected

Corporates in the consumer or food products sectors generally believe that their governments are working at improving local compliance with EU regulation. A number of respondents said that there was “slow adjustment to the regulations, but not enough has been done so far”. Other respondents said that governments were being quick to adjust.

An inevitable result of compliance is an increase in prices according to 83% of corporates (Figure 16). The expectation is that higher employment and operating costs resulting from tighter regulations and energy prices will lead to a higher price on the final consumer product.

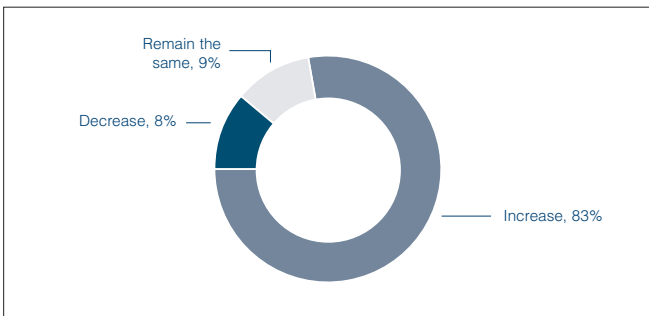
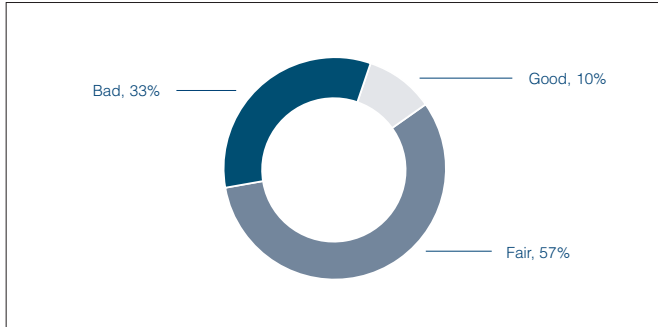


Figure 16.
What do you expect will happen to the prices of consumer products following EU accession?

'Government is not doing enough', say corporates and lawyers

The role of the governments in providing companies with adequate information is criticised by corporates. When asked to rate their government's record on informing their company on respective changes to working practices, only 10% said that it was "good" (Figure 17).

*Figure 17
How do you rate your government's record on informing your company of the changes to working practices that will become necessary with EU accession?*



The legal community believe their countries are more prepared than the majority of companies: 40% of legal respondents believe that their governments were well prepared for EU accession whereas only 10% thought that the majority of companies were prepared.

It appears that governments have not transferred their knowledge of the effects of EU accession to the corporate community sufficiently. Corporates have, therefore, had to glean much of their information from more general sources such as the media. This is highlighted by the fact that the knowledge of issues such as agriculture and environmental policy is greater than that of more detailed aspects of EU accession.

However, with one year to go until accession there is still time for corporates to focus on the particular aspects of regulatory and legislative change that will affect them, and start preparing.

Remark, June 2003

For advice and further information on any of the issues raised in this survey, Hogan & Hartson's dedicated EU Accession Group can help:

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